Property Income Fund

Fund Update
31 December 2024

For more than 20 years, the Australian Unity Property Income Fund (Fund) has blended direct properties and unlisted property trusts with listed A-REITs and cash to provide investors with relatively consistent income distributions and the potential for capital growth over the medium to long term.

Edith Cavell Building, Herston, QLD

Fund Facts as at 31 December 2024

December Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU September 2024 quarter)	**$0.8708** exit price (cum distribution)	**$246.73 m** ($263.76m at 30 September 2024)

Gearing Ratio	Liquidity
The Fund has no direct borrowings	**The Fund offers daily liquidity. ~**

Ratings / Awards

Recommended
Lonsec Research

Zenith
RECOMMENDED

Performance as at 31 December 2024

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	1.35	5.52	5.38	5.88	7.55	7.34	7.81
Growth return	(4.45)	(3.86)	(4.31)	(2.46)	(1.83)	(0.14)	(0.53)
Total return	(3.10)	1.66	1.07	3.42	5.72	7.20	7.28
Benchmark return	(1.83)	2.68	0.48	3.25	4.78	6.75	7.72

Inception date for performance calculations is 31 May 1999.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The benchmark return is a composite index currently comprising: 60% MSCI/Mercer Australian Core Wholesale Property Fund Index, 35% S&P/ASX 200 A-REIT Accumulation Index, 5% Bloomberg AusBond Bank Bill Index.

Key Portfolio statistics as at 31 December 2024

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	92.85	37.63
Direct Property	76.92	31.18
Unlisted Property	52.75	21.38
Cash and other	24.21	9.81
Total	246.73	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	76.74
Australian Unity Office Fund	4.16
Carindale Property Trust	2.38
HealthCo Healthcare & Wellness REIT	2.31
BWP Trust	2.31
GDI Property Group	1.76
Elanor Commercial Property Fund	1.74
RAM Essential Services Property Fund	1.45
Total	92.85

Unlisted property portfolio

Holding	$m
AU Student Accommodation	14.10
Planum Footscray	11.04
AU Specialist Disability Accommodation	9.25
AU Childcare Property Fund	5.24
Waverley Gardens	3.52
Warrawong Plaza	3.49
Eildon Caboolture	3.09
ASA Diversified Property Fund	2.57
AU Healthcare Property Trust	0.44
Total	52.75

Financials

	$m
Gross assets	246.73
Total debt	0.00
Other liabilities^	2.81
Net assets	243.92

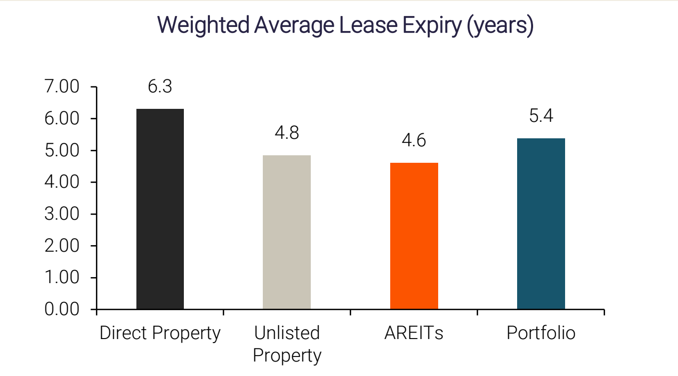
^ Other liabilities include a provision for the distribution.

Debt

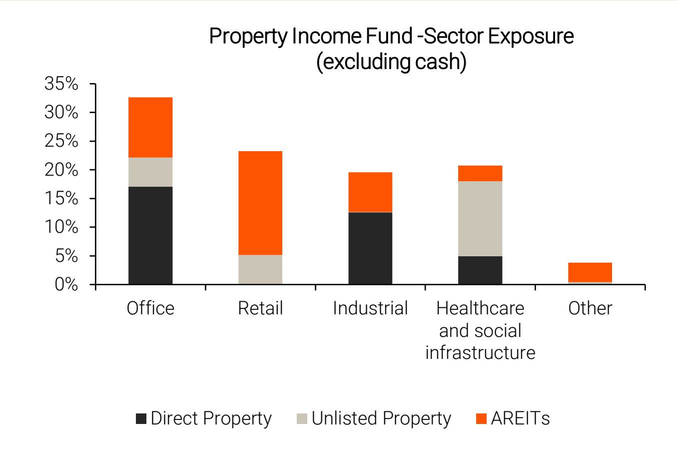
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.~



Note: excludes assets under development.



Note: "Other" includes residential developers, self-storage and other listed investments. Sector weights are on an equity accounting basis.

