

Property Income Fund

Fund Update
31 March 2023

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 Quarter, QLD

Fund Facts as at 31 March 2023

March Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU December 2022 quarter)	\$0.9162 exit price (cum distribution)	\$330.02 m (\$348.46m at 31 December 2022)

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

Ratings / Awards



Performance as at 31 March 2023

	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	1.34	5.18	6.35	8.39	7.88	7.66	7.97
Growth return	(1.15)	(6.22)	3.58	(1.15)	(0.57)	0.58	(0.35)
Total return	0.19	(1.04)	9.93	7.24	7.31	8.24	7.62
Benchmark return	1.22	(0.83)	9.09	6.21	6.76	8.39	8.15

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 March 2023

Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	116.81	35.39
Direct Property	131.33	39.79
Unlisted Property	62.77	19.02
Cash and other	19.11	5.79
Total	330.02	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	97.97
Australian Unity Office Fund	5.72
Elanor Commercial Property Fund	2.55
Newmark Property REIT	2.37
Carindale Property Trust	2.21
GDI Property Group (GDI)	2.20
HealthCo Healthcare & Wellness REIT	2.01
RAM Essential Services Property Fund	1.77
Total	116.81

Unlisted property portfolio

Holding	\$m
Planum Footscray	12.90
AU Student Accommodation	11.36
AU Specialist Disability Accommodation	8.21
AU HPT - Wholesale	7.84
AU DPF Ordinary	5.95
AU Childcare Property Fund	5.15
Waverley Gardens	4.28
Warrawong Plaza	3.99
Eildon Caboolture	3.09
Total	62.77

Financials

	\$m
Gross assets	330.02
Total debt	0.00
Other liabilities [^]	3.44
Net assets	326.58

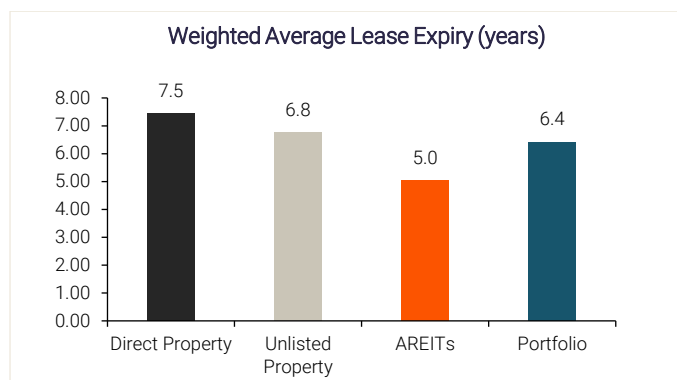
[^] Other liabilities include a provision for the distribution.

Debt

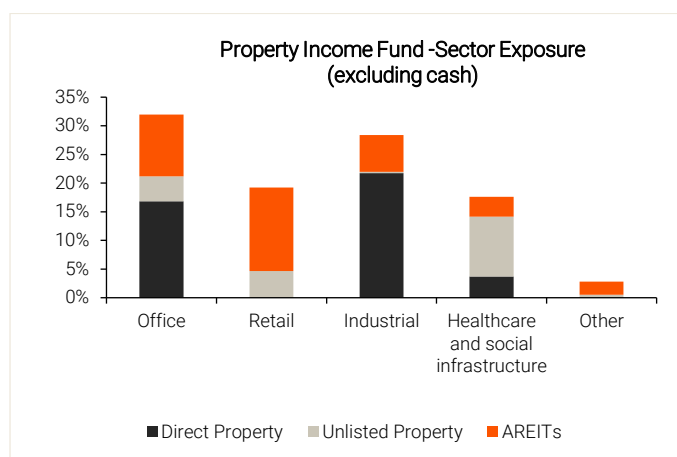
The Fund has no direct borrowings.

