

# Investa Office Fund Half Year 2014 Results Presentation

INVESTA 

**IOF**

20 February 2014

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# Highlights

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## Financial

- > On track for full year result of 26.1 cents, ahead of expectations following DOF sale
- > Net Profit \$56m - up 4% on pcp; FFO \$84.5m - up 8% on pcp
- > NTA up 1c to \$3.24 per unit - \$45m (3%) increase in Australian valuations mainly offset by DOF sale

## Portfolio

- > Portfolio upgrade continues – acquired ~\$800m of quality A and premium grade assets over the past 24 months and completed ~\$35m of refurbishment projects:
- > Sold IOF's legacy investment in DOF, bringing total offshore sales to over AU\$740m – only 3% of the portfolio remains offshore
- > Occupancy high at 96% and WALE 5.0 years after leasing ~83,000sqm financial year to date

## Capital Management

- > Extended weighted average debt maturity to 7 years after issuing US\$200m of debt into the USPP market for 13 years at average 173 basis point margin
- > Gearing 23.8%, providing further acquisition capacity

## Financial metrics

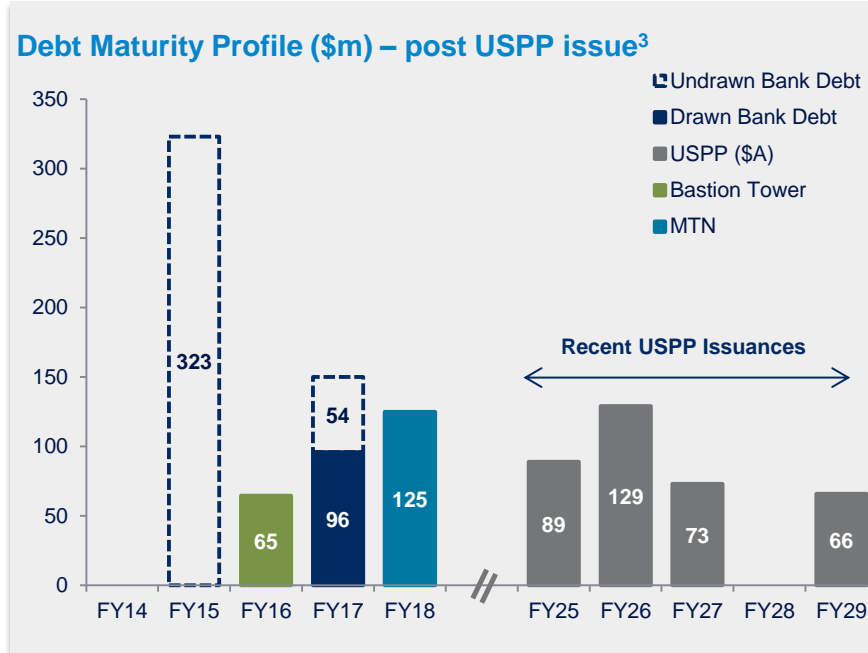
|                                    | 31 Dec 2013 | 31 Dec 2012 | Change |
|------------------------------------|-------------|-------------|--------|
| Net Profit (statutory)             | \$56.0m     | \$53.7m     | 4%     |
| Funds From Operations (FFO)        | \$84.5m     | \$78.3m     | 8%     |
| FFO per unit                       | 13.8c       | 12.8c       | 8%     |
| Distributions per unit             | 9.25c       | 8.75c       | 6%     |
|                                    | 31 Dec 2013 | 30 Jun 2013 | Change |
| Gearing (look-through)             | 23.8%       | 26.3%       | (2.5%) |
| Net Tangible Assets (NTA) per unit | \$3.24      | \$3.23      | 1c     |

- > Statutory Net Profit and Funds From Operations increased following acquisitions at 66 St Georges Tce Perth and 99 Walker St North Sydney
- > NTA up 1c to \$3.24:
  - Strong leasing outcomes supporting uplifts at 126 Phillip St Sydney, 111 Pacific Hwy North Sydney and 800 Toorak Rd Melbourne
  - Fair value loss on sale of DOF \$35.8m (€27.5m), mainly offsetting the Australian valuation increases

# Active capital management

## Strong credit profile

| Key Indicators                          | 31 Dec 2013 | 30 Jun 2013 |
|---|-------------|-------------|
| Drawn debt                              | \$654m      | \$677m      |
| Gearing (look-through)                  | 23.8%       | 26.3%       |
| Weighted average debt cost <sup>1</sup> | 4.7%        | 5.2%        |
| Weighted average debt maturity          | 3.3 yrs     | 3.2 yrs     |
| Interest rate hedging <sup>2</sup>      | 50%         | 55%         |
| Interest cover ratio (look-through)     | 5.4x        | 5.4x        |
| S & P credit rating                     | BBB+        | BBB+        |



- > Post balance date, issued US\$200m USPP at average 173 basis point margin:
  - Debt maturities now evenly spread over 15 years – bringing the weighted average debt maturity to 7 years and minimising bullet refinancing risks
- > Taken advantage of multiple markets to diversify funding sources
- > Cost of debt reduced to 4.7% – all in cost of new debt 4% – 4.5% p.a.

