

# Diversified Property Fund

Fund Update  
31 March 2023

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 31 March 2023

Gross Asset Value	Unit Price	March Quarter Ordinary Distribution <sup>~</sup>
\$572.00 m ((\$558.08m at 31 December 2022))	\$1.1506 exit price (cum distribution)	1.29 cents per unit (CPU) (1.35 CPU December 2022 quarter)
Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
43.36% (40.50% at 31 December 2022)	98.4% (leased by income)	8.1 years (by gross rental income)

<sup>~</sup> distributions are paid monthly

## Ratings / Awards



## Performance as at 31 March 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	1.10	6.59	8.04	7.65	7.84	8.62	8.06
Growth return	(1.24)	(3.53)	3.01	3.14	4.89	3.73	0.80
Total return	(0.14)	3.06	11.05	10.79	12.73	12.35	8.86
Benchmark distribution return	0.73	2.92	2.97	3.26	3.53	4.05	5.05
Benchmark total return	1.43	5.72	6.16	5.98	7.61	8.45	7.73

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 31 March 2023

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

Contributor	3 mths %	1 yr %
Property revaluations	0.00	2.84
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.39)	(0.33)
Unrealised gains/losses on investments in listed/unlisted trusts	(0.25)	(2.68)
Performance fee	0.00	0.00
Other	(0.60)	(3.36)
<b>Growth return</b>	<b>(1.24)</b>	<b>(3.53)</b>

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 31 March 2023

### Geographical allocation (by value)

State	No. assets	%
NSW	3	36.90
WA	4	31.54
VIC	1	22.31
SA	1	9.25
<b>Total</b>	<b>9**</b>	<b>100.00</b>

\*\* Consolidated for reporting purposes.

### Sector allocation (by value)

Sector	No. assets	%
Retail	4	50.98
Convenience	2	26.18
Industrial	2	12.12
Office	1	10.72
<b>Total</b>	<b>9**</b>	<b>100.00</b>

\*\* Consolidated for reporting purposes.

### Top 5 tenants (by income)

Tenant	%
Caltex - Ampol	24.48
Woolworths	12.02
Coles	11.22
Commonwealth of Australia	9.19
Boeing	3.77
<b>Total</b>	<b>60.69</b>

### Property data

Number of properties	9**
Total number of tenants	120
WALE (by income)#	8.1 yrs
Occupancy rate (by income)	98.35%

\*\* Consolidated for reporting purposes

# Excludes assets under development.

### Financials

	\$m
Gross assets	572.00
Total debt	248.00
Other liabilities <sup>^</sup>	4.87
<b>Net assets</b>	<b>319.13</b>

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

### Debt

Gearing (RG 46 ASIC definition)	43.36%
Loan-to-Value Ratio (LVR) (Financier's definition)	47.42%
Interest Cover Ratio (ICR) (RG ASIC definition)	2.82 times
Hedging (% of debt hedged)	0.00%

### Valuations

Valuations during the quarter	0
Change in total direct property book value	2.67%
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

An optimistic opening to 2023 saw equity markets bounce in January 2023, buoyed by China's emergence from COVID-19 lockdowns, resilience within the Australian Economy and initial signs that inflation may finally be lessening across the developed world, driving a fall in bond yield levels. Alas, volatility and uncertainty remain, and while the ongoing tightening of monetary policy from global central banks during the March 2023 quarter has continued to create pricing concerns for market participants, attention quickly shifted to the Banking sector following the collapse of several technology-focused banks in the US and the somewhat arranged takeover of major European Bank Credit Suisse by rival UBS. While the resulting headlines are worrisome, the underlying circumstances appear specific to these affected institutions and following swift action from relevant authorities any possible contagion risk has been limited to date. It does however indicate that volatility and uncertainty are likely to remain as the impacts from global monetary tightening play out.

Within Australia, following further cash rate rises in February and March 2023, the Reserve Bank of Australia (RBA) finally held the cash rate unchanged at 3.60% in April 2023. Following a below consensus forecast Consumer Price Index (CPI) print in February 2023 and the heightened recent market uncertainty over concerns in the international Banking sector, this pause in rate rises had largely been forecast by the market. Looking forward, the RBA suggested that some further interest rises may be required, however this would be data dependent, with the current pause allowing for the impact of prior interest rate increases on the economy to be assessed. It would appear however, that the cash rate is nearing peak levels with average economist consensus (per Bloomberg) currently suggesting one further rate rise to come settling at a peak rate of 3.85%. This more dovish view on rates has transpired to a lowering in the forward yield curve with the prevailing 10-year Australian bond yield declining from 4.00% at the start of January 2023 to 3.29% as of 31 March 2023, lowering prospective borrowing costs.

