ASX announcement

20.02.14

Investa Office Fund (ASX:IOF)

Results for the half year ending 31 December 2013

Investa Office Fund ("IOF") today announces its results for the half year to 31 December 2013 with Statutory Net Profit of $56.0 million, up 4.3% on the previous corresponding period (pcp). After adjusting for fair value adjustments and other non-operating items, Funds From Operations[1] (FFO) were up 7.9% to $84.5 million mainly due to full period contributions from acquisitions.

Key highlights for the period include:

- FFO per unit up from 1 cent to 13.8 cents;
- Distributions per unit up 5.7% to 9.25 cents, 0.5 cents higher than pcp;
- Look-through gearing (total debt to total assets) reduced to 23.8% following receipt of offshore asset sale proceeds; and
- NTA per unit up 1 cent to $3.24 after $45 million of uplifts in Australian valuations were largely offset by the fair value loss on sale of IOF's investment in the Dutch Office Fund (DOF).

Post period end IOF issued a US$200m US Private Placement ("USPP"), raising 11, 13 and 15 year debt at an average of 173bps over US Treasuries.

Toby Phelps, Fund Manager IOF said: "Our focus on transitioning to an Australian only portfolio and delivering attractive risk adjusted returns from high quality assets continues to bear fruit. Recent acquisitions are performing well and we are leveraging Investa's expertise in leasing to drive growth in FFO. Notwithstanding a challenging tenant demand environment, we're on track for a record leasing year, with 83,000sqm already leased and a further 35,000sqm in Heads of Agreement. A proactive approach to capital management has seen the average debt maturity being extended to 7 years, one of the longest in the sector, while our cost of debt continues to fall."

Australian Portfolio Update

Key metrics for the Australian portfolio during the period and as at 31 December 2013 were:

- Net Property Income (NPI) increased 4.7% to $85.4 million;
- Like-for-like growth of 3.0%;
- Occupancy of 96%;
- Record leasing activity with ~83,000sqm leased, increasing the weighted average lease expiry (WALE) to 5.0 years; and
- Average valuation increase of 3.4% after 51% of the portfolio was re-valued during the period.

The Australian portfolio reported strong NPI growth following the prior period acquisitions of 66 St Georges Terrace, Perth, and 99 Walker Street, North Sydney, with high occupancy of 96%.

Despite a weak tenant demand environment, a record 83,000sqm of leasing was completed during the period. Major leases signed included a new lease to Coles until 2030 at 800 Toorak Road, Melbourne, a lease to Bank of Queensland until 2025 at 126 Phillip Street, Sydney, and multiple leases at 111 Pacific Highway, North Sydney. The majority of the vacancy at 151 Clarence Street, Sydney, has also been leased and terms are agreed over all vacant space at 628 Bourke Street, Melbourne.

The portfolio continues to benefit from strong valuation uplifts with average valuation increases of 3.4% ($45 million) booked across the 51% of the portfolio that was revalued during the period. Valuations were boosted particularly by recent leasing outcomes at 800 Toorak Road, Melbourne (+9.9%), 126 Phillip Street, Sydney (+6.2%) and 111 Pacific Highway, North Sydney (+12.2%). These valuation uplifts were marginally offset by 140 Creek Street Brisbane (-2.6%), reflecting the soft Brisbane market and upcoming vacancy.

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 based on Property Council of Australia definition of FFO. Refer to the Statutory Accounts for the complete definition

The upgrade of the portfolio is on schedule following the successful completion of major projects at 16 – 18 Mort Street, Canberra, and 105 Miller Street, North Sydney. Future refurbishment projects include 800 Toorak Road, Melbourne, 99 Walker Street, North Sydney, and 140 Creek Street, Brisbane.

"We've been extremely proactive in addressing our current and future leasing risks and our success has underpinned the portfolio valuation growth and our FFO moving forward," Mr Phelps said.

Offshore Portfolio

The exit from offshore assets is now almost complete. The only remaining offshore asset is Bastion Tower, Brussels, which represents just 3% of IOF's total assets. Bastion Tower will be sold in due course with the focus on achieving fair value in the continued challenging environment in Europe.

Key metrics for the European portfolio during the period reflect the December 2013 sale of the Fund's legacy investment in the Dutch Office Fund for €155 million, a fair value loss of €27.5m. The book value for Bastion Tower decreased by €5.7 million (-9.0%), however when converted to Australian dollars the impact was reduced to $0.3 million (-0.3%) due to favourable foreign exchange movements.

Alex Abell, Assistant Fund Manager of IOF said: "The sale of our legacy investment in DOF was a result of our leadership in restructuring that fund, which enabled us to exit the investment ahead of initial expectations. Apart from Bastion Tower in Brussels, which will be sold in due course, IOF's portfolio is now Australian only."

Capital Management

Key capital management metrics at 31 December 2013 include:

- Look-through gearing 23.8%;
- Weighted average debt cost 4.7% for the period; and
- Strong interest cover ratio of 5.4x.

Post balance date we took advantage of opportune market timing to further extend the weighted average debt maturity to 7.0 years after issuing a US$200 million US Private Placement. The USPP was split into 3 tranches with tenures of 11, 13 and 15 years, equating to an average tenure of 13 years at an average margin of 173bps over US Treasuries.

Ming Long, Finance Director for IOF said: "The balance sheet is now extremely well positioned, sources of debt are diversified and our weighted average debt maturity is a sector leading 7 years, with minimal future refinancing risks. This was achieved whilst reducing the weighted average cost of debt to 4.7%."

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

Key Strategies for 2014

The transition of IOF to an Australian only portfolio is now largely complete following ~$800m of Australian acquisitions and over AU$740m of offshore asset sales. Investa's ongoing focus remains on optimising risk adjusted returns from the portfolio by identifying further opportunities for value creation, maintaining high levels of occupancy and delivering superior operating performance from our assets. IOF is well placed with regard to these objectives, with 35,000sqm of leases in Heads of Agreement, ~$65m of refurbishment projects ongoing, and continued progress on the potential redevelopment of 151 Clarence Street, Sydney.

Outlook

As outlined to the market on 4 November 2013, the sale of DOF was forecast to reduce FFO per unit by 3.5%, equating to a revised guidance of 25.6 cents per unit in FY14 (original guidance of 26.5cpu). IOF's performance is ahead of expectations and as a result FFO guidance is being restated to 26.1 cents per unit, subject to prevailing market conditions and assuming no further acquisitions or disposals. The FY14 distribution is forecast to remain at 18.5 cents, representing a forecast payout ratio of 71% 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. 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$2.9billion with 21 investments located in core CBD markets throughout Australia, and one remaining legacy asset in Brussels, Belgium. 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 $8 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.

Fund Enquiries

Toby Phelps
Fund Manager
Investa Office Fund
T +61 2 8226 9439
M +61 466 775 367
E Tphelps@investa.com.au

Alex Abell
Assistant Fund Manager
Investa Office Fund
T +61 2 8226 9341
M +61 466 775 112
E Aabell@investa.com.au

Media Enquiries

Emily Lee-Waldao
General Manager, Marketing & Communications
T +61 2 8226 9378
M +61 416 022 711
E ELee-Waldao@investa.com.au

The first choice in Australian office.