

# Property Income Fund

Fund Update  
**31 March 2022**

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.



Edith Cavell Building, Herston, QLD

## Fund Facts as at 31 March 2022

March Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU December 2021 quarter)	\$0.9850 exit price (cum distribution)	\$353.36 m (\$351.41m at 31 December 2021)

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

## Ratings / Awards



## Performance as at 31 March 2022

	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	1.26	5.63	8.52	8.86	8.14	7.92	8.11
Growth return	(1.67)	7.95	(1.85)	(0.47)	1.14	1.58	(0.09)
Total return	(0.41)	13.58	6.67	8.39	9.28	9.50	8.02
Benchmark return	(1.22)	13.89	6.06	7.84	8.65	10.02	8.56

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 2022

### Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	127.78	36.16
Direct Property	130.68	36.98
Unlisted Property	66.51	18.82
Cash and other*	28.39	8.03
<b>Total</b>	<b>353.36</b>	<b>100.00</b>

\* Includes cash and cash equivalents.

### Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	100.19
Australian Unity Office Fund (AOF)	9.34
GDI Property Group (GDI)	3.33
Newmark Property REIT (NPR)	2.83
Elanor Commercial Property Fund (ECF)	2.72
Elanor Retail Property Fund (ERF)	2.62
Carindale Property Trust (CDP)	2.38
RAM Essential Services Property Fund (REP)	1.86
<b>Total</b>	<b>125.27</b>

### Unlisted property portfolio

Holding	\$m
Australian Unity Healthcare Property Trust	12.86
Australian Unity Student Accommodation Fund	11.15
Planum Footscray Fund	10.79
Australian Unity Diversified Property Fund	8.13
Australian Unity Specialist Disability Accommodation Fund	8.09
Australian Unity Childcare Property Fund	4.97
Elanor Waverley Gardens Syndicate	3.68
Elanor Warrawong Plaza	3.50
Eildon Caboolture	3.35
<b>Total</b>	<b>66.51</b>

### Financials

	\$m
Gross assets	353.36
Total debt	0.00
Other liabilities <sup>^</sup>	6.84
<b>Net assets</b>	<b>346.51</b>

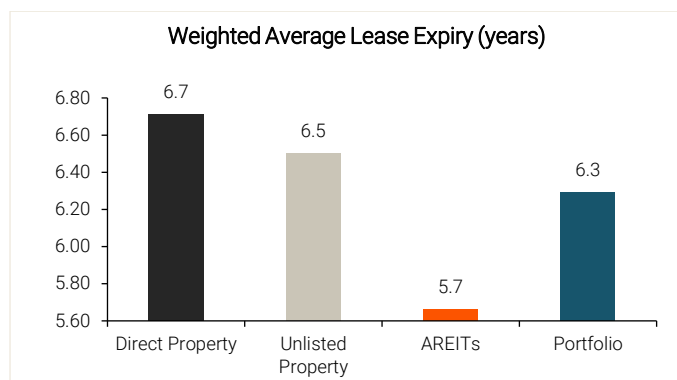
<sup>^</sup> Other liabilities include a provision for the distribution.

### Debt

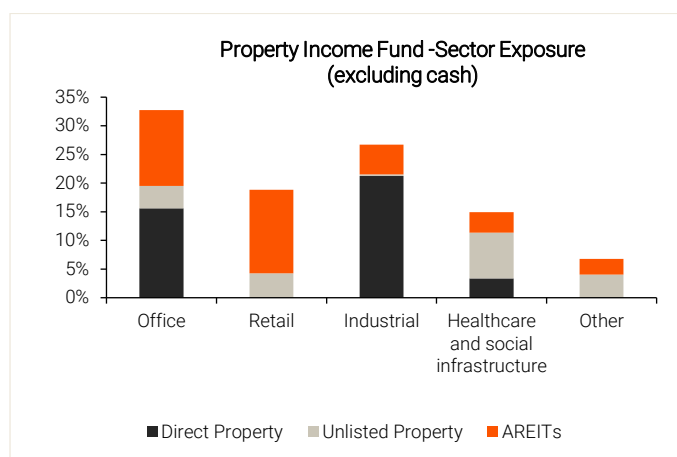
The Fund has no direct borrowings.

