

ASX Announcement – Australian Unity Office Fund

7 July 2021

Market update

Australian Unity Investment Real Estate Limited (AUIREL), as Responsible Entity of Australian Unity Office Fund (ASX: AOF) is pleased to provide this market update.

Key highlights:

- Conclusion of the strategic assessment
- Investigation of a potential merger of AOF and Australian Unity Diversified Property Fund (DPF)
- June 2021 preliminary valuations and portfolio updates
- Updated FY21 FFO guidance

AUIREL Chairman, Peter Day, said:

“As announced to the market on 23 February 2021, the Board initiated a strategic assessment to examine options to maximise returns and unlock value for unitholders. The Board has considered AOF’s strategic positioning and priorities and identified refinements to AOF’s strategy.”

“In concluding the strategic assessment, the Board has determined to maintain AOF’s office focus in metropolitan and CBD markets, to be complemented by a targeted and diversified portfolio of Australian real estate assets. The Fund will continue to focus on delivering sustainable and growing income returns through active asset management and value-add initiatives.”

“After exploring the various options, the Board has identified a potential merger of AOF and DPF as a key initiative to deliver on the refined strategy. The Board looks forward to working constructively with Australian Unity Property Limited (AUPL), the responsible entity of DPF, to explore a potential merger of AOF and DPF.”

AOF Fund Manager, Nikki Panagopoulos, said:

“We are pleased to confirm the upper end of the FY21 FFO guidance range reflecting strong collections and positive leasing outcomes throughout the year. Our focus into FY22 will include delivering on AOF’s refined strategy and executing on our active asset management and refurbishment programs, enabling AOF’s assets to continue to meet tenant requirements.”

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
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(outside Australia)

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Outcomes of Strategic Assessment

Following completion of the strategic assessment, the Board is pleased to outline AOF's refined strategy:

- Focus on owning Australian office properties in metropolitan and CBD markets, complemented by a targeted and diversified portfolio of Australian real estate assets;
- Deliver investors sustainable and growing income returns via quarterly distributions;
- Maximise returns to investors through value-add initiatives: including developments, asset repositioning strategies and potential future acquisitions;
- Target index inclusion; and
- Maintain a capital structure which has target gearing below 40%.

The outcome of the strategic assessment refines the existing strategy, complementing AOF's continuing core focus on office, with an expanded asset ownership mandate allowing AOF to own commercial real estate that aligns with the key asset attributes of affordability, accessibility and amenity.

A key initiative being investigated is the potential merger of AOF and DPF, which the Board believes has financial and strategic merit. AOF approached DPF with a conditional, unsolicited and non-binding proposal to explore a potential merger with reference to net tangible assets (**Proposed Merger**).

Overview of the Proposed Merger

- **Quality combined diversified portfolio**¹ of 18 assets with a ~\$1.2 billion value across the office, convenience retail and industrial sectors. The portfolio would have occupancy of approximately 96% and a weighted average lease expiry of approximately 4.8 years;
- **Income focus** with cashflows from a diverse and defensive tenant base and a lease profile that provides income sustainability with potential upside;
- **Value-add capacity** through the delivery of developments including 2 Valentine Avenue, Parramatta within AOF's portfolio and North Blackburn Shopping Centre, Victoria within DPF's portfolio;
- **Mandate flexibility** to drive income and value-add opportunities with a focus on key asset attributes of affordability, accessibility and amenity;
- **Increased scale** with a broader unitholder base presenting the opportunity for index inclusion; and
- **Managed by Australian Unity** with a mandate enabling investors to benefit from the capabilities, relationships and investment opportunities offered by the broader Australian Unity Group.

¹ Note portfolio data as at last reported dates and excludes 241 Adelaide Street, Brisbane which was sold by AOF on 24 June 2021.

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The Board notes the Proposed Merger of AOF and DPF is subject to a number of conditions including mutual due diligence, financing requirements and consents, execution of a binding implementation agreement, final board approvals and recommendations from AUIREL and AUPL and unitholder approval. There can be no certainty that these conditions will be satisfied. AOF will keep unitholders updated as required. AOF and DPF have established related party protocols, including separate internal deal teams and appointed separate financial and legal advisers, to assist with the assessment of the Proposed Merger.

