

Australian Unity Office Fund

(ASX: AOF)

2019 Half Year Results

Presentation – 7 February 2019

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10 Valentine Ave, Parramatta, NSW

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AOF's results

5 Eden Park Drive, North Ryde, NSW

AOF's 2019 half year result highlights

Continuing to deliver on strategy

1	Statutory net profit of \$13.1 million ¹
2	Funds From Operations (FFO) 8.7 cpu ¹
3	Gearing at 30.5% ^{2,3}
4	Occupancy increased slightly to 95.1% ⁴
5	Site Specific Planning Proposal at 2 Valentine Ave, Parramatta endorsed by the City of Parramatta Council
6	Revised proposal from Starwood Capital Asia rejected
7	FY19 FFO guidance of 17.2 – 17.4 cpu ⁵ reconfirmed
8	FY19 distribution guidance of 15.8 cpu ⁵ reconfirmed



2 Eden Park Drive, North Ryde, NSW

1. For 6 months to 31 December 2018
2. As at 31 December 2018
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
4. As at 31 December 2018, by Net Lettable Area
5. Subject to no material change in market conditions and no unforeseen events

Financial results

30 Pirie St, Adelaide, SA

Financial results

Half year 2019 – key financial metrics

Key metric	1H FY19	1H FY18	Change
Statutory net profit	\$13.1m	\$26.3m	↓ -\$13.2m
FFO ¹	\$14.2m	\$13.1m	↑ +\$1.1m
FFO per unit ¹	8.7 cpu	8.6 cpu	↑ 0.1 cpu
Distribution	\$12.9m	\$11.8m	↑ +\$1.1m
Distribution per unit	7.9 cpu	7.8 cpu	↑ 0.1 cpu
NTA per unit	\$2.67 ²	\$2.31 ³	↑ +\$0.36

1. FFO means Funds From Operations
2. As at 31 December 2018
3. As at 31 December 2017

- Statutory net profit down \$13.2 million, mainly due to higher valuation increases in 1H FY18 compared to 1H FY19
- FFO and distribution up by \$1.1 million, due to rental increases and impact of owning 150 Charlotte Street, Brisbane for the full half year

Financial results

Half year 2019 – capital management

Capital Management	31 Dec 2018	30 Jun 2018	Change
Total borrowings ¹	\$202.3m	\$198.3m	+\$4.0m
Total debt facilities	\$220.0m	\$220.0m	No change
Gearing ²	30.5%	30.2%	+0.3%
Weighted average cost of debt	3.9%	3.9%	No change
Weighted average debt term to maturity	3.6 years	4.1 years	-0.5 years
Weighted average interest rate of live swaps ³	2.1%	2.1%	0.0%
Weighted average term of interest rate hedging	2.6 years	3.0 years	-0.4 years
Interest cover ratio	4.65x	5.05x	-0.40x

- Debt diversified by three separate tranches and two major banks (CBA and NAB)
- Gearing and borrowings increased marginally reflecting capital expenditure and fitout incentives
- Borrowings were 59.3% hedged as at 31 December 2018
- Interest cover ratio remains well above debt covenant of 2.0x

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
3. Excludes financier's margin, line fee and establishment fee

Portfolio management

32 Phillip St, Parramatta, NSW

Portfolio highlights

Solid leasing activity and progress on development opportunity



1

Portfolio occupancy increased to 95.1%¹ (95.0% at 30 June 2018)

2

~4,600 sqm of new leases completed (19 transactions), representing ~4.2% of the portfolio by area²

3

~3,000 sqm of completed leases related to space which was vacant on 30 June 2018 (12 transactions)²

4

A further ~3,500 sqm (8 transactions) are under a Heads of Agreement, representing ~3.2% of the portfolio by area²

5

Investment properties increased by \$5.4 million²

6

Site Specific Planning Proposal at 2 Valentine Ave, Parramatta endorsed by the City of Parramatta Council

7

Revised proposal from Starwood Capital Asia rejected

8

Earnings underpinned by high quality tenants including Telstra, NSW State Government, Boeing Defence Australia, GE Capital Finance, Commonwealth Government (59% of income)