### 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 2022 commenced with concerns over potential implications of the latest COVID-19 variant (Omicron), however pleasingly this wave subsided quickly (albeit cases nationally are currently rising) and restrictions continued to be eased with both international and state borders opening. Instead, economic and market attention has shifted focus to the geopolitical uncertainty surrounding Russia's invasion of Ukraine in late February which has seen increased volatility in equities markets and rising bond yields. Against a backdrop of pre-existing inflationary pressures from COVID-19 induced supply chain challenges, the conflict has also created a new supply shock that has seen global prices rise for several important commodities including oil, gas, and wheat of which Russia and Ukraine are significant exporters.

Australia will derive some benefit from its geographical distance to the conflict area with no more than 0.2% of Australia's total trade imports and exports being to/from Russia and Ukraine in each of the last 3 years (KPMG, 2022). In fact, Australia is well positioned to capitalise on global limitations on Russian and Ukrainian exports providing much of the energy resources and agriculture in high demand. However, Australia will not be immune to the global implications of the conflict with rising inflation and cost of living increases currently being experienced, notably demonstrated by the cost of petrol surging to recent highs. While the recent 2022 Federal Budget made some attempt to address such pressures, providing short term fuel excise relief and a one-off cost of living payment for concession cardholders, challenges remain, and this is likely to be one of the main focal points in the forthcoming Federal Election.

Despite such macro headwinds, the Australian economy is proving resilient with Westpac forecasting GDP growth of 0.5% for the March 2022 quarter (a 2.8% annual average change) and NAB reporting that both business conditions and confidence rose notably in March 2022. Retail spending has picked up following the Omicron setback while labour markets are particularly strong with the national unemployment rate falling to 4.0% (its lowest level since 2008) and 77,400 jobs added over the month of February-22 (ABS, 2022). This employment strength has resulted in increased wage growth expectations with Westpac now anticipating wages to rise by 4.0% over 2023.

In April 2022 the RBA held the cash rate at 0.1% however associated messaging regarding future rate rises is now much changed with reference to timing patience removed from the rhetoric. Future rate rises remain aligned to inflation and wage growth data which will be available to the RBA later in April and May respectively. Given the widespread reports of cost escalation and annual inflation figures of no less than 3.0% over the two prior quarters, the requirement for the RBA to see inflation sustainably within the required 2% to 3% range as well as evidence of wage growth is likely to materialise over the next quarter. As such, market consensus appears to expect a first cash rate rise at some point between June and August 2022. Furthermore, the speed of rate increases is now largely expected to accelerate compared to prior forecasts with Westpac forecasting a cash rate peak of 2% reached by June 2023 (previously 1.75% in February 2024). Expectations of rising inflation and interest rates has also seen bond yield levels surge over the quarter with the AUD 10-year bond rate sitting at 2.8% by 31 March 2022.

The latest office occupancy research from the Property Council of Australia highlights that physical occupancy in the CBD markets of Melbourne (32%), Sydney (41%) and Canberra (45%) have all more than doubled month on month to March 2022. Additional increases were also seen in Adelaide (61%) and Brisbane (48%)

while Perth (55%) reflected a minor decline in occupancy as COVID-19 finally breached state borders. While remaining below pre-COVID-19 levels, the increase in attendance is encouraging and demonstrates an emergence from Omicron variant induced challenges which will now hopefully continue for future periods. Preliminary quarterly data provided by Jones Lang LaSalle continues to demonstrate positive activity for the office sector with five of the six major office property markets expected to record positive net absorption (i.e., net demand for office accommodation) in the March quarter 2022. While smaller tenant activity remains prevalent in several markets, larger occupiers are returning as previously deferred decision making is now receiving greater attention. This reflects an increased comfort level with what should be a post lockdown, 'living with COVID-19' environment as well as impending lease expiry time pressures. Effective rental growth for the quarter was noted in all 6 CBD markets with Brisbane CBD recording the highest level at 1.4%. Investment activity remained strong in 1Q22 totalling c.\$2.1 billion, which was again concentrated in Sydney CBD. Despite pressure from rising bond rates, JLL recorded compression in prime equivalent yields for 3 of the 6 major markets with the Sydney prime mid-point yield the most significant, tightening 13 bps for the quarter.

