

# Property Income Fund

Fund Update  
**31 December 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.



Lot11, 133 South Pine Road, Brendale QLD

## Fund Facts as at 31 December 2022

December Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU September 2022 quarter)	\$0.9268 exit price (cum distribution)	\$348.46 m (\$352.08m at 30 September 2022)

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

## Ratings / Awards



## Performance as at 31 December 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	1.39	5.08	6.13	8.39	7.95	7.72	8.01
Growth return	2.35	(6.71)	(2.05)	(1.33)	0.00	0.77	(0.31)
Total return	3.74	(1.63)	4.08	7.06	7.95	8.49	7.70
Benchmark return	5.53	(1.83)	4.33	6.05	7.37	8.74	8.25

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 December 2022

### Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	124.19	35.64
Direct Property	141.93	40.73
Unlisted Property	69.44	19.93
Cash and other	12.90	3.70
<b>Total</b>	<b>348.46</b>	<b>100.00</b>

\* Includes cash and cash equivalents.

### Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	104.36
Australian Unity Office Fund	6.02
Elanor Commercial Property Fund	2.74
HealthCo Healthcare & Wellness REIT	2.59
Newmark Property REIT	2.38
GDI Property Group	2.19
Carindale Property Trust	2.14
RAM Essential Services Property Fund	1.77
<b>Total</b>	<b>124.19</b>

### Unlisted property portfolio

Holding	\$m
AU HPT - Wholesale	13.21
Planum Footscray	12.90
AU Student Accommodation	11.29
AU Specialist Disability Accommodation	8.27
AU DPF Ordinary	6.85
AU Childcare Property Fund	5.09
Waverley Gardens	4.36
Warrawong Plaza	4.13
Eildon Caboolture	3.35
<b>Total</b>	<b>69.44</b>

### Financials

	\$m
Gross assets	348.46
Total debt	0.00
Other liabilities <sup>^</sup>	3.47
<b>Net assets</b>	<b>344.99</b>

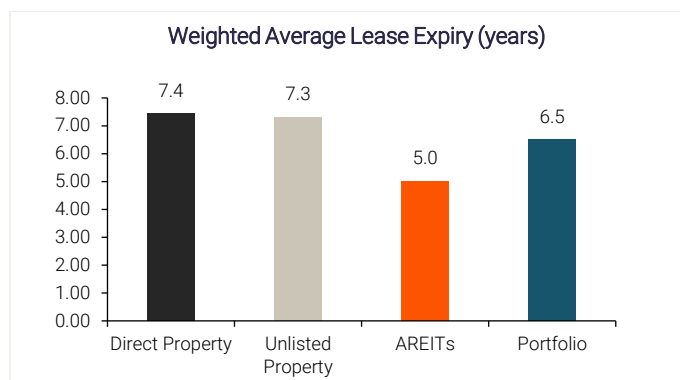
<sup>^</sup> Other liabilities include a provision for the distribution.

### Debt

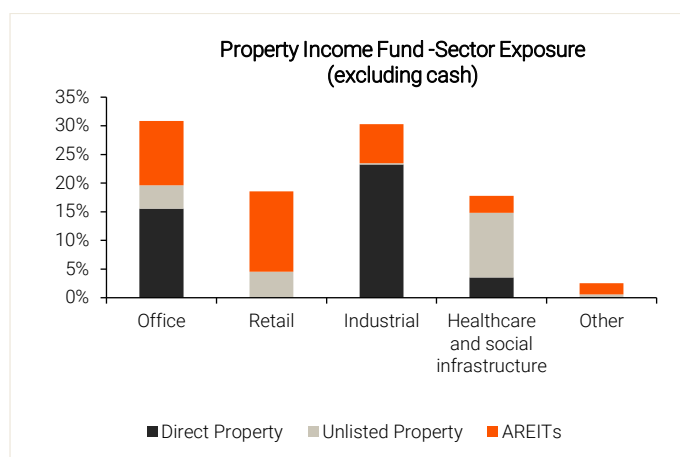
The Fund has no direct borrowings.

