

# Australian Unity Office Fund

(ASX: AOF)

2019 Full Year Results

Presentation – 26 August 2019

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# AOF's results

468 St Kilda Road, Melbourne, VIC

# AOF's 2019 full year result highlights

## Delivered on key objectives

Vision	To be Australia's leading income focused office A-REIT								
Key objectives	Portfolio Construction			Capital Management			Investment Return		
		A portfolio of Australian metropolitan and CBD office assets diversified by geography, tenants and lease expiry			A robust capital structure, with conservative gearing, that can withstand cycles and enable growth			Deliver stable, sustainable income returns via quarterly distributions with the opportunity for capital growth	
Key outcomes	Continued asset growth	2 Valentine Ave development opportunity progressing well	Strong leasing outcomes	NTA per unit increased 42% since listing <sup>4</sup>	No near term debt expiries	Gearing within target range	FFO and DPU delivered on guidance	Strong total unitholder return	IBC finalising terms of a SIA for a trust scheme <sup>6</sup>
	Total assets \$677 million <sup>1</sup> (\$645 million at 30 June 2018)	Gateway Determination received; draft DA complete for ~28,000 sqm building and ready to be lodged	Occupancy at 95.3% <sup>1</sup> (95.0% at 30 June 2018)	NTA per unit \$2.79 <sup>1</sup> (\$2.67 at 30 June 2018)	Debt term 3.1 years <sup>1</sup> (4.1 yrs at 30 June 2018)	Gearing at 29.5% <sup>1,3</sup> (29.9% at 30 June 2018)	FFO 17.3 cpu <sup>2</sup> (17.2-17.4 cpu FFO FY19 guidance)	83% since IPO <sup>5</sup> (~21% pa total return since IPO <sup>5</sup> )	Consortium comprising ABP and CHC has made NBIO of \$3.04 cash per unit <sup>6</sup>

1. As at 30 June 2019
2. For 12 months to 30 June 2019
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
4. For the period from 20 June 2016 (the IPO date) to 30 June 2019
5. For the period from 20 June 2016 (the IPO date) to 19 August 2019 and assumes distributions are invested at the prevailing market price on the ex-distribution date
6. IBC (Independent Board Committee of AUIREL); SIA (Scheme Implementation Agreement); ABP (Abacus Property Group); CHC (Charter Hall Group); NBIO (Non-Binding Indicative Offer); \$3.04 cash per unit, reduced by any distribution announced or paid in respect of AOF other than the 3.95 cent per unit distribution announced on 21 June 2019









# Financial results

30 Pirie Street, Adelaide, SA

# Financial results

## Full year 2019 – key financial metrics

Key metric	FY19	FY18	Change
Statutory net profit	\$44.8m	\$97.3m	 -\$52.5m
FFO <sup>1</sup>	\$28.2m	\$27.0m	 +\$1.2m
FFO per unit <sup>1</sup>	17.3 cents	17.2 cents	 +0.1 cents
Distribution	\$25.7m	\$24.5m	 +\$1.2m
Distribution per unit	15.8 cents	15.6 cents	 +0.2 cents
NTA per unit	\$2.79	\$2.67	 +\$0.12
Return on NTA <sup>2</sup>	10.4% for the twelve month period to 30 June 2019		

1. FFO means Funds From Operations
2. Return for the period from 1 July 2018 to 30 June 2019 calculated as the movement in AOF's net tangible assets plus distributions for the period  $((\$2.79 + \$0.158 / \$2.67) - 1 = 10.4\%$
3. IBC (Independent Board Committee of AUIREL); NBIO (Non-Binding Indicative Offer); ABP (Abacus Property Group); CHC (Charter Hall Group). The \$3.04 will be reduced by any future distributions.

- Statutory net profit down \$52.5 million as growth in asset valuations was stronger in FY18 compared to FY19.
- FFO and distribution up by \$1.2 million driven by increased rental income.
- Higher NTA predominately due to increase in asset valuations.
- All assets were independently revalued as at 30 June 2019 reflecting strong investment market conditions and the IBC's request given the NBIO of \$3.04 cash per unit received from a consortium comprising ABP and CHC<sup>3</sup>

# Financial results

## Full year 2019 – capital management

	30 June 2019	30 June 2018	Change
Total borrowings <sup>1</sup>	\$204.8m	\$198.3m	+\$6.5m
Total debt facilities	\$220.0m	\$220.0m <sup>2</sup>	-
Gearing <sup>3</sup>	29.5%	29.9%	-0.4%
Weighted average cost of debt	3.7%	3.9%	-0.2%
Weighted average debt term to maturity	3.1 years	4.1 years	-1.0 year
Interest cover ratio	4.57x	5.05x	-0.48x
Weighted average interest rate of swaps <sup>4</sup>	1.9%	2.1%	-0.2%
Weighted average term of interest rate hedging	3.1 years	3.0 years	+0.1 years