1. As at 31 December 2018, by Net Lettable Area

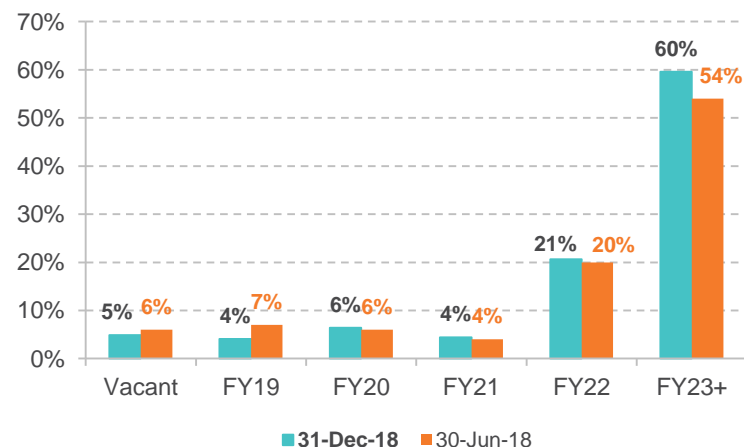
2. For 6 months to 31 December 2018

Leasing summary

Occupancy increased to 95.1%

- 468 St Kilda Road 100% occupied (95.4% at 30 June 2018) following recent leasing success
- Occupancy increased at 30 Pirie St to approximately 94% (91.7% at 30 June 2018) following 525 sqm lease
- The NSW State Government did not provide notice by 31 December 2018 to hand back up to five floors at 10 Valentine Ave, Parramatta
- No significant single lease expiry until June 2022 (The NSW State Government at 10 Valentine Avenue, Parramatta) and only two expiries greater than 1,000 sqm before January 2022
- Immediate key leasing focus on 30 Pirie Street, Adelaide, 241 Adelaide Street, Brisbane, 64 Northbourne Avenue, Canberra and 5 Eden Park Drive, North Ryde

Lease expiry profile¹



Near-term key lease expiries (>1,000 sqm)

Property	Area (sqm)	% of Portfolio ¹	Expiry
30 Pirie Street, Adelaide	1,539	1.4%	Vacant
64 Northbourne Avenue, Canberra	1,026	1.0%	FY19
2 Eden Park Drive, North Ryde	1,427	1.3%	FY20
5 Eden Park Drive, North Ryde	1,251	1.2%	FY22
150 Charlotte Street, Brisbane	1,492	1.4%	FY22
10 Valentine Avenue, Parramatta	15,569	14.5%	FY22

1. As at 31 December 2018 and 30 June 2018 by Net Lettable Area

Valuation summary

Valuations largely reaffirm 30 June 2018 position

	Current cap rate	Cap rate change ¹	31 Dec 18 valuation	Change in valuation ²	Capital value per sqm
30 Pirie St, Adelaide	7.50%	No change	\$121.5m	No change	\$4,903
150 Charlotte St, Brisbane	6.00%	No change	\$105.8m	No change	\$9,604
32 Phillip St, Parramatta	6.25%	No change	\$56.8m	↑ \$0.3m	\$8,396
2 Eden Park Dr, North Ryde	6.50%	No change	\$45.0m	↑ \$0.7m	\$4,350

1. Change in cap rate from prior valuation

2. Change in valuation from 30 June 2018 book value

- All nine assets were independently revalued as at 30 June 2018
- Increasing market rents contributed to higher valuation at 2 Eden Park Drive, North Ryde
- Portfolio average capital value at \$5,957 per sqm

Valuation policy

Independent external valuations of properties must be obtained:

