

Property Income Fund

Fund Update
30 September 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.



2-10 Bliss Court, Derrimut VIC

Fund Facts as at 30 September 2022

September Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU June 2022 quarter)	\$0.9056 exit price (cum distribution)	\$352.08 m (\$360.82m at 30 June 2022)

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

Ratings / Awards



Performance as at 30 September 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	1.32	4.93	6.09	8.35	7.96	7.74	8.02
Growth return	(2.80)	(7.83)	(3.07)	(1.88)	0.07	0.66	(0.41)
Total return	(1.48)	(2.90)	3.02	6.47	8.03	8.40	7.61
Benchmark return	(1.00)	(1.20)	2.75	5.94	7.18	8.55	8.09

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 2022

Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	114.63	32.56
Direct Property	138.96	39.47
Unlisted Property	69.75	19.81
Cash and other	28.74	8.16
Total	352.08	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	93.22
Australian Unity Office Fund	5.01
Elanor Retail Property Fund	2.70
Newmark Property REIT	2.66
Elanor Commercial Property Fund	2.61
GDI Property Group (GDI)	2.46
Carindale Property Trust	2.14
HealthCo Healthcare & Wellness REIT	2.08
RAM Essential Services Property Fund	1.75
Total	114.63

Unlisted property portfolio

Holding	\$m
AU HPT - Wholesale	13.07
Planum Footscray	12.90
AU Student Accommodation	11.27
AU Specialist Disability Accommodation	8.18
AU DPF Ordinary	8.15
AU Childcare Property Fund	4.94
Waverley Gardens	4.40
Warrawong Plaza	3.50
Eildon Caboolture	3.35
Total	69.75

Financials

	\$m
Gross assets	352.08
Total debt	0.00
Other liabilities [^]	2.38
Net assets	349.70

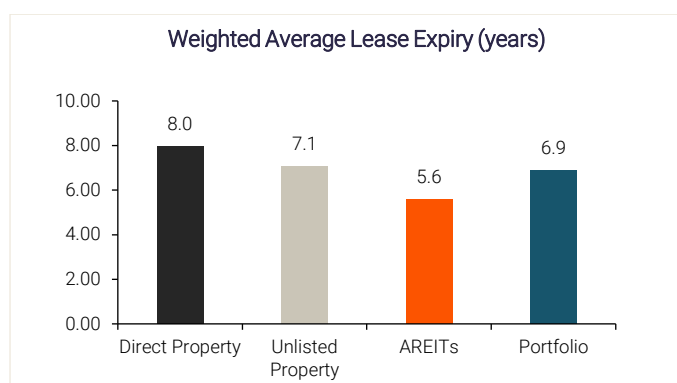
[^] Other liabilities include a provision for the distribution.

Debt

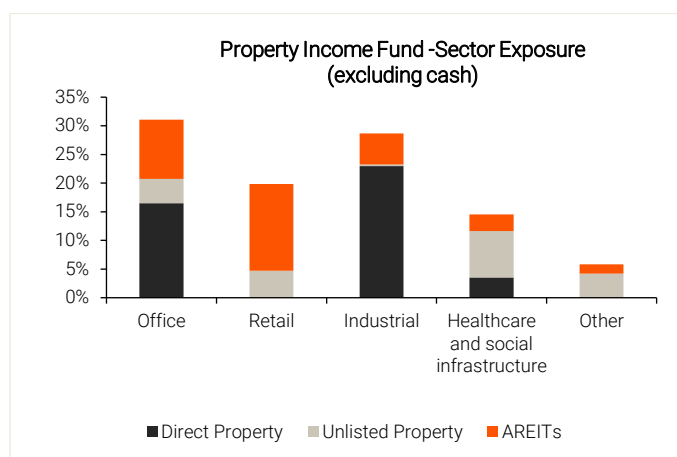
The Fund has no direct borrowings.