Both investment and occupier activity within the Industrial sector slowed in 1Q22 due to a combination of COVID-19 Omicron variant impacts, slow international border reopening as well as a significant lack of stock. Gross floorspace take up for the quarter totalled c.780,00 sqm down 10% from the prior quarter, with the current national vacancy level of sub-2% (CBRE, 2022) together with low levels of modern, efficient warehouse space limiting occupier movement. Conversely, this continues to assist in driving significant rental growth for the sector with average national prime net face rent increasing 9.9% quarter on quarter, the largest quarterly increase since 1989. Underlying tenant demand remains robust and as such, market conditions are in place for rental growth to continue in the short to medium term, particularly within central infill locations. Development activity continues in response to high demand levels however supply chain constraints and inclement weather interruptions in certain locations have led to project delivery delays. Transactional activity levels for the quarter totalled c.\$1 billion, while Industrial yield levels broadly held firm for the quarter with the national weighted prime yield midpoint sitting at 3.95% in Q1 2022 (JLL, 2022).

COVID-19 related restrictions at both a state and federal level were further relaxed during Q1 2022, which saw retail spending continue to perform well on the back of a post lockdown rebound the prior quarter. The widespread reopening aligns with the end of federal support schemes including Job Keeper and the Commercial Leasing Code, both widely utilised by operators within the retail sector. CBD retail remains under pressure, impacted by low numbers of international visitors as well as a delayed pick up in office attendance levels due to impacts of the Omicron variant this quarter. Pleasingly, international borders were opened to visitors in February 2022 however rental declines and rising vacancy rates in the CBD markets of Melbourne, Sydney and Brisbane were still recorded in Q1 2022. Rental levels in other retail sub sectors are largely stable with some minor rental declines recorded in regional shopping centre rents in Melbourne and Queensland for the quarter. Investor preference remains weighted towards convenience-based retail assets and the associated resilient cash flows, particularly noting near term supply chain and inflationary pressures. JLL recorded retail investment transaction activity totalling \$930 million in the quarter of which c.32% (by value) was for neighbourhood assets. Yield levels have remained stable for the most part this quarter with some tightening experienced in sub

regional yield levels in Melbourne and Queensland while JLL note neighbourhood centre yields in South East Queensland compressed by 50 to 75 bps.

While the risks and implications of future COVID-19 variants remain, particularly as the Winter period approaches, investment attention in the short term is particularly conscious of the market impacts of increasing inflation as well as rising interest and bond rates. Despite a spike in the risk-free rate over the second half of the March 2022 quarter, from an asset valuation perspective, average cap rates for the three major asset classes of Retail, Office and Industrial all currently maintain a moderate spread to the 10-year bond rate, providing support to valuations in the short term. While these spreads can be much narrower for certain prime asset categories such as Industrial, there remains a weight of capital for such assets where investment returns are expected to be supported by realised market rental uplift. Additionally, commercial property is well positioned to mitigate negative inflationary impacts, with typical lease and cash flows structures providing minimum annual rental uplifts or increases directly linked to the Consumer Pricing Index (CPI).

For the quarter ending 31 March 2022, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned negative 7.1% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned 2.2%. Over the past twelve months, the A-REITs returned 17.7% outperforming the broader equities market which returned 15.0%.

