

# Property Income Fund

Fund Update  
30 June 2023

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 June 2023

June Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU March 2023 quarter)	\$0.9058 exit price (cum distribution)	\$295.63 m (\$330.02m at 31 March 2023)

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

## Ratings / Awards



## Performance as at 30 June 2023

	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	1.35	5.38	5.62	7.39	7.85	7.61	7.95
Growth return	(1.14)	(2.78)	2.26	(1.21)	(1.28)	0.46	(0.40)
Total return	0.21	2.60	7.88	6.18	6.57	8.07	7.55
Benchmark return	(0.46)	2.87	7.07	4.85	5.87	7.95	8.00

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 2023

### Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	101.86	34.45
Direct Property	120.82	40.87
Unlisted Property	59.66	20.18
Cash and other	13.30	4.50
<b>Total</b>	<b>295.63</b>	<b>100.00</b>

\* Includes cash and cash equivalents.

### Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	83.46
Australian Unity Office Fund	4.98
HealthCo Healthcare & Wellness REIT	2.95
Elanor Commercial Property Fund	2.49
Newmark Property REIT	2.28
Carindale Property Trust	2.04
GDI Property Group (GDI)	1.97
RAM Essential Services Property Fund	1.69
<b>Total</b>	<b>101.86</b>

### Unlisted property portfolio

Holding	\$m
AU Student Accommodation	15.00
Planum Footscray	12.90
AU Specialist Disability Accommodation	8.48
AU Childcare Property Fund	5.15
AU DPF Ordinary	4.50
Waverley Gardens	4.24
Warrawong Plaza	3.92
Eildon Caboolture	3.06
AU HPT - Wholesale	2.42
<b>Total</b>	<b>59.66</b>

### Financials

	\$m
Gross assets	295.63
Total debt	0.00
Other liabilities <sup>^</sup>	3.78
<b>Net assets</b>	<b>291.85</b>

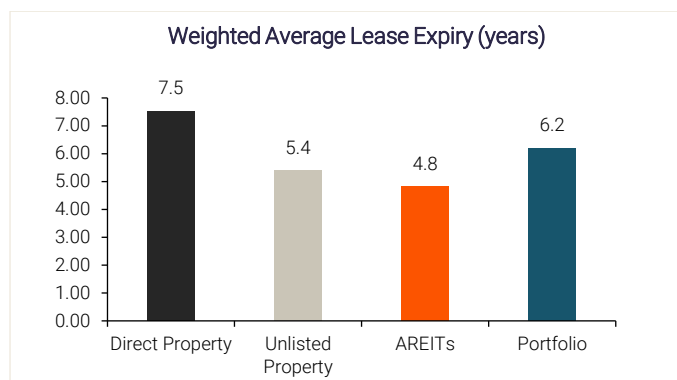
<sup>^</sup> Other liabilities include a provision for the distribution.

### Debt

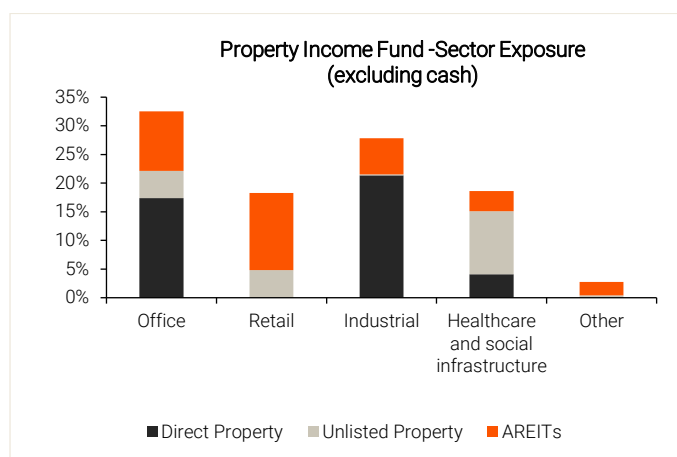
The Fund has no direct borrowings.

### 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

The final quarter of the 2023 financial year saw a return to market focus on the seemingly endless discussion of interest rate movements, inflation levels and the potential slowdown in economic activity. In Australia, published monthly inflation data saw a decline in headline inflation from 6.8% in April to 5.6% in May 2023 coming in below market expectations and providing support to those proposing a pause in interest rate rises (i.e. the Cash Rate). However overseas, the UK saw a surprising uptick in inflation in May, resulting in a surprise 50 basis points (bps) hike by the Bank of England to 5.00%, the European Central Bank increased rates 25bps while continuing strong jobs data and the fear of persistent above-target inflation keeps the spotlight on further US rate rises. Bond yields have responded to these rising rates with the Australian 10-year government bond yield up 73 bps over the quarter to 4.02%, while the 2-year bond rose 126bps to 4.22%.

