

18.02.16

## Investa Office Fund (ASX:IOF)

### Investa Office Fund delivers strong 1H16 results

Investa Listed Funds Management Limited as Responsible Entity for Investa Office Fund (IOF or the Fund) today reported strong results for the half year to 31 December 2015. Statutory net profit has increased 182% to \$280.8 million, compared to the previous corresponding period of \$99.5 million, largely due to increases in the fair value of the Fund's investment properties. After adjusting for fair value movements and other non-operating items, Funds from Operations (FFO)<sup>1</sup> increased 3% to \$90.0 million.

Key result highlights include:

- FFO up 3% to 14.7 cents per unit;
- \$197 million of investment property valuation increases boosted Net Tangible Assets by 10% to \$3.98;
- Distributions per unit up 3% to 9.8 cents;
- 16,177 square metres of leasing completed;
- Contracts exchanged for the sale of 383 La Trobe Street, Melbourne on 17 July 2015 for \$70.7 million subject to settlement adjustments and transaction costs, at a 31% premium to the prior book value; and
- Reduced weighted average cost of debt to 3.9% and maintained a long weighted average debt maturity profile of 4.6 years.

The 3% increase in FFO was largely driven by new leases and fixed rent reviews across the portfolio, and the completion of 567 Collins Street, Melbourne. A flexible capital management strategy, including higher levels of floating debt, resulted in a reduction in the cost of debt contributing to FFO growth.

Demand for investment assets remains high and, following \$16.5 billion of Australian CBD commercial real estate sales in 2015, strong evidence of cap rate compression and rising asset values are being realised. The entire IOF portfolio was independently valued<sup>2</sup>, increasing in value by 6%, led by Sydney and Melbourne – which make up ~80% of the portfolio – increasing by an average of 8%. IOF's assets in Brisbane increased by 3%, however IOF's Perth assets (4% of the portfolio) declined 15% as rental values fell significantly.

Ming Long, IOF Fund Manager said, "IOF's high quality portfolio continues to generate attractive income returns with fixed rental increases and a continued focus on leasing supporting another period of FFO growth. The portfolio value has also continued to rise – by almost \$200 million during the period – as valuers recognised the highly desirable characteristics of IOF's assets. Looking forward, we are particularly confident in the outlook for Sydney with IOF well placed to capitalise on favourable market conditions in the coming years."

Valuation highlights included: 10 – 20 Bond Street, Sydney (+19%); 126 Phillip Street, Sydney (+17%); Piccadilly Complex, Sydney (+11%); 567 Collins Street, Melbourne (+6%); 105 Miller Street, North Sydney (+6%). These positive valuations were offset by lower valuations in Perth – 66 St Georges Terrace (-22%); and 836 Wellington Street (-7%).

### Portfolio performing well with limited near-term income risk

Key asset management metrics for the Australian portfolio during and as at 31 December 2015 were:

- Net Property Income (NPI) increased 6.0% to \$101.6 million;
- Like for like NPI increased 1.9%;
- Occupancy up 1% to 94%;
- Weighted average lease expiry of 5.0 years; and
- Average incentives of 29%.

Additional leasing, fixed rental uplifts and the completion of 567 Collins Street, Melbourne were the main drivers of NPI growth. These contributions were partially offset by sale of 628 Bourke Street, Melbourne in the previous period.

1. The Responsible Entity considers the non-AAS measure, Funds From Operations (FFO), an important indicator of underlying performance of IOF. To calculate FFO, net profit attributable to unitholders is adjusted to exclude unrealised gains or losses, certain non-cash items such as the amortisation of tenant incentives, fair value gains or losses on investments and other unrealised or one-off items. IOF's FFO calculation is in line with Property Council of Australia definition of FFO. Refer to the Half Year Financial Report for the complete definition.

2. Excludes 383 La Trobe St, Melbourne – contracted to be sold for \$70.7 million and classified as an asset held for sale

Average incentives were 29%, higher than prior periods largely due to incentives associated with over 6,400sqm of leasing completed in Brisbane. Incentives in Sydney are falling, and the spread between renewals and new leases has re-emerged, contributing to effective market rental growth of 10% in 2015.

