Property Income Fund

Fund Update
30 June 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 over the medium to long term.

Australian Unity Student Accommodation Fund, Lady Lamington Building, Herston QLD (Photo Credit: Scott Burrows)

Fund Facts as at 30 June 2022

June Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU March 2022 quarter)	**$0.9399** exit price (cum distribution)	**$360.82 m** ($353.36m at 31 March 2022)

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

Ratings / Awards

Performance as at 30 June 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	1.29	5.10	6.22	8.42	8.02	7.80	8.06
Growth return	(4.64)	(3.34)	(1.17)	(1.26)	0.47	1.04	(0.29)
Total return	(3.35)	1.76	5.05	7.16	8.49	8.84	7.77
Benchmark return	(4.87)	2.53	3.49	6.64	7.74	9.02	8.23

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 2022

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	115.51	32.01
Direct Property	135.59	37.58
Unlisted Property	67.10	18.60
Cash and other	42.62	11.81
Total	360.82	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	90.16
Australian Unity Office Fund (AOF)	8.35
Elanor Commercial Property Fund (ECF)	2.84
GDI Property Group (GDI)	2.78
Elanor Retail Property Fund (ERF)	2.69
Newmark Property REIT (NPR)	2.45
Carindale Property Trust (CDP)	2.26
HealthCo Healthcare & Wellness REIT (HCW)	2.06
RAM Essential Services Property Fund (REP)	1.92
Total	115.51

Unlisted property portfolio

Holding	$m
Australian Unity Healthcare Property Trust	12.83
Australian Unity Student Accommodation	11.24
Planum Footscray Fund	10.79
Australian Unity Diversified Property Fund	8.11
Australian Unity Specialist Disability Accommodation	7.97
Australian Unity Childcare Property Fund	4.91
Elanor Waverley Gardens Syndicate	4.40
Elanor Warrawong Plaza	3.50
Eildon Caboolture	3.35
Total	67.10

Financials

	$m
Gross assets	360.82
Total debt	0.00
Other liabilities^	6.65
Net assets	354.17

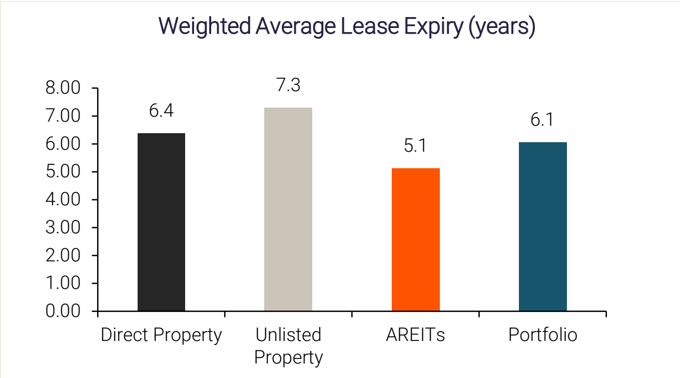
^ Other liabilities include a provision for the distribution.

Debt

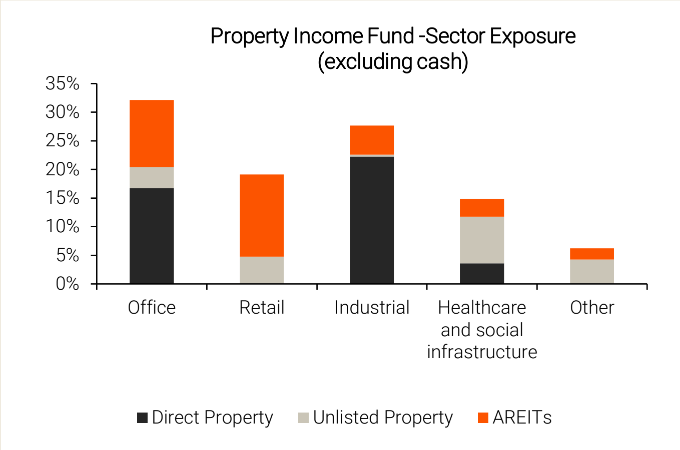
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.~



Note: excludes assets under development.