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

An optimistic opening to 2023 saw equity markets bounce in January 2023, buoyed by China's emergence from COVID-19 lockdowns, resilience within the Australian Economy and initial signs that inflation may finally be lessening across the developed world, driving a fall in bond yield levels. Alas, volatility and uncertainty remain, and while the ongoing tightening of monetary policy from global central banks during the March 2023 quarter has continued to create pricing concerns for market participants, attention quickly shifted to the Banking sector following the collapse of several technology-focused banks in the US and the somewhat arranged takeover of major European Bank Credit Suisse by rival UBS. While the resulting headlines are worrisome, the underlying circumstances appear specific to these affected institutions and following swift action from relevant authorities any possible contagion risk has been limited to date. It does however indicate that volatility and uncertainty are likely to remain as the impacts from global monetary tightening play out.

Within Australia, following further cash rate rises in February and March 2023, the Reserve Bank of Australia (RBA) finally held the cash rate unchanged at 3.60% in April 2023. Following a below consensus forecast Consumer Price Index (CPI) print in February 2023 and the heightened recent market uncertainty over concerns in the international Banking sector, this pause in rate rises had largely been forecast by the market. Looking forward, the RBA suggested that some further interest rises may be required, however, this would be data-dependent, with the current pause allowing for the impact of prior interest rate increases on the economy to be assessed. It would appear, however, that the cash rate is nearing peak levels with average economist consensus (per Bloomberg) currently suggesting one further rate rise to come settling at a peak rate of 3.85%. This more dovish view on rates has transpired to a lowering in the forward yield curve with the prevailing 10-year Australian bond yield declining from 4.00% at the start of January 2023 to 3.29% as of 31 March 2023, lowering prospective borrowing costs.

Looking forward, growth in the Australian economy is forecast to slow in 2023 albeit remain positive with economic forecasters currently assuming year-on-year gross domestic product (GDP) growth of 1.7% in 2023, down from 3.7% in 2022 and 5.3% in 2021. Despite current below-average levels of consumer sentiment and business confidence, results from the NAB Monthly Business Survey (March 2023) support economic growth, observing that business conditions remain well above the long-run average, with robust demand and trading conditions elevated across states and sectors.

Despite negative news headlines, research data from Jones Lang LaSalle (JLL) indicates positive office property net absorption (i.e., where take-up of accommodation is higher than office space becoming vacant) in five of the six capital city markets for the March 2023 quarter. The Perth CBD market was most active, accounting for c.60% of the total CBD market's net absorption, while at the same time achieving its highest quarterly net absorption level since 3Q 2018. Activity was driven by the resources sector, which remains buoyant, as well as new businesses entering the Perth market. More broadly, tenant demand remains supportive of higher-quality assets, particularly those with strong environmental credentials and amenity provisions. Office vacancy remains elevated nationally with JLL noting a total vacancy of 15.0% across all markets at Q1 2023. Increased vacancy levels were recorded in both Melbourne and Canberra CBD markets over the quarter as lower attendance occupancy continues to weigh on these markets. Elevated construction costs and challenges to secure substantial pre-commitments are likely to reduce supply

pipeline levels. As such, this is likely to keep a limit on overall vacancy levels going forward. Investment transactional activity remains subdued however it appears that some vendors are now bringing assets to market which in turn should provide some additional pricing transparency for the sector more broadly.

Ongoing occupier demand is continuing to drive rental growth within the Industrial property sector as a lack of available stock creates competitive tension in almost all geographic markets. In Q1 2023, the average prime industrial quarterly rental growth rate as reported by JLL was 3.8% with Sydney's Inner West, Melbourne's North and Brisbane's Trade Coast all experiencing quarter-on-quarter growth above 8%. Such growth has not been limited to prime-grade assets, with JLL indicating an average quarterly growth rate for secondary quality properties of 4.5% across the submarkets covered. Despite such growth, national take-up levels are significantly below the 5-year quarterly average (CBRE) as record-low vacancy levels limit the ability to secure accommodation. This should be somewhat assisted by new supply with CBRE reporting that new floorspace in 2023 is forecast to be 90% above the long-run average, however this pipeline is reported to already be 66% pre-committed meaning that the tightness in the occupier market is likely to remain in the short term. Transactional activity for the sector was lower for the quarter, however demand for development land and was positive. For existing investment assets, purchaser preference remains for those assets subject to short-term leases agreements that allow for more immediate access to capitalise on the current rental growth story.

