

Diversified Property Fund

Fund Update
30 June 2021

Established in August 2006, today the Fund holds 11 properties* in New South Wales, Victoria, South Australia and Western Australia. It aims to deliver consistent distributions with the potential for capital growth.

*Consolidated for reporting purposes.



1 and 2 Technology Place, Williamstown, NSW

Fund Facts as at 30 June 2021

Gross Asset Value	Unit Price	June Quarter Ordinary Distribution [~]	June Quarter [~] Special Distribution
\$623.61 m (\$543.09m at 30 March 2021)	\$1.2100 exit price (cum distribution)	1.0500 cents per unit (CPU) (1.5000 CPU March 2021 quarter)	4.4500 cents per unit (CPU)

Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
42.00% (39.02% at 30 March 2021)	96.3% (leased by income)	7.7 years (by base rental income)

[~] distributions are paid monthly

Ratings / Awards



Performance as at 30 June 2021

	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	4.87	10.04	8.69	8.46	8.57	8.58	8.30
Growth return	2.92	9.54	5.59	6.61	6.27	3.94	1.03
Total return	7.79	19.58	14.28	15.07	14.84	12.52	9.33
Benchmark distribution return	0.73	3.04	3.42	3.70	4.06	4.65	5.30
Benchmark total return	3.41	8.32	4.17	7.24	8.38	8.45	7.66

Inception date for performance calculations is 22 August 2006.

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

The Fund's Benchmark distribution return is 1% p.a. above the average Commonwealth Government 10-year bond yield on a rolling basis over the previous five-year period. The Fund's Benchmark total return is the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index.

Contribution summary as at 30 June 2021

The relative contribution of major variables on growth returns over the last quarter and year.

Contributor	3 mths %	1 yr %
Property revaluations	6.88	14.33
Interest Rate Swaps (realised and unrealised marked to market movements)	0.01	0.05
Unrealised gains/losses on investments in listed/unlisted trusts	0.94	1.73
Performance fee	(1.37)	(2.32)
Capital distribution	(3.93)	(4.18)
Other	0.39	(0.07)
Growth return	2.92	9.54

Return calculations are based on actual distributions reinvested, which may vary slightly to the performance table illustrated above. Past performance is not a reliable indicator of future performance. Property revaluations are calculated in accordance with accounting standards and includes capital expenditure, lease incentives and/or commissions (both of which are amortised). Represents the increase/decrease from the property book value immediately prior to valuation. 'Other' may include: retained earnings during the period, swap break costs, estimated gains distributed, realised gains/losses on property, distributions from prior period retained earnings, realised gains/losses from unlisted property trusts and non-material movements.

Key direct property statistics as at 30 June 2021

Geographical allocation (by value)

State	No. assets	%
NSW	4	41.76
WA	4	28.86
VIC	2	19.75
SA	1	9.63
QLD	0	0.00
Total	11**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	4	41.52
Convenience	2	25.43
Industrial	3	16.73
Office	2	16.32
Total	11**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Caltex - Ampol	22.00
Woolworths	11.00
Australian Naval Infrastructure	8.00
Coles	5.00
Regal Beloit Australia	4.00
Total	50.00

Property data

Number of properties	11**
Total number of tenants	130
WALE (by income)#	7.7 yrs
Occupancy rate (by income)	96.3%

** Consolidated for reporting purposes

Excludes tenancies under development at North Blackburn Shopping Centre.

Financials

	\$m
Gross assets	623.61
Total debt	261.89
Other liabilities [^]	24.67
Net assets	337.05

[^] Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	42.00%
Loan-to-Value Ratio (LVR) (Financier's definition)	46.29%
Interest Cover Ratio (ICR) (RG ASIC definition)	4.17 times
Hedging (% of debt hedged)	0.00%

Valuations

Valuations during the quarter	8
Change in total direct property book value*	6.31%
Change in book value of the properties revalued*	7.47%

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

Market commentary

The final quarter of the 2021 financial year ended with a resurgence of COVID-19 cases across Australia, resulting in short lockdowns across much of the country. Compared to other developed countries the vaccine rollout in Australia continues at a sluggish pace, with 5.8% of the population fully vaccinated while a quarter of Australians have received a first dose. In comparison, in the United Kingdom and the United States those who have received a first dose sits much higher at 67% and 55% respectively, with life in those regions seemingly returning to normal.