Alex Abell, IOF Assistant Fund Manager said, "Leasing remains a key focus and we are building on momentum in the portfolio, especially in Brisbane where market conditions have stabilised and our prior period initiatives have created a point of difference to build a competitive advantage. Sydney is performing particularly well on the back of growth from IT and business services – increasing competitive tension and driving strong rent renewal spreads of 15% over passing."

### **Flexible debt profile and low debt costs**

Key capital management metrics at 31 December 2015 include:

- Look-through gearing 28.5%;
- Weighted average cost of debt of 3.9%;
- Maintained Standard & Poor's BBB+ credit rating;
- Weighted average debt maturity of 4.6 years; and
- Interest cover ratio of 4.4x.

Investa's preference to maintain a bias towards floating rates continues and this has resulted in the weighted average debt costs reducing to 3.9%. Gearing of 28.5% remains in our target gearing range of 25 – 35%, and interest cover is strong at 4.4x.

Post 31 December 2015, \$350 million of new debt facilities were secured to refinance debt facilities expiring in mid-2016. These new facilities have de-risked near-term debt expiries ahead of a vote of IOF unitholders on the DEXUS Proposal scheduled to occur on or around 8 April 2016. The new facilities have a maturity date of March 2017

### **Strategic review and DEXUS Proposal**

In August the Independent Board Committee (IBC) commenced a strategic review to explore all options available to maximise value for IOF's unitholders. This included the ongoing ownership and management of IOF. As part of the Strategic Review, the IBC and its advisers approached parties who may have had an interest in acquiring IOF. One of the parties approached was DEXUS Property Group (DEXUS). This led to DEXUS and IOF entering into an Implementation Agreement on 18 December 2015 in relation to a proposal from DEXUS to acquire all of the units in IOF (the Proposal). Under the Proposal, IOF's unitholders will receive a standard consideration of 0.424 DEXUS Securities and \$0.8229 cash per unit held. As an alternative to the standard consideration, a 'Mix and Match' facility will be available where unitholders have the option to elect to receive maximum cash consideration or maximum scrip consideration subject to scale back. The IBC determined the Proposal to be in the best interests of IOF unitholders and superior to all options considered under the strategic review.

The Proposal is subject to a number of standard conditions, including the approval of IOF unitholders at a meeting expected to be held in April 2016 and judicial approvals. An Explanatory Memorandum containing more details of the Proposal will be mailed to IOF unitholders in March 2016. If approved, the Proposal is expected to be implemented by the end of April 2016. It is acknowledged that there could be circumstances where a \$23.52 million break fee is payable by IOF to DEXUS if the Proposal does not complete.

The IBC believes the Proposal results in an attractive value proposition for unitholders. The IBC has unanimously resolved to recommend that IOF's unitholders vote in favour of the Proposal in the absence of a superior proposal and subject to an independent expert finding the Proposal to be in the best interests of IOF's unitholders

### **Change of control of the Responsible Entity**

The IBC has been informed that Investa Commercial Property Fund will most likely acquire the management platform, which includes the Responsible Entity of IOF, in the near term. The IBC understands that any transaction will remain subject to certain conditions but notes it will not require the approval of IOF unitholders. This transaction does not impact the DEXUS Proposal timetable.

The transaction will give rise to a number of risks, in particular triggering a review event on certain debt facilities. These risks are being managed by the management platform and monitored by the IBC.

## Financial Year 2016 Outlook

Leasing in Brisbane has been ahead of expectations and visibility on FY16 revenue is strong. As a result FY16 FFO guidance has been upgraded from 28.1 cents per unit to 28.4 cents per unit, a 2.5% increase on FY15. Distribution guidance is 19.6 cents, representing a FFO payout ratio of approximately 70%.

The outlook is subject to prevailing market conditions, any impact of a change of control of the Responsible Entity, and the outcome of the DEXUS Proposal.

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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\$3.49 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 \$8.5 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 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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