# IOF

Half Year Review

Investa Office Fund

31 Dec 2013

INVESTA

# Key achievements

## Financial

- Funds From Operations (FFO) up 8% to $84.5m
- Net Tangible Assets (NTA) up 1c to $3.24 per unit
- 3% ($45m) increase in Australian valuations
- Distributions per unit up 5.7% to 9.25 cents

## Portfolio

- Occupancy high at 96%
- ~83,000sqm of leases executed
- Weighted Average Lease Expiry (WALE) increased to 5.0 years
- Sold IOF's legacy investment in the Dutch Office Fund (DOF) and now only 3% of the portfolio remains offshore
- Acquired 50% of Piccadilly Complex in Sydney for $194.25m[1]

## Capital Management

- Gearing reduced to 23.8%[1]
- Weighted average debt cost 4.7%
- Weighted average debt maturity increased to 7.0 years following US$200m US Private Placement (USPP) issuance in January 2014
- Further capacity to acquire assets with high risk adjusted returns

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$3.1 billion with 22 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.

Cover image: Foyer, 16-18 Mort Street, Canberra

# Financial performance

## Financial

| Key Metrics | 31 Dec 2013 | 30 Jun 2013 |
|---|---|---|
| Total Assets | **$2,698.5m** | $2,723.8m |
| Total Liabilities | **$708.6m** | $737.2m |
| Market capitalisation | **$1.92bn** | $1.79bn |
| Gearing (look-through) | **23.8%** | 26.3% |
| Net Tangible Assets (NTA) per unit | **$3.24** | $3.23 |

## Reconciliation of statutory profit to FFO

| FFO for the half year is calculated as follows: | 31 Dec 2013 (A$m) | Cents per unit | 31 Dec 2012 (A$m) | Cents per unit |
|---|---|---|---|---|
| Statutory profit attributable to unitholders | **56.0** | **9.1** | 53.7 | 8.7 |
| Adjusted for: | | | | |
| Net (gain)/loss on change in fair value in: | | | | |
| Investments | **6.5** | **1.1** | 15.1 | 2.5 |
| Derivatives | **(5.2)** | **(0.8)** | 3.6 | 0.6 |
| Amortisation of incentives | **10.5** | **1.7** | 7.4 | 1.2 |
| Straight lining of lease revenue | **0.8** | **0.1** | (0.8) | (0.1) |
| Net foreign exchange loss/(gain) | **10.6** | **1.7** | (0.5) | (0.1) |
| Other[2] | **5.3** | **0.9** | (0.2) | – |
| FFO[3] | **84.5** | **13.8** | **78.3** | **12.8** |

1. Post period end acquisition of Piccadilly Complex with settlement scheduled for 31 March 2014. Gearing post acquisition is 29.2%.
2. Primarily European exit costs, derivative termination costs associated with European debt repayments and tax.
3. 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.

# Letter from the Fund Manager

**We've been extremely proactive in addressing our current and future leasing risks and our success has underpinned valuation growth throughout the portfolio.**

Dear Unitholder

I am pleased to provide you with an update for the six months to 31 December 2013. Over this period we have continued to fulfil our stated strategy and delivered strong results.

## Key highlights for the period include:

- FFO per unit up to 13.8 cents
- Distributions per unit up 5.7% to 9.25 cents
- Look-through gearing 23.8%[1]
- NTA per unit up 1 cent to $3.24

## Post period end highlights include:

- US$200m US Private Placement (USPP) issuance
- Acquired 50% of The Piccadilly Complex, Sydney (Piccadilly), for $194.25m[2]

1. 29.2% post acquisition of Piccadilly Complex
2. Subject to adjustments for lease incentives

## Continued record levels of leasing

Despite an environment of weak tenant demand, a record ~83,000sqm of leasing was completed within the portfolio. Major transactions included leases to Coles at 800 Toorak Road, Melbourne, until 2030, Bank of Queensland at 126 Phillip Street, Sydney, until 2025, and multiple leases at 111 Pacific Highway, North Sydney. The majority of the vacancy at 151 Clarence Street, Sydney, has also been leased, along with all vacancy at 628 Bourke Street, Melbourne. The weighted average lease expiry of the portfolio has increased to 5.0 years, occupancy is high at 96%, and our tenant retention rate has strengthened to 82%.

