Metropolitan Office REIT Initiations

All Aboard the Metro

We initiate coverage on two metropolitan office REITs; the Elanor Commercial Property Fund and the Australian Unity Office Fund. While COVID-19 has negatively impacted office markets, we see value in office REITs with minimal exposure to CBDs, particularly Sydney and Melbourne. We believe the metropolitan office markets will be supported by 1) the rise of the hub and spoke model; 2) the continued investor demand for metropolitan assets; and 3) the focus on cost cutting. We initiate on ECF and AOF with Accumulate recommendations.

Office impacted by COVID-19; However, value in metro names

COVID-19 has undoubtedly impacted office markets with the acceleration of work-from-home (WFH) plans resulting in a flurry of subleasing space. Although the true impact of COVID-19 remains uncertain, our data suggests the Sydney CBD has experienced the biggest contraction. Yields have held firm in metro markets, with Asian investors jumping on the decentralisation thematic (Ascendas REIT and Keppel REIT). We believe those looking for value and exposure to office should target REITs focused on metropolitan markets. AOF and ECF have a 59% and 69% exposure to metro / fringe markets and trade at 19% and 9% discounts to NTA respectively. We believe this represents strong value, noting ECF and AOF have no exposure to the Sydney or Melbourne CBD.

Rise of the hub and spoke model will lessen COVID pain

COVID-19 has also forced many organisations to re-think supply chains, costs and workplace strategies. We believe 1) the focus on reducing cost; 2) a shift in employee attitude i.e preference to drive to work or be closer to home; and 3) the need for face to face collaboration will result in more companies shifting to the hub and spoke model. We've analysed the top 40 companies in Australia and their workplace strategy. Based on our analysis, there is significant scope for further decentralisation. Our analysis revealed 50% of Australia's top companies have adopted some form of the hub and spoke model. We expect vacancy rates to rise across most office markets over the next three years, however believe the COVID-19 impact will be much more subdued for the metropolitan office markets as the shift to the hub and spoke model partially offsets declining demand. We note ~50% of Sydney and Melbourne CBD workers reside more than 10km from the CBD.

ECF strongly positioned; AOF banking on key Sydney exposures

ECF has demonstrated strong resilience during COVID-19, recording the highest rent collection (98%) of all its office peers. We believe ECF is one of the better placed office REITs given 1) its focus on quality tenants; 2) it has less leases expiring over the next two years than peers and 3) its exposure to metropolitan locations. While there is more leasing risk for AOF (WALE of 2.9 years), we are attracted to AOF's exposure to Parramatta and Macquarie Park, markets that should benefit from decentralisation.

Elanor Commercial Prop	FY19A	FY20A	FY21E	FY22E	FY23E
FFO/share (cps)	-	6.6	12.2	12.0	12.4
FFO/share Growth (%)	-	-	85.2	(1.6)	4.0
Div. Yield (%)	-	5.0	9.2	9.5	9.9
Australian Unity Office (	**FY19A**	**FY20A**	**FY21E**	**FY22E**	**FY23E**
FFO/share (cps)	17.5	17.0	17.3	18.1	11.5
FFO/share Growth (%)	1.6	(2.9)	2.1	4.6	(36.3)
Div. Yield (%)	7.2	6.8	6.8	7.0	4.5

Source: OML, Iress

Elanor Commercial Property (EC

Last Price
A$1.06
Target Price
$1.08
Recommendation
Accumulate
Risk
Medium

Australian Unity Office (AOF)

Last Price
A$2.19
Target Price
$2.28
Recommendation
Accumulate
Risk
Medium

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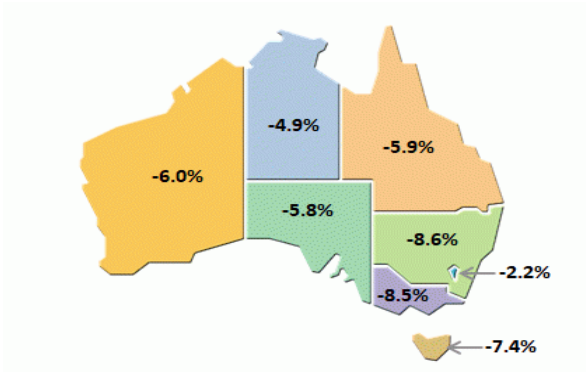
Investment Thesis

We initiate coverage on the Elanor Commercial Property Fund (ECF) and the Australian Unity Office Fund (AOF) with Accumulate recommendations. ECF and AOF are externally managed office REITs with exposure to a portfolio of commercial assets located predominantly in established metropolitan markets.

Office impacted by COVID-19; preference for REITs with no exposure to the Sydney and Melbourne CBD

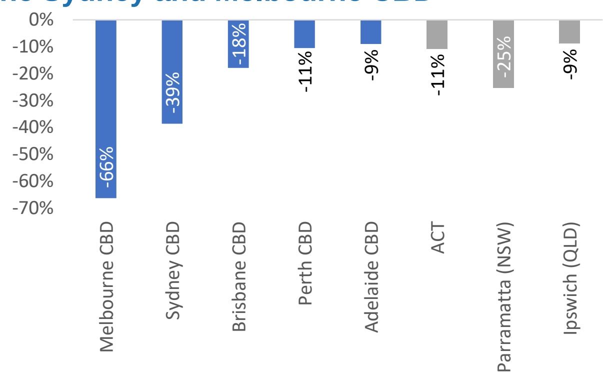
The office markets have been significantly impacted by COVID-19, with building utilisation slumping to as low as 5% during the height of the pandemic (JLL Research). While building utilisation has since recovered to between 20% and 40% (AOF), it remains significantly below historical levels. COVID-19 has accelerated work-from-home (WFH) arrangements with half the Australian workforce doing so during April 2020 (ABS). Many companies now have in place infrastructure to support WFH arrangements, which we expect to permanently stick for some organisations over the medium term (eg Fraser Property Australia). A Gartner survey found that ~74% of companies intend to permanently shift a portion of their workforce remotely post COVID-19.

Figure 1: COVID has had the biggest impact to NSW and VIC



Source: ABS – June 2020 Quarter. State Final Demand growth

Figure 2: Significant fall in workplace mobility in the Sydney and Melbourne CBD



Source: Google Mobility Data. Sep 20 vs Jan/Feb 20

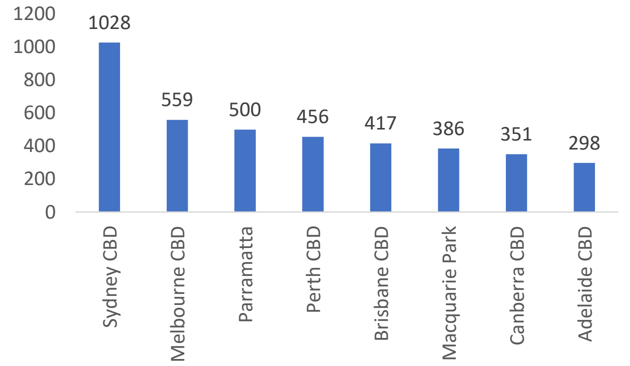
The Melbourne CBD has been the worst hit office market, with workplace mobility (Figure 2) falling 66% in September 2020 (Stage 4 lockdowns). Amplifying the problem is rising vacancies (5.8% July 2020 vs 3.2% January 2020) from development completions (backfill space). New supply in 2020 is expected to represent ~6% of total existing stock. An additional 3% is under development and due for completion in 2021.

The Sydney CBD market has also suffered, with workplace mobility down 39% in September 2020 and vacancies rising from 3.9% in January 2020 to 5.6% in July 2020. Subleasing is also a concern, surging 90% since March 2020 (~160,000sqm at August 2020 - CBRE). Much of the increase in subleasing space (65%) has been driven by tenant contraction and cost cutting measures. While gross effective rents have grown significantly over the last five years (+61.6%) driven by the withdrawal of stock, we expect some of this to reverse over the next three years as new supply is added (9% over the next three years). We expect companies to reduce their footprint in the Sydney CBD as cost cutting becomes a focus (the Sydney CBD has significantly higher rents than other markets – see Figure 3).

Although workplace mobility is still down across all other CBD markets, the Adelaide and Perth CBDs are almost back to pre-COVID levels (see Figure 2), only down 9% and 11% respectively in September 2020 vs January/February 2020. Moreover, vacancy increases have been moderate compared to the Sydney and Melbourne CBD (see Figure 6).

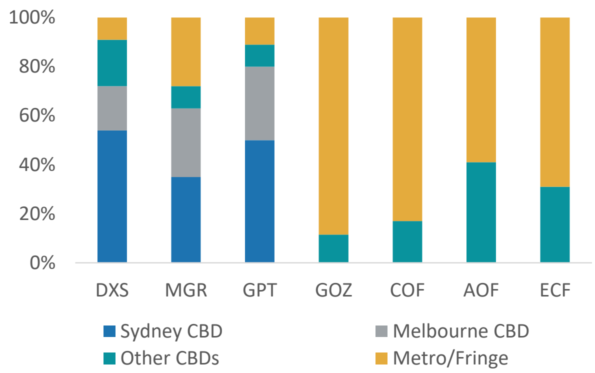
We believe the Sydney (companies focusing on reducing cost and tenant contraction) and Melbourne CBD (substantial new supply, Stage 4 lockdowns and tenant contraction) office markets will experience the biggest contraction in rents and values post COVID-19. We prefer REITs with a focus on established metropolitan markets such as ECF and AOF that have no exposure to the Sydney and Melbourne CBD (see Figure 4).

