

*Out of the Ordinary™*



## **interim results**

Investec Australia Property Fund

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# **2018**

Australia Property Fund

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## overview

*Out of the Ordinary™*

 **Investec**  
Australia Property Fund





A **valuable portfolio** comprising 27 properties and a disciplined approach to acquisitions based on underlying **property fundamentals**

**Active asset management** improving the quality of the portfolio and stabilising income

Trading at a **discount to NAV** and an **equity yield of 9.1%\*** while providing investors with exposure to a **developed and stable economy**

Approval granted to pursue **ASX listing proposal**

\* Investec calculations as at 5 November 2018; IAPF forward yields are pre-withholding tax and based on clean prices

# Financial performance

In line with expectations

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**2.0%**

**interim pre WHT  
distribution growth –  
0.2% post WHT  
distribution growth**

	Sep-18	Mar-18
Gearing	36.2%	35.8%
Cost of funding	3.91%	3.68%
Hedge percentage	85.4%	87.1%
Debt expiry	4.0 years	3.2 years
Hedge expiry	5.7 years	6.2 years
NAV per unit	AUD1.30	AUD1.29

# Property performance

Quality portfolio supported by active asset management

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## Key metrics

number of properties

Sep-18  
27

Mar-18  
26

**AUD1 013mn**  
portfolio value

**5.1**  
year WALE

**3.3%**  
average escalations

**285 587m<sup>2</sup>**  
GLA

**7.8x**  
asset growth  
since listing

**99.0%**  
occupancy

# ASX listing

Key strategic initiative

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- Approval granted to pursue ASX listing proposal within a 12 month window (Sep-18 to Sep-19)
- Timing dependent on:
  - market conditions and Australian peer set trading metrics
  - identifying an appropriate asset acquisition
  - available windows given IAPF's closed periods and Australian REIT reporting seasons
- Maintaining a disciplined approach to potential acquisitions is key — must be the right asset at the right price

# ASX listing (cont)

M&A activity has accelerated, mainly focused in office and industrial

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- 2018 has seen a notable increase in M&A activity, with four live deals yet to play out:
  - acquisition of IOF (office) by Oxford Properties
  - acquisition of FLK (diversified) by Charter Hall Group
  - acquisition of AOF (office) by Starwood Group
  - takeover of PLG (industrial) by ESR Real Estate
- Historically, the average premium to NTA is 10% on successful M&A deals whilst the average premium to the undistributed price is 13-15% to get a real estate takeover done

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market update

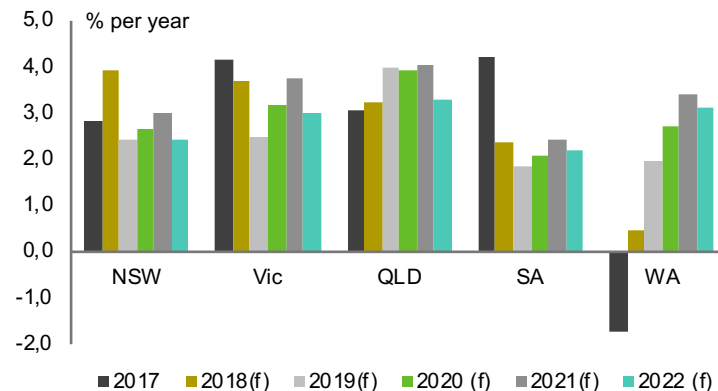
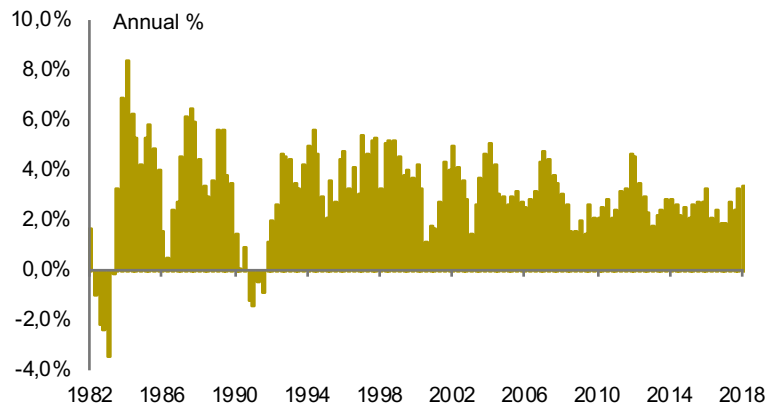


# Solid growth is expected to continue in 2019

28 years of positive GDP growth

- Positive GDP growth from 1990 to 2018
- RBA forecasting GDP growth of 3.0% + through 2019

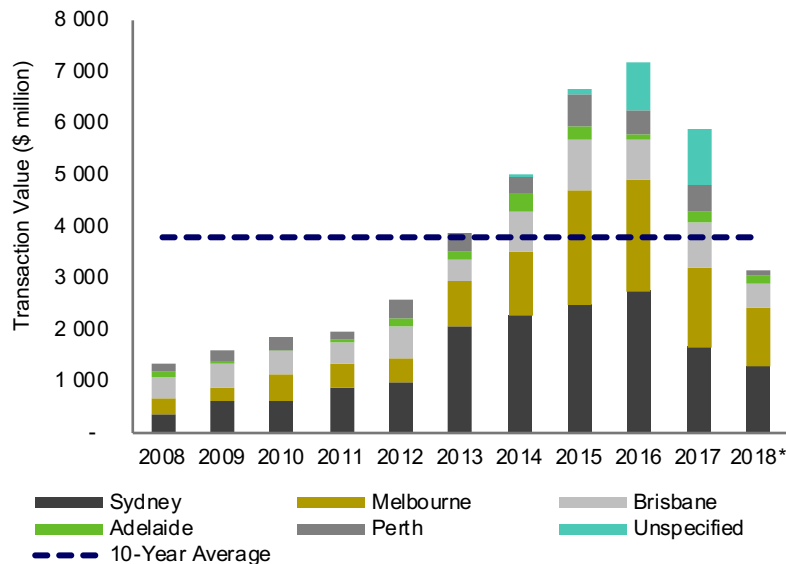
- All states forecasting positive growth
- Australia benefiting from diversified state economies



