180 YEARS | Australian Unity Real Wellbeing

Property Income Fund

Fund Update
30 June 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.

90-96 Maribyrnong Street, Footscray, VIC

Fund Facts as at 30 June 2021

June Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU)	**$0.9719**	**$310.31 m**
(1.2500 CPU March 2021 quarter)	exit price (cum distribution)	($277.59m at 30 March 2021)

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

Ratings / Awards

Recommended
Lonsec Research

Performance as at 30 June 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	1.39	6.47	8.89	8.93	8.40	8.05	8.20
Growth return	6.49	13.78	0.05	(0.55)	1.90	1.56	(0.15)
Total return	7.88	20.25	8.94	8.38	10.30	9.61	8.05
Benchmark return	5.67	16.38	6.23	7.11	9.26	9.72	8.49

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 June 2021

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	113.59	36.60
Direct Property	102.30	32.97
Unlisted Property	50.67	16.33
Cash and other*	43.75	14.10
Total	310.31	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	95.34
Australian Unity Office Fund	10.09
GDI Property Group (GDI)	3.20
Elanor Retail Property Fund	2.72
Carindale Property Trust	2.23
Total	113.59

Unlisted property portfolio

Holding	$m
Australian Unity Student Accomodation Fund	11.35
Planum Footscray Fund	11.07
Australian Unity Healthcare Property Trust	9.96
Australian Unity Diversified Property Fund	8.20
Australian Unity Specialist Disability Accommodation Fund	6.57
Elanor Waverley Gardens Syndicate	3.53
Total	50.67

Financials

	$m
Gross assets	310.31
Total debt	0.00
Other liabilities^	5.14
Net assets	305.17

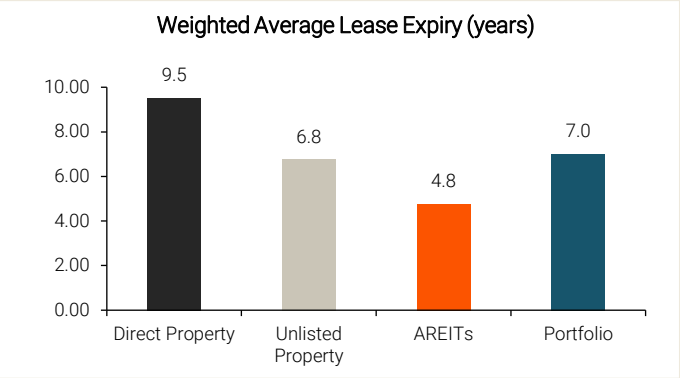
^ Other liabilities include a provision for the distribution.

Debt

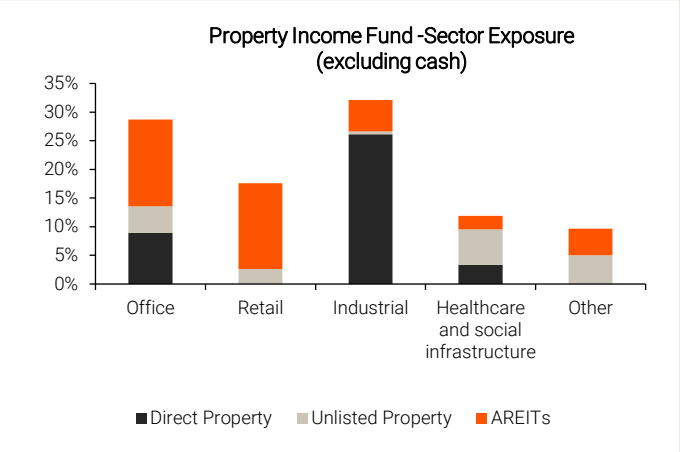
The Fund has no direct borrowings.

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 final quarter of the 2021 financial year ended with a resurgence of COVID-19 cases across Australia resulting in short lockdowns across much of the country. Compared to other developed countries, the vaccine rollout in Australia continues at a sluggish pace with 5.8% of the population fully vaccinated whilst a quarter of Australians have received a first dose. In comparison, in the United Kingdom and the United States those who have received a first dose sits much higher 67% and 55% respectively, with life in those regions seemingly returning to normal.

On the Australian economic front, retail sales growth was up a strong 25.0% for the 12 months to April 2021. In May, the Australian unemployment rate continued its rapid decline to 5.1% whilst job advertisements continue to grow. A pleasing result considering many economists were assuming a fiscal cliff to accompany the end of Government support measures. NAB Business Conditions and Consumer Confidence surveys continue to rise indicating a more positive outlook from the business community, although these results may be somewhat tempered once lockdowns are factored into the June release.

