APN | Industria REIT

ASX ANNOUNCEMENT

21 August 2019

**Results for the period ended 30 June 2019**

## Highlights

- Funds From Operations (FFO) up 5.0% to $31.6 million, an increase of 3.8% to 19.2 cents on a per security basis – the top of the 3.5 – 4.0% guidance band and significantly higher than the 2 – 3% guidance provided at FY18 results.
- Record number of transactions with 53 leases completed across 13,700 square metres.
- Raised $50 million of equity and reduced gearing to 30.0%.
- $64.5 million of acquisitions at an average 6.6% yield, with the benefit a 4.9 year weighted average lease expiry (WALE).
- Increased weighted average debt maturity to 3.2 years; refinanced and entered into $76 million of new debt facilities for 3 and 5 year tenors.
- Solid outlook, with 2.5 – 3.0% FFO growth guidance for FY20 (19.7 – 19.8 cps), with opportunities to outperform during the period.

## Financial Results

Net profit for the period ended 30 June 2019 was $29.2 million, $19.0 million lower than the prior corresponding period (pcp) result of $48.2 million. The main drivers were non-cash accounting related adjustments including fair value, straight-lining and tax items that were $19.9 million lower than the prior period.

FFO increased $1.5 million to $31.6 million; or 3.8% on a per security basis to 19.2 cents. This was largely driven by revenue from contracted leases across the portfolio, new leasing, and new acquisitions increasing rental income by 9.2% to $55.3 million.

Net Tangible Assets (NTA) increased 1 cent per security to $2.71, with valuation gains of $10.8 million, which was largely offset by stamp duty costs related to the acquisitions and derivative fair value movements of $8.5 million.

Alex Abell, Fund Manager of APN Industria REIT said: "We are pleased to have delivered record leasing volumes and revenue as our strategy of engaging with our tenants to help manage their businesses continues to gather momentum. The FFO growth for the year was over 1% ahead of our initial expectations 12 months ago – which is considerable given our earnings base is largely tied to fixed rents, and not potentially volatile active earnings.

We continue to seek out further opportunities to grow and add-value, and with gearing at 30.0% - lower than 12 months ago after a successful $50 million equity raise – we have the financial strength and flexibility to execute quickly when opportunities arise."

## Property Portfolio

Portfolio diversity and scale was improved during the year with the acquisition of seven properties for $64.5 million. These investments provided good income visibility, with an average WALE of 4.9 years underpinned by long-standing successful businesses and an attractive average yield of 6.6%. There are also opportunities to add value through re-positioning the properties over the coming years.

Leasing activity was at record levels in financial year 2019, with 53 deals across 13,700 square metres completed. The considerable focus on client needs is generating higher leasing volumes and improving the depth of tenant base, especially at Brisbane Technology Park, where 47 deals were completed in workspaces ranging from 10 to 2,100 square metres. Progress during the year included:

- 88 Brandl St, Brisbane Technology Park (BTP) – 20 deals totaling ~1,400 square metres were agreed with new and existing tenants;
- 9 McKechnie Drive, Brisbane Technology Park (BTP) - ~2,100 square metres leased, as an incumbent took out a commitment to expand into this building;
- 7 Clunies Ross Court, Brisbane Technology Park (BTP) - ~1,500 square metres leased, including a new Anytime Fitness and a modernised café offering; and
- 5 Butler Boulevard, Adelaide Airport – renewed ~2,900 square metres expiring in FY20 whilst also leasing up ~1,400 square metres of vacancy to bring the property to 100% occupancy.

Approximately 6,300 square metres of vacancy was leased, and leasing transactions with existing tenants seeking expansion space exceeded 3,500 square metres. Across the portfolio, occupancy increased 1% to an average of 97%.

Sustainability continues to be a focus. Over 1.8 Megawatts of solar has been installed including over 1.0 Megawatt at BTP – which provides on average 52% of power consumption required during peak energy periods. This investment is generating a yield on cost exceeding 15%, as well as reducing our carbon emissions by over 720 tonnes. An ongoing program of lighting upgrades continues, typically with 2 – 4 year paybacks, as well as air conditioning upgrades to reduce reliance on environmentally damaging refrigerant gases. These initiatives all improve the performance and resilience of our assets, and save our clients and investors' money.

Commenting on the property outcomes, Alex Abell said: "With 53 leases completed, our team closed on average over a deal a week – a considerable effort and evidence that our product and service offering is attractive. Increasing our installed solar capacity to over 1.8 Megawatts has also been a major highlight that has generated shared value and interest from tenants and investors."

Independent valuations were undertaken across 53.4% of the portfolio during the year, resulting in an increase of $16.4 million over the prior independent valuations. Highlights include:

- Brisbane Technology Park: Increased by $9.7 million (6.5%) from the previous independent valuation. The overall increase can be largely attributed to the improved cash flow profile and visibility generated through leasing outcomes. There is opportunity to drive further valuation growth by delivering consistent tenant retention and occupancy outcomes;
- 10 Jersey Drive and 13 Ricky Way, Epping; and 1 West Park Drive, Derrimut:  revaluations resulted in an increase of $1.5 million (5.6%) as cap rates compressed 25 basis points;
- 5 Butler Boulevard: increased $0.8 million (5.4%) following leasing success; and
- Rhodes Corporate Park: as reported as part of the 1H19 results, the Fund's two properties were revalued with a $4.5 million (2.0%) increase being reported.

The weighted average cap rate for the portfolio is 6.5% and WALE is 6.1 years.

**Overview and outlook**

APN Industria REIT is well positioned for the future. The high quality portfolio generates growth that is underpinned by more than 80% of the leases having fixed annual reviews of 3% or more. The revenue generated is based on pure rents collected, which reduces the volatility of the income stream.

Gearing is low at 30.0%, the bottom of the 30 – 40% target range and provides the flexibility to pursue potential acquisition opportunities. The discipline surrounding capital allocated over recent periods will remain, with opportunities only to be pursued where they provide the ability to generate growing income streams over the long term.

Full year FFO guidance of 19.7 – 19.8 cents per security, representing 2.5 – 3% growth over FY19. There are opportunities to outperform this guidance throughout the year through leasing or the deployment of capital.

The distribution is forecast to be 17.5 cents per security, which is 3% growth on FY19.

Guidance is subject to current market conditions continuing and no unforeseen events.

**ENDS**

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**About APN Industria REIT**

APN Industria REIT ('Industria) (ASX code: ADI) is a listed Australian real estate investment trust which owns interests in office and industrial properties that provide functional and affordable workspaces for business. Industria's $739 million portfolio of 28 properties located across the major Australian cities provides sustainable income and capital growth prospects for security holders over the long term. Industria has a target gearing band of 30 – 40%, providing flexibility for future growth without compromising the low-risk approach to management. Industria is managed by APN Property Group, a specialist real estate investment manager established in 1996, and governed by a majority independent Board.

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