

# ASX Announcement – Australian Unity Office Fund

26 August 2019

## 2019 full year financial results – AOF continues to deliver

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

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

- Profit for the year of \$44.8 million;
- Funds from Operations<sup>1</sup> ("FFO") of \$28.2 million, or 17.3 cents per unit which was within guidance;
- Net tangible assets ("NTA") of \$2.79 per unit, an increase of 12 cents per unit, or 4.5%, from \$2.67 per unit at 30 June 2018;
- Portfolio value of \$668.4 million, which increased by \$32.9 million reflecting capitalisation rate compression and market rental growth;
- Total debt facilities remained at \$220 million, however we entered into new interest rate swaps which contributed to a reduction in the cost of debt from 3.9% to 3.7% per annum;
- Gearing of 29.5%<sup>2</sup>; and
- Gateway Determination received for proposed development at 2 Valentine Ave, Parramatta, community consultation complete; and draft development application for ~28,000 square metre office building complete and ready to be lodged this week.

Mark Lumby, Fund Manager of AOF said 'AOF has managed to capitalise on solid tenant demand in the metropolitan office markets. Occupancy has increased to 95.3% through pro-active leasing strategies. This active management, when combined with strong institutional investment demand and market rental growth, has led to a \$32.9 million increase in the value of the portfolio, with the total portfolio value now \$668.4 million.'

'Since AOF listed on the ASX a little more than three years ago, we have met or exceeded our earnings and distribution guidance each year, and have delivered a total return to investors of 83%<sup>3</sup> - equivalent to approximately 21% per annum.'

'We've also made great progress with the planning requirements of the proposed Parramatta development. In the last few months, we've received a Gateway Determination from the NSW State Government, completed a community consultation process and have drafted a development application ready to be lodged this week with the City of Parramatta Council for a ~28,000 square metre office building'

### Financial Results (for the year to 30 June 2019)

FFO	\$28.2 million
Profit for the year	\$44.8 million

AOF delivered FFO of \$28.2 million, or 17.3 cents per unit, which was in line with the FY19 guidance of between 17.2 and 17.4 cents per unit.

Profit for the year of \$44.8 million was down \$52.5 million from the prior year, primarily due to slower growth in asset valuations in FY19 compared to FY18. The fund's average capitalisation rate tightened 31 basis points this financial year compared with approximately 100 basis points in the prior financial year.

#### ASX code:

AOF

#### Issuer:

Australian Unity Investment Real Estate Limited

ABN 86 606 414 368

AFSL 477434

#### Enquiries:

Australian Unity Office Fund Investor Services

1300 721 637 or

+61 2 8016 2890

(outside Australia)

#### Contact details:

271 Spring Street

Melbourne VIC 3000

Tel: 13 29 39

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Distributions of \$25.7 million or 15.8 cents per unit were declared during the period, which was in line with the FY19 guidance of 15.8 cents per unit.

### Capital Management (as at 30 June 2019)

Gearing <sup>2</sup>	29.5%
Weighted average cost of debt	3.7%
Weighted average term to maturity	3.1 years
Interest cover ratio	4.57x
Hedged debt	97.7%

As at 30 June 2019, AOF's gearing was 29.5%, which is within the target gearing of below 40%. Its interest cover ratio of 4.57x provides ample headroom to the debt covenant of 2.00x.

During the year, AOF took out new interest rate swaps with a nominal value of \$120 million. This contributed to a lower weighted average cost of debt this financial year of 3.7% pa, compared to 3.9% the prior year. AOF maintains a diversified debt maturity profile with a weighted average debt term to maturity of 3.1 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 enables growth throughout the market cycle.

### Portfolio Update (as at 30 June 2019)

Portfolio Value	\$668.4 million
Weighted average capitalisation rate	6.21%
Portfolio net lettable area	107,667 square meters
WALE <sup>4</sup>	3.5 years
Occupancy <sup>5</sup>	95.3%

### Asset Valuations

All properties were revalued as at 30 June 2019 in line with AOF's valuation policy and reflecting the Independent Board Committee's request to revalue the entire portfolio in the context of the non-binding indicative offer of \$3.04 cash per unit from a consortium comprising Abacus Property Group and Charter Hall Group.

