

Property Income Fund

Fund Update
30 September 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.



2-10 Bliss Court, Derrimut, VIC

Fund Facts as at 30 September 2023

September Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU June 2023 quarter)	\$0.8770 exit price (cum distribution)	\$280.25 m (\$295.63m at 30 June 2023)

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

Ratings / Awards



Performance as at 30 September 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	1.35	5.41	5.53	7.30	7.81	7.56	7.92
Growth return	(3.19)	(3.17)	1.03	(2.31)	(1.74)	0.14	(0.53)
Total return	(1.84)	2.24	6.56	4.99	6.07	7.70	7.39
Benchmark return	(1.09)	2.77	5.72	4.23	5.56	7.70	7.87

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 2023

Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	91.68	32.71
Direct Property	121.22	43.25
Unlisted Property	59.14	21.10
Cash and other	8.21	2.93
Total	280.25	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	74.21
Australian Unity Office Fund	4.86
HealthCo Healthcare & Wellness REIT	3.32
Elanor Commercial Property Fund	2.14
Carindale Property Trust	2.01
Newmark Property REIT	1.86
GDI Property Group	1.65
RAM Essential Services Property Fund	1.64
Total	91.68

Unlisted property portfolio

Holding	\$m
AU Student Accommodation	15.10
Planum Footscray	12.08
AU Specialist Disability Accommodation	8.79
AU Childcare Property Fund	5.15
AU Diversified Property Fund	4.37
Waverley Gardens	4.25
Warrawong Plaza	3.92
Eildon Caboolture	3.08
AU Healthcare Property Trust	2.40
Total	59.14

Financials

	\$m
Gross assets	280.25
Total debt	0.00
Other liabilities [^]	2.67
Net assets	277.58

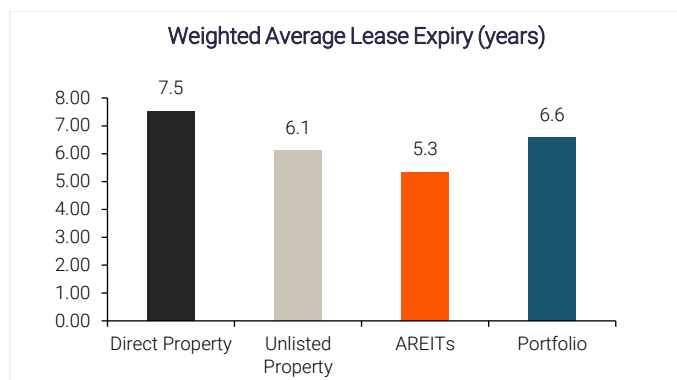
[^] Other liabilities include a provision for the distribution.

Debt

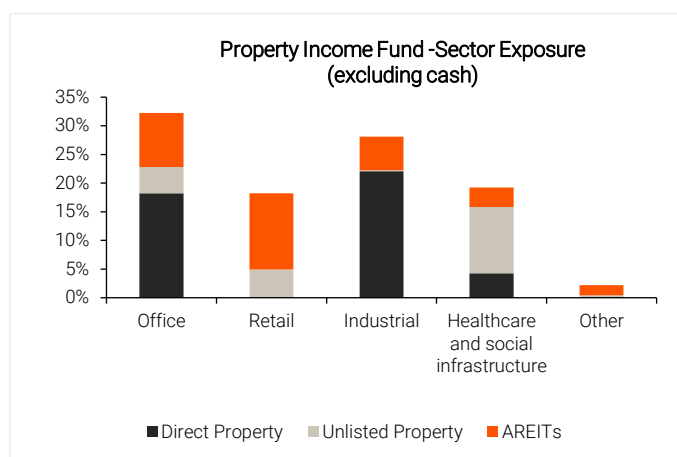
The Fund has no direct borrowings.

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

The Australian economy, while growing at its slowest rate since 2020, continues to provide stoic performance largely underestimated by market participants, with real GDP growth in Q2 2023 up 0.4% quarter on quarter and growing 2.1% annually, notably ahead of both market and Reserve Bank of Australia (RBA) forecasts of 1.8% and 1.6% year on year respectively. Inflation remains above desired levels although has been in decline and is now considered to be firmly passed its peak. Challenges remain to further reduce inflation with ongoing low unemployment supporting wage growth despite reduced levels of labour productivity, while at a headline level energy prices and housing rents continue to remain high. Ongoing positive support to the performance of the Australian economy remains from the strong levels of migrant population growth currently being experienced. From an inflation perspective this should also help manage wage growth however will continue to pressure the housing market until supply levels can be improved.