Further detail of the options considered by the Board as part of the strategic assessment and an overview Proposed Merger is provided in the investor presentation accompanying this announcement.

A copy of the DPF announcement can be found in the announcements section of the [DPF website](#)

June 2021 AOF preliminary valuations and portfolio updates

Preliminary independent valuations of all eight assets of \$639 million as at 30 June 2021, reflecting a like for like reduction of \$10.7 million and a portfolio weighted average capitalisation rate of 5.85%. The net valuation movement principally relates to an \$18 million decrease in the value of 30 Pirie Street, Adelaide and an \$8 million increase in the value at 2 Eden Park Drive, Macquarie Park.

- 30 Pirie Street, Adelaide: the independent valuer adopted additional allowances for management's proposed capital works refurbishment program. The refurbishment works are to position the building as one of the leading established A grade buildings in the Adelaide market. The works include base building, on floor and amenity upgrades, with a focus on wellness and sustainability to ensure the asset remains attractive to existing and future tenants. Telstra issued a market brief in March 2021 for its Adelaide accommodation requirements of between 4,500 – 7,000 sqm and management is in regular dialogue with Telstra regarding this brief. Noting Telstra's future space requirement represents up to approximately one third of the building, the opportunity exists to activate the building for new tenants and also direct leasing opportunities with sub-tenants that currently sublease approximately 21% of the building.
- 2 Eden Park Drive, Macquarie Park: several successful leasing transactions have preserved 100% occupancy at the property. The valuation uplift reflects the solid leasing outcomes, recent transactional evidence and the overall strength of the Macquarie Park market.

At 10 Valentine Avenue, Parramatta, Property NSW did not exercise its 5-year option by 30 June 2021. Management remains in active discussions with Property NSW regarding its future accommodation requirements.

FY21 guidance update

The Board is pleased to update FY21 FFO guidance range to 18.5 – 18.7 cents per unit, reflecting the top end of the previously provided guidance range of 18.3 – 18.7 cents per unit. The revised guidance reflects the strong collections and leasing outcomes achieved over the past year.

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Full year 2021 results

AOF will report its audited results for the full year 2021 on Wednesday, 25 August 2021.

Advisers

AUIREL is being advised by Highbury Partnership as financial adviser and MinterEllison as legal adviser.

Authorised by:

AUIREL Disclosure Committee

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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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AUSTRALIAN UNITY OFFICE FUND STRATEGIC ASSESSMENT PRESENTATION

7 July 2021

(ASX: AOF)



