

ASX ANNOUNCEMENT

Adjustments to statutory profit from fair value and other adjustments

Having completed the provisional valuation process across its assets, the Group announces the net impact of its fair value adjustments and other items on its statutory profit. The overall impact is a positive adjustment of \$8.0 million.

Independent valuations have been undertaken on 21 of the Group's investment properties as at 31 December 2015 (25% of portfolio) as required by our valuation policy. Combined with internal valuations across the remainder of the portfolio, this has resulted in an estimated \$36.8 million or 2.8% increase on prior book values. This uplift adds to the \$11.8 million achieved in Abacus' third party capital platform to provide a total uplift across the investment portfolio of \$48.6 million as at 31 December 2015.

This strong uplift in values across the portfolio illustrates the high quality assets and strong transactional activity across the Group and property markets in general. The investment portfolio's overall weighted average capitalisation rate (WACR) tightened 28 basis points from 8.05% to 7.77%.

The investment portfolio experienced cap rate compression, WALE¹ extension and increased occupancy. In particular:

- Tenant retention and growth in market rents at Ashfield Mall achieved a 7.6% increase in value and resulted in a 25 basis point cap rate tightening to 6.25%.
- Bacchus Marsh Village achieved an 11% increase in value following the substantial completion of the redevelopment, leasing successes and WALE improvements, resulting in a 175 basis point cap rate tightening to 6.75%.
- Our interest in Oasis Shopping Centre contributed a \$4.7 million increase following strong leasing and repositioning projects that drove a 50 basis point cap rate tightening to 7.5%.
- Abacus' storage portfolio achieved a 1.2% or \$6.0 million increase in value due to improved occupancy rates over the period. The WACR for the storage portfolio remained constant at 8.6%.

The investment portfolio is now valued at over \$1.46 billion including \$976 million of commercial properties across 34 assets and \$514 million of storage facilities across 59 assets.

Regrettably, our residential land sub-division at Muswellbrook has been adversely affected by the decline in the resources sector. The declining coal industry has affected the Australian economy and Muswellbrook is one of the mining communities that has sharply felt the impact of this change. As a result, increasing unemployment and a poor economic outlook for Muswellbrook has severely

¹ Weighted Average Lease Expiry

impacted its residential housing market. This has resulted in a non-recurring impairment of approximately \$40.6 million to be taken against the Group's \$46.8 million investment.

Eastbrook Links Estate comprises a large amalgamated residential holding located on the southern fringe of Muswellbrook, approximately 3 kilometres south of the town centre. The estate comprises a 1,668 lot residential subdivision across 32 stages. Stages 1 to 15 have been released totalling 609 allotments. The project had previously been successful in achieving approximately 60 lot sales on average per year. In 2015 no lots were sold. Stages 16 to 32 in the estate are zoned residential yet remain as rural land use until development occurs.

The Muswellbrook area benefited from the resources boom of the last 10 years but the international decline in coal prices and a difficulty in obtaining mining approvals has halted further expansion of existing and new projects in the area. This has resulted in significant layoffs in the industry. Very limited expansion in Hunter Valley coal in the foreseeable future is likely, indicating unemployment will remain at current high levels or worsen and that no new residents will move to the Muswellbrook area.

Therefore, the short term outlook for lot sales is greatly reduced and not expected to improve markedly without a wider improvement to the area's economic prosperity. However, this appears unlikely given the announcement by Anglo America in December 2015 that it would close its Drayton coal mine in 2016 at the expense of 312 jobs and 97 contracting positions. The Muswellbrook feasibility has been updated to reflect these conditions.

The impairment of Muswellbrook is a one off impact driven by very specific conditions within the local environment. It is not a characteristic across any of Abacus' other residential projects which are largely medium density developments located in inner city suburbs of Sydney, Melbourne and Brisbane.

Based on the impact of these fair value and non-recurring adjustments, Abacus expects its statutory profit for the half year ended 31 December 2015 to be in the range of \$68 - 72 million (HY14: \$62.2 million). These adjustments do not affect the calculation of underlying profit, expected to be in the range of \$55 - 58 million.

The results outlined above are preliminary and subject to finalisation of the accounts which will be released on 18 February 2016.

20 January 2016

Investor enquiries
Neil Summerfield
Head of Investor Relations
(+61) 2 9253 8600
www.abacusproperty.com.au

About Abacus

Abacus Property Group is a diversified property group that specialises in investing in core plus property opportunities across Australia's commercial property markets. Abacus was established in 1996 and listed on the ASX in November 2002. Abacus has achieved a successful track record of acquiring property based assets and actively managing those assets to enhance income and capital growth. Abacus has a market capitalisation of over \$1.6bn.