

ASX Announcement – Australian Unity Office Fund

26 June 2019

Further update relating to AOF's asset values, interest rate swaps, the proposed Parramatta development and next steps for the IBC

Australian Unity Investment Real Estate Limited (**AUIREL**) as Responsible Entity of Australian Unity Office Fund (ASX: **AOF**) provides the following market update in advance of AOF's full year results to be released on 8 August 2019.

Further information is also provided in the context of the unsolicited, indicative and non-binding proposal received from an entity associated with Abacus Property Group (ASX: **ABP**) and Charter Hall Group (ASX: **CHC**) (**Consortium**) to acquire all of the issued units in AOF that it does not already hold for \$2.95 cash per unit (**Proposal**).

Estimated June 2019 valuations

On 13 June 2019, AUIREL announced valuations for the five properties subject to its normal six-monthly valuation cycle. The four remaining properties are now in the final stages of being externally valued as at 30 June 2019:

- 30 Pirie Street, Adelaide
- 150 Charlotte Street, Brisbane
- 32 Phillip Street, Parramatta
- 2 Eden Park Drive, North Ryde

Combined, these four preliminary valuations:

- would result in an increase of approximately \$10 million, or approximately 6 cents per unit, over the preceding book value immediately prior to the valuation of those properties; and
- reflect a weighted average tightening in capitalisation rates of approximately 22 bps since each of these properties were revalued in December 2018.

When aggregated with the valuation announcement previously made on 13 June 2019, AOF's entire portfolio is expected to increase in value by approximately \$23 million, or approximately 14 cents per unit, over the preceding book value immediately prior to the valuation of those properties.

As a result of these valuations as at 30 June 2019, the weighted average capitalisation rate across the portfolio is anticipated to tighten approximately 31 bps to approximately 6.21%.

AOF's Fund Manager, Mark Lumby, said 'AOF's strategy of investing in metropolitan office assets, plus CBD locations outside of Sydney and Melbourne, has supported an increase to AOF's portfolio value to approximately \$668 million. Market rental growth, investment demand and key infrastructure projects in metropolitan markets,

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particularly St Kilda Road, Parramatta and North Ryde, has contributed to a continued increase in net asset value for investors.’

Further details relating to individual property valuations will be announced in AOF’s half year 2019 results on Thursday, 8 August 2019.

Interest rate swap contract liabilities

AOF has existing interest rate swap contracts in place to hedge future interest payments on its borrowings, consistent with AOF’s interest rate management policy. These interest rate swap contracts cover approximately 98% of AOF’s borrowings of \$204.8 million as at 24 June 2019.

The fair value of AOF’s interest rate swap contracts as at 31 December 2018 was \$1.448 million and was presented in AOF’s 31 December 2018 consolidated statement of financial position as ‘Financial liabilities held at fair value through profit or loss’.

Given the interest rate swap curve has moved down significantly over the last six months, the estimated value of AOF’s interest rate swap contracts as at 24 June 2019 is approximately \$6.749 million. This reflects an increase in liabilities of approximately \$5.3 million from 31 December 2018, or approximately 3 cents per unit reduction in net assets.

Pro-forma net tangible assets per unit

AOF’s net tangible assets per unit is estimated to increase from \$2.67 as at 31 December 2018 to \$2.78 as at 30 June 2019, taking into account the combined impact of revaluing AOF’s entire portfolio and the interest rate swap contract liabilities mentioned above.

Proposed development at 2 Valentine Avenue, Parramatta

Following receipt of the Gateway determination from the NSW Government Department of Planning & Environment (as delegate of the Minister for Planning and Public Spaces), which was announced to the market on 4 June 2019, AUIREL intends to pursue a development scheme with a net lettable area of approximately 28,000 sqm. Detailed design drawings are nearing completion and AUIREL is expected to shortly commence a tender process for construction estimates from qualified construction firms.

AUIREL is in discussions with a number of tenants seeking accommodation in Parramatta, including being shortlisted by one tenant for part of the proposed building. AUIREL expects to be in a position to provide an update on these tenant negotiations in the coming months.

Mr Lumby said, ‘AOF’s proposed development at Parramatta is anticipated to be accretive to both earnings and capital for investors but has not yet been recognised by the external valuer in the underlying book value for the fund. In one of the best performing office markets in Australia where the current vacancy rate is 3.5%, we are targeting a fully-let yield on cost, including tenant incentives and finance costs, of

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between 7% and 8%. This compares favourably to the capitalisation rate of 5.75% used by the external valuers as at 30 June 2019 for AOF's two Parramatta properties.'

Next steps for the Independent Board Committee

Following receipt of estimated valuations as at June 2019 for AOF's entire portfolio, the IBC will finalise its evaluation of the Proposal, including engaging with the Consortium to clarify aspects of the Proposal.

No action is required by AOF unitholders at this time and AUIREL will keep AOF unitholders fully informed as required.

AUIREL is being advised by UBS AG, Australia Branch as financial adviser and Ashurst as legal adviser.

Contact information

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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.

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