Figure 3: Sydney CBD rents double Melbourne CBD and Parramatta



Source: AOF FY20 Presentation, JLL Research. Prime Gross Effective Rents

Figure 4: ECF and AOF focused on metro / fringe markets



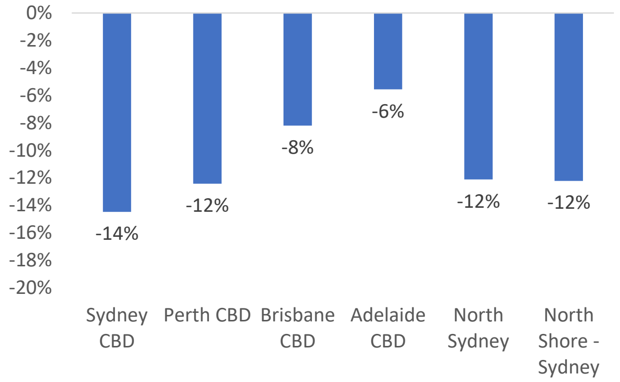
Source: Company Data

Tracking how rents have performed during COVID; Sydney CBD the worst performer

The real impact of COVID-19 remains uncertain for the office market, with limited leasing evidence and most leases still locked in for several years. We have tracked online classifieds for private offices (contracts typically month by month) over the last six months to develop a better understanding of rental trends during COVID-19. Based on our data, rents for private offices have declined 14% in the Sydney CBD and has been the worst performing office market (see Figure 5). Rents in the Brisbane and Adelaide CBD have held up much better, although still declined 6% and 8% respectively. We have excluded the Melbourne CBD from our analysis as Stage 4 lockdowns have put a hold on the leasing of private offices. Our data is consistent with the Property Council of Australia's published vacancy rates, with the Sydney and Melbourne CBD experiencing the largest rise in vacancies during the six months to July 2020, while the Adelaide and Brisbane CBD experienced only minor rises in vacancy rates.

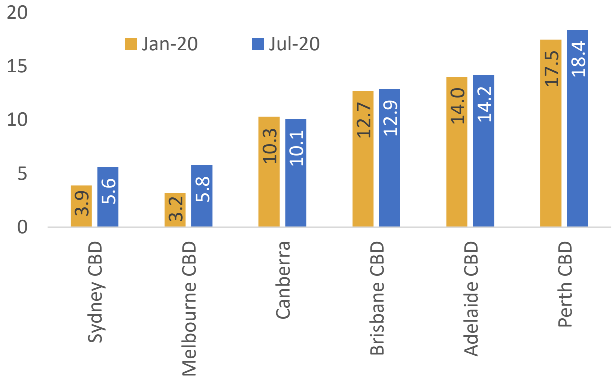
The data also highlights that metro markets have performed better than CBD markets, with the North Sydney and the North Shore office markets experiencing smaller rental declines than the Sydney CBD.

Figure 5: The Sydney CBD has suffered the highest rent declines



Source: Ords Research, Online classifieds for private offices March 20 vs Sep 20. Includes markets with a sample size of at least 40.

Figure 6: Large increases to vacancy rates in the Sydney and Melbourne CBD



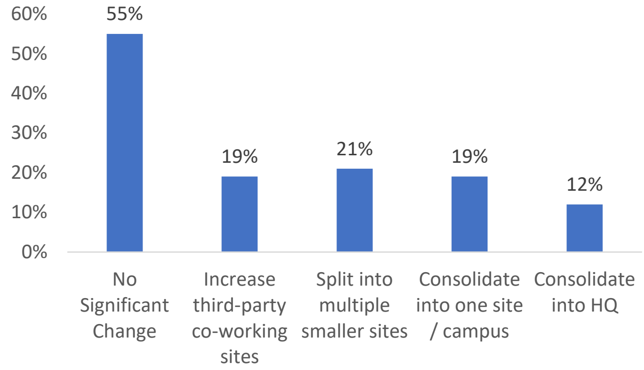
Source: Property Council of Australia

Office trends and the rise of the hub and spoke model

As COVID-19 forces many organisations to re-focus their strategy, supply chains and costs, we believe there will be an increasing focus on workplace strategies. A survey conducted by JLL Research found that ~40% of Australian companies were considering splitting their workforce across flex sites or multiple offices over the medium term (see Figure 7). We believe COVID-19 will accelerate the number of organisations adopting the "Hub and Spoke" model, with a main office (hub) supported by satellite offices (spoke). The cost benefits of adopting the hub and spoke model could be substantial, with Sydney CBD rents more than double Parramatta, 2.5x Macquarie Park and 1.7x St Leonards/Chatswood. Similarly, Melbourne CBD rents are double North Melbourne, South East Melbourne and Outer East Melbourne.

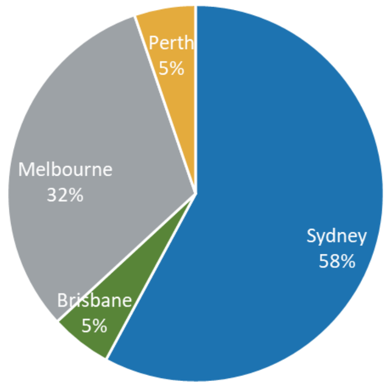
We have analysed the top 40 companies in Australia to understand their workplace strategy/locations. Based on our analysis, there is significant scope for companies to further transition to the hub and spoke model. Our analysis revealed that 50% of Australia's top companies have adopted some form of the hub and spoke model, with the model particularly prevalent in Sydney (see Figure 8). Only 10% of Australia's top 40 companies have only one corporate office.

Figure 7: 40% considering splitting their workforce across flex sites or multiple offices



Source: JLL Research. Responses not exclusive

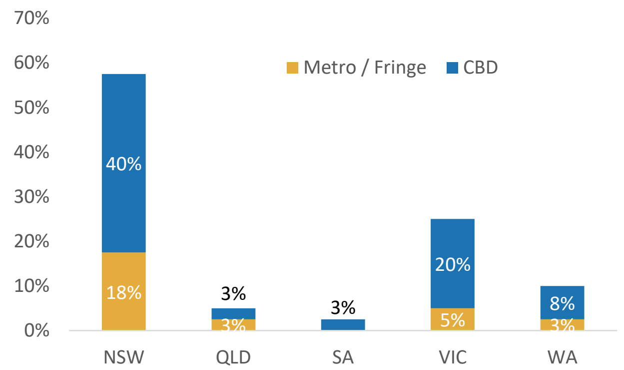
Figure 8: Hub and spoke model most popular in Sydney



Source: Ords Research, Company websites, Google Maps. Location of hub and spoke model

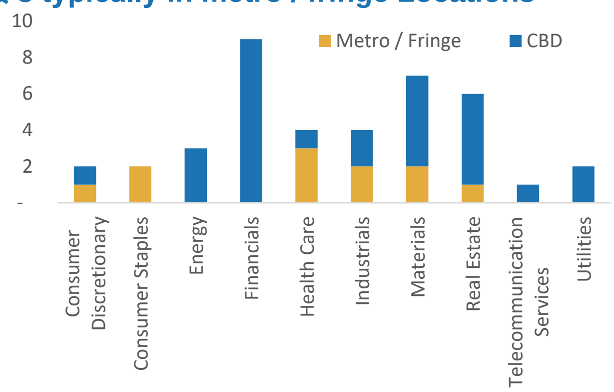
We believe there is also capacity for organisations to move their head office to metropolitan/fringe markets. Only 28% of the top 40 companies in Australia have head offices in metropolitan/fringe markets, with industries such as health care, consumer staples and industrials embracing metro/fringe locations (see Figure 9). We believe over the medium term, these industries (along with consumer discretionary, materials, utilities and energy) may further shift their head offices away from CBD markets. In addition, with only a small proportion of the top 40 companies in Australia having head offices in the Brisbane CBD, Adelaide CBD and Perth CBD (see Figure 9), we believe there is some capacity for organisations to move their main office to other CBD markets (outside of the Sydney and Melbourne CBD).