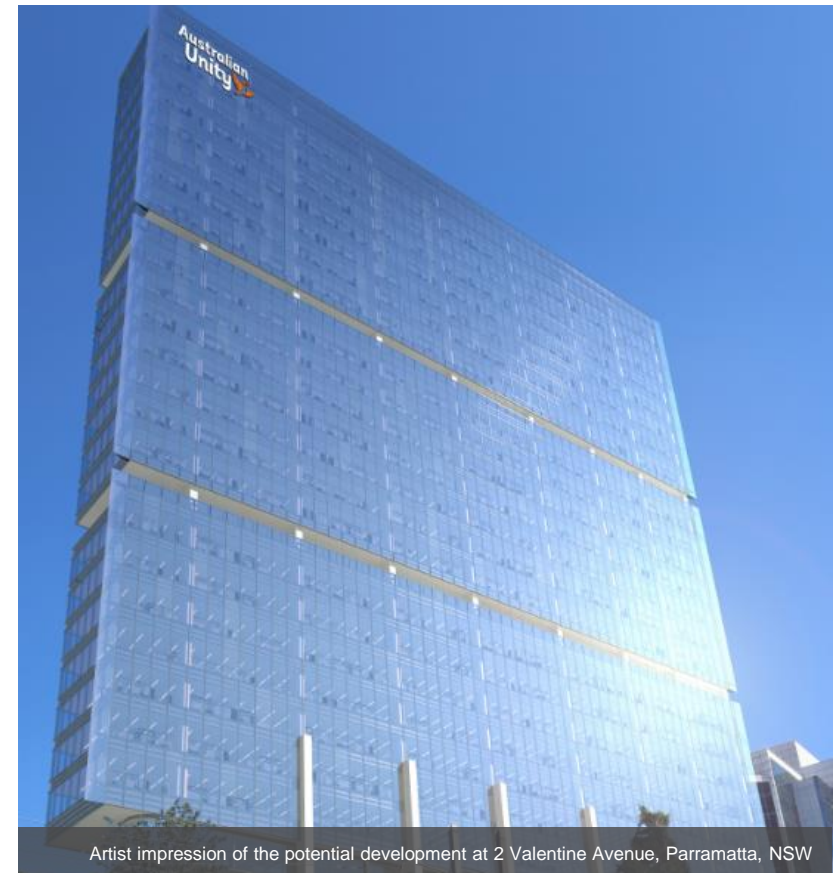
- At least once in any 12 month period from the date of the last valuation; or
- As soon as practicable, but not later than within two months after the directors form a view that there is reason to believe that the fair value of a property is materially different from the current carrying value

Development update

Next milestone achieved

Development opportunity at 2 Valentine Ave, Parramatta (next to existing 10 Valentine Ave building)

- On 17 December 2018, the City of Parramatta Council endorsed a Site Specific Planning Proposal to amend the Parramatta Local Environmental Plan 2011 by removing the height limit and floor-to-space ratio, or density, requirements
- The endorsement is the achievement of the next milestone in a series of events before commencement of a proposed commercial office building of approximately 25,000 - 28,000 square metres
- The Site Specific Planning Proposal will now be sent by Council to the NSW Government Department of Planning and Environment with a request for Gateway determination
- In advanced discussions with a number of tenants regarding leasing part or all of the proposed development
- Construction is subject to planning approvals, an appropriate leasing pre-commitment and debt and equity funding
- Indicative value range of new building between \$250 million and \$300 million which, once completed, will deliver significant value to unitholders



Artist impression of the potential development at 2 Valentine Avenue, Parramatta, NSW

Portfolio update

Starwood's Revised Proposal rejected

	Starwood Proposal	Revised Proposal
Headline price	\$2.95	\$2.95
Treatment of distributions	AOF unitholders will receive value for ordinary course accrued distributions up to the date of scheme implementation.	The headline price will be adjusted for any distribution or capital return declared by AOF on and from the date of the Implementation Agreement until implementation of the scheme.
Distribution adjustment ¹	N/A	-\$0.079
Offer value	\$2.95	\$2.871
Value reduction	N/A	(2.7%)
Offer premiums		
Close price ²	9.7%	6.7%
3 month VWAP ³	13.5%	7.1%
NTA ⁴	10.5%	7.5%
Asset value ⁵	7.2%	5.1%

- The Starwood Proposal followed three initial unsolicited proposals from Starwood ranging from an offer value of \$2.43⁶ per unit to \$2.72⁷ per unit
- The Independent Board Committee (IBC) and Board formed the view that the Revised Proposal did not represent compelling value for unitholders compared to the Starwood Proposal – having had the benefit of feedback from the majority of AOF's investors by value, including most institutional investors by number
- The Revised Proposal was received after the due diligence period was extended by two weeks and following written confirmation that nothing had arisen from Starwood's due diligence that would alter the Starwood Proposal
- In the IBC and Board's view, there were no matters that would materially impact the current valuation of AOF's assets or its disclosed FFO guidance

1. Assumes implementation of the scheme after 31 March 2019 and a December 2018 quarter distribution of 3.95 cents per unit and March 2019 quarter distribution of 3.95 cents per unit based on AOF's guidance

2. Based on AOF's closing price of \$2.69 on 5 October 2018, which was the last trading day prior to announcement of the Starwood Proposal.