In a widely expected move, at its October 2023 meeting the RBA continued to hold the current cash rate setting at 4.10%, reflecting no change for a fourth successive month. While this stabilising position might suggest that that we may be at, or if not, very close to peak rates, the RBA maintained the stance that some further increases to interest rates "may be required" to ensure that inflation returns to the RBA targeted range of 2% - 3% in a "reasonable timeframe".

Economist consensus forecasts in Australia do not currently expect a reduction in the cash rate until the latter half of 2024 (Bloomberg). Reflective of this viewpoint, the Australian 10-Year government bond yield, widely used by domestic investment markets as a proxy for a risk-free investment return, increased from 3.97% at the start of the quarter to 4.48% by the end of September 2023.

While the influence of the hybrid work model on office use and demand continues to play out, research data from Jones Lang LaSalle (JLL) indicates leasing resilience with positive office property net absorption (i.e., where take up of accommodation is higher than office space becoming vacant) recorded in three of the six capital city markets for the September 2023 quarter. Over the quarter, absorption was strongest in Adelaide and Perth CBD markets, however leasing has also been strong in Brisbane CBD over the last 12 months. Vacancy remains high with JLL reporting a grade office vacancy of 13.8% nationally across CBD markets, which increases for secondary quality stock. Despite this, individual nuances exist between geographies, submarkets and individual assets with quality, well located stock proving most resilient while local industry, public sector and infrastructure related occupiers have supported solid net effective rental growth in Brisbane and Perth markets. Occupiers continue to face challenges to get staff back to the office on a more substantial basis in several markets albeit this varies between peak and off-peak days of the week. However, as the broader economic environment slows, concerns surrounding workforce productivity may assist in enhancing workplace attendance levels with CBRE reporting that, Productivity Growth data since March 2022 suggests many white-collar, principally office-based sectors, have not performed well, displaying substantial productivity decline over the last 18 months. Transactional activity has continued to trickle through with the acquisition of 1 Margaret Street by Quintessential completing and sales of CBD office assets by Mirvac in Melbourne and Sydney continuing to progress. Additionally, one of the first notable transactions of an office for residential conversion was completed by GURNER at Kent Street, Sydney however cost and design challenges are likely to place a limit on

the extent of similar opportunities in the near term.

Along with some alternative real estate sectors, Industrial property remains one of the most resilient real estate markets in the current environment. While tempering somewhat from prior highs, rental growth remains strong across geographies, with JLL reporting prime quarterly net rental growth rates above 9% within certain submarkets of Sydney, Brisbane and Adelaide, while the highest annual prime net rent growth rate of 27.1% was noted in the Melbourne North market. Such rental growth has helped to minimise asset valuation movements across the sector as required return hurdles move out. Availability of space remains limited, however CBRE report that forecast new supply in 2024 is expected to be double the long run average which should assist to alleviate some of this vacancy pressure, albeit they note that near 50% of this new floorspace is pre-committed as developers look for additional project security given the broader macro-economic uncertainty. As a result, occupier demand is expected to continue to outpace supply over the short term which in turn is likely to continue to drive rental rates upwards.

Despite rising interest rates and continuing cost of living pressures, retail sales have proved somewhat defiant, albeit slowing from previous highs. The monthly Westpac-Melbourne Institute Consumer Sentiment index in Australia rose 2.9% in October 2023, its highest level in six months, however, is still in deeply pessimistic territory, consistent with a continuation of the contraction in per capita spending seen since late last year. Seasonally adjusted retail sales for August were up 0.2% month-on-month, which follows a 0.5% increase in July and a 0.8% decline in June 2023. Compared with August 2022, retail sales were up 1.5% year-on-year. Sales have been supported by record adult population growth, strong income growth and high levels of excess savings. Rents across retail markets remained largely flat across the September 2023 quarter with the large format retail sub sector in Adelaide recording quarterly growth of 1% the only movement of note (JLL). Pleasingly, it appears that CBD retail rents appear to have bottomed out, with JLL noting that none of the CBD markets recording negative rental movement for the quarter. Retail transaction volumes for the quarter totalled c.\$1.2bn (JLL) implying some additional liquidity for the sector which has seen shopping centre income levels rebase and tenant affordability improve following pandemic related adjustments.

