



# HALF YEAR REVIEW

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# IOF

31 DECEMBER 2014  
**Investa Office Fund**

**INVESTA** 

# WHO WE ARE

## IOF is one of

Australia's leading owners of investment grade office buildings. IOF has total assets under management of \$3.1 billion with 22 investments located in core CBD markets throughout Australia.

Assets under  
management

**\$3.1** billion

Commercial  
office buildings

**22**

## Our team

IOF's dedicated management team and the high calibre industry professionals from the Investa Office management platform are equipped with a diverse range of skills and experience, enabling a balanced approach to managing IOF both operationally and strategically.

## Our strategy

To deliver attractive risk-adjusted returns by investing in high quality Australian CBD assets, and leveraging the expertise of the Investa Office platform to actively asset manage, reposition, or recycle assets throughout the market cycle.



### ASSET MANAGEMENT

Proactively  
adding value



### PORTFOLIO MANAGEMENT

Continued  
portfolio  
transformation



### CAPITAL MANAGEMENT

Reducing costs  
and risks

# OUR PERFORMANCE

	31 Dec 2014	31 Dec 2013
Net Profit (statutory)	\$99.5m	\$56.0m
Funds From Operations (FFO)	\$87.3m	\$84.5m
Net Property Income (NPI) <sup>1</sup>	\$95.8m	\$85.4m
Tenant retention (by income) <sup>1</sup>	75%	82%
Occupancy (by income) <sup>1</sup>	93%	96%
Weighted average lease expiry <sup>1</sup>	4.9yrs	5.0yrs
Average passing face rent <sup>1</sup>	\$581psm	\$551psm
Number of investments <sup>1</sup>	22	21

1. Australian assets only.

## Net Tangible Assets

**\$3.42**



## Funds From Operations per unit

**14.2c**



## Distributions per unit

**9.55c**



## Cost of debt

**4.2%**



# LETTER FROM THE FUND MANAGER



Ming Long, Fund Manager, IOF

**We have  
continued to  
deliver on our  
strategy with  
IOF now 100%  
Australian**

**Distribution per unit**  
**9.55 cents**

**Increase in  
Net Tangible Assets**

**↑2%**

Dear Unitholder

I am pleased to provide you with an update on IOF's performance for the six months to 31 December 2014.

We have delivered another solid result, as we continue to benefit from the skills and expertise of the Investa Office platform.

**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 debt maturity profile of 5.4 years;
- Sold Bastion Tower, Belgium, IOF's final offshore asset for €54.9 million, delivering on the strategy of becoming 100% Australian focused; and
- Settled the sale of 628 Bourke Street, Melbourne, at a 14% premium to book value.

The increase in FFO was largely driven by capital redeployment 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 Tower was an important milestone for the Fund, allowing us to wholly focus on the Australian market where Investa Office has a clear competitive advantage. Additionally, we have benefitted from our preference for floating rate debt, resulting in our weighted average debt cost falling to 4.2%.

**Transformation on track**

The sale of all of IOF's offshore assets is now complete. Since 2011, we have sold over \$800 million of offshore assets and acquired \$1.2 billion of Australian assets. IOF's ongoing focus is on leasing, identifying further opportunities to add value, and growing the portfolio in the core CBD's of Australia. IOF is well placed with regard to these objectives with \$40 million of refurbishment projects ongoing, as well as IOF's developments at 567 Collins Street – which is on track for completion in July 2015 – and 151 Clarence Street, scheduled to commence in early 2016.



6 O'Connell Street, Sydney



Independent Board Committee, Peter Rowe, Deborah Page AM, Dr Peter Dodd



Piccadilly Complex, Sydney

## Australian Markets

As the Australian economy transitions from the resource investment boom, the markets of Brisbane and Perth have struggled with weak demand, which will be compounded by imminent supply to complete in the next 18 months. In contrast, the Sydney and Melbourne markets have shown continued strength as activity in small to medium sized businesses underpin a recovery that is strengthened by tenants relocating from the fringe markets into the CBD.

## Strong credit profile

New bank facilities of \$398 million were refinanced in the 6 months as we continue to enhance the strong credit position of IOF. The debt maturity profile has been de-risked as we have access to diverse markets – which is important for capital flexibility. S&P reconfirmed IOF's BBB+/stable credit rating during the period, and we continue to expect interest costs for the fund to trend downwards.