The impact of higher cost of living pressures resulting from escalated inflation and interest rates levels appears to now be starting to emerge within the retail property sector. Data from the Australian Bureau of Statistics highlights that Australian retail sales rose by just 0.2% in February, down 1.5% on a three-month average, implying a pullback in consumer spending to start 2023. While nominal sales levels remain high, driven by high costs of goods, there is widespread expectation that real sales levels will reduce over 2023. Despite this, certain tailwinds are present with low unemployment, increasing migration and tourist levels, while student visa applications are also notably strong which should go some way to mitigating the forecast spending decline. This is currently evident in CBD retail property markets, which, supported by returning office workers have seen increased retail sales and store visitation levels. While rental levels in Melbourne and Sydney CBDs' recorded slight negative movement over the quarter, in February 2023 CBRE reported a decline in national retail CBD vacancy levels, with the most substantial decline reported in Melbourne. Across remaining retail property submarkets, JLL data notes slight decline in rental levels at Regional Shopping Centres but growth continuing in both Neighbourhood and Large Format retail sectors, particularly across Sydney and Melbourne. While JLL report that retail property transactional activity over Q1 2023 was it lowest since the start of the COVID-19 Pandemic (Q1 2020), anecdotal evidence indicates that the sector remains attractive to investors.

Financial markets remain highly sensitive to macroeconomic headlines. Such volatility is likely to continue over the short term whilst global challenges and the impact and extent of monetary policy tightening play out. However, on the positive side, supply chain pressures seem to have subsided, inflation appears to be moving lower and interest rate levels look to be nearing a cyclical peak. Strong positive migration levels are currently being experienced which should assist workforce shortages and alleviate potential wage inflation fears that may otherwise continue to reinforce the existing high inflation data. Across commercial real

estate, there remains somewhat of a disconnect between public and private markets, reflective of the perceived forward-looking nature of listed property sector pricing. While material asset valuation movements given the current higher interest rate environment are yet to be seen, valuation pressures remain topical, although different property assets and sectors will be better positioned than others to weather potential challenges, in what is a continually evolving economic backdrop where investors reassess their expected property return hurdles. Should interest rates and cost of debt levels trend downwards as currently forecast, the associated impact of such commercial property valuation changes may be briefer and less noteworthy than recent negative news headlines would suggest. That being said, poorer quality properties in oversupplied locations and those properties with limited income growth and weakening security remain at greater risk, while those properties owned in highly geared structures are likely to experience a bumpier ride.

For the quarter ending 31 March 2023, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned positive 0.5% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 3.5%. Over the year to 31 March 2023, A-REITs returned negative 13.9% compared to the broader equities market return of 0.1%.

Over the quarter, outside the strong performance of storage group, National Storage (NSR) which was up 8.8%, Industrial A-REITs led the sector with returns of 7.7%, although this was skewed by Goodman Group (GMG) which was up 8.2% for the quarter. Diversified A-REITs were flat for the 3-month period, while Healthcare, Residential and Office A-REITs all provided negative returns. Individually, the best-performing property stocks for the quarter were Stockland Group (SGP), Goodman Group (GMG) and National Storage (NSR) returning positive 9.6%, 8.2% and 8.2% respectively. The laggard for the period was office-focused Cromwell Property Group (CMW), which posted a quarterly return of negative 15.1% following the announcement that one of their major Investors plans to exit various non-core investments including Cromwell.

Fund performance

The Fund provided a total return of positive 0.19% (after fees) for the March 2023 quarter. Performance was driven by returns from the Fund's alternative property sector unlisted investment holdings, which reported an average performance for the quarter of 1.14%. These gains were partially offset by movements in listed property investments.

Despite widespread challenges in real estate markets, alternative property sectors such as healthcare, disability accommodation, student accommodation and childcare have continued to perform well. These markets are less correlated to wider macro-economic uncertainty than more traditional property sectors, supported by overarching megatrends such as an aging population and increasing incidence of chronic disease while also benefiting from growing levels of government financial support. Additionally, the student accommodation sector in Australia continues to benefit from a substantial rebound in international student numbers with 2022 representing the biggest annual uplift in student visa holders. This strong tenant demand has led to high occupancy levels and increasing revenue rates which have been seen at the Fund's student accommodation investment in Herston, Queensland which experienced a valuation uplift of c. 28% over the last 12 months.

