ASX Announcement – Australian Unity Office Fund

24 August 2020

FY20 full year financial results – maintaining distributions with resilient portfolio during market uncertainty

Australian Unity Investment Real Estate Limited (**AUIREL**), as Responsible Entity of Australian Unity Office Fund (**ASX: AOF**), today announced AOF's full year results for the FY20 financial year.

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

- Funds from Operations (FFO[1]) of $27.6 million, or 17.0 cents per unit
- Distributions of $24.4 million, or 15.0 cents per unit
- Portfolio value of $669.65 million, up $1.25 million from 30 June 2019
- Net tangible assets (NTA) of $2.72 per unit, a decrease of 7 cents per unit, from $2.79 per unit at 30 June 2019
- Balance sheet strengthened with total debt facilities increased to $250 million and no debt expiring until October 2022
- Gearing[2] of 31.2%
- Rental collections for the period 1 April 2020 – 30 June 2020 averaged 92% of the full rent roll
- Development approval received for a commercial office development of approximately 28,000 sqm at Valentine Avenue, Parramatta, driving a $14.5 million increase in valuation to $134.5 million as at 30 June 2020 ($120 million as at 30 June 2019)

AOF provides FY21 distribution guidance of 15.0 cpu[3]. This is in line with FY20 actual distributions of 15.0 cpu and equates to yield of approximately 7%[4], attractive in the current low interest rate environment.

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[1] FFO is a 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 to financial instruments and other unrealised or one-off items

[2] Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash

[3] Subject to no material change in market conditions, no material change to the portfolio and no unforeseen events

[4] Based on 30 June 2020 closing unit price of $2.09 per unit

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James Freeman, AOF Fund Manager said "The AOF portfolio has demonstrated resilience, continuing to perform well in a challenging environment due to COVID-19.

"Pleasingly, we are maintaining distribution guidance for FY21 in line with FY20 actual distributions of 15.0 cents per unit. Distributions are underpinned by high quality tenants such as Telstra and State and Federal Governments. We believe AOF is well positioned as we enter FY21, with only 4% of the portfolio expiring during the year and the portfolio allocation sitting at 59%[5] to metro markets and 41% to the smaller CBDs.

"As businesses reassess their cost bases and employees seek to work closer to home, reducing travel times on public transport, we expect these markets will outperform given their cost advantage to the larger CBDs of Sydney and Melbourne".

Financial Results (for the year to 30 June 2020)

Net profit (statutory)	$13.2 million
FFO	$27.6 million
FFO	17.0 cents per unit
Distributions	$24.4 million
Distributions	15.0 cents per unit

AOF delivered an FFO of $27.6 million, or 17.0 cents per unit for FY20. The FFO was impacted by a $1.1 million, or 0.7 cpu, doubtful debt provision, in relation to expected rent waivers to be granted under The Code[6].

Capital Management (as at 30 June 2020)

Gearing	31.2%
Weighted average cost of debt	3.1%
Weighted average term to maturity	3.5 years
Interest coverage ratio	4.1x
Hedged debt	78.8%

During the financial year, a $70 million debt facility was refinanced into a new $100 million, five-year facility, providing additional headroom and extending the weighted average maturity term to 3.5 years (3.1 years as at 30 June 2019). AOF has total facilities of $250.0 million with $215.8 million drawn as at 30 June 2020.

AOF's gearing is 31.2%, well within the target gearing range of below 40%. The interest coverage ratio is 4.1x providing significant headroom to the 2.0x covenant.

AOF also reset its swap book, blending and extending hedges at zero cost, reducing its average swap rate. The average cost of debt at 30 June 2020 is 3.1%, down 0.6% from 30 June 2019.

[5] By book value ($m)
[6] National Code of Conduct on Commercial Leases

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AOF's capital structure aligns with its capital management objective of maintaining a robust capital structure that enables growth over the long term through significant undrawn debt, ample coverage to its covenants and a diversified debt structure with no debt maturing until October 2022.

Distribution Reinvestment Plan

AOF's Distribution Reinvestment Plan (DRP) will be activated for the September 2020 quarter distribution allowing unitholders to reinvest their distributions into new AOF units at a 1% discount[7].

This will allow investors to increase their holdings and AOF to increase its capital base, further strengthening the balance sheet and potentially enhancing ASX trading liquidity in AOF.

The DRP will remain active for future distribution periods unless otherwise determined by AUIREL.

To participate in the DRP, contact Australian Unity Office Fund Investor Services on 1300 721 637 or +61 2 8016 2890.

Portfolio Update (as at 30 June 2020)

Portfolio Book Value	$669.65 million
Weighted average capitalisation rate	6.09%
Portfolio net lettable area	107,614 sqm
WALE[8]	2.9 years
Occupancy[9]	93.7%

Asset Valuations

All properties were independently revalued as at 30 June 2020, with the portfolio valued at $669.65 million, representing a $1.25 million (0.2%) increase on 30 June 2019.

Compared to the 30 June 2019 valuations, capitalisation rates for the portfolio decreased by 0.12% to 6.09%.

All valuations have regard to the current economic environment, with the five-year Compound Annual Growth Rates (CAGR)[10] decreasing by 0.7% across the portfolio from the prior independent valuations, increased incentive levels and increased downtime allowances.

