ASX Announcement – Australian Unity Office Fund

23 February 2021

FY21 half year financial results – strong leasing outcomes, increased occupancy, solid rental collections, earnings guidance provided

Australian Unity Investment Real Estate Limited (**AUIREL**), as Responsible Entity of Australian Unity Office Fund (**ASX: AOF**), today announced AOF's half year results for the FY21 financial year.

Key financial and operational highlights for 1HFY21 included:

- Funds from Operations (FFO[1]) of $15.1 million, or 9.2 cents per unit
- Distributions of $12.2 million, or 7.5 cents per unit
- Leasing activity of approximately 12,000 sqm for the half year (approx. 11.1% of the portfolio by NLA) resulting in an increase in occupancy to 95.3%, up 1.6% from 93.7% as at 30 June 2020[2]
- Rental collections for the half year of 98.3%[3] (April to June 2020 92.0%)
- Progress made on COVID-19 related rent relief requests with outstanding requests reducing by approximately two-thirds[4]. $749,000 of COVID related support provided to tenants during the period
- Net tangible assets (NTA) of $2.77 per unit, an increase of 5 cents per unit, from $2.72 per unit at 30 June 2020
- Balance sheet remains strong with gearing of 30.7%[5] with no debt expiring until October 2022

AOF provides FY21 FFO guidance of 18.3 – 18.7 cpu and distribution guidance of 15.0 cpu[6]. Distributions of 15.0 cpu equates to a yield of approximately 7.1%[7], attractive in the current low interest rate environment.

---

[1] FFO is a 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 to financial instruments and other unrealised or one-off items

[2] The 12,000 sqm comprises approximately 11,200 sqm of signed leases, together with approximately 800 sqm under signed heads of agreement.

[3] Rental collections, including payment of arrears, as a percentage of billings, averaged 98.3% for the half year

[4] Approximately 16% of tenants, by average monthly gross income, have requested proportionate rent relief under the National Cabinet Mandatory Code of Conduct. Following "good faith" discussions with those tenants, a number of requests have been finalised, or withdrawn, such that tenants representing approximately 5% of AOF's average monthly gross income have outstanding requests at 31 December 2020

[5] Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash

[6] Subject to no material change in market conditions, no material change to the portfolio and no unforeseen events

[7] Based on 19 February 2021 closing unit price of $2.12 per unit

ASX Announcement – Australian Unity Office Fund

James Freeman, AOF Fund Manager said "The AOF portfolio has performed well over the period, with robust leasing results driving an increase in occupancy to 95.3%, up 1.6% from 30 June 2020.

"The underlying strength of the portfolio with limited vacancy, minimal expiry in FY21 and strong collections has enabled FFO guidance to be reinstated. FY21 FFO guidance of 18.3 – 18.7 cpu is provided, with distribution guidance of 15.0 cpu reaffirmed. The distribution guidance is in line with FY20 actual distributions of 15.0 cents per unit and represents a yield of approximately 7.1% on the 19 February 2021 closing price.

"AOF is well positioned as we move through FY21, with only 2.7% of the portfolio expiring during the year and a portfolio allocation weighted towards the metro markets of 62%[8] and 38% to the smaller CBDs".

"In an environment where employers are focused on affordability, and employees are seeking to work closer to home, while still enjoying excellent amenity and accessibility, we believe these markets will outperform given their cost advantage to the larger CBDs of Sydney and Melbourne".

Financial Results (for the half year to 31 December 2020)

Net profit (statutory)	$20.1 million
FFO	$15.1 million
FFO per unit	9.2 cents
Distributions	$12.2 million
Distributions per unit	7.5 cents

AOF delivered FFO of $15.1 million, or 9.2 cents per unit for 1HFY21.

AOF provided $749,000 of COVID related support to tenants during the period. $451,000 was provided in the form of rent waivers with a further $298,000 of rent deferred.

Tenants representing approximately 16% of the fund's average monthly gross income have requested proportionate rent relief under the National Cabinet Mandatory Code of Conduct. Following "good faith" discussions with those tenants, a number of requests have been finalised, or withdrawn, such that tenants representing approximately 5% of AOF's average monthly gross income have outstanding requests at 31 December 2020.

