180 YEARS | Australian Unity Real Wellbeing

Property Income Fund

Fund Update
31 March 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.

40 Scanlon Drive, Epping, VIC

Fund Facts as at 31 March 2021

March Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU December 2020 quarter)	$0.9134 exit price (cum distribution)	$277.59 m ($275.99m at 31 December 2020)

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

Ratings / Awards

Recommended
Lonsec Research

Performance as at 31 March 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	1.40	8.42	10.36	8.88	8.48	8.01	8.21
Growth return	1.33	9.76	(2.31)	(1.05)	1.32	0.84	(0.44)
Total return	2.73	18.18	8.05	7.83	9.80	8.85	7.77
Benchmark return	1.04	14.94	6.07	6.91	9.11	9.25	8.31

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 2021

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	103.22	37.18
Direct Property	109.35	39.39
Unlisted Property	48.63	17.52
Cash and other*	16.40	5.91
Total	277.59	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	86.48
Australian Unity Office Fund	8.77
GDI Property Group (GDI)	3.05
Elanor Retail Property Fund	2.76
Carindale Property Trust	2.15
Total	103.22

Unlisted property portfolio

Holding	$m
Australian Unity SAF	10.42
Australian Unity Diversified Property Fund	9.99
Planum Footscray Fund	9.26
Australian Unity Healthcare Property Trust	9.24
Australian Unity Specialist Disability Accommodation Fund	6.23
Elanor Waverley Gardens Syndicate	3.48
Total	48.63

Financials

	$m
Gross assets	277.59
Total debt	0.00
Other liabilities^	4.90
Net assets	272.69

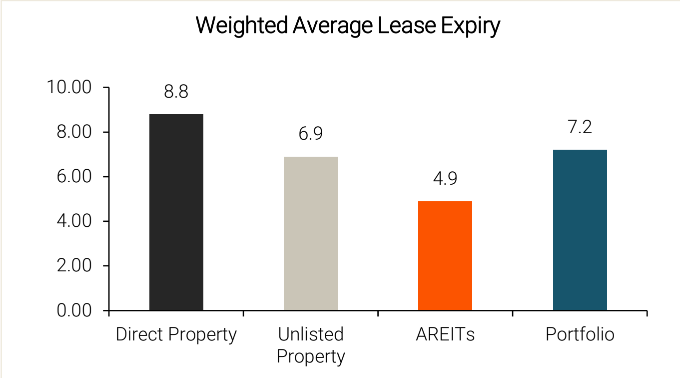
^ Other liabilities include a provision for the distribution.

Debt

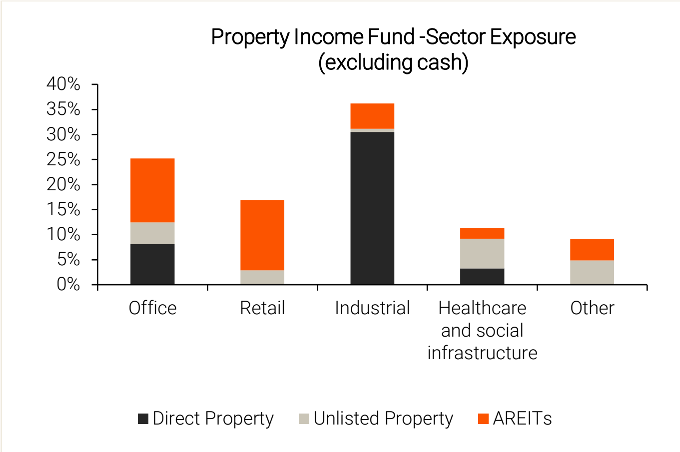
The Fund has no direct borrowings.

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 first quarter of 2021 saw the commencement of numerous global mass vaccination programs. Israel leads the world with just over 60% of their population having received one dose of the vaccine whilst the United Kingdom stood at 46% and United States at 31%, Herculean efforts by their respective health systems in just three months. Australia's vaccine rollout recently hit a speed hump, although a plan to rely more on the Pfizer vaccine for people under age 50 is now in play. These developments both domestically and overseas are welcomed, forming the next phase in overcoming the global health crisis.

