

Property Income Fund

Fund Update
31 December 2021

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.



70 Light Square, Adelaide, SA

Fund Facts as at 31 December 2021

December Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU September 2021 quarter)	\$1.0015 exit price (cum distribution)	\$351.41 m (\$329.81m at 30 September 2021)

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

Ratings / Awards



Performance as at 31 December 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	1.28	5.92	8.76	8.92	8.24	7.99	8.14
Growth return	1.12	11.24	(0.12)	(0.07)	1.71	1.95	(0.01)
Total return	2.40	17.16	8.64	8.85	9.95	9.94	8.13
Benchmark return	6.20	16.50	8.43	8.42	9.51	10.54	8.71

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 2021

Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	128.78	36.65
Direct Property	129.53	36.86
Unlisted Property	65.76	18.71
Cash and other*	27.34	7.78
Total	351.41	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	103.71
Australian Unity Office Fund (AOF)	8.96
GDI Property Group (GDI)	3.38
Newmark Property REIT (NPR)	2.99
Elanor Commercial Property Fund (ECF)	2.75
Elanor Retail Property Fund (ERF)	2.58
Carindale Property Trust (CDP)	2.39
RAM Essential Services Property Fund (REP)	2.02
Total	128.78

Unlisted property portfolio

Holding	\$m
Australian Unity Healthcare Property Trust	12.22
Australian Unity Student Accommodation Fund	11.15
Planum Footscray Fund	10.79
Australian Unity Specialist Disability Accommodation Fund	8.09
Australian Unity Diversified Property Fund	8.03
Australian Unity Childcare Property Fund	4.95
Elanor Waverley Gardens Syndicate	3.68
Warrawong Plaza	3.50
Eildon Caboolture	3.35
Total	65.76

Financials

	\$m
Gross assets	351.41
Total debt	0.00
Other liabilities [^]	6.60
Net assets	344.82

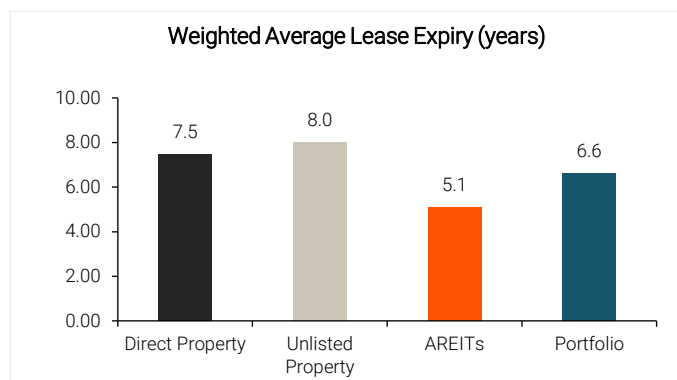
[^] Other liabilities include a provision for the distribution.

Debt

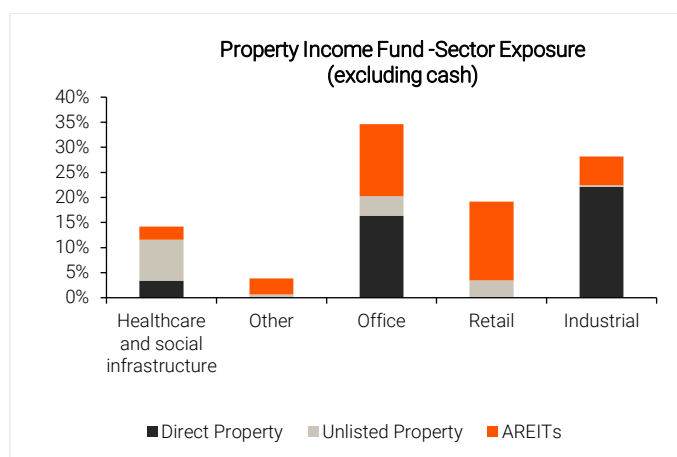
The Fund has no direct borrowings.

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

After more than half of the national population spent the September quarter subject to stay at home orders, the December 2021 quarter saw lockdown restrictions start to ease as individual States met required vaccination targets. Despite initial failings, the vaccination roll out across Australia has proved highly successful with the country now benefitting from one of the highest double vaccination rates globally. The emergence of the latest COVID-19 variant (Omicron) in December 2021, together with a shift towards a 'Living with COVID-19' approach, has seen recent case numbers spike significantly, creating some cause for concern. However, whilst the pandemic environment is continually changing, initial consensus is that the Omicron variant is considered milder in severity and given Australia's high vaccination levels and ongoing booster program, the population is relatively well positioned to adapt to this latest iteration of the pandemic.