### Liquidity

The Fund offers daily liquidity.~



Note: excludes assets under development.



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

## Market commentary

While 2022 commenced with a continuation of the post-COVID-19 economic upswing, over the year this gave way to a more challenging environment as the impacts of conflict in Ukraine, escalating inflation levels globally and commencement of unprecedented monetary policy tightening globally took hold. While ongoing volatility is expected to continue in the early part of 2023, current market consensus is that interest rate rises are likely to pause later this year and inflation levels may start to reduce, which in turn should bring a level of much needed pricing stability to financial markets. To this point, the December 2022 quarter alone saw further volatility in the Australian 10-year bond yield, a proxy for the risk-free rate, recording a quarter low of 3.29% and high of 4.19%, before closing the year at 4.05%.

At its final meeting of the year in December 2022, the RBA raised the cash rate by a further 0.25% bringing the total overnight cash rate to 3.10%, up a remarkable 3.00% over the course of 2022. Retail spending has yet to be notably impacted by such rises with reasonably strong sales levels expected in the December quarter, as household savings levels decrease. There is however typically a laggard effect in the impact of rate rises on consumer spending as higher mortgage costs can take up to 3 months to be passed through to Borrowers. As such it will be interesting to see how the RBA interprets this data over coming months. Inflation levels in Australia remain high, with the RBA forecasting headline CPI inflation to peak at 8% in December 2022. However, there are indications that goods inflation has started to moderate with the RBA noting that inflation in several international economies appears to have peaked.

Looking forward, growth in the Australian economy is forecast to slow in 2023 albeit remain positive. The RBA is forecasting inflation levels to average 4.75% in 2023 before falling lower towards the targeted 2%-3% band in 2024, reaching 3.25%. With regards to the cash rate, economic forecasters are anticipating further rate rises over the first half of 2023 with Bloomberg reporting an average peak cash rate forecast of 3.60% in Q2 2023.

Research data from Jones Lang LaSalle (JLL) indicates positive office property net absorption (i.e., where take up of accommodation is higher than office space becoming vacant) in four of the six capital city markets for the December 2022 quarter. Brisbane CBD office property was the notable outperformer, recording its third successive quarter of positive absorption, positioning it as the highest absorption CBD market over 2022. Negative absorption was noted in the Melbourne CBD office market as several smaller occupiers consolidated their occupations while the impact of newly refurbished office space coming online also impacted, increasing Melbourne CBD office vacancy to 15.4% (from 14.6%). Despite this, quarterly growth in face rents was recorded across all CBD office markets with only Canberra seeing a minor decrease in effective rental growth as incentives increased slightly. Monthly Property Council of Australia (PCA) Office Occupancy data continues to show improvement in office attendance nationally. In November 2022 overall office occupancy rates in Perth reached a post pandemic national high of 80%, while Melbourne reached its own post COVID-19 high of 57%. Melbourne CBD's result is particularly pleasing given the extent of the COVID-19 impact on this market and bodes well for an improvement in the vibrancy of the CBD and associated positive impacts on retail and other services. Interestingly, peak day levels are approximately 70% or higher across all CBD markets highlighting the current preference for hybrid working arrangements.

The Industrial property market continues to see attractive rental growth for asset owners as the ongoing shortage of available

accommodation for lease drives up competition for space. For the December 2022 quarter, JLL data highlights that the rate of prime net rental growth rate has slowed versus prior quarters but remains positive. Over the 2022 calendar year, the average annual rental growth rate for all industrial property markets covered by JLL research equated to an uplift of 18.7%. Nationally, vacancy in the sector remains at record low levels which is limiting the extent of actual leasing activity achieved (i.e., lease deals), while placing further upward pressure on rents. To date, the supply response has been unable to keep pace with demand despite historically high levels of development. Looking toward 2023, Knight Frank forecast a record year for industrial development completions, led by Brisbane and Melbourne, however Sydney is expected to remain notably undersupplied. Evidence of improvements in recent supply chain challenges as well as the broader macro-economic challenges may work to slow warehouse demand levels as inventory levels are managed down, however it remains to be seen whether the recent post COVID-19 opening in China will result in productivity decreases which serve to counteract this in the short term. The tenant demand versus available supply imbalance is thus likely to remain in the short to medium term and support further rental growth.