- Debt diversified by three separate tranches and two major banks (CBA and NAB)
- New interest rate swaps with a total nominal value of \$120 million were implemented during the year
- Borrowings were 97.7% hedged as at 30 June 2019
- Interest cover ratio has reduced due to full-year impact of owning 150 Charlotte Street, Brisbane but remains well above debt covenant of 2.0x

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. Total debt facilities were \$255 million at 30 June 2018 but reduced by \$35 million on 8 August 2018 as part of the refinancing arrangement agreed in June 2018
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
4. Excludes financier's margin, line fee and establishment fee, and excludes any forward dated interest rate swaps

# Portfolio management

32 Phillip Street, Parramatta, NSW



# Portfolio highlights

## Strong leasing activity and further progress of development opportunity



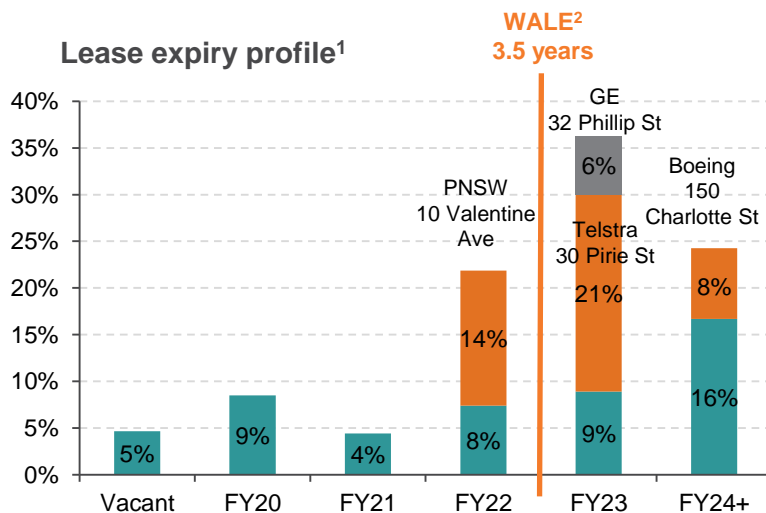
1	Strong leasing activity has increased portfolio occupancy to 95.3% (95.0% at 30 June 2018)
2	Further leasing since 30 June 2019 across ~2.1% by NLA <sup>1</sup>
3	Portfolio value increased by \$32.9 million to \$668.4 million reflecting cap rate compression and market rental growth
4	Earnings underpinned by high quality tenants including Telstra, NSW State Government, Boeing Defence Australia, GE Capital Finance and Commonwealth Government (60% of income)
5	Gateway Determination received for proposed development at 2 Valentine Ave, Parramatta; community consultation complete; and draft development application for ~28,000 sqm office building complete and ready to be lodged this week

10 Valentine Avenue, Parramatta, NSW

# Leasing summary

## Strong leasing conditions continue in metropolitan markets

- Leasing activity of ~12,200 sqm during the 12 months to 30 June 2019:
  - ✓ comprising ~9,000 sqm (or ~8.4% NLA<sup>1</sup>) of completed leases (30 transactions)
  - ✓ and a further ~3,200 sqm (or ~3.0 % NLA<sup>1</sup>) of leasing deals under a non-binding Heads of Agreement (5 transactions)
  - ✓ of which ~7,300 sqm (or ~6.8% of NLA<sup>1</sup>) related to previously vacant space or new tenants (25 suites)
- Since 30 June 2019, a further ~2,200 sqm (~2.1% NLA<sup>1</sup>) of completed leasing deals or non-binding Heads of Agreement (10 transactions)
- No significant single lease expiry until FY22 and only two expiries of greater than 1,000 sqm during FY20



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

Property	Area (sqm)	% of Portfolio <sup>3</sup>	Expiry
30 Pirie Street, Adelaide	1,026	1.0%	Vacant
64 Northbourne Avenue, Canberra	1,027	1.0%	FY20
2 Eden Park Drive, North Ryde	1,427	1.3%	FY20
5 Eden Park Drive, North Ryde	1,252	1.2%	FY22
150 Charlotte Street, Brisbane	1,492	1.4%	FY22
10 Valentine Avenue, Parramatta	15,569	14.3%	FY22