At its July 2023 meeting, the Reserve Bank of Australia (RBA) elected to retain the current cash rate setting, reflecting only the second interest rate pause in the past 14 meetings. As a result, the cash rate remains at 4.10%, the highest level in 11 years, as the RBA Board gave itself more time to assess the impact of prior rises on the state of the economy and the economic outlook. Currently, both Westpac and NAB are forecasting two further rate rises, settling at a peak rate of c.4.6%, the impression remains that Australia is close to reaching its peak cash rate level.

In May 2023 the Australian Federal Government issued its 2023-2024 budget. The Australian economy remains resilient with a budget position of a FY23 surplus of \$4 billion and the Government revising its forecast deficit in FY24 lower than previous estimates. However, economic growth is slowing with the Government expecting Gross Domestic Product (GDP) growth of 1.5% to June 2024 and 2.25% to June 2025. The Organisation for Economic Co-operation and Development (OECD) is currently forecasting Australian GDP to expand by 1.8% in 2023 and 1.4% in 2024. While over a different time period, it is interesting to note that the average OECD nation is anticipated to expand by 1.4% over both years, highlighting the relative resilience of Australia. From a real estate perspective, the main Budget highlight was a cut to the managed investment scheme tax rate from 30% to 15% for Build to Rent projects which should provide some additional tailwinds to this emerging sector.

The Budget also focused on improved healthcare access with increased payments to the healthcare and aged care sectors. The larger points of focus included increases in aged care funding (+\$2.8 billion over 5 years); improved access to primary care, namely increased GP bulk-billing incentives (+\$3.5 billion over 5 years); and mental health (\$556 million over 5 years). Within aged care the Government dedicated funds to implement the Royal Commission's recommendations, including improving regulation with a focus on accountability and transparency of operators while concurrently funding wage increases for aged care workers.

While ongoing concerns over the future of office use persist, 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 June 2023 quarter, which extends to five markets over the full 2023 financial year. The best-performing markets have been Perth and Brisbane CBDs which have accounted for almost half of the total national CBD office market take up for the financial year supported by the mining and government sectors respectively with SME tenants also particularly active. Office attendance levels remain lower in

Melbourne and Sydney CBD markets than other less COVID-19 lockdown-impacted locations, while vacancy levels in both have also shown moderate increases across both the quarter and the last 12 months. Across markets, tenant demand remains focussed on higher quality assets, particularly those with strong environmental credentials and amenity provisions as tenants use the current favourable environment to upgrade their accommodation offering. Transactional activity has finally started to emerge with the sale of 44 Market Street, Sydney receiving widespread attention. Despite the sale price reflecting a reported 17% discount to its most recent December 2022 book valuation, it is important to note that this asset is somewhat challenged being of secondary quality, subject to impending lease vacancy and requiring capital works expenditure. As a result, it could be argued that this sale outcome is a better result than what's being currently priced by listed office stocks.

Industrial property markets across Australia continue to be impacted by a chronic undersupply of space with the national vacancy level remaining below 1%, with CBRE reporting that Sydney has the lowest vacancy rate of any city globally. Naturally, this ongoing lack of industrial space continues to drive rental growth albeit at a slower rate than the corresponding time last year. JLL reported that the largest quarterly increase in average prime net face rents was recorded in South Sydney where quarter-on-quarter growth reached 12.4% while national prime average weighted net face rents increased by 4.4% over the quarter, reflecting an annual growth of 22.8%. Occupier demand is expected to continue to outpace supply over the short term which in turn is likely to continue to drive rental rates upwards.

Current consumer sentiment remains in line with lows recorded during COVID-19 and the GFC (Westpac) and is likely to remain suppressed until such times as customers can feel more confident over the outlook for interest rates. Food retailing reflected the sole positive retail category showing continuing turnover growth for the month of June 2023 demonstrating the focus on non-discretionary retail, however, over the quarter strong growth was also seen in the Café, Restaurant, and takeaway food categories. However, certain tailwinds are present with low unemployment, increasing migration and tourist levels. From an asset perspective, national retail vacancy declined in the first half of 2023 to 6.2%, reflecting its lowest level since pre-COVID (JLL). CBRE reported super prime retail rental growth in Brisbane, Adelaide and Sydney, with demand from luxury retailers across major capital cities continuing following the boarder reopening.

Across commercial real estate, asset valuations remain under scrutiny and some value declines are beginning to emerge across various sub-sector markets, albeit to differing degrees. Pricing discovery reflective of the current higher interest rate environment is beginning to emerge with some liquidity returning to the market. Capitalisation and discount rate softening has been somewhat of an inevitable side effect of the rising interest rate environment however the impact on asset values has been tempered in a number of cases by escalating rents, especially those linked to inflation. For the most part, asset values have been largely resilient with valuation declines across commercial real estate typically remaining within 5% of prior values for the majority. While declines in office asset values have garnered the most press attention, the extent of headline-grabbing valuation write-downs of 15%+ have to date, reflected a small proportion of the reported data and remain limited to those assets that are either secondary in nature or have inherent tenant expiry or capital expenditure risk.