Notwithstanding a strong start to the year, the Australian Real Estate Investment Trust (A-REIT) sector remains sensitive to both

sector-specific and broader financial market conditions. After a strong return in January 2023, the A-REIT sector fell over February and March to finish effectively flat over the quarter. As of 31 March 2023, the A-REIT sector is trading at a c.4.6% FY23 estimated dividend per share yield and a substantial c.-16% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, HomeCo (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

Property Valuation

The Fund's long term leasehold interest in the Edith Cavell Building, positioned within the Herston Quarter Health Precinct in Brisbane, Queensland was independently valued as at 28 February 2023.

The property's value increased by \$0.5 million or 4.50% on the prior year's external independent valuation of \$11 million, while recording a \$0.29 million or 2.50% decrease to the property's book value immediately prior to the valuation, predominantly due to capital expenditure. The capitalisation rate remained unchanged at 6.25%.

In accordance with the Fund's valuation policy, the management team continues to monitor holding values of all directly owned assets to ensure valuations are representative of changing market conditions. While independent asset revaluations are generally conducted on a periodic 12-month cycle, valuation frequency may be increased where Management believe there is a need to do so, for example where market conditions have materially changed, in order to provide investors with increased clarity during these periods. As a result, some directly owned property valuations are likely to be brought forward ahead of their usual cycle.

Asset Divestments

Lot 11, 133 South Pine Road, Brendale, QLD

The Fund is pleased to announce that settlement of the property known as Lot 11, 133 South Pine Road, Brendale Queensland occurred on 13 April 2023. The agreed sale price was \$6.30 million which is a 22% premium compared to the property's most recent book value.

10 & 11 International Square, Tullamarine, VIC

Settlement of the properties located at 10 and 11 International Square, Tullamarine, VIC occurred as scheduled on 30 January 2023. The agreed sale price was \$12.12 million which reflects a 2.71% premium compared to the property's prior independent valuation conducted in June 2022.

Tenant Activity

Edith Cavell Building, Herston, QLD

The Fund is pleased to announce that it has signed a Heads of Agreement with the University of Queensland (UQ) to lease 798 sqm at our Edith Cavell Building in Herston Quarter. The lease is to commence on 1 September 2023 with a term of 5 years plus an option for an additional 5 years.

The Edith Cavell Building is a 1,573 sqm multi-use property in the Herston Quarter Health Precinct in Brisbane, Queensland. Post the UQ lease commencing, the Property will be approximately 84% leased to UQ and Australian Unity with a single ground floor retail tenancy remaining for lease.

Development

134 King Street, Newcastle, NSW

This asset was acquired in December 2021 with the intention to reposition the asset to provide upgraded office and retail accommodation. Following encouraging discussions with the local authority a development submission was made to Council in February 2023 seeking approval to construct two additional stories of office accommodation to the existing premises. The application has now been reviewed by Council who will subsequently issue an advisory report to determining Councillors. We expect a decision to be made within the next 6 months.

Unlisted Property Investments

Australian Unity Student Accommodation Fund, Herston, QLD

The Australian Unity Student Accommodation Fund comprises the repurposed Lady Lamington heritage building within the Herston Quarter precinct. Operated by established student accommodation provider Uni-Lodge, the asset provides a total of 695 student accommodation rooms together with substantial tenant amenities and welcomed its first tenants in February 2022. Supported by an attractive price point and soaring student visa application numbers, occupancy performance at the asset has been strong, reaching 93% as at 31 March 2023, exceeding pre-development projections. Given such robust student demand as well as widespread supply challenges within the private residential rental market, rental growth at the subject property has also surpassed pre-development forecast rates.