# Valuation summary

Uplift driven mainly by cap rate compression and market rent growth

	Property	Current cap rate	Cap rate change <sup>1</sup>	Market rental change	30 June 2019 valuation	Change in valuation <sup>2</sup>
Single or Dominant Tenant Assets	30 Pirie St, Adelaide	7.25%	-25bps	No change	\$124.5m	↑ \$3.0m
	10 Valentine Ave, Parramatta	5.75%	-50bps	+\$10/sqm	\$120.0m	↑ \$5.0m
	150 Charlotte St, Brisbane	6.00%	No change	No change	\$102.0m	↓ -\$3.8m
	5 Eden Park Dr, North Ryde	6.00%	-25bps	+\$7/sqm	\$66.0m	↑ \$4.5m
	32 Phillip St, Parramatta	5.75%	-50bps	+\$39/sqm	\$65.0m	↑ \$8.5m
Multi Tenant Assets	468 St Kilda Rd, Melbourne	5.25%	-25bps	+\$35/sqm	\$80.5m	↑ \$9.3m
	2 Eden Park Dr, North Ryde	6.25%	-25bps	+\$10/sqm	\$47.4m	↑ \$3.2m
	241 Adelaide St, Brisbane	7.50%	-25bps	No change	\$39.0m	↑ \$1.5m
	64 Northbourne Ave, Canberra	7.00%	-75bps	No change	\$24.0m	↑ \$1.7m
<b>Total (T) / weighted average(A)</b>		<b>6.21% (A)</b>	<b>-31bps (A)</b>		<b>\$668.4m</b>	<b>+\$32.9m</b>

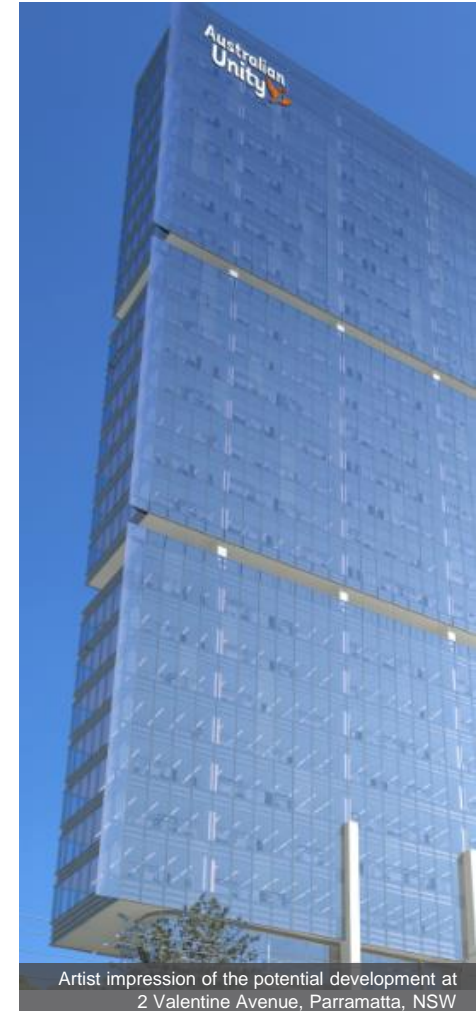
- All assets were independently revalued as at 30 June 2019
- Capitalisation rate compression, increasing market rents and leasing outcomes all contributed to the valuation increases
- Portfolio weighted average capitalisation rate now 6.21%
- Portfolio average capital value at \$6,208 per sqm
- The valuation of 10 Valentine Ave, Parramatta does not take into account any development potential

# Portfolio update

## Further progress of development opportunity

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

- In April 2018, we received development consent for a ~8,000 sqm office building with the intention of lodging a further development application to increase the net lettable area to ~28,000 sqm.
- On 29 May 2019, the NSW Government Department of Planning & Environment determined that our site specific planning proposal should proceed subject to the conditions of the Gateway Determination (an enabler to the development application).
- The conditions of the Gateway Determination required the City of Parramatta Council to consult with the community and relevant public authorities. The community consultation process finished on 2 August 2019. Minor objections were received.
- Councillors from the City of Parramatta will review any submissions received and determine if the site specific local environmental plan should be made. This meeting has been scheduled for mid-October 2019.
- The Gateway Determination states that the site specific local environmental plan is to be finalised by 29 February 2020.
- The draft development application for a ~28,000 sqm office building is complete and ready to be lodged with City of Parramatta Council this week. This is another key milestone to delivering substantial value for unitholders. Once lodged, this will enable the assessment processes to run in parallel with the site specific gazettal process.
- We are continuing our efforts to seek leasing pre commitments for the proposed development.
- We are targeting a fully-let yield on cost, including tenant incentives and finance costs, of between 7% and 8%, and the indicative value range of the completed new building is between \$250 million and \$300 million.



