

ASX Announcement – Australian Unity Office Fund

25 August 2021

FY21 full year financial results – delivering the top end of guidance

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 FY21 financial year.

Key financial and operational highlights for the 2021 financial year included:

- Funds from Operations (FFO¹) of \$30.6 million, or 18.7 cents per unit (cpu), at the top end of the guidance range
- Distributions of \$24.6 million, or 15.0 cpu
- Portfolio value of \$638.85 million, down \$30.8 million from 30 June 2020, reflecting the sale of 241 Adelaide Street Brisbane for \$31.5 million² offset by valuation uplift
- Net tangible assets (NTA) of \$2.71 per unit, a decrease of 1 cent per unit, from \$2.72 per unit at 30 June 2020
- Balance sheet remains strong with gearing³ of 28.4% with no debt expiring until October 2022
- Rental collections of 98% of FY21 rental income
- Disposal of 241 Adelaide Street occurred during FY21 with the asset having been identified as non-core
- Strategic assessment completed

AOF provides FY22 FFO guidance of 18.0 cpu – 18.5 cpu and distribution guidance of 15.2 cpu subject to no material change in market conditions and no unforeseen events.

The distribution guidance of 15.2 cpu⁴ equates to a yield of approximately 6.1%⁵ based on the 20 August 2021 closing price; attractive in the current low interest rate environment.

Nikki Panagopoulos, AOF Fund Manager said “The AOF portfolio has demonstrated resilience and has continued to perform well in the current challenging environment.

“Pleasingly, we delivered on both FY21 FFO and distribution guidance, with FFO of 18.7 cents per unit being at the top end of the FY21 guidance range.

¹ FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards profit for the year 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. When assessing FFO, rental abatement incentives are added back to maintain consistency with the treatment of rent free incentives and fitout incentives.

² Excluding selling costs

³ Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash

⁴ Subject to no material change in current market conditions and no unforeseen events

⁵ Based on 20 August 2021 closing unit price of \$2.49 per unit

Issuer:

Australian Unity Investment Real Estate Limited
271 Spring Street
Melbourne VIC 3000
ABN 86 606 414 368
AFSL: 477434

Registry Enquiries:

Australian Unity Office Fund Investor Services
1300 737 760 or
+61 2 9290 9600
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“We have provided FY22 FFO guidance and distribution guidance. The distribution guidance of 15.2 cents per unit is an increase from FY21 and is underpinned by high quality tenants such as Telstra and State and Federal Governments.

“With occupancy at 95.7%, following strong leasing outcomes, and our approach to active management with the disposal of 241 Adelaide Street and the recent acquisition of 96 York Street Beenleigh, we believe AOF is well-positioned for FY22.

“As businesses reassess their cost bases and employees seek to work closer to home, reducing travel times on public transport, we expect the markets that AOF is invested in will outperform given their affordability when compared to the larger CBDs of Sydney and Melbourne”.

Financial Results (for the year to 30 June 2021)

Profit for the year	\$23.3 million
Funds from Operations	\$30.6 million, or 18.7 cents per unit
Distributions	\$24.6 million, or 15.0 cents per unit

Capital Management (as at 30 June 2021)

Gearing	28.4%
Weighted average cost of debt	2.9% ⁶
Weighted average term to maturity	2.5 years
Interest coverage ratio	5.2 times
Hedged debt	89.1%

During the financial year, gearing reduced to 28.4%, well within the target gearing range of below 40%. AOF had \$190.8 million drawn against total debt facilities of \$250.0 million as of 30 June 2021.

The interest coverage ratio is 5.2 times providing significant headroom to the 2.0 times covenant.

The average cost of debt at 30 June 2020 was 3.4%, reducing to 2.9% as at 24 August 2021.

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.

⁶ Cost of debt 3.4% at 30 June 2021, which has subsequently reduced to 2.9%

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Distribution Reinvestment Plan

AOF's Distribution Reinvestment Plan (DRP) was activated for distributions paid for the September 2020 and December 2020 quarters, raising \$3.3 million, further strengthening AOF's balance sheet. The DRP was, however, suspended from the quarter ended 31 March 2021.

