

## HALF YEAR REVIEW

31 DECEMBER 2016

INVESTA OFFICE FUND

# IOF

*"The first half of FY2017 has provided strong results for unitholders with a Return on Equity, being the increase in Net Tangible Assets plus distributions, of 8.5% for the six month period and 17.8% over the last 12 months. This result reflects the high quality of IOF's \$3.8 billion portfolio, significant new leasing, favourable office markets, particularly in Sydney, and the specialist skills of the Investa office management platform. We look forward to continuing to optimise returns for IOF unitholders."*

**Penny Ransom,**  
IOF Fund Manager



6 MONTH RETURN  
ON EQUITY

8.5%



12 MONTH RETURN  
ON EQUITY

17.8%



NET TANGIBLE ASSETS  
PER UNIT

\$4.49



6 MONTH DISTRIBUTION  
PER UNIT

10.0<sup>c</sup>



PORTFOLIO  
OCCUPANCY

97%



LIKE-FOR-LIKE PROPERTY  
INCOME GROWTH

4.5%

**INVESTA** 



# Letter from the Fund Manager

*“The Fund’s weighting to Sydney and North Sydney of close to 60%, valued at \$2.3 billion, is anticipated to benefit from the continued strengthening in office market fundamentals and a number of attractive value add opportunities which will improve the quality of the portfolio.”*

**Penny Ransom, IOF Fund Manager**



**Dear Unitholder**

I am pleased to report strong results for the first half of financial year 2017 underpinned by active asset management, major re-leasing and favourable office market fundamentals. Funds From Operations (FFO) per unit grew by 1.4% compared to the six months to 31 December 2015 off the back of strong like-for-like Net Property Income (NPI) growth of 4.5%, offset by a decrease in income during the redevelopment of 151 Clarence Street in Sydney. Distributions per unit increased by 2.0% and Net Tangible Assets per unit increased by 6.1% to \$4.49.

Statutory net profit was \$224.0 million which included a \$160.9 million uplift from the external valuation of 11 of the 22 properties as at 31 December 2016. Growth in income and valuations was supported by improved occupancies in the Brisbane and Perth portfolios and the strength of the Sydney leasing market.

**High quality portfolio with exposure to performing markets**

IOF’s \$3.8 billion Australian property portfolio continues to benefit from the strong weighting to the high performing markets of Sydney and Melbourne where 80% of the Fund’s assets are located. These markets have strong underlying fundamentals and continued investment demand, presenting upside for both income and capital growth.

The Fund’s portfolio allocation to high quality Prime assets is close to 80%. The remaining exposure is to a selection of well located B grade CBD assets which has helped drive the Fund’s recent high performance, particularly in the Sydney office market, where supply/ demand fundamentals for well located B grade assets remain strong.

**Active asset management has resulted in successful outcomes across the portfolio**

Our close relationships with our tenants has again resulted in significant leasing success including a 63,372sqm lease extension to Telstra until 2031 at 242 Exhibition Street, Melbourne, a 10 year lease extension to the Commonwealth of Australia over 11,973sqm at 836 Wellington Street, Perth, and an agreement to extend Allens occupation by 7.5 years at 126 Phillip Street, Sydney across 8,424sqm.

High tenant retention of 89% over the period has resulted in portfolio occupancy increasing from 96% to 97% and a weighted average lease expiry (WALE) for the portfolio of 5.6 years, up from 4.8 years as at 30 June 2016.

The Fund has taken advantage of the attractive property market cycle to strategically divest two non-core properties, 800 Toorak Road and 383 La Trobe Street, both in Melbourne, at material premiums to book value. The redevelopment of Barrack Place at 151 Clarence Street, Sydney is also well underway, with demolition nearing completion and construction due to commence shortly. This property will provide another key exposure to the high performing Sydney market.

**IOF’s Inaugural Green Bond**

On 30 March 2017, IOF announced the issue of a \$150 million 7 year Green Bond, the first Australian dollar Green Bond to be issued by an Australian Real Estate Investment Trust. The issue addresses the Fund’s existing \$125 million medium term note expiry in November 2017 and reinforces Investa’s corporate sustainability leadership.