In Australia, equity market reporting season saw numerous companies announce bumper profits, particularly retailers which showed that with a little assistance from government stimulus, Australian's can spend their way out of a (short) recession. As company profits bounced back, the resulting reporting season lead to some companies (corporate citizens with a conscience) electing to hand back JobKeeper payments that they had received during the depths of the pandemic. For the 12 months to February 2021, retail sales growth was up a strong 9.1%. In February, the unemployment rate was down to 5.8% after peaking as high as 7.5% in July 2020. Although the headline figures continue to be masked by various Government support measures, the underemployment rate in March of 8.8% has since roughly returned to a pre-pandemic level. All eyes are now on the second quarter of 2021, as the big test for the Australian economy will be the rollback of Government support measures such as JobKeeper. This will determine how well the economy can stand on its own.

The Reserve Bank of Australia (RBA) held interest rates at 0.10%. The RBA board has stated it does not intend to increase interest rates until inflation is sustainably within the its target band of 2% to 3%, something that cannot be achieved until wages grow materially higher than current levels and the unemployment rate falls further, which the RBA doesn't expect until 2024 at the earliest (Reserve Bank of Australia, Minutes of the Monetary Policy Meeting of the Reserve Bank Board, 2 March 2021). The enduring low interest rate environment is anticipated to remain supportive of the commercial property sector. In addition, economic survey indicators remained strong with February readouts of the NAB Business Conditions and Consumer Confidence indices indicating rises from prior months and stunning turnarounds over the 12 months.

Preliminary quarterly data provided by Jones Lang Lasalle, suggests that major office property markets continue to experience slowing demand for accommodation, although some larger tenants are now engaging, with briefs out in the market. Future office developments are reducing in number and scale which should serve to keep the supply/demand dynamic broadly in check. Sub-lease continues to rise in some locations, most notably Brisbane. It is possible metropolitan office markets may benefit in the current environment in attracting and retaining tenants, as being able to drive and park continues to be increasingly attractive.

Demand for industrial property remains strong, benefiting from an increase in online retail sales and changes to supply chains having accelerated as result of recent pandemic disruptions. By way of example, gross take-up of 1.0 million square meters (sqm) was recorded in the first quarter, an increase of 18% from the prior quarter and almost double the 10-year quarter average. Melbourne accounted for 53% of the gross-take up of industrial accommodation. Industrial development completions have declined this quarter, reflecting the moderated levels of new speculative development and completion delays caused by the pandemic. 1.5 million sqm remains under construction or have approved plans with around 65% pre-committed with tenants.

Retail property leasing continued to improve throughout the March quarter with more deals being executed, albeit rent reductions are generally being experienced across the various retail property sub-markets. CBD retail has been the hardest hit shopping format with vacancy across all CBDs at elevated levels. This is not surprising when considering international visitation into Australia ceased and office workers were forced to hibernate at home. Pleasingly, many suburban centres not reliant on international travellers or CBD office dwellers have remained resilient, with patronage, demand for space and rent collection bouncing back. Retail property transactions remained relatively low by historical standards, with most of the property sales in the neighbourhood shopping centres/convenience based sub-regional shopping centre space, where demand for these types of centres with their high allocation to grocery and essential spend retailing, keenly sought by investors. (Jones Lang LaSalle, Australia Preliminary Overview 1Q2021, March 2021)

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

For the quarter ending 31 March 2021, the Australian listed property sector, as measured by the S&PASX 200 A-REIT Accumulation Index, returned negative 0.5% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned 4.3%. Over the past twelve months, the A-REITs returned 44.66% outperforming the broader equities market which returned 37.47%.

The economic re-opening trade remained a thematic in the A-REIT space this quarter with retail and office landlords performing strongly. Scentre Group (SCG) and Vicinity Group (VCX) posting returns of 4% and 3% respectively. Unibail-Rodamco-Westfield (URW) which owns large malls in Europe, UK and US also posted a solid return of 5% for the quarter. Diversified stocks tilted towards office or retail such as Dexus (DXS), GPT Group (GPT) and Stockland (SGP) also rose. Stocks that have a higher level of funds management and development exposure such as Goodman Group (GMG) and Charter Hall Group (CHC) underperformed with falls of 4.2% and 12.4% respectively.