On the Australian economic front, retail sales growth was up a strong 25.0% for the 12 months to April 2021. In May, the Australian unemployment rate continued its rapid decline to 5.1% whilst job advertisements continue to grow. A pleasing result considering many economists were assuming a fiscal cliff to accompany the end of government support measures. NAB Business Conditions and Consumer Confidence surveys continue to rise indicating a more positive outlook from the business community, although these results may be somewhat tempered once lockdowns are factored into the June release.

The RBA continues to hold the cash rate at 0.10%. The RBA Board stated it does not intend to increase interest rates until inflation is sustainably within its target band of 2-3%, something that cannot be achieved until wages grow materially higher than current levels and the unemployment rate falls further, which the RBA does not expect until 2024 at the earliest. In this environment, conditions are likely to remain favourable for property.

The big discussion point to close out the financial year relates to rising inflation and its impact on the current accommodative stance adopted by central banks globally. Economists views are mixed as to whether a recent rise in inflation is transitory or something more permanent, while 10-year bond yields in Australia and the USA having retraced back to 1.5% after peaking in the February/March period at around 1.8%, noting 10-year bond yields in both markets began the financial year at levels well below 1%.

Preliminary quarterly property data provided by Jones Lang Lasalle, suggests that major office property markets are starting to see some positive embers with four of the six CBD markets monitored expected to record net positive demand for space. Future office developments are reducing in number and scale which should serve to keep the supply/demand dynamic broadly in check. Investment transactional volumes for the June 2021 quarter were largely unchanged although Australian investors acquiring assets soared, with one third of the transaction activity centred in Brisbane. Prime equivalent office yields over the quarter were broadly unchanged although the Melbourne and Perth office property markets experienced property yield compression of 12 basis points.

Demand for industrial property remains strong, with the sector continuing to benefit from the move to online retailing coupled with pandemic induced supply chain recalibration by retailers. Gross take-up of 0.8 million square meters (sqm) of industrial space was recorded in the June 2021 quarter, significantly higher than the 10-year quarter average. Sydney accounted for 46% of the gross take up of industrial accommodation. Currently, 1.0 million sqm of industrial space remains under construction (or approved plans) with around 61% pre-committed with tenants, while 25% of these developments are being fully built speculatively i.e. without any tenants in place. In April, Blackstone's Milestone Logistics portfolio was put to market, transacting at an exceptionally strong ~4.25% yield, setting a new benchmark for industrial assets and providing enough market evidence for

valuers to take a greater positive view on industrial values.

Retail property leasing continued to improve throughout the June 2021 quarter, although there is a clear dispersion between tenant quality and shopping centre type. Mini major retailers and food and beverage retailers continue to take up space whilst mid-market fashion retailers continue to struggle. New developments remain on hold with landlords preferring to focus capital expenditure spend into the refurbishment of existing centres. Notably, retail property transaction volumes were strong over the June 2021 quarter due to improving investor confidence. It is worth highlighting, 60% of transaction volumes were in neighbourhood and sub-regional assets with tenant mix skewed to essential spend retailing.

As the states continue to manage outbreaks more effectively and Australians continue to be vaccinated we anticipate the operating metrics of many landlords to continue to improve.

Portfolio activity for this quarter

Acquisition

The Fund settled the purchase of 1 & 2 Technology Place, Williamstown, Newcastle, also known as Williamstown Aerospace Centre (WAC) on 31 May 2021 for approximately \$55 million.

