

Diversified Property Fund

Fund Update
30 September 2023

Established in August 2006, the Australian Unity Diversified Property Fund (Fund) currently holds 8 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, Busselton WA

Fund Facts as at 30 September 2023

Gross Asset Value	Unit Price	September Quarter Ordinary Distribution [~]
\$562.20 m ((\$582.00m at 30 June 2023))	\$1.0852 exit price (cum distribution)	1.26 cents per unit (CPU) (1.26 CPU June 2023 quarter)
Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
45.89% (47.16% at 30 June 2023)	98.6% (leased by income)	8.7 years (by gross rental income)

[~] distributions are paid monthly

Ratings / Awards



Performance as at 30 September 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	1.12	4.40	6.91	7.29	7.48	7.88	7.93
Growth return	(2.72)	(5.11)	0.58	1.55	3.48	3.87	0.43
Total return	(1.60)	(0.71)	7.49	8.84	10.96	11.75	8.36
Benchmark distribution return	0.77	3.01	2.95	3.17	3.43	3.92	4.99
Benchmark total return	(0.33)	(3.21)	5.78	4.00	6.16	7.48	7.21

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 2023

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

Contributor	3 mths %	1 yr %
Property revaluations	(1.53)	(3.79)
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.18)	(0.15)
Unrealised gains/losses on investments in listed/unlisted trusts	(0.10)	(0.17)
Performance fee	0.00	0.00
Other	(0.91)	(1.00)
Growth return	(2.72)	(5.11)

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 2023

Geographical allocation (by value)

State	No. assets	%
NSW	3	37.11
WA	3	28.41
VIC	1	25.99
SA	1	8.49
Total	8**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	3	51.39
Convenience	2	26.62
Industrial	2	11.50
Office	1	10.49
Total	8**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Ampol	24.31
Coles	10.30
Commonwealth of Australia	9.00
Woolworths	7.34
Boeing	3.29
Total	54.25

Property data

Number of properties	8**
Total number of tenants	145
WALE (by income)#	8.7 yrs
Occupancy rate (by income)	98.58%

** Consolidated for reporting purposes

Excludes assets under development.

Financials

	\$m
Gross assets	562.20
Total debt	258.00
Other liabilities [^]	4.80
Net assets	299.40

[^] Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	45.89%
Loan-to-Value Ratio (LVR) (Financier's definition)	50.55%
Interest Cover Ratio (ICR) (RG 46 ASIC definition)	2.27 times
Hedging (% of debt hedged)	38.76%

Valuations

Valuations during the quarter	0
Change in total direct property book value	4.96%
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 Australian economy, while growing at its slowest rate since 2020, continues to provide stoic performance largely underestimated by market participants, with real GDP growth in Q2 2023 up 0.4% quarter on quarter and growing 2.1% annually, notably ahead of both market and Reserve Bank of Australia (RBA) forecasts of 1.8% and 1.6% year on year respectively. Inflation remains above desired levels although has been in decline and is now considered to be firmly past its peak. Challenges remain to further reduce inflation with ongoing low unemployment supporting wage growth despite reduced levels of labour productivity, while at a headline level energy prices and housing rents continue to remain high. Ongoing positive support for the Australian economy remains from the strong levels of migrant population growth currently being experienced. From an inflation perspective, this should also help manage wage growth, however, it will continue to pressure the housing market until supply levels are improved.

In a widely expected move, at its October 2023 meeting, the RBA continued to hold the current cash rate setting at 4.10%, reflecting no change for a fourth successive month. While this stabilising position might suggest that we may be at, or if not, very close to peak rates, the RBA maintained the stance that some further increases to interest rates "may be required" to ensure that inflation returns to the RBA targeted range of 2% - 3% in a "reasonable timeframe". Economist consensus forecasts in Australia do not currently expect a reduction in the cash rate until the latter half of 2024 (Bloomberg). Reflective of this viewpoint, the Australian 10-year government bond yield, widely used by domestic investment markets as a proxy for a risk-free investment return, increased from 3.97% at the start of the quarter to 4.48% by the end of September 2023.