Over the March 2022 quarter, Retail A-REITs led the market (A-REIT Index) with returns of 1.3%, albeit this was somewhat skewed by the strong performance of Vicinity Centres (VCX), the only positively performing retail stock within the A-REIT Index for the quarter. Commercial office stocks were marginally down over the quarter (negative 1.6%), while Diversified A-REITs fell negative 8.3% and Industrial stocks were down negative 13.3% for the period (UBS, 2022). Individually, the best performing stocks were Vicinity Centres (VCX) and Charter Hall Long WALE REIT returning of 13.1% and 6.9% respectively over the quarter. The laggard for the period was Charter Hall Group (CHC) returning a negative 19.8% return for the quarter, reflective of wider fund manager focused stock falls within the A-REIT Index as bond yield rise.

## Portfolio activity for this quarter

### Property Valuation

*Edith Cavell Building, Herston, QLD*

The Fund's property known as Edith Cavell Building, Herston QLD was independently valued during February 2022 following development completion and handover of the property. The asset was valued at \$11.0 million reflecting a capitalisation rate of 6.25%. The valuation result reflects a marginal increase of 0.6% from the property's book value immediately prior to valuation.

### Development

*Lot 11, 133 South Pine Road, Brendale, QLD*

Development works have now commenced on site for the construction of a new c.2,000 sqm industrial premises at this property. Construction is progressing well with the site having been levelled and frame installation underway. Development completion is currently anticipated to occur in the September 2022 quarter.

*Edith Cavell Building, Herston, QLD*

Practical completion of the redevelopment of this multi-purpose building within the Herston Healthcare Precinct, has now been achieved with handover of the asset to the Fund occurring in February. Installation of an End of Trip facility has been added to the initial development scope with these works expected to be completed by June 2022, further enhancing the quality of the asset offering.

The pre-commitment tenant (Australian Unity) has also taken occupation of the property, leasing 66% of the property. Marketing has commenced on the remaining vacant space with good levels of interest received and discussions underway with several interested parties. We are confident that the property will be well received by the market in our bid to secure additional occupancy over the coming months.

### Solar Panel Rollout

Further to previous announcement regarding solar panel rollout across the majority of the Fund's direct property assets, installation has been completed at the 296 St Vincent Street, Port Adelaide asset with works now underway to the property at 70 Light Square, Adelaide. Following completion at these properties, installation will then commence on the Victorian based assets at 2 Bliss Court Derrimut, 10 International Drive, Tullamarine and 11 International Drive, Tullamarine. On completion of the roll out solar panels will have been installed on 7 of the Fund's 11 direct property assets.

### Unlisted Property Investment

*Australian Unity Student Accommodation Fund, Herston, QLD*

The student accommodation asset at Herston, QLD which forms the underlying security for the Australian Unity Student Accommodation Fund, successfully reached development completion in February 2022. This asset comprises the repurposed Lady Lamington heritage building within the Herston Quarter precinct and provides a total of 695 student accommodation rooms together with substantial tenant amenity including communal lounge areas and a cinema room.

The asset, which is currently operated by the established Student Accommodation provider UniLodge, welcomed its first tenants in February 2022. While original forecast occupancy levels have been impacted by the COVID-19 Pandemic and associated border closures, UniLodge are bullish on the medium to longer term future for the property given its high-quality design.

### 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 its overall diversification across various property and tenant types. The Fund has liquid assets in excess of its minimum thresholds and does not have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered.

The Property Income Fund's property sector weightings are skewed to industrial, office, healthcare and social infrastructure, with revenue exposed to mix of listed and other corporates. The Fund's retail exposure is weighted towards convenience retailing and includes exposure to specialist unlisted funds and listed retail stocks that had been subjected to repricing by the listed market.

## Outlook

In general, we continue to retain a supportive view of the Australian commercial property as the market transitions through current pandemic inspired headwinds. Through its well diversified, actively managed portfolio, we believe the Fund is well positioned to provide investors with a consistent, sustainable level of distribution income over the medium to longer term.



