Diversified Property Fund

Fund Update
31 March 2024

Established in August 2006, the Australian Unity Diversified Property Fund (Fund) currently holds 7 properties* in New South Wales, Victoria and Western Australia. The Fund aims to deliver a stable income stream with the potential for capital growth. *Consolidated for reporting purposes.

Goodstart Early Learning, Blackburn Square Shopping Centre

Fund Facts as at 31 March 2024

Gross Asset Value	Unit Price	March Quarter Ordinary Distribution~
$529.05 m ($520.85m at 31 December 2023)	**$1.0455** exit price (cum distribution)	**1.26 cents per unit (CPU)** (1.26 CPU December 2023 quarter)

Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
46.88% (45.21% at 31 December 2023)	**98.5%** (leased by income)	**10.4 years** (by gross rental income)

~ distributions are paid monthly

Ratings / Awards

Recommended
Lonsec Research

Performance as at 31 March 2024

	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	1.22	4.33	6.56	7.01	7.16	7.67	7.83
Growth return	0.91	(9.18)	(2.84)	0.39	1.98	3.10	0.21
Total return	2.13	(4.85)	3.72	7.40	9.14	10.77	8.04
Benchmark distribution return	0.80	3.14	2.98	3.11	3.36	3.80	4.94
Benchmark total return	(1.69)	(8.72)	2.29	2.08	4.36	6.41	6.64

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 2024

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

Contributor	3 mths %	1 yr %
Property revaluations	1.41	(6.57)
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.48)	(0.71)
Unrealised gains/losses on investments in listed/unlisted trusts	0.52	(0.94)
Performance fee	0.00	0.00
Other	(0.54)	(0.96)
Growth return	**0.91**	**(9.18)**

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 2024

Geographical allocation (by value)

State	No. assets	%
NSW	3	40.59
WA	3	31.45
VIC	1	27.96
Total	7**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	3	55.75
Convenience	2	30.50
Office	1	10.09
Industrial	1	3.67
Total	7**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Ampol	26.97
Coles	9.14
Woolworths	7.66
Boeing	3.30
ALDI Foods Pty Ltd	3.03
Total	50.10

Property data

Number of properties	7**
Total number of tenants	151
WALE (by income)#	10.4 yrs
Occupancy rate (by income)	98.52%

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

Financials

	$m
Gross assets	529.05
Total debt	247.99
Other liabilities^	5.57
Net assets	275.49

^ Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	46.88%
Loan-to-Value Ratio (LVR) (Financier's definition)	49.14%
Interest Cover Ratio (ICR) (RG 46 ASIC definition)	1.90 times
Interest Cover Ratio (ICR) (Financier's definition)	2.04 times
Hedging (% of debt hedged)	72.58%

Valuations

Valuations during the quarter	3
Change in total direct property book value	-1.26%
Change in book value of the properties revalued	2.29%

* 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

A somewhat abrupt change in tone from the US Federal Reserve in December 2023 saw global investment market attention shift focus to the potential for the end of interest rate rises and the commencement of an interest rate-cutting cycle in the near term. Following some initial forecasting over-exuberance, opinions on the timing of initial rate cuts for most major economies have tempered somewhat over the quarter, as both resilient and variable economic data causes consternation for central bank decision-makers looking to manage economic growth without recharging inflation. Despite such widespread revisions to timings over potential rate-cutting cycles, equity markets appear to have embraced the potential for future rate cuts and what is perceived to be the peak of the current rate cycle. The ASX 200 index ended the first quarter of 2024 at an all-time high of 7,897, while in the USA, the S&P 500 also achieved a new peak level during this period.

In Australia, the RBA continues to keep its options open. After keeping the cash rate on hold at its March 2024 meeting, the RBA referred to 'not ruling anything in or out' on possible future rate movements. The combination of increased interest rates and easing of post-COVID-19 supply chain issues has served to successfully reduce inflation levels back toward the RBA's desired target of 2-3%, with February 2024 seeing the monthly inflation CPI print hold steady at 3.4% for a third month in a row.

However, the path to reduce inflation has seen the national economy slow, with quarterly GDP growth in December 2023 recording the lowest level since 2021. Consumer sentiment levels remain low (Westpac) as individuals continue to face high cost of living pressures and discretionary spending levels reduce (ABS). Despite these challenges, corporate Australia appears to be performing relatively well, with the ABS reporting that seasonally adjusted corporate profits in Australia increased 7.4% over the December 2023 quarter. Migration levels continue to provide economic support and while unemployment levels have increased, they remain low against historic averages. As such, the appropriateness and willingness to take action is thus a fine balancing act for monetary policy decision-makers who continue to remain highly sensitive to economic data releases both domestically and overseas.

