Diversified Property Fund

Fund Update
30 June 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.

Blackburn Square Shopping Centre, North Blackburn, VIC

Fund Facts as at 30 June 2023

Gross Asset Value	Unit Price	June Quarter Ordinary Distribution~
$582.00 m ($572.00m at 31 March 2023)	**$1.1117** exit price (cum distribution)	**1.26 cents per unit (CPU)** (129.00 CPU March 2023 quarter)

Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
47.16% (43.36% at 31 March 2023)	**98.7%** (leased by income)	**8.6 years** (by gross rental income)

~ distributions are paid monthly

Ratings / Awards

Recommended Lonsec Research

Core Property Fund Research & Ratings Recommended

Zenith APPROVED

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	1.07	4.41	7.06	7.46	7.63	7.96	7.99
Growth return	(3.11)	(5.34)	1.36	2.27	3.92	4.03	0.60
Total return	(2.04)	(0.93)	8.42	9.73	11.55	11.99	8.59
Benchmark distribution return	0.75	2.96	2.95	3.22	3.47	3.98	5.02
Benchmark total return	(2.83)	(1.29)	6.08	4.49	6.59	7.73	7.34

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 June 2023

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

Contributor	3 mths %	1 yr %
Property revaluations	(3.61)	(2.23)
Interest Rate Swaps (realised and unrealised marked to market movements)	0.63	0.30
Unrealised gains/losses on investments in listed/unlisted trusts	(0.61)	(2.58)
Performance fee	0.00	0.00
Other	0.48	(0.83)
Growth return	(3.11)	(5.34)

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 June 2023

Geographical allocation (by value)

State	No. assets	%
NSW	3	36.36
WA	4	32.55
VIC	1	22.77
SA	1	8.31
Total	9**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	4	52.37
Convenience	2	26.10
Industrial	2	11.27
Office	1	10.27
Total	9**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Ampol	25.56
Woolworths	11.59
Coles	10.82
Commonwealth of Australia	8.86
Boeing	3.64
Total	60.46

Property data

Number of properties	9**
Total number of tenants	126
WALE (by income)#	8.6 yrs
Occupancy rate (by income)	98.71%

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

Financials

	$m
Gross assets	582.00
Total debt	274.50
Other liabilities^	5.05
Net assets	302.45

^ Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	47.16%
Loan-to-Value Ratio (LVR) (Financier's definition)	49.97%
Interest Cover Ratio (ICR) (RG ASIC definition)	2.44 times
Hedging (% of debt hedged)	0.00%

Valuations

Valuations during the quarter	8
Change in total direct property book value	1.27%
Change in book value of the properties revalued	1.32%

* 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 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 OECD is 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 ($556m 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 border 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.

Portfolio activity for this quarter

Proposed Merger with the Cromwell Direct Property Fund

On 7th July 2023, Australian Unity Property Limited (AUPL), as the responsible entity for the Fund, announced it had entered into a Merger Implementation Deed (MID) with Cromwell Funds Management Limited (CFML), as the responsible entity for Cromwell Direct Property Fund (CDPF), to merge the Fund and CDPF via a trust scheme (Proposed Merger).

If Fund (AUDPF) unitholders approve the Proposed Merger and it is implemented, Fund unitholders will receive new CDPF units in exchange for their AUDPF units. The number of new CDPF units received for each AUDPF unit held will be based on AUDPF's and CDPF's respective audited Net Tangible Assets (NTA) per unit on 30 June 2023, subject to certain adjustments.

The expected key dates in relation to the Proposed Merger are outlined below. These dates are indicative only and are subject to change.

- Dispatch of Unitholder Booklet (including an Independent Experts Report) - early October 2023.
- Applications close for the AUDPF withdrawal facility - early October 2023.
- AUDPF unitholder meeting date - late October 2023.
- Implementation date - mid-November 2023.