Looking forward, growth in the Australian economy is forecast to slow in 2023 albeit remain positive with economic forecasters currently assuming year on year Gross Domestic Product (GDP) growth of 1.7% in 2023, down from 3.7% in 2022 and 5.3% in 2021. Despite current below average levels of consumer sentiment and business confidence, results from the NAB Monthly Business Survey (March 2023) support economic growth, observing that business conditions remain well above the long-run average, with robust demand and trading conditions elevated across states and sectors.

Despite negative news headlines, 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 five of the six capital city markets for the March 2023 quarter. The Perth CBD market was most active, accounting for c.60% of the total CBD markets net absorption, while at the same time achieving its highest quarterly net absorption level since Q3 2018. Activity was driven by the resources sector, which remains buoyant, as well as new businesses entering the Perth market. More broadly, tenant demand remains supportive of higher quality assets, particularly those with strong environmental credentials and amenity provisions. Office vacancy remains elevated nationally with JLL noting a total vacancy of 15.0% across all markets at Q1 2023. Increased vacancy levels were recorded in both Melbourne and Canberra CBD markets over the quarter as lower attendance occupancy continues to weigh on these markets. Elevated construction costs and challenges to secure substantial pre-commitments are likely to reduce supply

pipeline levels. As such, this is likely to keep a limit on overall vacancy levels going forward. Investment transactional activity remains subdued, however it appears that some vendors are now bringing assets to market which, in turn, should provide some additional pricing transparency for the sector more broadly.

Ongoing occupier demand is continuing to drive rental growth within the Industrial property sector as a lack of available stock creates competitive tension in almost all geographic markets. In Q1 2023, the average prime industrial quarterly rental growth rate as reported by JLL was 3.8% with Sydney's Inner West, Melbourne's North and Brisbane's Trade Coast all experiencing quarter on quarter growth above 8%. Such growth has not been limited to prime grade assets, with JLL indicating an average quarterly growth rate for secondary quality properties of 4.5% across the submarkets covered. Despite such growth, national take up levels are significantly below the 5-year quarterly average (CBRE) as record low vacancy levels limit the ability to secure accommodation. This should be somewhat assisted by new supply with CBRE reporting that new floorspace in 2023 is forecast to be 90% above the long run average, however this pipeline is reported to already be 66% pre-committed meaning that the tightness in the occupier market is likely to remain in the short term. Transactional activity for the sector was lower for the quarter, however demand for development land and was positive. For existing investment assets, purchaser preference remains for those assets subject to short term leases agreements which allow for more immediate access to capitalise on the current rental growth story.

The impact of higher cost of living pressures resulting from escalated inflation and interest rates levels appears to now be starting to emerge within the retail property sector. Data from the Australian Bureau of Statistics highlights that Australian retail sales rose by just 0.2% in February, down 1.5% on a three-month average, implying a pullback in consumer spending to start 2023. While nominal sales levels remain high, driven by high costs of goods, there is widespread expectation that real sales levels will reduce over 2023. Despite this, certain tailwinds are present with low unemployment, increasing migration and tourist levels, while student visa applications are also notably strong which should go some way to mitigating the forecast spending decline. This is currently evident in CBD retail property markets, which, supported by returning office workers have seen increased retail sales and store visitation levels. While rental levels in Melbourne and Sydney CBDs' recorded slight negative movement over the quarter, in February 2023 CBRE reported a decline in national retail CBD vacancy levels, with the most substantial decline reported in Melbourne. Across remaining retail property submarkets, JLL data notes slight decline in rental levels at Regional Shopping Centres but growth continuing in both neighbourhood and large format retail sectors, particularly across Sydney and Melbourne. While JLL report that retail property transactional activity over Q1 2023 was it lowest since the start of the COVID-19 Pandemic (Q1 2020), anecdotal evidence indicates that the sector remains attractive to investors.