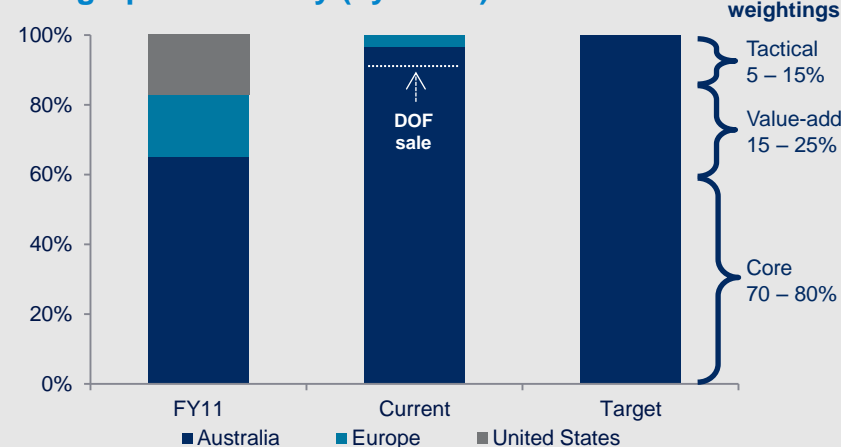
1. Weighted average debt cost represents borrowing costs/average debt balance during the period  
 2. Includes interest rate caps  
 3. Post completion of the US\$200m US Private Placement and repayment of bank debt facilities

# Portfolio repositioning and upgrade continues

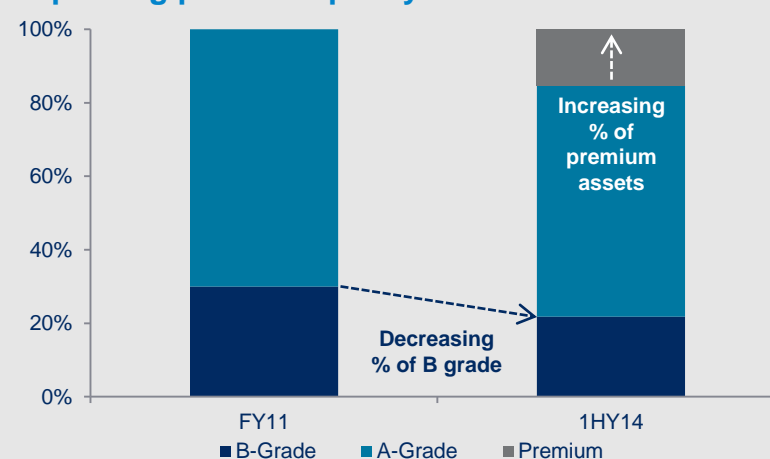
## Substantially increased Australian portfolio weighting

- > Transformation to Australian only portfolio now largely complete following ~\$410m of premium grade and ~\$420m of A grade acquisitions:
  - 32% of portfolio acquired in past 24 months
  - Bastion Tower, Brussels is the only remaining offshore asset – represents 3% of IOF's assets
- > Portfolio now well balanced within target bands of core, value-add and tactical assets
- > Development of 151 Clarence St would further decrease B grade assets in portfolio

Geographic diversity (by value)<sup>1</sup>



Improving portfolio quality<sup>1</sup>



1. Includes 567 Collins Street, Melbourne as at completion

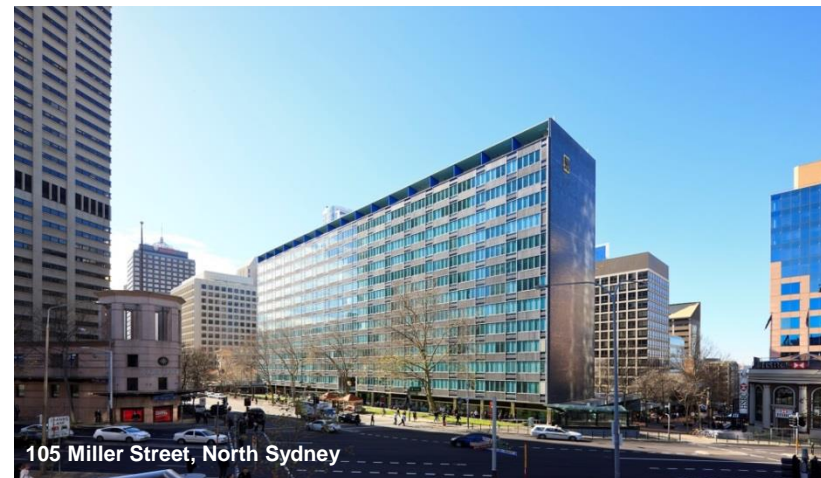


# Refurbishments driving quality improvement...

## Refurbishments completed in 2013

### 105 Miller Street, North Sydney

- > \$13m refurbishment including foyer, on-floor works and building services with tenant in situ
- > Building now performing at a density of 1 person per 10sqm
- > Increased NABERS rating to 4.5 stars
- > Completed on time and below budget



### 16 – 18 Mort Street, Canberra

- > Vacated by tenant who had been in occupation for 20 years
- > Comprehensive \$18m refurbishment to bring building to A grade standard included update of façade, new floors and building services to increase NABERS rating to 4.5 stars
- > Office 100% leased to Telstra within 2 months of building being vacated
- > Completed on time and below budget



## ...and returns....

### Returns from recent projects

- > Capex generating attractive returns
- > Asset liquidity enhanced – investment market extremely competitive for assets with long weighted average lease expiries

#### 105 Miller Street, North Sydney



- > Valuation increase 10%
- > Removed IOF's largest near term lease expiry, extending the lease to 2020
- > Yield compression evident in North Sydney market

#### 800 Toorak Road, Melbourne



- > Valuation increase 10%
- > Forecast refurbishment capex yield on cost 8.10%
- > Underpinned future income and liquidity with new lease until 2030