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

# CHAB Proposal

5 Eden Park Drive, North Ryde, NSW

# CHAB Proposal

## Terms of SIA nearly finalised

- AUIREL received an unsolicited, indicative and non-binding proposal from an entity associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC) (together, the Consortium) to acquire, by way of a trust scheme all of the issued units in AOF that the Consortium does not already hold for \$3.04 cash per unit, reduced by any distribution announced or paid in respect of AOF other than the 3.95 cent per unit distribution announced on 21 June 2019 (Proposal).
- The four week due diligence period ended on 13 August 2019. AUIREL has been finalising the provision of outstanding due diligence information to the Consortium, including the recently completed development application and specific detail relating to the proposed development at 2 Valentine Ave, Parramatta.
- The independent board committee (IBC) established by AUIREL to consider the Proposal, along with its advisers, is finalising terms of a Scheme Implementation Agreement (SIA) with the Consortium in relation to the Proposal.
- Distributions will continue to be paid quarterly unless AUIREL and the Consortium enter into a SIA in relation to the Proposal (or any similar transaction), in which case, AUIREL may decide not to proceed with payment of the distribution for the quarter ended 30 September 2019 (or any subsequent quarter) given the consideration under the Proposal would be reduced by this amount.
- If the scheme is approved by AOF unitholders, all units in AOF will be sold to the Consortium and AOF will be delisted from the ASX.



# Summary and outlook

10 Valentine Avenue, Parramatta, NSW

# Outlook

## Guidance

- FY20 FFO guidance of 17.3 – 17.7 cpu<sup>1</sup>
- FY20 distribution guidance of 16.0 cpu<sup>1,2</sup>

## Immediate focus

- Address current vacancy and pending lease expiry risk
- Where possible, take advantage of improving leasing conditions to grow AOF's earnings
- Further progress the development opportunity at 2 Valentine Avenue, Parramatta
- Finalise terms of the Scheme Implementation Agreement with the Abacus and Charter Hall consortium that's in the best interests of unitholders, which may ultimately see AOF delist from ASX