Figure 9: Only 28% of head offices are in metro / fringe locations (Top 40 ASX)



Source: Ords Research, Company websites

Figure 10: Health care and consumer staples HQ's typically in metro / fringe Locations



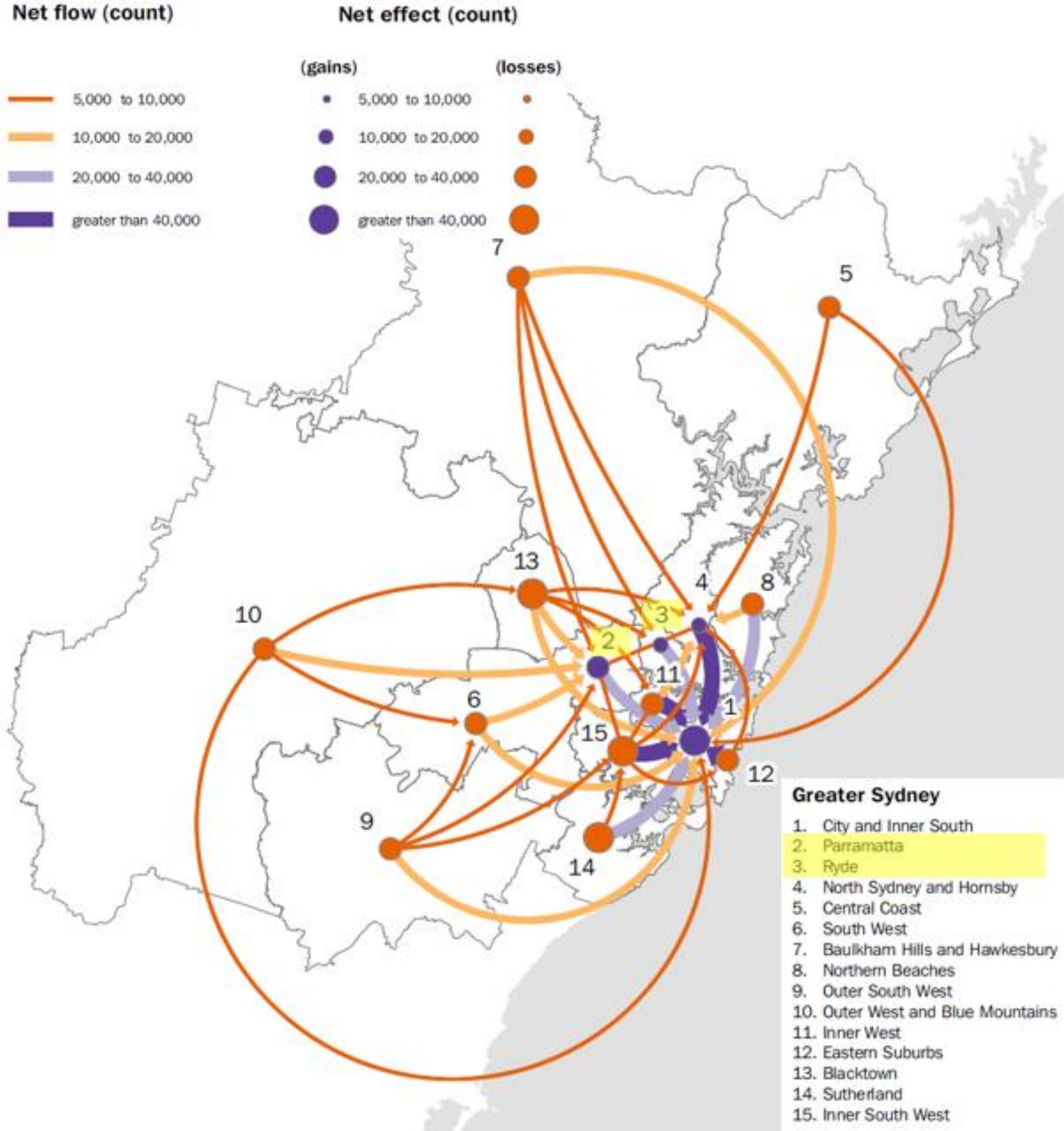
Source: Ords Research, Company websites.

We have compared the location of AOF's assets to the Journey to Work data provided by the ABS. Based on the data, we believe AOF's NSW assets (47% of the total portfolio) are well positioned to benefit from a rise in the hub and spoke model.

As highlighted in Figure 11, AOF's assets are in the Parramatta and Ryde SA4s (ABS statistical area), employment hubs which attract a net inflow of workers. However, between 20,000 and 40,000 residents in Parramatta and between 20,000 and 40,000 residents in Ryde travel to the City or the Inner South for work. We estimate for every 1,000 workers that relocate to Parramatta or Ryde, an addition 11,500sqm of office space is required (equivalent to ~1% of Parramatta's total office stock).

There is also a likelihood that Parramatta and Ryde can attract residents from nearby localities, including Blacktown, Baulkham Hills/Hawkesbury, Outer West/Blue Mountains and South West.

Figure 11: Journey to work and location of AOF NSW assets



Source: ABS, 2016 Census of Population and House, Commonwealth of Australia

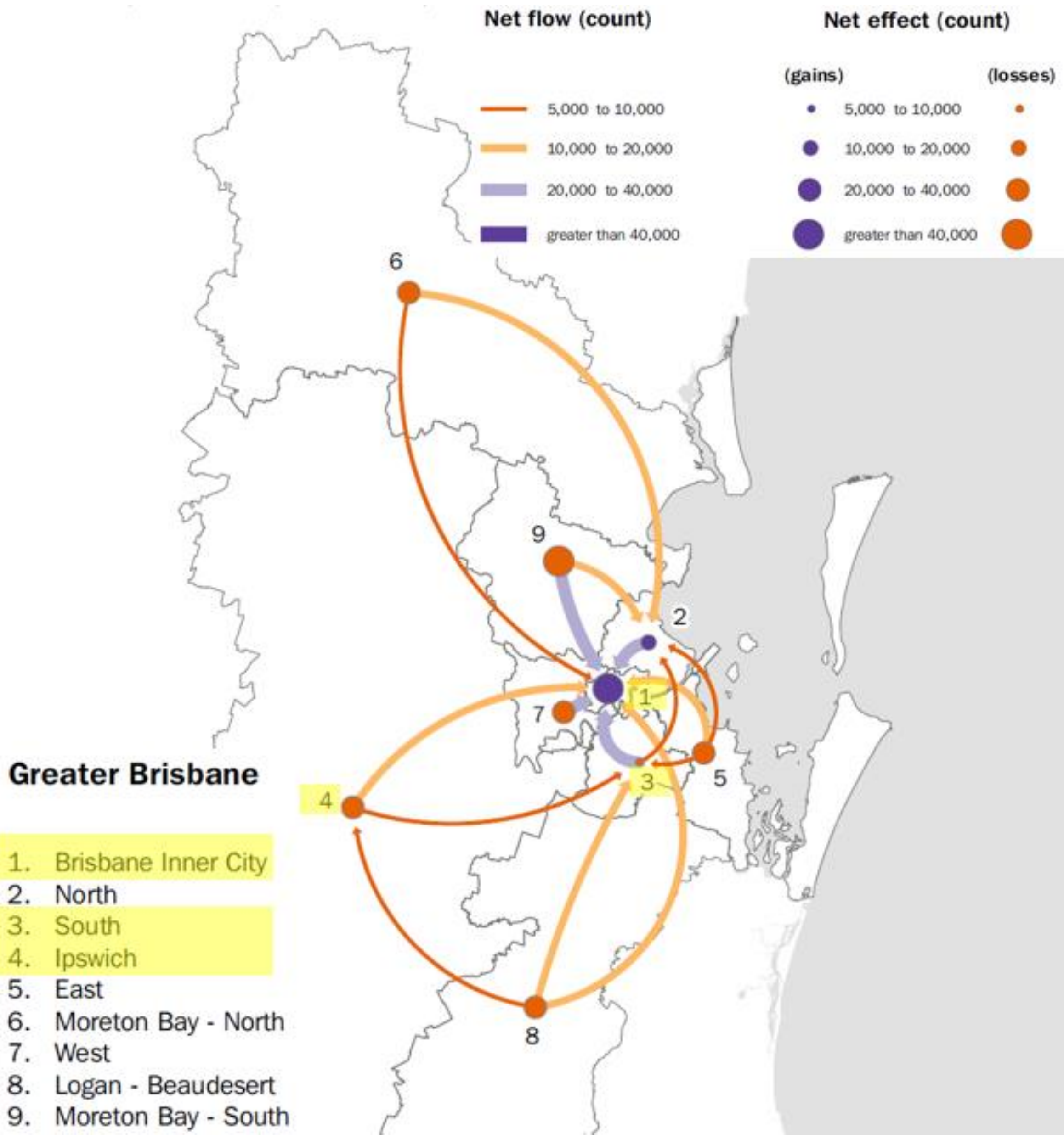
We have similarly compared the location of ECF's assets to ABS's Journey to Work data. Assets considered in the analysis include ECF's Queensland assets which represent 36% of ECF's portfolio.

As highlighted in Figure 12, ECF's assets are in the South (Upper Mount Gravatt, Cannon Hill), Ipswich and Brisbane Inner City (200 Adelaide St) regions. The Ipswich and South regions consist of less established office markets, with a net outflow of workers. Between 20,000 and 40,000 residents in the South and between 10,000 and 20,000 residents in Ipswich travel to the Brisbane Inner City for work. We estimate for every 1,000 workers that relocate to the South or Ipswich for work, an addition 11,500sqm of office space is required (equivalent to ~7% of Upper Mount Gravatt's total office stock).

There is also a small opportunity for the South and Ipswich to attract residents from nearby localities, including Logan and the East.