The portfolio value increased by nearly \$33 million to \$668 million as a result of solid leasing activity, combined with capitalisation rate compression and market rental growth. Capitalisation rates compressed by 31 basis points which is in line with the MSCI index<sup>7</sup> for this period.

Market rental growth has been particularly strong in the Parramatta and St Kilda Road metropolitan office markets, two of the best performing office markets in the country. AOF also experienced some modest rental growth in North Ryde off the back of the improved infrastructure in the area, in conjunction with the cheap rental profile compared to Sydney's CBD.

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Of note, the value of AOF's property at 10 Valentine Avenue increased by \$5 million, reflecting market conditions for the existing property and tenancy. The valuation of this property does not take into account the site's significant development potential.

Overall, the capital value of the portfolio is ~\$6,200 per square metre which represents good value.

### *Leasing*

Approximately 12,200 square metres of leasing activity was completed in the 2019 financial year via 35 separate transactions, representing approximately 11.4% of AOF's portfolio by area.

Approximately 7,300 square metres of this leasing relates to new tenants, which represents 6.8% of portfolio net lettable area. This contributed to the portfolio occupancy increasing to 95.3% as at 30 June 2019.

Since 30 June 2019, the management team have completed further leases or have signed non-binding heads of agreement for approximately 2,200 square metres of space that was not included in 30 June 2019 portfolio metrics.

The fund has no significant lease expiries until FY22. With only two expiries of greater than 1,000 square metres during FY20, and with approximately 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*

AOF is pursuing a development scheme for a commercial office building with net lettable area of approximately 28,000 square metres at 2 Valentine Avenue, Parramatta, which is on the same title as AOF's existing property at 10 Valentine Avenue.

In April 2018, we received development consent to build an office building of approximately 8,000 square metres. The building was designed by Fitzpatrick + Partners to achieve a Well Gold rating for design excellence.

AOF is currently pursuing a site specific planning proposal to amend the building height and floor space ratio standards that apply to the site at 2-10 Valentine Ave, Parramatta that would enable a larger office building to be developed of approximately 28,000 square metres.

On 29 May 2019, the NSW Government Department of Planning & Environment (as delegate of the Minister for Planning and Public Spaces) determined that our site specific planning proposal should proceed subject to the conditions of the Gateway Determination (an enabler to the development application). The outcome of the Gateway Determination is expected 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.

AOF is also continuing efforts to seek leasing pre-commitments for the proposed development and is in discussions with a number of tenants seeking accommodation in Parramatta.

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AOF is targeting a fully-let yield on cost, including tenant incentives and finance costs, of between 7% and 8%. The indicative value range of the completed new building is between \$250 million and \$300 million.

### Outlook

Mark Lumby stated 'AOF is well placed to deliver on its objective of providing unitholders with sustainable income returns with a portfolio underpinned by 95.3% occupancy, with no single significant lease expiry until June 2022, and nearly 60% of the portfolio leased to investment grade tenants such as Telstra, Government, Boeing and GE.'

'Subject to no material change in current market conditions, and based on business as usual operations, AOF provided FFO guidance for the 2020 financial year of between 17.3 and 17.7 cents per unit, and distribution guidance of 16.0 cents per unit for the same period'

'Distributions will continue to be paid quarterly unless we enter into a Scheme Implementation Agreement with an entity associated with Abacus Property Group and Charter Hall Group, 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 that the \$3.04 cash per unit consideration under the consortium's proposal would be reduced by this amount.'

'In the meantime, we will continue to progress opportunities to grow the portfolio for investors, particularly as it relates to leasing any vacancies, but also to further progress the potential significant proposed development opportunity at Parramatta.'

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 19 August 2019 and assumes distributions are reinvested at the prevailing market price on the ex-distribution date.
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. Portfolio occupancy is the percentage of net lettable area which is occupied.
6. Subject to no material change in market conditions.
7. The Property Council/MSCI Australian All Property Index, Valuer capitalisation rate

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### Contact information

Mark Lumby  
Fund Manager – AOF  
Phone: 0413 940 992

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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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