Artist impression: 2 Valentine Avenue, Parramatta

IMPORTANT NOTICE AND DISCLAIMER

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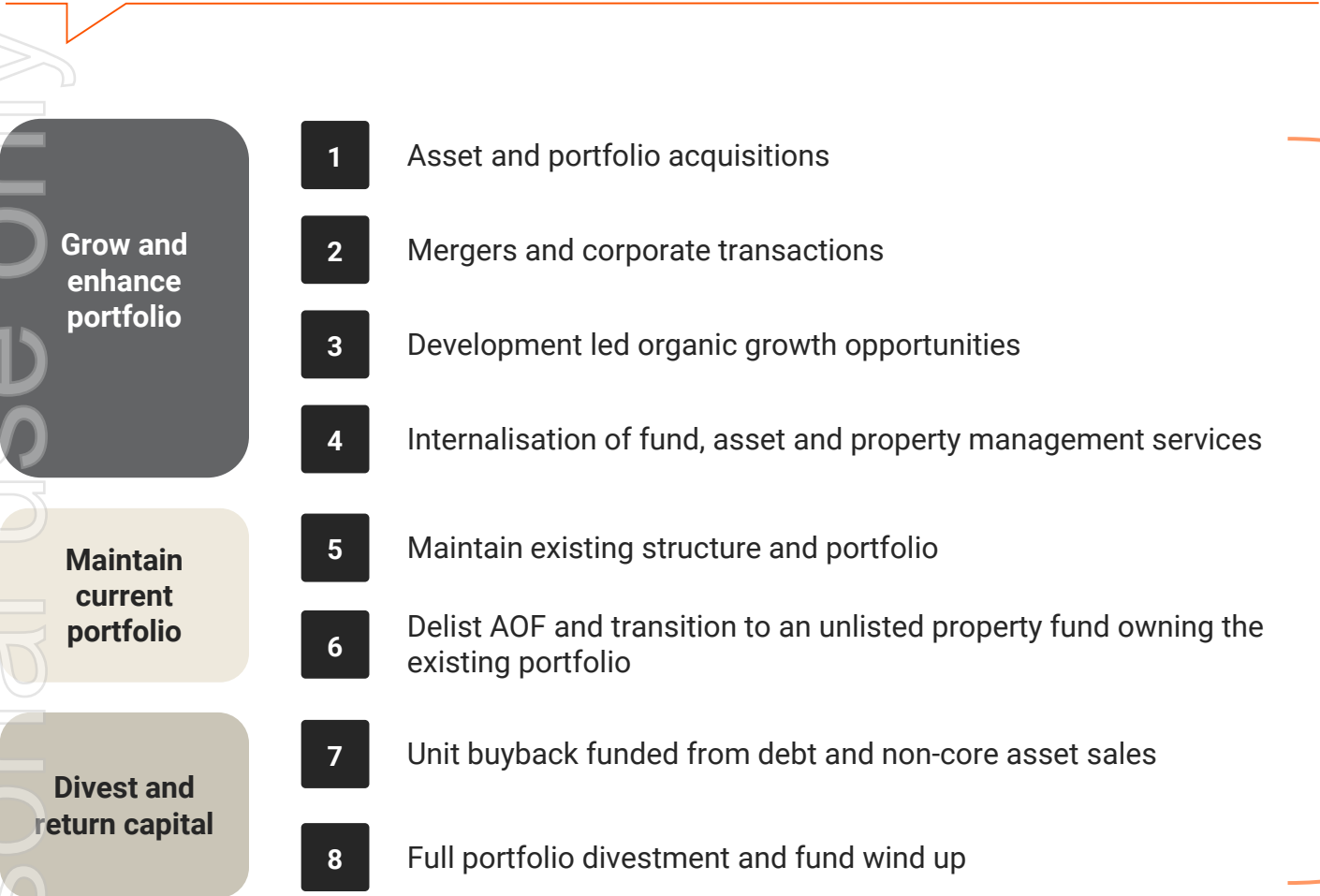
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All information in the presentation is current as at 31 December 2020 unless otherwise stated. All figures and amounts are in Australian dollars unless otherwise stated. Roundings of any figures may result in some discrepancies between the sum of components and the totals outlined within this document including any tables and percentage calculations.

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STRATEGIC ASSESSMENT OVERVIEW

AOF identified three broad categories through which to assess a range of scenarios



AOF put in place a comprehensive framework to assess the scenarios while giving consideration to the current situation

- Engagement with many of AOF’s investors, including institutional, high net worth and retail
- An assessment of the strengths, weaknesses, opportunities and threats for AOF
- Consideration of the future of office
- Evaluation of AOF’s portfolio construction, including a detailed assessment of AOF’s properties, tenants and future cash flows
- An analysis of AOF’s position within the listed Real Estate Investment Trust universe
- A review of the composition of AOF’s unitholder register

STRATEGIC ASSESSMENT FRAMEWORK

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AOF identified a series of strategic priorities:

- Maintaining sustainable income distributions while maximising returns for unitholders
- Continuing to focus on key asset attributes of affordability, accessibility and amenity
- Retaining an office focus complemented by a diversified asset ownership mandate
- Implementing value add initiatives, including developments and asset repositioning strategies
- Targeting a growth strategy to diversify sources of income in support of the other strategic priorities
- Enhancing trading liquidity; targeting index inclusion
- Further leveraging the capabilities and investment opportunities provided by the Australian Unity Group



468 St Kilda Road, Melbourne

STRATEGIC ASSESSMENT OUTCOMES

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AOF has identified a refined strategy

- Focus on owning Australian office properties in metropolitan and CBD markets, complemented by a targeted and diversified portfolio of Australian real estate assets
- Deliver investors sustainable and growing income returns via quarterly distributions
- Maximise returns to investors through value-add initiatives including: developments; asset repositioning strategies; and potential future acquisitions
- Target index inclusion
- Maintain a capital structure which has target gearing below 40%