Portfolio activity for this quarter

Revaluations

During the quarter the properties of 223 – 227 Govenor Road, Braeside VIC and 91-97 Woodlands Drive, Braeside VIC, were revalued resulting in an aggregated 8.5% increase over the prior June 2020 valuation. This is a result of capitalisation rates tightening from 5.50% to 4.75% coupled with a lease extension from 13.5 years to 20 years.

In exchange for the lease extensions, the Fund has commenced a solar initiative rollout at the Properties with 'full roof' solar installation of ~1,400KW (Governor Rd) and 500KW (Woodlands Dr) to be installed. The cost of the installation of solar panels across both sites is approximately $2.45 million plus GST. Solgen Energy Group has been contracted to deliver the works.

This significant solar investment will reduce the tenant's reliance on power from the grid and increase the energy efficiency of the properties. Separately, the tenant is creating an outdoor 'green space' for staff and client use. This space will be powered by solar and will harvest rainwater.

Leasing

We are delighted to announce the lease up of the vacant area at 296 St. Vincent Street, Port Adelaide, SA. We welcome Asuria to the building, who've agreed to a two-year lease. This tenancy was previously vacant since we acquired the property. Asuria works with employers and governments to find job seekers long-term employment. This property is now 100% leased.

Lot 6 133 South Pine Rd, Brendale, QLD forms the remaining vacancy within the directly owned property sleeve. We continue to look at re-leasing opportunities and have responded to a couple of requests for information from prospective tenants. We'll advise investors of any updates should they arise.

Distribution

We are pleased to announce a distribution of 1.25 CPU for the quarter ending 31 March 2021.

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 mix of listed and other corporates. The Fund's retail exposure is weighted towards convenience retailing and weighted more toward 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.

296 St Vincent Street, Port Adelaide, SA

Key direct property statistics as at 31 March 2021

Geographical allocation (by value)

State	No. assets	%
VIC	6	65.93
QLD	4	24.29
SA	1	9.78
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	8	72.90
Office	2	19.34
Healthcare and social infrastructure	1	7.76
Total	11	100.00

Note: excludes assets held for sale.

Property data

Number of properties	11
Total number of tenants	11
WALE (by income)#	8.8 yrs
Occupancy rate (by income)^	92.9%

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

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	29.26
Flinders Ports	11.81
Specialist Wholesalers	11.76
Synergy Packaging	8.69
Gruma Oceania	7.50
Total	69.02

Valuations

Valuations during the quarter*	2
Change in total direct property book value*	4.97%
Change in book value of the properties revalued*	13.73%

* 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 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	Jul-20	N/A	8.48
Sub total										**8.48**
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	20.3	25.25	Mar-21	4.75	26.18
40 Scanlon Drive, Epping, VIC	-	9,371	Gruma Oceania	2	100.0	3.1	13.60	Jun-20	6.00	13.60
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	20.3	10.50	Mar-21	4.75	11.29
2-10 Bliss Court, Derrimut, VIC	-	9,804	Specialist Wholesalers	1	100.0	2.1	11.20	Jun-20	6.00	11.20
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	9.8	5.80	Sep-20	5.50	5.84
Lot 8, 11 International Square, Tullamarine, VIC	7	2,187	Synergy Packing	1	100.0	9.8	3.55	Aug-20	5.25	3.99
Lot 11 133 South Pine Rd, Brendale, QLD	5	N/A	N/A		-	N/A	1.32	Jun-20	N/A	1.32
Sub total										**79.72**
Office										
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	3	95.5	5.7	10.50	Jun-20	6.75	10.69
17 Byres Street, Newstead, QLD	-	1,283	Construction Sciences	3	100.0	2.6	10.45	Jun-20	6.50	10.45
Sub total										**21.14**
Total (T) / Weighted Average (A)				**11 (T)**	**92.9 (A)**	**8.8 (A)**	**98.5 (T)**		**5.65 (A)**	**109.35 (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. 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. Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land to be developed in the future.
6. 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.
7. Property purchased for $4,005,000. Previously valued at $3.55 million (5.25% cap rate) in August 20. Premium purchase price was due to a deal with Synergy Packaging providing an overall uplift in fund value.

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Important Information

~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.