**Prudent capital management**

IOF’s debt capital structure, continues to be stable and well balanced. The Fund’s look through gearing of 26.5% remains comfortably within the target gearing range of 25%-35%. IOF’s weighted average cost of debt continues to remain low at 3.9% as at 31 December 2016 and the Fund maintained a stable triple B+ S&P credit rating.

**Opportunity to acquire 50% of the Investa management platform**

IOF has an opportunity to acquire 50% of the Investa Office Management platform, a best in class office specialist platform.

On 3 April 2017, the Independent Directors announced they had completed an operational and governance review and commenced negotiations with Investa Commercial Property Fund (“ICPF”) in connection with the acquisition of 50% of the platform. The Board will keep unitholders advised.

**Cromwell Property Group (CPG)**

On 4 April 2017, following discussions with CPG which commenced in November 2016, the Independent Directors of IOF received an unsolicited, indicative, non-binding proposal from CPG to acquire all of the outstanding units in IOF by way of trust scheme for 100% cash consideration (Proposal).

The Proposal is an all cash offer price of \$4.85 per IOF unit, which is inclusive of an anticipated distribution of \$0.10 per IOF unit for the half year period ending 30 June 2017. The Proposal is subject to a number of conditions including undertaking due diligence.

No action is required by IOF unitholders at this time and further updates will be provided at the appropriate time.

**IOF is well positioned**

In summary IOF is well positioned to perform given its high quality portfolio, strong level of income security underpinning near term earnings, primary exposure to the attractive Sydney and North Sydney markets, value-add pipeline, and strong balance sheet. The favourable office market conditions have enabled IOF to upgrade FY17 FFO guidance from 29.0 to 29.5 cents per unit and distribution guidance from 20.0 to 20.2 cents per unit, both representing an increase over FY16 of 3.1%.

**Thank you**

On behalf of the IOF team, I would like to take this opportunity to thank you for your support. We look forward to working hard to optimise returns and to act in the best interests of all unitholders.

  
Yours sincerely,  
**Penny Ransom**

# Fund Objectives



**Strong governance and ethical standards**

Responsible custodian of third party capital. Best practise corporate governance. Sustainability leadership.



**Proactive asset management**

Optimise net property income by fully utilising Investa integrated platform. Efficiently manage ongoing capital requirements. Actively manage forward expiry risk.



**Selective transactions approach**

Targeted acquisitions to enhance diversity and scale and improve portfolio quality. Undertaking appropriate divestments at an opportune time in the cycle.



**Manufacture core product**

Active approach to creating core prime real estate both within the existing portfolio and via new opportunities.



**Prudent capital management**

Prudent debt, equity, and balance sheet management.

