ASX announcement

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Investa Office Fund (ASX:IOF)

Strategy execution driving profit and NTA growth

Investa Office Fund ("IOF" or the "Fund") today announces its results for the full year to 30 June 2014. Net Profit has increased 16% to $183.6 million, compared to the previous corresponding period (pcp) of $158.7 million. After adjusting for fair value movements and other non-operating items, Funds From Operations ("FFO")[1] were up 6% to $162.6 million, as the impact of $454 million of acquisitions during the period offset the loss of income from the sale of the investment in the Dutch Office Fund in the first half. Net Tangible Assets increased 4% to $3.35 per unit after 9 assets were revalued at 30 June 2014.

Key highlights for the period include:

- Total unitholder return 23.4%;
- Funds From Operations up 6% to 26.5 cents per unit, ahead of most recent guidance of 26.3 cents per unit;
- Distributions up 4% to 18.5 cents per unit;
- Record leasing results with 130,000 square metres completed, providing a material contribution to the $112.6 million of valuation increases across the Australian portfolio;
- Asset level total return[2] 10.3%;
- Over $800 million of transactions, including the acquisition of three Sydney assets totalling $454 million and the sale of the legacy investment in the Dutch Office Fund for $232 million; and
- $727 million of debt issued or refinanced, extending the weighted average debt maturity to 5.8 years and bolstering IOF's low average cost of debt of 4.7%

Toby Phelps, Fund Manager IOF said: "In a challenging year for the office markets, FY14 has been another year of strong profit and NTA growth for IOF. Our active approach to asset management has driven $112 million in valuation increases across the Australian portfolio and again highlights how our leasing outcomes are creating value.

With our ongoing focus on portfolio transformation, $800 million of transactions were completed during the period, including the sale of the legacy investment in the Dutch Office Fund and the acquisition of three Sydney assets, positioning the portfolio for stronger growth moving forward."

Proactively adding value through asset management in a challenging market environment

Key asset management metrics for the Australian portfolio during and as at 30 June 2014 include:

- Net Property Income ("NPI") increased 7% to $173.1 million;
- Like-for-like NPI change of (0.4%);
- Weighted average lease expiry of 5.0 years;
- Average valuation increase of 6% after 67% of the portfolio was revalued over the period;
- 130,000 square metres of leasing (23% of the portfolio), including 64,000 square metres in Melbourne and 56,000 square metres in Sydney.

The Australian portfolio generated strong NPI growth following the acquisitions of 99 Walker Street, North Sydney and the Piccadilly Complex in Sydney. Like-for-like NPI movement was weighed down largely by the anticipated vacancy at 140 Creek Street, Brisbane.

The Investa management platform ("Investa") continues to proactively add value to the portfolio by creating tenant solutions that drive leasing success. The equivalent of 23% of the portfolio was leased during the period, accompanied by an extensive $45 million refurbishment program across the portfolio – designed to provide better working environments to current and future IOF tenants, while improving retail and car parking amenity. This asset management activity has underpinned a $112 million increase in valuations over the period, equivalent to an average 6% increase on the Australian assets that were valued.

1. The Responsible Entity considers the non-AAS measure, FFO, an important indicator of underlying performance of the Group. To calculate FFO, net profit attributable to unitholders is adjusted to exclude unrealised gains or losses, certain non-cash items, fair value gains or losses on investments and other amounts that are non-recurring or capital in nature; this is consistent with the Property Council of Australia FFO guidelines. Refer to the Annual Financial Report for the complete definition.
2. Capital growth plus cash received during period on Australian assets

Valuation highlights include 800 Toorak Road, Melbourne (+22.3%), 105 Miller Street, North Sydney (+13.3%), 111 Pacific Highway, Sydney (+12.1%), and 99 Walker Street, North Sydney (+11.9%). The valuation uplifts were marginally offset by 15 Adelaide Street, Brisbane (-10.2%) and 140 Creek Street, Brisbane (-2.5%). In addition to the valuations reported, the price of $129.6 million for the agreed sale of 628 Bourke Street, Melbourne, represents a 13.7% premium to the asset's forecast book value.

Unlocking value at 99 Walker St, North Sydney

Post balance date the asset management achievements have continued with over 8,000sqm of leasing completed at 99 Walker Street, North Sydney. Jemena has leased 5,600sqm on a 13 year lease to commence in March 2015, replacing the 4,600sqm to be vacated by the current tenant, AAMI, in January 2015. In addition, the poorly performing ground floor food court will be converted to a supermarket which has been leased to Coles on a 20 year lease. The supermarket is due to open in mid-2015 and this conversion is forecast to generate a 14% profit on cost. Overall this leasing activity commits IOF to a capital works program of $17 million, and results in a 20% increase to the building's overall rental income and an extension of the WALE from 5.2 to 10.0 years. These outcomes have underpinned the valuation increase of 11.9%.

Dynamic portfolio transformation delivering on strategic objectives

Key portfolio management metrics for the Australian portfolio during and as at 30 June 2014 were:

- Acquisitions of three Sydney assets totalling $454 million;
- Disposal of the 14.2% interest in the Dutch Office Fund for €155 million and terms agreed for the sale of 628 Bourke Street, Melbourne for $129.6 million; and
- Australian portfolio increased to 97% of total assets, up from 89% at 30 June 2013

IOF has continued to exploit attractive pricing for value-add and tactical opportunities via the acquisition of three Sydney assets during Financial Year 2014, totalling $454 million. Acquisitions were 99 Walker Street, North Sydney; Piccadilly Centre, Sydney; and 6 O'Connell Street, Sydney. These buildings largely appeal to the strongest segment of the occupational market - tenants occupying less than 600sqm, seeking affordable office space in good locations – and these fundamentals underpin the future returns from these acquisitions, and further build on Investa's track record of delivering attractive risk adjusted returns.