Portfolio Update (as at 30 June 2021)

Portfolio Book Value	\$638.85 million
Weighted average capitalisation rate	5.8%
Portfolio net lettable area	98,067 sqm
WALE ⁷	2.4 years
Occupancy ⁸	95.7%

Asset Valuations

All properties were independently revalued as at 30 June 2021, with the portfolio valued at \$638.35 million.

Portfolio valuations increased by \$5.95 million⁹ during the year, driven by valuation growth from the two Macquarie Park assets and 2-10 Valentine Avenue, Parramatta. The valuation of 30 Pirie Street, Adelaide was reduced due to an increase in capital expenditure refurbishment allowances.

The average value of the portfolio is ~\$6,500 per square metre.

Leasing

Approximately 16,449 sqm of leasing was completed in the FY21 financial year across 30 separate transactions. This represented approximately 15.3% of the portfolio area, prior to the sale of 241 Adelaide Street, Brisbane. The strong leasing activity drove a 2.0% increase in occupancy to 95.7%.

Development

Management is focused on driving capital growth over the longer term for the portfolio.

At 2 Valentine Avenue, Buildcorp are well advanced on early works to de-risk the delivery program.

To further enhance the flexibility of the Valentine Avenue development opportunity, management is working on a design to link both 2 and 10 Valentine Avenue together to create a combined building offering. This offering is designed to provide a direct link through 10 Valentine Avenue to 2 Valentine Avenue, providing an enhanced arrival experience for both buildings and greater flexibility in security configurations. A development application to create a combined building was lodged with Parramatta Council in June 2021. Management is

⁷ WALE is the average lease term remaining to expiry across the portfolio, weighted by gross property income.

⁸ Portfolio occupancy is the percentage of net lettable area which is occupied

⁹ Adjusted for the sale of 241 Adelaide Street, Brisbane

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also actively marketing the properties at 2 and 10 Valentine Avenue to secure a tenant pre-commitment.

Impact of Covid-19

AOF was impacted by the Covid-19 pandemic with large tenants delaying leasing decisions and eligible tenants requesting rent relief. To date AOF has provided rent waivers totalling \$558,000, which equates to ~1% of rental income.

Strategic Assessment

On 7 July 2021 AOF announced the results of its strategic assessment conducted to examine options to maximise returns and value for unitholders.

In concluding the strategic assessment, it was determined to maintain AOF's focus on owning Australian office properties in metropolitan and CBD markets, complemented by a targeted and diversified portfolio of Australian real estate assets. AOF will continue to focus on delivering sustainable income returns and the potential for capital growth over the long-term through active asset management and value-add initiatives.

After exploring the various options, AUIREL identified a potential merger of AOF and the Australian Unity Diversified Property Fund (DPF) as a key initiative to deliver on the refined strategy. AOF and DPF continue to explore a potential merger and a further update will be provided to the market in due course.

Outlook

Ms Panagopoulos stated "AOF is continuing to perform well, despite the uncertainty created by the COVID-19 pandemic.

"Occupancy increased by 2.0%, to 95.7%, driven by strong leasing across the portfolio of approximately 16,449 sqm.

"The AOF portfolio remains well-positioned across the metropolitan office markets and smaller CBDs. These markets offer affordable rents which are a fraction of Sydney CBD and Melbourne CBD rents, while typically still providing great accessibility and amenity. In the current cost-conscious environment, we believe these markets are likely to outperform.

"AOF management remains focussed on driving an active management strategy to deliver leasing outcomes and execution of asset refurbishment initiatives and delivering on portfolio repositioning priorities, including exploring the divestment of 32 Phillip Street, Parramatta. In addition, management will continue to implement the refined strategy to realise value for unitholders, including by continuing the ongoing investigation of the DPF merger opportunity.

Ms Panagopoulos said, "The strategic assessment has been completed and strategic priorities for the fund have been identified with the benefit of unitholder engagement."

"AOF provides FY22 FFO guidance of 18.0 cpm – 18.5 cpm and distribution guidance of 15.2 cpm, subject to no material change in current market conditions and no unforeseen events. This distribution guidance equates to a distribution yield of approximately 6.1% on the 20 August 2021 closing price of \$2.49".

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Authorised by:

AUIREL Disclosure Committee

Contact information

Nikki Panagopoulos

Fund Manager – AOF

Phone: +61 401 100 075

Email:

npanagopoulos@australianunity.com.au

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of 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.

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