ASX announcement
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Investa Office Fund (ASX:IOF)

IOF delivers increased earnings and forecasts strong FY14 growth

Investa Office Fund ("IOF" or the "Fund") today announces its results for the full year to 30 June 2013. The Fund reports 56% growth in net profit to $158.7 million, compared to the previous corresponding period (pcp) of $101.9 million.

After adjusting for fair value adjustments and other non-operating items, the Fund's Operating earnings[1] were up 7% to $137.5 million following full year contributions from acquisitions and re-development lease up.

Key highlights for the 12 month period include:

- Operating earnings per unit up 11% to 22.4 cents, slightly ahead of upgraded guidance;
- Distribution up 1% to 17.75 cents, 0.25 cents higher than pcp which included a 1.9 cent special distribution (distributions were up 14%, excluding the special distribution);
- Conservative level of gearing maintained, with look-through gearing (debt to total assets) of 26.3%. Following the post balance date acquisition of 99 Walker Street, North Sydney, gearing increased to 29.4%; and
- NTA per unit of $3.23, an increase of 3% after valuation uplifts averaging 5% were booked on 52% of the Australian portfolio.

Post year end highlights include:

- Acquired 99 Walker Street, North Sydney for $124.9 million (excluding acquisition costs and settlement adjustments), delivering a 7.9% yield on cost and the opportunity to generate valuation growth through pro-active leasing;
- Leased 7,581sqm to Westpac and Telstra at 151 Clarence Street, Sydney, removing the Fund's only major leasing risk in Sydney in FY14; and
- Completed USD125m USPP issuance after leveraging the Fund's BBB+ S&P credit rating to raise 12 year debt at 175bps over BBSW.

Toby Phelps, Fund Manager IOF said: "We've delivered an outstanding result for the financial year, outperforming our already upgraded guidance, whilst continuing to deliver on the Fund's main strategic objectives of improving portfolio quality, driving strong leasing outcomes and prudently managing the balance sheet.

Since Investa took over management of IOF in mid-2011 we've acquired more than $800 million of Australian CBD office assets and sold $520 million of offshore assets. We have leased in excess of 120,000sqm of space – more than 25% of the Australian portfolio, and the focus on capital management has resulted in the weighted average debt maturity extending from 12 months to 3.2 years. In addition, we have implemented a transparent, market leading governance framework that incentivises superior management performance."

Australian Portfolio Update

Key metrics for the Australian portfolio during the period and as at 30 June 2013 were:

- Net Property Income (NPI) increased 24% to $162.1 million;
- Like-for-like NPI growth of 4.5%, up from 1.4%;
- Occupancy of 96%, down 2% on pcp;
- 32,000sqm of leasing completed, substantially de-risking the FY14 outlook;
- Average valuation increase of 5% after 52% of the portfolio was re-valued during the period;
- Weighted Average Lease Expiry of 4.8 years, compared to 5.1 years pcp; and

Increase in NABERS Energy rating to 4.1 stars and NABERS Water rating to 3.7 stars.

The Australian portfolio reported strong NPI growth, underpinned by fixed rental escalations of ~4% p.a. across the majority of the portfolio, boosted by a full year contribution from 10 – 20 Bond Street, Sydney and positive leasing at 628 Bourke Street, Melbourne in the previous year.

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.

Strong valuation uplifts were reported, particularly for assets that have been de-risked, with recent acquisitions at 242 Exhibition Street Melbourne up 7.5% and 66 St Georges Terrace, Perth up 8.2% on book values. Other strong uplifts were reported at 10 – 20 Bond Street, Sydney (+7.7%) and 388 George Street, Sydney (+8.8%). These valuation uplifts were offset by declines in valuation at 239 George Street, Brisbane (-4.3%) and 15 Adelaide Street, Brisbane (-6.8%), reflecting the challenging market conditions in Brisbane at this point in time.

Commenting on the performance of the Australian portfolio, Mr Phelps said: “Our active approach to leasing continues to show through the valuation line, proving we are completing transactions ahead of valuation assumptions and adding value to the portfolio. In addition to the 5% average increase in valuation, we’re strongly positioned in FY14 and FY15 with the portfolio’s income profile mainly de-risked.”