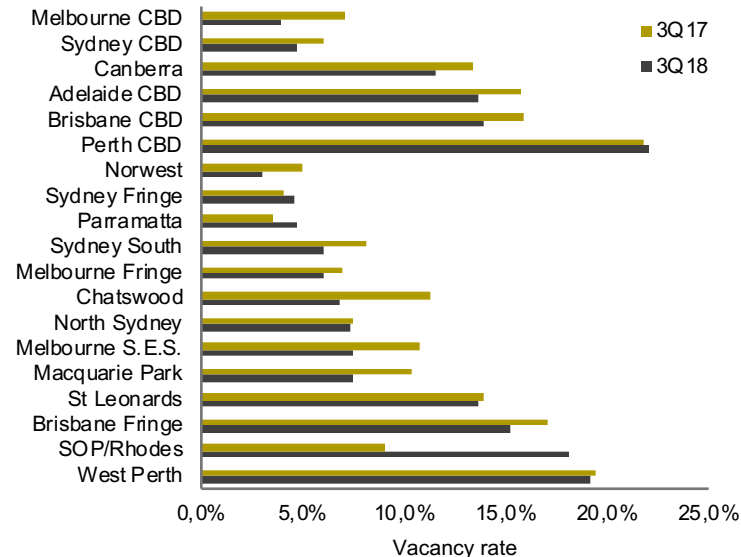
# Australian property landscape

Investor appetite remains strong based on sound underlying fundamentals

- Industrial transaction volumes down on previous years
- Occupier demand remains strong



- Office vacancy rates have tightened
- Offshore investors account for 38% of transaction volume



# Australian property landscape (cont)

Strong asset base in prime and grade A assets throughout the region

QLD

Modest yield compression due to continued investor demand for grade A office properties

NSW

Capitalisation rates for office properties have stabilised. Continued demand for industrial assets is driving down capitalisation rates

ACT

Market for industrial assets has remained stable, however investor appetite for high quality and well located assets remains high

VIC

Capitalisation rates for both office and industrial assets remain relatively unchanged since March 2018. This is consistent with the overall market in Victoria

WA

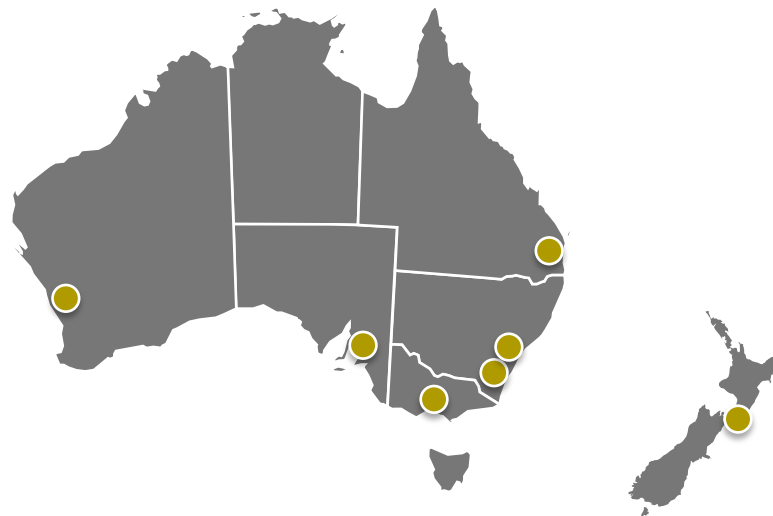
Industrial market has remained stable and capitalisation rates relatively static. Investor demand continues to focus on prime assets

NZ

Office market shows continued firming of capitalisation rates for good quality assets located in the CBD

SA

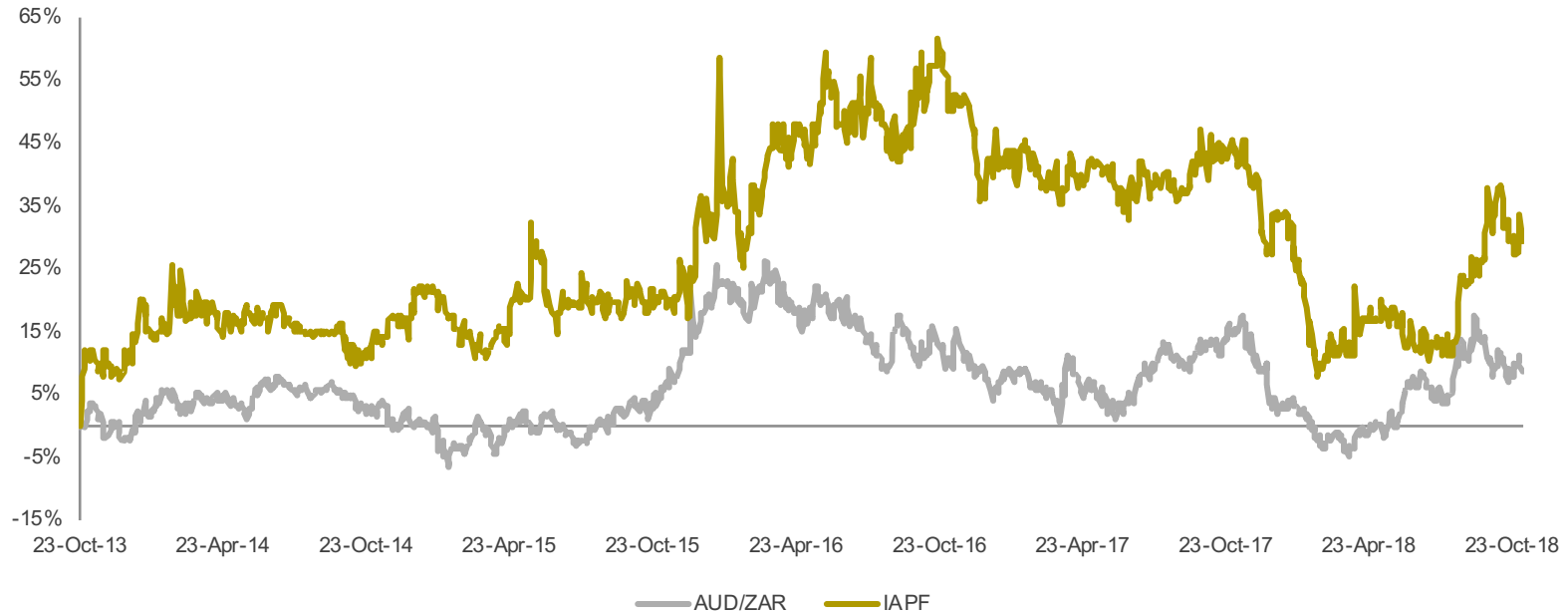
Industrial market has remained stable over the period