While the influence of the hybrid work model on office use and demand continues to play out, research data from Jones Lang LaSalle (JLL) indicates leasing resilience with positive office property net absorption (i.e., where take-up of accommodation is higher than office space becoming vacant) recorded in three of the six capital city markets for the September 2023 quarter. Over the quarter, absorption was strongest in Adelaide and Perth CBD markets, however, leasing has also been strong in Brisbane CBD over the last 12 months. Vacancy remains high with JLL reporting A grade office vacancy of 13.8% nationally across CBD markets and higher for secondary quality stock. Despite this, individual nuances exist between geographies, submarkets and individual assets with quality, well-located stock proving most resilient while local industry, public sector and infrastructure related occupiers have supported solid net effective rental growth in Brisbane and Perth markets. Occupiers continue to face challenges to get staff back to the office on a more substantial basis in several markets albeit this varies between peak and off-peak days of the week. However, as the broader economic environment slows, concerns surrounding workforce productivity may assist in enhancing workplace attendance levels with CBRE reporting that Productivity Growth data since March 2022 suggests many white-collar, principally office-based sectors, have not performed well, displaying substantial productivity decline over the last 18 months.

Transactional activity has continued to trickle through with the acquisition of 1 Margaret Street by Quintessential completing and sales of CBD office assets by Mirvac in Melbourne and Sydney continuing to progress. Additionally, one of the first notable transactions of an office for residential conversion was completed by GURNER at Kent Street, Sydney although cost and design challenges are likely to place a limit on the extent of similar opportunities in the near term.

Along with some alternative real estate sectors, Industrial property remains one of the most resilient real estate markets in the current environment. While tempering somewhat from prior highs, rental growth remains strong across geographies, with JLL reporting prime quarterly net rental growth rates above 9% within certain submarkets of Sydney, Brisbane, and Adelaide, while the highest annual prime net rent growth rate of 27.1% was noted in the Melbourne North market. Such rental growth has helped to minimise asset valuation movements across the sector as required return hurdles move out. Availability of space remains limited, however, CBRE report that forecast new supply in 2024 is expected to be double the long-run average which should assist in alleviating some of this vacancy pressure, albeit they note that nearly 50% of this new floorspace is pre-committed as developers look for additional project security given the broader macro-economic uncertainty. As a result, 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.

Despite rising interest rates and continuing cost of living pressures, retail sales have proved somewhat defiant, albeit slowing from previous highs. The monthly Westpac-Melbourne Institute Consumer Sentiment index in Australia rose 2.9% in October 2023, its highest level in six months, however, is still in deeply pessimistic territory, consistent with a continuation of the contraction in per capita spending seen since late last year. Seasonally adjusted retail sales for August were up 0.2% month-on-month, which follows a 0.5% increase in July and a 0.8% decline in June 2023. Compared with August 2022, retail sales were up 1.5% year-on-year. Sales have been supported by record adult population growth, strong income growth and high levels of excess savings. Rents across retail markets remained largely flat across the September 2023 quarter with the large format retail sub-sector in Adelaide recording quarterly growth of 1% the only movement of note (JLL). Pleasingly, it appears that CBD retail rents appear to have bottomed out, with JLL noting that none of the CBD markets recorded negative rental movement for the quarter. Retail transaction volumes for the quarter totalled c.\$1.2bn (JLL) implying some additional liquidity for the sector which has seen shopping centre income levels rebase and tenant affordability improve following pandemic-related adjustments.

Overall, while commercial real estate investors continue to face cost-of-debt pressures and asset valuation headwinds, direct property markets remain largely robust. Transactional activity remains low versus historic levels as buyer inertia and pricing disconnects between market participants remain. However, greater liquidity can be seen for the smaller asset markets and some property sectors are attracting more investor interest than others. Nonetheless, the potential for a soft economic landing supporting the resilience of tenant income streams as well as the expectation that interest rate levels are at or near a cyclical peak, may provide increased confidence for property purchasers going forward. Additionally, the strong migration levels currently being experienced in Australia continue to support living and other population-driven sectors, such as student accommodation and healthcare, as well as supporting retail spending.

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. 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 took place on 26th October 2023.

A phased approach has been taken to Stage 2 retail launches. Aldi and several internal specialty retailers opened for trade on 9th August 2023 with the external dining precinct opening progressively throughout September and early-October 2023. The final separable portion, incorporating the final specialty tenancies, medical centre, gyms, and childcare will open across late-October, November and December 2023. Stage 2 leasing is nearing completion with 97% of net income pre-committed.

Busselton Central Shopping Centre

The Stage 3 redevelopment reached practical completion in September 2023. The works comprised of 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 with 14 dining and retail specialty shops and a five-screen cinema occupying level one.

