Summary of Australian Unity Office Fund Risks[1]

The following sets out a summary of risks from an investment in Australian Unity Office Fund (**AOF**)

(a) **General property market risks**

AOF's earnings are subject to the prevailing property market conditions. Adverse changes in prevailing market sentiment in the sector in which AOF operates or invests may adversely affect earnings. These factors may adversely affect the value of, and returns generated from, property investments undertaken by AOF from time to time, and may influence the acquisition of properties, the timing and value of sales, and the carrying value of projects and income-producing assets.

(b) **Risk arising from a listed investment**

The price at which AOF Units may trade on the ASX may differ materially from AOF's NTA per unit as it is affected by the financial performance of AOF along with varied and often unpredictable factors influencing equity and credit markets generally. These factors include international stock markets, interest rates, domestic and international economic conditions, domestic and international political stability, investor sentiment, and the demand for equities generally.

(c) **Returns from investment**

Returns from property investment assets are impacted by the rental income generated from the property and the expenses incurred in the operation of that property, including the management and maintenance of the property as well as the changes in the market value of the property. Factors that may reduce these returns include:

- the overall conditions in the national and local economy, such as changes to growth in gross domestic product, employment, inflation and interest rates;
- local real estate conditions, such as changes in the demand and supply for retail, office, industrial or hotel/tourism assets or rental space;
- the perception of prospective tenants regarding attractiveness and convenience of assets;
- the convenience and quality of properties;
- changes in tenancy laws;
- external factors including war, terrorist or force majeure events;
- unforeseen capital expenditure;
- supply of new properties and other investment assets; and
- investor demand/liquidity in investments.

(d) **Tenant default, renewal and occupancy risk**

The financial performance of AOF depends on its ability to continue to lease existing property space that is currently vacant, or that becomes vacant on expiry of leases, on economically favourable terms. In addition, the ability to lease new asset space in line with expected terms will impact on the financial performance of AOF. The ability of AOF to secure lease renewals or to obtain replacement tenants may be influenced by any leasing incentives granted to prospective tenants and increased competition in the sector, which in

[1] This summary of Australian Unity Office Fund Risks has been extracted from the Explanatory Memorandum issued on 15 November 2021 and updated accordingly.

turn may increase the cost and time required to let vacant space.

Insolvency or financial distress of AOF’s tenants may reduce income received from its assets. There is a risk that tenants may default on their rental or other obligations under leases with AOF, leading to a reduction in income received and cashflow available for distribution to AOF Unitholders.

(e) Reputational risk

Due to the scale and breadth of its operations, AOF is an active A-REIT, landlord and business in the Australian market. Various issues may give rise to reputational risk and subject AOF to the risk of enforcement action, fines or penalties. The quality and consistency of how AOF interacts and engages with all of its key stakeholders will impact the reputation of AOF.

(f) Acquisition Risk

AOF’s future strategy may involve the acquisition of assets to add to AOF's property investment portfolio. There are inherent risks in such acquisitions. These risks could include unexpected problems or other latent liabilities such as the existence of asbestos or other hazardous materials or environmental liabilities. There are also risk associated with integration of businesses, including financial and operation issues as well as employee related issues.

(g) Cash flow risk

AOF’s ability to service its debt and other obligations depends on the future performance and cash flow of its business which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond its control. AOF’s historical financial results (on a pro forma basis) have been, and it is anticipated that AOF’s future financial results will continue to be, subject to fluctuations. Cash flows can vary and AOF’s business may not generate sufficient cash flow from operations to enable it to satisfy its debt and other obligations. Significant expenditures associated with each property investment, such as maintenance costs, property rates and taxes, are generally not reduced when circumstances cause a reduction in revenue from the investment. Under these circumstances, cash flow of AOF may be adversely affected.

(h) Refinancing requirements

To fund new acquisitions, capital expenditure and other material capital events, AOF intends to rely on a combination of funding options including equity and the AOF Refinancing. Gearing magnifies gains and losses in AOF.

An inability to attract funding may adversely affect AOF’s ability to make future acquisitions or to meet future capital expenditure needs, which in turn could adversely affect the growth prospects of AOF, the unit price or even AOF’s ability to maintain its properties to the requisite standard (which in turn may affect its ability to retain existing, or to attract new, tenants). An inability to refinance any debt (either on acceptable terms or at all) or any increase in the cost of such funding, may also adversely impact the performance and the financial position of AOF.