The outcome of the strategic assessment refines the existing strategy, with an expanded asset ownership mandate allowing AOF to own commercial real estate that aligns with the key asset attributes of affordability, accessibility and amenity



32 Phillip St, Parramatta

AOF ASSET MANAGEMENT FOCUS

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AOF remains focused on active asset management to ensure assets continue to meet tenant requirements

30 Pirie Street, Adelaide



Artist impression

- Capital works refurbishment program developed
- Works include base building, on floor amenity upgrades, focus on wellness and sustainability
- AOF has submitted a proposal to Telstra
- 30 June 2021 valuation has allowed for proposed capital expenditure which has resulted in a \$18 million decrease in value

2 – 10 Valentine Avenue, Parramatta



Artist impression

- Development application for combined building submitted during 2H21
- Property NSW continuing to review space requirements
- AOF and Property NSW in active discussions regarding future accommodation requirements
- At 30 June 2021 Property NSW did not exercise the 5-year option

2 Eden Park Drive, Macquarie Park



- Several successful leasing transactions were executed during 2H21, preserving occupancy at 100%
- 30 June 2021 valuation increased by \$8 million reflecting the solid leasing outcomes, recent transactional evidence and the overall strength of Macquarie Park

INTENTION TO INVESTIGATE A MERGER OF AOF AND AUSTRALIAN UNITY DIVERSIFIED PROPERTY FUND (DPF)¹

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The potential merger has financial and strategic merit

- AOF approached DPF with a conditional, unsolicited and non-binding proposal to explore a merger with reference to net tangible assets
- Key benefits identified by AOF include:
 - **Quality combined, diversified portfolio** of 18 assets with a ~\$1.2 billion value across office, convenience retail and industrial sectors. The combined portfolio would have occupancy of ~96% and a weighted average lease expiry of approximately ~4.8 years;
 - **Income focus** with cashflows from a diverse and defensive tenant base and a lease profile that provides income sustainability with potential upside;
 - **Value-add capacity** through the delivery of developments including 2 Valentine Avenue, Parramatta within AOF's portfolio and North Blackburn Shopping Centre, Victoria within DPF's portfolio;
 - **Mandate flexibility** to drive income and value-add opportunities with a focus on key asset attributes of affordability, accessibility and amenity;
 - **Increased scale** with a broader unitholder base presenting the opportunity for index inclusion; and
 - **Managed by Australian Unity** with a mandate enabling investors to benefit from the capabilities, relationships and investment opportunities offered by the broader Australian Unity Group.
- The potential merger is subject to a number of conditions including mutual due diligence, financing requirements and consents, execution of a binding implementation agreement, AOF and DPF board² approvals and unitholder approvals. There can be no certainty that these conditions will be satisfied. AOF and DPF have established protocols, including separate internal deal teams and appointed separate financial and legal advisers, to assist with the assessment of the merger.

1. AOF portfolio data as at 31 December 2020, adjusted for sale of 241 Adelaide Street, Brisbane. DPF information sourced from DPF website with portfolio data as at 31 March 2021, adjusted for the acquisition of Williamtown Aerospace Centre, NSW. The Busselton and Balcatta properties have been consolidated for reporting purposes, refer to appendix.

2. Australian Unity Investment Real Estate Limited (AUIREL) as responsible entity of Australian Unity Office Fund (AOF), and Australian Unity Property Limited (AUPL) as responsible entity of Australian Unity Diversified Property Fund (DPF).