#### 16 – 18 Mort Street, Canberra

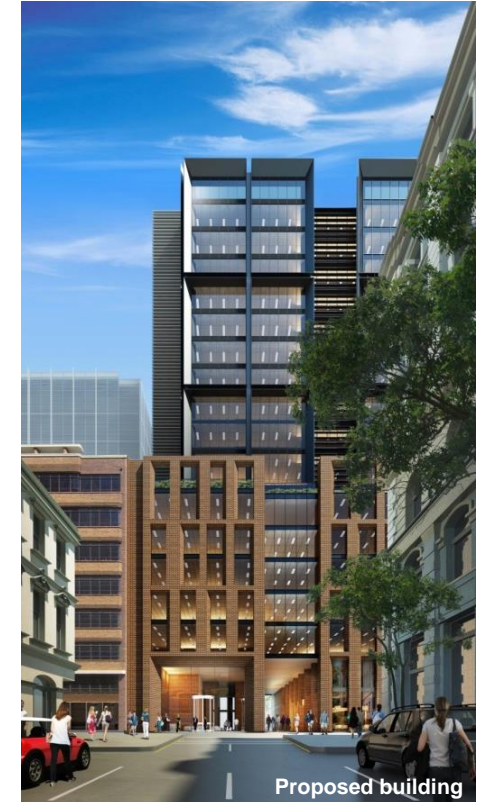


- > Carried at 7.50% cap rate – recent transaction evidence at 7%
- > Refurbishment capex generated 7.60% yield on cost
- > Upgraded to A grade
- > Underpinned future income and liquidity with 12 year lease term

...with more to come...

## Development potential of 151 Clarence Street Sydney

- > Asset is currently 3 interconnected buildings that form an inefficient floor plate with 35 columns and poor light penetration
- > Strategic location between traditional core and established western corridor
- > Stage 1 Development Application approved:
  - NLA to be increased from ~17,000sqm to 22,000sqm over 17 floors
  - Efficient floor plates ranging from ~1,200sqm to ~1,700sqm
- > Undertaking detailed feasibility to redevelop this asset:
  - Potential for new A grade building to be constructed at cost of ~\$110m
  - Works could commence following adequate pre-commits and lease expiry of major tenants
  - Targeting yield on cost 7.5 – 8% and significant NTA upside – 15 – 20% profit on cost

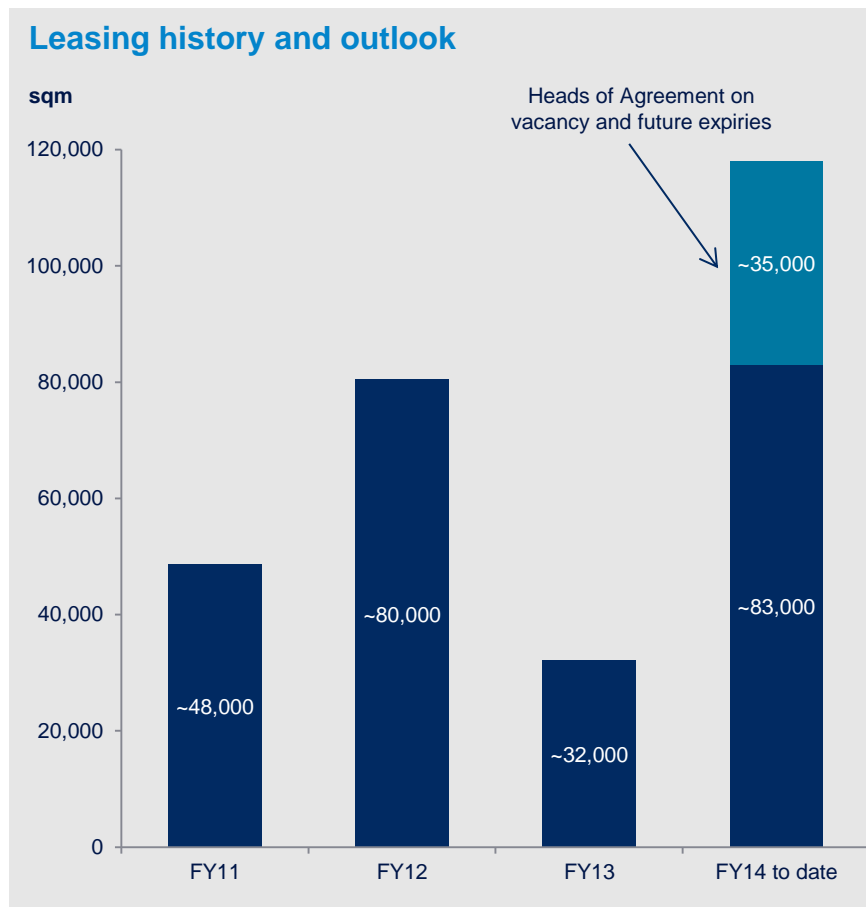




# Significant leasing progress

## Delivering record leasing success in FY14

- > ~49,000sqm leased in Melbourne at 800 Toorak Rd and 628 Bourke St:
  - Encouraging momentum in Melbourne with no IOF vacancy and ongoing discussions with prospective tenants at 567 Collins St
- > ~25,000sqm leased across Sydney assets
- > ~4,000sqm leased in Brisbane at 239 George St and 15 Adelaide St
- > Heads of Agreement on additional ~35,000sqm across the portfolio



# IOF benefiting from market leading platform

## Investa Office - specialist office expertise in key CBD markets

- > Sole focus is office – with 46 assets and \$8bn assets under management
- > End to end delivery platform – tenant interaction is only with Investa employees – delivering better service and resulting in high levels of tenant engagement
- > Eight offices with ~190 employees across all major CBD markets

## High levels of performance across the platform

- > Highly productive 2013:
  - ~300,000sqm leased
  - ~\$65m of capex projects completed
- > Increased external AUM by ~\$750m