## Strong credit profile

Post balance date we took advantage of opportune market timing to further extend the weighted average debt maturity to 7.0 years, following the issuance of the US$200m USPP. IOF has continued to


Piccadilly Complex, Sydney


151 Clarence Street, Sydney


16-18 Mort Street, Canberra

benefit from competitively negotiated bank margins and lower interest rates, reporting a weighted average debt cost of 4.7% for the period. Pro-forma 31 December 2013 look-through gearing has increased to 29.2% following the acquisition of Piccadilly, the middle of our target range, and leaves further acquisition capacity.

## Transformation on track

The transformation of the portfolio is now largely complete with over $740m of offshore asset sales and ~$1bn of Australian acquisitions completed since April 2012. Our most recent high quality Australian acquisition of Piccadilly has a long weighted average lease expiry of 5.3 years, 93% occupancy and attractive net office rents of ~$350psm to ~$690psm. We anticipate this acquisition will deliver total returns of 9-10%, continuing our track record of generating high returns for our unitholders.

Investa's ongoing focus is on leasing and identifying further opportunities to add value. IOF is well placed with regard to these objectives, with ~35,000sqm of leases in Heads of Agreement, ~$65m of refurbishment projects underway and further development opportunities within the portfolio.

We look forward to providing you with further updates in our 2014 Annual Review and thank you for your ongoing support.

Yours sincerely,

**Toby Phelps**
Fund Manager

# Portfolio upgrade continues

## 105 Miller Street, North Sydney

$13m refurbishment including foyer, on-floor improvements and building services with tenant in situ

Increased NABERS rating to 4.5-stars

Refurbishment capital expenditure generated a 10% valuation increase

## 567 Collins Street, Melbourne

Building on track for mid-2015 completion

Architects impression

June 2013

February 2014


## 800 Toorak Road, Melbourne

Renewed lease with IOF's largest single tenant exposure

Increased WALE from 3 to 16 years

Addition of a 1,200 bay multi deck car park to be constructed – anticipate the overall project will generate an 8.1% yield on cost

## 16-18 Mort Street, Canberra

$18m refurbishment to bring building to A-grade standard

Building services upgrade to increase NABERS rating to 4.5-stars

Office 100% leased to Telstra within two months of building being vacated

Refurbishment capital expenditure generated 7.6% yield on cost

# Well positioned portfolio

## Strong leasing results in a challenging market

~49,000sqm leased in Melbourne at 800 Toorak Road and 628 Bourke Street

~25,000sqm leased across Sydney assets

~4,000sqm leased in Brisbane at 239 George Street and 15 Adelaide Street

Tenant retention rate strong at 82%

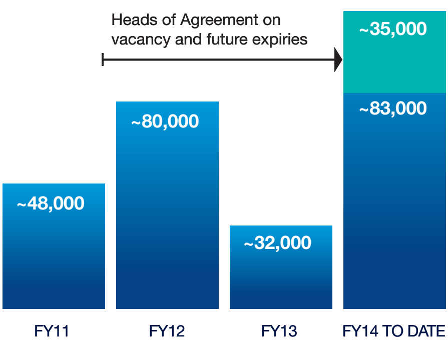
## Continued diversification of sources of debt at competitive margins

Weighted average cost of debt reduced to 4.7%

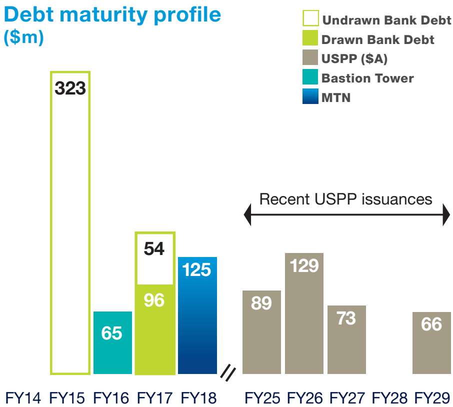
High interest cover ratio of 5.4x

Weighted average debt maturity at 7.0 years, one of the longest in the sector, after issuing a US$200m USPP with an average tenure of 13 years and 173 basis point margin

### Leasing history and outlook (sqm)




### Debt maturity profile ($m)



## Improving portfolio quality through strategic asset repositioning

Acquired 50% interest in Piccadilly, bringing Australian acquisitions to ~$1bn over the past two years

Sold IOF's legacy investment in DOF, reducing offshore assets to only 3% of the portfolio

