ASX Announcement – Australian Unity Office Fund

8 August 2017

2017 Financial Year results – AOF exceeds Product Disclosure Statement ("PDS") financial forecasts, delivering at the top end of its FFO guidance with solid capital growth

Australian Unity Investment Real Estate Limited, as responsible entity for the Australian Unity Office Fund (ASX:AOF), today announced AOF's results for the 2017 financial year.

Key financial and operational highlights included:

- Funds from Operations[1] ("FFO") of $24.0 million, which was approximately $900,000 greater than the PDS (dated 23 May 2016) forecast for the same period, and at the top end of the updated FFO guidance provided to the market on 8 February 2017;
- Statutory net profit of $60.6 million;
- An increase in net tangible assets ("NTA") to $2.23 per unit from $1.95 per unit at 30 June 2016;
- A 22.1%[2] total return to unitholders during the one year period to 30 June 2017; and
- Gearing of 27.0%[3] as at 30 June 2017.

Grant Nichols, Fund Manager of AOF said 'AOF has delivered a strong first full year result since listing on the ASX in June 2016. We have been able to exceed the financial forecasts set out in the PDS predominantly through our active approach to leasing. During the year approximately 18% of the portfolio has been leased, which has also contributed to solid capital growth. For the year ending 30 June 2017, AOF has delivered unitholders a 22.1% total return'.[2]

As part of results, AOF has provided the following guidance for FY18:

- FY18 FFO guidance of 17.1 to 17.3 cents per unit ("cpu")[4]; and
- FY18 distribution guidance of 15.6 cpu[4].

Financial Results

FFO	$24.0 million (PDS forecast: $23.1 million)
Statutory net profit	$60.6 million (PDS forecast: $18.0 million)

AOF delivered an FFO of $24.0 million or 17.1cpu, which was approximately $900,000 greater than the PDS forecast of $23.1 million or 16.4 cpu. It was also at the top end of our updated guidance of 16.8 to 17.1 cpu provided to the market on 8 February 2017. The primary reasons for the increase in FFO were better than forecast leasing outcomes and lower than forecast borrowing costs.

Statutory net profit was $60.6 million, which was $42.6 million greater than the PDS forecast of $18.0 million. The primary reasons for the increase in profit was $39.0 million of net fair value increment of investment properties and a $1.2 million net gain on financial instruments held at fair value.

Distributions of $21.1 million or 15.0 cpu were paid during the period, which was 0.2 cpu greater than the PDS forecast and equal to the updated distribution guidance provided to the market on 8 February 2017.

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Capital Management

Gearing[3]	27.0%
Weighted average cost of debt	3.6%
Weighted average term to maturity	3.0 years
Interest cover ratio	6.45x
Hedged debt	81%

As at 30 June 2017 AOF had total debt facilities of $140 million with $123.5 million drawn. Gearing of 27.0% is within the target gearing of below 40%, and the interest cover ratio of 6.45x provides ample headroom to the debt covenant of 2.0x. AOF increased its hedging in June 2017 and also put in place a forward start hedge with the aim of increasing the certainty of income for unitholders.

Portfolio Update

Portfolio Value	$441.1 million
Weighted average capitalisation rate	7.5%
Portfolio net lettable area	97,580sqm
WALE[5]	4.6 years
Occupancy[6]	93.5%

Leasing

Approximately 17,400sqm of new leases were completed in FY17 via 26 separate transactions, representing approximately 18% of the portfolio by area. Approximately 3,400sqm is either subject to signed, but not binding, heads of agreement or are leases that have been executed subsequent to 30 June 2017, and have not been included in the portfolio metrics reported as at 30 June 2017.

At 5 Eden Park Drive, North Ryde, the building's largest tenant, Contract Pharmaceutical Services of Australia ("CPSA"), renewed their approximate 6,300sqm tenancy for a further eight year term from their current 30 June 2018 lease expiry. Combined with five year lease renewals for both the Commonwealth Government (approximately 1,600sqm) and Pacom (approximately 1,250 sqm), the building's weighted average lease expiry by income has increased from 1.2 years at 30 June 2016 to 6.6 years at 30 June 2017.

Grant Nichols said 'We are pleased to have secured the renewal of CPSA for a further eight year term. It is another example of our strong track record of renewing the key tenants within the AOF portfolio. CPSA was our largest near term lease expiry and their renewal contributes to AOF's objective of providing strong, sustainable income returns to our unitholders'.

Asset Valuations

Four properties were independently valued as at 30 June 2017, with the change from the 30 June 2016 book value noted below:

- 10 Valentine Avenue, Parramatta was valued at $86.0 million, an increase of $16.5 million;
- 5 Eden Park Drive, North Ryde was valued at $52.4 million, an increase of $11.6 million;
- 30 Pirie Street, Adelaide was valued at $119.0 million, an increase of $1.8 million; and
- 241 Adelaide Street, Brisbane was valued at $36.8 million, an increase of $1.0 million.

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The increases in valuations were due to a combination of capitalisation rate compression, increased market rents and improved WALE and/or occupancy. Recent sales evidence resulting from strong investment demand supported the capitalisation rate compression, particularly in Parramatta.

The property with the largest proportional increase in valuation was 5 Eden Park Drive, North Ryde, which increased by approximately 28% over the 30 June 2016 book value. Much of this increase was driven by the renewal of CPSA.

AOF's weighted average capitalisation rate firmed to 7.5% as at 30 June 2017 from 8.0% as at 30 June 2016.

Outlook

Grant Nichols said 'AOF is well placed to deliver on its objective of providing unitholders with sustainable income returns due to a portfolio underpinned by 93.5% occupancy, no significant single lease expiry until 2022 and over 50% of the portfolio being leased to investment grade tenants such as Telstra, Government and GE'.

'We will continue to assess new acquisitions and development of existing assets that complement both the AOF strategy and current portfolio. In looking at these opportunities we will remain mindful of our cost of capital and be disciplined in our approach'.

'Improving tenant demand is evident in the major office markets on Australia's eastern seaboard. This should benefit AOF as the bulk of the portfolio is based in these markets, with approximately 50% by value based in Sydney's metropolitan markets. Levels of investment demand remain strong and this should support ongoing capital values in both CBD and metropolitan markets.'

Barring unforeseen changes to operating conditions, AOF's FFO guidance for full year 2018 is 17.1 to 17.3 cpu[4].

Barring unforeseen changes to operating conditions, AOF's distribution guidance for full year 2018 is 15.6 cpu[4].

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 value of adjustments of financial instruments, amortisation of incentives, rental straight-line adjustments and other unrealised or one-off items.
2. Return for the period from 1 July 2016 to 30 June 2017 calculated as the movement in AOF's net asset value per unit plus distributions for the period
(($2.23 + $0.15) / $1.95) – 1 = 22.1%
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 market conditions.
5. 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 45 years remaining on the lease and would thus distort the metric.
6. Portfolio occupancy is the percentage of net lettable area which is occupied.

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About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of eight 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 national health, wealth and living mutual company providing services to almost one million Australians, including 300,000 members. Australian Unity's history as a trusted mutual organisation dates back to 1840. It has grown organically—by continually evolving to provide the services and products needed by the communities it serves—as well as through successful strategic mergers and diversification into new business activities.

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