Capital Management (as at 31 December 2020)

Gearing	30.7%
Weighted average cost of debt	3.0%
Weighted average term to maturity	3.0 years
Interest coverage ratio	4.5x
Hedged debt	77.3%

[8] By book value ($m)

During the half year, gearing reduced to 30.7%, down 0.5% from 30 June 2020 and net borrowings[9] are $209.5 million ($210.0 million as at 30 June 2020), providing $40.5 million of cash and undrawn debt.

The weighted average cost of debt reduced to 3.0% as at 31 December 2020 and the interest coverage ratio is 4.5x providing sufficient headroom to the 2.0x covenant.

With substantial headroom to its covenants, approximately $40 million of debt and cash available and no debt maturing until October 2022, AOF is well positioned moving forward, aligning with its capital management objective of maintaining a robust capital structure that enables growth over the long term.

Distribution Reinvestment Plan

AOF's Distribution Reinvestment Plan (DRP) was activated for the September quarter onwards which allows unitholders to reinvest their distributions into new AOF units at a 1% discount[10].

Pleasingly the participation rate was 22% for the September quarter, rising to 32% for the December quarter, which raised approximately $3.3 million, further strengthening AOF's balance sheet.

The DRP will remain active for future distribution periods unless otherwise determined by AUIREL.

To participate in the DRP, investors can contact Australian Unity Office Fund Investor Services on 1300 737 760 or +61 2 9290 9600, or update their details online at https://www.investorserve.com.au/.

Portfolio Update (as at 31 December 2020)

Portfolio Book Value	$681.05 million
Weighted average capitalisation rate	6.02%
Portfolio net lettable area	108,172 sqm
WALE[11]	2.6 years
Occupancy[12]	95.3%

Asset Valuations

All properties were independently revalued as at 31 December 2020, with the portfolio valued at $681.05 million, representing a $11.4 million (2.0%) increase on 30 June 2020.

Compared to the 30 June 2020 valuations, capitalisation rates for the portfolio decreased by 7 basis points to 6.02%.

[9] Net borrowings means drawn debt less cash

[10] DRP units are be issued based on an offer price, determined by applying a 1% discount to the 10-day Volume Weighted Average Price ('VWAP') for the period commencing three days following the record date.

[11] 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 42 years remaining on the lease and this would distort the metric

[12] Portfolio occupancy is the percentage of net lettable area which is occupied

ASX Announcement – Australian Unity Office Fund

All valuations have regard to the current economic environment, with substantially lower compound annual growth rates, increased incentive levels and increased downtime allowances relative to valuations conducted prior to the onset of the COVID-19 pandemic.

Of note, the value of AOF's property at 2-10 Valentine Avenue, Parramatta increased by $18.15 million over the half, as further progress was made with early works well advanced by the appointed builder, Buildcorp and market transactions supportive of a higher valuation.

The overall value of the portfolio is ~$6,310 per square metre which continues to represent attractive value.

Leasing

Approximately 12,000 sqm of leases or heads of agreement have been reached, representing 11.1% of the portfolio by NLA, during the first half of FY21. Lease agreements were finalised over approximately 11,200 sqm, while further heads of agreement were reached over approximately 800 sqm. Over 2,100 sqm of this leasing is over space that was vacant at 30 June 2020, driving a 1.6% increase in occupancy to 95.3% (93.7% as at 30 June 2020).

Expiry in FY21 has reduced from 4.3% to 2.7% as at 31 December 2020. The most active assets have been:

- 5 Eden Park Drive, with approximately 7,000 sqm of leasing completed including the previously announced CPSA lease restructure increasing occupancy up to 96.3% (92.8% as at 30 June 2020);
- 2 Eden Park Drive, with approximately 2,300 sqm of leasing, taking the property to 100% occupied (95.4% as at 30 June 2020) and only one suite left expiring in FY21; and
- 241 Adelaide Street, with eight transactions totalling approximately 2,000 sqm increasing occupancy to 95.2%, up 9.5% from 30 June 2020 (85.7%).