The property is uniquely situated at the entrance to the Newcastle airport and adjacent to the Williamstown Royal Australian Air Force Base ("RAAF") and comprises a high-quality campus-style commercial office park located incorporating six stand-alone buildings, including light industrial with on-ground and decked car parking. WAC is fully leased to 15 tenants with 50% of the net property income underpinned by global listed companies specialising in the Defence sector, including Boeing, Lockheed Martin and Raytheon.

The site area is 22,298sqm with total building area of 7,565sqm and 479 car parks. WALE at 30 June 2021 was ~3.4 years.

The Defence sector will be a major recipient of Federal Government funding over the next decade with \$575 billion earmarked for this period in the 2020 Defence Strategic Update and 2020 Force Structure Plan including around \$270b in capability investment. In this regard, the acquisition of WAC is highly complementary to the Fund's purchase in November 2020 of 620 Mersey Road Osborne, SA, which is fully let to Australian Naval Infrastructure.

Distribution

The Fund paid ordinary distributions of 1.05 cents per unit in respect of the quarter ending 30 June 2021 along with a 4.45 cents per unit special distribution paid in July following the sale of 278 Orchards Road, Richlands QLD. This saw the fund deliver total distributions to unitholders of 10.00 cents per unit for the 2021 financial year.

Valuations

Eight of the Fund's properties were independently valued during the June 2021 quarter. Overall value increased by \$22.15 million or 5.42% from the property's book value immediately prior to valuation. The changes include:

- **Caltex/Ampol Twin Service Centres Wyong, NSW** – The value of the property increased by \$16.96 million or 15.01% from the property's book value prior to valuation. This uplift is due to a firming of the capitalisation rate to 5.00% from 5.75% reflective of the buoyant transactional market for well-located assets with strong covenants and long lease terms.

- **20 Smith St Parramatta, NSW** – The independent value has remained steady in line with the property's book value prior to valuation.
- **19 Corporate Avenue Rowville, VIC** – The value of the property increased by \$3.90 million or 21.56% from the property's book value prior to valuation. The increase is primarily due to a firming of the capitalisation rate from 5.50% to 4.75% as a result of a new seven-year lease to Regal Beloit and a strong transactional market.
- **6-8 Geddes St Balcatta, WA** – The value of the property increased by \$0.40 million or 2.52% from the property's book value prior to valuation. This uplift is due to a firming of the capitalisation rate from 6.25% to 6.00% owing to the strong transactional market for industrial assets.
- **5 Kenhelm St Balcatta, WA** – The independent value has remained steady in line with the property's book value prior to valuation.
- **620 Mersey Road Osborne, SA** – The independent value has remained steady in line with the property's book value prior to valuation.
- **Dog Swamp Shopping Centre, WA** – The value of the property decreased by \$0.74 million, or 1.38%, from the property's book value prior to valuation. The decrease is primarily due to capital costs incurred with new leasing and site preservation costs with the capitalisation rate remaining steady.
- **North Blackburn Shopping Centre, VIC** – The value of the property increased by \$1.72 million, or 2.22%, from the property's previous book value prior to valuation. The increase is due to Stage 1 development leasing outcomes being better than anticipated, with the valuation adopted on an "as if complete" basis for Stage 1, and crystallising development costs for specialty leasing completed and trading.

AOF merger proposal

Australian Unity Property Limited (AUPL) as responsible entity of DPF has separately received an unsolicited, non-binding, indicative merger proposal from the responsible entity of AOF to merge AOF and DPF (Merger Proposal). The Merger Proposal contemplates a merger ratio with reference to the respective net tangible assets (NTA) of the two funds.

The Merger Proposal 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 as well as unitholder approval. There can be no certainty that these conditions will be satisfied, or that a transaction will eventuate.

AUPL has commenced an assessment of the Merger Proposal, including ensuring related party protocols are maintained, appointing its own financial and legal advisers to assist with the assessment of the Merger Proposal, and will keep unitholders updated as the assessment progresses.