Market commentary

Global politics stole the headlines in the final quarter of 2024 as November saw Donald Trump sweep to victory in the US Presidential election and return to the White House for a second term. Trump will commence his Presidency in January 2025 and while the geopolitical and macro-economic impacts of his charge remain to be seen, a campaign ran on trade tariffs and business friendly tax settings have the potential for inflationary growth impacts at a time when most global economies are trying to moderate such levels. This has seen bond yields increase in the US as on the pace of further interest rate cuts by the US Federal Reserve subsides, which together with robust economic growth has seen the US dollar strengthen considerably. Despite this, equity markets responded favourably to the change in government, with the S&P 500 and ASX 200 both delivering healthy gains over November.

More locally, the conclusion to 2024 saw the Australian economy continue to stutter along, achieving GDP growth of 0.3% for the September 2024 quarter and 0.8% over the year, down slightly from the 12 months to June 2024. With slow growth in the private sector, the Australian economy continues to be heavily supported by the public sector with Government spending and investment comprising 28% of GDP in the September quarter. On a positive note, consumer sentiment (Westpac Consumer Sentiment Survey) improved over the second half of 2024 while household saving levels also increased in 3Q2024 as tax cuts and ongoing strength in the employment market assist consumers. There is thus the possibility that spending levels may improve in 2025, assisting the broader economy, as households balance sheets improve, and cost of living pressures subside.

In its final meeting of 2024, the RBA continued to leave the cash rate at 4.35%, a level at which it has remained unchanged since November 2023. While a much-anticipated interest rate cut is yet to materialise, in its December decision the RBA noted the upside risk to inflation appears to have diminished and should economic data continue to fall in line with expectations with inflation declining sustainably towards target, then it would appropriate to commence cutting rates. Recently released Australian inflation figures showed that underlying inflation fell from 3.5% in October to 3.2% in November 2024 and continues to close in on the RBA's target inflation band of 2%-3%. While conjecture remains as to when cutting action may be taken, such cooling in inflation has given hope to potential rate cuts coming sooner rather than later in 2025.

Australia's office property markets continue to manage through much-publicised post pandemic challenges with the major CBD markets of Sydney, Brisbane and Perth all reporting positive net absorption i.e., where take up of office accommodation is higher than office space becoming vacant) over 2024. Melbourne continues to lag the other office markets with tenants benefiting from high vacancy rates and elevated lease incentive levels. Differences remain between office markets albeit positive signs are starting to emerge for the sector. Return to office levels are increasing as both governments and private groups take a more resolute approach to attendance mandates while pleasingly research from CBRE shows that the major contractionary activity of the last couple of years appears to be dissipating. Flight to quality remains a key driver for tenant demand with prime grade assets the typical beneficiaries of this, particularly in core locations, however a flight to value has also emerged with well located, affordable space with surrounding amenity also preferred. With more growth supportive interest rate levels forecast to arrive in the near term and the financial viability challenges of new developments likely to contain supply levels in the near term the road for recovery in the office sector is now more visible than it has been in recent times.

Despite a slowdown in tenant activity driven by macroeconomic headwinds, in 2024 the Industrial property sector remained resolute, with yield levels stabilising and rental growth, while moderating, providing support for capital values. Data from CBRE research demonstrates gross industrial leasing take up for CY2024 totaling c.2.5 million sqm, below the longer 10 year long run average of c.3 million sqm with all cities, other than Perth, recording lower take up levels than 2023 as occupier demand normalised. Against a backdrop of new supply to the market in 2024 being c.27% above the long run average (CBRE), vacancy rates have trended upwards from 2023 lows, however most submarkets across Australia continue to reflect vacancy levels well below both long term and global peer averages with Australia's national industrial vacancy level sitting at 2.5% as at Dec 2024 (CBRE). Investor interest in the sector is still strong.

Against a backdrop of cost-of-living challenges, retail sales continue to prove resilient with retail sales rising 0.8% in the month of November, reflecting a yearly increase of 3.0%. While several non-discretionary retail sectors benefitted from the increasing relevance of Black Friday sales campaigns to Australian consumers, robust rises were seen across all retail subsectors. Within retail property markets, almost all property subsectors saw positive rental growth over the December 2024 quarter with regional centres (large malls) up 0.4%, sub-regional 0.5%, neighbourhood centres 0.2% and large format retail (LFR) assets reflecting quarterly growth of 0.5% (JLL). Major large malls continue to see low vacancy levels, with moderate occupancy costs (rent as a proportion of store turnover) providing support to tenants and the potential for future rental growth for landlords. Investor interest in the sector remains strong with income growth and limited supply supporting the potential for attractive risk adjusted returns demonstrated by 2024 reflecting the second highest year on record for retail investment transaction volumes in Australia (CBRE).