# 78% total return since listing

IAPF vs ZAR / AUD exchange rate

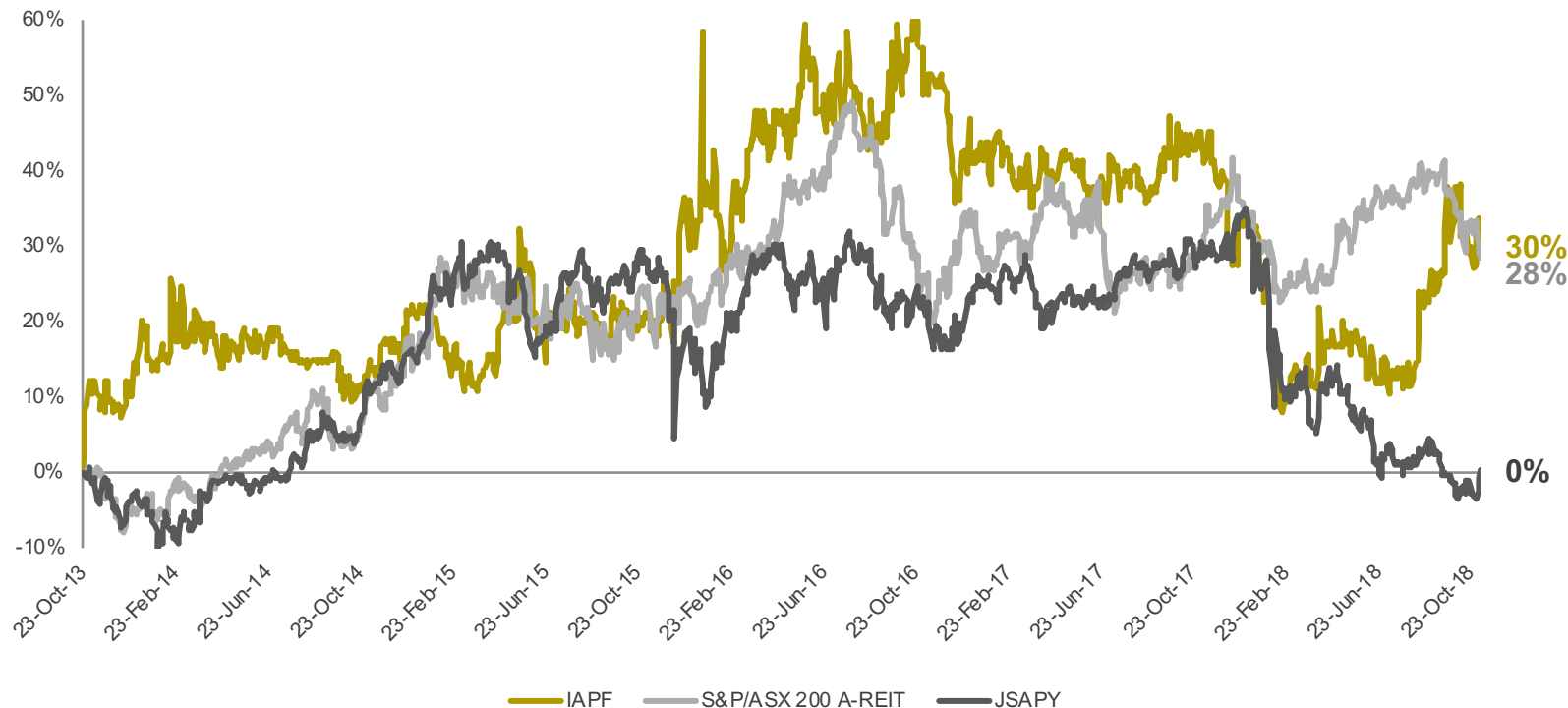
- Delivered a 29.8% capital return in ZAR (19.6% return in AUD and 10.2% currency return)
- Declared distributions of 457.05 ZAR cents (pre-WHT), equating to an income return of 48.6%\*



\* Return calculation based on listing price of ZAR 9.42 and takes into account ZAR equivalent of all pre-WHT distributions paid out to date  
Source: Bloomberg as at 5 November 2018

# Relative price performance since listing

IAPF vs Australian and South African REIT indices



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property portfolio

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# Property portfolio

Maintaining disciplines and continued focus on active asset management

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# Acquisitions

Limited activity during the period



36-42 Hydrive Close, Dandenong South



**Tenant** | Brickwood

<b>Acquisition date</b> April 2018	<b>GLA</b> 14 635m <sup>2</sup>	<b>Purchase price</b> AUD 19 450 000
<b>Occupancy</b> 100%	<b>Purchase yield</b> 6.3%	

- WALE of 7.1 years
- Tenant is a subsidiary of ASX-listed Pact Group
- Logistics/warehouse use
- Close proximity to significant infrastructure projects
- Increased exposure to Victoria, one of Australia's best performing economies

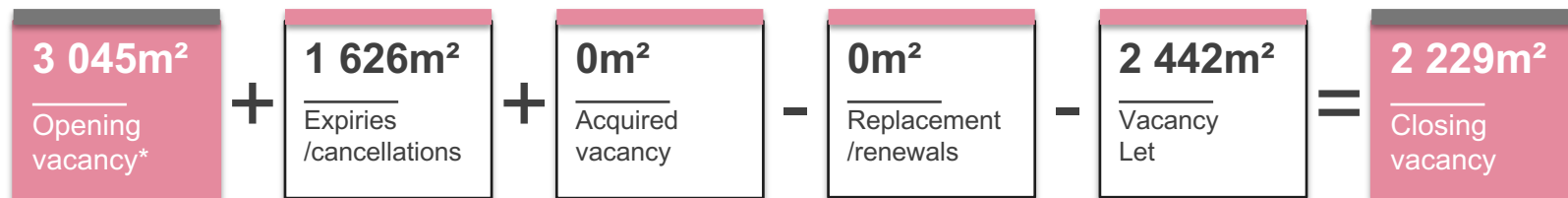


# Leasing activity

9% of the portfolio by area transacted since 1 April 2018

Signed leases	GLA (m <sup>2</sup> )	WALE (years)	Escalations (%)
Replacement leases / renewals			
Office	4 377	4.7	2.24
Industrial	16 461	10.0	3.00
Letting of vacancy			
Office	2 442	5.9	3.56
<b>Total signed leases</b>	<b>23 280</b>	<b>6.4</b>	<b>2.74</b>
Signed HOAs	GLA (m <sup>2</sup> )	WALE (years)	Escalations (%)
Replacement leases / renewals			
Office	1 054	2.5	3.50
Letting of vacancy			
Office	488	5.9	3.50
<b>Total signed HOAs</b>	<b>1 542</b>	<b>3.3</b>	<b>3.50</b>
<b>Total</b>	<b>24 822</b>	<b>6.1</b>	<b>2.83</b>