Mr Freeman stated "A significant level of leasing has been completed across the portfolio in FY21 to date, increasing occupancy by 1.6% to 95.3%, despite the current uncertainty in the marketplace. Our assets in Macquarie Park and Brisbane have been particularly active with 2 Eden Park Drive, Macquarie Park now 100% leased, 5 Eden Park Drive, Macquarie Park has only one remaining suite available and 241 Adelaide St, Brisbane is now 95.2% occupied.

We believe these assets are benefiting from their affordable rentals which are a fraction of the major CBD markets of Sydney and Melbourne while still providing solid amenity and great accessibility".

Development

Management is focused on driving capital growth over the longer term for the portfolio.

At 2 Valentine Avenue, Buildcorp are well advanced on early works to de-risk the delivery program.

To further enhance the flexibility of the Valentine Avenue development opportunity, management is working on a design to link both 2 and 10 Valentine Avenue together to create a combined building offering. This offering is designed to provide a direct link through 10 Valentine Avenue to 2 Valentine Avenue, an enhanced arrival experience for both buildings and greater flexibility in security configurations.

The new design will require Development Approval (DA) which if received will be in addition to the existing DAs the Valentine Avenue site has, providing additional flexibility, while maintaining the existing approvals.

Divestment

As previously advised, 241 Adelaide Street, Brisbane has been identified as a non-core asset. Following a comprehensive sales campaign, a preferred party is now in exclusive due diligence to acquire the asset. We will continue to update the market as appropriate.

Strategic Assessment

AUIREL remains focused on delivering the best possible returns for unitholders. AOF's portfolio remains well positioned, however AOF's trading price continues to reflect a significant discount to NTA. AUIREL Directors have initiated a strategic assessment to examine all options to maximise returns to, and unlock value for, unitholders.

Outcomes and conclusions from the strategic assessment will be communicated to the market over the coming months.

AUIREL has appointed Highbury Partnership to assist with the strategic assessment.

Outlook

Mr Freeman stated "AOF is continuing to navigate through the current uncertain environment due to COVID-19 with key progress made during the first half of FY21. Collections remain strong at 98.3% with outstanding requests by tenants requesting proportionate rent relief under the National Cabinet Mandatory Code of Conduct reducing by approximately two-thirds".

"Leasing across the portfolio has been impressive with approximately 12,000 sqm of leasing or heads of agreement reached during the half year, driving an increase in occupancy to a healthy 95.3%, up 1.6%. FY21 expiries have been progressed with expiry currently sitting at 2.7%, and likely to reduce further as current heads of agreement are converted into leases. There is now only one expiry over 400 sqm in FY21 and discussions are underway".

"The capital structure of AOF remains robust, with gearing falling to 30.7% during the period, substantial coverage to our debt covenants, and a weighted average debt tenor of 3.0 years and no debt maturities until October 2022.

"The AOF portfolio is well positioned across the metropolitan office markets and smaller CBDs which offer affordable rents which are a fraction of Sydney CBD and Melbourne CBD rents, while typically still providing great accessibility and amenity. In the current cost-conscious environment, we believe these markets are likely to outperform.

"The resilience of the underlying income stream with 63% of the portfolio's gross income coming from the top five major investment grade tenants, recent leasing success and the limited near-term expiry profile, has enabled the provision of FFO guidance for FY21.

"AOF provides FY21 FFO guidance of 18.3 – 18.7 cpu and reaffirms FY21 distribution guidance of 15.0 cpu, subject to no material change in market conditions, no material change to the portfolio and no unforeseen events. This distribution guidance equates to a distribution yield of approximately 7.1% on the 19 February 2021 closing price of $2.12".

ASX Announcement – Australian Unity Office Fund

Authorised by:

AUIREL Disclosure Committee

Contact information

James Freeman
Fund Manager – AOF
Phone: +61 458 286 250

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 owned equally by subsidiaries of Australian Unity Limited ABN 23 087 648 888 and Keppel Capital Holdings Pte Ltd CRN 201302079N, the asset management arm of Singapore-based Keppel Corporation Limited CRN 196800351N.