## Aligned structure with strong corporate governance

- > IOF management fee linked to market capitalisation – true investor alignment
- > Sector leading management team – and management expense ratio – equivalent to 36 basis points
- > Governance structure enhances unitholder protections:
  - Majority independent Board including independent Chairman
- > Ongoing ATO audit of IOF income tax returns for FY08 – 10

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# Portfolio Update



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# Australian portfolio update

## Acquisition activity driving income growth

- > Net Property Income up ~5% following acquisitions:
  - 66 St Georges Tce Perth
  - 99 Walker St North Sydney
- > Like for like income growth 3%
- > High tenant retention of 82%
- > Occupancy maintained at 96% – expected to decrease by 3% whilst 140 Creek St Brisbane is refurbished
- > WALE increased to 5.0 years, boosted by recent leasing activity
- > Average incentive ~14%

| Key Metrics                           | 31 Dec 2013 | 31 Dec 2012 |
|---------------------------------------|-------------|-------------|
| Net Property Income (NPI)             | \$85.4m     | \$81.6m     |
| Tenant retention (by income)          | 82%         | 63%         |
| Occupancy (by income)                 | 96%         | 97%         |
| Weighted average lease expiry         | 5.0yrs      | 4.6yrs      |
| Face rent renewal growth <sup>1</sup> | 1.6%        | 1.7%        |
| Average passing face rent             | \$551psqm   | \$530psqm   |
| Number of investments                 | 21          | 19          |

1. Renewals and new leasing deals



# Australian major lease expiries

## Substantial 12 months of leasing activity

- > Leased all major vacancy in portfolio:
  - 151 Clarence St – 3,000sqm leased – only 1,850sqm remains vacant
  - 628 Bourke St – Leased all vacant space
- > Renewed Coles at Toorak Rd Melbourne until 2030 – removing the Fund's largest near term single tenant expiry
- > Significant \$15m refurbishment at 140 Creek St, including the ground floor foyer and floors vacated by the ATO, to begin in March 2014
- > Upgrades planned at 99 Walker St to enhance leasing outcomes

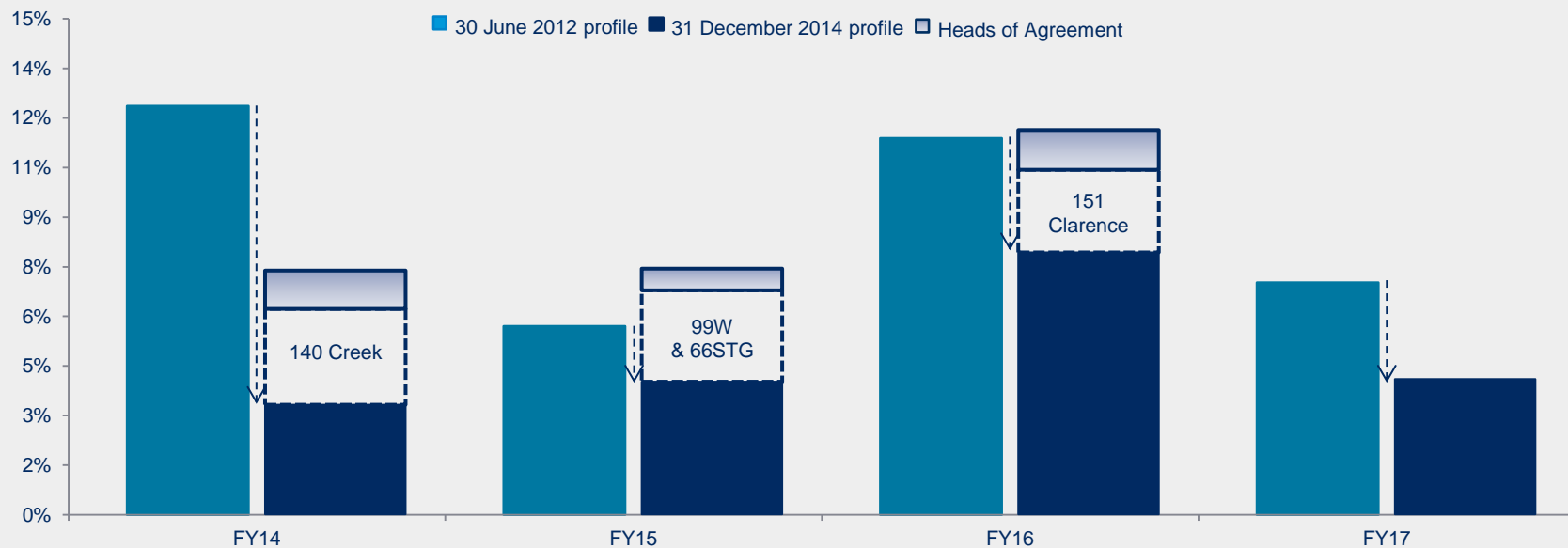
| Property        | Location     | Tenant                     | Area (sqm) | Expiry   |                 |
|-----------------|--------------|----------------------------|------------|----------|-----------------|
| <b>Vacant</b>   |              |                            |            |          |                 |
| 151 Clarence St | Sydney       |                            | 4,844      | Vacant   | <b>LEASED</b>   |
| 628 Bourke St   | Melbourne    |                            | 4,725      | Vacant   | <b>LEASED</b>   |
| <b>FY13</b>     |              |                            |            |          |                 |
| 16-18 Mort St   | Canberra     | DEEWR                      | 14,506     | Mar '13  | <b>LEASED</b>   |
| <b>FY14</b>     |              |                            |            |          |                 |
| 151 Clarence St | Sydney       | Westpac                    | 7,428      | July '13 | <b>LEASED</b>   |
| 140 Creek St    | Brisbane     | <b>UNDER REFURBISHMENT</b> |            | 0.947    | Feb '14         |
| 140 Creek St    | Brisbane     | Centrelink                 | 2,473      | Feb '14  | <b>LEASED</b>   |
| <b>FY15</b>     |              |                            |            |          |                 |
| 10-20 Bond St   | Sydney       | Origin Energy              | 4,661      | Nov '14  | <b>LEASED</b>   |
| 99 Walker St    | North Sydney | AAMI                       | 4,602      | Jan '15  | <b>ACQUIRED</b> |
| 140 Creek St    | Brisbane     | Centrelink                 | 4,813      | Feb '15  | <b>LEASED</b>   |
| 628 Bourke St   | Melbourne    | V Line                     | 2,673      | May '15  |                 |
| <b>FY16</b>     |              |                            |            |          |                 |
| 126 Phillip St  | Sydney       | Deutsche                   | 10,108     | Oct '15  |                 |
| 140 Creek St    | Brisbane     | DTMR / DPW                 | 8,819      | June '16 |                 |