- Continuing focus on tenant engagement and extending leases in advance of contractual expiries where appropriate
- Over 24 800m<sup>2</sup> leased or subject to signed HoAs since 1 April 2018
- 66 Glendenning Road, Sydney extended for a further 10 years over 16 461m<sup>2</sup>



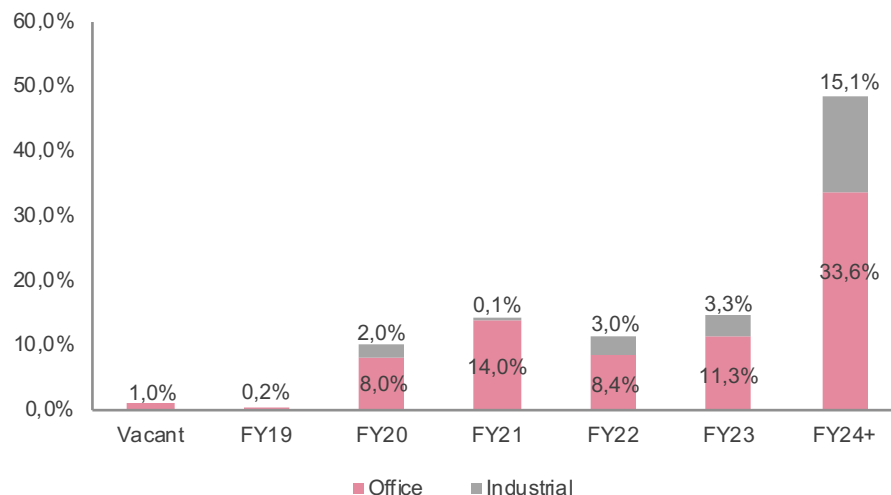
\* The opening vacancy has been increased by 10m<sup>2</sup> due to area changes at 324 Queen Street, Brisbane

# Lease expiry profile

99.0% occupancy and 48.7% of leases expiring after five years

- Low existing vacancy of 1.0%
- FY19 expiries reduced to 0.2%
- Majority of FY20 expiries concentrated in NSW
- Almost half of FY21 expiries concentrated in Victoria
- WALE of 5.1 years

Expiry profile by revenue\*



\* Lease expiry profile includes signed leases but not signed heads of agreement

# Sustainability and CSI

A social conscience and giving back to our community





1 in 25  
Australians are  
carriers of the  
cystic fibrosis  
gene

Learn more  
[www.cysticfibrosis.org.au](http://www.cysticfibrosis.org.au)

Investec Australia Property Fund  
proudly supports  
Cystic Fibrosis Australia



[www.investec.com/en\\_au/property.html](http://www.investec.com/en_au/property.html)

Important Information:  
Investec Property Limited (ARND 011 514 286 AF) is the issuer of units in the Investec Australia Property Fund.  
A copy of the Prospectus Document can be found on the website.



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financial  
information

# Key financial metrics

Results in line with guidance

	Reviewed six months to 30 September 2018	Reviewed six months to 30 September 2018	+/-
Distribution (AUDmn)	24.2	21.3	13.8%
Interim distribution per unit pre WHT (cents)	5.05	4.95	2.0%
Interim distribution per unit post WHT (cents)	4.65	4.64	0.2%
	Reviewed six months to 30 September 2018	Audited as at 31 March 2018	+/-
Portfolio size (AUDmn)	1 013.4	986.7	2.7%
NAV per unit (cents)	130.10	128.94	0.9%

Financial results underpinned by stable base portfolio and active asset management