COMBINED PORTFOLIO OVERVIEW

- Opportunity to create a ~\$1.2 billion diversified portfolio¹
 - Increasing diversification and sustainability of income
 - ~70% of the portfolio weighed to office and multi-use (office/industrial) assets
 - ~27% of the portfolio weighted towards convenience and infrastructure retail assets
 - ~3% of the portfolio weighted towards industrial assets
 - ~4.8 years weighted average lease expiry (WALE)
 - Value-add opportunities across multiple assets, including to 2 and 10 Valentine Avenue, Parramatta, North Blackburn Shopping Centre, Victoria, Busselton Central Shopping Centre, Western Australia and 620 Mersey Road, Osborne South Australia

Portfolio metrics ¹	AOF	DPF	Combined
Number of properties	8	10 ²	18
Occupancy	95.3%	97.4%	96.3%
Portfolio value (\$m)	649.6	539.0	1,188.5
Weighted average cap rate	6.0%	5.8%	5.9%
WALE (years)	2.6	7.6	4.8
Capital value / lettable area	6,624	6,260	6,454



Artist impression: North Blackburn Shopping Centre



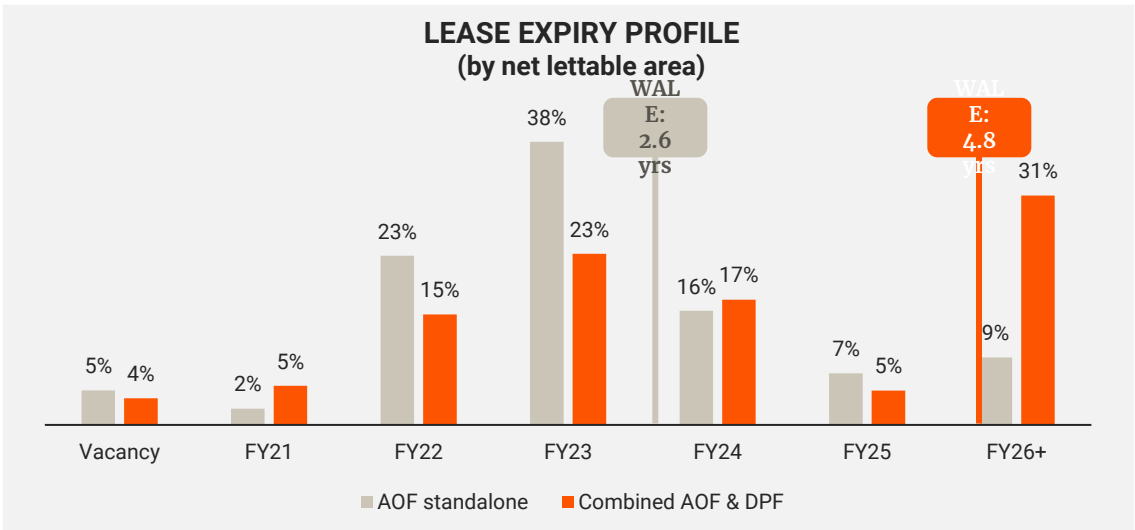
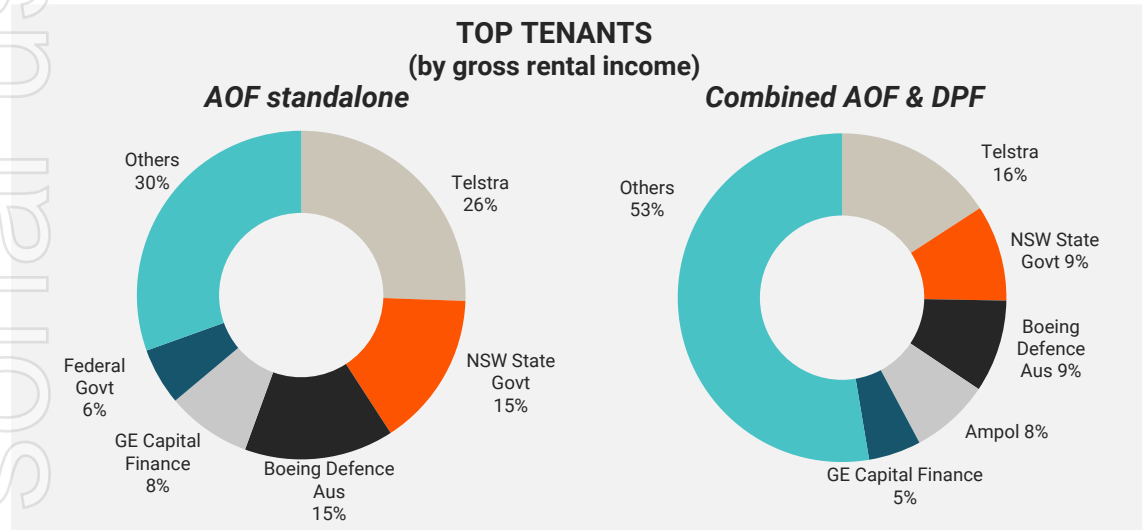
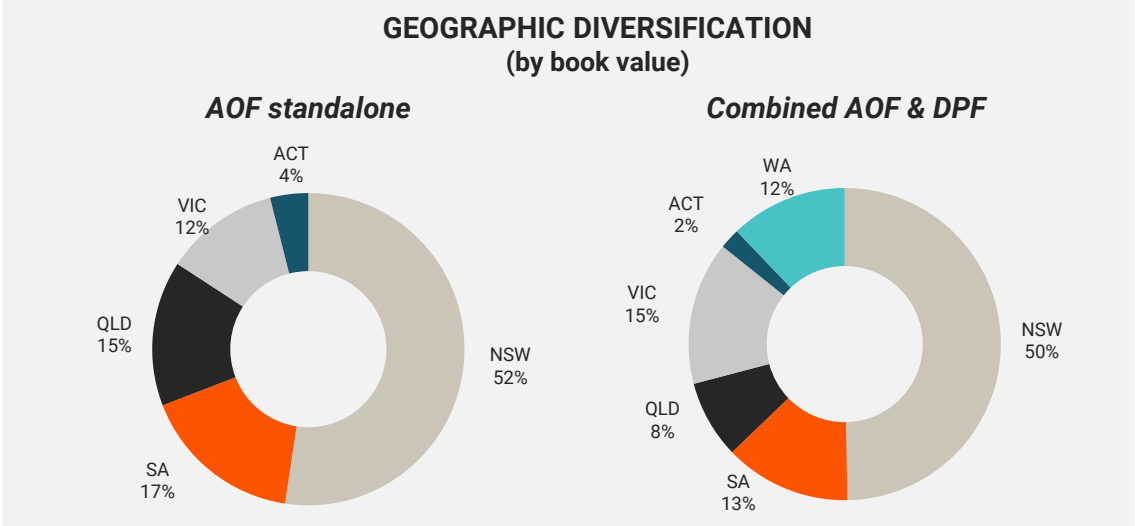
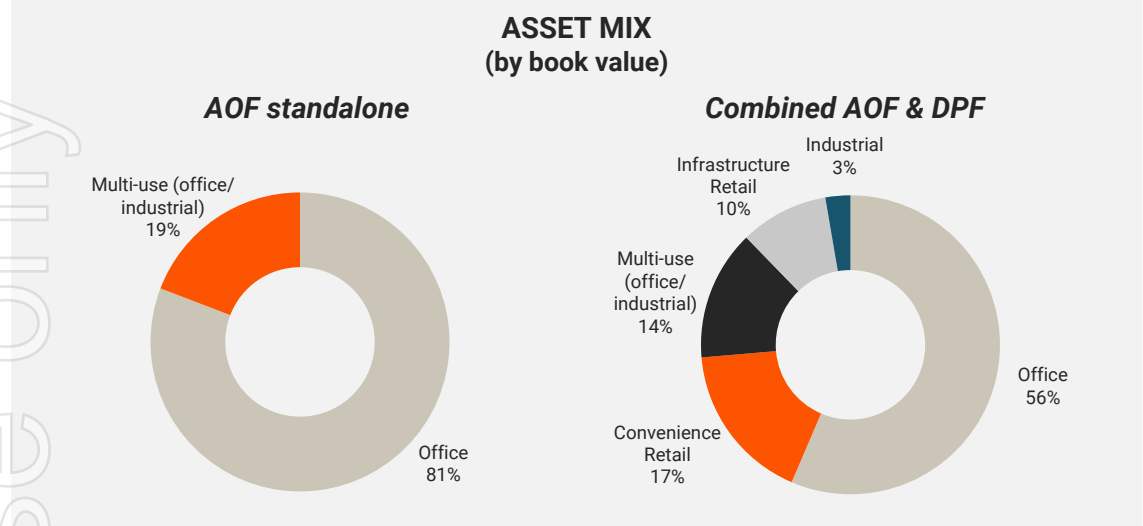
620 Mersey Road, Osborne

1. AOF portfolio data as at 31 December 2020, adjusted for sale of 241 Adelaide Street, Brisbane. DPF information sourced from DPF website with portfolio data as at 31 March 2021, adjusted for acquisition of Williamstown Aerospace Centre, NSW. Totals may not add up due to rounding.

