ASX announcement

19.02.15

Investa Office Fund (ASX:IOF)

Investa continues to deliver

Investa Office Fund ("IOF" or the "Fund") today announces its results for the half year to 31 December 2014. Net Profit has increased 78% to $99.5 million, compared to the previous corresponding period (pcp) of $56.0 million. After adjusting for fair value movements and other non-operating items, Funds from Operations (FFO) increased 3% to $87.3 million, boosted by $329 million of acquisitions in 2014.

Key highlights for the period include:

- Funds From Operations up 3% to 14.2 cents per unit;
- Distribution per unit up 3% to 9.55 cents;
- Net Tangible Assets increased 2% to $3.42 after 11 assets were revalued at 31 December 2014;
- Maintained a low weighted average cost of debt of 4.2% and a long weighted average maturity profile of 5.4 years;
- Exchanged contracts for the sale of Bastion Tower, Belgium, IOF's final offshore asset for €54.9 million, delivering on IOF's strategy of becoming 100% Australian focused; and
- Settled the sale of 628 Bourke Street, Melbourne at a 14% premium to book value.

Following stronger than expected leasing outcomes and lower debt costs, guidance for FY15 has been upgraded from 27.3 cents per unit to 27.5 cents per unit, representing 3.8% growth on FY14.

Ming Long, IOF Fund Manager said: "This is another solid result from IOF, as we continue to benefit from the skills and expertise of the Investa platform. The increase in FFO was largely driven by capital re-deployment into two high-quality Sydney assets, Piccadilly and 6 O'Connell Street, which are performing ahead of our expectations due to strong leasing outcomes.

The disposal of Bastion is an important milestone for the Fund, allowing us to wholly focus on the Australian market where Investa has a clear competitive advantage. Our preference for floating rate debt was advantageous, resulting in our weighted average debt cost falling to 4.2%.

IOF's overweight Sydney exposure underpins solid results

Key asset management metrics for the Australian portfolio during and as at 31 December 2014 were:

- Net Property Income (NPI) increased 12% to $95.8 million, following full period contributions from Piccadilly and 6 O'Connell Street in Sydney, partly offset by the sale of 628 Bourke Street, Melbourne;
- Weighted average lease expiry of 4.9 years;
- Like for like NPI decreased 2.6%, after lower occupancy in Brisbane impacted revenue;
- 30,000 square metres of leasing, led by high levels of activity in Sydney and Brisbane;
- Asset valuation increases of $58 million led by Sydney, after Investa leased-up vacancy, achieved higher rents and reported market cap rate compression, with the stand-out being the Piccadilly complex – increasing $16 million (8.5%) to $206.3 million; and
- Declines in asset valuations totalling $45 million were reported in the resource markets of Brisbane and Perth, with declining rents and increasing incentives impacting carrying values.

IOF continues to benefit from an overweight position to Sydney, particularly high quality A and B-grade assets that offer affordable accommodation at less than $900 per square metre. These assets are attracting high levels of tenant interest, best demonstrated by 3,100 square metres leased at Piccadilly Tower and 1,800 square metres leased at 6 O'Connell Street, Sydney and 11,300 square metres leased in North Sydney.

In Brisbane, currently one of Australia's most challenging office markets, Investa agreed leasing over 11,400 square metres across three assets - 140 Creek Street, 295 Ann Street, and 239 George Street, reducing vacancy and de-risking future lease expiries. The refurbishment at 140 Creek Street was completed in November 2014, reinvigorating the building and contributing to increased leasing enquiries, with level 6 leased during the period.

1. The Responsible Entity considers the non-AAS measure, Operating earnings, an important indicator of underlying performance of the Group. To calculate Operating earnings, 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. Refer to the Statutory Accounts for the complete definition.

"During the first half of financial year 2015 we've continued to deliver on strategy, completing another 30,000 square metres of leasing and progressing over $40 million worth of value-add refurbishments and developments.

Sydney was the clear stand-out with strong leasing and valuation results. Despite market conditions, I'm encouraged by our traction in Brisbane, where occupancy has increased by 3.1% following 11,437 square metres of leasing since June 2014. Our proactive approach to addressing the current and forward lease expiries has maintained our long weighted average lease expiry of 4.9 years and positions us strongly moving forward," Ming Long said.