## Ownership of Investa Office

Investa Office, the manager of IOF, is owned by Morgan Stanley Real Estate Investing (Morgan Stanley). Morgan Stanley are undertaking a process to sell Investa Office, which provides asset and property management services to over \$8.9 billion of commercial office assets, including IOF and Investa Commercial Property Fund – Investa's wholesale unlisted fund.

During the period an Independent Board Committee (IBC), chaired by IOF's Independent Chairman Deborah Page, was formed to have discussions with

Morgan Stanley regarding the potential acquisition of Investa Office by IOF prior to the sales process starting – however the discussions were inconclusive.

Over the coming months the IBC will maintain an active dialogue with Morgan Stanley to unlock potential opportunities regarding Investa Office. The IBC is focused on the best interests of unitholders and ensuring they are kept appropriately informed.

## Outlook

Investa's on the ground presence and expertise in asset management gives us confidence that the portfolio will continue to deliver attractive risk-adjusted returns. We see asset values rising further in Sydney and Melbourne, supported by improved leasing conditions and strong capital flows; however Brisbane and Perth will remain challenging due to the weak fundamentals in those markets.

Our FY15 income has largely been secured, and I'm pleased to report that the Board has approved an upgrade of IOF's FFO guidance to 27.5 cents per unit, and distributions to 19.25 cents per unit. This guidance is subject to prevailing market conditions.

Yours sincerely,

Ming Long, Fund Manager, IOF

# DELIVERING ON STRATEGY

100%  
AUSTRALIAN  
FOCUSED

## Geographic reweighting

100%

■ Australia  
■ Offshore

1H15	100%	
FY13	89%	11%
FY11	65%	35%

IOF has now completed the orderly sale of all offshore assets with Bastion Tower sold for €54.9 million during the period. Since taking over management in 2011, IOF has sold over \$800 million of offshore assets.

## Book Value

\$3.1 billion

1H15	\$3.1bn
FY14	\$3.1bn
FY13	\$2.8bn

Valuations were completed across 11 assets or 60% of the portfolio by value, resulting in a \$12.6 million increase in book values.

Uplifts included \$58 million (+4.6%) in Sydney and Melbourne driven by higher rents and cap rate compression. This was offset by declines totalling \$45 million (-8.5%) in Brisbane and Perth, where challenging leasing markets have impacted carrying values.

## Net property income

\$95.8 million

1H15	\$95.8m
1H14	\$85.4m
1H13	\$81.6m

Net property income increased 12% following the reinvestment of the proceeds from the sale of IOF's investment in the Dutch Office Fund into Piccadilly. Proceeds from the sale of 628 Bourke Street, Melbourne were re-invested into 6 O'Connell Street, Sydney.





**We continue to deliver exceptional leasing outcomes across the portfolio**



#### Leasing

**30,000** sqm

**1H15** 30,000sqm

**FY14** 130,000sqm

**FY13** 32,000sqm

#### Weighted Average Lease Expiry

**4.9** years

**1H15** 4.9yrs

**FY14** 5.0yrs

**FY13** 4.8yrs

#### Occupancy

**93%**

**1H15** 93%

**FY14** 93%

**FY13** 96%

High quality assets with affordable rents in the sub \$900 per square metre sector in Sydney have outperformed resulting in strong leasing results at Piccadilly, 6 O'Connell Street and North Sydney assets. Our focus on Brisbane is delivering results with 11,400sqm of leases agreed during the period.

Following a proactive approach to addressing upcoming vacancy, the weighted average lease expiry remained stable at 4.9 years.

All major vacancies and expiries in Sydney have been re-leased including Piccadilly and 99 Walker Street.

Leasing at 140 Creek Street and 295 Ann Street in Brisbane remains a key focus.

Occupancy is at a cyclical low as IOF's portfolio moves through a period of leasing up vacancy largely concentrated in a limited number of assets in Brisbane and Perth.

# THE MANAGER

**Investa Office, the manager of IOF, is one of Australia's leading owners and managers of commercial office buildings, controlling assets worth \$9 billion in key CBD markets across Australia.**

**One of the  
largest office  
managers  
in Australia**



**\$9bn**

assets under  
management

**OFFICE  
SECTOR  
SPECIALIST**

Investa Office recognises that the way in which it operates its assets, manages its investors capital and conducts its business, impacts a range of stakeholders. As a result, the management approach takes into account the interests of each of its stakeholder groups, ensuring that outperformance is achieved across a combination of financial, environmental, social and governance measures.