Overall, we believe ECF's assets should benefit from a rise in the hub and spoke model. With many residents in the South and Ipswich travelling to the Brisbane CBD for work, a relocation of corporate offices closer to the Ipswich and South population will positively impact the regions office markets.

Figure 12: Journey to work and location of ECF QLD assets



Source: ABS, 2016 Census of Population and House, Commonwealth of Australia. Cannon Hill and Upper Mount Gravatt included in the South SA4, 200 Adelaide St in the Brisbane Inner City and Limestone Centre in Ispwich.

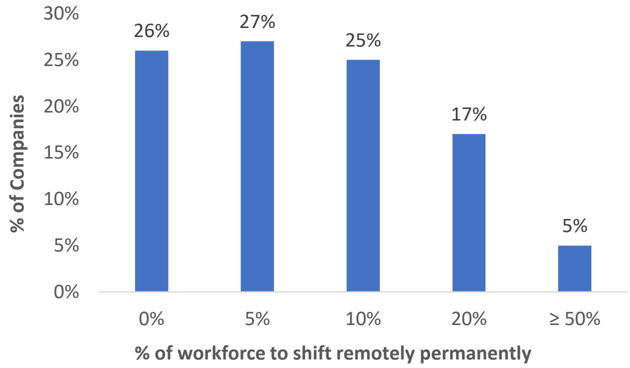
CBD vs Metro – Impact to Vacancy

We expect vacancy rates to rise across most office markets over the next three years as the impacts of COVID-19 are absorbed, however, we believe the impact will be much more subdued for the metropolitan office markets as the shift to the hub and spoke model partially offsets the decline in demand from COVID-19.

We believe the biggest threat to the office market over the medium term is 1) upcoming supply which is unlikely to be absorbed as the workforce stagnates or contracts; 2) the increase in subleasing space which has largely arisen from the shift to WFH; and 3) The shift to WFH which is likely to reduce the demand for office space.

Based on surveys conducted by Gartner (see Figure 13) and WeWork, we estimate office demand to fall by 15% across all markets as more people WFH.

Figure 13: COVID-19 accelerates WFH arrangements



Source: Ord Minnett forecast, Knight Frank, ABS, PCA

Figure 14: Main assumptions

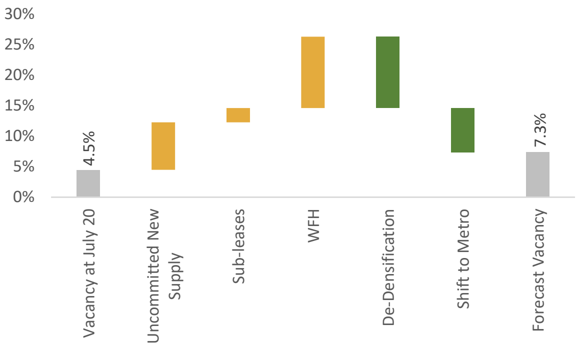
	Parramatta	Sydney CBD
Current Vacancy	4.5%	5.6%
Uncommitted supply not absorbed (% of new supply)	40%	30%
Sublease (% of existing supply)	3%	3%
WFH impact (% of existing demand)	-15.0%	-15.0%
De-Densification	10sqm to 11.5sqm	12sqm to 14sqm
Shift to Metro (% change in number of workers)	+8%	-5.0%

Source: Ord Minnett forecast. De-Densification – assumes tenants will require more space per person as a result of COVID-19

We have compared the Parramatta office market to the Sydney CBD (metro vs CBD). Our main assumptions can be seen in Figure 14. We forecast vacancy rates in Parramatta to increase from 4.5% to 7.3% (see Figure 15) over the next three years, a reversion to historical levels. We believe the biggest impact to vacancies will be upcoming supply (40% uncommitted) and organisations adjusting their space requirements as more people WFH. However, partially offsetting this is de-densification (as the space required per person increases) and the shift to metropolitan locations (as organisations decentralise). We note ~21% of residents in the Parramatta LGA travel to the Sydney CBD or North Sydney for work. We have made no adjustments to reflect the State governments plan to occupy a further 38,000sqm of space in Parramatta.

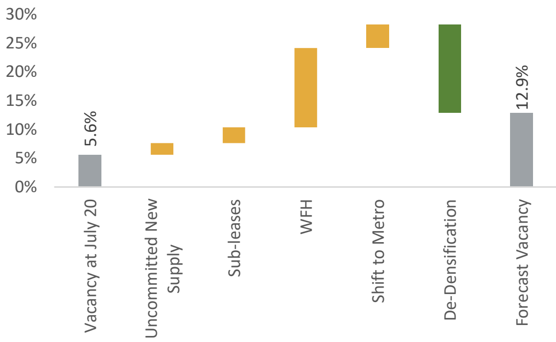
The impact to the Sydney CBD office market is forecast to be much more drastic (see Figure 16), with upcoming supply, WFH and the shift to the hub and spoke model all negatively impacting the Sydney CBD office market. We forecast vacancy rates in the Sydney CBD to increase from 5.6% to 12.9% over the next 3 years, significantly above historical vacancy rates of 7%.

Figure 15: Forecast impact to Parramatta vacancy rate



Source: Ord Minnett forecast, Knight Frank, ABS, PCA

Figure 16: Forecast impact to Sydney CBD vacancy rate



Source: Ord Minnett forecast, Knight Frank, ABS, PCA

Demand remains strong from investors

While concerns surrounding office vacancies and effective rents have increased as a result of COVID-19, investor demand for office assets continue to be supported by both domestic and offshore investors. Although shopping centre funds have struggled with redemption requests in 2019, it has been a different story for office funds, even during the pandemic. The Investa Commercial Property Fund (ICPF); an office fund focused on premium grade CBD assets across Australia, announced in 3Q20 that it had successfully raised $800 million in equity, above its initial target of $500 million following a $200 million capital injection from an offshore pension fund.

Interest from offshore investors has been particularly evident within the metropolitan office markets, with many of the direct property transactions occurring since March 2020 coming from Asian investors seeking exposure to non-CBD office markets. Examples include:

- Following Keppel Capital's new JV with Australian Unity in January 2020, its listed fund Keppel REIT acquired an A-Grade office building in Macquarie Park (Pinnacle Office Park) from Goodman Group in September 2020 for $306m reflecting an initial yield of 5.25%.
- Singaporean listed trust Ascendas REIT announced in September 2020 that it had acquired 1 Giffnock Avenue, Macquarie Park from Fraser Group and Winten Property Group for $167 million reflecting an initial yield of 6.1%. It is Ascendas fifth suburban asset in Australia.
- Japan's NTT Urban Development Corporation announced in April 2020 that it had acquired 200 Victoria Street, Carlton from Australian Unity's diversified property fund for $72 million, reflecting >20% premium to its last reported book value (October 2019).

We believe the demand for metropolitan office assets in Australia will continue and do not forecast any material expansion in cap rates over the short term. While there are concerns surrounding the income side, metro assets are being sold at book value. We believe there is a large gap between the listed and direct market and believe a private equity firm could profit from acquiring AOF and ECF at its current discount to NTA and progressively sell assets at book value.

ECF well positioned portfolio

We believe ECF is one of the better placed office REITs driven by its focus on quality tenants and exposure to metropolitan assets. This has translated into its result, with ECF reporting the highest rent collection (98% - see Figure 17) in the sector and exceeding its PDS guidance in FY20 despite the current environment. 88% of ECF's income is derived from ASX listed, multinational or government tenants, with ECF providing rental waivers to only 8 tenants during FY20 (1.3% of FY20 income). In addition, only 3% of ECF's leases are linked to CPI, with the remainder linked to fixed annual rent reviews of between 3% and 4%

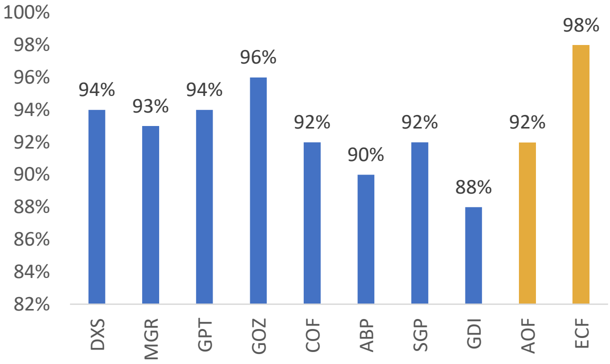
ECF's weighted average cap rate (WACR) was 6.9% at 30 June 2020, the highest amongst its office peers. We believe the higher cap rate will provide ECF with a buffer against cap rate expansion in the current low yield environment. ECF's portfolio metrics also stack up solidly relative to its peers, with higher occupancy (ECF 97% vs peer average 95%) and less lease expiries than the peer average (ECF 15% vs peer average 19% over the next two financial years).

Moreover, while we have conservatively forecast one-year downtime for all expiring leases, we still believe ECF can deliver a dividend yield of >9% over the next three years, which is one of the highest in the sector (albeit with a conservative payout ratio).

ECF is also one of only two ASX office REITs with no exposure to NSW and VIC, states which have been hardest hit by COVID-19.

