Diversified Property Fund

Fund Update
30 September 2022

Established in August 2006, the Australian Unity Diversified Property Fund (Fund) currently holds 9 properties* in New South Wales, Victoria, South Australia and Western Australia. The Fund aims to deliver a stable income stream with the potential for capital growth. *Consolidated for reporting purposes.

Busselton Central Shopping Centre Stage 3, Busselton, WA

Fund Facts as at 30 September 2022

Gross Asset Value	Unit Price	September Quarter Ordinary Distribution~
$531.15 m ($538.75m at 30 June 2022)	**$1.1379** exit price (cum distribution)	**1.3500 cents per unit (CPU)** (1.4600 CPU June 2022 quarter)

Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
37.47% (35.08% at 30 June 2022)	**98.9%** (leased by income)	**8.7 years** (by base rental income)

~ distributions are paid monthly

Ratings / Awards

Recommended Lonsec Research

Core Property Fund Research & Ratings Recommended

Zenith APPROVED

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	1.14	6.87	8.46	7.98	8.19	8.70	8.16
Growth return	(2.96)	(1.70)	3.74	4.05	5.76	3.91	0.79
Total return	(1.82)	5.17	12.20	12.03	13.95	12.61	8.95
Benchmark distribution return	0.72	2.86	3.05	3.37	3.65	4.20	5.11
Benchmark total return	1.64	11.23	5.70	6.92	8.32	8.74	7.89

Inception date for performance calculations is 22 August 2006.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The Fund's Benchmark distribution return is 1% p.a. above the average Commonwealth Government 10-year bond yield calculated on a rolling basis over the previous five-year period. The Fund's Benchmark total return is the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index.

Contribution summary as at 30 September 2022

The relative contribution of major variables on growth returns over the last quarter and year.

Contributor	3 mths %	1 yr %
Property revaluations	0.00	3.14
Interest Rate Swaps (realised and unrealised marked to market movements)	0.00	0.00
Unrealised gains/losses on investments in listed/unlisted trusts	(2.46)	(2.82)
Other	(0.50)	(2.02)
Growth return	(2.96)	(1.70)

Return calculations are based on actual distributions reinvested, which may vary slightly to the performance table illustrated above. Past performance is not a reliable indicator of future performance. Property revaluations are calculated in accordance with accounting standards and includes capital expenditure, lease incentives and/or commissions (both of which are amortised), this represents the increase/decrease from the property book value immediately prior to valuation. 'Other' may include: retained earnings during the period, swap break costs, estimated gains distributed, realised gains/losses on property, distributions from prior period retained earnings, realised gains/losses from unlisted property trusts and non-material movements.

Key portfolio statistics as at 30 September 2022

Geographical allocation (by value)

State	No. assets	%
NSW	3	39.03
WA	4	30.89
VIC	1	20.31
SA	1	9.77
Total	9**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	4	48.38
Convenience	2	27.71
Industrial	2	12.59
Office	1	11.32
Total	9**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Caltex - Ampol	24.88
Woolworths	11.89
Coles	11.42
Commonwealth of Australia	9.35
Boeing	3.81
Total	61.34

Property data

Number of properties	9**
Total number of tenants	118
WALE (by income)#	8.7 yrs
Occupancy rate (by income)	98.9%

** Consolidated for reporting purposes
# Excludes assets under development.

Financials

	$m
Gross assets	531.15
Total debt	199.00
Other liabilities^	3.62
Net assets	328.53

^ Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	37.47%
Loan-to-Value Ratio (LVR) (Financier's definition)	40.28%
Interest Cover Ratio (ICR) (RG ASIC definition)	3.83 times
Hedging (% of debt hedged)	0.00%

Valuations

Valuations during the quarter	0
Change in total direct property book value	1.13%
Change in book value of the properties revalued	0.00%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

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. Within 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%.

The Australian 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.

Portfolio activity for this quarter

Developments

Blackburn Square Shopping Centre

Stage 1 of the Blackburn Square Development reached completion in mid-April 2022, with Coles commencing trade. Stage 2 construction commenced in late April 2022 with a projected programme of thirteen months. The head contractor for Stage 2 is Maben Group. Stage 2 comprises of a new Aldi, Woolworths Direct to Boot facility, medical centre, gyms, 102-place childcare centre, external dining precinct and approximately 35 specialty shops. The first separable portion to reach completion is the south-west car park, which will be operational by end of October 2022.

Stage 2 leasing has progressed over the quarter with 85% of net income pre-committed.

Busselton Central Shopping Centre

Construction for Stage 3 of the redevelopment commenced in November 2021 with works underway comprising an additional 6,180 sqm of GLA with ~4,000 sqm of quality food and beverage on the ground floor to include a boutique tavern, as well as more than ten dining and retail stores including Benesse, Inara Restaurant, Dome, Funkee Monkee Bar & Eatery and Cotton On Mega and a quality selection of national fashion retailers. A new five-screen Reading Cinema will be located on level one. The state-of-the-art complex will feature Titan Luxe auditoriums with Dolby Atmos, bespoke dine-in menu options and powered full recliner seating. On completion, the redeveloped centre will provide a a unique dining and entertainment experience for the Southwest region of WA.

Stage 3 leasing is now at an advanced stage with 87% of leasing income pre-committed. The project is scheduled to be complete and trading in mid-2023.

Distributions

Ordinary cash payments of the Fund's regular income of 1.35 cents per unit were paid for the September 2022 Quarter.

Blackburn Square Shopping Centre Stage 2 (Roof Development Progress), North Blackburn, VIC

Blackburn Square Shopping Centre Stage 2 (Carpark Development Progress), North Blackburn, VIC

Fund portfolio 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)
Industrial										
Mersey Road North, Osborne, SA	-	8,006	Commonwealth of Australia	1	100.0	7.8	50.00	Dec-21	5.00	50.05
6-8 Geddes Street, Balcatta, WA	-	14,786	IGA Distribution	2	100.0	1.2	14.45	Dec-21	6.00	14.45
Sub total										**64.50**
Retail										
Blackburn Square Shopping Centre, VIC	-	10,346	Coles	18	100.0	10.0	93.00	Dec-21	5.50	104.07
Busselton Central Shopping Centre, WA	-	7,166	Coles	19	96.5	6.1	48.56	Dec-21	6.00	55.32
Dog Swamp Shopping Centre, WA	-	8,030	Woolworths	31	95.5	7.5	53.50	Dec-21	5.75	53.68
Woodvale Boulevard Shopping Centre, WA	-	6,378	Woolworths	25	96.3	3.6	34.50	Dec-21	6.00	34.81
Sub total										**247.88**
Convenience										
Wyong Service Centres, Wyong, NSW	-	4,286	Caltex - Ampol	2	100.0	15.8	142.00	Jun-22	5.00	142.00
Sub total										**142.00**
Office										
1 and 2 Technology Place, Williamtown, NSW	-	7,557	Boeing	20	100.0	3.6	58.00	Jun-22	5.88	58.01
Sub total										**58.01**
Listed property										
Australian Unity Office Fund (AOF)										12.76
Cash and other assets										6.00
Total Cash and other assets										**18.76**
Total (T) / Weighted Average (A)				**118 (T)**	**98.9 (A)**	**8.7 (A)**	**494.0 (T)**		**5.50 (A)**	**531.15 (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.

Contact us

australianunity.com.au/wealth

australianunitywealth@unitregistry.com.au

Investor Services

T 1300 997 774 F 1300 856 685

Adviser Services

T 1300 997 774 F 1300 856 685

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