# IOF's portfolio well positioned

## Created leasing solutions for current and future expiries

- > Substantial progress over past 24 months against future expiries:
  - Added to FY15 exposure through strategic acquisitions of 99 Walker St North Sydney and 66 St Georges Tce Perth
  - 151 Clarence St Sydney expiries moved from FY13/14 to FY16 – aligned to likely start of development
- > Leasing remaining in FY14 largely complete

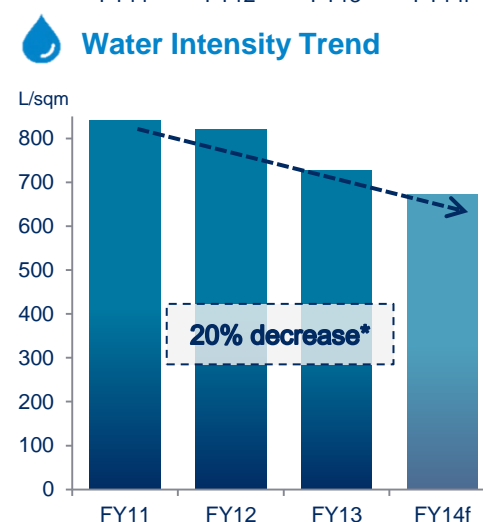
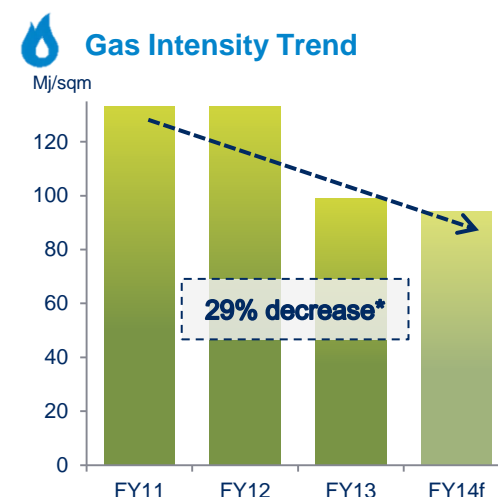
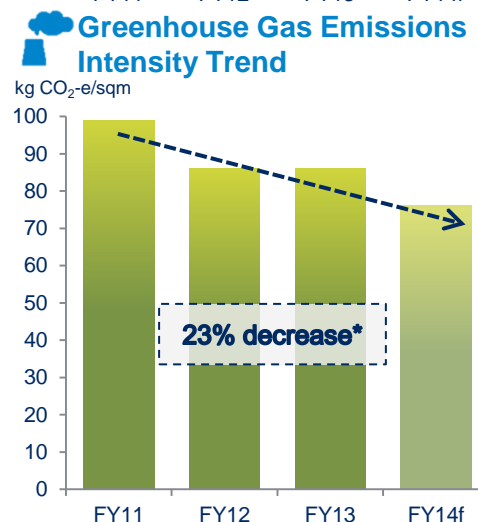
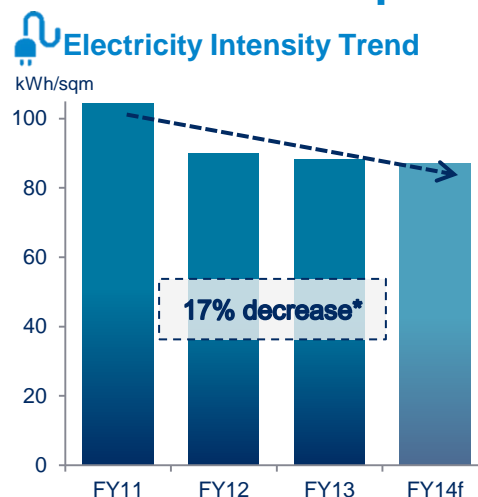
Current expiry profile compared to status as at 30 June 2012 (by income)



# Minimising emissions, maximising efficiency

## Measurable improvements being achieved across portfolio

- > Reduction in pcip intensity statistics – 11% greenhouse gas emissions, 8% water, 4% gas and 1% electricity, including:
  - 37% gas reduction at 151 Clarence St
  - 34% water reduction at 126 Phillip St
- > IOF ranked in top quartile in 2013 ASX 200 Climate Disclosure Leadership Index (CDLI):
  - Recognising Investa's understanding of risks and opportunities related to climate change and the impact on IOF's portfolio
- > IOF achieved global recognition as a GRESB Green Star 2013