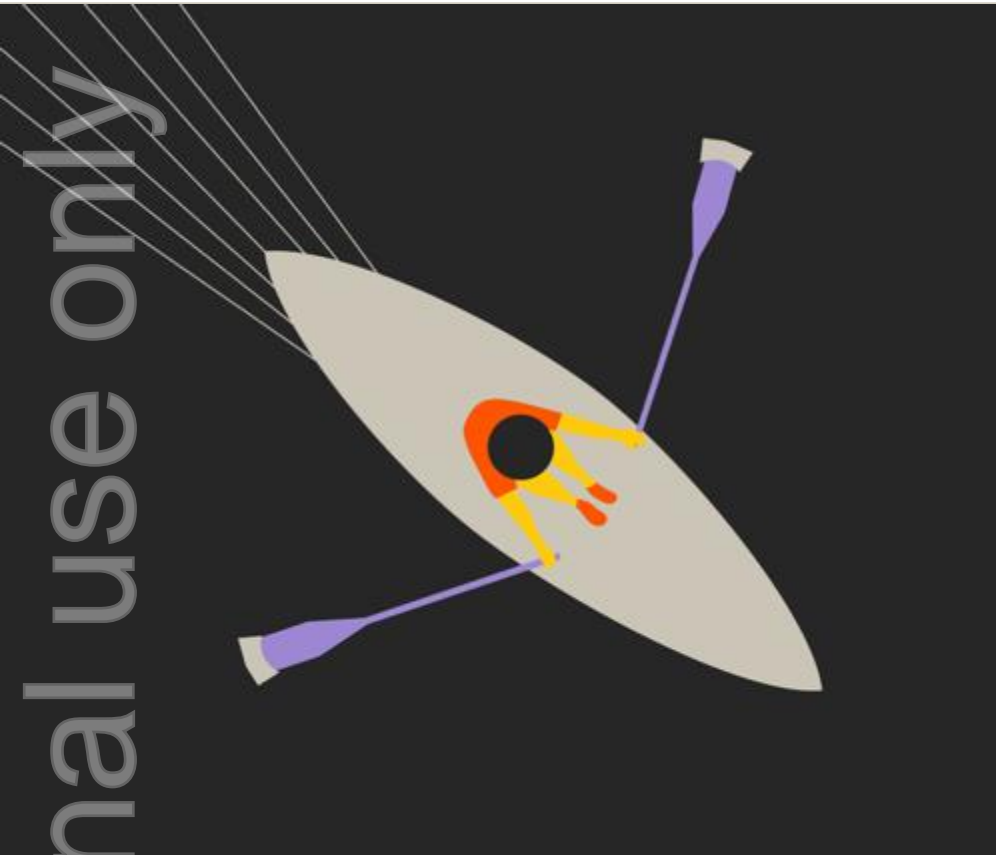
2. Certain properties consolidated for reporting purposes, refer to appendix.

KEY PORTFOLIO METRICS¹

The combined AOF & DPF portfolio is diversified and well leased to high quality tenants



1. AOF portfolio data as at 31 December 2020, adjusted for sale of 241 Adelaide Street, Brisbane. DPF information sourced from DPF website with portfolio data as at 31 March 2021, adjusted for acquisition of Williamtown Aerospace Centre, NSW. Totals may not add up due to rounding.