## Outlook

- 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



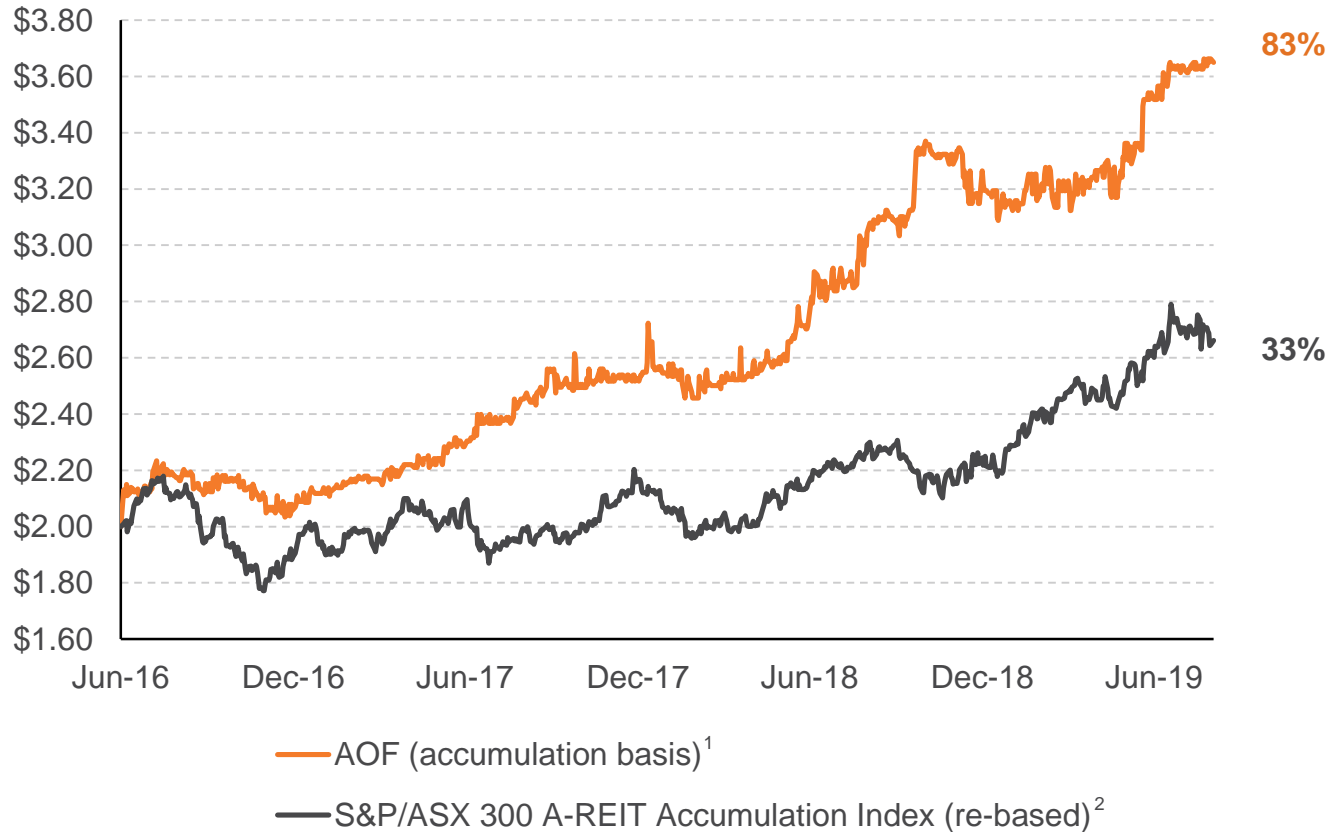
150 Charlotte Street, Brisbane, QLD

1. Subject to no material change in market conditions and no unforeseen events  
 2. Distributions will continue to be paid quarterly unless AUIREL and the Consortium enter into a Scheme Implementation Agreement in which case AUIREL may decide not to proceed with payment of the distribution for the quarter ended 30 September 2019 (or any subsequent quarter) given the consideration under the Proposal would be reduced by the amount of any distribution.



# AOF total unitholder return

Exceptional performance compared to A-REIT index



Notes:

1. Assumes distributions are invested at the prevailing market price on the ex-distribution date
2. Re-based to AOF's IPO price of \$2.00 per unit

Source: IRESS as at 19 August 2019



241 Adelaide Street, Brisbane, QLD

# Income statement

12 months to 30 June 2019	FY19 (\$'000)	FY18 (\$'000)	Change (\$'000)
<b>Income Statement</b>			
Rental income	58,896	53,375	5,521
Property expenses	(19,542)	(18,250)	(1,292)
Interest income	28	27	1
Net losses on financial instruments held at fair value	(5,847)	(529)	(5,318)
Net fair value increment of investment properties	24,282	73,717	(49,435)
<b>Total income net of property expenses</b>	<b>57,817</b>	<b>108,340</b>	<b>(50,523)</b>
<b>Expenses</b>			
Responsible Entity fees	(3,907)	(3,287)	(620)
Borrowing costs	(7,850)	(6,705)	(1,145)
Other expenses	(1,232)	(1,055)	(177)
<b>Total expenses, excluding property expenses</b>	<b>(12,989)</b>	<b>(11,047)</b>	<b>(1,942)</b>
<b>Profit for the year</b>	<b>44,828</b>	<b>97,293</b>	<b>(52,465)</b>

# Reconciliation of statutory profit to Property Council FFO

12 months to 30 June 2019	FY19 (\$'000)	FY18 (\$'000)	Change (\$'000)
Profit for the year	44,828	97,293	(52,465)
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,562	2,918	(1,356)
Net losses on financial instruments held at fair value	5,847	529	5,318
Net fair value increment of investment properties	(24,282)	(73,717)	49,435
Once off adjustment*	218	-	218
<b>Funds From Operations</b>	<b>28,173</b>	<b>27,023</b>	<b>1,150</b>
Retained Earnings	(2,446)	(2,498)	52
<b>Distributions</b>	<b>25,727</b>	<b>24,525</b>	<b>1,202</b>

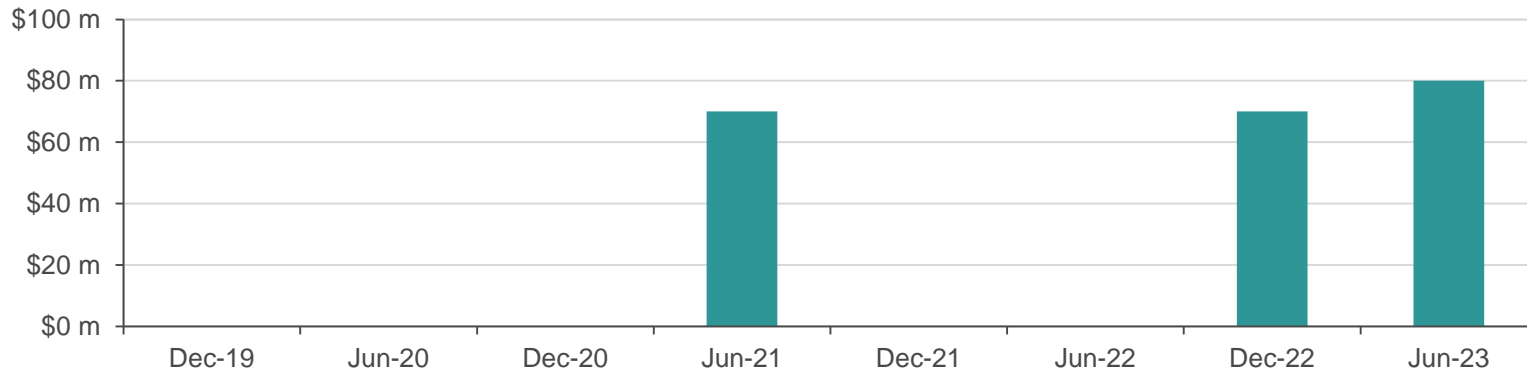
\*The Fund incurred costs in relation to the Starwood transaction which did not proceed. As these costs are one off in nature, and not part of the underlying and recurring earnings or expenses of the Fund, the directors have excluded them from the FFO calculation.