For Australia's commercial property markets, 2024 proved to be somewhat of a challenging year as repeated false dawns for interest rate cuts did little to assist as asset values continued to come under pressure from softening capitalisation rates. Volatility within interest markets continued to impact debt pricing, however adjustments in vendor pricing expectations saw transactional activity pick up in the second half of the year, with several large transactions occurring across all the major real estate sub-sectors. Looking forward to 2025, several living and healthcare sectors will continue to be supported by housing shortages and population growth while the retail sector should be assisted by an improved cost of living environment for consumers as inflation subsides and the much-anticipated cash rate cuts materialise. The Industrial market continues to be supported by tight vacancy levels nationally, and despite being much maligned, the office sector is experiencing some investor interest albeit more asset and geographic specific than other sectors. Emerging optimism regarding a transition to a less restrictive macro-economic environment together with ongoing population growth could support commercial real estate sectors more broadly in 2025, while the recent decline in the strength of the Australian Dollar will continue to make high quality real estate assets attractive to overseas based investors.

For the quarter ending 31 December 2024, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned negative 6.0% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned negative 0.8%.

This market weakness was widespread, impacting all A-REIT subsectors with no S&P/ASX 200 Accumulation Index included stock providing positive returns for the period. Outperforming stocks (vs the index) included industrial focused Goodman Group (GMG), retail landlords Vicinity Centre (VCX) and Scentre Group (SCG) as well as Childcare focused Arena (ARF). The index stock laggards for the December 2024 quarter were diversified groups Centuria Capital (CNI) and Mirvac Group (MGR) which returned negative 12.6% and negative 10.7% respectively, while industrial focused Centuria Industrial REIT (CIP) returned negative 10.6% and convenience retail landlord Waypoint REIT returned negative 10.2%.

Despite this soft end to the year, over the 12 months to 31 December 2024, A-REITs have significantly outperformed the broader equities market with a positive 18.5% return compared to the S&P/ASX 200 Accumulation Index market return of positive 11.4%. Within the index the strongest performing stock was Goodman Group (GMG) which now accounts for a 43% weight within the overall index (however, at the time of writing, GMG has been negatively impacted in January by recent market movements related to Artificial Intelligence trends and their potential impact to data centres, which GMG is heavily invested in). Several other index stocks including Charter Hall Group (CHC), Scentre Group (SCG) and Stockland (SGP) all provided double digit returns over 2024. Across A-REIT sub-sectors, 2024 saw Goodman Group benefit from investor appetite to gain data centre exposure while the industrial market more broadly cooled (see Centuria Industrial REIT). Retail stocks proved resilient despite cost-of-living pressures on consumers, while office concentrated stocks such as Mirvac, Dexus and GPT lagged as persistently high interest rates and ongoing volatility weighed on the A-REIT market more broadly.

Fund performance

The Property Income Fund (the Fund) provided a total return of negative 3.10% (after fees) for the December 2024 quarter. Performance was predominantly impacted by negative returns from the Fund's listed A-REIT exposures over the period however this was partially offset by positive returns from several of the Fund's unlisted social infrastructure focused investments.

Over the last 12 months, the Fund has provided investors with a total return of positive 1.66% (after fees). In comparison, the 15 individual wholesale direct property funds that comprise the MSCI/Mercer Australia Core Wholesale Property Fund Index have provided an average total return of negative 6.4% over the 12 months to December 2024. The enhanced investor returns provided by the Property Income Fund (PIF) in comparison to those delivered by unlisted property funds as measured by the MSCI/Mercer Property Index, highlights the asset composition differences and diversification attributes of the Fund. Furthermore, the deliberate lack of any directly held borrowings (i.e. gearing) further limits the impact of any negative direct property value movements experienced by Fund.

Portfolio activity for this quarter

Property Valuations

Four of the Fund's directly held property assets were independently valued as at 31 December 2024, with an aggregate net decrease of $1.71 million or 2.4% from the properties' book value immediately prior to valuation recorded.

1. **223-227 Governor Road, Braeside VIC** – The updated December 2024 valuation was unchanged from both the book value immediately prior to valuation and as well as the prior independent valuation. Despite a softening in the adopted capitalisation rate from 5.25% to 5.375%, an increase in the adopted market rent resulted in the valuation remaining at $28.0m.
2. **70 Light Square, Adelaide SA** – Independently valued at $16.0m, the property's value decreased by $1.53 million or 8.7% from the book value prior to valuation. The decrease to book value follows asset enhancement costs incurred at the property together with an increase in impending tenant expiries now being reflected within the valuation. The adopted capitalisation rate remains unchanged from that of the prior valuation at 6.50%.
3. **296 Vincent Street, Port Adelaide SA** – The property's value increased by $0.30 million or 2.0% from the book value prior to valuation to reflect a current valuation of $14.90 million. The valuation increase was driven by an increase in the assessed market rental level for the property while the adopted capitalisation rate remains unchanged from that of the prior valuation at 6.50%.
4. **Edith Cavell Building, Herston QLD** – The independent valuation of $11.0 million resulted in a decline of $0.50 million or 4.3% from the book valuation prior to valuation. Reflecting ongoing softness in the broader office investment market, this valuation reduction has been driven by a 50bps softening in the adopted capitalisation rate, which now reflects 7.00%.