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 first quarter of financial year (FY) 2023 commenced with the same ongoing global macro-economic uncertainty that defined that later half of FY2022 with continuing inflationary pressures in most advanced economies, and an expectation by financial markets that central banks will need to raise interest rates more extensively than previously anticipated driving market volatility. This quarter also saw controversial economic policies introduced by the UK government (since largely retracted), which also served to spook global bond markets, demonstrating the current heightened sensitivity of financial markets to the actions of policy makers across international borders. During the September 2022 quarter alone, the Australian 10-year bond rate, a proxy for the risk-free rate, reflected a substantial peak to trough spread of 112 basis points with a quarter low of 2.97% and high of 4.09%.

Within Australia, the domestic economy continued its robust growth over the quarter with unemployment down around 3.5% in August 2022 (the lowest rate in almost 50 years). Job vacancies and job ads also remain high, which the RBA notes may indicate a further decline in the unemployment rate is possible over the months ahead. Inflation continued to remain above trend, with headline inflation recording a rise of 6.8% per annum in August 2022, down from 7.0% per annum in July 2022 (largely attributable to a decrease in Automotive fuel prices). Core inflation however increased to 6.2% per annum in August 2022 (up from 6.1% per annum in July 2022) and presently, the RBA is anticipating inflation to peak at around 7.75% by the end of calendar year (CY) 2022.

Responding to such ongoing inflation pressures, in October 2022 the RBA continued its course of recent cash rate increases, adopting a somewhat surprising and below consensus increase of 0.25%, following a number 0.50% increases. This was well received by the markets and demonstrates a more measured approach to possible interest rate rises going forward from the RBA.

Market research 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 five of the six capital city markets for the September 2022 quarter. Negative absorption was noted in the Sydney CBD market as consolidation of space requirements from larger corporate occupiers increased the supply of office space to the market while the positive impacts of precommitments at the 180 George Street tower development were, delayed until next quarter. Across the other markets, Melbourne CBD saw strong demand in the quarter principally from the small tenant cohort assist in reducing quarter on quarter vacancy to 14.6% (from 15.0%), while Adelaide and Perth markets benefitted from centralisation of tenants from suburban markets into the CBD again assisting in reducing vacancy for the latter by 80 basis points to 19.3%. JLL data notes that prime face rents have increased across all CBD markets, however stubbornly high incentive levels have impacted net effective rents with only Sydney CBD and Adelaide recording positive quarter on quarter movement. Future utilisation and ongoing attendance remain the great unknown for the office sector. In September 2022, The Property Council of Australia (PCA) reported the number of workers going into the office lifted in most CBD markets. While those markets less impacted by COVID-19 case numbers and shutdowns are now seeing attendance levels closer to pre-pandemic levels.

Substantial tenant demand in the Industrial sector continues to show no sign of abating despite the rapid rise in rents being experienced. Such growth has continued into September 2022, with JLL reporting quarter on quarter rental growth of up to 21.3%

in some Sydney submarkets, while all other major city markets also reporting net rent growth. Leasing transactional volumes continue to be impacted by the limited availability of stock, with the new supply response in the short term unlikely to significantly boost options for tenants with CBRE reporting 41% of the forecast 2023 supply pipeline is already pre-committed. Opportunities for tenants are being challenged further as developers of new stock resist early marketing of projects to maximise the current rental growth opportunity. As a result, tenant demand for assets is expected to continue to outweigh supply in the short term.

Despite a decline in consumer sentiment, ongoing interest rate rises and increasing inflation levels, retail sales continue to grow, up 0.6% month on month and 19.2% for the 12 months to August 2022. The retail leasing market remains subdued with retail rental levels stable for the quarter across most sub-markets but continue to be challenging in the CBD markets of Melbourne and Sydney with the slow recovery in office attendance levels impacting footfall. As is the case more broadly, retail transaction volumes are below that of the prior quarter however JLL reports that Large Format retail assets continue to receive investor interest, demonstrated by the sale of Crossroads Homemaker Centre (NSW) for \$282 million reflecting a passing yield of 4.62%.

Overall, financial markets remain highly sensitive to macro-economic headlines. Such volatility is likely to continue over the short term whilst global uncertainties and the impact and extent of monetary policy adjustments remain opaque. Despite such challenges, economic conditions in Australia remain positive and the country appears far better positioned to weather any future economic challenges than several of its international cohorts. Within commercial real estate markets, the rising cost of debt together with potential increases to required return hurdles has created a divergence in viewpoints between vendors and purchasers resulting in somewhat of a transactional market impasse as parties adopt a 'wait and see' approach. Pressure to dispose of assets by owners is not being experienced, with conservative debt levels and favourable loan management more widespread than prior cycles. Despite this, short to medium term asset pricing challenges remain within some secondary assets' classes. In turn this may present future opportunities for value-add investors as a bifurcation between asset quality emerges.