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. However, on the positive side, supply chain pressures seem to have subsided, inflation appears to be moving lower and interest rate levels look to be nearing to a cyclical peak. Strong positive migration levels are currently being experienced which should assist workforce shortages and alleviate potential wage inflation fears that may otherwise continue to reinforce the existing high inflation data. Across commercial real

estate there remains somewhat of a disconnect between public and private markets, reflective of the perceived forward-looking nature of listed property sector pricing. While material asset valuation movements given the current higher interest rate environment are yet to be seen, valuation pressures remain topical, although different property assets and sectors will be better positioned than others to weather potential challenges, in what is a continually evolving economic backdrop where investors reassess their expected property return hurdles. Should interest rates and cost of debt levels trend downwards as currently forecast, the associated impact of such commercial property valuation changes may be briefer and less noteworthy than recent negative news headlines would suggest. That being said, poorer quality properties in oversupplied locations and those properties with limited income growth and weakening security remain at greater risk, while those properties owned in highly geared structures are likely to experience a bumpier ride.

### Portfolio activity for this quarter

#### Blackburn Square Shopping Centre

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, with a contract value of \$37.2 million. 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. Practical Completion of the Stage 2 base build is scheduled to take place in July 2023. A staged approach has been taken with the first Stage 2 retailer launching in late-March 2023. Aldi and the external dining precinct is scheduled to open in late-June 2023. Stage 2 leasing is nearing completion with 93% of net income pre-committed.

#### Busselton Central Shopping Centre

Stage 3 of the redevelopment commenced in November 2021 and is at an advanced stage. The works underway comprise an additional 6,180 square meters (sqm) of gross leasable area (GLA) with ~4,000 sqm of quality food and beverage and entertainment on the ground floor to include Timezone and a boutique tavern, as well as 14 dining and retail specialty shops including Benesse Cafe, Inara Restaurant, Dome, Funkee Monkee Bar & Eatery. There is a quality selection of national retailers to include Cotton On Mega, Lovisa, Dusk, Platypus and Sketches. 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. The centre will create a unique dining and entertainment experience for the Southwest region of WA. Stage 3 leasing is close to completion with 95% of leasing net 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 1.29 cents per unit were paid in the March 2023 Quarter, taking total payments made so far in FY23 to 3.99 cents per unit.



Blackburn Square Shopping Centre Stage 2, North Blackburn, VIC



Blackburn Square Shopping Centre Stage 2, North Blackburn, VIC



Busselton Central Shopping Centre Stage 3, Busselton WA

## Fund portfolio as at 31 March 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>Industrial</b>										
Mersey Road North, Osborne, SA	-	8,006	Commonwealth of Australia	1	100.0	7.3	50.50	Oct-22	5.13	50.51
6-8 Geddes Street, Balcatta, WA	-	14,786	IGA Distribution	2	100.0	<1	15.70	Oct-22	6.00	15.72
<b>Sub total</b>				<b>3</b>			<b>66.20</b>			<b>66.23</b>
<b>Retail</b>										
Blackburn Square Shopping Centre, VIC	-	10,405	Coles	18	100.0	9.1	111.00	Nov-22	5.00	121.86
Busselton Central Shopping Centre, WA	-	7,292	Coles	20	93.9	6.3	50.92	Nov-22	5.75	62.82
Dog Swamp Shopping Centre, WA	-	8,083	Woolworths	33	97.5	7.2	54.40	Oct-22	5.75	54.67
Woodvale Boulevard Shopping Centre, WA	-	19,166	Woolworths	24	93.5	3.7	39.00	Oct-22	6.00	39.09
<b>Sub total</b>				<b>95</b>			<b>255.32</b>			<b>278.44</b>
<b>Convenience</b>										
Wyong Service Centres, Wyong, NSW	-	4,286	Ampol	2	100.0	15.3	143.00	Nov-22	5.00	143.00
<b>Sub total</b>				<b>2</b>			<b>143.00</b>			<b>143.00</b>
<b>Office</b>										
1 and 2 Technology Place, Williamstown, NSW	-	7,557	Boeing	20	100.0	3.0	58.50	Nov-22	5.88	58.54
<b>Sub total</b>				<b>20</b>			<b>58.50</b>			<b>58.54</b>
<b>Listed property</b>										
Australian Unity Office Fund (AOF)										14.55
Cash and other assets										9.82
<b>Total Cash and other assets</b>										<b>24.37</b>
<b>Total (T) / Weighted Average (A)</b>				<b>120 (T)</b>	<b>98.35 (A)</b>	<b>8.1 (A)</b>	<b>523.0 (T)</b>		<b>5.36 (A)</b>	<b>572.00 (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 gross 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.

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