Property Income Fund

Fund Update
31 March 2024

For more than 20 years, the Australian Unity Property Income Fund (Fund) has blended direct properties and unlisted property trusts with listed A-REITs and cash to provide investors with relatively consistent income distributions and the potential for capital growth over the medium to long term.

296 St. Vincent Street, Port Adelaide, SA

Fund Facts as at 31 March 2024

March Quarter Distribution	Unit Price	Gross Asset Value
1.25 cents per unit (CPU) (1.25 CPU December 2023 quarter)	**$0.9210** exit price (cum distribution)	**$275.31 m** ($273.22m at 31 December 2023)

Gearing Ratio	Liquidity
The Fund has no direct borrowings	**The Fund offers daily liquidity. ~**

Ratings / Awards

Recommended
Lonsec Research

Zenith
RECOMMENDED

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	1.41	5.73	5.51	7.27	7.85	7.57	7.89
Growth return	1.71	0.53	0.59	(2.27)	(1.17)	1.10	(0.32)
Total return	3.12	6.26	6.10	5.00	6.68	8.67	7.57
Benchmark return	4.73	6.55	6.06	4.56	6.24	8.21	8.05

Inception date for performance calculations is 31 May 1999.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The benchmark return is a composite index currently comprising: 60% MSCI/Mercer Australian Core Wholesale Property Fund Index, 35% S&P/ASX 200 A-REIT Accumulation Index, 5% Bloomberg AusBond Bank Bill Index.

Key Portfolio statistics as at 31 March 2024

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	103.88	37.73
Direct Property	79.67	28.94
Unlisted Property	54.19	19.68
Cash and other	37.56	13.64
Total	275.31	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	86.19
Australian Unity Office Fund	4.52
HealthCo Healthcare & Wellness REIT	2.88
Newmark Property REIT	2.53
Carindale Property Trust	2.20
Elanor Commercial Property Fund	2.02
GDI Property Group	1.88
RAM Essential Services Property Fund	1.66
Total	103.88

Unlisted property portfolio

Holding	$m
AU Student Accommodation	13.49
Planum Footscray	11.74
AU Specialist Disability Accommodation	9.03
AU Childcare Property Fund	5.08
Warrawong Plaza	3.76
Waverley Gardens	3.56
AU Diversified Property Fund	3.15
Eildon Caboolture	3.02
AU Healthcare Property Trust	1.35
Total	54.19

Financials

	$m
Gross assets	275.31
Total debt	0.00
Other liabilities^	2.75
Net assets	272.56

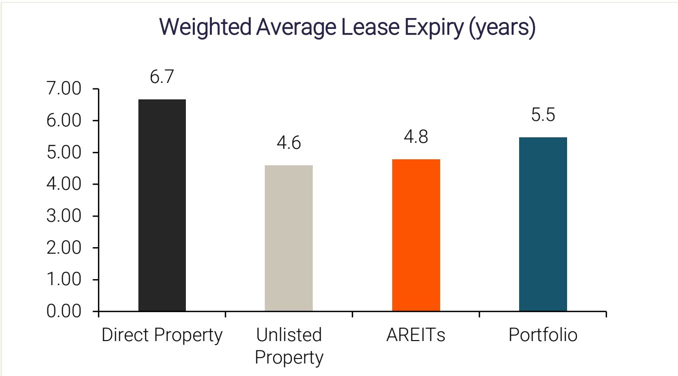
^ Other liabilities include a provision for the distribution.

Debt

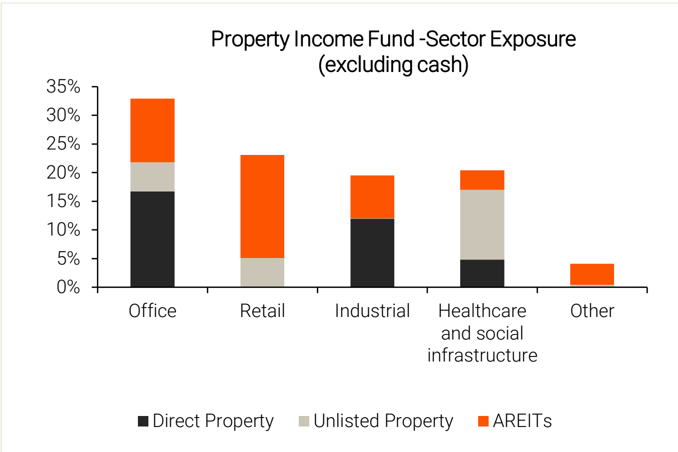
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.~



Note: excludes assets under development.



