Property Income Fund

Fund Update
30 September 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.

223-227 Governor Road, Braeside, VIC

Fund Facts as at 30 September 2024

September Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU June 2024 quarter)	**$0.9112** exit price (cum distribution)	**$263.76 m** ($259.28m at 30 June 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 30 September 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	1.45	5.98	5.43	5.93	7.60	7.44	7.83
Growth return	3.37	3.92	(2.48)	(1.73)	(1.26)	0.70	(0.35)
Total return	4.82	9.90	2.95	4.20	6.34	8.14	7.48
Benchmark return	8.87	13.30	4.52	4.62	6.38	7.94	8.05

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 30 September 2024

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	108.44	41.12
Direct Property	77.33	29.32
Unlisted Property	53.36	20.23
Cash and other	24.62	9.34
Total	263.76	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	90.66
Australian Unity Office Fund	4.63
HealthCo Healthcare & Wellness REIT	2.64
BWP Trust	2.64
Carindale Property Trust	2.29
GDI Property Group	2.08
Elanor Commercial Property Fund	1.78
RAM Essential Services Property Fund	1.72
Total	108.44

Unlisted property portfolio

Holding	$m
AU Student Accommodation	14.08
Planum Footscray	11.69
AU Specialist Disability Accommodation	9.07
AU Childcare Property Fund	5.08
Waverley Gardens	3.56
Warrawong Plaza	3.49
Eildon Caboolture	3.13
ASA Diversified Property Fund	2.59
AU Healthcare Property Trust	0.68
Total	53.36

Financials

	$m
Gross assets	263.76
Total debt	0.00
Other liabilities^	2.97
Net assets	260.79

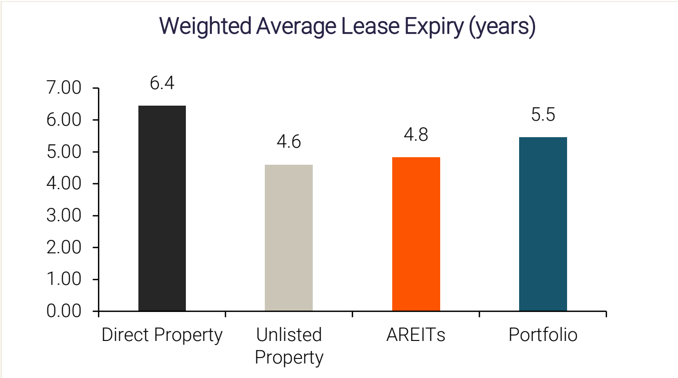
^ Other liabilities include a provision for the distribution.

Debt

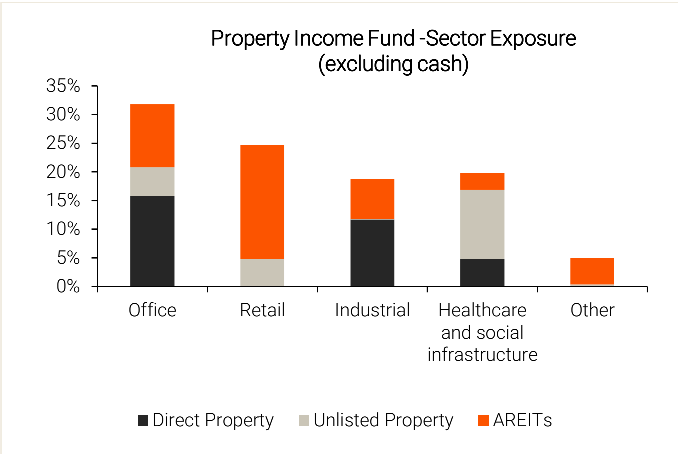
The Fund has no direct borrowings.

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

September 2024 saw the interest rate cutting starter gun well and truly fired for most of the major world economies as the US and UK joined proceedings while China embarked on further fiscal stimulus. Equity markets reacted favourably to the move by the US Federal Reserve with several major stock market indexes reaching record levels including the ASX 200, the US S&P 500, the Dow Jones Index and the European Stoxx 600. Whether this bull run can be sustained against a backdrop of escalating conflict in the Middle East and patchy economic data remains to be seen, however the potential for achieving a soft economic landing appears to be strengthening which should continue to provide support for market participants in the short term. Australia is also likely to be a beneficiary from recently announced economic stimulus measures in China, which should aid export demand and commodity prices.

Supported by public sector spending, the Australian economy continues to grow with gross domestic product (GDP) increasing 0.2% in the June 2024 quarter, reflecting annual growth of 1.5% for the 2023-2024 financial year (ABS). Such growth remains below historic levels, but pleasingly the June 2024 quarter reflected the 11th straight quarter of growth in Australia during what has been a challenging economic period.