The Investa management approach incorporates four key aspects:



## First choice for tenants

Meeting tenant needs and harnessing human capital

Improving communication and services to tenants to deliver a better occupant experience and greater value-add as a building owner



## Research and innovation

Adding value through research and innovation

In-house research and strategic industry, government and business partnerships deliver improved performance and drive change



## Optimising operational performance

Active management to deliver operational outperformance

Through experience and technical expertise, we actively manage each of our buildings to ensure they operate at optimum levels.



## Leadership in governance

Focus on targets and alignment of strategies across the business

Maintaining the highest standards of corporate governance and ethical conduct

## Continued improvements to optimise operational performance

Maintaining leadership in global environmental issues:



Named in top quartile of sustainable funds globally and GRESB GreenStar 2014



One of only 6 ASX entities on the CDP 2014 Global A-List Climate Performance Leadership Index



Improved average NABERS Energy rating across portfolio

# 4.3 stars

Boosted by Mort Street, Canberra – now 5.0 Star NABERS Energy and Water (↑ from 3.5 and 4.0 Stars)

111 Pacific Highway, North Sydney outperforming with reductions in electricity and water use (↓13%) and emissions (↓17%)

105 Miller Street, North Sydney electricity consumption (↓7%)

# PORTFOLIO AND MARKETS

Office markets in Australia reflect the transition underway in the economy as investment in mining and resources continues to decline, and interest rate reductions become a key support mechanism for the broader economy.



388 George Street, Sydney



99 Walker Street, North Sydney

**Book Value**

**\$1,782.8 billion**

**Percentage of IOF portfolio value**

**58.8%**

**Number of properties**

**10**

## **SYDNEY/NORTH SYDNEY**

Sydney has experienced the strongest annual absorption level since 2011 with 114,000sqm of B-grade office space absorbed over the year.

We expect this trend to continue as medium term supply is significantly offset by withdrawals of B-grade stock. IOF is well positioned to benefit from this dynamic, with our recent acquisitions at Piccadilly and 6 O'Connell Street targeting tenants seeking high quality and affordable accommodation. Further opportunities to reposition assets continue to be explored as we move through the economic cycle.



Telstra Global Headquarters  
242 Exhibition Street, Melbourne



140 Creek Street, Brisbane



66 St George's Terrace, Perth

#### Book Value

**\$556.7** million

#### Percentage of IOF portfolio value

**18.4%**

#### Number of properties

**4**

### MELBOURNE

Melbourne continues to show signs of improvement, with key leading indicators lagging Sydney by 3-6 months. We expect vacancy in Melbourne to range between 7-10% as the market absorbs an ongoing level of supply over the coming years.

The portfolio has no current vacancy in Melbourne, albeit we continue to work with the developer of 567 Collins Street to lease up the remainder of the building, although we have the security of a 4 year rental guarantee from completion.

#### Book Value

**\$453.6** million

#### Percentage of IOF portfolio value

**15.0%**

#### Number of properties

**5**

### BRISBANE

Brisbane demand for office space is stabilising following a government and mining contraction cycle. We remain cautious on our outlook for Brisbane. Our focus is on addressing the current vacancy in the portfolio and ensuring IOF is well positioned as we move through this cyclical low in Brisbane.

#### Book Value

**\$159.5** million

#### Percentage of IOF portfolio value

**5.3%**

#### Number of properties

**2**

### PERTH

We foresee the Perth office market as remaining weak with the economy continuing to transition from the mining investment boom and digesting lower commodity and oil prices. With only 5% of the portfolio located in Perth however, IOF has limited exposure to this challenging leasing environment.

\*Portfolio also includes 16-18 Mort Street, Canberra valued at \$78.4 million.

>investa.com.au/IOF

#### DISCLAIMER

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# GET IN TOUCH

If you have questions about your unitholding, distribution statements or any change of details, you may call the unitholder information line on **+61 1300 851 394**.

For questions regarding the Fund, or this Half Year Review please call Investor Relations on **1300 130 231** or email **[investorrelations@investa.com.au](mailto:investorrelations@investa.com.au)**

More information about the Fund can be accessed and downloaded at **[investa.com.au/IOF](http://investa.com.au/IOF)**

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**The first choice in Australian Office**

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