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[7] DRP units will be issued based on an offer price, determined by applying a 1% discount to the 10-day Volume Weighted Average Price ('VWAP') for the period commencing three days following the record date.
[8] 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 this would distort the metric
[9] Portfolio occupancy is the percentage of net lettable area which is occupied
[10] Weighted average across the property valuations

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Of note, the value of AOF's property at 2-10 Valentine Avenue, Parramatta increased by $14.5 million over the year, predominately due to receiving Development Approval for a commercial office building of approximately 28,000 sqm in March 2020.

The overall value of the portfolio is ~$6,200 per square metre which continues to represent attractive value.

Leasing

Approximately 7,100 sqm of leasing was completed in the FY20 financial year across 22 separate transactions, representing approximately 6.6% of the portfolio by net lettable area (NLA). Of this, approximately 4,500 sqm of the completed leasing relates to new tenants. Overall, portfolio occupancy decreased to 93.7% as at 30 June 2020 (95.3% at 30 June 2019).

In a positive start to FY21, approximately 8,800 sqm (~8.1% of the portfolio) of leasing has either been completed or is under Heads of Agreement post 30 June 2020. These have not been included in the 30 June 2020 portfolio metrics.

Post 30 June 2020, CPSA's lease at 5 Eden Park Drive has been restructured introducing two new tenants to the portfolio, being Saluda[11] and Aegros[12]. Overall passing rent has remained broadly in line and one lease term has been extended by a further 3 years (to June 2029). This restructuring has not been included in the 30 June 2020 portfolio metrics. An independent valuation has also been commissioned, given the material increase in one lease term.

During FY21, only 4.3% of the portfolio by NLA is expiring. There are four tenancies over 400 sqm expiring, all located in 2 Eden Park Drive, Macquarie Park. To date, a Heads of Agreement has been reached for one tenancy and we are in negotiations for the other three.

Macquarie Park has been one of the best performing office markets, posting a decrease in the vacancy rate to 7.1% due to over 33,000 sqm of net absorption for the full year[13]. Macquarie Park has an attractive price point relative to other markets, solid infrastructure including the metro rail and a tenant base which has a high concentration of pharmaceutical, technology and logistics companies, which typically have been performing well in the current environment.

Development

During the year, significant progress was made on AOF's proposed development at 2 Valentine Avenue, Parramatta.

In February 2020, the Site-Specific Planning Proposal relating to AOF's proposed development was gazetted and became law. This revised planning framework provided the pathway for the

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[11] **Saluda Medical** is a global medical device company focused on patient outcomes, science, and engineering to transform the neuromodulation industry. For further information, please refer to: https://www.saludamedical.com/about/

[12] **Aegros** is a biotech company with a mission to develop and become the market leader in the emerging therapeutic plasma markets. For further information, please refer to: http://www.aegros.com.au

[13] JLL research

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Sydney Central City Planning Committee to approve AOF's development application for a ~28,000 sqm commercial office building, which was received in March 2020.

The receipt of the development approval contributed to the independent valuation for 2-10 Valentine Avenue, Parramatta increasing by $14.5 million over the full year to $134.5 million as at 30 June 2020.

During the year, a competitive tender process was completed to identify the preferred builder, Buildcorp, for 2 Valentine Avenue. Buildcorp provided compelling pricing for both the base building and for tenants to integrate their fitout and will shortly commence minor early works to reduce program delivery risks. It should be noted that the works contract is structured into separable portions, being minor early works and the main building construction.

Our immediate focus is to commence the minor early works and secure a tenant to pre-commit part or all of the building.

The feasibility is projecting strong returns, delivering a yield on cost of over 7% once the project commences. It is worth noting that commencement of the main building construction is subject to several conditions being satisfied including board approval, securing a tenant to pre-commit part or all of the building and obtaining finance.

Outlook

Mr Freeman stated "AOF enters FY21 in a solid position. Consistent with our strategy, the income stream is robust with 64% of the portfolio's gross income coming from the top 5 major investment grade tenants, such as Telstra and State and Federal Government.

"Only 4% of the portfolio is expiring in FY21 and good progress has already been made on de-risking these expiries. We are actively working on our development at 2 Valentine Avenue to seek a major tenant pre-commitment and reduce program risks via minor early works. The development is forecast to provide an attractive yield on cost of over 7% on delivery once key conditions to commence construction are achieved.

"AOF's balance sheet is well positioned, with appropriate undrawn debt capacity, ample headroom to its debt covenants and no debt expiry until October 2022.

"As we continue to navigate through the current uncertain environment due to COVID-19, we believe AOF is well positioned with 59%[14] of the portfolio in metropolitan markets and 41% in smaller CBDs. We expect the metro markets will outperform over the medium term due to the significant price point advantage they have over the major CBD markets of Sydney and Melbourne, typically coupled with major infrastructure projects improving amenity and accessibility. As businesses focus on cost control and employees prefer to work closer to home, spending less time on public transport, metro office markets are an appealing proposition".

AOF provides FY21 distribution guidance of 15.0 cpu subject to no material change in market conditions, no material change to the portfolio and no unforeseen events. This equates to yield of approximately 7%[15], attractive in the current low-interest rate environment.

[14] By book value ($m).
[15] Based on 30 June 2020 closing unit price of $2.09 per unit.

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Given the current uncertainty relating to COVID-19, AOF will not be providing FFO guidance at this time.

Authorised by:

AUIREL Disclosure Committee

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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 owned equally by subsidiaries of Australian Unity Limited ABN 23 087 648 888 and Keppel Capital Holdings Pte Ltd CRN 201302079N, the asset management arm of Singapore-based Keppel Corporation Limited CRN 196800351N.