

ASX Announcement – Australian Unity Office Fund

7 February 2019

2019 half year financial results – AOF continues to deliver on its investment objectives

Australian Unity Investment Real Estate Limited (AUIREL) as responsible entity for the Australian Unity Office Fund (ASX: AOF) today announced AOF's results for the 2019 half year.

Key financial and operational highlights for the 2019 half year included:

- Funds from Operations (FFO)¹ increased to \$14.2 million (\$13.1 million in 1H FY18);
- Distributions increased to \$12.9 million (\$11.8 million in 1H FY18);
- Occupancy increased to 95.1%² (30 June 2018 95.0%);
- Gearing of 30.5%³.

Mark Lumby, Fund Manager of AOF, said 'AOF is continuing to deliver on its investment objective of providing investors with sustainable income returns and the potential for capital growth'.

Financial Results (for the half year to 31 December 2018)

Net profit (statutory)	\$13.1 million
FFO	\$14.2 million
Distributions	\$12.9 million

AOF delivered an FFO of \$14.2 million, or 8.7 cents per unit, which was \$1.1 million or 0.1 cents per unit higher than 1H FY18.

Capital Management (as at 31 December 2018)

Gearing ³	30.5%
Weighted average cost of debt	3.9%
Weighted average term to maturity	3.6 years
Interest cover ratio	4.65x
Hedged debt	59.3%

As at 31 December 2018, AOF has total debt facilities of \$220 million with \$202.3 million drawn. Gearing of 30.5%³ is within the target gearing of below 40% and the interest cover ratio of 4.65x provides ample headroom to the debt covenant of 2.00x.

Portfolio Update (as at 31 December 2018)

Portfolio Book Value	\$641.0 million
Weighted average capitalisation rate	6.5%
Portfolio net lettable area	107,604 sqm
WALE ⁴	3.8 years
Occupancy ²	95.1%

ASX code:

AOF

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Asset Valuations

Four properties were revalued as at 31 December 2018 contributing to an increase in the portfolio's book value to \$641 million. This represents a modest increase from the portfolio's previous book value and largely reaffirms the independent valuations as at 30 June 2018.

Rental growth contributed to the modest increase in valuation at 32 Phillip Street, Parramatta and 2 Eden Park Drive, North Ryde.

The cap rate for the portfolio remained at 6.5% indicating we are at, or close to, the peak of the current cap rate tightening cycle. In our view, while cap rates may tighten a little, most of any future valuation growth will come through in market rental growth.

The average value of the portfolio is \$5,957 per square metre which, in our view, still provides compelling value.

Leasing

Approximately 4,600 sqm of new leases were completed in the half year to December 2018 via 19 separate transactions, representing approximately 4.2% of AOF's portfolio by area. Approximately 3,000 sqm of this leasing related to space which was vacant at 30 June 2018. This contributed to the portfolio occupancy increasing to 95.1% as at 31 December 2018 (95.0% at 30 June 2018).

The portfolio also has a further 3,500 sqm under signed, non-binding, heads of agreement, which represents approximately 3.2% of the portfolio by area. These were not included in 31 December 2018 portfolio metrics.

With 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, and with almost 60% 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 half-year, AOF reached the next milestone in a series of events relating to the proposed development at 2 Valentine Ave, Parramatta.

While AOF already has development consent from Parramatta Council for an 8,000 sqm building, a Site Specific Planning Proposal (SSPP) for AOF's site was lodged with Council. The SSPP is in line with the Parramatta CBD Planning Proposal and should expedite the process of obtaining development consent to build a larger building of between 25,000 and 28,000 sqm.

Just before Christmas, Council endorsed our SSPP and will send it to the NSW Department of Planning and Environment for Gateway determination. If a determination is received, the SSPP will be placed on public exhibition. Following exhibition, approval will be sought from Council and finalisation by the Department of Planning and Environment.

In anticipation of an approval, AOF is in advanced discussions with a number of tenants to lease part or all of the proposed development. Parramatta continues to be one of the tightest office markets in Australia with a vacancy rate of 3.9% and this low vacancy rate is expected to continue in the short-to-medium term.

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Outlook

Mark Lumby, Fund Manager of AOF, said ‘Unprecedented infrastructure programs, improved amenity and cost advantages for those markets in which AOF is invested should provide good future rental growth and underpin values’.

Barring unforeseen changes to operating conditions, AOF reconfirms FFO guidance for full year 2019 of between 17.2 and 17.4 cents per unit⁵.

Barring unforeseen changes to operating conditions, AOF reconfirms distribution guidance for full year 2019 of 15.8 cents per unit⁵.

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. Portfolio occupancy is the percentage of net lettable area which is occupied.
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash.
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 44 years remaining on the lease and would thus distort the metric.
5. Subject to no material change in market conditions.

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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.