For the quarter ending 30 June 2023, the Australian listed property sector, as measured by the S&P/ASX 200 Australian Real Estate

Investment Trust (A-REIT) Accumulation Index (A-REIT Index), returned positive 3.4% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 1.0%. Over the year to 30 June 2023, A-REITs returned a positive 8.1% compared to the broader equities market return of positive 14.8%.

Over the June 2023 quarter, Industrial A-REITs led the sector with returns of 7.5%, albeit this was skewed by the strong performance of Goodman Group (GMG). Commercial office stocks also performed well over the quarter (positive 6.3%), while Retail A-REITs were the worst-performing sector falling negative 1.7% (UBS, 2023). Despite the lower performance of the Retail focussed stocks more broadly, HMC Capital received strong market support following the successful close of its new Last Mile Logistics Fund, marking the first time HMC has raised wholesale capital. The laggard for the period was Vicinity Centres (VCX) returning a negative 5.1% return for the quarter.

### Fund performance

The Fund provided a total return of positive 0.21% (after fees) for the June 2023 quarter. Performance was driven by returns from the Fund's investment in the Australian Unity Student Accommodation Fund which experienced a sizeable valuation uplift. Positive returns from the Fund's Australian Real Estate Investment Trust (A-REIT) holdings have also supported investor returns this quarter. These gains were offset by negative valuation movements from a number of the Fund's direct property assets following the June 2023, revaluation cycle.

As of 30 June 2023, the A-REIT sector is trading at a c.4.5% FY23 estimated dividend per share yield and a substantial c.-18% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, 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.

### Portfolio activity for this quarter

#### Property Valuations

Five of the Fund's directly held property assets were independently valued as of 30 June 2023, with an aggregate net decrease of \$5.9 million or 7.1% from the properties' book value immediately prior to valuation.

**296 Vincent Street, Port Adelaide SA** – The property's value decreased by \$0.32 million or 2.21% from the book value prior to valuation. The value decrease is due to a softening in the Valuer adopted capitalisation rate from 6.00% to 6.25% reflecting current economic and market conditions.

**70 Light Square, Adelaide SA** – The property's value decreased by \$0.55 million or 3.10% from the book value prior to valuation. The value decrease is due to a softening in the Valuer adopted capitalisation rate from 5.88% to 6.00% reflecting current economic and market conditions.

**17 Byres Street, Newstead QLD** – The property's value decreased by \$1.50m or 13.04% from the book value immediately prior to valuation. This valuation decline was due to increased vacancy allowances for short-term lease expiries together with a softening in the Valuer adopted capitalisation rate from 5.75% to 6.00%.

**223-227 Governor Road, Braeside VIC** – The property's value decreased by 7.68% from the book value prior to valuation, due principally to the book value carrying lease incentive capex costs.

**134 King Street, Newcastle NSW** – The property's value decreased by 13.31% from the book value prior to valuation. The valuation decline reflects the write-down of the initial acquisition costs incurred at the time of purchase in conjunction with the development costs accumulated to date to reposition the subject property. Notably, the current valuation was broadly unchanged from that of the prior independent valuation, down 0.66%.

#### Active Asset Management

*2-10 Bliss Court, Derrimut, VIC & 91-97 Woodlands Drive, Braeside, VIC*

The Fund is pleased to announce that it has successfully renegotiated the existing lease arrangements in place at the assets known as Woodlands Drive, Braeside, VIC, and Bliss Court, Derrimut, VIC with passing rental levels re-set higher.

*296 St Vincent Street, Port Adelaide, SA*

The property is now 100% leased. The vacant area, which accounted for c.6% of the total lettable building area has been leased on a new 3-year term by Flinders Ports commencing 1 September 2023. Flinders Ports is the main tenant in the building and occupies the second level plus now part of the ground level.

*70 Light Square, Adelaide, SA*

Fit out works of the vacant space were undertaken to present the space ready for lease with an in-place high-quality office fitout. This was conducted with the intention to maximise the appeal of the available space and attract a broader collection of prospective tenants. There has been a clear preference shown from tenant groups, particularly within the smaller occupier cohort, to move to turnkey-ready accommodation in the current market. The space is now ready to be marketed to users.