Note: "Other" includes residential developers, self-storage and other listed investments. Sector weights are on an equity accounting basis.

Market commentary

The end of the 2022 financial year has coincided with a changing global and local economic and political environment. In particular, May 2022 saw a change in Federal Leadership with the Australian Labor Party elected. The Reserve Bank of Australia (RBA) also began increasing the cash (interest) rates. Concerns over escalating inflation levels and the consequent rising cost of living are being experienced in many global markets, while geopolitical pressures remain with the Russian-Ukraine conflict ongoing and COVID-19 constrained goods production in China continuing to hamper global supply chains. As a result, the June 2022 quarter saw increased volatility across financial markets, sensitive to economic changes as stakeholders adjust to a post COVID-19 financial environment.

As the direct implications of the COVID-19 pandemic subside, the Australian economy continues to perform relatively well with GDP growth of 0.8% over the March 2022 quarter, meaning the economy is now 4.5 percent larger than it was in Q4 2019 (KPMG, June 2022). A historically low unemployment rate, 3.9% in May 2022, together with reduced underemployment has resulted in significant tightness in the labour market, driving an acceleration in wages growth in some sectors. However, despite such labour supply restrictions, the Australian Bureau of Statistics (ABS) reported that year on year wage growth to March 2022 was 3.4%, below the current inflation levels being experienced, albeit the national minimum wage level was increased by 5.2% in July 2022. Continued supply restrictions and a post COVID-19 surge in demand for goods saw rising costs passed on to consumers who are also now also facing increasing mortgage repayment levels, surging energy costs and rising fuel costs as Government stimulus simultaneously rolls off. While household savings levels remain healthy, consumer demand is forecast to subside as increasing costs of living are absorbed which may serve to dampen economic growth expectations going forward. Inflation is currently forecast to peak at 7% (KPMG, June 2022) with NAB anticipating GDP to grow by 2.7% over 2022 (previously 3.4%) and a below-trend 1.8% in 2023 (previously 2.1%).

Following the cash (interest) rate increases in both May and June; July 2022 saw the RBA increase the cash rate by a further 50bps to 1.35%, its highest level since 2019. The decision was taken to combat rising inflation levels as the country winds back COVID-19 related stimulus following resilient economic performance. While current official headline inflation levels in Australia are c.5.1% (ABS March 2022), substantially above the RBA's target range of 2%-3%, it remains below levels currently being experienced by other western economies. As such, the RBA's somewhat hawkish approach to these initial rate rises would appear to reflect a desire to address the position sooner rather than later, arguably somewhat ironic given its sluggishness to commence rising rates in comparison to the stance taken by some other central banks globally. The attention is now at what level the cash rate is forecast to peak. In its July 2022 statement the RBA Board noted that they expect to take further steps to raise rates over the coming months, with decisions and timing to be guided by their assessment on the outlook for inflation and the labour market.

Preliminary data from Jones Lang LaSalle (JLL) noted positive net absorption (i.e., where take up of accommodation is higher than office space becoming vacant) in three of the six capital city markets for the June 2022 quarter. Negative absorption was noted in both Melbourne CBD and Sydney CBD markets despite Property Council of Australia (PCA) data continuing to demonstrate increasing office attendance in their May 2022 data. Consolidation of space from larger corporates together with an increase in backfill space from occupiers moving to recently completed developments was noted as increasing the vacancy in these markets. Effective rental growth was largely unchanged for the quarter with some minor positive movement recorded in prime rental levels in Sydney and Brisbane. Prime incentive levels were broadly stable across all markets, albeit they remain elevated with totals ranging across the six major CBD markets from c.24% to c.49% in Canberra and Perth respectively. Despite the relative uncertainty regarding the future of office use, recent CBRE research notes that since 2021, nearly three quarters of office CBD relocations have resulted in the same or higher market rents. This reinforces the 'flight to quality' narrative as occupiers choose to prioritise their workplace location, design and environmental credentials in order to attract and retain talent in the current, highly competitive staff retention setting. Despite rising bond rates, office property yield levels across the major CBD markets were effectively unchanged within JLL's latest data.