# Base portfolio

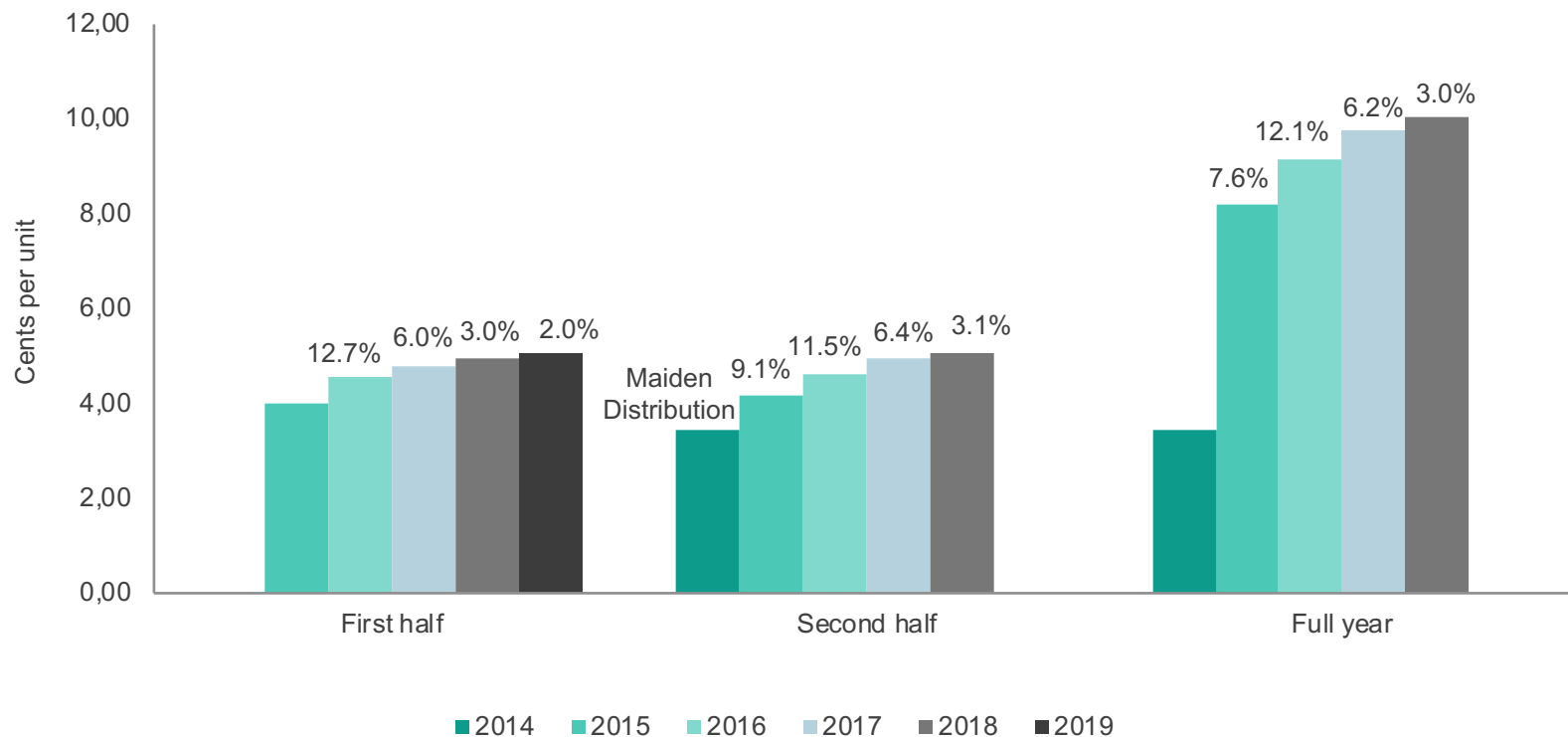
Base portfolio continues to underpin revenue growth

	Reviewed six months to 30 September 2018 (AUDmn)	Reviewed six months to 30 September 2017 (AUDmn)	+/-
Base rental income	30.9	30.0	2.9%
Base net outgoings	(1.2)	(0.7)	60.0%
Base other property expenses	(0.5)	(0.6)	(10.0%)
<b>Base net property income</b>	<b>29.2</b>	<b>28.7</b>	<b>1.7%</b>
Acquisitions	5.3	-	n/a
<b>Net property income</b>	<b>34.5</b>	<b>28.7</b>	<b>20.2%</b>

Improvement in **WALE** and **vacancy** in the base portfolio for the year

# Distribution growth (pre WHT)

Consistent distribution growth profile

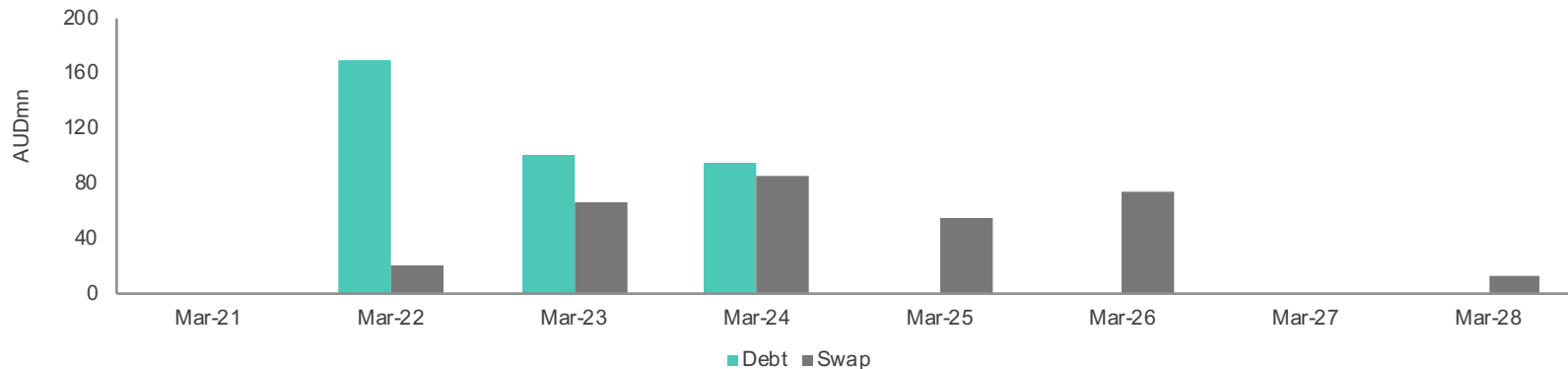


# Debt management

Active balance sheet management by extending shorter term debt expiries

Key indicators	30-Sep-18	31-Mar-18
Drawn debt	AUD367mn	AUD360mn
Gearing	36.2%	35.8%
Weighted average debt cost	3.91%	3.68%
Weighted average debt maturity	4.0 years	3.2 years
Percentage of debt hedged	85.4%	87.1%
Weighted average hedge maturity	5.7 years	6.2 years

- Debt book restructured to push out Mar-20 and Mar-21 expiries
- Weighted debt expiry extended by one year
- Strong balance sheet with historically low interest rates locked in for 5.7 years





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conclusion

# Conclusion

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- Exposure to a stable and growing economy
- Maintaining disciplines in a competitive market
- Buying value and looking to create value through active asset management
- Strong portfolio total return not reflected in unit price
- On the pathway to an ASX listing

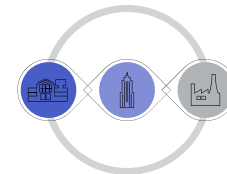


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appendix

# Fund snapshot



## AS AT 5 NOVEMBER 2018

Market capitalisation	ZAR 5.8b / AUD 572mn*
Unit price	ZAR 12.21
NAV per unit	ZAR 13.28*
Premium to NAV	(9%)

## OFFICE



No. of properties	12
GLA	139 991m <sup>2</sup>
Vacancy	1.3%
WALE (years)	4.5
In-force escalations	3.3%
Asset value	AUD 774mn

## PROPERTY PORTFOLIO

No. of properties	27
GLA	285 587m <sup>2</sup>
Vacancy	1.0%
WALE (years)	5.1
In-force escalations	3.3%
Asset value	AUD 1 013mn