3. Based on AOF's 3 month VWAP of \$2.60 up until 5 October 2018

4. Based on AOF's last reported NTA per unit (at the time of the ASX announcement on 26 November 2018) of \$2.67 as at 30 June 2018

5. Based on AOF's investment property valuation (at the time of the ASX announcement on 26 November 2018) as at 30 June 2018 of \$635.6 million holding all other assets and liabilities constant

6. March 2018 proposal value \$2.47 cash per AOF unit less AOF's June 2018 distribution of 3.9 cents per AOF unit

7. July 2018 proposal of \$2.72 cash per AOF unit plus accrued ordinary course distributions up to the date of scheme implementation

Market overview

R Y D E C O R P

2 Eden Park Drive, North Ryde, NSW

Market overview

Positive leasing activity leading to rising rents

- Sydney and Melbourne continue to experience solid net absorption and falling vacancy rates, generating effective rental growth with associated metropolitan markets clear beneficiaries
- Brisbane turn-around is evident, limited supply over the short-to-medium term, with tenant recentralisation to the CBD a theme
- Somewhat of a divergence between Canberra prime and secondary vacancy, with some upward pressure on prime grade rents
- Modest recovery in Adelaide leasing conditions underway underpinned by defence, engineering and mining. State is proactive – tax initiatives, focus on renewable energy and ship building

Market	Vacancy Dec 2018	Vacancy Jun 2018	12 Month Change in Occupancy	12 Month Net Absorption (sqm)	12 Month Prime Gross Effective Rental Growth
Adelaide	13.7%	15.1%	↑	11,708	2.5%
Brisbane	13.2%	14.4%	↑	27,653	2.8%
Canberra	10.9%	13.5%	↑	46,992	1.9%
North Ryde	7.0%	6.2%	↓	(13,998)	6.8%
Parramatta	3.9%	4.6%	↑	18,391	10.4%
St Kilda Rd	7.4%	8.2%	↑	8,000	13.0% *
Sydney	4.1%	4.5%	↑	68,910	7.1%
Melbourne	3.8%	4.6%	↑	167,692	7.0%
Perth	21.1%	20.9%	↓	50,759	2.7%
National	9.1%	9.4%	↑	474,108	N/A

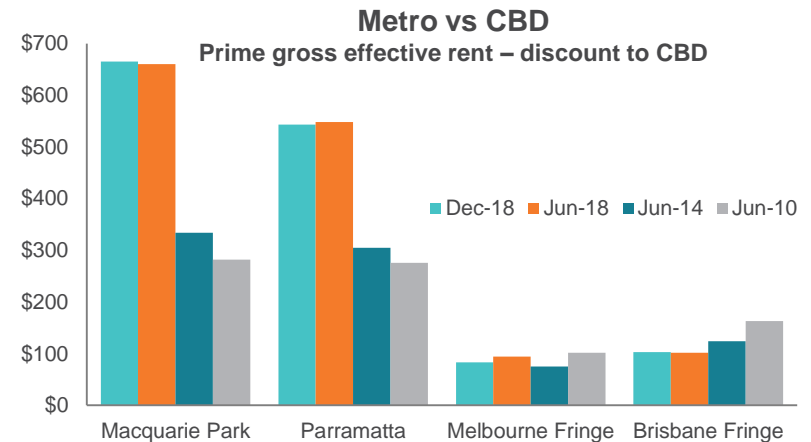
Source: JLL Research, data as at 31 December 2018 and 30 June 2018

* Melbourne fringe

Market overview

‘Unprecedented infrastructure programs, improved amenity, limited options, cost advantages and decentralisation’ the case for metropolitan office

- High office investment demand causing buyers to look beyond traditional CBD office markets
- Rental spread between CBD and metropolitan markets is encouraging tenants to explore decentralisation
- Significant infrastructure spend enhancing accessibility to some metropolitan office markets, further encouraging tenant demand



Source: JLL Research, data as at 31 December 2018

Infrastructure	
Parramatta	Ferry, rail and road upgrades, new airport, light rail, stadium, university and hospital upgrades
St Kilda Road	New metro station, airport rail link
Brisbane CBD	Inland rail, cross river rail, airport extension
Adelaide CBD	Ship building program, rail and road
North Ryde	Sydney Metro Northwest - an integrated transport solution from Rouse Hill through to Chatswood

Summary and outlook

64 Northbourne Ave, Canberra, ACT

Outlook

AOF remains well positioned to deliver on its objectives

Guidance

- FY19 FFO guidance of 17.2 – 17.4 cpu¹
- FY19 distribution guidance of 15.8 cpu¹