#### Unlisted Property Investments

*Australian Unity Student Accommodation Fund, Herston, QLD*

The Australian Unity Student Accommodation Fund comprises the repurposed Lady Lamington heritage building within the Herston Quarter precinct. Operated by established student accommodation provider Uni-Lodge, the asset provides a total of 695 student accommodation rooms together with substantial tenant amenities and welcomed its first tenants in February 2022. Supported by an attractive price point and soaring student visa application numbers, occupancy performance at the asset has been strong, reaching 93% as at 31 March 2023, exceeding pre-development projections. Given such robust student demand as well as widespread supply challenges within the private residential rental market, rental growth at the subject property has also surpassed pre-development forecast rates. The asset was independently revalued, and we are pleased to report the value of the property has increased to \$65.9 million, up c.28% from the prior independent valuation of \$51.5 million.

#### Distribution

We are pleased to announce a distribution for the month of June 2023 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 30 June 2023 to 1.25 cpu.

#### Outlook

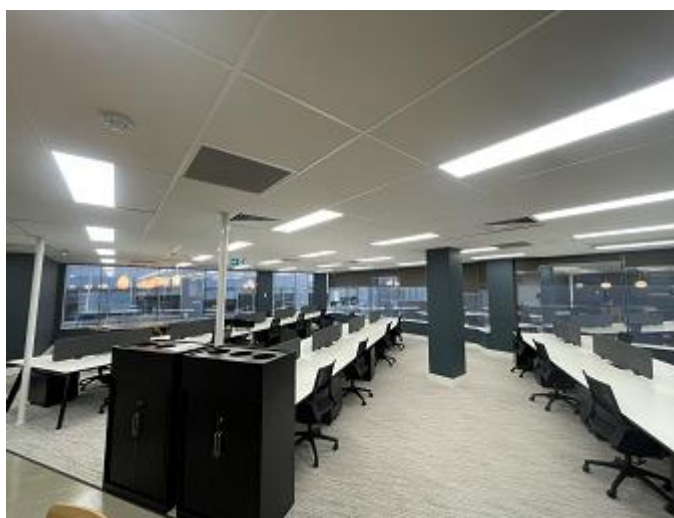
Through its well-diversified, actively managed portfolio, we believe the Fund is well positioned to provide regular income to investors, as the market transitions through the current macro-economic environment.

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 property, with revenue exposed to a mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.



91-97 Woodlands Drive, Braeside, VIC



70 Light Square, Adelaide, SA



296 St Vincent St, Port Adelaide, SA

## Key direct property statistics as at 30 June 2023

### Geographical allocation (by value)

State	No. assets	%
VIC	3	49.84
SA	2	26.16
QLD	2	17.80
NSW	1	6.21
<b>Total</b>	<b>8</b>	<b>100.00</b>

### Sector allocation (by value)

Sector	No. assets	%
Industrial	3	49.84
Office	4	40.64
Healthcare and social infrastructure	1	9.52
<b>Total</b>	<b>8</b>	<b>100.00</b>

### Property data

Number of properties	8
Total number of tenants	17
WALE (by income)#	7.5 yrs
Occupancy rate (by income)	95.28%

# Excludes assets under development

### Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	26.50
Flinders Ports	11.84
Concept Logistics	11.41
Logic Plus	6.28
Construction Sciences	4.52
<b>Total</b>	<b>60.55</b>

### Valuations

Valuations during the quarter	5
Change in total direct property book value	-3.37%
Change in book value of the properties revalued	-7.27%

\* 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 2023

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	-	3,268	Logic Plus	6	89.6	1.7	17.35	Jun-23	6.00	17.35
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	4.6	14.25	Jun-23	6.25	14.25
17 Byres St, Newstead	-	1,326	Construction Sciences	3	100.0	<1	10.00	Jun-23	6.00	10.00
134 King Street, Newcastle, NSW	5	1,879	N/A	0	-	-	7.50	Jun-23	N/A	7.50
<b>Sub total</b>				<b>12</b>			<b>49.10</b>			<b>49.10</b>
<b>Industrial</b>										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	18.2	28.30	Jun-23	4.75	28.30
2-10 Bliss Court, Derrimut VIC	-	9,715	Concept Logistics	1	100.0	9.2	15.90	Jul-22	4.50	19.17
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	18.2	12.40	Aug-22	4.25	12.75
<b>Sub total</b>				<b>3</b>			<b>56.60</b>			<b>60.22</b>
<b>Healthcare and social infrastructure</b>										
Edith Cavell Building	6	1,580	Australian Unity	2	80.0	3.7	11.50	Feb-23	6.25	11.50
<b>Sub total</b>				<b>2</b>			<b>11.50</b>			<b>11.50</b>
<b>Total (T) / Weighted Average (A)</b>				<b>17 (T)</b>	<b>95.3 (A)</b>	<b>7.5 (A)</b>	<b>117.2 (T)</b>		<b>5.32 (A)</b>	<b>120.82 (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.
- Planning consent currently being sought for asset repositioning.
- No. of tenants, WALE and occupancy details reflect current Heads of Agreement with University of Queensland.

## Contact us

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### Investor Services

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### Adviser Services

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