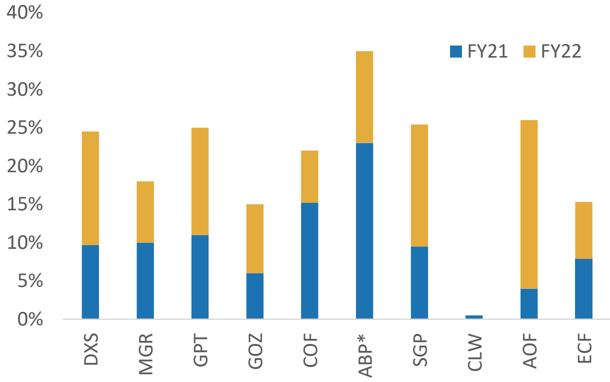
Over the medium term, we believe there is some development upside, in particular at Campus DXS in Adelaide and the Limestone Street Centre in Ipswich.

Figure 17: ECF reported the highest rent collection



Source: Company presentations. Includes Office portfolio only

Figure 18: ECF has less leases expiring over the next two years than peers



*Source: Company presentations. Office portfolio. *ABP Commercial*

We like AOF's exposure to Parramatta and Macquarie Park and believe AOF has development upside

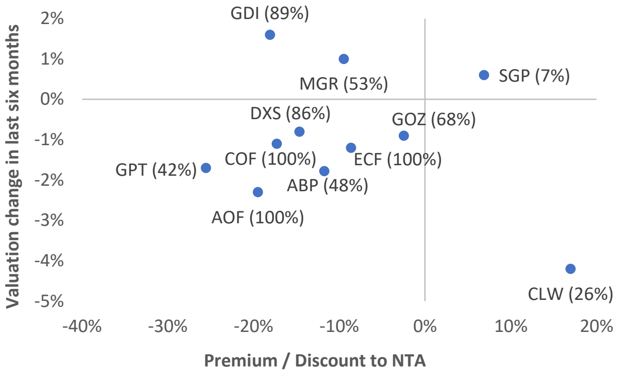
We believe AOF represents compelling value over the medium term despite 1) the negative sentiment surrounding the office market; 2) AOF's large expiries over the next two years and 3) AOF's liquidity profile.

Almost 50% of AOF's portfolio is exposed to Parramatta and Macquarie Park, with the exposure likely to grow as development progresses at 2 Valentine Ave, Parramatta. We believe Parramatta and Macquarie Park are ideal "Spoke" locations and should benefit from decentralisation. Parramatta is likely to benefit from the Government's "Decade of Decentralisation" policy to occupy 250,000sqm of office space in Parramatta by 2022 (currently committed to 212,000sqm of space). In addition, the NSW state government remains committed to building the States' biggest powerhouse museum in Parramatta, which is expected to add 3,000 jobs to the locality.

There is also development upside at 2 Valentine Ave, Parramatta. While early works have begun, major construction works will only begin once a pre-commitment is secured. Should the project go ahead, we believe the project could deliver an IRR of >12%. AOF advised that it expects the project to deliver NTA upside of between 20 and 40cps, of which 10cps has already been realised as a result of its recent revaluation.

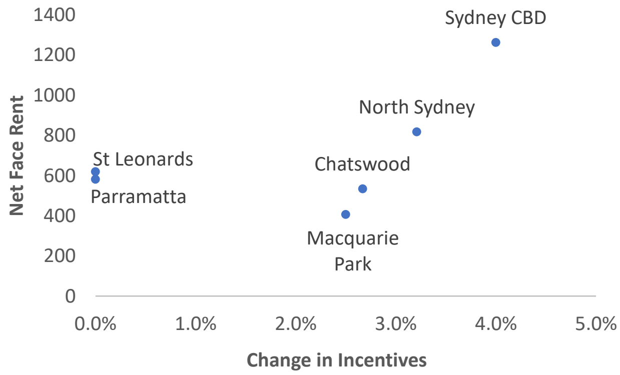
AOF looks attractive based on its discount to NTA. AOF trades at a 19% discount to NTA, one of the steepest discounts in the sector. In addition, AOF has been the most aggressive office REIT, writing down its assets by 5% (excludes its Valentine Ave asset) and independently valuing all its assets at June 2020.

Figure: Discount to NTA vs Valuation Change



Source: Company presentations, IRESS. In brackets each REITs Office Exposure

Figure 19: Office markets with higher face rents have been hardest hit thus far



Source: CBRE, Quarterly Change 2Q20

Comparison tables

Figure 20: ECF vs AOF

	AOF	ECF
Distribution Yield		✓
Distribution Growth		✓
Earnings Stability		✓
Better short term leasing risk		✓
Quality of Tenants		✓
Smaller exposure to SMEs		✓
Price to NTA	✓	
Development upside	✓	
Location of Assets	✓	
Quality of Assets	✓	
Potential take over target	✓	
Diversification	✓	✓
Fees	✓	
Management Team	✓	✓
Resources	✓	✓
Mitigates conflicts of interest	✓	

Source: Ord Minnett Limited estimates

Valuation and Risks

Elanor Commercial Property Fund

Valuation

Our target price for ECF is $1.08/share. We value ECF based 50% on our Sum of the Parts (SOTP) and 50% on our Dividend Discount Model (DDM) valuation.

Our SOTP valuation for ECF is $1.03/share.

The key assumptions for our SOTP's include;

- A cap rate of 7.1% (vs the current cap rate of 6.9%). While we do not expect cap rates to materially change in the short term, we have prudently forecast 20bps expansion driven by increased risk to earnings.
- A corporate cost multiplier of 8x.

Figure 21: Sum of the Parts Valuation

		$'m
Investment Property		
Book Value		373.5
Ord Minnett Cap Rate	7.1%	
MTM val incr/(decr)		-11.8
Total Investment Property		**361.7**
Corporate Cost	(3.3)	
Adopted multiple	8.0	**(26.4)**
Total Corporate Cost		
Less: Minorities		0.0
Total Enterprise Value		**335.3**
Less: Net debt		(125.7)
Total Equity Value		**209.6**
Shares on issue (m)		204
NAV per Share ($)		**$1.03**

Source: Ord Minnett Limited estimates

Our DDM valuation for ECF is $1.14/share.

Our key assumptions for our DDM valuation include;

- Risk-free rate of 3.0%,
- Market risk premium of 6.0%,
- Beta of 0.82,
- Cost of equity of 8.0%,
- Terminal growth rate of 2.5%,
- A WARR of between 3.6% and 3.7% over the next three years,
- Downtime of 12 months across all major lease expiries,
- LFL NPI growth of between -1.8% and 7.1% over the next three years,
- A WACD of 2.1% over the next three years.

Risks

The key downside risks include:

- A flight to quality, with ECF having a larger proportion of secondary assets relative to peers (but prime assets in their respective office precincts);
- Structural changes (eg shift to WFH), negatively impacting the demand for office space;
- The oversupply of office space in the markets in which ECF operates;
- Cap rates softening, resulting in valuation losses, a fall in NTA or a breach of debt covenants;
- Tenant defaults, an increase in uncollected rent or more tenants requesting rent relief;
- ECF's overweight to Queensland and Western Australia, economies which are heavily reliant on the resource and tourism industries;
- Lease expiries in FY24 and FY26. While lease expiries are well spread over the next 3 years, there are significant expiries in FY24 and FY26 (~70% of income);
- Elanor Investors Group (Investment Manager) being unable to refinance expiring debt facilities on underlying funds, negatively impacting the sentiment surrounding its managed funds;
- Workzone West - The lease with CPB Contractors expires in August 2025 and represents ~38% of the Trust's income. The site is currently ~30% over rented with CPB Contractors subleasing most of its space; and
- The management expense ratio rising above expected levels (assume MER of ~90bps).

The key upside risks include:

- A focus on cost cutting resulting in organisations shifting their workforce to non-CBD locations, positively impacting the demand for office space in markets in which ECF operates;
- A shift to the hub and spoke, increasing the demand for metropolitan office space;
- Cap rates compressing, resulting in valuation gains and a rise in NTA;
- Better than expecting leasing outcomes (i.e tenant renewal or limited leasing downtime – we have assumed 12 months downtime);
- ECF's overweight to Queensland and Western Australia, economies which are heavily reliant on the resource and tourism industries;
- The withdrawal of office stock in the markets in which ECF operates;
- The management expense ratio falling below expected levels (assume MER of ~90bps); and
- Better than expected rent collection; reversing some of ECF's bad debt provisions.

Australian Unity Office Fund

Valuation

Our target price for AOF is $2.28/share. We value AOF based 50% on our Sum of the Parts (SOTP) and 50% on our Dividend Discount Model (DDM) valuation.

Our SOTP valuation for AOF is $2.27/share.

The key assumptions for our SOTP's include;

- A cap rate of 6.4% (vs the current cap rate of 6.1%). While we do not expect cap rates to materially change in the short term, we have prudently forecast 30bps expansion driven by increased risk to earnings.
- A corporate cost multiplier of 8x.

