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Abacus Group Projects Limited
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Abacus Funds Management Limited
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Abacus Storage Funds Management Limited
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ASX ANNOUNCEMENT

Abacus Property Group
2017 Half Year Results

Results highlights

- The Group's[1] consolidated AIFRS statutory profit increased 2.5 times to $191.7 million from $75.5 million in HY16
- Abacus underlying profit[2] was $69.5 million, up 22% from HY16 underlying profit of $57.1 million
- 19% improvement in Abacus underlying earnings[2] per security 12.2 cents from 10.3 cents in HY16
- Abacus HY17 distribution per security up 2.9% to 8.75 cents
- Distribution payout ratio of 71.5% of underlying profit
- Net tangible assets (*NTA*) of $2.94 per security, up 10.5%
- Group gearing conservative at 22.7%
- Added over $39.0 million to the self-storage portfolio in the period
- Increased self-storage net lettable area by 12,000m^2 or 4.1%
- Self-storage portfolio delivered RevPAM[3] growth of 2.2% for the period (4.4% annualised)
- Realised over $80 million in cash from residential developments
- Added 2 office assets to the commercial portfolio totalling $90 million in value

Abacus Managing Director, Dr Frank Wolf, commented "The business continues to perform very well and we have delivered another impressive result in HY17. We continue to see reward for our diversified multi-platform business with strong contributions to both underlying profit and NTA from all sides of the business. Increased recurring and transactional contributions to underlying profit from our commercial and storage portfolios offset a slight reduction in the quantum of profits from our development projects due to the timing of development realisations after a strong HY16."

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1 The Group consists of the merged Abacus Property Group, Abacus Hospitality Fund, Abacus Wodonga Land Fund and ADIF II

2 Underlying profit and earnings per security are non-AIFRS measures that the Group uses to assess performance and distribution levels. They are calculated in accordance with the AICD/Finsia principles.

3 RevPAM: Revenue per available square metre. This metric excludes assets in lease up and assumes a steady FX rate of $1.0397.

Segment review

Property

- 100 properties valued at $1.69 billion
- Revaluation gains of $76.9 million across the portfolios

Commercial portfolio

- $50.0 million underlying EBITDA contribution
- 34 commercial properties valued at $1.1 billion
- Portfolio capitalisation rate: 6.9%
- Occupancy[4]: 90.4%
- Like for like rental growth of 2.2%[4]
- Weighted average lease expiry (*WALE*) profile of 4.1 years[4].

The commercial portfolio achieved strong returns by growing assets and revenue during the period. The commercial portfolio added two assets for c.$90 million while also achieving revaluation gains of over $64 million. These helped increase the portfolio's total assets to almost $1.1 billion across 34 properties. Underlying EBITDA increased 79% to $50.0 million driven by improved net rental income and strong transactional profits following the sale of 2 assets for c.$100 million that delivered c.$11 million in gains.

Portfolio metrics highlighted the sensitivity to portfolio remixing that occurs as a result of our core plus value add strategy. Occupancy across the commercial portfolio fell slightly to 90.4% from 91.2% at 30 June 2016 with the sale of high occupancy assets, the acquisition of lower occupancy assets and the impact of development/refurbishment strategies across a number of assets. It is our expectation that occupancy will improve as development/refurbishment projects are completed and the new space is leased. Like for like rent growth across the portfolio of 2.2% has reduced following periods of stronger growth on the back of post development leasing successes.

The major property we added during the period was the acquisition of a 50% interest in 324 Queen Street for $66 million. The property was acquired as tenants in common with Investec Australia Property Fund. The property is located in a premier position at the junction of Queen and Creek Streets, in the Brisbane CBD's golden triangle. The property has a commanding street presence, a strong retail component and 19,860m^2 of net lettable area. The co-owners intend to focus on improving rental levels through the lease up of the ~20% vacancy. Longer term plans will explore the redevelopment of the lower commercial areas into flagship retail opportunities.

Self-storage portfolio

- $19.0 million underlying EBITDA contribution
- 66 self-storage assets valued at $613 million
- Portfolio capitalisation rate: 7.9%
- Occupancy[4]: 88.7%
- Average rental pa[4]: $262 per m^2

4 Excluding assets awaiting conversion or newly converted assets in lease up.

- RevPAM[4]: up 2.2% to $232 per m^2

Business trading across the portfolio continues to improve, delivering rental growth of 17.0% for the period over the prior corresponding period. This drove underlying EBITDA growth of 19.5% to $19 million. Recent portfolio additions, increases in occupancy across the established portfolio[4] to 88.7% and the average rent to $262 per m^2 contributed to the improved result. This led to a strong improvement in revenue per available square metre (RevPAM) which grew 2.2% to $232 per m^2 over the six month period to 31 December 2016, and implies an annualised growth rate of 4.4%.

