Industria Trust No. 1 ARSN 125 862 875
Industria Trust No. 2 ARSN 125 862 491
Industria Trust No. 3 ARSN 166 150 938
Industria Trust No. 4 ARSN 166 163 186
Industria Company No. 1 Ltd ACN 010 794 957

Responsible Entity
APN Funds Management Limited
ABN 60 080 674 479 AFSL No 237500

Level 30, 101 Collins Street
Melbourne Victoria 3000 Australia

T +61 (0) 3 8656 1000
F +61 (0) 3 8656 1010
W industriareit.com.au

ASX ANNOUNCEMENT (ASX code: IDR)

20 February 2017

Results for the period ended 31 December 2016

Improved portfolio quality, delivered strong result for the period, and reiterated FY17 guidance

Highlights

- Funds From Operations (FFO) in line with expectations at $14.2 million / 9.8 cents per security, up 1.3 cents on pcp; on-track to deliver the previously upgraded FY17 Funds From Operations (FFO) guidance of 17.9 – 18.1 cents per security
- Distribution $13.05 million / 8.0 cents per security, up 6.7% on pcp and representing a 7.7% annualised distribution yield
- Upgraded the quality of the portfolio with the acquisition of WesTrac Newcastle for $158.6 million. The property benefits from an 18 year triple-net lease to WesTrac, a wholly owned subsidiary of Seven Group Holdings (ASX:SVW), and generates a high initial yield of 7.25%
- Extended track record in leasing capability – completing 17,600 square metres of leasing to reduce the lease expiry profile and increase weighted average lease expiry (WALE) to 7.8 years
- Maintained a strong balance sheet, with gearing at 35% - the middle of the 30 – 40% target band

Financial Results

APN Funds Management Limited, the Responsible Entity of Industria REIT (IDR), today announced the results for the period ending 31 December 2016. Net profit attributable to security holders for the period was $8.3 million, down $11.6 million on the prior corresponding period (pcp), primarily due to stamp duty and acquisition costs incurred with the acquisition of WesTrac Newcastle.

FFO was in-line with expectations at $14.2 million (9.8 cents per security). FFO is skewed to 1H17 due to an anticipated break fee receipt and lease expiries. FFO guidance is reiterated at 17.9 – 18.1 cents per security for FY17.

Net Tangible Assets (NTA) were impacted by the costs associated with the WesTrac Newcastle acquisition, which were partially offset by the positive impact of increased property values of $3.4million, following independent valuations. Net equity totals $339.1 million, or an NTA of $2.08 – up 3 cents on the pro-forma NTA of $2.05 at the time of the WesTrac Newcastle equity raise, but down 4 cents per security on pcp.

Industria REIT Fund Manager Alex Abell said: “This result continues the positive momentum for Industria REIT, completing $191 million of transactions and further de-risking our expiry profile through almost 17,600 square metres of leasing. The financial performance of the Fund has been pleasing with FFO as expected and gearing in the middle of the band, providing us with the flexibility to take advantage of potential opportunities as they arise.”

Property Portfolio

Headline occupancy is 96% and the 7.8 year WALE has benefited from the acquisition of WesTrac Newcastle and an active period of leasing. Leasing activity has been led by Industria REIT’s industrial warehouses, especially at 5 Butler Boulevard (Adelaide Airport) where terms have been agreed and leases completed over 63000 square metres, reflecting the high quality location and attractive workspaces offered by the property.

At 80 – 96 South Park Drive, Dandenong South, the March 2019 lease expiry over 10,000 square metres to Shriro was extended by 5 years until February 2024, removing Industria’s largest lease expiry in FY19. As a result, only 4% of the portfolio has lease expires in FY19 – down from 7%.

Good leasing progress was also achieved across the office properties, with 2,300 square metres of vacancy at Brisbane Technology Park leased, and terms agreed over 1,800 square metres at Rhodes Building C.

Key opportunities in the coming months include 2,100 square metres of vacancy at 9 McKechnie Dr, Brisbane Technology Park, which will become available in May 2017. This impending vacancy will impact near-term portfolio occupancy as the property is re-leased.

David Avery, Senior Portfolio Manager for Industria REIT, said: "Our ongoing focus on engaging with our incumbent and potential new tenants to provide workspaces to meet their needs is generating positive results for Industria's securityholders. We're confident this approach positions us well, and we will be able to capitalise on opportunities to lease-up vacancy and minimise downtime."

The portfolio is now valued at $552.3 million, up from $417.9 million at 30 June 2016, which is largely attributable to the acquisition of WesTrac Newcastle. In addition, five assets were independently revalued with a net valuation uplift of $3.4 million reported. The five assets revalued represent 16% of the portfolio by value and 66% of the portfolio has been independently valued over the last two reporting periods.

Key valuation highlights included:

- 80 – 96 South Park Drive, Dandenong South, increased $1.3 million following the lease renewal to Shriro – extending their lease expiry from February 2019 to February 2024
- 34 Australis Dr and 89 West Park Dr (increased $2.1 million) – driven by market cap rate compression of 25 basis points
- 18 Brandl St (increased $0.2 million) and 37 Brandl St (decreased $0.2 million) offset each other, with vacancy lease-up at 18 Brandl St supporting a small uplift; and 37 Brandl St being impacted by a short term lease expiry profile

NTA increased to $2.08 cents per security, an increase of $0.03 over the $2.05 pro-forma NTA at the time of the WesTrac Newcastle equity raise (September 2016). When compared to 30 June 2016, NTA declined $0.04 cents per security as the acquisition costs for WesTrac Newcastle (primarily stamp duty) did not offset revaluation gains elsewhere in the portfolio.

Capital Management

The debt maturity profile was enhanced over the period, with facilities put in place with new three and five year terms. These actions increased the debt maturity to 3.6 years.

The weighted average cost of debt was 3.7% and interest cover was strong at 6.3 times.

During the period gearing reduced to 28% following $32.7 million of asset sales at a 13% premium to book value. This lower level of gearing positioned Industria well prior to the WesTrac Newcastle acquisition, resulting in a lower amount of debt being drawn to fund the purchase. Total drawn debt at the end of the period was $197.9 million, and gearing is 35% - the middle of the target band.

Overview and outlook

Industria's portfolio provides workspaces for business that are well located and attractively priced. Combining the physical characteristics with a progressive and flexible management approach that engages early and often with tenants to enhance occupancy through-the-cycle underpins performance and the security of the future dividend.

With gearing at 35% the balance sheet remains conservatively positioned, providing the flexibility to pursue potential acquisition opportunities within the target range of 30 – 40%, although the highly disciplined and selective approach to opportunities will continue.

Moving into FY18, management have good visibility over ~50% of lease expiries and have agreed ~3,200 square metres of leasing in early 2017. The portfolio will also benefit by fixed rental increases averaging 3% across the portfolio.

Full year guidance of 17.9 – 18.1 cents per security - growth of 2 to 3% over FY16 – is reiterated. Guidance is subject to current market conditions continuing and no unforeseen events.

ENDS

For further information, please contact:
Fund Manager
Alex Abell
aabell@industriareit.com.au
+61 3 8656 1070