APPENDIX

COMBINED PROPERTY PORTFOLIO

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An AOF and DPF merger would create a ~\$1.2 billion diversified portfolio¹

Property	Lettable area (sqm)	Occupancy level	WALE (yrs)	Major tenant	Independent value (\$m)	Cap rate	Capital Value / lettable area
Office							
10 Valentine Avenue, Parramatta	16,020	97.3%	1.5	NSW State Government	152.7	5.50%	\$9,528.7
30 Pirie Street, Adelaide	24,665	96.1%	2.2	Telstra	108.0	7.13%	\$4,378.7
150 Charlotte Street, Brisbane	11,081	97.8%	3.1	Boeing Defence Australia	97.0	6.00%	\$8,753.7
20 Smith St, Parramatta	7,421	91.0%	2.1	GHD	83.5	5.50%	\$11,253.2
468 St Kilda Road, Melbourne	11,211	90.6%	2.5	EGA Corporate Advisors	76.5	5.25%	\$6,823.7
32 Phillip Street, Parramatta	6,759	100.0%	2.5	GE Capital Finance	65.5	5.50%	\$9,690.8
Williamtown Aerospace Centre, Williamtown	7,557	100.0%	3.6	Boeing, Raytheon, Lockheed Martin	54.9	6.10%	\$7,675.1
64 Northbourne Avenue, Canberra	6,429	77.3%	3.1	Commonwealth of Australia	25.4	7.25%	\$3,950.8
Multi-use (office/industrial)							
5 Eden Park Drive, Macquarie Park	11,556	96.3%	4.5	Aegros	70.0	5.75%	\$6,057.5
2 Eden Park Drive, Macquarie Park	10,345	100.0%	2.9	NuSkin Australia	54.5	6.00%	\$5,268.2
620 Mersey Road, Osborne	8,006	100.0%	9.3	Australian Naval Infrastructure	48.3	5.00%	\$6,155.4

DPF assets AOF assets

1. AOF portfolio data as at 31 December 2020, adjusted for sale of 241 Adelaide Street, Brisbane. DPF information sourced from DPF website with portfolio data as at 31 March 2021, adjusted for acquisition of Williamtown Aerospace Centre, NSW. Geddes St Balcatta, consolidated for reporting purposes with Kenhelm St and Busselton Central SC, consolidated for reporting purposes with adjoining 21 Prince St and vacant Lots 121, 122 and 309.


COMBINED PROPERTY PORTFOLIO

180
YEARS



An AOF and DPF merger would create a ~\$1.2 billion diversified portfolio¹

Property	Lettable area (sqm)	Occupancy level	WALE (yrs)	Major tenant	Independent value (\$m)	Cap rate	Capital Value / lettable area
Industrial							
19 Corporate Avenue, Rowville	12,398	100.0%	7.3	Regal Beloit Australia	18.0	5.50%	\$1,451.8
6-8 Geddes Street, Balcatta	14,786	100.0%	2.6	Metcash	13.9	6.25%	\$937.4
Convenience retail							
North Blackburn Square Shopping Centre, North Blackburn ²	8,048	96.9%	3.6	Woolworths	61.0	6.00%	\$8,869.3
Dog Swamp Shopping Centre, Yokine	8,156	96.9%	8.0	Woolworths	51.8	6.00%	\$6,357.3
Busselton Central Shopping Centre, Busselton	9,062	90.8%	6.7	Coles	46.6	6.25%	\$5,137.9
Woodvale Boulevard Shopping Centre, Woodvale	6,378	96.0%	4.3	Woolworths	33.5	6.50%	\$5,254.0
Infrastructure retail							
Wyong Services Centres, Wyong ³	4,286	100.0%	17.3	Caltex-Ampol	113.0	5.75%	\$26,367.2
Total (T) / Weighted average (W)	(T) 184,164	(W) 96.3%	(W) 4.8		(T) 1,173.9	(W) 5.90%	(T) \$6,453.5

 DPF assets  AOF assets

1. AOF portfolio data as at 31 December 2020, adjusted for sale of 241 Adelaide Street, Brisbane. DPF information sourced from DPF website with portfolio data as at 31 March 2021, adjusted for acquisition of Williamtown Aerospace Centre, NSW. Geddes St Balcatta, consolidated for reporting purposes with Kenhelm St and Busselton Central SC, consolidated for reporting purposes with adjoining 21 Prince St and vacant Lots 121, 122 and 309.
2. The North Blackburn shopping centre is under redevelopment.
3. Wyong Service Centres re-valued to \$130 million at 27 May 2021.

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