\*FY14 forecast

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# Market Outlook

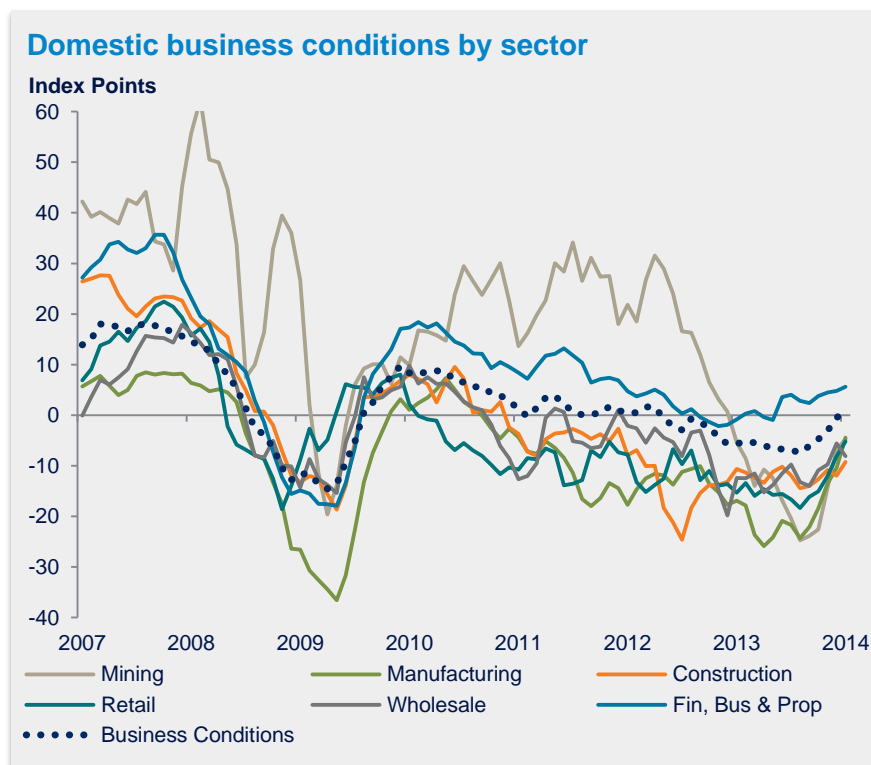


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# Global economy continues to improve – growth forecasts revised up

- > Both IMF and World Bank have upgraded global growth forecasts
- > Global PMI suggests that GDP growth of Australia's major trading partners will continue to expand
- > Domestic business conditions are responding to increased business confidence:
  - Finance and business services are faring better than the overall index – although the recovery appears to be broad-based, boosted by a falling \$AUD



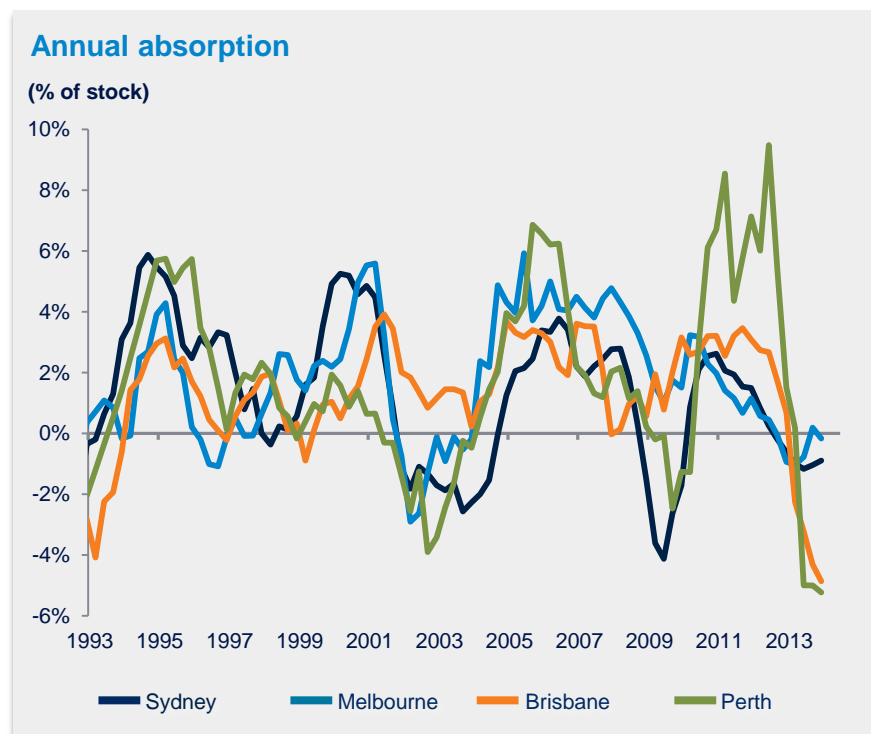
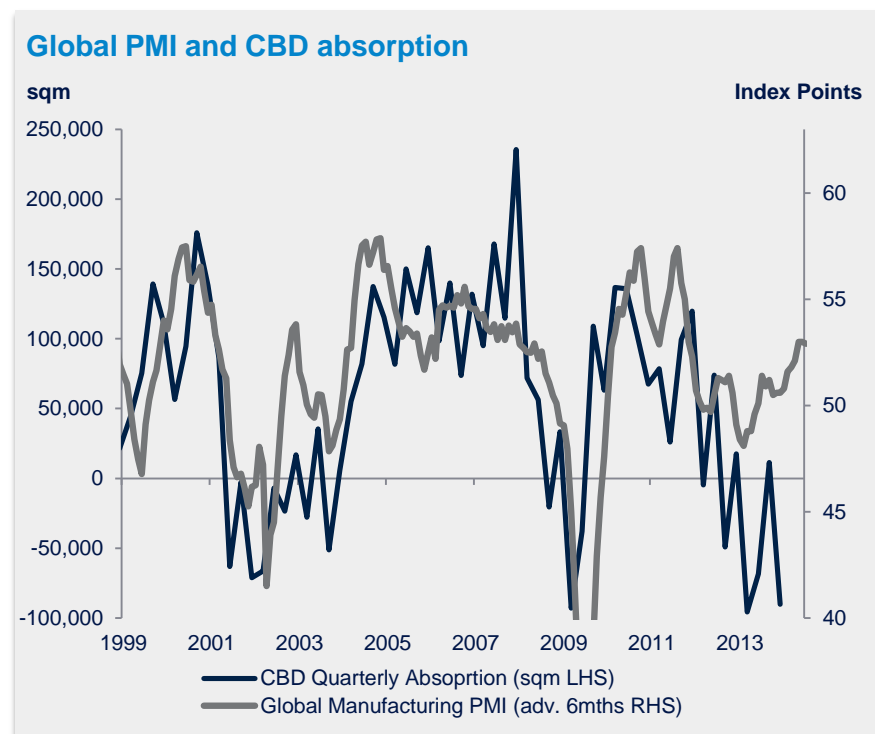
Source: Markit, National Australia Bank, the Reserve Bank of Australia and Investa Research