The Reserve Bank of Australia (RBA) continues to hold the cash rate at 0.10%. The RBA Board stated it does not intend to increase interest rates until inflation is sustainably within 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. In this environment, conditions are likely to remain favourable for property.

The big discussion point to close out the financial year relates to rising inflation and its impact on the current accommodative stance adopted by central banks globally. Economists views are mixed as to whether a recent rise in inflation is transitory or something more permanent, while 10 year bond yields in Australia and the USA having retraced back to 1.5% after peaking in February/March at around 1.8%, noting 10-year bond yields in both markets began the financial year at levels well below 1%.

Preliminary quarterly property data provided by Jones Lang Lasalle, suggests that major office property markets are starting to see some positive embers with four of the six CBD markets monitored expected to record net positive demand for space. Future office developments are reducing in number and scale which should serve to keep the supply/demand dynamic broadly in check. Investment transactional volumes for the June 2021 quarter were largely unchanged although Australian investors acquiring assets soared, with one third of the transaction activity centred in Brisbane. Prime equivalent office yields over the quarter were broadly unchanged although the Melbourne and Perth office property markets were buoyed by further property yield compression of 12 basis points.

Demand for industrial property remains strong, with the sector continuing to benefit from the move to online retailing coupled with pandemic induced supply chain recalibration by retailers. Gross take-up of 0.8 million square meters (sqm) of industrial space was recorded in the June 2021 quarter, significantly higher than the 10-year quarter average. Sydney accounted for 46% of the gross take up of industrial accommodation. Currently, 1.0 million sqm of industrial space remains under construction (or approved plans) with around 61% pre-committed with tenants, while 25% of these developments are being fully built speculatively i.e. without any tenants in place. In April, Blackstone's Milestone Logistics portfolio was put to market, transacting at an exceptionally strong ~4.25% yield, setting a new benchmark for industrial assets and providing enough market evidence for valuers to increase their positive view on industrial values.

Retail property leasing continued to improve throughout the June 2021 quarter, although there is a clear dispersion between tenant quality and shopping centre type. Mini major retailers and food and beverage retailers continue to take up space whilst mid-market fashion retailers continue to struggle. New developments remain on hold with landlords preferring to focus capital expenditure spend into the refurbishment of existing centres. Notably, retail property transaction volumes were strong over the June 2021 quarter due to improving investor confidence. It is worth highlighting, 60% of transaction volumes were in neighbourhood and sub-regional assets with tenant mix skewed to essential spend retailing.

As the States continue to manage outbreaks more effectively and Australians continue to be vaccinated, we anticipate the operating metrics of many landlords to continue to improve.

For the quarter ending 30 June 2021, the Australian listed property sector, as measured by the S&PASX 200 A-REIT Accumulation Index, returned 10.5% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned 8.3%. Over the past twelve months, the A-REITs returned 33.2% outperforming the broader equities market which returned 27.8%.

The A-REIT sector is trading at around a 3% premium to last stated underlying Net Tangible Assets (NTA) which excludes Charter Hall Group and Goodman Group from the equation as these two have a large portion of non-rental earning assets (i.e. development and funds management businesses) and their market pricing can deviate substantially from NTA backing. A-REIT sector gearing sits at a manageable 23%.

A-REITs continue to be positively impacted by the current low interest rate environment and as vaccine take-up continues its ascent, a global reopening trade as restrictions around people movement subsides.

Portfolio activity for this quarter

Revaluations

The Fund's office properties were upwardly revalued as at 30 June 2021:

- 296 St Vincent Street, Port Adelaide, SA revalued to $12.25 million, an increase of 16.7% on the prior value, due to capitalisation rates compressing by 0.5% and the vacant space successfully leased.
- 17 Byres Street, Newstead, QLD was revalued to $11.5 million, an uplift in value of 10.1%. The increase was driven by a firming of the capitalisation rate from 6.50% to 6.00%.

The Property Income Fund's industrial assets experienced strong valuation uplifts:

- 11 International Square, Tullamarine, VIC and 10 International Square, Tullamarine, VIC increased by 21.1% and 25.9% respectively above their prior carrying values. The uplifts in value are a clear reflection of the significant levels of investor interest for well-located long leased industrial premises. Yields compressed by 0.75% at both properties.
- Despite a shortening weighted average lease term, 2-10 Bliss Court, Derrimut, VIC witnessed a compression in its capitalisation rate of 0.5% to 6.0% leading to a valuation of $12.60 million, an increase of 12.5% above the prior value.
- The value of the vacant land at 133 South Pine Road, Brendale,

QLD increased by 13.6% to $1.50 million following strong market evidence for developable industrial land in the precinct.