Overall, while commercial real estate investors continue to face cost of debt pressures and asset valuation headwinds, direct property markets remain largely robust. Transactional activity remains low versus historic levels as buyer inertia and pricing disconnects between market participants remain, however in general greater liquidity can be seen for the smaller asset markets, while some property sectors are attracting more investor interest than others. Nonetheless, the potential for a soft economic landing supporting the resilience of tenant income streams as well as the expectation that interest rate levels are at or near a cyclical peak, may provide increased confidence for property purchasers going forward. Additionally, the strong migration levels currently being experienced in Australia continue to support living and other population driven sectors such as student accommodation and healthcare as well as supporting retail spending.

For the quarter ending 30 September 2023, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned negative 2.9% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned negative 0.8%. Over the year to 30 September 2023, A-REITs returned positive 12.5% compared to the broader equities market return of positive 13.5%.

Fund performance

The Fund provided a total return of negative 1.84% (after fees) for the September 2023 quarter. Performance was impacted by a decline in the listed A-REIT investments held, which account for c. 33% of the Fund's total assets as of 30 September 2023. Additionally, the updated independent valuation of the Fund's direct property asset known as 91-97 Woodlands Drive, Braeside, VIC resulted in a write down from the prior book value which also contributed to this return. Positively, the Fund's investment in alternative real estate sectors, more specifically social infrastructure, continue to provide robust performance with Healthcare Property, Specialist Disability Accommodation and Student Housing all performing well. These markets remain well supported by structural tailwinds be it demographic changes, ongoing government support or continuing international student demand for tertiary education in Australia.

Ongoing uncertainty surrounding the extent and length of current interest rate levels, culminating in a substantial rise in the Australian 10-Year government bond yield, weighed heavily on the A-REIT market over the quarter. Listed property investors remain cautious with sentiment highly sensitive to negative news headlines, although value appears to be emerging. As of 30 September 2023, the A-REIT sector (A-REIT Index) is trading at a c.5.0% FY24 estimated dividend per share yield and a substantial c.-25% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, 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 Valuations

91-97 Woodlands Drive, Braeside, VIC

The Fund's property at 91-97 Woodlands Drive, Braeside, Victoria was independently valued as at 31 August 2023. The property's value increased by \$0.1 million or 0.81% on the prior year's external independent valuation of \$12.40 million, while recording a \$1.20 million or 8.8% decrease to the property's book value immediately prior to the valuation, predominantly due to a change in the valuer adopted capitalisation rate and a write down in additional tenant incentive payment as part of a recent lease renegotiation. The capitalisation rate adopted softened from 4.25% in August 2022 to 5.50% in August 2023 as a result in the change in current market dynamics in a higher cost of capital environment.

Edith Cavell Building, Herston, QLD

The Fund's property known as Edith Cavell Building, Herston QLD was independently valued as at 31 August 2023. The property's value was unchanged on the prior year's external independent valuation of \$11.50 million while recording a \$0.13 million or 1.1% decrease to the property's book value immediately prior to the valuation. The capitalisation rate was tightened from 6.125% to 6.00% following the ongoing income security provided by the new lease agreement with the University of Queensland albeit this was offset by the impact of rising outgoings expenditure.

Asset Divestment

2-10 Bliss Court, Derrimut, VIC

Following successful renegotiation of the existing lease agreement, on 20th October 2023, the Fund exchanged contracts

for the sale of the property located at 2-10 Bliss Court, Derrimut, VIC. Settlement is anticipated to occur on 3rd November 2023. In addition, contracts have been exchanged with a third-party solar energy provider Timberjack Energy to acquire the in-situ solar energy system at an agreed sale price of \$0.30m. Settlement of the solar energy system is anticipated to be completed on 31st October 2023.

Overall, the proposed sale of the property together with the solar energy system equates to a total sale price of \$18.80m. This reflects a modest 1.9% discount to the property's most recent book value, which is considered a strong endorsement of the desirability of certain assets over others given the wider uncertainties being experienced generally in transactional markets.

Asset Management

Edith Cavell Building, Herston, QLD

The Fund is pleased to announce that it has executed a lease agreement with the University of Queensland (UQ) to lease 798 sqm at our Edith Cavell Building in Herston Quarter. The lease commenced on 1 September 2023 with a term of 5 years plus an option for an additional 5 years with the UQ currently undertaking their fit out works.

