ASX announcement

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Investa Office Fund (ASX:IOF)

Strong earnings results exceeding guidance, unlevered total portfolio return 16.2%

Investa Office Fund ("IOF" or the "Fund") today announced that its statutory net profit for the year ended 30 June 2016, increased 175.6% to $493.8 million, reflecting strong performances across all of its business activities and again highlighting the capability of the Investa office management platform ("Investa").

The result was underpinned by increases in asset valuations across the $3.6 billion-plus portfolio, which were largely a result of strong leasing outcomes in Sydney and Brisbane and favourable capital markets.

After adjusting for fair value movements and other non-operating items, Funds From Operations ("FFO")[1] increased 3.4% to $175.6 million, driven by property level income growth and the income from 567 Collins Street, Melbourne, which completed in July 2015.

Key financial result highlights include:

- FFO up 3.4% to 28.6 cents per unit, 0.2 cents per unit ahead of guidance;
- Net Tangible Assets ("NTA") increased 16.9% to $4.23 per unit with the portfolio revalued over the year;
- Distributions of $120.4 million or 19.60 cents per unit, up 1.8% on the previous corresponding period;
- 116,253sqm of leasing completed, including 63,400sqm post balance date, equating to 19% of the portfolio;
- Asset level total return of 16.2%;
- Refinanced $350.0 million of bank debt, resulting in no outstanding debt maturities in FY17, and a long weighted average maturity profile of 5.0 years.

Jason Leong, Acting IOF Fund Manager said: "We are pleased to deliver outstanding results for our unitholders. We have delivered FFO growth ahead of guidance and NTA growth of 16.9%. These results are a testament to our pro-active approach to asset management, driving $313 million in valuation increases across the portfolio and again highlighting how our leasing outcomes are creating value."

Portfolio performance being driven by leasing outcomes and strong capital markets

- Net Property Income ("NPI") increased 7.1% to $200.1 million;
- Like-for-like NPI increased 3.1%;
- Strong portfolio occupancy at 96%;
- Weighted average lease expiry of 5.6 years including post balance date lease of 63,400sqm to Telstra at 242 Exhibition Street, Melbourne; and
- Asset valuation increases over the year totalling $313 million.

The IOF portfolio generated strong NPI growth due to the completion of 567 Collins Street, Melbourne in July 2015. Like-for-like NPI rose due to improvements in occupancy in Sydney and Brisbane, as well as the completion of the repositioning of 99 Walker Street, North Sydney.

Nicole Quagliata, IOF Assistant Fund Manager said, "Investa's ability to foster long term relationships with our tenants has significantly de-risked the Brisbane portfolio, with over 31,000sqm of value accretive leasing completed during the period. This was particularly evident at 140 Creek Street, where Investa's ability to understand the needs and drivers of our tenants facilitated over 18,000sqm of leasing, and underpinned a $23.1m valuation uplift for the asset. Occupancy across the Brisbane portfolio has increased to 90%, well above the market occupancy of 83%."

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 the Property Council of Australia definition of FFO. Refer to the Annual Financial Report for the complete definition.

"The lease extension to Telstra over 63,400sqm at 242 Exhibition Street, Melbourne, has addressed the Fund's most significant exposure in the Melbourne market providing a de-risked, long-term income stream for the asset. The portfolio continues to benefit from strong weightings to the high performing markets of Sydney and Melbourne where 80% of our assets are located. These markets enjoy attractive occupancy fundamentals and continued investment demand, presenting upside for both income and capital growth", said Ms Quagliata.

In November 2015, the entire investment property portfolio was independently valued with a further valuation of 10 of the assets in June 2016. The valuation increase over book value for the year was 9%, with a weighted average cap rate of 6.2%. The strong valuation results were achieved across Sydney and Melbourne assets, with total valuation uplifts of 11%. Notable uplifts included $60.0 million (31%) at 10-20 Bond Street, $29.5 million (20%) at 6 O'Connell Street and the Piccadilly Complex with $43.0 million (20%).

Asset values in Brisbane increased by 9% across the portfolio, following a period of significant leasing activity and repositioning.140 Creek Street increased by $23.1 million (14%) in value following the lease up of 18,297sqm during the year, improving the weighted average lease expiry of the asset to 6.0 years. 295 Ann Street increased by $8.9 million (8%) with three new deals completed during the year. In addition, 239 George Street increased by $3.9 million (3%).

Contrary to rising valuations in Sydney, Melbourne and Brisbane, asset values in Perth declined by 15% on average over the year as the slowdown in the resource sector resulted in significant decreases in office rents.

Long debt maturity and low debt costs

Key capital management metrics at 30 June 2016 include:

- Look-through gearing of 27.7%;
- Weighted average cost of debt of 4.2%;
- Weighted average debt maturity of 5.0 years; and
- Interest cover ratio of 4.3x.

The weighted average cost of debt has increased slightly from 4.0% to 4.2% due to the impact of short term refinancing completed in February 2016. Post 30 June 2016, IOF refinanced $350.0 million of bank debt with maturities extended to FY20 to FY22 bringing the weighted average debt maturity to 5.0 years.

Investa Office Management and joint ownership option

In March 2016, an entity stapled to the Investa Commercial Property Fund (ICPF) acquired the Investa Office Management platform from Morgan Stanley. Investa continues to provide management services across funds, asset and property management for IOF. The platform has established a majority independent board for IOF's responsible entity, Investa Listed Funds Management Limited (ILFML), including an independent chairperson as well as a dedicated funds management team that is accountable to the ILFML Board.

On 12 August 2016, IOF received a valuation certificate from Investa Office Management Holdings Pty Ltd (IOMH) confirming that the gross asset value of the Australian commercial assets of IOF is greater than $3.5 billion. IOF now has a 12 month period to consider exercising its right to negotiate an acquisition of a 50% interest in the Investa management platform.

The Board will keep Unitholders informed of material developments.

Financial Year 2017 Outlook

IOF's outlook for financial year 2017 is FFO of 29.2 cents per unit, a 2.1% increase on financial year 2016. Distribution guidance is DPU of 20.0 cents per unit, representing a FFO payout ratio of 69%. This guidance is subject to prevailing market conditions, no material changes to the portfolio and no capital transactions, other than the settlement of 383 La Trobe Street, Melbourne.

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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$3.6 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.

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