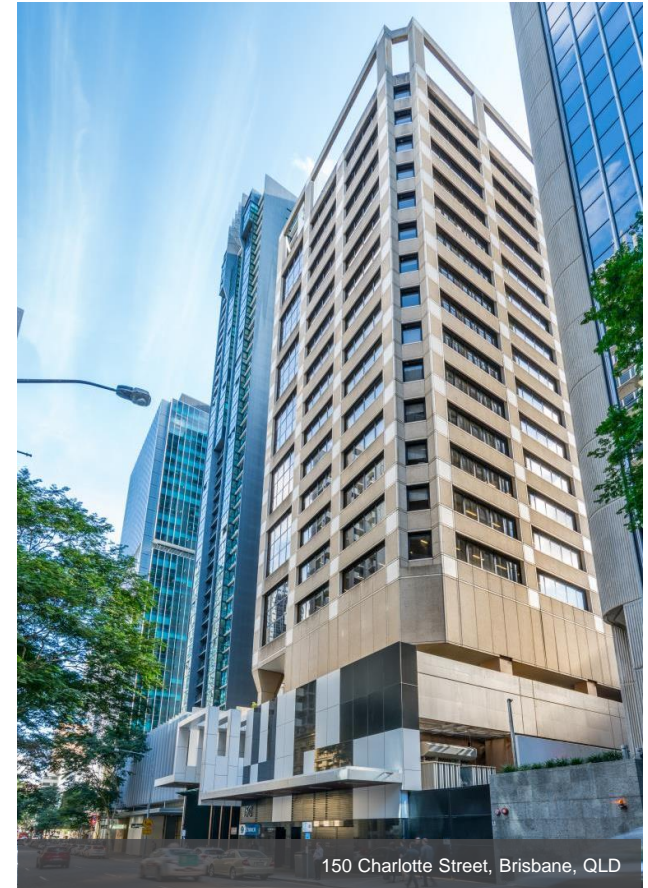
Immediate focus

- Address current vacancy and pending lease expiry risk
- Where possible, take advantage of improving leasing conditions to grow AOF's earnings
- Leasing proposals and planning consent for the development opportunity at 2 Valentine Avenue, Parramatta which, once completed, will deliver significant value to unitholders

Growth strategy

- Assess potential acquisitions which may complement the existing portfolio, remaining mindful of AOF's cost of capital and being disciplined in our approach
- Continue to assess value-add potential within the portfolio, including the development at 2 Valentine Ave, Parramatta, taking advantage of market opportunities as they arise

1. Subject to no material change in market conditions and no unforeseen events



Appendices

241 Adelaide St, Brisbane, QLD

Income statement

6 months to 31 December 2018	1H FY19 (\$'000)	1H FY18 (\$'000)	Change (\$'000)
Income statement			
Rental income	30,259	24,882	5,377
Property expenses	(9,582)	(8,162)	(1,420)
Interest income	15	16	(1)
Net (losses)/gains on financial instruments held at fair value	(1,151)	(317)	(834)
Net fair value increment of investment properties	171	14,876	(14,705)
Total income net of property expenses	19,712	31,295	(11,583)
Expenses			
Responsible Entity fees	(1,958)	(1,534)	(424)
Borrowing costs	(3,954)	(2,970)	(984)
Other expenses	(706)	(522)	(184)
Total expenses, excluding property expenses	(6,618)	(5,026)	(1,592)
Profit attributable to unitholders	13,094	26,269	(13,175)