Research data from Jones Lang LaSalle (JLL) indicates that the opening quarter of 2024 started positively with positive net absorption (where take-up of office accommodation is higher than office space becoming vacant) noted in five of the six major CBD office markets. Pleasingly both Melbourne and Sydney CBD markets showed solid quarterly absorption figures with the former assisted by activity within the smaller tenant cohort while Sydney benefitted from the reabsorption of a significant amount of sublease space. Nationally, CBD vacancy remains elevated at 14.7% albeit this has fallen notably in the Perth and Brisbane markets over the last 12 months. Expectations are for national vacancy levels to remain at current levels in the short term (JLL) as new supply comes through in Sydney, Melbourne and Canberra. However, the current cost of construction together with recent valuation pressures, are serving to limit new developments which in turn should assist in keeping supply levels and vacancy levels in check. Flight to quality remains a key theme for tenants within the office sector, incorporating both individual asset quality but also proximity to amenities. As such, the most desirable assets in the best locations continue to garner the greatest tenant interest. Despite, broader demand challenges, the Australian CBD office weighted average prime gross face rents grew by 1.2% over Q1 2024, led by Brisbane and Perth. Nonetheless, we remain cautious on the office market, reflected in our 10% portfolio weighting to the sector and expect valuation declines of CBD office buildings to continue following recent sales activity.

The Industrial market recorded its lowest quarterly gross take-up level since 2015 (CBRE) as tenant movement continues to be hampered by a minimal amount of available accommodation, despite a slow upward trend in vacancy across all markets since the first half of 2023. As a result, rents continue to grow at elevated rates with JLL noting prime industrial quarterly rental growth rates of between 2% and 8% across most markets. Rental growth across several land-constrained metropolitan in-fill markets continues to remain elevated as tenants prioritise locality to customer base and reduced transportation costs. This is most evident in the South Sydney submarket which has witnessed extraordinary prime rental growth of 41% over the last 12 months while secondary assets in the City Fringe submarket of Melbourne have experienced 19% growth over the same period. Growth has however slowed from prior peaks and anecdotally, valuers are now reflecting lower future rent growth projections in their modelling versus 2021-2022 rates.

Australian retail sales increased 0.3% month on month in February 2024, reflecting a modest annual growth rate of 1.6%. While a sentiment of cautious household spending remains, the ABS recorded an increase of 3.6% in household spending through the year, supported by non-discretionary categories (+6.9%) and decreased by discretionary (-0.2%). Strong population growth and low unemployment has supported retail spending proving resilient during the current higher interest rate environment, albeit discretionary categories continue to face challenges in the near term as rates remain high. From a leasing perspective, JLL notes that the retail leasing market remained generally flat nationally throughout the March quarter. Leasing evidence remains limited, however, enquiry levels are noted to be up over the last 12 months with the overall national vacancy rate across all retail sub-sectors currently 5.8% (JLL). Retailer administrations to date have been limited, however, operational pressures are becoming more prevalent within the hospitality sector as consumers tighten their belts, while escalated costs of goods and running costs impact tenant profitability. Retail investment transactional activity was subdued to start the year with JLL reporting total retail transactions equating to c.$545 million for the quarter, substantially below the $ 1.3 billion achieved in the prior corresponding period for 2023.

While conjecture remains as to when interest rates may start to trend lower, the current market consensus (Bloomberg) is that peak interest rate levels within Australia have now been reached and no further base rate rises are expected. While the potential stimulatory benefits from reducing the cost of debt levels is obviously appealing, the current widely accepted peak in interest rates should now provide some much-needed stability to pricing for real estate market participants and thus encourage transactional activity across all markets going forward. Over the past 12-18 months, transactional activity has been led by high-net-worth private purchasers typically providing enhanced liquidity to assets sitting at a sub $ 50 million price point. Such activity has continued to favour defensive asset classes such as convenience-based retail, and alternative use classes such as childcare, while industrial property continues to be desirable, particularly where ongoing market rental growth can be captured. Price discovery is thus expected to continue to emerge as buyers and sellers adjust, however, asset values remain resilient, particularly at the lower price points, while more prudent debt management across the sector together with flexibility from lenders has resulted in minimal distressed asset sales to date. Overall, continuing strong population growth and low levels of unemployment are likely to support several real estate sectors within Australia with the potential for future interest rate cuts starting to appear as the light at the end of the tunnel for the market more broadly over the short to medium term.

Portfolio activity for this quarter

Sale of Australian Unity Property Limited and Transfer of Management of Diversified Property Fund

Australian Unity Property Limited (AUPL), as the responsible entity of Australian Unity Diversified Property Fund (AUDPF), has been informed that Australian Unity Limited (AUL) has entered into a share sale agreement under which it has agreed to sell all of the shares in AUPL to ASA Real Estate Partners Pty Ltd (ASA), subject to certain facilitative conditions (Sale). The Sale is currently expected to be completed on 30 June 2024.

AUPL understands that ASA was selected by AUL because of its expertise in managing retail, business park and industrial assets, similar to those owned by AUDPF.

