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ASX/Media release

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Macquarie Office Trust (MOF)

MACQUARIE OFFICE ANNOUNCES HALF YEAR RESULTS TO 31 DECEMBER 2008

18 February 2009

Macquarie Office Trust (ASX:MOF) today announced its results for the half year ended 31 December 2008.

Results

- Net property income up 10% to $194.4 million
- Core earnings of $90.9 million, down 1.6% from HY2008
- Distribution of 2.25 cents per unit paid
- Net tangible assets at $0.63 per unit[1]
- Gearing at 43.5%[1]
- Repaid $603 million of debt to January 2009
- Extended $750 million syndicate facility to September 2011
- Entire portfolio independently revalued down 10.5%, with weighted average capitalisation rate of 7%
- Portfolio 94%[2] leased with weighted average lease term of 4.9 years
- Average rent review increase of 4% (31% of portfolio)

Macquarie Office Trust's Chief Executive Officer, Mr Adrian Taylor said: "The Trust's high quality portfolio has continued to deliver solid underlying performance. In line with previous guidance, the March quarter distribution is estimated at 0.75 cents per unit. With a diversified income stream, strong occupancy levels and a long lease expiry profile, the Trust is well-placed to perform through the current economic cycle."

[1] Adjusted to reflect equity raised in January 2009 (net of accrued costs) and syndicate debt repayment

[2] Includes leases under letter of intent

Capital management achievements

The Trust has implemented a series of capital management initiatives which have strengthened the balance sheet, reduced gearing, significantly reduced refinancing risk and improved liquidity.

These initiatives included the sale of the Trust's 50% share in the Wachovia Financial Center, Miami for US$182.5 million and the successful raising of A$508 million through a placement and non-renounceable entitlement offer.

As a result of these capital management initiatives, a number of key objectives have been achieved:

- Resolved and/or repaid $1.4 billion of CY2009 debt maturities
- Extension of syndicate debt facility to September 2011
- Removal of the Head Trust gearing covenant from the syndicate debt facility
- Maximum Head Trust ICR covenant of 1.75x across all debt and derivative contracts
- Simplified derivative positions
- Set a sustainable distribution policy around 70% of core earnings for CY2009

"As a result of the removal of the Head Trust gearing covenant and the reduction of the maximum Head Trust ICR covenant to 1.75x, the Trust now has significant headroom against its remaining covenants. Additionally, various derivative management initiatives have improved liquidity and reduced gearing volatility," said Mr Taylor.

The placement and entitlement offer were well supported by institutional and retail investors, with the Macquarie Group taking up $71.8 million of Macquarie Office Trust units through its underwriting of the retail component of the entitlement offer. Macquarie Group's principal investment now represents approximately 14% of the Trust's units, aligning the interests of the Group and the management team of the Trust with those of investors.

Active asset management – leasing and valuation update

Leasing activity has continued to demonstrate the portfolio's resilience and quality, with more than 63,000 sqm, or 5% of the entire portfolio, leased during the period despite expiries of only 4% of the portfolio. The portfolio has a weighted average lease expiry of 4.9 years.

Like-for-like property[3] income was down 1% primarily due to previously foreshadowed customer movements. Rent reviews were completed over 31% of the portfolio, resulting in an average 4% increase on prior rents. The portfolio leased rate is 94%[4], which has improved from 93% since the entitlement offer was announced in December 2008.

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[3] Excluding one-off items

[4] Includes leases under letter of intent

In Australia, our asset management team have continued to achieve solid results, securing leases over 23,423 sqm, despite only 13,063 sqm of expiries, with an average rental increase of 10% over prior rents. At 31 December 2008, the Trust's Australian portfolio occupancy remained high at 98%, with a long weighted average lease expiry of 4.8 years.

US markets remain challenging. However, demand for high quality office space continued to see leasing transactions at increased rents, particularly as customers elect to renew rather than look for new office space. Portfolio occupancy is at 90.5% and 368,429 sqft was leased during the period, with an average increase of 12% over prior period rental rates.