After a fall in month-on-month retail sales in October 2022, the first in 9 months, positive sales impacts of Black Friday in November and the holiday period in December is expected to result in substantial consumer spending for the final quarter of 2022. Despite this, challenges remain for the retail sector as the heightened cost-of-living pressures of increased mortgage repayments and goods inflation impact consumer spending which is likely to result in more cautious spending patterns in 2023 and a focus on non-discretionary purchases. Over the December 2022 quarter, rental levels in the retail property sector have remained broadly unchanged across most submarkets save for CBD retail in Sydney and Melbourne which showed further declines, albeit at a slower rate to that previously experienced. With office attendance in these CBD markets showing signs of increasing as well as an expected increase in tourism levels following the border opening from China, there are some green shoots for affected CBD retailers. While JLL report that retail property transactional activity over 2022 has been weighted toward large format and neighbourhood shopping centres (52%), the December 2022 quarter saw several sub-regional shopping centre transactions materialise as investors targeted higher yielding assets.

Financial markets remain highly sensitive to macroeconomic headlines. Such volatility is likely to continue over the short term whilst global challenges and the impact and extent of monetary policy tightening play out. While the effects of rising interest rates have already manifested in a notable decline in residential property prices, value declines in the broader commercial property sector have largely been minimal to date, as evidenced by numerous A-REITs recently announcing their 31 December independent valuations highlighting a minor expansion in capitalisation (i.e., property yields) rates. A slowdown in commercial property transactional activity has presented challenges for independent valuers seeking to benchmark commercial asset values to real world sales activity, as buyers and sellers remain in price discovery mode. 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 asset classes or impaired assets. In turn this may present future opportunities to extract value for those investors prepared to actively manage property risk while, institutional support for the sector remains, notably from overseas parties attracted to the relatively superior

outlook for the Australian economy and supported by a weaker Australian dollar.

For the quarter ending 31 December 2022, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned positive 11.5% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 9.4% as consumer resilience and some softening in 10-year Australian bond yield buoyed the market. However, over the year to 31 December 2022, A-REITs returned negative 20.5% compared to the broader equities market return of negative 1.1%, as the potential impacts of rising interest rates weigh on the A-REIT sector.

Over the quarter, outside the strong performance of residential linked Ingenia Group (20.2%), Retail A-REITs led the sector with returns of 13.4% with most retail stocks performing well. Diversified A-REITs (11.7%) and Industrial focused stocks (11.5%) also performed well, however office focused A-REITs were the lower sub-sector performer at 3.8% for the 3-month period. Individually, the best performing property stocks for the quarter were Centuria Industrial REIT (CIP), Ingenia Communities Group (INA) and Region Group (RGN) returning positive 22.0%, 20.2% and 18.5% respectively. The laggard for the period was HMC Capital (HMC), retail focused fund manager, which posted a quarterly return of negative 5.3% following its removal from the FTSE EPRA/NAREIT Index and a late quarter rise in the Australian 10-year bond.

### Fund performance

The Fund provided a total return of positive 3.74% (after fees) for the December 2022 quarter. Performance was driven by increases in the value of the Fund's underlying Australian Real Estate Investment Trust (A-REIT) holdings as well as the strong revaluation gain made by the Unlisted Managed Fund Elanor Warrawong Plaza Fund. These gains were partially offset by a minor valuation decrease of the directly held asset known as 70 Light Square, Adelaide following receipt of an updated annual independent valuation.