Subsequently, the asset has now been independently revalued, and we are pleased to report the value of the property has increased to \$65.9 million, up c.28% from the prior independent valuation of \$51.5 million in March 2022. Note, this investment uplift, has been confirmed following March 2023 quarter end and as a result is not reflected in the March 2023 performance numbers.

Eildon Caboolture Property Fund, Caboolture, QLD

The Eildon Asset Management Caboolture Property Fund (EAMCPF) comprises a development opportunity to invest in a newly constructed neighbourhood retail shopping centre together with a large format retail parade that forms part of a larger commercial precinct. Stage one of the subject development incorporates a Coles and Chemist Warehouse anchored neighbourhood shopping centre, which was successfully completed in November 2022. Trading performance since opening has exceeded forecasted levels and as at 31 December 2022 the centre was 98% occupied. An updated valuation was undertaken on completion of the development of the centre which was in line with the projected value prior to commencement of construction.

The second and final stage comprised the large format retail centre, providing a terrace of three adjacent premises was completed in March 2023. All retail units have been leased to major operators including Petstock, Supercheap Autos and Planet Fitness, with both Petstock and Supercheap Auto open for trading from 1 April 2023. Following completion of the development, an updated valuation for this element of the subject property will be obtained.

Distribution

We are pleased to announce a distribution for the month of March 2023 of 0.4167 cents per unit (cpu). This takes the total distribution paid for the quarter ending 31 March 2023 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, office, healthcare and social infrastructure property, with revenue exposed to a mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.



Lot 11 133 South Pine Road, Brendale, QLD



Student Accommodation Fund, Herston, QLD



Eildon Caboolture Fund, Caboolture, QLD

Key direct property statistics as at 31 March 2023

Geographical allocation (by value)

State	No. assets	%
VIC	3	46.64
SA	2	24.61
QLD	3	22.31
NSW	1	6.44
Total	9	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	4	51.44
Office	4	39.80
Healthcare and social infrastructure	1	8.76
Total	9	100.00

Property data

Number of properties	9
Total number of tenants	17
WALE (by income) [#]	7.5 yrs
Occupancy rate (by income)	90.71%

[#] Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	25.57
Concept Logistics	11.01
Flinders Ports	10.55
Logic Plus	6.06
Construction Sciences	4.09
Total	57.28

Valuations

Valuations during the quarter	1
Change in total direct property book value	1.17%
Change in book value of the properties revalued	-2.41%

* 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 March 2023

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	-	3,268	Logic Plus	6	88.4	1.9	17.70	Oct-22	5.88	17.76
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	94.7	4.7	14.50	Jun-22	6.00	14.56
17 Byres St, Newstead	-	1,319	Construction Sciences	3	100.0	<1	11.50	Jun-22	5.75	11.50
134 King Street, Newcastle, NSW	6	1,879	N/A	0	-	-	7.55	Nov-21	N/A	8.46
Sub total				12			51.25			52.28
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	18.4	30.25	Aug-22	4.25	31.19
2-10 Bliss Court, Derrimut VIC	-	9,715	Concept Logistics	1	100.0	9.4	15.90	Jul-22	4.50	17.37
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	18.4	12.40	Aug-22	4.25	12.70
Lot 11, 133 South Pine Rd, Brendale	5	2,199	N/A	0	-	-	1.50	Jun-21	N/A	6.30
Sub total				3			60.05			67.56
Healthcare and social infrastructure										
Edith Cavell Building	7	1,580	Australian Unity	2	79.8	3.9	11.50	Feb-23	6.25	11.50
Sub total				2			11.50			11.50
Total (T) / Weighted Average (A)				17 (T)	90.7 (A)	7.5 (A)	122.8 (T)		5.11 (A)	131.33 (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 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.
- 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.
- Asset comprises recently completed industrial warehouse development. Independent valuation reflects land value prior to development while Book Value is also inclusive of cost of construction.
- Planning consent currently being sought for asset repositioning.
- Details reflect current Heads of Agreement with University of Queensland.

Contact us

australianunity.com.au/wealth

australianunitywealth@unitregistry.com.au

Important Information

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Investor Services

T 1300 997 774 F 1300 856 685

Adviser Services

T 1300 997 774 F 1300 856 685