Following detrimental impacts of widespread lockdowns to the Australian economy in the September quarter 2021, a positive rebound in performance is forecast for the December 2021 quarter with UBS anticipating GDP growth of 1.5%. Whilst this comes ahead of any Omicron related impacts, it is worth noting that the negative economic impact experienced from the prior Delta variant transpired to be much more muted than the prior consensus forecast. As a result, Omicron is currently anticipated to be a short-term impediment to growth, albeit uncertainty remains given the infancy of this outbreak.

In December 2021, the RBA maintained its position that the cash rate would not be raised until such time as inflation is sustainably within the target range of 2% to 3%. While the inflationary impacts of COVID-19 related supply chain pressures have been recently evidenced, increased wage growth remains yet to exceed pre-pandemic levels and below the 3%+ level desired by the RBA to assist inflation levels. However, recent jobs data notes that the unemployment rate is now down to 4.6% and expected to tighten further over 2022 as the impacts of border closures and limited population growth play out. This should in turn help drive wage growth with workers also driving salary increases with changes of employers. Interestingly, the RBA is no longer stating a timing forecast for future rate rises, when as recently as November 2021 it was suggested that this would not occur before 2023. While it remains to be seen when monetary policy will change, this message softening allows for earlier adjustment than previously claimed with the market currently pricing in a rate hike in mid to late 2022.

Preliminary quarterly data provided by Jones Lang Lasalle notes all the six major office property markets are expected to record net positive absorption (i.e. net demand for office accommodation) in the December quarter 2021, continuing the positive trend observed nationally last quarter. Tenant 'flight to quality' remains a key dynamic in the office sector with the majority of leasing activity concentrated in prime grade stock. Tenants are looking to take advantage of favorable market conditions to secure upgraded premises with quality staff amenity but also requisite ESG characteristics to satisfy their own environmental focused targets. Smaller tenant activity (sub 1,000sqm) supported the take up in Melbourne CBD and Perth CBD markets while demand for tech-based office roles was noted in Adelaide with Professional Service groups and Government related entities dominant in Canberra. Vacancy levels are expected to contract over the quarter in Sydney, Brisbane, Adelaide and Canberra however remain elevated in Melbourne despite a fall in the amount of sublease space on the market. While prime face rents saw minor increases in all markets except Perth, continuing increases in incentive levels resulted in limited effective rental growth for the quarter. A strong end to year

saw office investment volume for 4Q21 increasing 36% on the prior quarter to \$3.97 billion, almost 50% of which was across Sydney CBD and North Sydney markets. Prime equivalent yields compressed in Adelaide, the mid-point yield tightening by 12.5 bps with yield levels in the other CBD office markets unchanged for the quarter.

Industrial property remains in hot demand from both occupiers and investors alike. Despite a slight fall in the total national leasing take up for the December quarter 21, gross take up for the quarter remains over 35% above the long-term average. Fueled by strong demand and historically low vacancy levels, rental growth within the sector continues to be experienced with the national prime face rent up 1.8% for the quarter and to 6.13% year on year, the highest annual growth rate in more than a decade. Completion of new assets was up on the previous quarter which is expected to continue into 2022 with a significant volume of development forecast to capitalise on current occupier activity. Industrial yield levels continue to compress with the weighted prime yield midpoint tightening 15 bps over the quarter to 4.01%. Transactional activity levels for the quarter totaled c.\$5 billion which JLL notes as being 308% higher than the 10 year quarterly average, demonstrating the significant repositioning of the industrial sector by investors that has occurred over the last 24 months. The major transaction concluded this quarter was the \$2.1 billion purchase by Blackstone of a 49% share in the Dexux Australia Logistics Trust, believed to have been struck at a yield sub 4%. Interestingly this reflects a substantial portfolio purchase from Blackstone after selling off the similarly large-scale Milestone industrial portfolio earlier this year.

Following the easing of lockdown restrictions in both NSW and Victoria, the December quarter 21 saw a strong rebound in retail spending and mall visitation numbers. Leasing conditions were however mixed, with tenant demand varied across different asset sub sector categories. CBD retail, particularly in Sydney and Melbourne has clearly been negatively impacted by the loss of international tourists and reduced commuter numbers with prime rental declines for the quarter noted across all JLL tracked CBD markets. At the other end, the non-discretionary nature of convenience neighborhood centres saw some modest rental growth in the quarter and whilst annual growth remains negative, some positive gross rental growth was recorded for sub regional centres along the eastern seaboard in the December quarter. This ties in with what has also been experienced at the investment level with yield compression experienced over the quarter for both sub-regional and neighborhood centres with large format centres also tightening. The retail sector has seen a significant uptick in transactional activity over the year as investor confidence returns. Pointedly, liquidity has been seen for major, blue chip retail assets including the sales of part of the Macquarie Centre, NSW and Pacific Fair, QLD. With these transactions occurring at or slightly above carrying value levels, this gives support to the valuations of these assets which in turn should help to assist activity of such assets in the sector going forward.