Following a significant sell-down over the calendar year, the A-REIT market rebounded over the final quarter of 2022, where the sector as measured S&P/ASX 200 Property Accumulation index comfortably outperformed the broader S&P/ASX 200 Index. During 2022, A-REITs have suffered as substantial increases in interest rates have weighed on investor sentiment. Uncertainty remains prevalent, however, with December seeing some of the early gains for the quarter given back following more hawkish commentary on further rate rises from the Reserve Bank of Australia (RBA). As of 31 December 2022, the A-REIT sector is trading at a c.4.5% Fiscal Year 2023 (FY23) estimated dividend per share yield and a substantial c.-17% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, HomeCo (HMC Capital) and Goodman Group from the equation as these have a large portion of non-rental earnings/assets (i.e. development and funds management businesses) and their market pricing can deviate substantially from NTA backing.

Against a backdrop of rising debt costs and a highly volatile risk-free rate, updated property revaluations across public and private markets are starting to emerge. A scarcity of recent, comparable transactional evidence remains, however initial results indicate that independent valuers are beginning to make upward adjustments to adopted capitalisation (i.e. property yields) and discount rates where supported by market evidence. To date, such adjustments have been more pronounced for properties previously

trading at extremely low yield levels. Despite this, reported asset values, in general, have largely held with valuations ranging around + 5% to - 5% as evidenced by several A-REITs reporting their 31 December valuations. For some properties, rental increases have served to offset the negative impacts of rising property yields, particularly notable in the industrial property sector which continues to see high levels of market rental growth. This has also been the case at the Fund's Warrawong Plaza investment which saw a year-on-year asset valuation uplift of c.17% as higher market rental levels and reduced operating expenditure drove increased net asset income as the underlying shopping centre is repositioned.

### Portfolio activity for this quarter

#### Property Valuation

The Fund's property at 70 Light Square, Adelaide South Australia was independently valued as at 31 October 2022.

The property's value decreased by \$1.18 million or (6.26%) from the property's book value immediately prior to the valuation. The decrease in value was primarily due to a reduction in the Weighted Annual Lease Expiry (WALE). In addition, the independent valuer has made allowances for an increase in potential costs associated with an increase in expiring leases over the forward 48 months. The capitalisation rate remained steady at 5.88%.

#### Asset Divestments

On 7 December 2022, the Fund exchanged contracts of sale for the properties located at 10 and 11 International Square, Tullamarine, VIC. The agreed sale price was \$12.12 million which is a 2.71% premium compared to the properties' prior independent valuation conducted in June 2022. Settlement of the properties are scheduled to occur on or about 31 January 2023 (or earlier by mutual agreement).

#### Development

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

Practical completion of this newly constructed 2,200 sqm industrial warehouse premises was successfully achieved on 30 November 2022. This asset reflects the first newly constructed development undertaken by the Fund and despite a backdrop of significant weather and supply chain challenges, delivery has been highly successful with minimal time and budgetary impacts experienced.

Management is now exploring a joint leasing or sales campaign and will seek to gauge market interest to maximise investment value for Investors.

#### Unlisted Property Investments

##### *Elanor Warrawong Plaza Fund, Wollongong, NSW*

Elanor is a specialist property fund manager that focuses on acquiring shopping centres and similar assets ripe for repositioning. Warrawong Plaza is an established double supermarket, double discount department store sub-regional shopping centre. The shopping centre is to be repositioned into a strongly performing triple supermarket, single discount department store centre providing increased income from non-discretionary retailers and essential services including a new childcare facility. We are pleased to report that following an updated independent valuation, the value of the property has increased to \$160.0 million, up c.17.4% from the purchase price in 2021. As a result, the Elanor Warrawong Plaza Fund NTA per security has now increased to \$1.18 per unit, up c.18% from initial

investment of \$1.00.