The Industrial property sector has continued to perform relatively well over the quarter with over $1.8 billion in sales transactions recorded. While below the record levels achieved in 2021, this still sits substantially above the 10-year average of $1.16 billion Industrial assets per quarter. JLL data highlight modest yield compression with the national industrial prime midpoint yield at 3.80% for the quarter. Industrial occupier demand remains strong nevertheless activity levels are being hampered by a lack of available stock. In a July 2022 report, CBRE reported that the national vacancy rate in the Industrial property market is currently 0.8%, one of the tightest vacancy rates globally. As a result, competitive tension for accommodation is driving significant rental growth in the sector with Melbourne's West, North and South East precincts reporting average rental growth for the quarter of 7.3% (JLL). Despite some major completions, supply response continues to be constrained by rising construction costs and supply chain delays impacting feasibilities. As such, rental growth in the sector is forecast to continue in the short term with short lease duration industrial properties favoured by investors seeking to capitalise on the strength of the industrial rental market.

Australian retail sales climbed to record high levels in May 2022, the fifth month in a row of positive month on month sales growth. JLL reports that retail leasing demand over the quarter has been muted with most of the activity from those tenants looking to take advantage of current market uncertainty to expand store footprints as well as retail service tenants (hairdressers, opticians etc) who have seen further uptick in patronage as concerns over COVID-19 become less prevalent in consumers' minds. Rental growth for the quarter has been largely flat across most categories, however CBD rents remain under pressure with Sydney in particular recording further falls. Essential spend shopping centres continue to be highly preferred by investors, this quarter SCA Property Group purchased a portfolio of 5 neighbourhood centres from Centuria for $180 million reflecting a fully let yield of 6.0%. Retail property yield levels have remained largely stable this quarter with JLL recording some softening (25 bps) across some of the slightly larger shopping centres in Sydney and Melbourne.

The pressures of rising inflation and further interest rate increases are anticipated to continue in the short term, as both businesses and consumers deal with escalating costs. From a property perspective the higher inflationary and interest rate environment is likely to impact individual assets and sectors to varying degrees going forward. It is worth noting most commercial real estate leases provide for annual contractual rent escalations, either indexed to inflation or a fixed amount, acting as a partial hedge against inflation. Some sectors such as industrial property are currently benefiting from strong underlying rental conditions while essential spend shopping centres, hospitals and childcare assets as an example continue to be highly prized by investors. In addition, according to JLL, Australia is regarded as a highly desirable destination by global real estate investors (JLL 2022). Overall, properties with strong underlying cash flow profiles and owned in investment structures with conservative debt and interest rate profiles are better positioned to weather any future market uncertainty.

For the quarter ending 30 June 2022, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned negative 17.7% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned negative 11.9%, as listed markets reacted to the changing economic back drop. Over the year to 30 June 2022, A-REITs returned negative 12.3% compared to the broader market return of negative 6.5%.

Despite recording a negative return over the quarter, Retail A-REITs were the most resilient stocks, achieving a positive 3.0% return over the year. Alternative sectors such as Healthcare / Childcare (ASX: ARF) and Self-Storage (ASX: NSR) also performed positively over the last 12 months but like all sectors, A-REITs returns have been impacted. During the June quarter office A-REITs were down negative 15.8%, followed by Diversified A-REITs which fell negative 20.4% while Industrial stocks (heavily influenced by global developer and fund manager, Goodman Group - GMG) were down negative 21.6%. The best performing property stocks for the quarter were BWP Trust (BWP) and Vicinity Centres (VCX) returning negative 1.2% and negative 1.6% respectively. The laggards for the period were fund managers, Centuria Capital (CNI) returning a negative 35.3% return and Home Consortium (HMC) which returned negative 34.6% for the quarter, continuing the prior falls of several fund manager focused stock falls within the A-REIT Index.

Portfolio activity for this quarter

Property Valuations

Five of the Fund's directly held property assets were independently valued as at 30 June 2022, with a total net increase of $2.79 million or 5.63% from the properties' book value immediately prior to valuation.