In Europe, whilst market-wide demand has softened, strong leasing results were achieved at the Milan and Frankfurt properties with new tenants improving occupancy at these properties. Occupancy increased at Milan to 85%, excluding income support, and Frankfurt to 100%.

In Tokyo new leases were completed on nearly 30% of the portfolio and occupancy across the three properties has reached 98%.

Independent valuations were conducted on all 42 properties in the Macquarie Office Trust portfolio at 31 December 2008. The total value of the portfolio decreased by 10.5% to $5.9 billon, down from $6.6 billion as at 30 June 2008. This movement reflects a softening of capitalisation rates of 78 basis points to 7% and nearly a 100 bps (or 17%) softening since their peak in 2007.

Valuation movement was driven by a range of factors including a downturn in economic activity, a tightening credit market, which has weakened investment demand for property globally, and more conservative assumptions adopted by valuers which was particularly evident on properties with existing vacancy and significant upcoming expiries.

Asset sales

The Trust has continued to deliver on its asset disposal strategy and in December 2008, the Trust sold its 50% interest in the Wachovia Financial Center, Miami for US$182.5 million, reflecting a 6.9% capitalisation rate. The sale resulted in a 14.6% profit on cost (plus capital expenditure) and an 11% unlevered internal rate of return since its acquisition for US$149.5 million in September 2004. Proceeds of US$100 million have been received and used to retire debt, with the balance earning the Trust at least a 7% return until receipt. The sale was a significant achievement given the size of the transaction, the current economic climate and the property having no transferable debt.

In addition, the Trust today announced that it had exchanged an unconditional contract to sell Naylor House in Adelaide for $49 million. A further two Australian assets totalling $128 million are in exclusive due diligence.

Outlook

Mr Taylor said: "Following the implementation of the capital management initiatives, the Trust remains a sustainable vehicle. Over the past 12 months, we have acted decisively to improve liquidity and strengthen the Trust's balance sheet. Management believes the Trust has the capacity to meet the challenges of the current environment."

With a diversified income stream, strong occupancy levels and a long lease expiry profile, the portfolio is well positioned to perform through the current economic cycle.

The Trust has revised its distribution payout ratio to approximately 70% of core earnings. This sustainable distribution policy will allow the Trust to adequately provide for recurring capital expenditure requirements and contribute towards overall liquidity.

Assuming a static portfolio and barring unforseen circumstances, management is targeting core earnings of at least 2.0 cents per unit for the six months to 30 June 2009. This is consistent with the maximum $508 million raised under the entitlement offer, after allowing for the completion of the Naylor House sale. Distributions for the six months to 30 June 2009 remain forecast at 1.5 cents per unit, or 3 cents per unit annualised.

Macquarie Office Trust is a listed real estate investment trust with assets located within Australia, the United States, Western Europe and Japan. As at 31 December 2008, more than A$37 billion of real estate assets are managed globally by Macquarie Group and its associates, across a portfolio of listed and unlisted real estate trusts, unlisted development funds and real estate investment syndicates.

For more information on recent announcements of Macquarie Office Trust go to www.macquarie.com.au/mof.

Key Trust Data	
	Half year ended 31 December 2008
Operational	
No. of properties	42
Average capitalisation rate	7%
Occupancy[1]	94%
Like-for-like NOI growth[2]	(1.0%)
Weighted average term to lease expiry[3]	4.9 years
Financial	
Net property income	A$194.4 m
Core earnings	A$90.9 m
Core earnings per unit	4.45 cents
Distributions per unit	2.25 cents
	As at 31 December 2008[4]
Total assets (Look-through)	A$6,684 m
Total borrowings (Look-through)	A$3,137 m
Trust gearing (Debt: Total Assets)	43.5%
Interest cover ratio	2.2 times
Net Tangible Assets per unit (including deferred tax liabilities)	$0.63
Units on issue	4,584 m

31 December 2008 exchange rates: A$: US$ 0.7074 / € 0.5065 / ¥ 64.2731

[1] Includes leases under letter of intent
[2] Excluding one-off items
[3] Weighted by gross income
[4] Adjusted for completion of equity raise in January 2009 and subsequent debt pay down

For further information

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