The retailers open for trade include Cotton on Mega, Lovisa, Dusk, Connor, Platypus, Skechers and Boost Juice with the entertainment precinct launching in September adding Timezone and Reading Cinemas to the mix. The dining precinct is scheduled to open in stages between October to December 2023 and will include Inara Restaurant, Benesse Café, Dome, and the Busselton Pavilion. The Busselton Pavilion premises will occupy 800 sqm inclusive of a restaurant, gin distillery and a local wine store.

The centre will create a unique dining and entertainment experience for the Busselton community and the Southwest region of WA. Stage 3 leasing is close to completion with 96% of leasing net income committed.

Property Sales

The Fund settled the disposal of Woodvale Boulevard Shopping Centre, on 11th September 2023. The 6,378 sqm neighbourhood shopping centre was sold for \$36.5 million, a discount of (~7.2%) to 30 June book value.

Post quarter end, the Fund also exchanged contracts and settled the sale of 620 Mersey Road Osborne on 5th October 2023. The 8,006 sqm industrial/office property was sold for \$46.0 million, in line with 30 June 2023 book value.

Proceeds from the two asset sales have been utilized to pay down fund borrowings.

Distributions

Ordinary cash payments of the Fund's regular income of 1.26 cents per unit were paid in the September 2023 quarter.

Termination of Proposed Merger with Cromwell Direct Property Fund

Australian Unity Property Limited (AUPL), as responsible entity of Australian Unity Diversified Property Fund (AUDPF) announced on 7 July 2023 its entry into a Merger Implementation Deed (MID) with Cromwell Funds Management Limited (CFML) as responsible entity of Cromwell Direct Property Fund (CDPF) to merge AUDPF and CDPF via a trust scheme (Proposed Merger).

Since the announcement of the Proposed Merger, market conditions impacting commercial property investment have materially changed and, consequently, have increased uncertainty in relation to the Proposed Merger. Given these developments, the parties have determined that proceeding with the Proposed Merger is no longer in the best interests of the respective funds' investors.

Accordingly, AUPL and CFML have now agreed to terminate the MID effective 27 October 2023, meaning that the Proposed Merger will not proceed.

In light of the MID being terminated, the AUDPF standard Capped Withdrawal Facility (CWF) will no longer be processed for the August 2023 window. However, the November 2023 CWF will be processed under the existing terms and conditions of the CWF (noting the maximum amount available is limited to 2.5% of AUDPF's net asset value at the closing date of the CWF).

The November 2023 CWF is currently open and will close at 3.00pm on 21 November 2023 AEDT with payments to be made on or about 28 November 2023. AUDPF unitholders who have already submitted a withdrawal request for the August 2023 CWF will have their request processed under the November 2023 CWF. AUDPF unitholders may also cancel or replace their August 2023 CWF withdrawal request.



Busselton Shopping Centre Interior, Busselton WA



Blackburn Square Shopping Centre Interior, Blackburn VIC



Blackburn Square Shopping Centre Williams Rd Extension , Blackburn VIC

Fund portfolio as at 30 September 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	6.8	46.00	Jun-23	6.25	46.03
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			62.39
Retail										
Blackburn Square Shopping Centre, VIC	-	17,526	Coles	52	97.8	9.9	125.00	May-23	5.38	140.99
Busselton Central Shopping Centre, WA	-	13,331	Coles	33	94.7	7.3	67.08	May-23	5.85	82.79
Dog Swamp Shopping Centre, WA	-	8,074	Woolworths	35	99.9	6.6	54.80	May-23	5.88	54.96
Sub total				120			246.88			278.74
Convenience										
Wyong Service Centres, Wyong, NSW	-	4,286	Ampol	2	100.0	14.8	144.40	Jun-23	5.25	144.41
Sub total				2			144.40			144.41
Office										
1 and 2 Technology Place, Williamstown, NSW	-	7,557	Boeing	20	100.0	2.9	56.75	May-23	6.13	56.89
Sub total				20			56.75			56.89
Listed property										
Australian Unity Office Fund (AOF)										12.37
Cash and other assets										7.39
Total Cash and other assets										19.76
Total (T) / Weighted Average (A)				145 (T)	98.58 (A)	8.7 (A)	510.4 (T)		5.64 (A)	562.20 (T)

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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