296 Vincent St, Port Adelaide SA – The property's value increased by $1.78 million or 14.01% from the book value prior to valuation. The value increase is due to the increase in occupancy at the property (now 100%) together with a tightening in the adopted capitalisation rate from 6.25% to 6.00%. The current valuation reflects an increase of $2.25m or 18.37% from the prior independent valuation.

2-10 Bliss Court, Derrimut VIC – The property's value increased by $1.51 million or 11.66% from the book value prior to valuation. Despite the lack of occupancy at revaluation, the value increase is a result of market rental uplift together with a tightening in the adopted capitalisation rate from 5.50% to 4.75%, reflecting the ongoing strength currently being experienced in the Industrial market. The current valuation reflects an increase of $1.90m or 15.08% from the prior independent valuation.

17 Byres St, Newstead QLD – The property's value was effectively unchanged from the book value immediately prior to valuation, with increased vacancy allowances for short term lease expiries offsetting a tightening in the capitalisation rate from 6.00% to 5.75%. The valuation remains unchanged at $11.50 million from the prior independent valuation.

10 International Square, Tullamarine VIC – The property's value decreased by 3.02% from the book value prior to valuation, due principally to the write down of capital expenditure associated with the cost of the tenant's lease renewal incentive. The current valuation reflects an increase of $0.20m or 2.74% from the prior independent valuation.

11 International Square, Tullamarine VIC - The property's value decreased by 6.07% from the book value prior to valuation. As Synergy Packaging occupy both 10 and 11 International Square, the incentive tail has resulted in a minor write down of capital, however the independent valuation remains unchanged at $4.30 million.

Tenant Activity

2-10 Bliss Court, Derrimut, VIC

Ahead of contractual lease expiry in May 2023, the Fund has agreed to an early lease termination from the existing tenant (Specialist Wholesalers) at the property. As part of this agreement the Fund has received a one-off payment (surrender fee) from Specialist Wholesalers in lieu of their remaining rental obligations under the lease. This arrangement has allowed the Fund to gain control of the asset during a period of substantial tenant demand and seek to take advantage of the strong market rental growth environment currently being experienced in the Industrial sector. To that end, a Heads of Agreement has been agreed for a long-term lease arrangement with the prospective tenant anticipated to take occupation later this quarter, subject to successful conclusion of lease documentation.

Distribution

We are pleased to announce a distribution of 1.25 cpu for the quarter ending 30 June 2022.

As previously announced, the Fund has reviewed the frequency of its distributions paid to investors in the Fund. Effective from 1 July 2022, distribution payments will be made on a monthly basis with payment made generally within 15 days of the end of each calendar month. The first monthly distribution period will be from 1 July 2022 to 31 July 2022.

Outlook

The Fund continues to display 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 any direct borrowings at the Fund level, meaning all directly owned real properties are unencumbered by any registered mortgages.

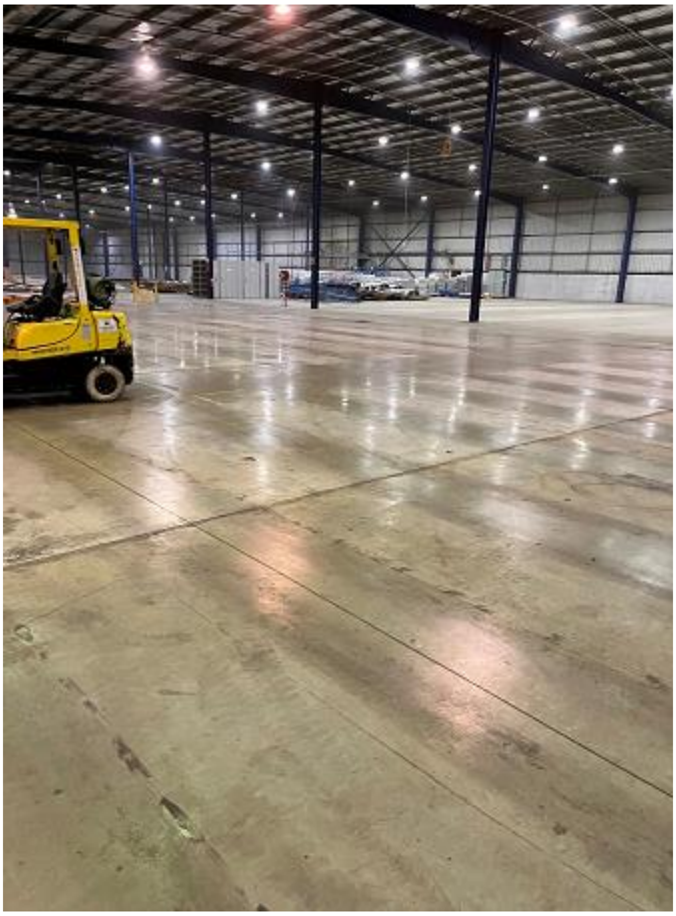
In general, we continue to retain a supportive view of the Australian commercial property market as the market transitions through current macro-economic environment.