We continue to add to the portfolio through acquisition. Four new assets were added for $22.0 million. We added a further 4.1% or 12,000m^2 of net lettable area (*NLA*) taking portfolio NLA to over 302,000m^2. Two new assets are established facilities acquired in strong catchments at Hume (ACT) and Ingleburn (NSW). The remaining two assets have conversion potential and we have already started the process to deliver c.5,000m^2 of NLA at Frenchs Forest (NSW) which we expect to deliver in FY18.

We continue to target conversion opportunities in metropolitan areas on Australia's eastern seaboard that will deliver higher average rental rates than the current portfolio average. We currently have 7 non-storage assets with conversion potential of c.20,000m^2 of NLA.

Property Ventures

The Property Ventures division generated an underlying EBITDA result of $24.5 million for the period. This was slightly down on last year's result for the same period attributable to a lower average interest rate across the portfolio and a reduction in fee income from new investments. Total assets amount to $492 million which reflects a $71 million reduction from capital and interest repayments received during the period, $50 million of additional interest and drawdowns as well as an increase of $14 million from fair value increases.

Project realisations and the receipt of interest payments during the period delivered over $80 million of cash to the business. The Abacus property ventures portfolio comprises over 9,000 units or land lots which equates to a cost base of c$50,000 per unit/land lot. This provides comfort that the Group's exposure to residential apartment and land markets, where over 90% is exposed to the Sydney market, should deliver strong returns in the future.

Two residential development projects that contributed to HY17 results included The Prince apartments in Canberra and Spice apartments in South Brisbane. Both projects successfully settled on the majority of unit sales during the period. The Spice project has sold all its units while The Prince has two units left. It is anticipated these will be sold shortly. In addition to interest earned across the life of The Prince project; Abacus earned a $10 million profit share on its c.$3 million investment in the project which was recorded in this period. The Spice development has recorded over $14.5 million in interest over the project and with a few units remaining for settlement should achieve a c.$8 million profit share in H217.

We continue to work with all stakeholders to progress our rezoning approval at Camellia. The rezoning of a 15ha first stage at the Riverlands land sub-division project was recently approved. A development application is to be submitted in the near future to achieve c.450 duplex lots.

Funds Management

The funds management business generated an underlying EBITDA result of $5.8 million for the period. Abacus has $170 million of capital invested across the platform. Abacus continues to manage these unlisted funds to optimise the returns to investors. ADIF II and AHF have continued to sell down assets over the period in preparation of fund termination by 30 June 2017.

Outlook

We have remained committed to our core plus value add strategy and we are proud of the strong result we have achieved on behalf of securityholders in this period. We have again highlighted our ability to grow returns across our diversified business as we move through the differing cycles of each business sector.

The business outlook remains positive with a strong balance sheet of opportunities, a current cost base suggesting strong intrinsic value that is set to deliver identifiable short and medium term returns and other assets that present real long term potential.

Capital has been invested over the last few years to provide an appropriate rate of return throughout the cycle. As cycles transition over the coming years, our investment strategies will transition in line, with an increased investment allocated to self storage and investment properties to grow recurring earnings which will support growth in distributions. This transition will be funded from realisations across our funds management and residential development sectors as projects are completed. We will look to expand our property investments utilising our third party capital platform as well as wholly on balance sheet.

As recurring earnings improve, we have committed to growing our distributions to securityholders going forward by c.2-3% annually. Abacus is targeting a distribution of 17.5 cps for FY17, a 2.9% increase on FY16 distributions per security.

Abacus Managing Director, Dr Frank Wolf, commented "We believe that we offer a strong value proposition to investors. Our results and our assets continue to illustrate our value add capabilities and potential for strong returns. We believe the market doesn't fully appreciate our high quality assets and their potential that our investment strategies and consistent returns have highlighted is possible. We offer an attractive yield and currently trade in line with our NTA".

Further information

Further information on Abacus' half year results and an update on current operations are provided in the financial report and investor presentation.

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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.