After an active leasing program to stabilise 628 Bourke Street, Melbourne, which resulted in 99% occupancy and a weighted average lease expiry of 6.9 years, terms were agreed to sell the asset for $129.6 million – a premium of 13.7% to the forecast book value. This sale takes advantage of strong capital market conditions and enabled IOF to recycle capital into assets with more attractive risk-adjusted returns, such as 6 O'Connell Street, Sydney.

The disposal of the 14.2% interest in the Dutch Office Fund ("DOF") during the period for €155 million reduced offshore assets to less than 3% of the total portfolio. DOF was a structurally challenged and illiquid investment and the sale was an important strategic milestone towards achieving a 100% Australian portfolio. Non-binding terms have been agreed for the sale of the remaining offshore asset, Bastion Tower in Brussels, and it is expected it will be sold during the course of financial year 2015.

Reducing costs and mitigating risks through capital management

Key capital management metrics at 30 June 2014 include:

- Look-through gearing 31.5%, an increase from 26.3% as at 30 June 2013;
- Weighted average cost of debt 4.7%, reduced from 5.2% as at 30 June 2013;
- Weighted average debt maturity of 5.8 years[3], increased from 3.2 years as at 30 June 2013; and
- Strong interest cover ratio of 4.9x, albeit reduced from 5.4x as at 30 June 2013.

Over $727 million of debt was refinanced or issued during the year, including a US$200 million US Private Placement issuance and the post balance date refinancing of $398 million in bilateral bank debt. IOF now has no debt maturity greater than $200 million in any single year and a long weighted average debt maturity profile of 5.8 years[3].

This refinancing activity is in line with IOF's strategic objective of diversifying debt sources and extending the tenor of its debt. Investa's proactive and opportunistic approach has also resulted in debt costs reducing further to 4.7%, compared to 5.2% for the year to June 2013. The cost of debt is expected to decline again in financial year 2015.

3. Includes post balance date refinance of $398m

Ming Long, Finance Director for Investa said: "We maintain our commitment to a diversified and balanced debt profile, while taking advantage of windows within the debt capital markets that enable us to optimise our cost of debt and debt maturity profile. The capital markets have been supportive of IOF's business and strategy over the past 12 months and we expect this support to continue."

As previously announced, the Australian Tax Office is auditing the income tax returns for the Fund.

Key Strategies for 2015

The skills, expertise and proactive approach of the Investa platform has resulted in a record level of leasing during the year, resulting in a material de-disking of the portfolio's income stream and a subsequent increase in the value of IOF's assets. Whilst market conditions are improving in Sydney and Melbourne, where 76% of the portfolio is located, Brisbane and Perth are expected to remain challenging as high vacancy rates are exacerbated by continued weak demand and upcoming supply. Whilst Investa maintains an intensive asset management focus in these weaker markets we have adopted a conservative outlook in our forecasts.

The capital works programme that underpins the recent leasing and value creation achievements is set to continue in financial year 2015. This programme includes the construction of a new car park at 800 Toorak Road, Melbourne, a new supermarket and services upgrade at 99 Walker Street, North Sydney, and the continued construction of 567 Collins Street, Melbourne. The detailed design for the planned redevelopment of 151 Clarence Street, Sydney continues, with planning approvals to be achieved ahead of the anticipated start in March 2016.

With investors continuing to seek low risk, long income stream investments, IOF's focus will remain on leveraging the Investa platform to add value through ongoing leasing and asset improvement initiatives. Where appropriate, further portfolio recycling will be considered to take advantage of value-add and tactical acquisition opportunities, where we see attractive risk-adjusted returns.

Outlook

For financial year 2015, FFO is expected to increase 3% to 27.3 cents per unit, subject to prevailing market conditions. The distribution is forecast to increase 3% to 19.1 cents per unit, representing a forecast payout ratio of 70% of FFO.

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About Investa Office Fund

Investa Office Fund (ASX code: IOF) is an ASX-listed real estate investment trust (A-REIT) and is included in the S&P/ASX100 index. IOF is a leading owner of investment grade office buildings and receives rental income from a tenant register comprised predominately of Government and blue chip tenants. IOF has total assets under management of AU$3.3 billion with 23 investments located in core CBD markets throughout Australia, and one remaining legacy asset in Brussels, Belgium. IOF's focus is on delivering attractive risk-adjusted returns to its unitholders from a portfolio of high quality assets located in the key CBD office markets of Australia.

About Investa Office

Investa Office is Australia's leading owner and manager of commercial office buildings, controlling assets worth more than $8 billion in key CBD markets across Australia. Our end-to-end real estate platform incorporates funds, portfolio and asset management, property services, development, sustainability, capital transactions and research.

We strive to be the first choice in Australian office, by delivering consistent outperformance for our investors and exceeding the expectations of our tenants and staff. Investa Office is a global leader in sustainability and is committed to responsible property investment and the ongoing pursuit of sustainable building ownership and management.

We are a signatory of the United Nations Principles for Responsible Investment.

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