Edith Cavell Building, QLD - Development and Valuation

The repurposing of the Edith Cavell Building in Herston QLD is progressing well and is on target for completion by early 2022. The redevelopment is now 79% complete. Pleasingly, an independent 'As if complete' valuation was conducted as at 30 June 2021, recording a 6.80% increase on the prior June 2020 'As if complete' valuation ($11.00 million versus $10.30 million prior). The valuation increase has been driven by a tightening of the capitalisation rate from 6.50% to 6.25%.

The Edith Cavell Building is a 1,533 sqm multi-use property in the Herston Quarter Health Precinct in Brisbane, Queensland. Upon completion, it will be 66% pre-committed by income to Australian Unity with a 3-year weighted average lease expiry. The Herston Quarter Health Precinct is a $1.1 billion redevelopment in the heart of Brisbane, located two kilometres from the central business district. It is strategically positioned near public transport, educational and retail amenity. The precinct is currently under various phases of development delivering health services and other supporting and complementary uses.

Leasing

Lot 6 133 South Pine Rd, Brendale, QLD forms the only vacancy within the directly owned property sleeve of the Fund. We continue to look at re-leasing opportunities and other avenues to unlock value. Investors will be advised of any updates should they arise.

Transactions

On 10 June 2021, the Fund exchanged contracts of sale in relation to 40 Scanlon Drive, Epping VIC. The agreed sale price was $15.5 million, a 14.0% premium compared to the property's prior independent valuation conducted in June 2020. The property settled on 25 June 2021.

Unlisted Property Investments

Australian Unity Healthcare Property Trust (AU HPT)

AU HPT offers a diversified exposure to the healthcare sector including private and public hospitals, medical centres, aged care properties and other social infrastructure property assets. AU HPT tenants are of a high quality, with income underpinned by long-term leases. AU HPT recently received numerous unsolicited proposals from NorthWest to acquire 100% of the units in AU HPT. A unitholder meeting has been convened for 19th July 2021 to vote on the proposal. In addition, a rights offer was launched during the period, with the Property Income Fund taking up its entitlement to acquire additional units in AU HPT.

Australian Unity Diversified Property Fund (AU DPF)

In early July, AU DPF was approached by the ASX listed Australian Unity Office Fund (AOF) with a conditional, unsolicited and non-binding proposal to explore a merger. If successful a merger would create a $1.2 billion listed portfolio of 18 properties investing across office, industrial, essential spend shopping centres and service stations. The potential merger is subject to several conditions and at this stage is not certain.

Australian Unity Student Accommodation Fund (AU SAF)

The repurposing of the Lady Lamington Towers in the Herston Quarter Health Precinct in Brisbane, Queensland is progressing well and remains on target for the 2022 opening. Recent construction activity has included the installation of ceiling and partitions, carpentry decking works, infill amenities and roofing works. Externally, the carpentry to windows, doors, decks and balustrades has largely completed. Prototype rooms are now complete with furniture, fittings and equipment installed. Australian Unity is working closely with UniLodge (the operator) to execute a marketing plan for the opening in 2022, this includes access to UniLodge's network of domestic referral programs. The Property Income Fund continues to receive a 6.5% per annum coupon paid quarterly during the development phase.

Planum Footscray Fund (PFF)

PFF is a special purpose fund that holds 90-96 Maribyrnong Street, Footscray Victoria, a multi tenanted office building in Metropolitan Melbourne. The Property Income Fund owns 50 percent of PFF. Pleasingly, the 30 June 2021 independent valuation for the property has increased to $38.0 million, up over 14% compared to the 2019 purchase price of $33.26 million. As a result, the fund's indicative NTA has been calculated at ~$1.10 per unit ($1.00 per unit initial purchase price).

Australian Unity Specialist Disability Accommodation Fund (AU SDA)

The Property Income Fund was an early investor in the burgeoning new social infrastructure sector—specialist disability accommodation. This new and growing sector offers access to federal government–funded income backed by the National Disability Insurance Scheme (NDIS). AU SDA has settled 21 dwellings across four properties totalling $30 million. An additional 57 dwellings are contracted and under construction. In addition to these acquisitions mentioned, AU SDA continues to proactively evaluate additional opportunities to grow, with the aim of providing specialist disability housing for more Australians living with a disability.