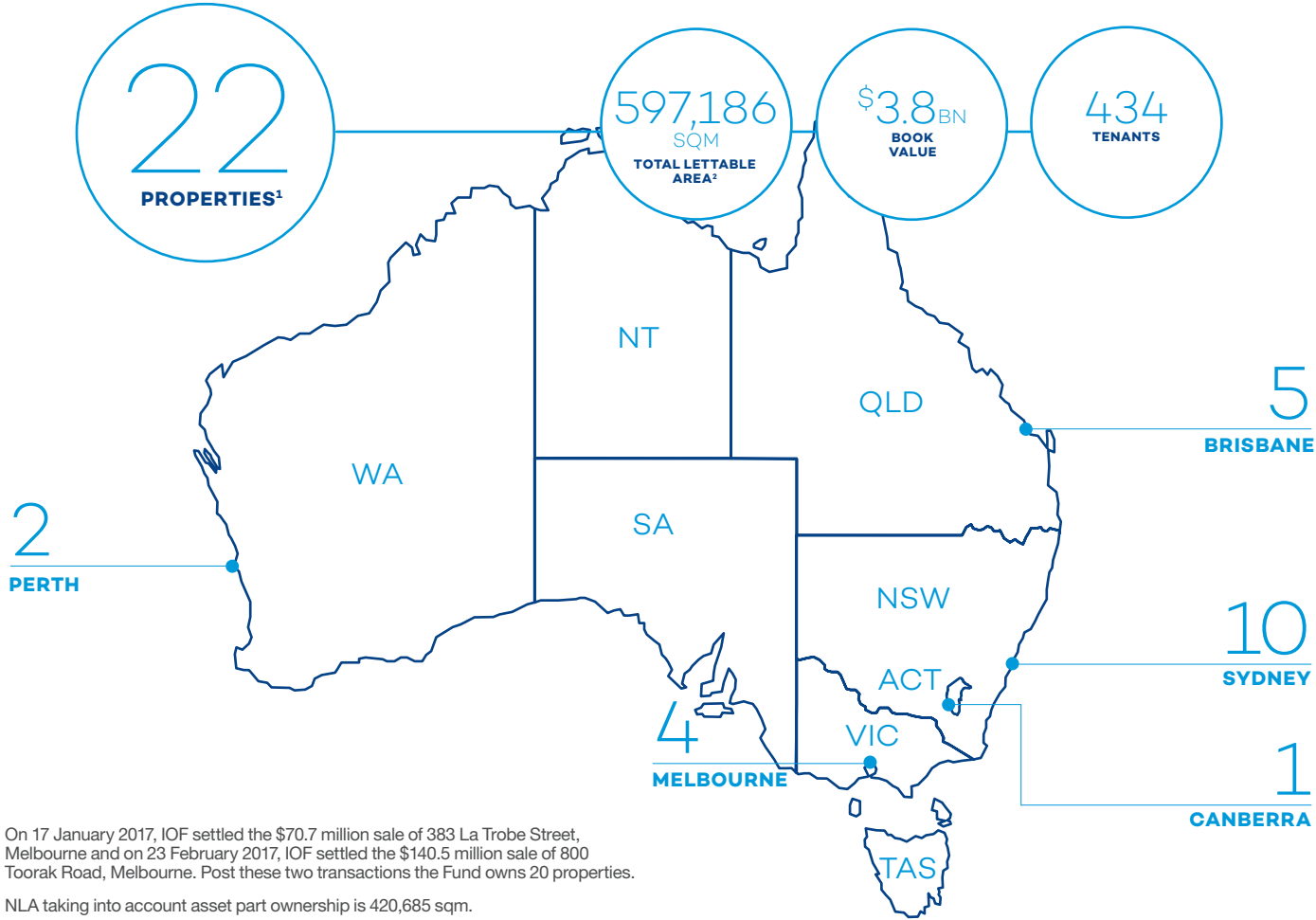


**Outperformance**

Providing a sustainable and growing distribution. Optimising total returns. Outperforming benchmark.

**Our vision is to be Australia’s leading listed specialist office fund.**

# Portfolio Overview



1. On 17 January 2017, IOF settled the \$70.7 million sale of 383 La Trobe Street, Melbourne and on 23 February 2017, IOF settled the \$140.5 million sale of 800 Toorak Road, Melbourne. Post these two transactions the Fund owns 20 properties.