Lot 11, 133 South Pine Road, Brendale, QLD



AU Student Accommodation Fund, Lady Lamington Building, Herston, QLD



296 St Vincent Street, Port Adelaide, SA

## Key direct property statistics as at 31 March 2022

### Geographical allocation (by value)

State	No. assets	%
VIC	5	51.19
SA	2	23.87
QLD	3	18.82
NSW	1	6.12
<b>Total</b>	<b>11</b>	<b>100.00</b>

### Sector allocation (by value)

Sector	No. assets	%
Industrial	6	52.79
Office	4	38.79
Healthcare and social infrastructure	1	8.42
<b>Total</b>	<b>11</b>	<b>100.00</b>

Note: excludes assets held for sale.

### Property data

Number of properties	11
Total number of tenants	18
WALE (by income) <sup>#</sup>	6.7 yrs
Occupancy rate (by income) <sup>^</sup>	84.9%

<sup>#</sup> Excludes assets held for development/sale

<sup>^</sup> Excludes assets held for sale

### Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	22.53
Flinders Ports	9.32
Specialist Wholesalers	9.13
Synergy Packaging	6.93
Australian Unity	6.69
<b>Total</b>	<b>54.60</b>

### Valuations

Valuations during the quarter <sup>*</sup>	1
Change in total direct property book value <sup>*</sup>	0.88%
Change in book value of the properties revalued <sup>*</sup>	4.29%

<sup>\*</sup> 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 2022

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)
<b>Healthcare and social infrastructure</b>										
Edith Cavell Building, Herston, QLD	-	1,573	Australian Unity	1	62.1	1.8	11.00	Feb-22	6.25	11.00
<b>Sub total</b>										<b>11.00</b>
<b>Industrial</b>										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	19.4	29.65	Aug-21	4.25	29.66
2-10 Bliss Court, Derrimut, VIC	-	9,715	Specialist Wholesalers	1	100.0	1.1	12.60	Jun-21	5.50	12.94
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	19.4	12.18	Aug-21	4.25	12.43
10 International Square, Tullamarine, VIC	-	4,305	Synergy Packing	1	100.0	8.8	7.30	Jun-21	4.75	7.45
Lot 8, 11 International Square, Tullamarine, VIC	-	2,187	Synergy Packing	1	100.0	8.8	4.30	Jun-21	4.50	4.42
Lot 11 133 South Pine Rd, Brendale, QLD	5	N/A	N/A	-	-	-	1.50	Jun-21	N/A	2.09
<b>Sub total</b>										<b>68.99</b>
<b>Office</b>										
70 Light Square, Adelaide, SA	-	3,269	Logic Plus	6	90.5	2.8	18.25	Oct-21	5.88	18.76
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	4	100.0	5.7	12.25	Jun-21	6.25	12.43
17 Byres Street, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	1.6	11.50	Jun-21	6.00	11.50
134 King Street, Newcastle, NSW	-	1,879	Richard Crookes Construction	1	-	-	7.55	Nov-21	7.00	8.00
<b>Sub total</b>										<b>50.69</b>
<b>Total (T) / Weighted Average (A)</b>				<b>18 (T)</b>	<b>84.9 (A)</b>	<b>6.7 (A)</b>	<b>128.1 (T)</b>		<b>5.34 (A)</b>	<b>130.68 (T)</b>

## Notes

- Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We have a policy of generally obtaining independent valuations on Fund direct properties each year and, for assets under development, within an 18-month period. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.
- Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.
- A market capitalisation rate is the rate, expressed as a percentage, that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the stabilised net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.
- Total number of tenants represents unique tenants. The sum of all individual property tenant numbers may differ to the total, as some tenants have multiple properties, and these are not double counted in the total.
- Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land currently under development to provide 2,000sqm industrial warehouse.

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## Contact us

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~In times of abnormal operating or market conditions, or periods of excessive withdrawals, the Fund may take up to 180 days to pay withdrawals. Should the Fund cease to be liquid, as defined in the Corporations Act, daily withdrawals will cease. In that case, withdrawal from the Fund will be available in response to a withdrawal offer made to all investors from time to time, in accordance with the Corporations Act.

### Investor Services

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### Adviser Services

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