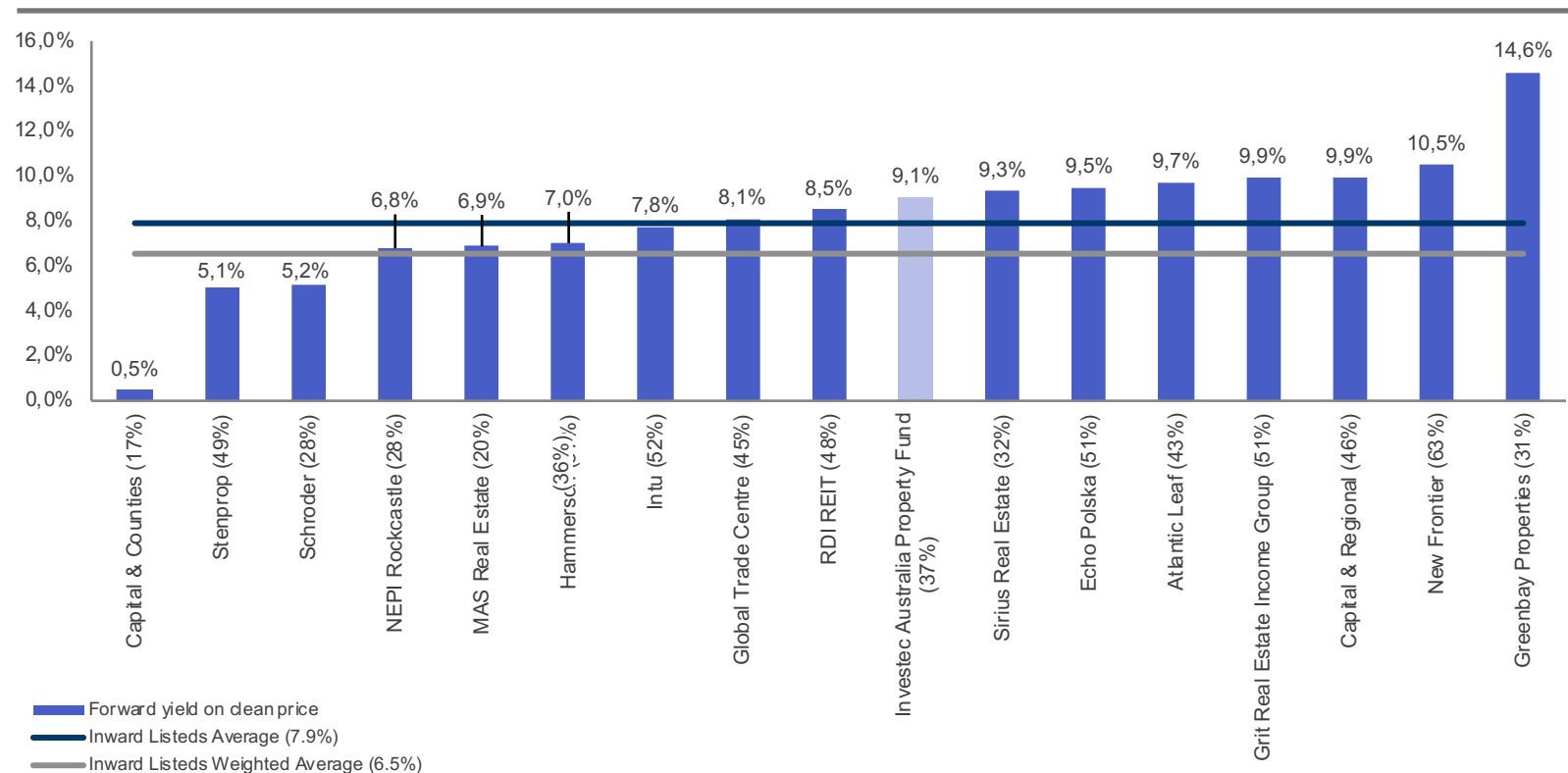
## INDUSTRIAL



No. of properties	15
GLA	145 596m <sup>2</sup>
Vacancy	0%
WALE (years)	6.7
In-force escalations	3.2%
Asset value	AUD 239mn

\* Based on ZAR/AUD exchange rate of ZAR 10.21 and unit price of 12.21 as at 5 November 2018

# Inward listed companies forward yields



Source: Bloomberg as at 2018/11/02, Investec calculations

# Income statement

	Reviewed six months to 30 September 2018 (AUDmn)	Reviewed Six months to 30 September 2017 (AUDmn)
Revenue, excluding straight-line rental revenue adjustment	43.6	34.8
Straight-line rental revenue adjustment	1.4	1.9
<b>Revenue</b>	<b>45.0</b>	<b>36.7</b>
Property expenses	(9.2)	(6.1)
<b>Net property income</b>	<b>35.8</b>	<b>30.6</b>
Other operating expenses	(3.3)	(2.7)
<b>Operating profit</b>	<b>32.5</b>	<b>27.9</b>
Fair value adjustments	4.2	27.5
Finance costs	(7.1)	(4.7)
Finance income	0.0	0.0
Other income	0.2	0.0
<b>Total comprehensive income attributable to unitholders</b>	<b>29.8</b>	<b>50.7</b>

# Office performance

Strong leasing activity and increasing WALE

	Reviewed six months to 30 September 2018 (AUDmn)	Reviewed six months to 30 September 2017 (AUDmn)	+/-
Base rental income	19.4	19.0	2.1%
Base recoverable outgoings	3.5	3.1	13.4%
<b>Base gross income</b>	<b>22.9</b>	<b>22.1</b>	<b>3.7%</b>
Base outgoings expenses	(4.7)	(3.8)	22.4%
Base other property expenses	(0.3)	(0.4)	(18.0%)
<b>Base gross expenses</b>	<b>(5.0)</b>	<b>(4.2)</b>	<b>19.0%</b>
<b>Base net property income</b>	<b>17.9</b>	<b>17.9</b>	<b>0.1%</b>
Acquisitions	4.0	-	-
<b>Net property income</b>	<b>21.9</b>	<b>17.9</b>	<b>22.6%</b>
Average in-force escalations	3.3%	3.5%	—
WALE (by income)	4.5 years	4.2 years	0.3 years
Vacancy (%)	1.3%	2.2%	(0.9%)