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. The head contractor for Stage 2 is Maben Group, with a contract value of $37.2 million. Stage 2 comprises a new Aldi, Woolworths Direct-to-Boot facility, medical centre, gym, 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 September 2023. A staged approach has been taken with the first Stage 2 retailer launching in late March 2023. Aldi and the external dining precinct are scheduled to open in early August 2023. Stage 2 leasing is nearing completion with 96% 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, the Busselton Pavilion, and 14 dining and retail specialty shops. These include Benesse Cafe, Inara Restaurant, Dome, Cotton On Mega, Connor, Lovisa, Dusk, Platypus, Sketches and Boost Juice. 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 96% of leasing net income pre-committed. The project is scheduled to have a staged opening with specialty retailers opening in July and the remainder of the centre is due for practical completion by October 2023.

Valuations

With the exception of Woodvale Boulevard (being held for sale), all of the Fund's properties were independently valued during the June 2023 quarter, with a net decrease of ($13.68) million, or (4.81%) from the properties' book values immediately prior to valuation.

Valuation changes:

- Dog Swamp Shopping Centre, WA - the property's value decreased by ($0.07) million, or (0.13%), due to cap rate softening, from 5.75% to 5.875%. To a large extent, cap rate softening was offset by rental growth.
- 1 and 2 Technology Place Williamtown, NSW - the property's value decreased by ($1.80) million, or (3.07%), due to cap rate softening from 5.88% to 6.125%.
- Blackburn Square Shopping Centre, Vic - the property's value decreased by ($8.84) million, or (6.60%), due to cap rate softening, from 5.00% to 5.375%.
- 6-8 Geddes Street Balcatta, WA (incl. 5 Kenhelm St Balcatta) - the property's value increased by $0.6 million, or 3.94%, due to rental growth.
- Busselton Central Shopping Centre, WA - the property's value decreased by ($0.48) million, or (0.72%), due to cap rate softening, from 5.75% to 5.85%.
- 620 Mersey Road Osborne, SA - the property's value decreased by ($4.51) million, or (8.92%), due to significant cap rate softening, from 5.13% to 6.25%. This is due to a combination of market conditions and recent transactions in South Australia. Cap rate softening was offset, to some extent, by a strong CPI rent review.
- Wyong Service Centres, Wyong NSW - the property's value increased by $1.4m, or 0.98%, due to a strong CPI rent review more than offsetting a softening of the cap rate, from 5.00% to 5.25%.

Distributions

Ordinary cash payments of the Fund's regular income of 1.26 cents per unit were paid in the June 2023 quarter, taking total payments in FY23 to 5.25 cents per unit.

Blackburn Square Shopping Centre Interior, North Blackburn, VIC

Busselton Central Shopping Centre, Busselton WA

Busselton Central Shopping Centre Interior, Busselton WA

Fund portfolio 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)
Industrial										
Mersey Road North, Osborne, SA	-	8,006	Commonwealth of Australia	1	100.0	7.0	46.00	Jun-23	6.25	46.00
6-8 Geddes Street, Balcatta, WA	-	9,992	IGA Distribution	2	100.0	<1	16.35	May-23	6.00	16.36
Sub total				3			62.35			**62.36**
Retail										
Blackburn Square Shopping Centre, VIC	-	10,799	Coles	21	100.0	11.6	125.00	May-23	5.38	126.01
Busselton Central Shopping Centre, WA	-	7,096	Coles	21	95.7	6.3	67.08	May-23	5.85	69.54
Dog Swamp Shopping Centre, WA	-	8,074	Woolworths	34	98.6	6.9	54.80	May-23	5.88	54.90
Woodvale Boulevard Shopping Centre, WA	-	6,378	Woolworths	25	93.5	3.6	39.00	Oct-22	6.00	39.31
Sub total				101			285.88			**289.76**
Convenience										
Wyong Service Centres, Wyong, NSW	-	4,286	Ampol	2	100.0	15.0	144.40	Jun-23	5.25	144.40
Sub total				2			144.40			**144.40**
Office										
1 and 2 Technology Place, Williamtown, NSW	-	7,557	Boeing	20	100.0	2.9	56.75	May-23	6.13	56.80
Sub total				20			56.75			**56.80**
Listed property										
Australian Unity Office Fund (AOF)										12.66
Cash and other assets										16.03
Total Cash and other assets										**28.69**
Total (T) / Weighted Average (A)				**126 (T)**	**98.71 (A)**	**8.6 (A)**	**549.4 (T)**		**5.66 (A)**	**582.00 (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 gross 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.

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