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Investa Office Fund (ASX:IOF)

Strong annual result ahead of guidance

Investa Office Fund ("IOF" or the "Fund") today releases its results for the financial year to 30 June 2015. Statutory net profit has decreased (2.4%) to \$179.2 million, compared to the previous corresponding period of \$183.6 million.

After adjusting for fair value movements and other non-operating items, Funds from Operations (FFO)¹ increased 4.5% to \$169.9 million, boosted by leasing results ahead of expectations and lower debt costs.

Key result highlights include:

- Funds From Operations up 4.5% to 27.7 cents per unit, 0.2 cents per unit ahead of guidance;
- Net Tangible Assets increased 8.1% to \$3.62 with 21 investment assets revalued over the year;
- Distributions per unit up 4.1% to 19.25 cents;
- 55,200 square metres of leasing completed over the period;
- Divested IOF's final offshore asset, Bastion Tower, Brussels for €54.9 million to become a 100% Australian focused portfolio;
- Exchanged contracts to sell 383 La Trobe Street, Melbourne for \$70.7 million, a 31% premium to the prior book value; and
- Maintained a low weighted average cost of debt of 4.0% and a long weighted average maturity profile of 5.2 years.

Valuation uplifts recorded across IOF's assets totalled \$126 million – an average of 4.1% across the portfolio. The strongest increases in valuations were reported in Sydney and Melbourne, where leasing success has underpinned robust cash flows and cap rate compression.

Ming Long, IOF Fund Manager said: "Our focus on driving performance has once again delivered an outstanding result. We've delivered FFO growth ahead of expectations, and the 8.1% growth in NTA over the period reflects the quality of the IOF portfolio, and demand for assets with de-risked income streams.

"IOF is well positioned moving into financial year 2016, with 100% of the portfolio located in key Australian markets where Investa is a specialist. Less than 7% of IOF's income expires in the next 12 months; taking into consideration the development of 151 Clarence Street, Sydney, which will be demolished in March 2016. This outlook gives us confidence that IOF will continue to perform strongly moving forward."

Portfolio performance being driven by leasing outcomes and strong capital markets

Key asset management metrics for the Australian portfolio during and as at 30 June 2015 were:

- Net Property Income (NPI) increased 8.0% to \$186.9 million, following full year contributions and lease up of vacancy at Piccadilly and 6 O'Connell Street, Sydney. These contributions were partly offset by the divestment of 628 Bourke Street, Melbourne during the period;
- Like for like NPI decreased 1.3%, in-line with expectations due to vacancy in Brisbane;
- Weighted average lease expiry of 5.2 years;
- Asset valuation increases totalling \$126 million, with June 2015 valuations reporting growth across Sydney and Melbourne assets averaging 10%; and
- Completion of 567 Collins Street, Melbourne, which IOF acquired in March 2013 at a cap rate of 6.7%. This new premium grade asset is 78% leased, with income support on the remaining vacancy for 4 years, and has been valued at 30 June 2015 at a cap rate of 5.875%.

IOF's Sydney and Melbourne assets, which total 78% of the portfolio by value, performed well throughout the period. Healthy levels of demand and declining vacancy allowed Investa to drive rental growth – particularly in Sydney assets targeted at cost-conscious occupiers, where absolute rental levels are relatively low.

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 in line with Property Council of Australia definition of FFO. Refer to the Annual Financial Report for the complete definition.

The markets in Brisbane and Perth remain challenging, with no material improvement evident over the past 6 months. 140 Creek Street in Brisbane is attracting reasonable levels of interest, however occupiers remain cautious and are delaying leasing decisions which is impacting lease-up of the remaining 10,810 square metres of refurbished space.

Alex Abell, IOF Assistant Fund Manager said, “Our proactive approach to meeting the needs of our tenants has driven high levels of activity, with 124 leasing deals totalling 55,200 square meters completed during the period. Activity has been strongest across our Sydney assets – particularly the smaller segment of the market, where we’ve been very active at Piccadilly, 6 O’Connell Street and 111 Pacific Highway.

“Although the weak markets of Brisbane and Perth are impacting our ability to lease space, we remain confident we have strong local operators to drive good outcomes for IOF. Our assets are well located, and offer high quality and affordable space; which is a point of difference to the imminent supply and back-fill coming to market later in 2015 and 2016. We believe these factors continue to position us well moving forward.”

Valuation outcomes were largely positive across the portfolio. The second half valuation highlights included: 800 Toorak Road, Melbourne (+13%); 111 Pacific Highway, North Sydney (+11%); 105 Miller Street, North Sydney (+10%); and 6 O’Connell Street, Sydney (+8%). 836 Wellington Street, Perth, was the only negative valuation – down \$2.5 million (3%), reflecting lower rents and higher incentives in the market.

100% Australian portfolio

Investa has delivered on IOF’s strategy of becoming 100% Australian focused after disposing of Bastion Tower, Brussels, IOF’s final offshore asset. This sale completed the orderly divestment of over \$800 million of offshore assets which began in 2011 when Investa took over management of IOF.

The proceeds from offshore sales have been reinvested into \$1.2 billion of higher returning Australian assets including: 126 Phillip Street, Piccadilly, 6 O’Connell Street and 99 Walker Street in Sydney; and 242 Exhibition Street, Melbourne.

Ming Long, IOF Fund Manager said: “After completing the offshore sales program, Investa continues to be focused on actively managing the IOF portfolio to drive returns. Since our financial year 2014 results we have disposed of \$130 million of Australian assets at an average premium to book value of 14%, and we maintain an agile approach to managing our assets to seize on future opportunities.”

Long debt maturity and low debt costs

Key capital management metrics at 30 June 2015 include:

- Look-through gearing 28.8%;
- Weighted average cost of debt of 4.0%;
- Weighted average debt maturity of 5.2 years; and
- Interest cover ratio of 4.4x.

IOF’s bias towards floating rates continues to generate interest cost savings, with the weighted average cost of debt reducing to 4.0% from 4.7% in financial year 2014. Importantly, the refinancing profile is largely de-risked, with no maturity over \$200 million in any single year underpinning a long weighted average debt maturity of 5.2 years.

Jonathan Callaghan, Finance Director said: “We’re committed to maintaining a long debt profile with limited refinancing risk in any given year. This approach, combined with the resilience of IOF’s high quality portfolio allows us to take on a greater exposure to floating rates; and as a result we expect our average interest costs in financial year 20

16 to be less than 4%.”

As previously announced, the ATO is auditing the income tax returns for the Fund. Following the Independent Review of the ATO’s positions, the remaining focus of the audit is deductions claimed for foreign exchange losses.

Strategic review

Further to the updates previously provided on the Morgan Stanley Sale Process, the Independent Board Committee (IBC) has commenced a strategic review. The strategic review will consider all available options, including the ongoing management and ownership of IOF.

The catalyst for the strategic review has been confirmation that IOF no longer has a strategic opportunity to acquire 100% of the Investa Office Management (IOM) platform.

The IBC will keep unitholders informed of any material developments as they occur.

Financial Year 2016 Outlook

IOF has high levels of income security underpinning near-term earnings, with 7% or less income expiring over the next three financial years. FFO guidance for financial year 2016 is 28.1 cents per unit, a 1.4% increase on financial year 2015 as 151 Clarence Street is taken out for development in March 2016. Distribution guidance is 19.6 cents, representing a FFO payout ratio of 70%.

The outlook is subject to prevailing market conditions.

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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\$3.3 billion with 22 investments located in core CBD markets throughout Australia. 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 more than \$9.0 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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