A copy of the AOF announcement can be found on the AOF website (News and Announcements - <http://www.australianunityofficefund.com.au>)

Developments

North Blackburn Shopping Centre

We anticipate construction completion on the fully leased Stage 1 of the development by the end of September 2021. Eight new specialty stores are now open for trade with the remaining fresh

food specialties open in September and Coles supermarket opening prior to Christmas.

Leasing for Stage 2 of the project, which will further strengthen the Centre's convenience offer is progressing well. A preferred contractor has been selected with construction scheduled to commence in late-2021.

Busselton Central Shopping Centre

Pre-construction work is well advanced on Stage 3 of the Development with a planned commencement in the September quarter of 2021 with strong levels of leasing enquiry for the project. The City of Busselton has commenced staged works to upgrade the adjacent Mitchell Park precinct with the first stage of works due to be completed by August 2021. The works are designed to activate the space and improve the Shopping Centre's connection to the town centre.

Outlook

The Fund is well positioned heading in to the 2022 financial year underpinned by the resilience of a diversified property portfolio with robust tenant covenants across various sectors and geographic locations. Active management in the June 2021 quarter has seen the fund gain further exposure to the burgeoning Australian Defence Sector with the acquisition of the Williamtown Aerospace Centre in NSW. The key near term focus is on successful execution of our Development projects at North Blackburn and Busselton which will enhance the delivery of consistent and sustainable income returns over the medium to longer term.



North Blackburn Shopping Centre, North Blackburn, VIC



Busselton Central Shopping Centre (artists impression of redevelopment), Busselton, WA

Fund portfolio as at 30 June 2021

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)
Convenience										
Wyong Service Centres, Wyong, NSW	4	4,286	Caltex - Ampol	1	100.0	17.0	130.00	May-21	5.00	130.00
Sub total										130.00
Office										
20 Smith Street, Parramatta, NSW	-	7,421	GHD	14	87.3	1.6	83.50	Jun-21	5.38	83.50
1 and 2 Technology Place, Williamtown, NSW	-	7,565	Boeing Defence Australia	15	100.0	3.3	54.89	Apr-21	6.00	58.56
Sub total										142.06
Industrial										
Mersey Road North, Osborne, SA	-	8,006	Australian Naval Infrastructure Pty Ltd	1	100.0	9.0	49.25	Jun-21	5.00	49.25
19 Corporate Avenue, Rowville, VIC	-	12,398	Regal Beloit Australia	1	100.0	7.0	22.00	Jun-21	4.75	22.00
6-8 Geddes Street, Balcatta, WA	5	9,992	IGA Distribution	2	100.0	2.4	14.28	Jun-21	6.00	14.28
Sub total										85.53
Retail										
North Blackburn Square Shopping Centre, North Blackburn, VIC	-	6,439	Woolworths	23	94.3	4.3	79.00	Jun-21	6.00	79.00
Dog Swamp Shopping Centre, WA	-	8,156	Woolworths	31	95.7	8.2	52.80	Jun-21	6.00	52.80
Busselton Central Shopping Centre, WA	6	9,062	Coles	19	94.0	7.0	46.56	Feb-21	6.25	46.96
Woodvale Boulevard Shopping Centre, WA	-	6,378	Woolworths	23	94.9	4.4	33.50	Feb-21	6.50	33.51
Sub total										212.27
Listed property										
Australian Unity Office Fund (AOF)										25.32
Cash and other assets										28.43
Total Cash and other assets										53.75
Total (T) / Weighted Average (A)				130 (T)	96.3 (A)	7.7 (A)	565.8 (T)	5.59 (A)	623.61 (T)	

Notes

- 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 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.
- Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.
- 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.
- Includes Wyong Service Centre (Southbound) and Wyong Service Centre (Northbound), Wyong, NSW, consolidated for reporting purposes.
- Includes 6-8 Geddes Street, Balcatta and 5 Kenhelm Street Balcatta, WA, consolidated for reporting purposes.
- Includes Busselton Shopping Centre, Busselton Red Dot, Busselton Ex Rivers and Vacant Land Kent/Prince St

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