Figure 22: Sum of the Parts Valuation

		$'m
Investment Property		
Book Value		669.7
Ord Minnett Cap Rate	6.4%	
MTM val incr/(decr)		-44.8
Total Investment Property		**624.8**
Corporate Cost	(5.3)	
Adopted multiple	8.0	**(42.3)**
Total Corporate Cost		
Less: Minorities		0.0
Total Enterprise Value		**582.6**
Less: Net debt		(212.3)
Total Equity Value		**370.2**
Shares on issue (m)		163
NAV per Share ($)		**$2.27**

Source: Ord Minnett Limited estimates

Our DDM valuation for AOF is $2.29/share.

Our key assumptions for our DDM valuation include;

- Risk-free rate of 3.0%,
- Market risk premium of 6.0%,
- Beta of 0.82,
- Cost of equity of 8.0%,
- Terminal growth rate of 2.5%,
- A WARR of between 3.6% and 3.7% over the next three years,
- Downtime of 12 months across all major lease expiries,
- LFL NPI growth of between -25.1% and 2.1% over the next three years,
- A WACD of 3% over the next three years.

Risks

The key downside risks include:

- AOF's short WALE (2.9 years vs peer average of 4.8 years), with key upcoming lease expiries including Property NSW's lease at 10 Valentine Ave, Parramatta (June 2022), Telstra's lease at 30 Pirie St, Adelaide (Feb 2023) and GE's lease at 32 Phillip St, Parramatta (June 2023).
- Structural changes (eg shift to WFH), negatively impacting the demand for office space;
- The oversupply of office space in the markets in which AOF operates;
- Cap rates softening, resulting in valuation losses, a fall in NTA or a breach of debt covenants;
- Tenant defaults, an increase in uncollected rent or more tenants requesting rent relief;
- AOF unable to sell 241 Adelaide Street, Brisbane or selling the asset at a significant discount to book value;
- AOF unable to find appropriate funding to development 2 Valentine Ave, Parramatta;
- Higher than expected debt cost;
- Major shareholder Hume Partners selling its 19.6% interest in AOF; and
- The management expense ratio rising above expected levels (assume MER of ~80bps).

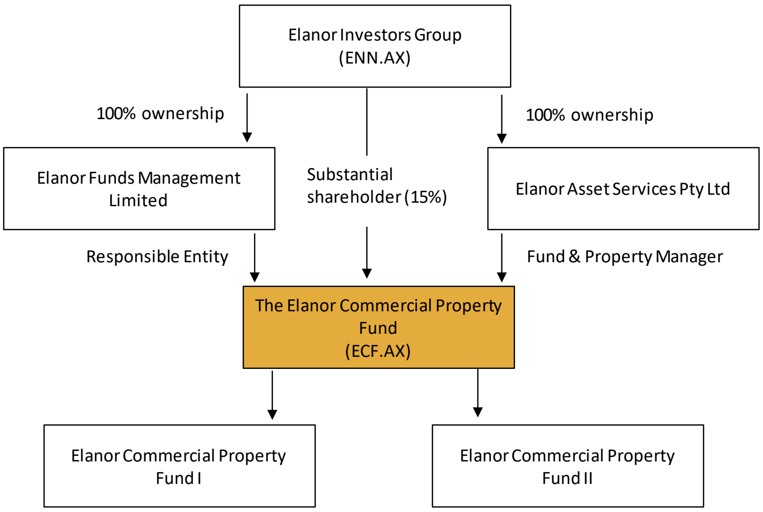
The key upside risks include:

- AOF securing a pre-commitment at 2 Valentine Ave, Parramatta resulting in potential development upside;
- A focus on cost cutting or a shift to the hub and spoke, increasing the demand for metropolitan office space;
- Cap rates compressing, resulting in valuation gains and a rise in NTA;
- Better than expecting leasing outcomes (i.e tenant renewal or limited leasing downtime – we have assumed 12 months);
- The withdrawal of office stock in the markets in which AOF operates;
- A takeover bid for AOF; given its history with Starwood, Charter Hall and Abacus Property Group;
- Better than expected debt cost;
- The management expense ratio falling below expected levels (assume MER of ~80bps); and
- Better than expected rent collection; reversing some of AOF's bad and/or doubtful provisions.

About the Trusts

Elanor Commercial Property Fund

Figure 23: ECF Trust Structure



Source: Company data, Ords.

The Elanor Commercial Property Fund is an externally managed ASX listed property trust that invests in 7 office assets spread across Australia, including Queensland, Western Australia, the ACT and South Australia. At 30 June 2020, ECF's portfolio was valued at $373.5 million.

ECF was established in June 2016 as an unlisted property trust and subsequently listed on the ASX in December 2019. The Fund focuses on commercial properties located in CBD and metropolitan precincts.

ECF is structured as stapled securities comprising of a unit in the Elanor Commercial Property Fund I and a unit in the Elanor Commercial Property Fund II.

Elanor Funds Management Limited (EFML) is the Responsible Entity of ECF, a wholly owned subsidiary of Elanor Investment Group (ENN). EFML is comprised of five directors; three of which are independent (including the Chairman). Elanor Asset Services Pty Ltd is the Manager of ECF, also a wholly owned subsidiary of ENN.

Elanor Investors Group

ENN is an ASX listed fund manager and property group with a market cap of over $145 million. Based in Sydney, the specialist real estate manager is responsible for managing 12 funds, including 2 ASX listed REITs (the Elanor Commercial Property Fund and the Elanor Retail Property Fund) with a combined gross asset value of over $700 million and 10 direct property funds valued at ~$980 million. ENN also directly owns a portfolio of hotel, tourism and leisure assets and co-invest in several of its managed funds.

Established in 2009 and listed on the ASX in 2014, ENN was formed by executives from Moss Capital. Elanor Investors CEO Glenn Willis was co-founder and CEO of Moss Capital.

ENN's substantial shareholders include Rockworth Capital; a Singaporean investment manager and Perpetual Limited. ENN employs 45 staff and owns a 15% interest in ECF.

ENN operates a hybrid model, with asset management and project/strategic leasing activities conducted in-house, while property management and broader leasing activities are outsourced. ENN has also grown its in-house development capability over the last 9 months, which has been a focus of its retail strategy.

Several of ENN's underlying funds have debt expiring in October 2020 (Bluewater Square Syndicate $26.7m and EMPR $36.6m – ENN own over 40% in each). Management has outlined they are confident these facilities will be renewed before maturity date. Although we recognise there is risk surrounding ENN, we believe ENN will successfully fund the debt expiry.

Management team

ECF is led by Co Head of Real Estate and Fund Manager David Burgess who joined ENN in January 2018. Mr Burgess has over ~20 years' experience in the real estate industry having previously worked at the GPT Group, Citi, Credit Suisse and Colliers International. Mr Burgess is supported by the broader Elanor Investors Group Management team, including Chief Executive Officer Glenn Willis, Chief Operating Office Paul Siviour, Chief Financial Officer Symon Simmons and Co-Head of real estate Michael Baliva.

While David Burgess also dedicates his time managing Elanor's other office and healthcare funds, Mr Burgess benefits from the ability to leverage off the broader resources of Elanor Group, in particular CEO Glenn Willis and COO Paul Siviour.

Valuation Process

ECF is required to conduct Director valuations every reporting date. Each property must be independently verified by an independent qualified valuer at least once every three years.

Where ECF believes the fair value of a property has materially changed (>5%), ECF is required to conduct independent valuations more frequently.

All assets were independently at IPO (October 2019). At June 2020, ECF independently valued four of its seven assets. This is a slight variation with ECF's office peers, who have generally independently revalued all their assets at June 2020. The independent valuations were conducted by JLL, Savills and CBRE. The valuation methodology adopted by the independent valuers include the capitalisation and discounted cash flow approach.

Acquisition Strategy

ECF takes a bottom up approach to acquisitions, with key consideration to sustainable cash flows and risk-adjusted returns. ECF is not geographically restricted and will consider all CBD and metropolitan markets. ECF currently has no exposure to the Sydney and Melbourne CBD, however does not rule out investing in these markets if pricing becomes attractive.

ECF will only acquire assets that are accretive to the fund (this includes assets that are accretive to earnings, total returns and WALE).