Despite the actions by many of its international peers, at its September 2024 meeting the RBA again left the cash rate unchanged at 4.35% as a resilient labour market and ongoing elevated inflation continue to support its higher-for-longer interest rate stance. Further support for this view was provided by the stronger than expected retail sales data released in October 2024, demonstrating that while cost of living pressures clearly remain, consumer spending remains ongoing, supported by strength in the underlying jobs market and the positive impact of recent tax cuts. Although inflation continues to subside, such spending resilience may draw out the decline desired by the RBA to support future rate cuts. Economist consensus now expects a first interest rate cut by the RBA to occur in the first quarter of 2025.

Research data from Jones Lang LaSalle (JLL) noted positive office property market net absorption (i.e., where take up of office accommodation is higher than office space becoming vacant) in four of the six major CBD office markets with centralisation to CBD markets and increased activity from larger tenants in some markets appearing. Pleasingly the national CBD vacancy rate declined over the quarter to 15.1%, however a notable distortion between CBD markets remains. Challenging conditions continue in the Melbourne CBD which has the highest vacancy level at 19.8%, up from 19.6% last quarter and from 16.2% a year earlier. Canberra remains the strongest market with an office vacancy rate of 8.2%, but the biggest improvement in occupancy was noted in the country's largest market, Sydney CBD, which saw vacancy decrease from 15.6% last quarter to 14.7%. While the ongoing debate regarding the future for office-based work continues, the increasing desire from major employers requiring staff to spend more time in centralised office locations is gaining momentum. Over the last quarter, office attendance mandate announcements have been issued by companies such as Tabcorp and Amazon, while the NSW Government is now requiring all staff to attend the office at least 3 days a week. Correlated to this, CBRE recently released research outlining how the trend of floorspace contraction from larger office tenants appears to be decreasing as many occupiers have now appropriately sized their office in response to hybrid working. As a result, ongoing office attendance mandates should assist in supporting office utilisation going forward.

Having benefitted from exceptional performance since the commencement of the pandemic, tenant activity within the industrial property market continues to cool from prior peaks as demand for warehouse space tapers. Despite a rise in Australia's e-commerce penetration rate, it remains below pandemic induced peaks which combined with current cost of living challenges have subdued warehouse space demand from impacted retailers and third party logistic (3PL) tenants. Quarterly national gross take-up in Q3 2024 was marginally above the prior quarter. as the supply response comes though, however is below the corresponding period in 2023. As demand subsides, average prime face rental growth slowed along the eastern seaboard. Incentive levels have trended upwards in most markets placing additional pressure on net effective rent growth, however industrial vacancy remains low nationally and should act to underpin the sector.

As outlined, recent strong retail sales growth figures provide further evidence of the underestimated resilience that has been seen in the retail market, despite continuing cost of living pressures. Gains were seen across all retail tenant categories (except housing goods), as consumers gain more confidence around peak interest rate levels and household incomes benefit from tax cuts and other fiscal support measures. CBRE research data indicates that net retail property sector face rents grew across all sub-sectors in Q3 2024. According to JLL, established Food and Beverage and quick service tenants (eg. KFC, McDonalds etc) were active in leasing space this quarter with several luxury brands also choosing to expand in CBD locations across Australia. Looking forward, supply pipeline in the retail property sector continues to be limited which should assist in supporting rental levels, particularly for premium located and discretionary focussed assets.

Australia's commercial property markets continue to face challenging conditions, embodied by ever changing interest rate cut expectations that have drifted out further and further over the last 9 months. Despite this, there appears to be some cautious optimism emerging that an end of the current cyclical property market downturn is approaching as hopes for the commencement of an interest cutting cycle draw nearer. Exemplifying this, the September 2024 quarter has seen transactional activity (i.e., buying/selling commercial property) momentum continue with JLL reporting that office, retail, and industrial transactions totalled $6.2 billion during the period, a 40% increase compared to the same quarter in 2023. Recent activity has seen a notable uptick in major asset transactions with a part sale of the industrial Logos Australian Logistics Venture for $536m while the start of October 2024 saw QIC announce the sale of the $900m Westpoint regional shopping centre, a new retail real estate transaction record in Australia. These transactions provide some welcome evidence of liquidity for the larger value end of the market, while also highlighting that demand remains for high quality assets within Australia. Investment markets have seen notable interest from overseas investors, with Japanese institutions in particular capitalising on more favourable domestic lending markets to pursue opportunities within Australia.

For the quarter ending 30 September 2024, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned positive 14.5% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 7.8% Over the year to 30 September 2024, A-REITs have significantly outperformed the broader equities market with a positive 47.0% return compared to the S&P/ASX 200 Accumulation Index market return of positive 21.8%, albeit this was somewhat skewed by the strong performance of a number of the A-REIT sectors largest contributors, including Goodman Group (GMG) which has returned 74.2%, Scentre Group (SCG) returning 56.3% and Charter Hall Group (CHC) which returned 74.8% over the last 12 months.