(i) Interest rate risk

AOF's interest cost on floating rate debt will increase if benchmark interest rates increase. This would reduce earnings and cashflow available for distribution to AOF Unitholders.

AOF will manage the risks to its income associated with the fluctuation of interest rates by using derivative financial instruments, in the form of interest rate swaps, to convert floating interest rate borrowings to fixed interest rates. Such interest rates swaps hedge the risk of interest rate fluctuations in respect of underlying borrowing for a limited period of time. AOF intends to fix interest rates in respect of 40% to 100% of drawn borrowings over a range of maturity dates.

(j) **Impact of financing covenants**

AOF financing contains financial covenants, which are based on the principal amount of debt outstanding, the properties' valuations and net income tests. A breach of these covenants may be caused by many factors including a material and adverse event relating to a property (such as the loss of a key tenant), reduced valuations or by market conditions including interest rate increases. A covenant breach may result in AOF paying higher interest rates or the lender choosing to enforce their security over one or a number of properties and/or requiring AOF to pay down its debt facility immediately or on short notice. Alternative financing may not be available or may only be available on less favourable terms. AOF may be required to sell properties or reduce or suspend distributions in order to repay debt. The consequence of a breach of such a covenant may require the sale of one or more properties to reduce debt. If a forced sale occurs, it could result in a less than optimal price or capital loss, dilution through further equity raising, or suspension of distributions to repay the debt facility.

(k) **Access to capital**

Real estate investment is highly capital intensive. AOF's ability to raise funds in the future on favourable terms depends on a number of factors including general economic conditions, political, capital and credit market conditions and the reputation, performance and financial strength of the AOF's business. Many of these factors are outside of AOF's control and may increase the cost and reduce the availability of capital.

(l) **Asset value risk**

Asset values are affected by many factors including prevailing market conditions, risk appetite, volume of sales, the ability to procure tenants, contracted rental returns, operating, maintenance and refurbishment expenses and the funding environment. Asset value declines may increase gearing levels and their proximity to covenant limits.

(m) **Key personnel**

AOF is reliant on a number of personnel to manage the day-to-day requirements of the business. Loss of such personnel, or inability to attract suitably qualified personnel, may have a material adverse impact on AOF's performance.

(n) **Real estate property prices and illiquid investments**

Downward market pressure on real estate prices could impact the value of AOF's direct portfolio and would have a negative impact on AOF's net tangible assets, gearing and its ability to generate revenue. Investments in property are relatively illiquid, and some of the AOF's properties are subject to contractual limitations on transfer. This illiquidity limits AOF's ability to vary its portfolio promptly in response to changes in economic or other conditions. In times of low economic growth or disruption in financial markets, there is likely to be fewer potential buyers of property assets, and it may be difficult for potential buyers to obtain financing on acceptable terms, or at all. There is no assurance that AOF will be able to dispose of a property at the desired time or at a price in line with AOF's book value for the property.

(o) **Impact of COVID-19 and macroeconomic risks**

The COVID-19 pandemic has resulted in significant national and global market turbulence and has created, and will potentially continue to create, substantial volatility in the prices of securities trading on the ASX, including the potential trading price of units in AOF. The uncertainty associated with the pandemic means that the broader impacts of it and how long they will occur are unknown. Among other things, this relates to the state and federal response to mitigate COVID-19, the closure of many businesses across the country, affiliated unemployment and travel restrictions, all of which may have some impact on the performance of AOF, tenants of AOF, the Australian share market and the broader economy.

Uncertainty remains regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic and impact on AOF's operations and financial performance. Accordingly, it is not currently possible to assess the full impact of COVID-19 on DPF's and AOF's existing businesses. The economic and operating environment is subject to rapid change and will continue to be closely monitored by AOF. While AOF expects it will have cash and headroom under the debt facility to deal with the circumstances relating to COVID-19, there is a risk that if the duration of events surrounding COVID-19 are prolonged, AOF may need to take additional measures in order to respond appropriately.

There are also other changes in the domestic and global macroeconomic environment associated with the events relating to COVID-19 that will be beyond the control of AOF in the future and may be exacerbated in an economic recession or downturn.

(p) **Competition**

AOF faces competition from within the A-REIT sector, and also operates with the threat of new competition entering the market. The existence of such competition may have an adverse impact on AOF's ability to secure tenants for its properties at satisfactory rental rates and on a timely basis, or the pricing of construction projects or development opportunities, which in turn may negatively affect AOF's financial performance and returns to its investors