Improving  
**WALE** and  
**occupancy** in  
office portfolio  
for the year

# Industrial performance

WALE increased through acquisitions and active asset management during the period

	Reviewed six months to 30 September 2018 (AUDmn)	Reviewed six months to 30 September 2017 (AUDmn)	+/-
Base rental income	11.5	11.0	4.4%
Base recoverable outgoings	2.0	1.7	21.8%
<b>Base gross income</b>	<b>13.5</b>	<b>12.7</b>	<b>6.7%</b>
Base outgoings expenses	(2.0)	(1.7)	21.8%
Base other property expenses	(0.3)	(0.3)	7.2%
<b>Base gross expenses</b>	<b>(2.3)</b>	<b>(2.0)</b>	<b>19.8%</b>
<b>Base net property income</b>	<b>11.2</b>	<b>10.8</b>	<b>4.3%</b>
Acquisitions	1.3	-	-
<b>Net property income</b>	<b>12.5</b>	<b>10.8</b>	<b>15.9%</b>
Average in-force escalations	3.2%	3.2%	—
WALE (by income)	6.7 years	5.8 years	0.9 years
Vacancy (%)	0%	0%	—

Long WALE  
and **0%**  
vacancy in  
Industrial  
portfolio



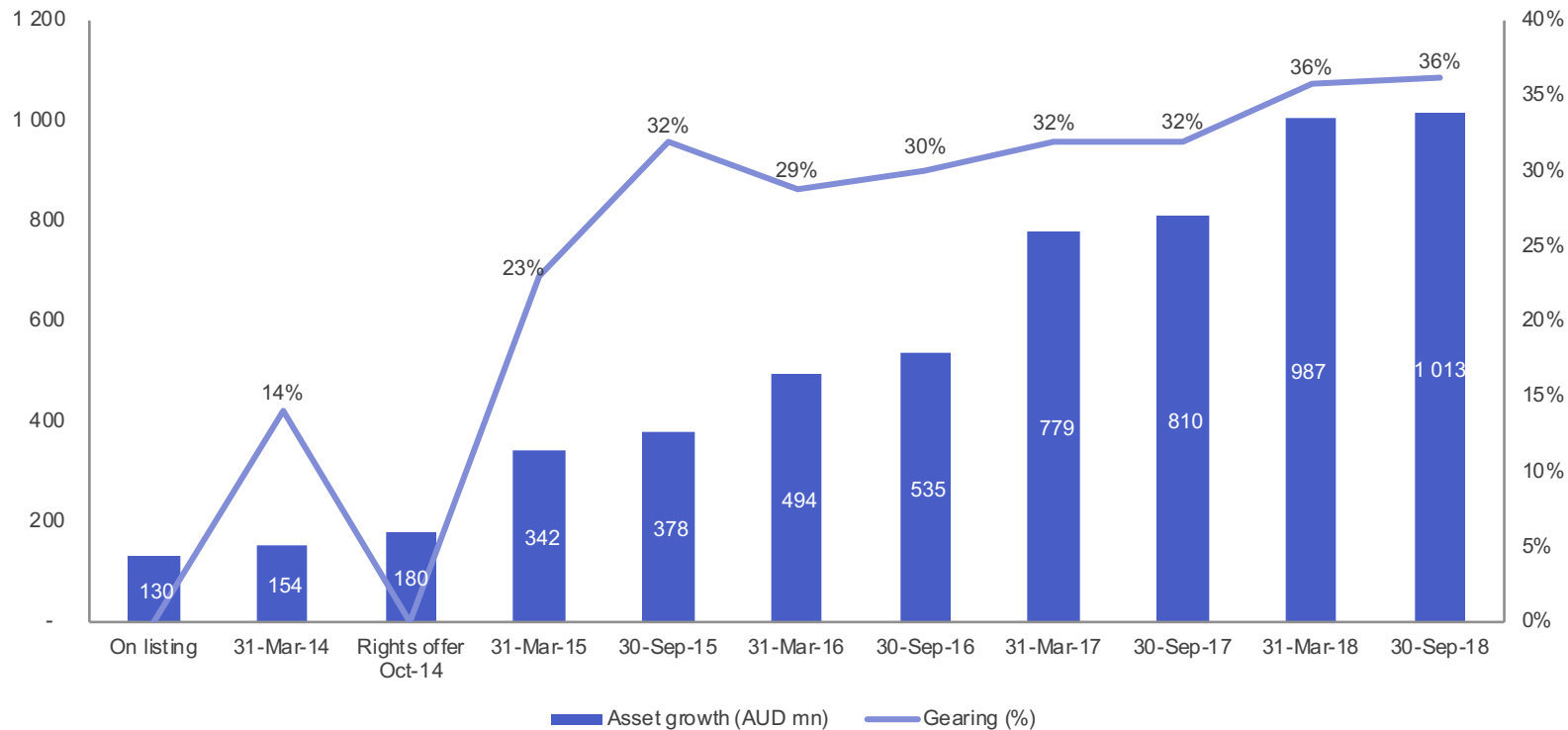
# Distribution reconciliation

	Reviewed six months to 30 September 2018 (AUDmn)	Reviewed six months to 30 September 2017 (AUDmn)	+/-
<b>Profit</b>	<b>29.8</b>	<b>50.7</b>	
Less: straight line rental adjustment	(1.4)	(1.9)	
Less: net fair value adjustments	(4.2)	(27.5)	
<b>Total interim distribution</b>	<b>24.2</b>	<b>21.3</b>	
Number of units	478.8	429.3	
	<b>cpu</b>	<b>cpu</b>	
Interim distribution per unit pre WHT	5.05	4.95	2.0%
Interim distribution per unit post WHT	4.65	4.64	0.2%

