Property Income Fund

Fund Update
30 September 2020

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.

40 Scanlon Drive, Epping, VIC

Fund Facts as at 30 September 2020

September Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (2.7126 CPU June 2020 quarter)	$0.8606 exit price (cum distribution)	$257.40 m ($261.00m at 30 June 2020)

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

Ratings / Awards

Recommended
Lonsec Research

Performance as at 30 September 2020

	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	1.46	6.78	10.04	8.87	8.43	7.97	8.24
Growth return	(0.99)	(15.65)	(5.56)	(1.43)	(0.44)	(0.02)	(0.81)
Total return	0.47	(8.87)	4.48	7.44	7.99	7.95	7.43
Benchmark return	2.76	(5.87)	5.01	7.12	8.52	8.92	8.16

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 2020

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	83.17	32.31
Direct Property	102.48	39.81
Unlisted Property	41.30	16.04
Cash and other*	30.45	11.83
Total	257.40	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	71.46
Australian Unity Office Fund	7.83
Carindale Property Trust	1.87
Elanor Retail Property Fund	2.02
Total	83.17

Unlisted property portfolio

Holding	$m
Planum Footscray Fund	9.26
Australian Unity Diversified Property Fund	9.08
Australian Unity Healthcare Property Trust	8.11
Australian Unity Specialist Disability Accommodation Fund	6.27
Australian Unity SAF	5.05
Elanor Waverley Gardens Syndicate	3.52
Total	41.30

Financials

	$m
Gross assets	257.40
Total debt	0.00
Other liabilities^	5.06
Net assets	252.34

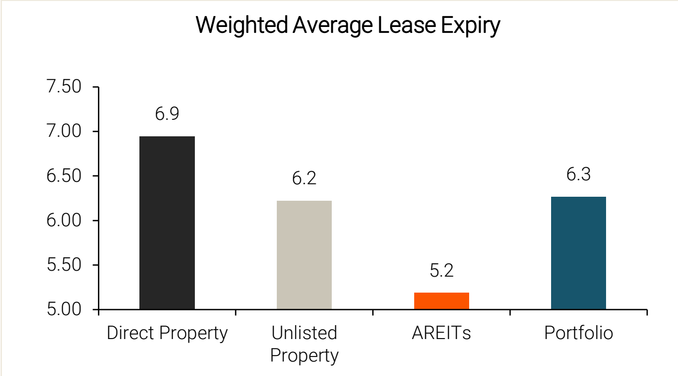
^ Other liabilities include a provision for the distribution.

Debt

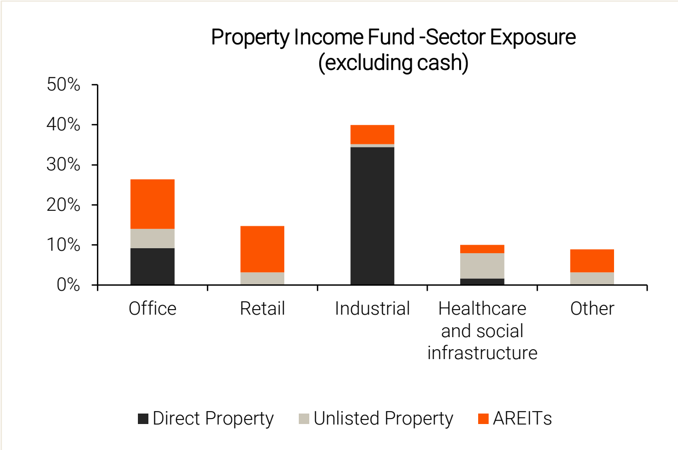
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.~



Note: excludes assets held for sale.



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

Market commentary

The past six months of 2020 can best be described as a roller coaster, as investment markets along with everyone's emotions were dragged along for the ride. There appears to be a growing divergence between properties based on quality and income security, with buyers placing a greater level of importance on strong tenant covenants and lease duration.

We are witnessing a growing disconnect between public and private markets at present, with many listed property stocks (A-REITs) trading at discounts to 30 June asset backing. A-REITs in general own properties with above average asset quality. At present, sentiment is unduly bearish toward office, especially if one is of the opinion cities will once again re-open. While retail malls have significantly been impacted by restrictions on trade and people movement, current retail property pricing for the larger mall landlords does not appear to appropriately distinguish between those landlords dominating their respective catchments or the substantial landbanks these malls reside on. Many traditional malls are located on large swaths of land in densely populated metro areas where there is an inherent underlying value in the land for commercial and/or residential use. It appears many malls have been tarnished with the same Covid brush, although neighbourhood shopping centers have shown their resilience. Covid-19 has certainly disrupted equity pricing of various property types, at some point, this disconnect coupled with today's (and likely tomorrow's) low rate environment will see mergers and acquisitions once again prevail to close this gap.

