

ASX Announcement – Australian Unity Office Fund

24 August 2018

2018 full year financial results – AOF delivers strong net profit

Australian Unity Investment Real Estate Limited as responsible entity for the Australian Unity Office Fund (ASX: AOF) today announced AOF's results for the 2018 financial year. Key financial and operational highlights for the 2018 financial year included:

- Statutory Net Profit of \$97.3 million;
- Funds from Operations¹ ("FFO") of \$27.0 million, or 17.2 cents per unit which was within guidance;
- Net tangible assets ("NTA") of \$2.67 per unit, an increase of 44 cents per unit, or 20%, from \$2.23 per unit at 30 June 2017;
- Portfolio value of \$635.6 million, which increased by \$194.5 million primarily due to the acquisition of 150 Charlotte Street, Brisbane and property revaluations;
- \$150 million of debt facilities were established or refinanced, with the average debt maturity increasing to 4.1 years; and
- Gearing of 30.2%².

Grant Nichols, Fund Manager of AOF said 'FY18 has been an active and successful year for AOF. In delivering a substantial net profit of \$97.3 million, AOF generated a 20% increase in net tangible assets per unit, while maintaining a robust capital structure with gearing around 30%.'

'Since listing in 2016, AOF has continued to deliver on its key objectives, delivering unitholders a total return of 50%³.'

Financial Results (for the year to 30 June 2018)

FFO	\$27.0 million
Net profit (statutory)	\$97.3 million

AOF delivered an FFO of \$27.0 million, or 17.2 cents per unit, which was in line with the FY18 guidance of between 17.1 and 17.3 cents per unit.

Net profit (statutory) was \$97.3 million. The primary contributor to the net profit was \$73.7 million of net fair value increment of investment properties.

Distributions of \$24.5 million or 15.6 cents per unit were declared during the period, which was in line with the FY18 guidance of 15.6 cents per unit.

Capital Management (as at 30 June 2018)

Gearing ²	30.2%
Weighted average cost of debt	3.9%
Weighted average term to maturity	4.1 years
Interest cover ratio	5.05x
Hedged debt	60.5%

As at 30 June 2018, AOF's gearing was 30.2%, which is within the target gearing of below 40%. Its interest cover ratio of 5.05x provides ample headroom to the debt covenant of 2.00x.

ASX code:

AOF

Issuer:

Australian Unity Investment Real Estate Limited

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During the year AOF put in place a new five year \$70 million debt facility to assist with the acquisition of 150 Charlotte Street, Brisbane, and refinanced an existing \$70 million debt facility replacing it with an \$80 million, five year, facility. This has increased debt diversification and increased the weighted average debt term to maturity to 4.1 years.

With sufficient undrawn debt, significant debt covenant headroom and a diversified debt maturity profile, AOF is meeting its capital management objective of maintaining a robust capital structure that can withstand cycles and enable growth.

Portfolio Update (as at 30 June 2018)

Portfolio Value	\$635.6 million
Weighted average capitalisation rate	6.5%
Portfolio net lettable area	107,647 sqm
WALE ⁴	4.1 years
Occupancy ⁵	95.0%

Asset Valuations

Given strong investment market conditions, and the outcome of the six valuations announced to the market on 18 June 2018, the remaining three assets within AOF's portfolio were subsequently independently revalued as at 30 June 2018 in line with Australian Unity's Valuation Policy. As a consequence, all assets were independently revalued as at 30 June 2018.

Combined these valuations have contributed to a 44 cents per unit, or 20%, increase in AOF's net tangible assets per unit. As a result of the independent valuations, the weighted average capitalisation rate across the portfolio decreased to 6.52%, and the portfolio value increased to \$635.6 million.

AOF's properties in Melbourne and Sydney generated the majority of the increase reflecting the strong investment demand in these metropolitan markets combined with robust leasing conditions in St Kilda Road and Parramatta, and improving leasing conditions in North Ryde.

Acquisitions

AOF acquired 150 Charlotte Street, Brisbane for \$105.75 million in October 2017, its first acquisition since listing in June 2016. 150 Charlotte Street is a well located, CBD office building that is complementary to AOF's portfolio and strategy of delivering sustainable income returns. Substantially refurbished in 2012, the property is fully occupied with a WALE of 4.7 years as at 30 June 2018. Notably, over 75% of the income is derived from two major tenants; Boeing Defence Australia, who has a current lease until 30 June 2024, and the Commonwealth of Australia (representing the Department of Foreign Affairs and Trade) who has a current lease until 30 June 2022.

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Leasing

Approximately 8,200 sqm of new leases were completed in 2018 via 28 separate transactions, representing approximately 7.6% of AOF's portfolio by area. Approximately 5,600 sqm of this leasing related to previously vacant space via 19 transactions. This contributed to the portfolio occupancy increasing to 95.0% as at 30 June 2018, up from 93.5% as at 30 June 2017.

After 30 June 2018, the management team have completed further leases or have signed non-binding heads of agreement relating to approximately 2,700 sqm of space that was not included in 30 June 2018 portfolio metrics.

With no significant lease expiry until FY22, only one expiry of greater than 1,000 sqm before FY20, and with over 55% of the portfolio leased to investment grade tenants such as Telstra, State and Federal Government, Boeing and GE, AOF is well placed to continue delivering sustainable income returns.

Development

During the year approval was granted by the Sydney Central City Planning Panel (the relevant planning authority) for the development of an eight storey commercial office building on land that AOF owns, adjacent to AOF's existing office building located at 10 Valentine Avenue, Parramatta, NSW.

The approval relates to a new ~8,000 sqm commercial office development that achieved 'design excellence' through an architectural design competition completed last year. The development has been designed by Fitzpatrick + Partners to achieve a Well Gold rating, with the largely column free floorplates of ~1,200 sqm providing excellent natural light and outlook from all levels.

This development consent represents the first stage in obtaining an approval for a larger ~25,000 sqm commercial office development. Approval for the larger building is subject to the Parramatta CBD Planning Proposal or a site specific planning proposal, which increases the floor space ratio, coming into effect. This is expected to occur within the next year.

This first stage approval comprises many of the necessary prerequisites for the larger commercial office development, and provides something tangible to use in marketing to potential tenants.

Outlook

Grant Nichols said 'Positive leasing activity is a feature of most Australian office markets, and this improving tenant demand should underpin future office market rental growth and investment demand. Further, many of the markets in which AOF is invested will benefit from significant transit infrastructure projects, meaning that AOF is well placed to take advantage of the favourable outlook for Australian office markets'.

Barring unforeseen changes to operating conditions, AOF provides FFO guidance for full year 2019 of between 17.2 and 17.4 cpu⁶.

Barring unforeseen changes to operating conditions, AOF provides distribution guidance for full year 2019 of 15.8 cpu⁶.

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Notes:

1. FFO is Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.
2. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash.
3. For the period from 20 June 2016 (the IPO date) to 14 August 2018
4. WALE is the average lease term remaining to expiry across the portfolio, weighted by gross property income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would thus distort the metric.
5. Portfolio occupancy is the percentage of net lettable area which is occupied.
6. Subject to no material change in market conditions.

For further information please contact:

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About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us. Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.