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# Challenging 12 months for office sector

- > Australian office space demand lags the global economic cycle, usually by around 6-12 months
- > We expect improving conditions offshore to act as a catalyst for a domestic recovery mid-late 2014, and there are early signs this recovery has started:
  - Absorption momentum has improved in Sydney and Melbourne and sublease vacancy has declined
  - Potential signs of stabilisation in Brisbane and Perth – growth in sub-lease vacancy has stabilised



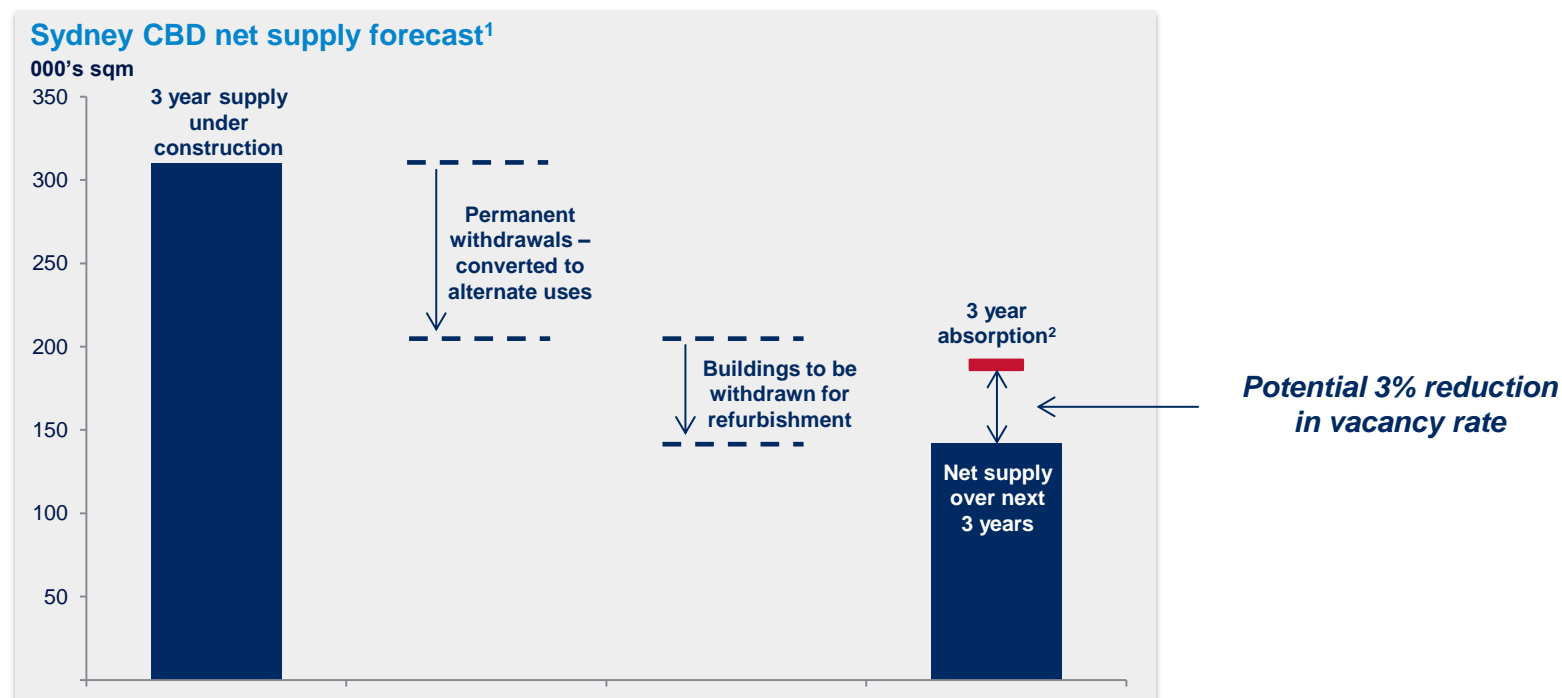
Source: Markit, Jones Lang LaSalle Research and Investa Research

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# Permanent withdrawals to mitigate Sydney CBD supply pipeline