# Balance sheet

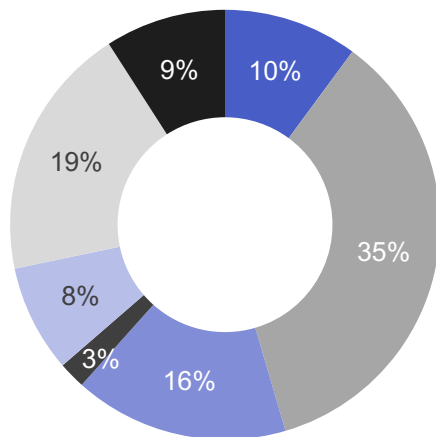
	Reviewed as at 30 September 2018 (AUDmn)	Audited as at 31 March 2018 (AUDmn)	+/- %
<b>Assets</b>			
Investment property	1 013.4	986.7	2.7%
Cash and equivalents	7.9	7.2	9.7%
Derivative financial instruments	1.0	1.0	7.3%
Other assets	5.3	3.8	40.9%
<b>Total assets</b>	<b>1 027.6</b>	<b>998.6</b>	<b>3.1%</b>
<b>Unitholders' interest</b>			
Contributed equity	515.2	515.2	0.0%
Retained earnings	107.7	102.2	5.5%
<b>Liabilities</b>			
Long term liabilities	366.1	342.4	6.9%
Derivative financial instruments	1.7	2.0	(14.5%)
Trade and other payables	12.5	12.5	0.1%
Distribution payable	24.4	24.3	0.3%
<b>Total equity and liabilities</b>	<b>1 027.6</b>	<b>998.6</b>	<b>2.9%</b>
Net asset value per unit (cents)	130.1	128.9	0.9%

# Asset growth and gearing

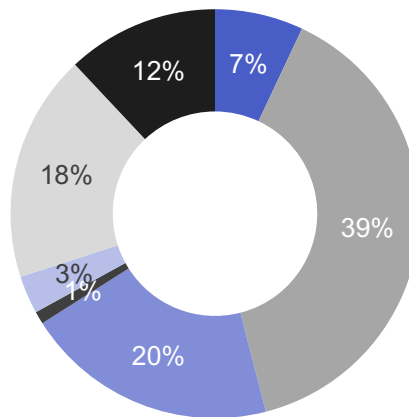


# Geographical spread

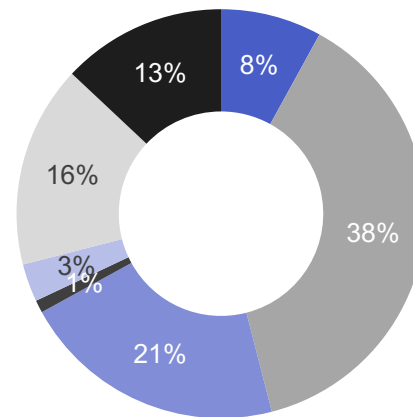
GLA



Asset value

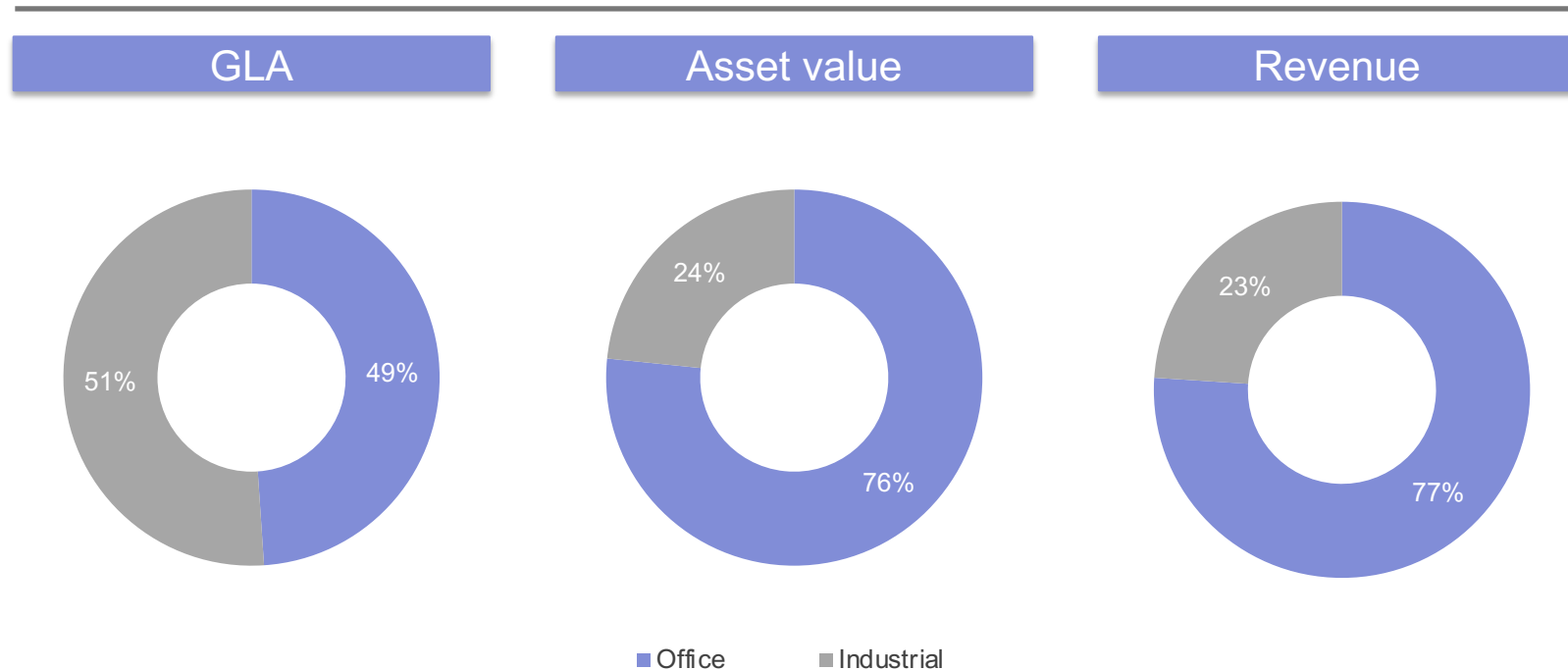


Revenue





■ ACT ■ NSW ■ QLD ■ SA ■ WA ■ VIC ■ NZ

# Sectoral spread



# Our property landscape



		
WESTERN AUSTRALIA	–	1
SOUTH AUSTRALIA	–	1
QUEENSLAND	3	2
NEW SOUTH WALES	5	4
ACT	1	4
VICTORIA	2	3
NEW ZEALAND	1	–

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This report provides further detail in relation to key elements of the Fund's financial performance and financial position. Any additional financial information in this presentation which is not included in the Fund's Financial Report was not subject to independent audit or review by KPMG.

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