ASA was established in 2023 by Chris Aylward, Tim Slattery and Alex Abell. Combined, they have over 90 years of real estate experience with extensive and transparent track records of success in public real estate markets operating with an 'Investor first' philosophy. ASA's core values of Integrity, Courage, Humility and Commercial Acumen are the key pillars from which they have delivered sustainable investor returns historically and intend to do so in the future. The firm has no legacy issues or distractions is 100% independent and maintains a robust Balance Sheet.

The principals of ASA have demonstrated capability in raising debt and equity capital, realising fund liquidity, asset management, property management, and development along with excellent Environmental, Social and Governance sustainability credentials.

A collaborative transition is currently underway, with ASA executives having inspected all the Funds' assets. ASA has also committed to new governance arrangements with DPF's Responsible Entity to have a majority of independent directors led by an independent chair.

The transaction sees no impact for investors to the terms of the Fund under the existing Product Disclosure Statement (PDS). It remains business as usual for investors with no changes to distributions, no changes to management fees, no changes to regular ongoing liquidity arrangements (capped withdrawal facility) and no changes to unit price resulting from this transaction.

AUPL has been informed that, under the Sale, ASA has undertaken to provide a liquidity opportunity to AUDPF unitholders on a pro-rata basis at market value. The liquidity opportunity will be provided within 6 months of completion of the Sale; for an aggregate amount of up to $10 million and in addition to AUDPF's existing liquidity arrangements under its constitution.

Management hosted a webinar on the 28th of March where the principals of ASA, Tim Slattery and Alex Abell, were introduced and outlined their future plans for the fund. A recording of the presentation can be found by via the following link: https://register.gotowebinar.com/recording/3270862812845664260

Lonsec Research "Recommended" Rating Retained

We are pleased to announce that, following its annual review of the fund in April 2024, Lonsec has retained its "Recommended" Investment rating for the Diversified Property Fund.

Major Leasing Activity

Wyong Twin Service Centres, NSW

During the quarter the Fund executed a Works Deed and 6-year lease extensions in respect of the two service centre sites with our valued tenant Ampol. Ampol is now undertaking major upgrade works incorporating various repairs and replacements, re-configuration and construction of additional quick service restaurants and introduction of electronic vehicle charging, solar and battery facilities at the two assets. The Fund will contribute a fixed sum to the upgrade works in exchange for which, the leases have been extended for a further 6 years, taking the expiry to 30 June 2044 with annual rentals increasing incrementally at a commercial rate from 1 July 2024.

Valuations

Three of the Fund's properties were independently valued during the March quarter, with a net increase of $3.92 million or 1.53% from the properties' book value immediately prior to valuation.

Valuation changes include:

Dog Swamp Shopping Centre, WA – Minor decline in value ($0.28m) reflects the impact of cap rate softening, from 5.88% to 6.13%.

Wyong Twin Service Centres, NSW – Saw a $9.59m uplift in value reflecting the impact of the commercial return achieved on the fixed capital contribution to the upgrade works on the sites (described above) and 6-year lease extensions with Ampol on both sites, despite cap rate softening from 5.25% to 5.38%.

Williamtown Aerospace Centre, NSW – The ($5.39m) decline in value is attributable to the cap rate softening by 125bpts from 6.13% to 7.38% reflecting current investment market conditions for office property. The valuation decline was offset to some degree by underlying income growth.

Distributions

Ordinary cash payments of the Fund's regular income of 1.26 cents per unit were paid in the March 2024 quarter. We expect a similar level of distribution to be maintained for the June 2024 quarter and are targeting a modest level of growth for the 2025 financial year.

Wyong Twin Service Centres

Fund portfolio as at 31 March 2024

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										
6-8 Geddes Street, Balcatta, WA	-	9,992	IGA Distribution	2	100.0	2.6	18.65	Dec-23	6.00	18.70
Sub total				2			18.65			**18.70**
Retail										
Blackburn Square Shopping Centre, VIC	-	17,577	Coles & Woolworths	57	97.7	9.0	140.00	Nov-23	5.50	142.69
Busselton Central Shopping Centre, WA	-	13,314	Coles	34	95.1	6.5	86.00	Nov-23	6.00	86.99
Dog Swamp Shopping Centre, WA	-	8,076	Woolworths	35	100.0	6.3	54.50	Jan-24	6.13	54.77
Sub total				126			280.50			**284.45**
Convenience										
Wyong Service Centres, Wyong, NSW	-	4,286	Ampol	2	100.0	20.3	154.00	Jan-24	5.38	155.62
Sub total				2			154.00			**155.62**
Office										
1 and 2 Technology Place, Williamtown, NSW	-	7,557	Boeing	21	100.0	3.1	51.50	Feb-24	7.38	51.50
Sub total				21			51.50			**51.50**
Listed property										
Australian Unity Office Fund (AOF)										11.50
Cash and other assets										7.28
Total Cash and other assets										**18.78**
Total (T) / Weighted Average (A)				**151 (T)**	**98.52 (A)**	**10.4 (A)**	**504.7 (T)**		**5.82 (A)**	**529.05 (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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