Strong valuation results in Sydney and Melbourne were largely due to strong leasing outcomes and market cap rate compression. The valuation highlights included; Piccadilly Complex, Sydney (+8.5%); 347 Kent Street, Sydney (+4.8%); 242 Exhibition Street, Melbourne (+4.7%) and 126 Phillip Street, Sydney (+4.5%).

The valuation uplifts were partly offset by declining valuations in Brisbane and Perth, as underlying levels of tenant activity remained weak, resulting in valuers adopting more conservative assumptions on rents and lease-up periods. The valuation declines included: 140 Creek Street, Brisbane (-9.2%); 295 Ann Street, Brisbane (-11.4%); and 66 St Georges Terrace, Perth (-12.8%).

Delivering on strategy

During the period contracts were exchanged to sell Bastion Tower, Brussels for €54.9 million. This sale will complete the offshore disposal program that has totalled $0.8 billion since Investa took over management in 2011. Settlement is forecast for March 2015.

The sale of 628 Bourke Street, Melbourne for $129.6 million was completed in October 2015. The sale represented a 14% premium to book value and followed an intensive period of leasing whereby Investa leased over 20,000 square metres to create a weighted average lease expiry of 6.9 years.

"Since 2011 we've reinvested $1.2 billion into high quality assets in the Australian CBD markets, where we can leverage the skills and experience of the Investa platform to generate outperformance. During this time we've reduced our offshore exposure from 35% of the portfolio to zero, and increased our exposure to our preferred market of Sydney, to 59%, providing a firm platform for growth moving forward," Ming Long said.

Long debt maturity and low debt costs

Key capital management metrics at 31 December 2014 include:

- Look-through gearing 30.7%;
- Weighted average cost of debt of 4.2%;
- Weighted average debt maturity of 5.4 years; and
- Interest cover ratio of 4.6x.

IOF's current preference for floating rates continues to generate interest cost savings, with the weighted average cost of debt reducing 0.5% to 4.2% during 1H15. Lower debt costs are forecast to continue, with FY15 average debt costs forecast at ~4%.The debt profile remains long and strong, with $398 million of debt refinancing completed in July 2014, underpinning a long weighted average debt maturity of 5.4 years.

Jonathan Callaghan, Finance Director for IOF said: "We've maintained our measured approach towards capital management during the period, balancing our low levels of hedging with a long weighted average debt maturity of 5.4 years. Gearing remains in the middle of our target range of 25 - 35%, and we continue to actively pursue opportunities to acquire and recycle assets in order to further grow future earnings.

As previously announced, the Australian Taxation Office (ATO) is auditing the income tax returns for the Fund. The focus of the audit is on deductions claimed for foreign exchange losses and deductions claimed on termination of obligations under interest rate swap contracts. ILFML has received a position paper from the ATO and has requested an independent review of the ATO's positions.

Investa Property Group Sales Process

On 18 February 2015, Morgan Stanley Real Estate Investing (Morgan Stanley) announced it had commenced a formal process surrounding its holding in Investa Property Group (IPG). IPG comprises two business units – Investa Office and Investa Land. Morgan Stanley has determined that IOF will not participate in the sales process.

ILFML has been prepared for a Morgan Stanley sale for some time and in light of a potential transaction, the Responsible Entity established an Independent Board Committee (IBC) comprising of the three independent directors of IOF, Deborah Page, Peter Rowe and Peter Dodd. The IBC is chaired by Deborah Page, the independent Chair of IOF. The IBC had discussions with Morgan Stanley in relation to acquiring Investa Office Management, however the threshold terms sought by Morgan Stanley could not provide IOF with deal certainty and was not in the best interests of unitholders.

IOF maintains the pre-emptive rights granted by Investa when it took over management from ING in 2011. Despite these rights, no assurance can be made regarding any transaction, as they will only be triggered in certain circumstances. The IBC will continue to maintain active dialogue with Morgan Stanley throughout the process to ensure IOF unitholder interests are optimised and they remain fully informed.

Outlook

FFO guidance for FY15 is 27.5 cents per unit (3.8% increase on 30 June 2014) and distribution guidance of 19.25 cents, representing a FFO payout ratio of 70%. The outlook is subject to prevailing market conditions.

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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$3.1 billion with 22 investments located in core CBD markets throughout Australia. 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 $8.9 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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