Asset Enhancement Works

70 Light Square, Adelaide SA

Asset enhancement works are nearing completion at the property known as 70 Light Square, Adelaide. External works to improve accessibility and bathroom facilities for people with special needs have been completed. In addition, 4 new turnkey office suites have also now been finalised on Level 1 of the property, providing individual suites ranging in size from c.96sqm to c.200sqm.

We are pleased to report that the largest of these suites (c.200sqm) has been leased to incumbent tenant Sedgwick Australia who have relocated from within the building. Insurance claims manager Sedgwick, a long-term occupier of the property, have entered a new 5-year lease commencing in November 2024. Following their relocation, works are now underway to complete a similar, single, turnkey office offering of the former Sedgwick space on Level 2 of the property which is anticipated to be completed by end of Q1 2025. The recent lease deal with Sedgwick is a strong endorsement for the attractiveness of the asset and emphasises the desirability of turkey office suites for the smaller tenant cohort. An active marketing campaign is now underway to lease up the remaining suites within the building.

Outlook

Through its well diversified, actively managed portfolio, we believe the Property Income Fund (the Fund) is well positioned to provide regular income to investors, as the market transitions through the current macro-economic environment.

The Fund continues to display its resilience due to its overall diversification across various property and tenant types. The Fund has liquid assets in excess of its minimum thresholds and does not have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered.

The Fund's property sector weightings are skewed to industrial, retail, healthcare and social infrastructure property, with revenue exposed to mix of listed and other corporates, while the Fund's office exposure is weighted towards a mix of metropolitan office properties and repriced listed office property stocks.

223-227 Governor Road, Braeside, VIC

296 St. Vincent Street, Port Adelaide, SA

Asset Enhancement Works - 70 Light Square, Adelaide, SA

Key direct property statistics as at 31 December 2024

Geographical allocation (by value)

State	No. assets	%
SA	2	40.17
VIC	1	36.40
QLD	1	14.30
NSW	1	9.13
Total	5	100.00

Sector allocation (by value)

Sector	No. assets	%
Office	3	49.30
Industrial	1	36.40
Healthcare and social infrastructure	1	14.30
Total	5	100.00

Property data

Number of properties	5
Total number of tenants	12
WALE (by income)#	6.3 yrs
Occupancy rate (by income)	89.00%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	27.58
Flinders Ports	17.39
The University of Queensland	9.49
Logic Plus	9.23
Australian Unity	5.53
Total	69.22

Valuations

Valuations during the quarter	4
Change in total direct property book value	-0.52%
Change in book value of the properties revalued	0.36%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

Direct Property Assets as at 31 December 2024

Property Details			Tenancy Details				Valuation Details			
Address	Note	Lettable Area (sqm)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)	Current Valuation ($m)	Valuation Date	Capitalisation Rate (%)	Book Value ($m)
Office										
70 Light Square, Adelaide, SA	-	3,172	Logic Plus	6	75.1	1.5	16.00	Dec-24	6.50	16.00
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	3.3	14.90	Dec-24	6.50	14.90
134 King Street, Newcastle, NSW	5	1,880	N/A	0	-	-	7.00	Jun-24	N/A	7.02
Sub total				9			37.90			**37.92**
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	16.7	28.00	Dec-24	5.38	28.00
Sub total				1			28.00			**28.00**
Healthcare and social infrastructure										
Edith Cavell Building	-	1,573	The University of Queensland	2	80.5	2.6	11.00	Dec-24	7.00	11.00
Sub total				2			11.00			**11.00**
Total (T) / Weighted Average (A)				**12 (T)**	**89.0 (A)**	**6.3 (A)**	**76.9 (T)**		**6.13 (A)**	**76.92 (T)**

Notes

1 Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We also have a policy of generally obtaining independent valuations on Fund direct properties each year and, for assets under development, within an 18-month period. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.

2 Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.

3 A market capitalisation rate is the rate, expressed as a percentage, that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the stabilised net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.

4 Total number of tenants represents unique tenants. The sum of all individual property tenant numbers may differ to the total, as some tenants have multiple properties, and these are not double counted in the total.

5 Property held for redevelopment.

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