Over the quarter, Fund Managers Charter Hall Group (CHC) and Centuria Group (CNI) were the strongest individual performers within the Index returning 42.8% and 26.7% for the quarter respectively. Elsewhere performance of the A-REIT sector was well spread across the property sectors. Several diversified landlords performed strongly during the quarter including Charter Hall Long WALE REIT (CLW), Stockland (SGP) and GPT Group, all of which returned more than 24.0%. Major retail mall owners Vicinity Group (VCX) and Scentre Group (SCG) returned 22.7% and 22.0% respectively over the period while convenience retail petrol station focused Waypoint (WPR) returned 23.6%. Overall, despite solid performance, the index stock laggards for the period were industrial focused stocks Goodman Group (GMG) and Centuria Industrial REIT (CIP) which returned 6.4% and 7.5% respectively, while residential land lease focused Ingenia Communities Group (INA), returned 6.5%.

Fund performance

The Fund provided a total return of positive 4.82% (after fees) for the September 2024 quarter. Performance was predominantly impacted by strong positive returns from the Fund's listed A-REIT holdings over the period.

Additionally, positive returns from the Fund's investment in the Australian Unity Student Accommodation Fund were also recorded as this single asset holding experienced a valuation uplift of c. 3% in its most recent independent valuation (July 2024).

As of 30 September 2024, the A-REIT sector (A-REIT Index) is trading at a c.3.2% FY25 estimated dividend per share yield and a c.1.1 discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, HMC Capital and Goodman Group from the equation as these have a large portion of non-rental earnings/assets (i.e. development and funds management businesses) and their market pricing can deviate substantially from NTA backing.

Portfolio activity for this quarter

Leasing Activity

296 St Vincent Street, Port Adelaide SA

The Fund is pleased to announce that it has secured a lease renewal with incumbent, long term tenant Community Bridging Services (CBS), for its existing 187sqm tenancy at the property known as 296 St Vincent Street, Port Adelaide, SA. The new lease reflects a 5-year lease term and was secured at a base rental level c.5.6% above the prior passing rent. As a result of this leasing transaction, the assets' weighted average lease term has increased from 3.4 years to 3.5 years (as at 30 September 2024) while maintaining the 100% occupancy of the asset. Operating for over 25 years, Community Bridging Services is a not-for-profit organisation created to support people with disability develop into their area of interest and have been in occupation at 296 St Vincent Street, Port Adelaide since 2013.

Asset Enhancement Works

70 Light Square, Adelaide SA

Asset enhancement works continue to progress at the property known as 70 Light Square, Adelaide. External works have commenced to improve accessibility and bathroom facilities for people with special needs. In addition, external aesthetic design fins to the rear of the asset have been removed, enhancing natural light to tenant accommodation positioned along this aspect.

Internal demolition works have commenced for the turnkey office fit out and tenant re-mixing strategy within the building. In adopting this approach, a total of 4 new office suites will be created on level 1 of the building ranging in size between c.96sqm and c.200sqm. The smaller tenancy cohort remains some of the most active in the office leasing market and in adopting this fitted out suite approach best positions the asset to attract new tenants. The new fitted out office suites are anticipated to be completed progressively from the later parts of 2024 onwards.

Distribution

We are pleased to announce a distribution for the month of September 2024 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 30 September 2024 to 1.25 cpu.

Outlook

Through its well diversified, actively managed portfolio, we believe 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 Property Income 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 re-priced listed office property stocks.

296 St. Vincent Street, Port Adelaide, SA

Asset Enhancement Works - 70 Light Square, Adelaide, SA

AU Student Accommodation Fund - Lady Lamington Building, Herston, QLD

Key direct property statistics as at 30 September 2024

Geographical allocation (by value)

State	No. assets	%
SA	2	39.86
VIC	1	36.21
QLD	1	14.87
NSW	1	9.05
Total	5	100.00

Sector allocation (by value)

Sector	No. assets	%
Office	3	48.92
Industrial	1	36.21
Healthcare and social infrastructure	1	14.87
Total	5	100.00

Property data

Number of properties	5
Total number of tenants	12
WALE (by income)#	6.4 yrs
Occupancy rate (by income)	90.96%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	27.63
Flinders Ports	17.42
The University of Queensland	9.50
Logic Plus	9.02
Australian Unity	5.54
Total	69.11

Valuations

Valuations during the quarter	0
Change in total direct property book value	-1.52%
Change in book value of the properties revalued	0.00%

* 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 30 September 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	-	3,207	Logic Plus	6	81.7	1.3	16.20	Apr-24	6.50	16.31
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	3.5	14.45	Apr-24	6.50	14.51
134 King Street, Newcastle, NSW	5	1,880	N/A	0	-	-	7.00	Jun-24	N/A	7.00
Sub total				9			37.65			**37.82**
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	16.9	28.00	Apr-24	5.25	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	2.8	11.50	Jun-24	6.50	11.50
Sub total				2			11.50			**11.50**
Total (T) / Weighted Average (A)				**12 (T)**	**91.0 (A)**	**6.4 (A)**	**77.2 (T)**		**6.00 (A)**	**77.33 (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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