2. NLA taking into account asset part ownership is 420,685 sqm.

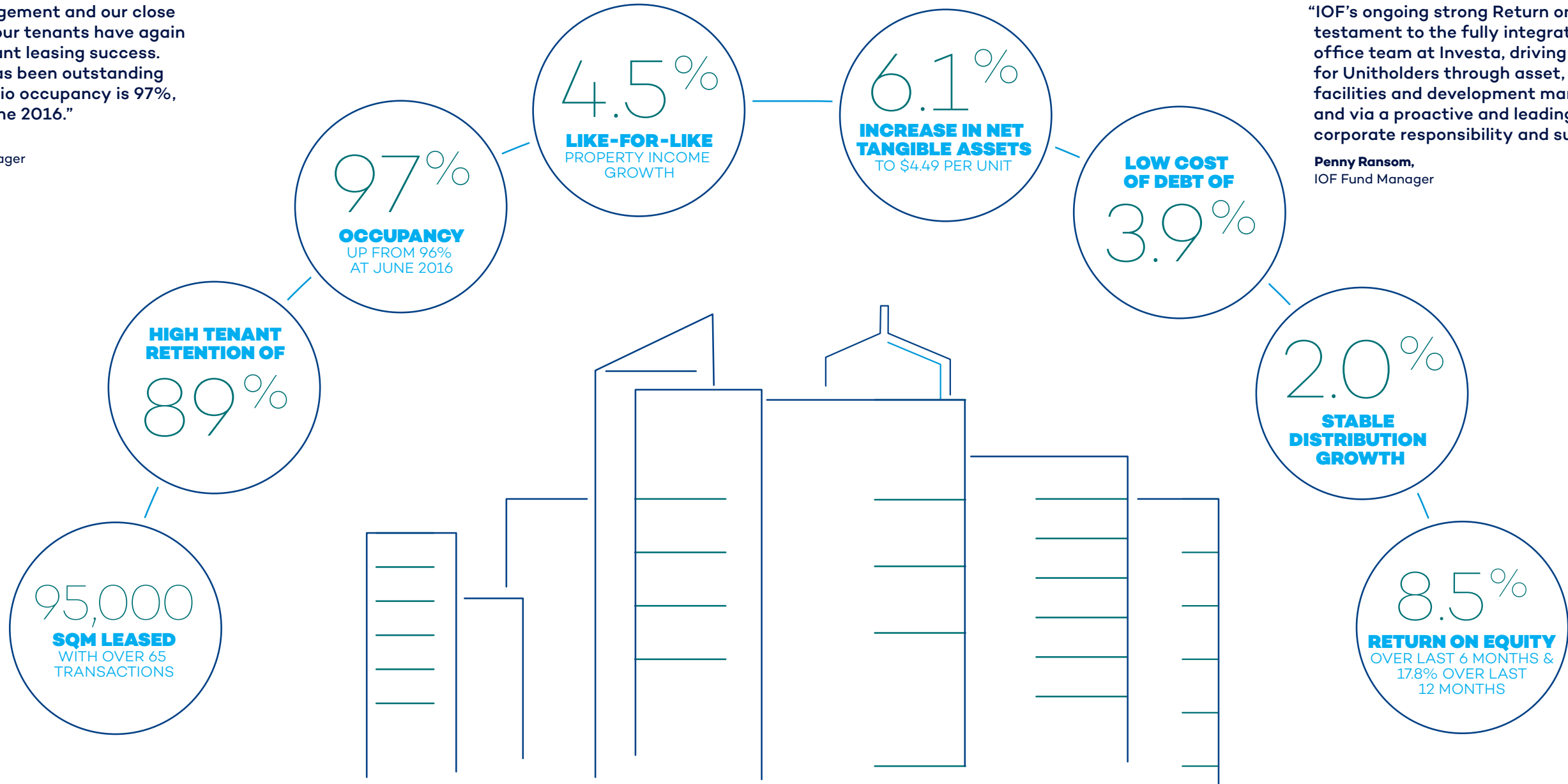
# Key Achievements

“Active asset management and our close relationships with our tenants have again resulted in significant leasing success. Tenant retention has been outstanding at 89% and portfolio occupancy is 97%, up from 96% at June 2016.”