Australia's economy officially entered its first recession in almost 30 years. In August, unemployment was 6.8% after posting unemployment at 7.5% in July, undoubtedly masked by government stimulus such as the JobKeeper program.

The Reserve Bank of Australia (RBA) maintained interest rates at 0.25% into September while there is an expectation it is to remain on hold in the near term. Some economists are now calling for further cash rate cuts to as low as 0.10%. Markets seem to be responding by also pricing in an additional RBA cut with the 3-year Government Bond rate moving to around 15 basis points. Fiscal and monetary policy actions initiated in response to the Covid-19 carnage continue to support the Australian financial and economic systems in the near term.

The stimulus packages provided by the State and Federal Governments appear to have contributed positively to sentiment. NAB Business Conditions and Consumer Confidence fell sharply in March and April before recovering later in the year although more recently the lockdown in Melbourne has had an impact on sentiment.

The Australian 10-year bond yield declined slightly over the quarter to 0.79%, well down from a year ago of 1.02%. The enduring low interest rate environment is anticipated to remain supportive of the commercial property sector. However, the Australian dollar has continued to appreciate versus the US dollar potentially reducing the attractiveness of Australian assets to offshore investors.

Preliminary quarterly data provided by Jones Lang Lasalle, suggests that major office markets continue to experience slowing demand for accommodation resulting in rising vacancy levels. Future office developments are reducing in number and scale which should serve to keep the supply / demand dynamic in check. It is possible metropolitan office markets may benefit in the current environment in attracting and retaining tenants, as being able to drive and park becomes increasingly attractive.

Demand for industrial assets continues to remain strong and accelerate. The pandemic has caused an acceleration of the e-commerce trend and brought to the forefront just-in-time supply chain management and supplier concentration risks for corporates. Demand appears to be higher in Melbourne than Sydney due to a greater availability of serviced land and relatively cheaper rents. The preference by some landlords at present is to develop rather than purchase due to the strong secondary market for assets.

Retail has been one of the property sectors most impacted by the onset of the pandemic and the resultant measures employed to combat Covid-19. A divergence has been seen between the specific states over past months in terms of foot traffic. Listed mall landlord, Vicinity Group indicated in their annual result that their centres excluding Victoria and New South Wales have returned to 90%+ of weekly traffic versus 12 months' prior. New South Wales had returned to circa 60% whilst Victoria in the face of further restrictions declined to around 25%. Correlated to foot traffic, rent collections are recovering accordingly, as an example the listed Carindale Property Trust owner of a half share in the Carindale Shopping Centre, the second most productive mall in Queensland, can be viewed as a type of bellwether recorded rent collections of 98% in August.

As the states learn to manage outbreaks more effectively and restrictions are eased we anticipate the operating metrics of many a landlord to continue to improve.

For the quarter ending 30 September 2020, the Australian listed property sector, as measured by the S&PASX 200 A-REIT Accumulation Index, returned 7.0% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned negative 0.4%. Greater clarity of the way forward coupled with the lifting of restrictions across most states provided the momentum for the market.

Following a quarter of gains led by the retail landlords, the gains continued this quarter with Goodman Group (GMG) and Charter Hall (CHC) both leading the market higher with gains over 20%. Stockland Group (SGP) also delivered strong returns over the quarter after posting a better than expected outlook for their residential property market exposure. The balance of the index constituents were relatively flat over the quarter although Unibail-Rodamco-Westfield (URW) underperformed as the market reacted negatively to the "re-set" plan which outlined a deleveraging strategy including an equity raise, sale of assets and a decrease in dividends. In the smaller capitalisation space, fund managers performed strongly with the likes of Centuria Group (CNI) and PrimeWest Group (PWG) posting good returns. Defensive landlords with long lease durations also performed well with Charter Hall Long WALE (CLW) and service station landlords strong over the period.

Portfolio activity for this quarter

Revaluations

As at 30 September, 10 International Square Tullamarine VIC was independently revalued resulting in a 17.17% increase over the prior June 2020 valuation of $4.95 million to $5.80 million. This is reflective of a firming of the capitalisation rate from 6.50% to 5.50% coupled with a lease extension.

Distribution

We are delighted to announce a distribution of 1.25 cpu for the quarter ending 30 September 2020.