### Zenith Investment Partners Research Rating Upgrade

The Fund is delighted to report that, following its annual review in December 2022, Zenith Investment Partners have upgraded their independent product assessment rating of the Property Income Fund to 'Recommended'. This rating level is defined as where "Zenith believes that the Fund (or Product) has a high probability of meeting its stated investment objectives. In a relative context, the Fund (or Product) scores highly across most of Zenith's key areas of assessment."

### 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.



70 Light Square, Adelaide SA



10 International Drive, Tullamarine VIC

## Key direct property statistics as at 31 December 2022

### Geographical allocation (by value)

State	No. assets	%
VIC	5	51.31
SA	2	22.72
QLD	3	20.04
NSW	1	5.93
<b>Total</b>	<b>11</b>	<b>100.00</b>

### Sector allocation (by value)

Sector	No. assets	%
Industrial	6	54.95
Office	4	36.75
Healthcare and social infrastructure	1	8.30
<b>Total</b>	<b>11</b>	<b>100.00</b>

### Property data

Number of properties	11
Total number of tenants	20
WALE (by income)#	7.4 yrs
Occupancy rate (by income)	90.21%

# Excludes assets under development

### Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	23.87
Concept Logistics (Australia) Pty Ltd	10.27
Flinders Ports	9.85
Synergy Packaging	7.39
Australian Unity	6.90
<b>Total</b>	<b>58.29</b>

### Valuations

Valuations during the quarter	1
Change in total direct property book value	2.13%
Change in book value of the properties revalued	-6.22%

\* 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 December 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>Office</b>										
70 Light Square, Adelaide, SA	-	3,270	Logic Plus	7	0.9	2.1	17.70	Oct-22	5.88	17.70
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	4	1.0	5.0	14.50	Jun-22	6.00	14.54
17 Byres St, Newstead QLD	-	1,319	Construction Sciences	3	1.0	1.2	11.50	Jun-22	5.75	11.50
134 King Street, Newcastle, NSW	6	1,879	N/A	0	-	-	7.55	Nov-21	N/A	8.42
<b>Sub total</b>				<b>14</b>			<b>51.25</b>			<b>52.16</b>
<b>Industrial</b>										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	1.0	18.7	30.25	Aug-22	4.25	31.01
2-10 Bliss Court, Derrimut VIC	-	9,715	Concept Logistics (Australia) Pty Ltd	1	1.0	9.7	15.90	Jul-22	4.50	17.05
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	1.0	18.7	12.40	Aug-22	4.25	12.65
10 International Square, Tullamarine VIC	-	4,305	Synergy Packaging	1	1.0	8.0	7.50	Jun-22	4.75	7.70
Lot 11, 133 South Pine Rd, Brendale QLD	5	2,199	N/A	0	-	-	1.50	Jun-21	N/A	5.16
11 International Square, Tullamarine VIC	-	2,187	Synergy Packaging	1	1.0	8.0	4.30	Jun-22	4.75	4.42
<b>Sub total</b>				<b>5</b>			<b>71.85</b>			<b>77.99</b>
<b>Healthcare and social infrastructure</b>										
Edith Cavell Building, Herston QLD	-	1,573	Australian Unity	1	0.6	1.4	11.00	Feb-22	6.25	11.78
<b>Sub total</b>				<b>1</b>			<b>11.00</b>			<b>11.78</b>
<b>Total (T) / Weighted Average (A)</b>				<b>20 (T)</b>	<b>90.2 (A)</b>	<b>7.4 (A)</b>	<b>134.1 (T)</b>		<b>5.08 (A)</b>	<b>141.93 (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 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.
- Asset comprises recently completed industrial warehouse development. Independent valuation reflects land value prior to development while Book Value is also inclusive of cost of construction.
- Planning consent currently being sought for asset repositioning

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## Contact us

[australianunity.com.au/wealth](http://australianunity.com.au/wealth)

[australianunitywealth@unitregistry.com.au](mailto:australianunitywealth@unitregistry.com.au)

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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.

### Investor Services

T 1300 997 774 F 1300 856 685

### Adviser Services

T 1300 997 774 F 1300 856 685