For the quarter ending 30 September 2022, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned negative 6.7% underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 0.4%, as listed markets continue to react to the changing economic backdrop. Over the year to 30 September 2022, A-REITs returned negative 21.5% compared to the broader equity market return of negative 7.7%, reflecting the fifth largest monthly decline for the sector in 20 years.

Given the extent of decline experienced in September there was little in the way of positive individual stock price movement, however for the quarter Retail A-REITs remain the most resilient stocks, with Vicinity (VCX) the best performing index stock for the 12 months to September 2022. Office A-REITs were down negative 12.7% over the quarter as future occupier uncertainty remains, followed by Industrial stocks (heavily influenced by global developer and fund manager, Goldman Group - GMG) which were down negative 11.3%. The best performing property stocks for the quarter were Charter Hall Group (CHC) and National Storage (NSR), returning positive 6.0% and 4.2% respectively. The laggards for the period were Arena REIT (ARF), down 21.0% and Centuria Capital (CNI) which returned a negative 15.2%.

Fund performance

The Fund provided a total return of negative 1.48% (after fees) for the September 2022 quarter. While returns from both the direct property and unlisted investment segments continue to remain as a whole positive, the overall performance of the Fund has been 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 2022.

Against a backdrop of monthly interest rate rises, this calendar year the A-REIT sector has sold off approximately 28%. Listed market confidence is low as a result of recent interest rate moves which have roiled financial markets. The A-REIT sector is trading at a 5% FY23 estimated dividend per share yield and 10% premium to NTA. Or stated another way, a 27% discount to NTA if we focus on the more traditional A-REITs by excluding larger fund managers, Goodman Group and Charter Hall from the equation, whose revenues are driven by performance fees, funds management fees and development fees. The impact from rising interest rates has been well-documented and should be less of a surprise to listed property investors going forward. In response, this financial year the Fund's exposure to A-REITs has been upweighted.

Portfolio activity for this quarter

Property Valuations

Three of the Fund's directly held property assets were independently valued over the quarter, with a net increase of \$1.97 million or 3.49% from the properties' book value immediately prior to valuation:

2-10 Bliss Court, Derrimut VIC – Following successful releasing, this property was independently revalued as at 31 July 2022 to \$15.90 million. The property's value increased by \$1.40 million or 9.66% from the book value prior to valuation driven by a tightening in the adopted capitalisation rate from 4.75% to 4.50% given the additional income securing now in place at the asset.

223-227 Governor Road, Braeside VIC – The property was subject to an updated independent valuation dated 31 August 2022. The asset was valued at \$30.25 million reflecting an increase of 2.02% or \$0.60 million from the property's book value immediately prior to valuation. The uplift in value was assisted by additional income generation following the installation of solar panels at the property.

91-97 Woodlands Drive, Braeside VIC – Following receipt of an updated independent valuation dated 31 August 2022, the property's value decreased marginally (0.21%) from the book value immediately prior to valuation. This decrease reflects a partial write down of capital costs however the current valuation of \$12.40 million reflects an increase of \$0.03m or 1.85% from that of the prior independent valuation.

Tenant Activity

2-10 Bliss Court, Derrimut, VIC

The Fund is pleased to report the successful releasing of the property known as 2-10 Bliss Court Derrimut. Following a well-received marketing campaign, a leasing agreement has been executed for a 10-year lease term with the well-established third-party logistics operator, Concept Logistics. Given the continuing strength of the industrial occupier market, the Fund was able to secure a rental level above that adopted within the 30 June 2022 independent valuation. Following conclusion of this lease, the Fund's overall occupancy has increased to 93.8% as of 30

September 2022, up from 75.5% at the prior quarter.