While the emergence of the Omicron variant is unwelcome, it is hoped that any health, economic and market impacts will be short lived. Office attendance levels are likely to be affected whilst density concerns may lead to some business disruption for leisure and hospitality operators. While implications are not expected to be as long nor severe as prior outbreaks, this remains a highly changeable environment. Taking a high-level view, given the real estate markets continued strong performance during the more stringent Delta variant lockdown stage, it is likely that quality real estate assets will continue to remain attractive, while typical lease structures are also likely to provide protection against rising

inflation levels.

For the quarter ending 31 December 2021, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned 10.07% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned 2.09%. Over the past twelve months, the A-REITs returned 26.1% outperforming the broader equities market which returned 17.2%.

Over the December 2021 quarter, Industrial A-REITs led the market (A-REIT Index) with returns of 22.4%, albeit this was somewhat skewed by the strong performance of Goodman Group (GMG). Other sectors also performed well with Retail focused stocks providing total returns of 5.1%, Office stocks 6.0% and Diversified A-REITs 5.0% for the 3-month period. Individually, the best performing stocks were the funds management business focused stocks of Goodman Group and Charter Hall Group, both upgraded distribution guidance resulting in returns of 22.9% and 21.1% respectively over the quarter. The laggard for the period was Unibail-Rodamco-Westfield (URW), owner of large malls in Europe, UK and US, posting a return of negative 10.7%.

Portfolio activity for this quarter

Direct Property Transactions

- **70 Light Square, Adelaide, SA** - The Property Income Fund (Fund) settled the acquisition of 70 Light Square, Adelaide SA for \$18.25 million on 5 November 2021. Located in the core of the Adelaide CBD, the property is a 4-star NABERS commercial office building with a net lettable area of 3,269m comprising four floors of office accommodation and ground floor retail. It is a multi-tenanted building prominently overlooking Light Square, one of the five parkland squares in the city and enjoys three sides of natural light. There is a mix of tenant sectors within the building including State Government, a patents company, information technology, flexible working, claims management and a café. At the time of acquisition, the property was 91% leased and expected to deliver an initial yield of 5.4% while targeting 6.2% when fully leased. The property was acquired reflecting a weighted average lease expiry of 3.1 years.
- **134 King Street, Newcastle, NSW** - On 21 December 2021 the Property Income Fund (Fund) settled the acquisition of 134 King Street, Newcastle, NSW for \$7.55 million. Located in the heart of the Newcastle, the property has enormous repositioning potential. It comprises retail/office accommodation over the ground floor and office over the three upper levels, with an additional enclosed rooftop meeting/function area and alfresco terrace. Overall, the property provides a total of c.1,880 sqm of lettable area and 19 basement car spaces. The building benefits from recent plant and equipment upgrades in 2016 including a new passenger lift and air-conditioning plant, installed at the time the rooftop extension was constructed. The property has a 3.5-star NABERS energy rating and a short-term lease, expiring in February 2022, which is over approximately 20% of the available leased area. The strategy is to upgrade and reposition the property to maximise its value and earnings potential.

Development

- **Lot 11, 133 South Pine Road, Brendale, QLD** - Given the current highly favorable current Industrial market conditions, the Fund has determined to proceed with the development of a c.2,000 sqm industrial premises at this property. Build tenders

were received prior to Christmas and a preferred contractor has now been selected. Construction is expected to commence in February 2022 with completion anticipated to occur in the September 2022 quarter.

- **Edith Cavell Building, Herston, QLD** - The development of this multi-purpose building within the Herston Healthcare Precinct, is in its final stages with the Fund due to take possession of the property by February 2022. An End of Trip facility has been added to the scope of works to further improve the appeal of the asset to potential occupiers. Upon completion, the property will be 66% let to Australian Unity with the remaining space comprising part office and part retail accommodation. Leasing agents have recently been appointed over the vacant areas with the retail agents aligned to the wider precinct scheme to maximise the potential for the property.