Note: "Other" includes residential developers, self-storage and other listed investments. Sector weights are on an equity accounting basis.

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 cause 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 reducing 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 and 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.

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.

For the quarter ending 31 March 2024, the Australian listed property sector, as measured by the S&P/ASX 200 A-REIT Accumulation Index (A-REIT Index), returned positive 16.8% outperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned positive 5.3%. Over the year to 31 March 2024, A-REITs returned positive 36.6% compared to the broader equities market return of positive 14.4%, albeit this was somewhat skewed by the strong performance of Goodman Group (GMG) which has returned 82.4% over the last 12 months.

Fund performance

The Fund provided a total return of positive 3.12% (after fees) for the March 2024 quarter. Performance was driven by returns from the Fund's listed A-REIT holdings which continued to see investor support following a largely positive results season in February 2024.

As of 31 March 2024, the A-REIT sector is trading at a c.3.7% FY24 estimated dividend per share yield and an c.-8% discount to last stated Net Tangible Assets (NTA) which excludes Charter Hall Group, Centuria Capital Group, HMC Capital and Goodman Group from the equation as these have a large portion of non-rental earnings/assets (i.e. development and funds management businesses) and their market pricing can deviate substantially from NTA backing.

Portfolio activity for this quarter

Asset Divestments

17 Byres Street, Newstead, QLD

The Fund is pleased to announce that the settlement of the office property known as 17 Byres Street, Newstead, QLD occurred on 28th February 2024.

The achieved sale price was $11.50 million which is a 15.00% premium compared to the properties' prior independent valuation conducted in June 2023. At the time of sale, the property was approximately one-third vacant, while the leases about the two remaining tenants are due to expire in April and July 2024.

91-97 Woodlands Drive, Braeside, VIC

Settlement of the sale of the industrial property located at 91-97 Woodlands Drive, Braeside, VIC occurred as scheduled on 27th March 2024. The sale price of $12.50 million which is in line with the properties' prior independent valuation conducted in August 2023.

Environmental, Social, Governance (ESG) Initiatives

296 Vincent Street, Port Adelaide, SA

The Fund completed the installation of a 0.24MW rooftop solar energy system at the property known as 296 St Vincent Street, Port Adelaide, SA. Working in partnership with existing occupiers, the Fund has been able to assist tenants prosecute on their individual target sustainability goals by providing a renewable energy source for operations. This is further exemplified by the installation of three electric car charging stations underway by the property's current major tenant, Flinders Ports, powered by energy drawn from the onsite solar panels. The installation of the solar energy system has seen the NABERS Energy rating for the property increase from 4.5 Stars in August 2021 to its current rating of 5.0 Stars (August 2023).

70 Light Square, Adelaide, SA

The Fund is pleased to announce that the property known as 70 Light Square, Adelaide, SA has maintained both its 4.5-star NABERS Energy rating and 5.0-star NABERS Water rating at its annual NABERS Rating review. These ratings reflect an uplift of those ratings in place in acquisition (Energy-4.0 stars; and Water-Unrated), following the active asset management of the asset including installation of roof top solar energy panels.

223-227 Governor Road, Braeside, VIC

To enhance asset quality and support the base building's water usage and external landscaping irrigation systems, the Fund has recently completed the installation of rainwater harvesting tanks totalling c.20,000 litres. In addition to the existing solar energy system, this water system will further support the underlying tenant business operations while enhancing the environmental credentials and market desirability of the asset for the Fund.

Management continues to administer the Property Income Fund with a conscious awareness for environmental, social and governance issues. As of 31 March 2024, the Fund currently holds investment in social infrastructure focussed holdings equating to c.20% of Gross Asset Value. Incorporating the initiatives outlined above, the Fund now has installed solar energy systems amounting to c.83% of the total floorspace of the direct property portfolio (which reflects 90% of all allowable sites i.e. excluding the repurposed heritage listed Herston property), providing a total energy equivalent of c.1.6MW in aggregate. In addition, in its assessment of current ASX-listed A-REIT holdings, management has actively removed its potential direct exposure to significant gaming-generated revenue investments by placing holding exclusions on ASX entities Hotel Property Investments (HPI) and Charter Hall Long WALE REIT (CLW). We continue to monitor both these and other ASX-listed investments to validate that they remain in accordance with this investible universe objective.

Distribution

We are pleased to announce a distribution for the month of March 2024 of 0.4167 cpu. This takes the total distribution paid for the quarter ending 31 March 2024 to 1.25 cpu.