Unlisted Property Investments

Planum Footscray Fund

PFF is an unlisted direct property 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 2022 independent valuation for the property has increased to \$41.50 million, up over 9% from that of the prior valuation (June 2021) an increase of over 25% compared to the 2019 purchase price of \$33.10 million. As a result, the PFF's NTA has increased to \$1.299 per unit (\$1.00 per unit initial purchase price).

Elanor Waverley Gardens Syndicate

Elanor is a specialist property fund 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. We are pleased to report that following an updated independent valuation, the value of the property has increased to \$215.0 million, up c.21% from the purchase price in 2018. As a result, the Elanor Waverley Gardens Fund NTA per security has now increased to \$1.09 per unit, up c.9% from initial investment of \$1.00.

Development

Edith Cavell Building, Herston QLD

Works are currently underway to install an 'End of Trip' Facility to the recently completed development at our Edith Cavell Building asset. This will continue to promote the attractiveness of the asset to prospective tenants with such amenity highly desired by occupiers and their staff. Works are expected to complete before the end of 2022, while marketing of the available space continues.

134 King Street, Newcastle NSW

This asset was acquired in December 2021 with the intention to reposition the asset to provide upgraded office and retail accommodation. As part of our asset due diligence and following encouraging discussions with the local authority, management has determined to explore undertaking a more extensive repositioning program than originally forecast. As a result, a submission to council is currently being prepared to seek approval for such works. In the interim, works have been undertaken to remove the pre-existing internal fit out ahead of the appropriate upgrade program. Given the current status of the property, this asset is now being reflected as a redevelopment opportunity and is no longer included within calculations for portfolio occupancy, WALE and weighted average capitalisation rate metrics.

Distribution

We are pleased to announce a distribution for the month of September 2022 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 30 September 2022 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, with revenue exposed to mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.



223-225 Governor Road, Braeside VIC



Planum Partners Footscray Fund



Lot 11, 133 South Pine Road, Brendale QLD

Key direct property statistics as at 30 September 2022

Geographical allocation (by value)

State	No. assets	%
VIC	5	50.76
SA	2	24.02
QLD	3	19.18
NSW	1	6.05
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	6	53.39
Office	4	38.34
Healthcare & Social Infrastructure	1	8.26
Total	11	100.00

Property data

Number of properties	11
Total number of tenants	20
WALE (by income)#	8.0 yrs
Occupancy rate (by income)	93.8%

Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	24.94
Concept Logistics	10.74
Flinders Ports	10.29
Synergy Packaging	7.46
Australian Unity	7.21
Total	60.64

Valuations

Valuations during the quarter	3
Change in total direct property book value	2.48%
Change in book value of the properties revalued	3.04%

* 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 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)
Office										
70 Light Square, Adelaide, SA	-	3,269	Logic Plus	7	90.5	2.3	18.25	Oct-21	5.88	18.87
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	4	100.0	5.2	14.50	Jun-22	6.00	14.51
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	6	-	N/A	0	-	-	7.55	Nov-21	7.00	8.41
Sub total										53.29
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	18.9	30.25	Aug-22	4.25	29.65
2-10 Bliss Court, Derrimut VIC	-	9,715	Concept Logistics	1	100.0	9.9	15.90	Jul-22	4.50	16.23
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	18.9	12.40	Aug-22	4.25	12.43
10 International Square, Tullamarine VIC	-	4,305	Synergy Packaging	1	100.0	8.3	7.50	Jun-22	4.75	7.78
11 International Square, Tullamarine VIC	-	2,187	Synergy Packaging	1	100.0	8.3	4.30	Jun-22	4.75	4.45
Lot 11 133 South Pine Rd, Brendale, QLD	5	-	N/A	0	-	-	1.50	Jun-21	N/A	3.66
Sub total										74.20
Healthcare & Social Infrastructure										
Edith Cavell Building, Herston, QLD	-	1,573	Australian Unity	1	62.1	1.5	11.00	Feb-22	6.25	11.48
Sub total										11.48
Total (T) / Weighted Average (A)				20 (T)	93.8 (A)	8.0 (A)	134.7 (T)		5.08 (A)	138.96 (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.
- Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land currently under development to provide a c.2,200sqm industrial warehouse.
- Planning consent currently being sought for asset repositioning

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Important Information

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