Offshore Portfolio

Key metrics for the European portfolio during the year included:

- NPI decreased from €18.3 million in FY12 to €16.1 million in FY13;
- Like for like NPI growth decreased 1.5%;
- Portfolio occupancy declined 2% to 84%;
- WALE increased 0.9 years to 5.4 years; and
- Increased carrying value by $13 million, as the lower Australian Dollar offset a €18m decline in valuations.

NPI decreased following the sale of a Paris asset in FY12 and a weaker result from the Fund’s investment in the Dutch Office Fund (DOF). NPI at Bastion Tower improved over the period due to higher occupancy.

Bastion Tower is now on the market after the major tenant committed to the building for a further 12 years, extending the WALE to 8 years. Divestment options for the Fund’s investment in DOF continue to be pursued however timing remains uncertain.

Alex Abell, Assistant Fund Manager of IOF said: “In an ongoing period of weakness in the Benelux markets, where tenant demand is soft and incentives are high, the portfolio has performed reasonably well. More than 150,000sqm of leasing transactions have been completed, and the WALE has been extended to 5.4 years.

We expect Bastion Tower to be sold in financial year 2014, and we continue to work on improving the liquidity of the Fund’s investment in DOF with the objective to sell this investment as soon as practicable, in line with our commitment to become 100% Australian focused.”

Capital Management

Key capital management metrics at 30 June 2013 include:

- Look-through gearing 26.3%;
- Annualised weighted average debt cost 5.2% for the period;
- Weighted average debt maturity increased to 3.2 years; and
- Strong interest cover ratio of 5.4x.

During the financial year the Fund completed ~$400 million of financing, including inaugural issuances in the domestic capital market and the US Private Placement market. IOF raised ~$250 million from these markets at an average margin of 193bps and average debt maturity of 8.6 years. A $150 million bank debt facility was also refinanced for 3 years to August 2016.

Ming Long, Finance Director for Investa said: “During the year we have taken advantage of market opportunities to leverage our BBB+ S&P credit rating, extending our debt tenor whilst reducing debt costs at the same time. IOF now has a debt maturity profile that is spread across a number of years, reducing refinancing risk. The Fund is a highly sought after credit and in the coming year we will continue to take advantage of windows in the market to de-risk our debt maturities.”

As previously announced, the Australian Tax Office is auditing the income tax returns for the Fund for the financial years 2008 – 2010.

Adopting Property Council of Australia Funds From Operations

During 2013 the Property Council of Australia released a White Paper titled *Voluntary best practice guidelines for disclosing FFO and AFFO*. The White Paper sets out principles for determining Property Council Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”), metrics intended to provide investors and analysts with clear, consistent and meaningful information. The Fund has detailed the calculation methodology of FFO and AFFO in the Statutory Accounts.

For the financial years ending on and after 30 June 2014 the Fund’s primary non-AAS measure of the Fund’s performance will be based on FFO rather than Operating earnings.

Key Strategies for 2014

Two years after Investa took over the management of IOF, the strategy of consistently optimising performance and repositioning the portfolio to become 100% Australian focused is starting to bear fruit. The sale of offshore assets and reinvestment into premium and A-grade Australian assets, equivalent to almost one third of the portfolio, is evidence of our focused and disciplined approach to acquiring the right mix of core, tactical and value-add assets that meet the Fund’s stated objectives. Investa has also undertaken significant de-risking of the portfolio, including over 120,000sqm of leasing, and his puts the portfolio in an enviable position in the near term with only 1.5% of forecast rental income at risk in FY14.

As the Manager, Investa continues to remain focused on the execution of the Fund’s strategy of repositioning the portfolio to focus on Australia, optimising portfolio performance and driving total return through pro-active asset management and leasing, diversifying the sources and tenor of debt, and maintaining the highest standards of corporate governance. Accordingly, the strategies for 2014 consist of continuing the execution that began when Investa took over the management of IOF in 2011.

Outlook

FY14 FFO per unit is expected to increase 6% to 26.5 cents (FY13 25.0 cents), subject to prevailing market conditions and assuming no further acquisitions or disposals other than the sale of Bastion Tower, Belgium, towards the middle of the financial year. The distribution is forecast to increase 4% to 18.5 cents per unit, representing a forecast payout ratio of 70% of FFO.

-ENDS-

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. The Fund 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$2.8billion with investments located in core CBD markets throughout Australia and select offshore markets in Europe. IOF’s strategy is to reposition the portfolio to an Australian only focus.

About Investa Office

Investa Office is Australia’s leading owner and manager of commercial office buildings, controlling assets worth more than $7 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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