Reconciliation of statutory profit to Property Council of Australia FFO

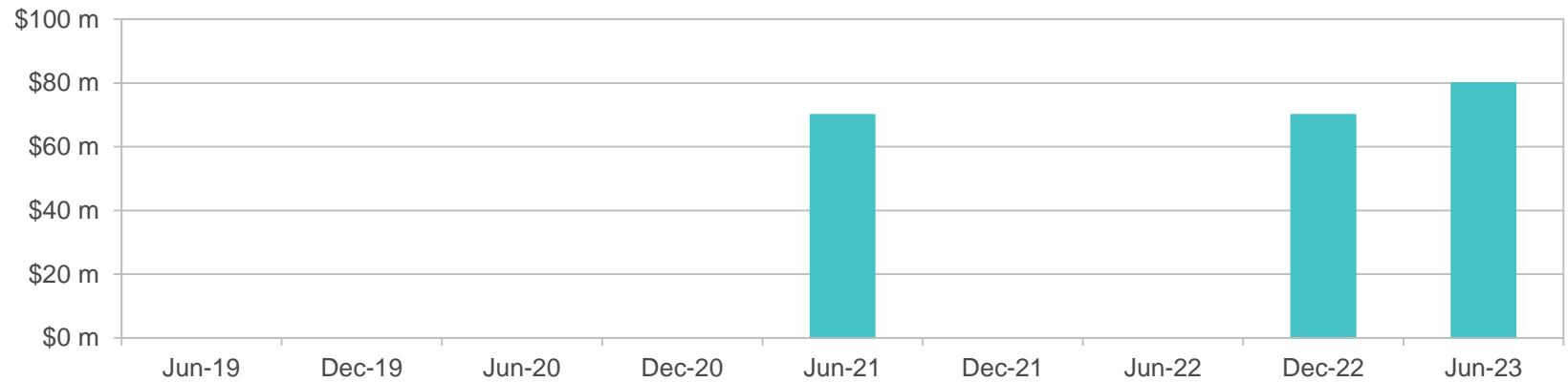
6 months to 31 December 2018	1H FY19 (\$'000)	1H FY18 (\$'000)	Change (\$'000)
Statutory Net Profit	13,094	26,269	(13,175)
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(67)	1,368	(1,435)
Net losses/(gains) on financial instruments held at fair value	1,151	317	834
Net fair value increment of investment properties	(171)	(14,876)	14,705
Once off adjustment	202	0	202
Funds From Operations	14,209	13,078	1,131
Retained earnings	(1,345)	(1,253)	(92)
Distributions	12,864	11,825	1,039

Balance sheet

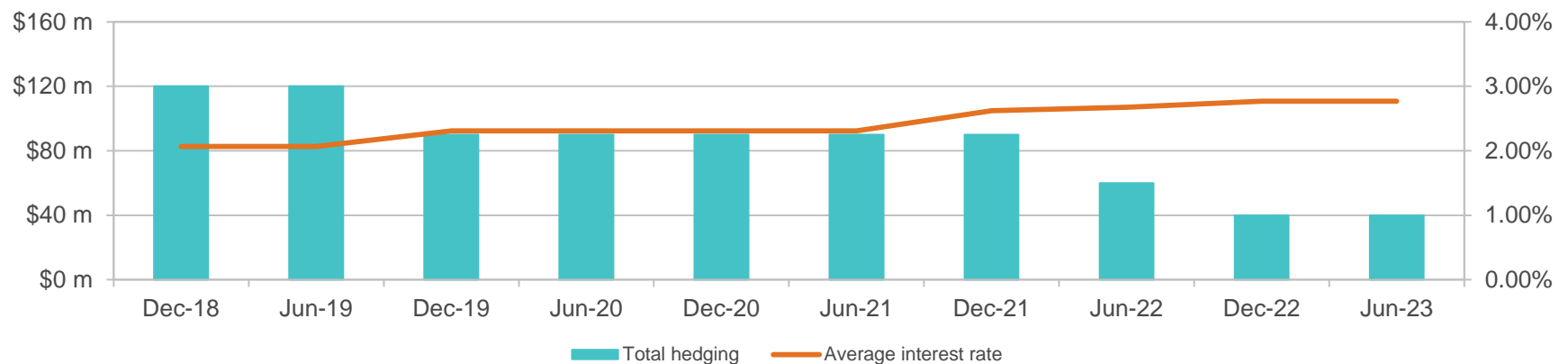
	31 Dec 2018 (\$'000)	30 June 2018 (\$'000)	Change (\$'000)
Assets			
Cash and cash equivalents	6,215	6,177	38
Receivables	1,877	820	1,057
Financial assets held at fair value	0	0	0
Other assets	446	586	(140)
Investment properties	640,987	635,550	5,437
Total Assets	649,525	643,133	6,392
Liabilities			
Distributions payable	6,432	6,350	82
Payables	5,211	4,402	809
Financial liabilities held at fair value	1,448	297	1,151
Borrowings	201,295	197,175	4,120
Total Liabilities	214,386	208,224	6,162
Net Assets	435,139	434,909	230
Number of units on issue (million)	162.8	162.8	0
Net Tangible Assets per unit	\$2.67	\$2.67	0
Gearing	30.5%	30.2%	0.3%