Over 90% (~AU$740m) of IOF's offshore assets sold since taking over management

## Case study

### 628 Bourke Street, Melbourne

**149tonnes**

**$CO_2$-e savings**

**Significant environmental improvements in the six months following the full replacement and commission of the Building Management and Control System (BMCS) in February 2013.**

The new BMCS resulted in significant operational and environmental savings including:

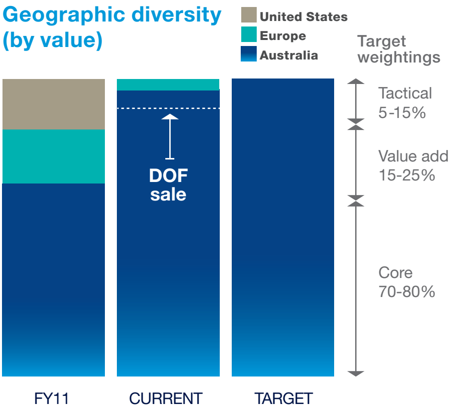
**14%** Reduction in Electricity intensity

**11%** Reduction in Water intensity

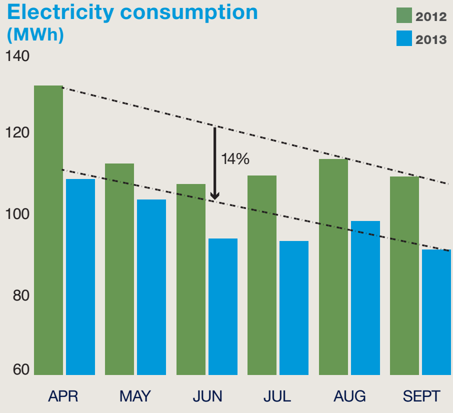
**18%** Reduction in Gas intensity

**16%** Reduction in Greenhouse emissions

### Geographic diversity (by value)




### Electricity consumption (MWh)



# Australian market

**The Australian office markets remain challenging; however global economic growth is improving, as evidenced by upgrades in global growth forecasts from the International Monetary Fund and the World Bank.**

This may act as a catalyst for a domestic recovery in mid to late 2014, and there are early signs that this recovery has started:

- Tenant demand has improved in Sydney and Melbourne, resulting in a decline of sublease vacancy
- Brisbane and Perth leasing markets appear to have stabilised after a turbulent 2013.

In addition to early signs of recovery, the strength of the residential market is resulting in selected office buildings being acquired by developers and converted to alternative uses, predominantly residential apartments. This will reduce the available office stock for tenants to occupy, compounding the impact of the low levels of net supply being delivered in the next 18 months. These factors should combine to put pressure on the vacancy rate in the medium-term.

**The office market outlook is improving due to a combination of the conversion of office stock to alternate uses and sublease space declining.**

# A manager with a market leading platform

**Investa Office, the manager of IOF, is Australia's leading owner and manager of commercial office buildings, controlling assets worth $8 billion in key CBD markets across Australia.**

## The manager provides specialist office expertise

- Sole focus is Australian office
- Tenant interaction is primarily with Investa employees, delivering better service and high levels of tenant engagement
- Eight offices with ~190 employees across all major CBD markets

## Consistent track record of performance across the platform in 2013

- ~300,000sqm of office space was leased
- Assets under management increased by ~$750m

## World leading sustainability capability and practices

- IOF Ranked in top quartile in 2013 ASX 200 Climate Disclosure Leadership Index (CDLI)
- Global recognition for IOF as a GRESB Green Star 2013
- Reduction in previous corresponding period intensity statistics in the IOF portfolio of 11% for greenhouse gas emissions, 8% for water, 4% for gas and 1% for electricity

## Operating within a robust corporate governance framework

- Management fee linked to market capitalisation providing clear alignment between the manager and unitholders
- Sector leading management expense ratio – equivalent to 36 basis points
- Governance structure and transparent reporting enhances unitholder protections

**"Investa aims to be the first choice in Australian office for investors, tenants and staff by leveraging our integrated office management platform to deliver market leading service and financial and operational outperformance."**

**Campbell Hanan,**
**CEO Investa Office**

**If you have questions about your unitholding, distribution statements or any change of details, you may call the unitholder information line on +61 1300 851 394.**

**For questions regarding the Fund, or this Half Year Review please call Investor Relations on 1300 130 231 or email: investorrelations@investa.com.au**

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