The Fund continues to display its resilience due to is 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, office, healthcare and social infrastructure, with revenue exposed to a mix of listed and other corporates. The Fund's retail exposure is weighted towards convenience retailing and weighted more toward listed retail stocks that have been subjected to repricing by the listed market.

Property Acquisition

During the quarter, the Fund contracted to purchase a 1,533 sqm multi-use property in the Herston Quarter Health Precinct in Brisbane, Queensland. Known as the Edith Cavell Building (the Property), it is a heritage building to be repurposed over the next year and half. It has been acquired for $3.66 million, with an anticipated end completion cost after redevelopment and leasing costs of approximately $11.8 (valued at $10.4m excluding lease up costs) million, reflecting a 7% yield. Upon completion in early 2022, the Property will be 66% pre-committed by income to Australian Unity with a 3-year weighted average lease expiry. Hutchinson Builders has been engaged to deliver the end product. The Herston Quarter Health Precinct is a $1.1 billion redevelopment in the heart of Brisbane, located two kilometres from the central business district. It is strategically positioned near public transport, educational and retail amenity. The precinct is currently under development delivering health services and other supporting and complementary uses. The site will feature a private and public hospital, seniors living, childcare, student accommodation and more.

Outlook

In general, we continue to retain a supportive view of Australian commercial property as the market transitions through current pandemic inspired headwinds. Through its well diversified, actively managed portfolio, we believe the Fund is well positioned to provide investors with a consistent, sustainable level of distribution income over the medium to longer term.

Planum, Footscray VIC

Key direct property statistics as at 30 September 2020

Geographical allocation (by value)

State	No. assets	%
VIC	6	68.55
SA	1	10.25
QLD	4	21.20
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	8	75.99
Office	3	24.01
Total	11	100.00

Note: excludes assets held for sale.

Property data

Number of properties	11
Total number of tenants	13
WALE (by income)#	6.9 yrs
Occupancy rate (by income)^	92.5%

Excludes assets held for development/sale
^ Excludes assets held for sale

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	27.17
Synergy Packaging	12.40
Flinders Ports	11.29
Specialist Wholesalers	11.25
Gruma Oceania	6.93
Total	69.04

Valuations

Valuations during the quarter*	1
Change in total direct property book value*	0.87%
Change in book value of the properties revalued*	17.17%

* 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 2020

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)
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	14.0	23.20	Jun-20	5.50	23.20
40 Scanlon Drive, Epping, VIC	-	9,371	Gruma Oceania	2	100.0	3.8	13.60	Jun-20	6.00	13.60
2-10 Bliss Court, Derrimut, VIC	-	9,804	Specialist Wholesalers	1	100.0	2.6	11.20	Jun-20	6.00	11.20
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	14.1	9.75	Jun-20	5.50	9.75
65 Beverage Drive, Tullamarine, VIC	-	6,363	Synergy Packing	1	100.0	5.3	6.70	Jun-20	6.50	6.70
Lot 6 133 South Pine Rd, Brendale, QLD	-	3,796	-	0	-	-	6.30	Jun-20	6.50	6.30
10 International Square, Tullamarine, VIC	-	4,305	Synergy Packing	1	100.0	10.3	5.80	Sep-20	5.50	5.80
Lot 11 133 South Pine Rd, Brendale, QLD	4	N/A	N/A		-	N/A	1.32	Jun-20	N/A	1.32
Sub total										**77.87**
Office										
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	3	95.5	6.1	10.50	Jun-20	6.75	10.50
17 Byres Street, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	3.1	10.45	Jun-20	6.50	10.45
Edith Cavell Building, Herston, QLD	5	1,533	N/A		-	N/A	10.40	Jul-20	N/A	3.66
Sub total										**24.61**
Total (T) / Weighted Average (A)				13 (T)	92.5 (A)	6.9 (A)	109.2 (T)		6.00 (A)	102.48 (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 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 Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land to be developed in the future.

5 Edith Cavell Building, Herston, QLD is an existing heritage property, located in an established healthcare precinct. Asset to be repurposed with completion of works expected in early 2022. The valuation has been conducted on an 'As If Complete' basis.

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~In times of abnormal operating or market conditions, or periods of excessive withdrawals, the Fund may take up to 180 days to pay withdrawals. Should the Fund cease to be liquid, as defined in the Corporations Act, daily withdrawals will cease. In that case, withdrawal from the Fund will be available in response to a withdrawal offer made to all investors from time to time, in accordance with the Corporations Act.