The Fund's property sector weightings are skewed to industrial, office, healthcare and social infrastructure, with revenue exposed to mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.

Through this well diversified and actively managed portfolio we believe the Fund is well positioned to continue to provide regular income to investors.

296 St. Vincent Street, Port Adelaide SA

10 International Drive, Tullamarine VIC



2 – 10 Bliss Court, Derrimut VIC

Key direct property statistics as at 30 June 2022

Geographical allocation (by value)

State	No. assets	%
VIC	5	50.43
SA	2	24.54
QLD	3	18.83
NSW	1	6.20
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	6	52.32
Office	4	39.22
Healthcare & Social Infrastructure	1	8.46
Total	11	100.00

Property data

Number of properties	11
Total number of tenants	16
WALE (by income)#	6.4 yrs
Occupancy rate (by income)	75.5%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	22.35
Flinders Ports	9.24
Synergy Packaging	6.87
Australian Unity	6.64
Logic Plus	5.31
Total	50.41

Valuations

Valuations during the quarter	5
Change in total direct property book value	3.76%
Change in book value of the properties revalued	7.32%

* 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 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)
Healthcare & Social Infrastructure										
Edith Cavell Building, Herston, QLD	-	1,573	Australian Unity	1	62.1	1.7	11.00	Feb-22	6.25	11.47
Sub total										**11.47**
Office										
70 Light Square, Adelaide, SA	-	3,269	Logic Plus	6	90.5	2.6	18.25	Oct-21	5.88	18.78
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	4	100.0	5.5	14.50	Jun-22	6.00	14.50
17 Byres St, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	1.4	11.50	Jun-22	5.75	11.50
134 King Street, Newcastle, NSW	-	1,879	N/A	0	-	-	7.55	Nov-21	7.00	8.40
Sub total										**53.18**
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	19.2	29.65	Aug-21	4.25	29.65
2-10 Bliss Court, Derrimut VIC	-	9,715	N/A	0	-	-	14.50	Jun-22	4.75	14.50
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	19.2	12.18	Aug-21	4.25	12.43
10 International Square, Tullamarine VIC	-	4,305	Synergy Packaging	1	100.0	8.5	7.50	Jun-22	4.75	7.50
11 International Square, Tullamarine VIC	-	2,187	Synergy Packaging	1	100.0	8.5	4.30	Jun-22	4.75	4.30
Lot 11, 133 South Pine Rd, Brendale, QLD	5	-	N/A	0	-	-	1.50	Jun-21	N/A	2.56
Sub total										**70.94**
Total (T) / Weighted Average (A)				**16 (T)**	**75.5 (A)**	**6.4 (A)**	**132.4 (T)**		**5.23 (A)**	**135.59 (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 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.

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 currently under development to provide a c.2,000sqm industrial warehouse.

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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. During these times the Fund may offer alternative withdrawal arrangements if these are deemed to be in the best interest of investors. Should the Fund cease to be liquid, as defined in the Corporations Act (in which case investors will be notified as soon as is practicable), 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.