# Balance sheet

	30 June 2019 (\$'000)	30 June 2018 (\$'000)	Change (\$'000)
<b>Assets</b>			
Cash and cash equivalents	7,481	7,851	(370)
Receivables	1,117	641	476
Other assets	458	586	(128)
Investment properties	668,400	635,550	32,850
<b>Total Assets</b>	<b>677,456</b>	<b>644,628</b>	<b>32,828</b>
<b>Liabilities</b>			
Distributions payable	6,432	6,350	82
Payables	6,932	5,897	1,035
Financial liabilities held at fair value	6,143	297	5,846
Borrowings	203,940	197,175	6,765
<b>Total Liabilities</b>	<b>223,447</b>	<b>209,719</b>	<b>13,728</b>
<b>Net Assets</b>	<b>454,009</b>	<b>434,909</b>	<b>19,100</b>
Number of units on issue (million)	162.8	162.8	-
Net Tangible Assets per unit	\$2.79	\$2.67	\$0.12
Gearing	29.5%	29.9%	(0.4)%

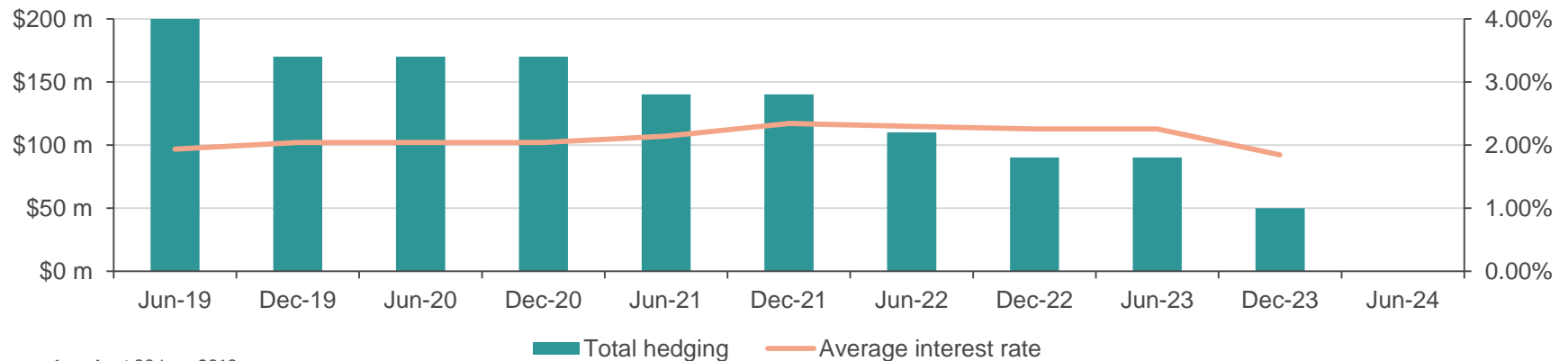
# Capital management

Debt facility expiry profile<sup>1</sup>



1. As at 30 June 2019

Interest rate hedging & average hedged interest rate<sup>1</sup>



1. As at 30 June 2019

# Property market metrics

	Vacancy rate		Net face rent	Incentives	Net effective rent	Net supply		Yield	
	Current	12 months ago	Current	Current	Y-o-Y % change	Previous 12 months	Next 12 months	Current	12 month historic change (bps)
Parramatta	3.0%	3.0%	\$545	15%	12.3%	(14,131)	58,184	5.25%	-37.5
Macquarie Park	4.8%	6.0%	\$398	21%	5.9%	(40,793)	(68,000)	5.50%	-25
St Kilda Road	6.6%	7.3%	\$425	20%	6.4%	(1,211)	(17,414)	5.75%	0
Brisbane - A grade	9.9%	11.2%	\$575	36%	3.4%	(28,369) <sup>1</sup>	30,243 <sup>1</sup>	5.70%	-30
Brisbane - B grade	27.4%	17.3%	\$460	39%	4.5%			6.50%	-75
Adelaide - A grade	14.3%	14.7%	\$396	33%	7.0%	4,771 <sup>2</sup>	34,636 <sup>2</sup>	6.80%	-20