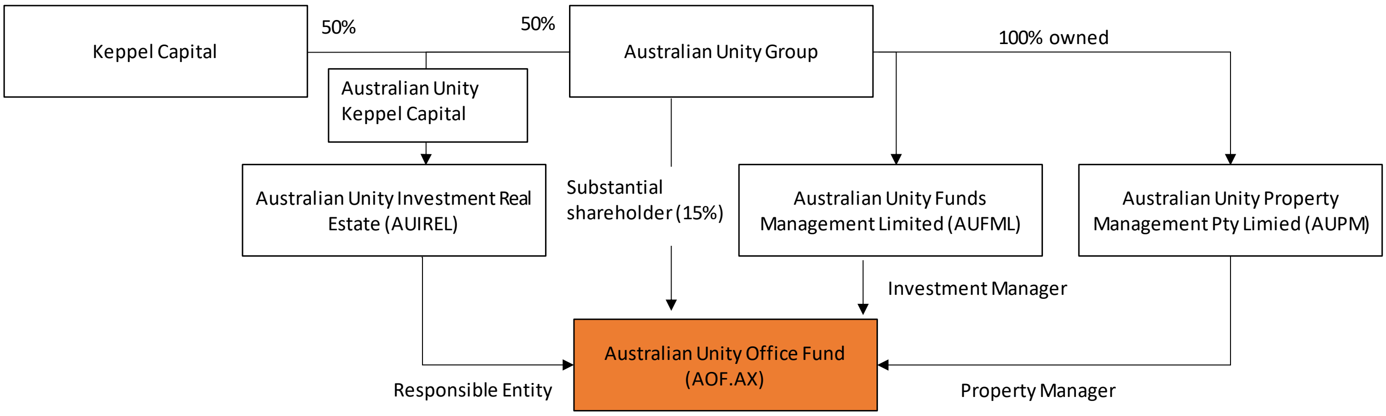
Although ECF is fundamentally a bottom up manager, ECF will typically target assets within the $70 million to $150 million range. This differentiates ECF from syndicates (which typically target assets <$100 million) and the larger office landlords with average assets values of >$200 million. ECF's biggest competitors include the Centuria Office Fund, the Australian Unity Office Fund and Charter Hall.

ECF may also consider fund-through development opportunities. While unlikely in the short term, ECF can undertake development opportunities but will seek to minimise development risk by entering fixed price contracts and ensuring projects are pre-committed.

With limited liquidity headroom and gearing at 35%, we expect future acquisitions to be funded by equity.

Australian Unity Office Fund

Figure 24: AOF Trust Structure



Source: Company data, Ords.

The Australian Unity Office Fund is an externally managed ASX listed property trust that invests in a portfolio of commercial property assets spread across NSW, QLD, SA, VIC and the ACT. At 30 June 2020, AOF was invested across 9 assets valued at ~$670 million.

AOF was established in 2005 as an unlisted property trust and, after undergoing a number of mergers with other unlisted trusts, was listed on the ASX in June 2016. Australian Unity has been responsible for managing the office fund since 2011, after it acquired the management rights for three unlisted property funds from Investa. AOF's investment objective is to provide unitholders with sustainable income returns via quarterly distributions and the potential for capital growth over the long term.

Australian Unity Investment Real Estate (AUIREL) is the Responsible Entity of AOF. AUIREL is owned by AUKC - a joint venture company created in January 2020 between Australian Unity Group and Keppel Capital. Keppel Capital is a listed Singaporean property group with more than $30b in assets under management. Keppel Capital's 50% acquisition of AUIREL was driven by its decision to deepen its footprint in Australia, with a focus on the Australian metropolitan office markets. Australian Unity Funds Management Limited (AUFML) is the Investment Manager of AOF, a wholly owned subsidiary of Australian Unity.

Australian Unity Group

Australian Unity was established in 1840 and is a national healthcare, financial services and retirement living organisation. Australian Unity is Australia's first member-owned wellbeing company (~260,000 members). In 2020, Australian Unity generated over $1.6 billion in revenue, with net assets of over $700 million. Australian Unity's operations are divided into 3 main divisions:

- **Retail** (41% of FY20 Group EBITDA) – comprised of Australian Unity's Private Health Insurance business, which had over 170,000 policyholders. It also includes the Group's $930 million banking business.
- **Wealth and Capital Markets** (21% of FY20 Group EBITDA) – includes the Group's Asset Management and Advice businesses. The Group has over $24 billion in assets and advice under management. The Wealth and Capital Markets platform is divided into the following business units; Advice, Investment, Life and Super, Property and Trustee Services.
- **Independent and Assisted Living** (38% of FY20 Group EBITDA) – comprised of the Group's residential communities (aged care and retirement villages), home care and disability services, remedy healthcare and dental services.

Australian Unity's history in the property sector spans over 20 years. Australian Unity Property is responsible for managing ~$3.5 billion in assets under management spread across 5 unlisted property funds and one ASX listed property fund (AOF). The

Australian Unity Healthcare Property Trust is Australian Unity's biggest fund with FUM totalling $2.2 billion.

Australian Unity operates a hybrid property model, with asset management conducted in-house, and leasing and property management functions predominantly outsourced. Australian Unity has a 15% interest in AOF. AOF's biggest shareholder is Hume Partners. Hume has progressively increased its stake in AOF throughout year, from 14.6% to 19.6%.

Management team

AOF is led by Fund Manager James Freeman, who joined AOF in February 2020. Mr Freeman has over 20 years' experience across the property and financial markets. Prior to joining Australian Unity, Mr Freeman was a Portfolio Manager at Mirvac Group, an Assistant Fund Manager at ICPF for Investa Property Group and was also previously employed at Stockland and Macquarie Capital Group. Mr Freeman is supported by the broader resources of Australian Unity Group, including 50 staff within the property division. Portfolio Manager Simon Beake and Senior Asset Manager Giovanna Reale are also heavily involved in the day to day operations of the Fund.

AOF benefits from its ability to leverage off the broader Australian Unity Group, in particular its 50 staff across the property platform. However, the backing of Keppel Capital is particularly important giving Keppel's access to capital sources and origination capabilities.

Valuation Process

Each property must be independently valued by a professionally qualified valuer at least once every 12 months. If a property is not externally valued at balance date, AOF performs an internal valuation. Where AOF believes there has been more than a 5% movement in asset values, AOF is required to conduct independent valuations more frequently.

AOF's independent valuers adopt both the discounted cash flow and capitalisation approach, (support from the direct comparison methodology) to determine the fair value of properties. At 30 June 2020, all AOF's assets were independently revalued. AOF's valuers included Savills, CBRE, Cushman and Wakefield and Knight Frank.

Acquisition Strategy

AOF has a strategy to provide further diversification of property and net operating income through new acquisitions. Acquisitions will focus on increasing or preserving forecast returns. AOF will actively assess on and off market opportunities on an ongoing basis.

AOF adopts a bottom up approach to acquisitions, with acquisitions of $70m+ targeted to ensure there is no overlap with AUI's other property funds. AOF has acquired one asset (150 Charlotte Street, Brisbane) since its listing in 2016.

AOF may consider development opportunities in circumstances where income risk can be substantially mitigated. AOF will not undertake speculative developments. Development opportunities must be pre-committed and risk mitigation strategies adopted before the commencement of any development activities.

AOF is considering a development opportunity at 2 Valentine Ave, Parramatta. A development approval has been received for the site (28,000sqm commercial office tower). The construction tender process has also been completed, with Buildcorp selected as the preferred builder. AOF will seek early works to reduce delivery risk and will obtain a pre-commitment before any major construction work begins.

We do not expect AOF to acquire any assets in the short term given its liquidity and discount to NTA. Future opportunities will focus on the 2 Valentine Ave development.

AOF may also consider the sale of property where it no longer meets AOF's objectives and strategy, or when incremental value can be obtained for AOF by the disposal.

Debt and Capital Management

Elanor Commercial Property Fund

Distribution Policy

ECF aims to pay out between 80% and 100% of the Fund's FFO every year. Distributions are paid on a quarterly basis. In FY20, ECF paid out 80% of its FFO; at the lower end of its target range. ECF also announced in September 2020 a 1Q20 distribution of 2.5cps and FFO per security of 3.13cps, reflecting a payout ratio of 80%.

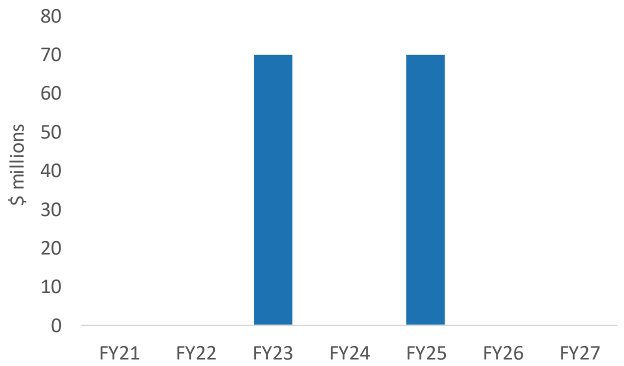
At 30 June 2020, 8 tenants (mostly retail tenants) were granted rental reliefs ($0.1 million expensed against FFO). A further $0.4 million has been recognised and expensed as a doubtful debt provision. While ECF's rent collection was the highest amongst its peers (98% vs peer average of 93%), we expect ECF to remain its conservative approach to capital management and forecast a payout ratio of 80% in FY21.

Debt Profile and Liquidity

In March 2020, ECF announced it had secured a new $140 million debt facility, which would be used to fund the acquisition of Garema Court, Canberra and repay all existing debt facilities totalling $65 million. The new facility comprises of a $70 million 3-year tranche and a $70 million 5-year tranche. As a result of the new facility, ECF's weighted average debt maturity has increased to 3.7 years, with no debt expiring until FY23. ECF also has a 3-year $7 million revolving debt facility.