The Edith Cavell Building is a 1,573 sqm multi-use property in the Herston Quarter Health Precinct in Brisbane, Queensland. The Property is now approximately 80% leased (by income) to UQ and Australian Unity with a single ground floor retail tenancy remaining for lease.

134 King Street, Newcastle, NSW

The Australian Unity Property Income Fund's property at 134 King Street, Newcastle was a venue partner for Newcastle Art Gallery's presentation of a major solo exhibition by internationally renowned, Melbourne-based photographer Atong Atem. The Fund provided the ground floor space of the property for use as exhibition space as part of the city-wide festival 'New Annual'. The festival and exhibition ran from 22nd September to 1st October 2023, during which the gallery hosted a dynamic series of events in the space presenting fashion, music, discussion, and storytelling from exciting creators celebrating African culture in Australia. The Fund was delighted to be able to assist the facilitation of this local flagship event and is committed to contributing to the social benefit of both the local and broader markets in which it operates.

296 St Vincent Street, Port Adelaide, SA

The Fund's property at 296 St Vincent Street, Port Adelaide is situated directly opposite the former Port Dock railway station and rail line spur which has been closed since 1981. Having made construction of the new line an election commitment in 2022, the South Australian Government has committed \$51 million for the Port Dock Railway Line Project. This project will result in the recommencement of a rail line linking Port Adelaide's commercial centre and residential precinct to the Adelaide CBD and will include a new railway station, plaza and bus interchange, all of which will be situated adjacent to the rear of the Fund's Port Adelaide asset.

Planning approvals remain ongoing however site compound establishment and preliminary rail reconstruction works have commenced and will continue until late October 2023. The new railway line and station are currently forecast to open in late 2024. The Fund is encouraged by the progress on this important local infrastructure project and believe it will enhance the desirability of the subject asset and further augment the attractiveness of the Port Adelaide precinct.

Distribution

We are pleased to announce a distribution for the month of September 2023 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 30 September 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 mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.



91-97 Woodlands Drive, Braeside, VIC



Edith Cavell Building, Herston, QLD



134 King Street, Newcastle, NSW (Image credit: Newcastle Art Gallery)

Key direct property statistics as at 30 September 2023

Geographical allocation (by value)

State	No. assets	%
VIC	3	49.50
SA	2	26.39
QLD	2	17.85
NSW	1	6.26
Total	8	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	3	49.50
Office	4	40.90
Healthcare and social infrastructure	1	9.60
Total	8	100.00

Property data

Number of properties	8
Total number of tenants	16
WALE (by income)#	7.5 yrs
Occupancy rate (by income)	91.90%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	27.22
Concept Logistics	13.37
Flinders Ports	11.49
The University of Queensland	6.22
Logic Plus	5.96
Total	64.26

Valuations

Valuations during the quarter	2
Change in total direct property book value	0.34%
Change in book value of the properties revalued	-0.47%

* 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 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	89.6	1.5	17.35	Jun-23	6.00	17.71
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	4.4	14.25	Jun-23	6.25	14.28
17 Byres St, Newstead	-	1,326	Construction Sciences	2	69.4	<1	10.00	Jun-23	6.00	10.00
134 King Street, Newcastle, NSW	5	1,879	N/A	0	-	-	7.50	Jun-23	N/A	7.59
Sub total				11			49.10			49.58
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	17.9	28.30	Jun-23	4.75	28.30
2-10 Bliss Court, Derrimut VIC	-	9,715	Concept Logistics	1	100.0	8.9	15.90	Jul-22	4.50	19.21
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	17.9	12.50	Aug-23	5.50	12.50
Sub total				3			56.70			60.01
Healthcare and social infrastructure										
Edith Cavell Building	-	1,573	The University of Queensland	2	80.0	3.5	11.50	Aug-23	6.00	11.63
Sub total				2			11.50			11.63
Total (T) / Weighted Average (A)				16 (T)	91.9 (A)	7.5 (A)	117.3 (T)		5.44 (A)	121.22 (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.
- Planning consent currently being sought for asset repositioning.

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Important Information

<https://www.zenithpartners.com.au/our-solutions/investment-research/regulatory-guidelines/>

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