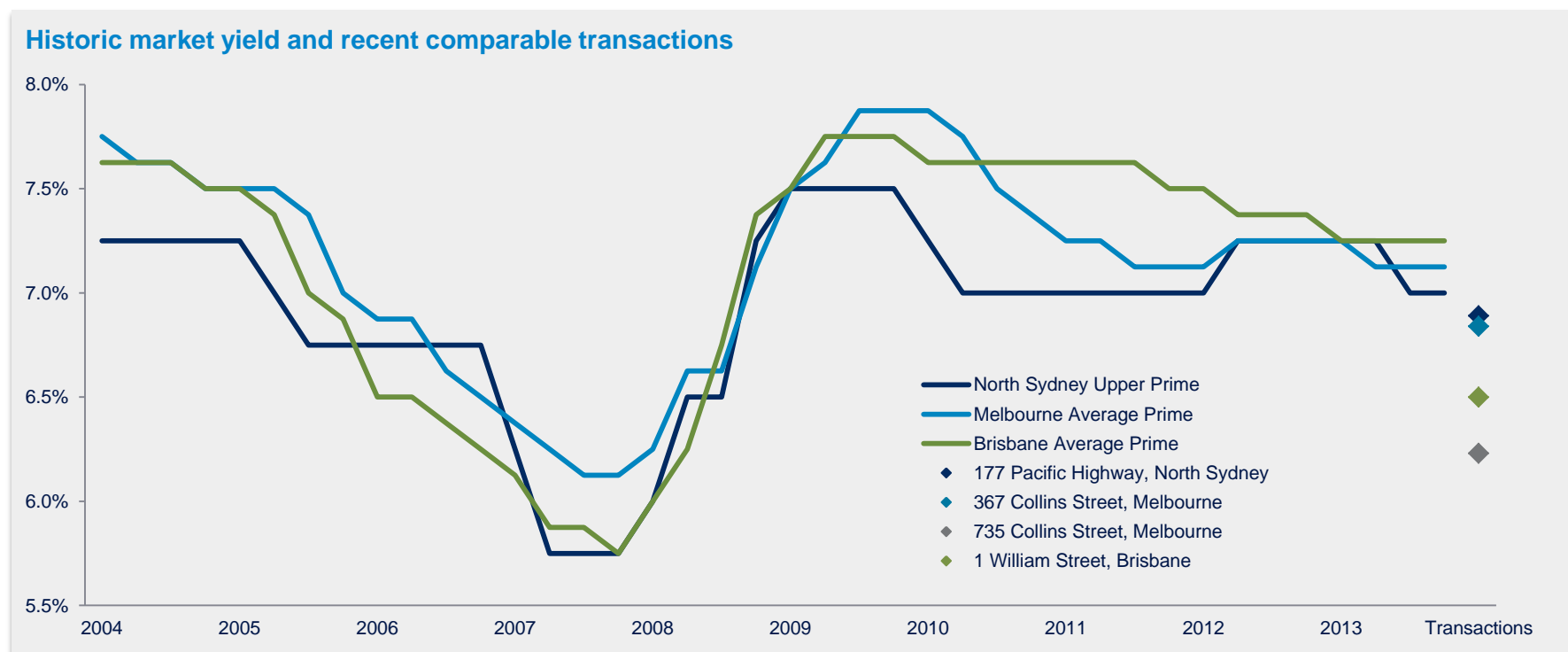
- > Supply currently under construction is in line with the historic average
- > However change of use is playing a greater role in the market, with an increasing rate of permanent withdrawals of office stock being converted to residential:
  - Permanent withdrawals combined with the usual “churn” of space for refurbishments will mitigate much of the supply pipeline over the coming years
- > Low levels of net supply expected to put pressure on the vacancy rate, which is anticipated to reduce medium-term



1. Jones Lang LaSalle Research (supply under construction) and Investa Research,
2. Average 3 year absorption based on 20 year period calculated as a percentage stock

# Market pricing of assets implies further yield compression

- > Yields have compressed over the last 6 months and current market dynamics suggest that further compression is imminent
- > Prime grade assets in core locations continue to be tightly held – and there are increasing signs that investors are willing to move up the risk curve to gain access to investment opportunities
- > Depth of demand from domestic and offshore buyers continues to grow



Source: Jones Lang LaSalle Research and Investa Research

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# Outlook



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# Outlook

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## Market conditions

- > Leasing markets stabilising, anticipate improvement by the end of 2014:
  - Conversion of office buildings to alternative uses will suppress supply below average levels
- > Continued investor demand for assets to lead to further cap rate compression

## Portfolio upgrade continues, generating higher total returns

- > Refurbishments will continue to be pursued to boost portfolio returns:
  - 99 Walker St North Sydney and 140 Creek St Brisbane to be refurbished and repositioned
- > Potential development at 151 Clarence St Sydney to add income and NTA upside
- > Opportunity to make further high quality acquisitions and pursue recycling of assets

## FY14 Guidance

- > FFO 26.1c (4.3% growth on pcg) and distribution 18.5c (4.2% growth on pcg):
  - 0.5c (2.0%) ahead of expectations following DOF sale
- > Subject to market conditions

# Questions and Answers



View from 99 Walker Street, North Sydney

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# For any questions please contact us

Should you have any questions regarding the Fund, please call Investor Relations on 1300 130 231 or email: [investorrelations@investa.com.au](mailto:investorrelations@investa.com.au)

If you have any questions about your unitholding, distribution statements or any change of details, please call the unitholder information line on +61 1300 851 394.

More information about the Fund can be accessed and downloaded at [investa.com.au/IOF](http://investa.com.au/IOF)

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