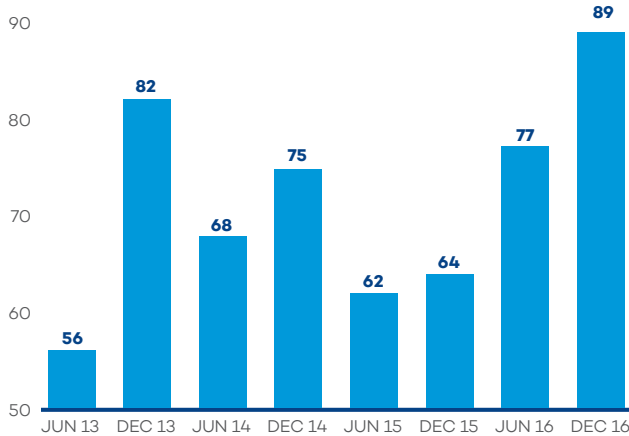
Nicole Quagliata,  
IOF Assistant Fund Manager

“IOF’s ongoing strong Return on Equity is testament to the fully integrated specialist office team at Investa, driving returns for Unitholders through asset, property, facilities and development management, and via a proactive and leading approach to corporate responsibility and sustainability.”

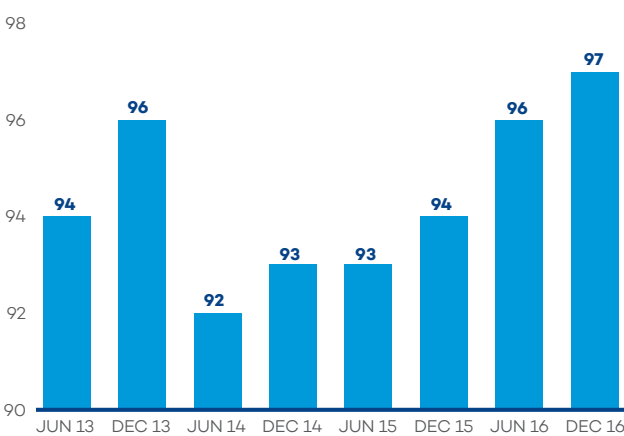
Penny Ransom,  
IOF Fund Manager



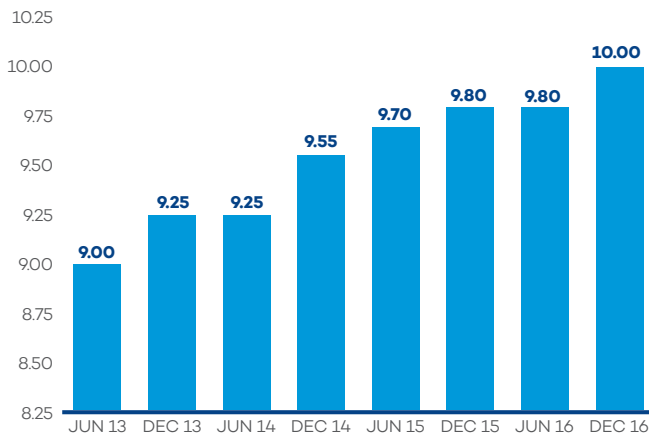
TENANT RETENTION (%)



OCCUPANCY (%)



DISTRIBUTIONS (¢pu)



IOF UNIT PRICE (\$)





# Portfolio Management

## SYDNEY PORTFOLIO DRIVING GROWTH



**Strong economic performance in New South Wales is supporting the growth in demand for office space in Sydney.**

Limited new supply is translating into strong rental growth. Close to 60% of the Fund's portfolio is located in the Sydney CBD or North Sydney, where the Fund is benefiting from growth in income and capital gains.

Rental growth is particularly evident in A and B-grade buildings. This is beneficial for IOF as 70% of IOF's Sydney portfolio is A-Grade and 19% B-Grade. Current evidence of this includes;