Capital management

Debt facility expiry profile



Interest rate hedging & average hedged interest rate

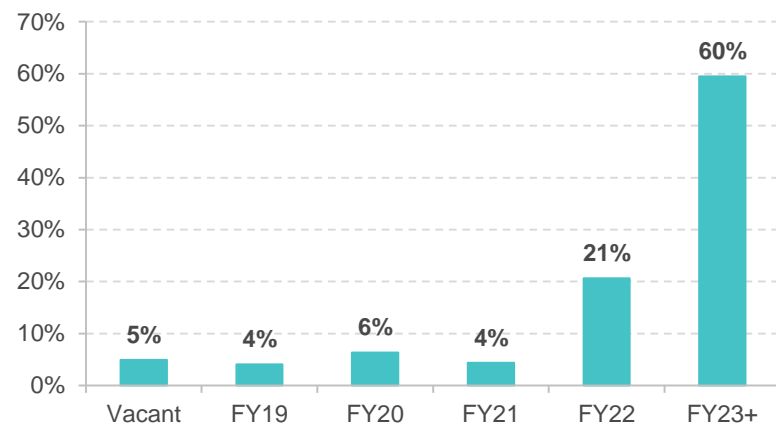


Key portfolio metrics

As at 31 December 2018

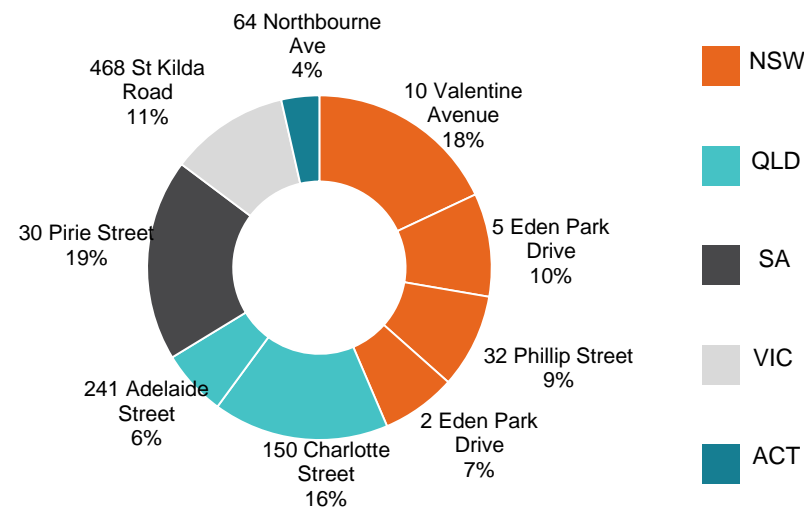
Key portfolio metrics	
Number of properties	9
Occupancy ¹	95.1%
Portfolio Value	\$640.99m
Weighted Average Capitalisation Rate	6.52%
WALE ²	3.8 years
Net Lettable Area	107,604 sqm

Lease expiry profile¹

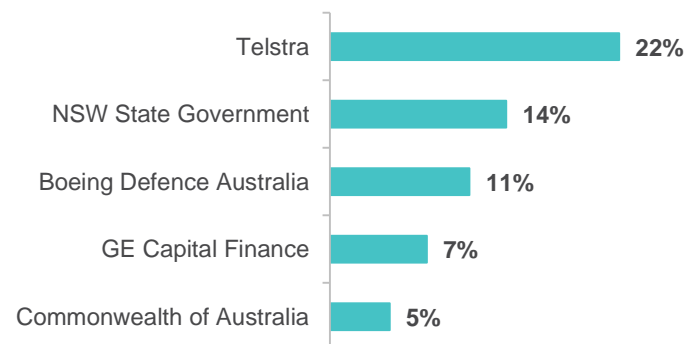


1. As at 31 December 2018, by Net Lettable Area
2. As at 31 December 2018, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 44 years remaining on the lease and would thus distort the metric.
3. As at 31 December 2018 by book value
4. As at 31 December 2018, by Gross Property Income