**Source:**

Colliers Edge, Metro Office First Half 2019 – 9 April 2019  
 Colliers Edge, Metro Office First Half 2018 – 28 March 2018  
 Colliers Edge, CBD Office First Half 2019 – 26 February 2019  
 Colliers Edge, CBD Office First Half 2018 – 20 February 2018

**Notes:**

1. Net supply refers to Brisbane CBD market for all property grades
2. Net supply refers to Adelaide CBD market for all property grades

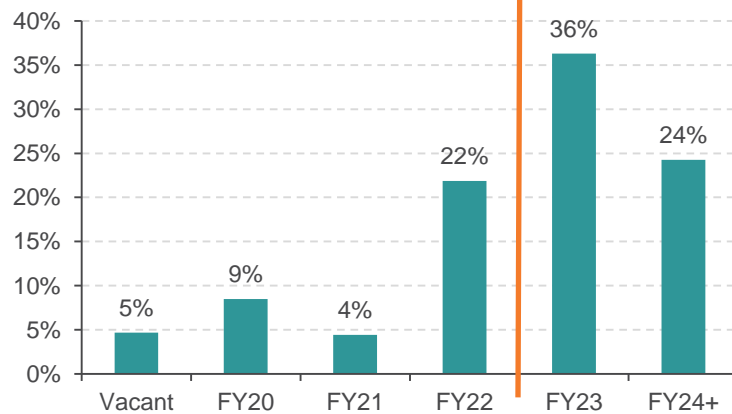
# Key portfolio metrics

As at 30 June 2019

## Key portfolio metrics

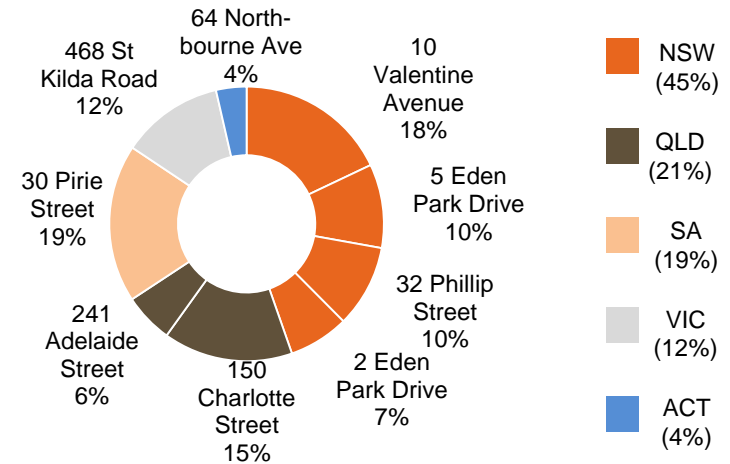
Number of properties	9
Occupancy <sup>1</sup>	95.3%
Portfolio Value	\$668.40m
Weighted Average Capitalisation Rate	6.21%
WALE <sup>2</sup>	3.5 years
Net Lettable Area	107,667 sqm

## Lease expiry profile<sup>1</sup>

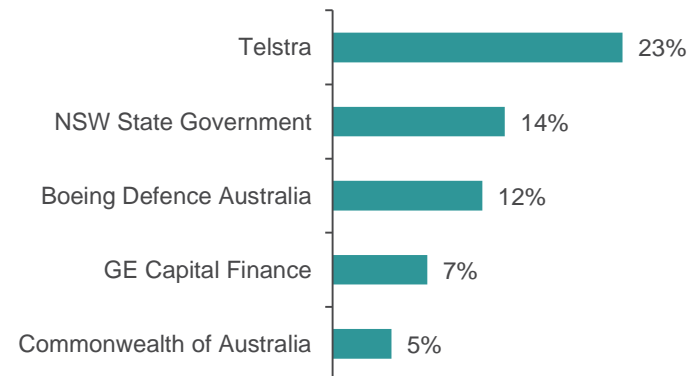


1. As at 30 June 2019, by Net Lettable Area  
 2. As at 30 June 2019 by book value  
 3. As at 30 June 2019, by Gross Property Income

