

ASX Announcement – Australian Unity Office Fund

5 February 2020

2020 half year financial results – AOF delivering on key objectives

Australian Unity Investment Real Estate Limited as responsible entity for the Australian Unity Office Fund (ASX: AOF) today announced AOF's results for the 2020 half year.

Key financial and operational highlights for the 2020 half year included:

- Statutory Profit increased \$9.9 million to \$23.0 million (1HFY19 \$13.1 million)
- Net tangible assets per unit increased by 6 cents per unit to \$2.85 per unit (30 June 2019 \$2.79 per unit)
- Funds from Operations (FFO)¹ increased to 8.9 cents per unit (8.8 cents per unit in 1HFY19);
- Distributions increased to 8.0 cents per unit (7.9 cents per unit in 1HFY19)
- Occupancy maintained at over 95%² (31 December 2019 95.2%; 30 June 2019 95.3%);
- Gearing remains below 30%³ (31 December 2019 29.9%; 30 June 2019 29.5%)

Mark Lumby, Fund Manager of AOF said 'AOF is continuing to deliver on its investment objective of providing investors with sustainable income returns and the potential for capital growth'.

Capital Management (as at 31 December 2019)

| | |
|-----------------------------------|-----------|
| Gearing ³ | 29.9% |
| Weighted average cost of debt | 3.6% |
| Weighted average term to maturity | 2.6 years |
| Interest cover ratio | 4.41x |
| Hedged debt | 81% |

As at 31 December 2019, AOF has total debt facilities of \$220 million with \$210.8 million drawn. Gearing of 29.9%³ is within the target gearing of below 40% and the interest cover ratio of 4.41x provides ample headroom to the debt covenant of 2.00x.

Portfolio Update (as at 31 December 2019)

| | |
|--------------------------------------|-----------------|
| Portfolio Book Value | \$685.8 million |
| Weighted average capitalisation rate | 6.13% |
| Portfolio net lettable area | 107,614 sqm |
| WALE ⁴ | 3.3 years |
| Occupancy ² | 95.2% |

ASX code:

AOF

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Asset Valuations

Four properties were revalued as at 31 December 2019 contributing to an increase in the portfolio's book value to ~\$686 million; which represents a ~\$17 million increase in the portfolio's book value since 30 June 2019.

The weighted average cap rate reduced from 6.21% at 30 June 2019 to 6.13%, which together with market rental growth, drove the increase in asset values.

The average value of the portfolio is \$6,372 per square metre which, in our view, still provides compelling value.

Leasing

Approximately 6,500 sqm of new leases were completed in the half year to December 2019 via 19 separate transactions, representing approximately 6% of AOF's portfolio by area. Approximately 1,100 sqm of this leasing related to space which was vacant at 30 June 2019.

With no significant lease expiry until FY22 and only one expiry of greater than 1,000 sqm before FY22, and with almost 60% of the portfolio leased to investment grade tenants such as Telstra, State and Federal Government, Boeing and GE, AOF is well placed to continue delivering sustainable income returns.

Development

During the half-year, AOF made further progress relating to the proposed development at 2 Valentine Ave, Parramatta.

The NSW Department of Planning provided its Gateway Determination on 29 May 2019 and Parramatta Council subsequently endorsed the Site Specific Planning Proposal on 8 October 2019. Parliamentary Counsel has completed drafting the LEP amendment and it is now awaiting gazettal.

Further, a Development Application was lodged in August 2019 seeking to add a further ~20,000 sqm to the development consent already received relating to the ~8,000 sqm building.

Corporate Activity

Outside of the portfolio, the 2020 half year and subsequent period has been active for AOF with the following corporate matters:

- Responsible Entity ownership change - Australian Unity will transfer all of the issued capital in AUIREL to a joint venture company owned equally by wholly owned subsidiaries of Australian Unity and Keppel Capital.
- CHAB proposal - An entity associated with Abacus Property Group and Charter Hall Group made an offer to acquire all units of AOF for \$3.04 cash per unit that it did not already hold by way of a trust scheme. The requisite majority of unitholders did not vote in favour of the scheme.
- Starwood's intended offer - On 29 January 2020, SOF-XI Legs Holdings Limited (Starwood), a member of the Starwood Capital Group, announced its intention to make, itself or through an affiliate, an unsolicited all-cash off-market takeover offer for all outstanding units in AOF for \$2.98 per unit reduced by any distributions received by unitholders after 29 January 2020 (Intended Offer).

Further details on these events are set out in the half yearly presentation.

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Outlook

Mark Lumby said 'Unprecedented infrastructure programs, improved amenity and cost advantages for those markets in which AOF is invested should provide good future rental growth and underpin values.'

Barring unforeseen changes to operating conditions, AOF reconfirms FFO guidance for full year 2020 of between 17.3 and 17.7 cpu⁵.

Barring unforeseen changes to operating conditions, AOF reconfirms distribution guidance for full year 2020 of 16.0 cpu⁵.

1. FFO is Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.
2. Portfolio occupancy is the percentage of net lettable area which is occupied.
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash.
4. WALE is the average lease term remaining to expiry across the portfolio, weighted by gross property income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 43 years remaining on the lease and would thus distort the metric.
5. Subject to no material change in market conditions.

Authorised by: AUIREL Disclosure Committee

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us. Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.

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