Unlisted Property Investment

Over the course of the December 2021 quarter, the Property Income Fund (PIF) invested in the following essential spend retail sector focused unlisted investment opportunities:

- **Eildon Caboolture Property Fund, Caboolture, QLD** - In November 2021, PIF placed \$3.345 million in the newly established Eildon Asset Management Caboolture Property Fund (EAMCPF). This opportunity comprises a neighbourhood retail shopping centre together with a large format retail parade that are currently under construction. An interest coupon return is received during the construction period which will transition to a rent earning investment fund on development completion. Substantial high-quality tenancy pre-commitments are in place with Coles, Chemist Warehouse and Petstock all secured. As a result, this investment opportunity is anticipated to provide PIF with secure, long term income as well as the potential for capital growth with additional exposure to the strongly performing non-discretionary neighbourhood and large format retail sectors.
- **Elanor Warrawong Plaza Fund, Wollongong, NSW** - The Property Income Fund acquired \$3.500m of units in the single asset backed Elanor Warrawong Plaza Property Fund (EWPF). Warrawong Plaza is an established double supermarket, double discount department store sub-regional shopping centre. The shopping centre is to be repositioned into a strongly performing triple supermarket, single discount department store centre providing increased income from non-discretionary retailers and essential services including a new childcare facility. The repositioning is forecast to significantly improve the trading performance of the centre with the potential for value uplift based on recent transactional evidence for this type of non-discretionary centred shopping centre assets.

Distribution

We are pleased to announce a distribution of 1.25 cents per unit (CPU) for the quarter ending 31 December 2021.

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, office, healthcare and social infrastructure, with revenue exposed to mix of listed and other corporates. The

Fund's retail exposure is weighted towards convenience retailing and includes exposure to specialist unlisted funds and listed retail stocks that had been subjected to repricing by the listed market.

Outlook

In general, we continue to retain a supportive view of the 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.



134 King Street, Newcastle, NSW



Warrawong Plaza Shopping Centre, Wollongong, NSW



Eildon Caboolture Property Fund, Caboolture, QLD (Artist's impression)

Key direct property statistics as at 31 December 2021

Geographical allocation (by value)

State	No. assets	%
VIC	5	51.58
SA	2	24.01
QLD	3	18.25
NSW	1	6.16
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	6	52.83
Office	4	39.03
Healthcare and social infrastructure	1	8.14
Total	11	100.00

Note: excludes assets held for sale.

Property data

Number of properties	11
Total number of tenants	17
WALE (by income) [#]	7.5 yrs
Occupancy rate (by income) [^]	90.2%

[#] Excludes assets held for development/sale

[^] Excludes assets held for sale

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	25.08
Flinders Ports	10.46
Specialist Wholesalers	10.25
Synergy Packaging	7.52
Logic Plus	4.48
Total	57.79

Valuations

Valuations during the quarter [*]	0
Change in total direct property book value [*]	2.13%
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 31 December 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)
Healthcare and social infrastructure										
Edith Cavell Building, Herston, QLD	6	1,533	N/A		-	N/A	N/A	Jun-21	N/A	10.55
Sub total										10.55
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	19.7	29.65	Aug-21	4.25	29.66
2-10 Bliss Court, Derrimut, VIC	-	9,715	Specialist Wholesalers	1	100.0	1.4	12.60	Jun-21	5.50	12.90
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	19.7	12.18	Aug-21	4.25	12.43
10 International Square, Tullamarine, VIC	-	4,305	Synergy Packing	1	100.0	9.0	7.30	Jun-21	4.75	7.43
Lot 8, 11 International Square, Tullamarine, VIC	-	2,187	Synergy Packing	1	100.0	9.0	4.30	Jun-21	4.50	4.40
Lot 11 133 South Pine Rd, Brendale, QLD	5	N/A	N/A		-	-	1.50	Jun-21	N/A	1.62
Sub total										68.44
Office										
70 Light Square, Adelaide, SA	-	3,269	Logic Plus	6	90.6	3.0	18.25	Oct-21	5.88	18.69
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	4	100.0	5.9	12.25	Jun-21	6.25	12.41
17 Byres Street, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	1.9	11.50	Jun-21	6.00	11.48
134 King Street, Newcastle, NSW	-	1,879	Richard Crookes Construction	1	24.4	<1	7.55	Nov-21	7.00	7.97
Sub total										50.55
Total (T) / Weighted Average (A)				17 (T)	90.2 (A)	7.5 (A)	117.1 (T)		5.25 (A)	129.53 (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.
- 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.
- Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land to be developed in the future.
- 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.

Contact us

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Important Information

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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.

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