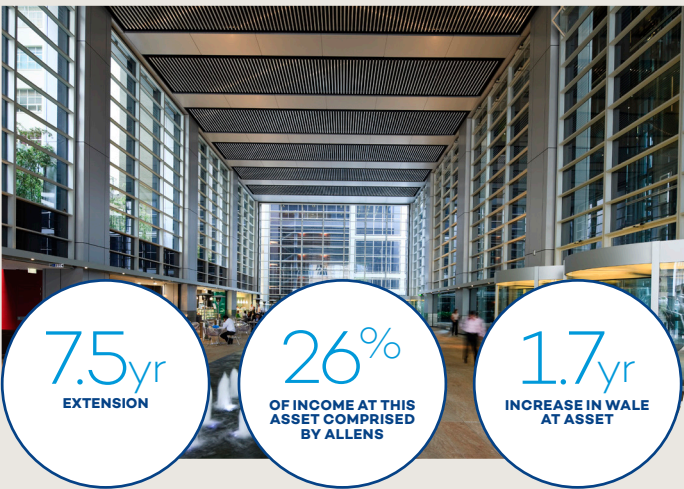
- > **10-20 Bond Street**, Sydney: A-grade asset valued at \$267 million (50% share). Following 3,978sqm of new leasing, like-for-like income growth was 7.1% and its valuation increased by 6.3%.
- > **6 O'Connell Street**, Sydney: B-Grade asset valued at \$207 million. Following 2,269sqm of new leasing, like-for-like income grew by 5.7% and its valuation increased significantly by 12.9%.
- > During the half year, almost 60% of IOF's new leases by number originated in Sydney, with rental growth of over 13%.

## ALLENS 7.5 YEAR EXTENSION AT 126 PHILLIP STREET, SYDNEY

**The law firm Allens has agreed to extend their occupation of 8,424sqm at 126 Phillip Street, Sydney for 7.5 years, from their current expiry in June 2019.**

This renewal was significant for IOF, de-risking the Fund's fourth largest lease expiry over the next three years. It reduced IOF's lease expiry in FY19 by 1.4% and improved the weighted average lease expiry (WALE) of the property by 1.7 years. IOF owns a 25% interest in 126 Phillip Street, Sydney.

The renewal of the Allens lease is testament to Investa's strong tenant relationships, providing income stability with a quality tenant and securing the long term outlook for this Premium Grade building.



## COMMONWEALTH OF AUSTRALIA 10 YEAR LEASE RENEWAL AT 836 WELLINGTON STREET, PERTH



**The renewal of the Commonwealth Government for 10 years was a major achievement for the Fund in a challenging market and evidences our strong relationships with our tenants.**

Commonwealth of Australia occupy all of 836 Wellington Street which has total lettable area of 11,973sqm. The renewal commenced 1 February 2017 and extended the asset's WALE from 2.8 years to over 10 years. The property is one of two assets IOF owns in Perth and represents close to 50% of IOF's Perth portfolio by value.

As announced in November last year, there were two other smaller new leases in IOF's other Perth asset, 66 St Georges Terrace. Including these leases the WALE for the Perth portfolio increased significantly, from 2.9 years to 7.7 years and occupancy moved from 79% to 83%.

## DIVESTMENTS



**The Fund has taken advantage of an attractive point in the property market cycle to strategically divest two properties.**

On 21 September 2016, following the extension of the lease to Coles for the entire building at 800 Toorak Road, Melbourne to 2030, and adding a 1,200 bay multi deck car park, IOF announced the sale of the property at a 10.5% premium to book value. The sale price of \$140.5m represented a low net passing yield of 5.45% and settlement occurred on 23 February 2017.

Settlement of 383 La Trobe Street, Melbourne occurred on 17 January 2017. This asset was sold for \$70.7 million at a significant 31% premium to book value. The property was sold for residential conversion.

## 388 GEORGE STREET AND 347 KENT STREET, SYDNEY-VALUE ADD OPPORTUNITIES

**IOF's strong weighting to the Sydney CBD and North Sydney market of close to 60% is expected to drive future returns. 388 George Street (50% ownership) and 347 Kent Street, make up 5.5% and 7.2% of the portfolio respectively.**

Both buildings have near term single tenant expiries which provide the Fund with a valuable opportunity to upgrade the assets at a time when vacancy rates are forecast to be at cyclical lows. This will enhance the overall quality of the Fund and drive returns for Unitholders.

These two projects are expected to benefit from the specialist skills and experience of the Investa management platform, in leasing, enhancing and managing high quality office assets.