Outlook

Through its well-diversified, actively managed portfolio, we believe the Fund is well positioned to provide regular income to investors, as the market transitions through the current macro-economic environment.

The Fund continues to display its resilience due to its overall diversification across various property and tenant types. The Fund has liquid assets in excess of its minimum thresholds and does not have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered.

The Property Income Fund's property sector weightings are skewed to industrial, office, healthcare and social infrastructure property, with revenue exposed to mix of listed and other corporates, while the Fund's retail exposure is weighted towards convenience retailing.

223-227 Governor Road, Braeside, VIC

EV Chargers, 296 St. Vincent Street, Port Adelaide, SA

70 Light Square, Adelaide, SA

Key direct property statistics as at 31 March 2024

Geographical allocation (by value)

State	No. assets	%
SA	2	40.38
VIC	1	35.65
QLD	1	14.43
NSW	1	9.53
Total	5	100.00

Sector allocation (by value)

Sector	No. assets	%
Office	3	49.91
Industrial	1	35.65
Healthcare and social infrastructure	1	14.43
Total	5	100.00

Property data

Number of properties	5
Total number of tenants	11
WALE (by income)[#]	6.7 yrs
Occupancy rate (by income)	88.43%

[#] Excludes assets under development

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	27.54
Flinders Ports	17.38
The University of Queensland	9.41
Logic Plus	9.24
South Australian Housing Trust	5.55
Total	69.12

Valuations

Valuations during the quarter	0
Change in total direct property book value	0.18%
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.

Direct Property Assets 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)
Office										
70 Light Square, Adelaide, SA	-	3,267	Logic Plus	5	73.5	1.2	17.35	Jun-23	6.00	17.78
296 Vincent St., Port Adelaide, SA	-	3,537	Flinders Ports	3	100.0	3.8	14.25	Jun-23	6.25	14.39
134 King Street, Newcastle, NSW	5	1,879	N/A	0	-	-	7.50	Jun-23	N/A	7.60
Sub total				8			39.10			**39.77**
Industrial										
223-227 Governor Road, Braeside VIC	-	10,573	Flavour Makers Australia	1	100.0	17.4	28.30	Jun-23	4.75	28.41
Sub total				1			28.30			**28.41**
Healthcare and social infrastructure										
Edith Cavell Building	-	1,573	The University of Queensland	2	80.0	3.1	11.50	Aug-23	6.00	11.50
Sub total				2			11.50			**11.50**
Total (T) / Weighted Average (A)				11 (T)	88.4 (A)	6.7 (A)	78.9 (T)		5.55 (A)	79.67 (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 base 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.
4. Total number of tenants represents unique tenants. The sum of all individual property tenant numbers may differ to the total, as some tenants have multiple properties, and these are not double counted in the total.
5. Property held for redevelopment.

Contact us

australianunity.com.au/wealth

australianunitywealth@unitregistry.com.au

Investor Services

T 1300 997 774 F 1300 856 685

Adviser Services

T 1300 997 774 F 1300 856 685

Important Information

https://www.zenithpartners.com.au/our-solutions/investment-research/regulatory-guidelines/

Units in the Australian Unity Property Income Fund – Wholesale Units are issued by Australian Unity Property Limited ABN 58 079 538 499, AFS Licence No. 234455. The information in this document is general information only and is not based on the objectives, financial situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product, investors should obtain the current Product Disclosure Statement (PDS) and Target Market Determination (TMD) and consider whether the product is appropriate for their needs. A copy of the PDS and TMD are available at australianunity.com.au/wealth or calling our Investor Services at 1300 997 774. Investment decisions should not be made upon the basis of its past performance or distribution rate or any rating by a rating agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the rating agency itself. The information provided in the document is current as at the time of publication.

The Lonsec Rating (assigned April 2020) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Australian Unity product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: http://www.lonsecresearch.com.au/research-solutions/our-ratings.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned December 2022) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at Fund Research Regulatory Guidelines (https://www.zenithpartners.com.au/our-solutions/investment-research/regulatory-guidelines/).

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

~In times of abnormal operating or market conditions, or periods of excessive withdrawals, the Fund may take up to 180 days to pay withdrawals. During these times the Fund may offer alternative withdrawal arrangements if these are deemed to be in the best interest of investors. Should the Fund cease to be liquid, as defined in the Corporations Act (in which case investors will be notified as soon as is practicable), daily withdrawals will cease. In that case, withdrawal from the Fund will be available in response to a withdrawal offer made to all investors from time to time, in accordance with the Corporations Act.