Elanor Waverley Gardens (Waverley Gardens)

Elanor is a specialist property manager that focuses on acquiring shopping centres and similar assets ripe for repositioning. Waverley Gardens is a metropolitan sub-regional shopping centre located 25 kilometres southeast of the Melbourne CBD and in a catchment area with strong growth. The centre is situated on a significant 106,000 square metre site near the intersection of two major motorways, the Monash and EastLink. The current centre occupies 39,554 square metres and is anchored by Australia's three major supermarkets: Woolworths, Coles and Aldi. The strategy to reinvigorate the centre by reconfiguring the property to support modern shopping trends focusing on convenience and fresh food remains on track. Favourable zoning at the site also offers an opportunity to unlock value by developing under-utilised land.

Distribution

We are pleased to announce a distribution of 1.25 cents per unit (CPU) for the quarter ending 30 June 2021. A distribution of 5.00 CPU was paid in total over the course of the 2021 financial year.

The Property Income Fund continues to display its resilience due to is its overall diversification across various property and tenant types and by investing in a combination of public and private commercial property, including ungeared directly owned commercial properties, listed property securities and unlisted property trusts. Each investment plays a key part in delivering on the Fund's objective.

We continuously seek to expand the fund's sources of income, by incorporating new and developing property sectors, rethinking existing business models and ensuring appropriate diversification, balanced with our conviction around key property themes.

Outlook

In general, we continue to retain a supportive view of the Australian commercial property market as the sector transitions through the current pandemic inspired headwinds. The Property Income Fund provides investors with access to a diversified assortment of commercial properties and income streams. The Fund simplifies property investment, a one-stop shop for Australian property exposure.

296 St Vincent Street, Port Adelaide, SA

Edith Cavell Building, Herston, QLD

Key direct property statistics as at 30 June 2021

Geographical allocation (by value)

State	No. assets	%
VIC	5	60.49
QLD	4	27.54
SA	1	11.98
Total	10	100.01

Sector allocation (by value)

Sector	No. assets	%
Industrial	7	68.11
Office	2	23.22
Healthcare and social infrastructure	1	8.67
Total	10	100.00

Note: excludes assets held for sale.

Property data

Number of properties	10
Total number of tenants	10
WALE (by income)#	9.5 yrs
Occupancy rate (by income)^	91.9%

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

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	33.42
Specialist Wholesalers	13.66
Flinders Ports	13.60
Synergy Packaging	10.01
Construction Sciences	5.35
Total	76.04

Valuations

Valuations during the quarter*	7
Change in total direct property book value*	6.85%
Change in book value of the properties revalued*	12.23%

* 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 June 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	8.87
Sub total										**8.87**
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	20.0	25.25	Mar-21	4.75	26.68
2-10 Bliss Court, Derrimut, VIC	-	9,715	Specialist Wholesalers	1	100.0	1.9	12.60	Jun-21	5.50	12.60
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	20.0	10.50	Mar-21	4.75	10.99
10 International Square, Tullamarine, VIC	-	4,305	Synergy Packing	1	100.0	9.5	7.30	Jun-21	4.75	7.30
Lot 6 133 South Pine Rd, Brendale, QLD	-	3,796	-	0	-	-	6.30	Jun-20	6.50	6.30
Lot 8, 11 International Square, Tullamarine, VIC	-	2,187	Synergy Packing	1	100.0	9.5	4.30	Jun-21	4.50	4.30
Lot 11 133 South Pine Rd, Brendale, QLD	5	N/A	N/A		-	-	1.50	Jun-20	N/A	1.50
Sub total										**69.67**
Office										
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	4	100.0	6.3	12.25	Jun-21	6.25	12.25
17 Byres Street, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	2.4	11.50	Jun-21	6.00	11.50
Sub total										**23.75**
Total (T) / Weighted Average (A)				**10 (T)**	**91.9 (A)**	**9.5 (A)**	**91.5 (T)**		**5.33 (A)**	**102.30 (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.

Contact us

australianunity.com.au/wealth

investments@australianunity.com.au

Investor Services

T 13 29 39 F 03 8682 5057

Adviser Services

T 1800 649 033 F 03 8682 5057

Important Information

The Australian Unity Property Income Fund – Wholesale Units is issued by Australian Unity Property Limited ABN 58 079 538 499, AFS Licence No. 234455. The information in this document is general information only and is not based on the objectives, financial situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product, investors should obtain the current Product Disclosure Statement (PDS) and consider whether the product is appropriate for them. A copy of the PDS is available at australianunity.com.au/wealth or calling our Investor Services at 1300 997 774. Investment decisions should not be made upon the basis of its past performance or distribution rate or any rating by a rating agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the rating agency itself. The information provided in the document is current as at the time of publication.

The Lonsec Rating (assigned April 2020) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Australian Unity product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

~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.