Geographic diversification³



Top 5 tenants⁴



Investment portfolio

As at 31 December 2018

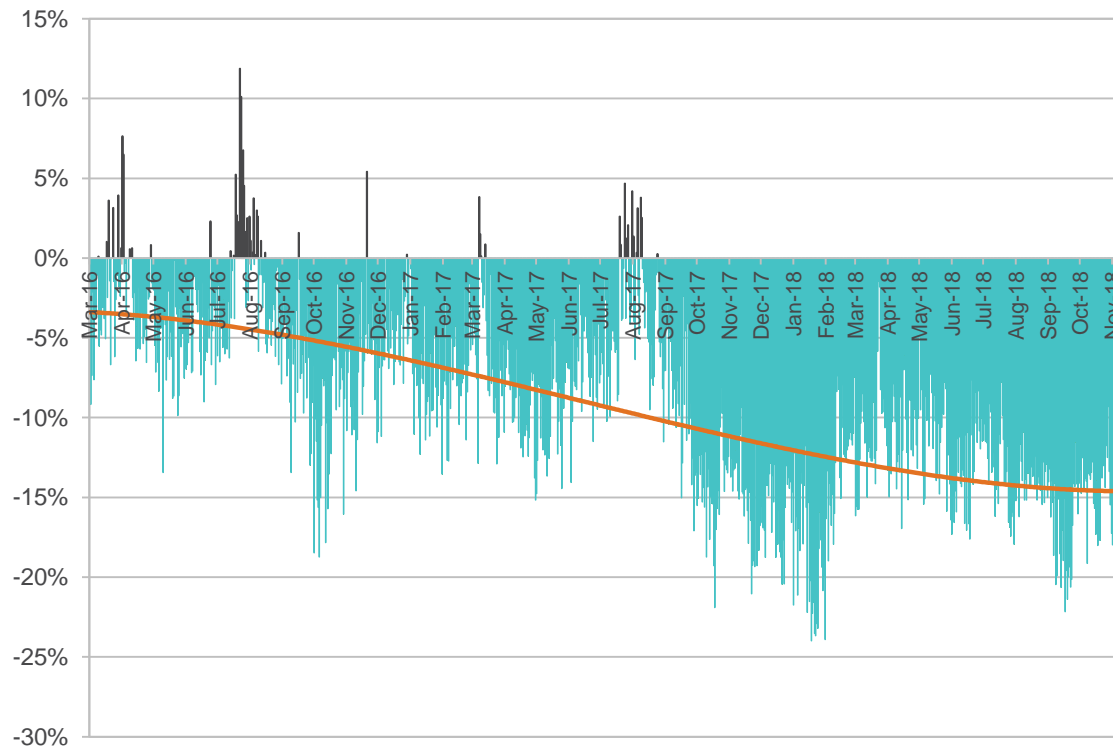
	Property	State	Book value	Cap rate	NLA (sqm)	Book value per sqm	WALE ¹ (years)	Occupancy (by NLA)
Single or Dominant Tenant Assets	30 Pirie St, Adelaide	SA	\$121.50m	7.50%	24,781	\$4,903	4.2	93.8%
	10 Valentine Ave, Parramatta	NSW	\$115.50m	6.25%	15,995	\$7,221	3.3	100.0%
	150 Charlotte St, Brisbane	QLD	\$105.75m	6.00%	11,011	\$9,604	4.2	100.0%
	5 Eden Park Dr, North Ryde	NSW	\$62.08m	6.25%	11,029	\$5,629	5.5	92.8%
	32 Phillip St, Parramatta	NSW	\$56.75m	6.25%	6,759	\$8,396	4.5	100.0%
Multi Tenant Assets	468 St Kilda Rd, Melbourne	VIC	\$71.74m	5.50%	11,180	\$6,417	3.4	100.0%
	2 Eden Park Dr, North Ryde	NSW	\$45.00m	6.50%	10,345	\$4,350	2.2	95.9%
	241 Adelaide St, Brisbane	QLD	\$39.84m	7.75%	10,075	\$3,954	2.7	86.7%
	64 Northbourne Ave, Canberra	ACT	\$22.83m	7.75%	6,429	\$3,551	3.4	81.9%
Total (T) / weighted average(A)			\$640.99m (T)	6.52% (A)	107,604 (T)	\$5,957 (A)	3.8 (A)	95.1% (A)

1. As at 31 December 2018, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 44 years remaining on the lease and would thus distort the metric.

Sustainability

Daily Consumption Performance

Energy Increase



Energy Saving

- Energy saving compared to Baseline
- Rolling average energy saving

- Indicates energy savings compared to 'Baseline'
- 'Baseline' is the electricity consumption for 2014 adjusted for weather patterns and seasonality
- Indicates an average energy reduction of almost 15% across the portfolio, or a saving of ~1,300 MWH since January 2016, which is the equivalent of over 1,200 tonnes of CO²

Australian Unity Property

Investment and property manager for AOF



**Managing
\$3.3 billion*
FUM**

Plus a \$1.7 billion
development
pipeline

**Managing 95
properties in
Australia**

Office, healthcare,
retail, industrial

**Diversified
offering**

Of listed and
unlisted property
funds

**Deep expertise
with 55+
specialist staff**

Plus access to the
wider Australian
Unity Group

**Master
developer**

For the \$1.1 billion
Herston Quarter
redevelopment in
Brisbane

*As at 31 December 2018



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