## Geographic diversification<sup>2</sup>



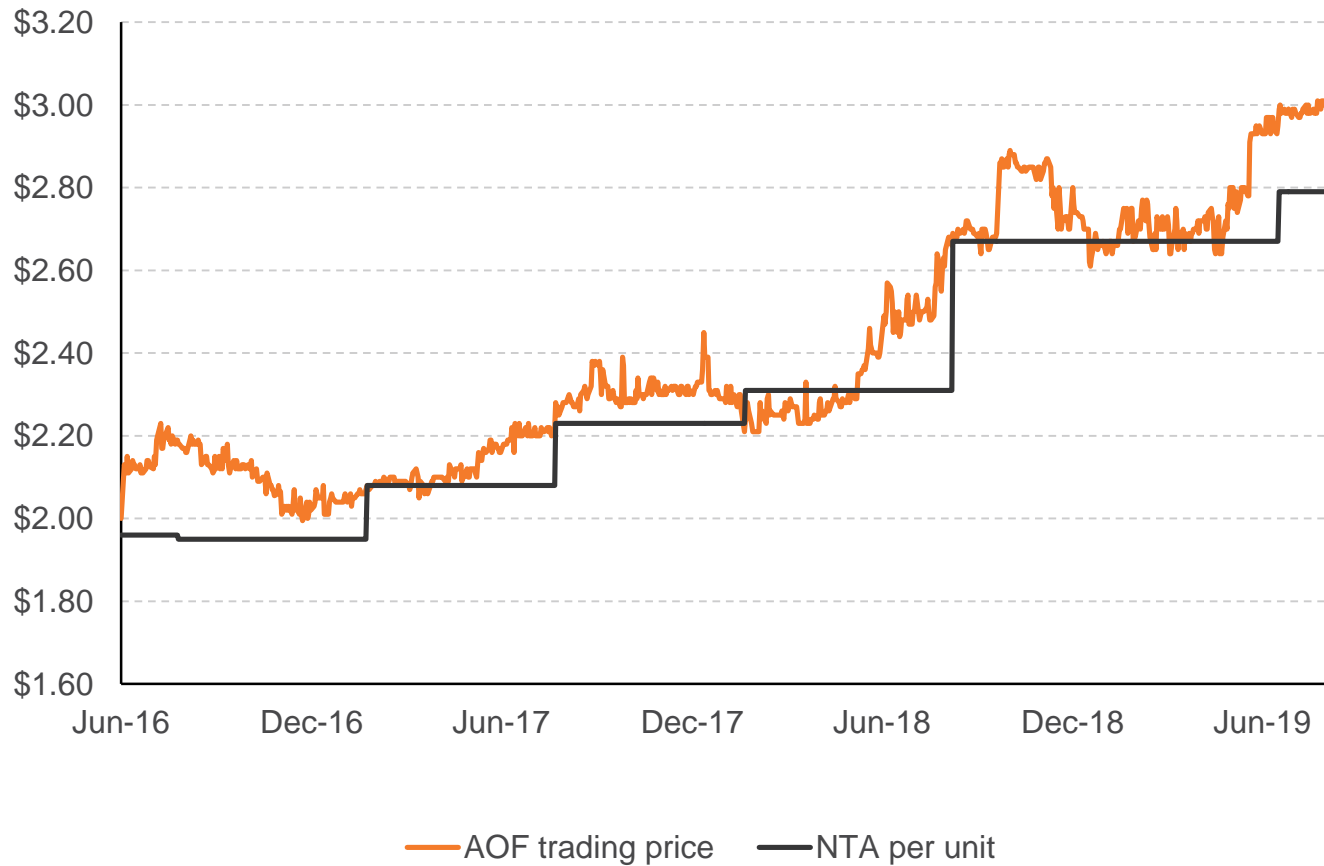
## Top 5 tenants<sup>3</sup>





# AOF's NTA and unit price performance

Steady capital growth and generally trading above NTA per unit



Source: IRESS as at 19 August 2019

# Investment portfolio

As at 30 June 2019

	Property	State	Book value	Cap rate	NLA (sqm)	WALE <sup>1</sup> (years)	Occupancy (by NLA)
<b>Single or Dominant Tenant Assets</b>	30 Pirie St, Adelaide	SA	\$124.50m	7.25%	24,749	3.7	94.0%
	10 Valentine Ave, Parramatta	NSW	\$120.00m	5.75%	16,020	2.9	100.0%
	150 Charlotte St, Brisbane	QLD	\$102.00m	6.00%	11,049	4.3	97.3%
	5 Eden Park Dr, North Ryde	NSW	\$66.00m	6.00%	11,030	5.0	92.8%
	32 Phillip St, Parramatta	NSW	\$65.00m	5.75%	6,759	4.0	100.0%
<b>Multi Tenant Assets</b>	468 St Kilda Rd, Melbourne	VIC	\$80.50m	5.25%	11,211	3.3	96.7%
	2 Eden Park Dr, North Ryde	NSW	\$47.40m	6.25%	10,345	1.9	100.0%
	241 Adelaide St, Brisbane	QLD	\$39.00m	7.50%	10,075	2.6	88.2%
	64 Northbourne Ave, Canberra	ACT	\$24.00m	7.00%	6,429	3.2	86.4%
<b>Total (T) / weighted average(A)</b>			<b>\$668.40m (T)</b>	<b>6.21% (A)</b>	<b>107,667 (T)</b>	<b>3.5 (A)</b>	<b>95.3% (A)</b>

1. As at 30 June 2019, 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





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