The 28 storey 388 George Street property is situated 50 metres from Pitt Street Mall on the prominent corner of George and King Streets. The 100% owned, 20 storey, 347 Kent Street is also well positioned and sits in the Western corridor on the corner of Kent and King Streets.



## 151 CLARENCE STREET, SYDNEY DEVELOPMENT



**The development of Barrack Place at 151 Clarence Street, Sydney is well underway, with demolition near completion and construction due to commence shortly.**

This new building, due for completion in Q3 2018, will provide a new A grade exposure to the performing Sydney market at an attractive yield on cost of over 7.5%. The completed property will consist of approximately 22,000 sqm of net lettable area (NLA), 93% of which will be office and 7% retail.

There continues to be significant interest from prospective tenants and the upcoming marketing launch of the retail area, to be known as "The Laneway", is expected to add further momentum. The anchor tenant, ARUP, recently extended their pre-commitment by 1,600sqm and will now comprise 35% of total NLA, further reducing risk and demonstrating the attractiveness of this asset under development.

# Corporate Sustainability

## LEADERS IN RESPONSIBLE INVESTMENT



IOF is pleased to report improved results from our 2016 GRESB Assessment, the industry's globally recognized framework for systematic reporting, objective scoring and peer benchmarking of Environmental, Social, and Corporate Governance (ESG) performance.

IOF's global position for 2016 improved to 13th out of 733 respondents from 34th out of 688 respondents for 2015. This is reflective of the Fund's focus on operational performance, building certification and stakeholder engagement programmes.

## CARBON EMISSION REDUCTION STRATEGY

IOF is keen to remain a leader in the Carbon Emission space and demonstrate a clear point of difference and capability in this sector. Identifying an increase in investor awareness of global capital flows toward low carbon investment, Investa recognised an opportunity to capitalise on our outstanding track record and to retain its leadership position.

In 2016 Investa launched the carbon reduction strategy, which pursues an aspirational target of a net zero emissions profile by 2040. The strategy was formed via extensive collaboration with industry experts, investors, and staff and outlines Investa's roadmap to pursuing the target.

## IOF'S INAUGURAL GREEN BOND

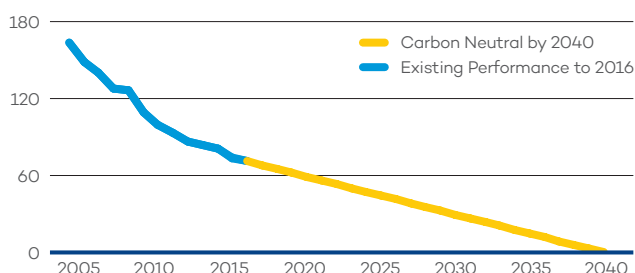
IOF was pleased to announce the issue of its inaugural Green Bond on 30 March 2017. This was the first certified Australian dollar Green Bond to be issued by an Australian Real Estate Investment Trust. The \$150 million Green Bond has a term of 7 years, a fixed coupon of 4.262% per annum, and a maturity date of 5 April 2024. The offering was received favourably by the market and was over-subscribed. It reinforces Investa's corporate sustainability leadership and provides important support to the growth in the green finance market.

Proceeds from the Green Bond issue will be used to reduce IOF's existing bank debt facilities and will be fully allocated against a portfolio of Low Carbon Buildings<sup>1</sup> within IOF's portfolio.

Penny Ransom, IOF's Fund Manager stated, "We are very pleased to issue our first green bond. It highlights the Fund's strong sustainability credentials and demonstrates our commitment to a low carbon economy."

1. As defined by Climate Bonds Initiative ([www.climatebonds.net](http://www.climatebonds.net)).

## CARBON EMISSIONS INTENSITY (kg.CO<sub>2</sub>/sqm/year)



## Get in Touch

If you have any questions regarding IOF's reporting or in relation to your unitholding, please call the Investa information line on **+61 1300 851 394**

Further details about the Fund can be accessed and downloaded at **[www.investa.com.au/IOF](http://www.investa.com.au/IOF)**

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