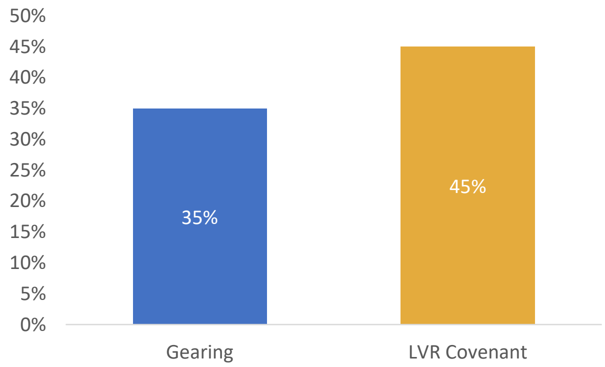
At June 2020, ECF's drawn debt was $132.8m (vs a total facility limit of $147 million). Available cash and debt facilities totalled $14.2 million.

Figure 25: ECF Debt Maturity Profile



Source: Company presentations

Figure 26: ECF Gearing



Source: Company presentations. LVR Covenant – Drawn debt / Portfolio Value

ECF is 35% geared, within its target gearing range of 30 – 40%. ECF's debt covenants include:

- A loan to value ratio of no more than 45% (vs our forecast of 35% in FY21)
- An ICR covenant of >3x (vs our forecast of 9.7x in FY21).

ECF's borrowings are hedged via interest rate swaps. At 30 June 2020, ECF was 100% hedged with a weighted average hedge maturity of 3.7 years. ECF targets an interest rate hedging range of between 70% and 100% of drawn borrowings. ECF's weighted average cost of debt (WACD) is expected to remain at 2.1% in FY21 (comprised of margins of ~1.4% and a fixed hedge rate of 0.7%).

ECF is in a sound financial position. ECF has no debt expiries until FY23 and has adequate headroom on its covenants (would have to record over a 20% decline in asset values before being in breach of its covenants). However, we note ECF only has $14m in cash and available debt facilities and would prefer to see a bigger liquidity buffer.

Australian Unity Office Fund

Distribution Policy

AOF aims to pay out between 80% and 100% of the Fund's FFO every year. Distributions are paid on a quarterly basis. In FY20, AOF paid out 88% of its FFO; at the mid-range of its target range.

Between April 2020 and June 2020, AOF collected 92% of its rent roll with 11% of tenants (by gross monthly income) requesting proportionate rent relief. No rental relief had been formally granted at 30 June 2020, however, a doubtful debt provision of $1.1 million has been recognised (~8% of 4Q20 gross income) and expensed against FFO. Given the uncertainties surrounding COVID-19 and AOF working through its rent relief request, we forecast a payout ratio of ~87% in FY21.

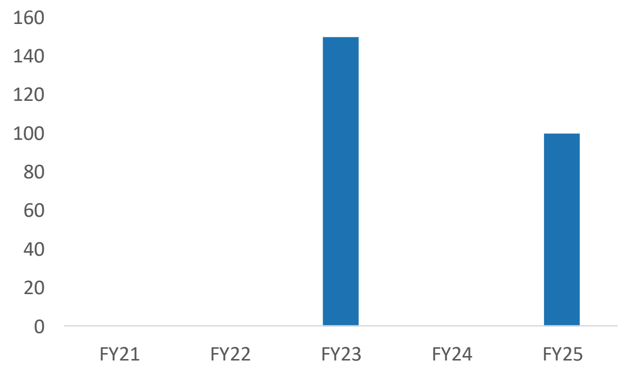
Debt Profile and Liquidity

AOF has entered into loan agreements with two banks (CBA and NAB) across three separate tranches. The loans are secured over the trust's investment properties and other assets. The debt facilities totalled $250 million, with $216 million drawn at June 2020.

AOF successfully refinanced $70 million of its existing facilities in March 2020, while also increasing its facility limit by $30 million. As a result, AOF was able to increase its weighted average debt maturity from 3.1 year to 3.5 years. AOF has no debt expiries until October 2022.

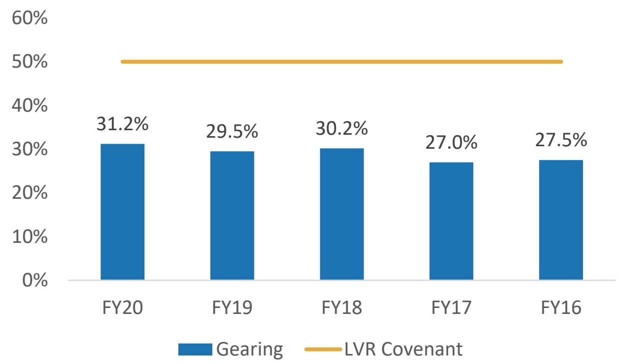
AOF had ~$40m in available cash and undrawn debt facilities at 30 June 2020.

Figure 27: AOF Debt Maturity Profile



Source: Company presentations

Figure 28: AOF Gearing



Source: Company presentations. LVR Covenant – Drawn debt / Portfolio Value

At 30 June 2020, AOF was 31% geared, within its target gearing range of below 40%

AOF's debt covenants include:

- A loan to value ratio of no more than 50% (vs our forecast of 33% in FY21); and
- An ICR covenant of >2x (vs our forecast of 4.3x in FY21).

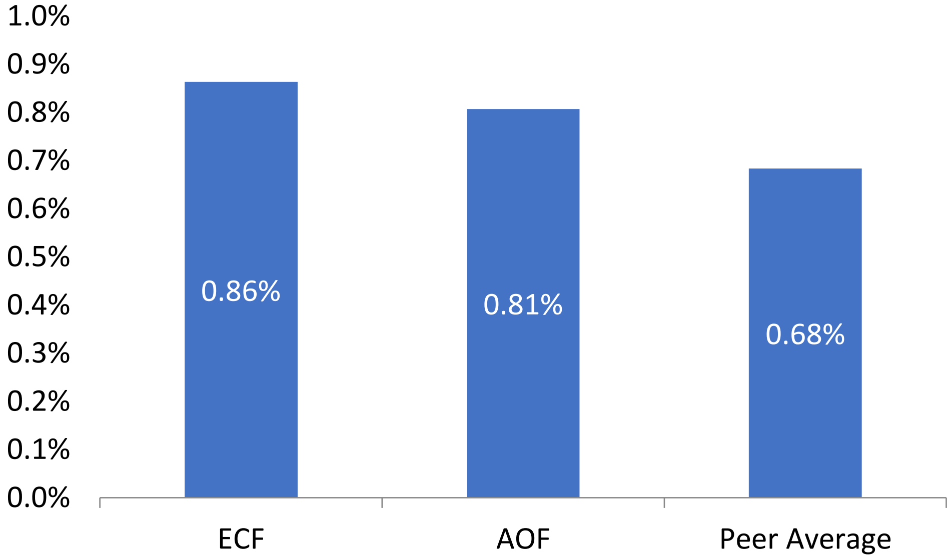
AOF's borrowings are hedged via interest rate swaps. At June 2020, AOF was 78.8% hedged with a weighted average hedge maturity of 4.1 years. AOF aims to hedge between 40% and 100% of its drawn borrowings and had a weighted average fixed rate of 1.7% at June 2020. AOF's WACD was 3.1% in FY20. We expect AOF's WACD to fall to 3.0% in FY21.

AOF is in a sound financial position. AOF has no debt expiries until FY23 and has solid headroom on its covenants. However, we note AOF has only $40 million in available liquidity, which is not sufficient to fully fund its development at 2 Valentine Ave, Parramatta. AOF will need to sell assets, increase funding facilities, find a capital partner and/or raise equity to fund the development of 2 Valentine Ave, Parramatta.

Fees

Ongoing Management fees

Figure 29: Management Expense Ratio



Source: Company data, Ords. MER ratio calculated as expenses other than property outgoings and interest expense divided by average assets.

Elanor Commercial Property Fund

Elanor Asset Services Pty Ltd is entitled to a base management fee of 0.65% of the Gross Asset Value of ECF. The fees will be paid from the income or assets of ECF monthly in arrears.

EFML and Elanor Asset Services Pty Ltd are also entitled to be reimbursed for expenses relating to the proper performance of their duties as RE and Manager. These costs are estimated to be ~0.21% of ECF's gross asset value.

The RE may not increase the management fees payable unless a special resolution is carried to vary the Constitution. A special resolution requires 75% of the votes cast by security holders.

If Elanor Asset Services Pty Ltd is removed as Investment or Property Manager of ECF, Elanor Asset Services Pty Ltd will be entitled to the equivalent of 24 months of the fees payable under the management or property agreement.

Australian Unity Office Fund

AUIREL is entitled to a base management fee of:

- 0.60% p.a of AOF's gross asset value up to and including $750m; plus
- 0.55% p.a of AOF's gross asset value in excess of $750m.

AUIREL is also entitled to be reimbursed for all costs, charges, expenses and outgoings incurred in the proper performance of its duties. These costs are estimated to be ~0.21% p.a.

AUIREL may not increase the management fees payable unless a special resolution is carried to vary the Constitution. A special resolution requires 75% of the votes cast by security holders.

If AUIREL is removed as the RE and not replaced by an entity related to Australian Unity, the new RE will be obliged to pay the equivalent of 24 months' property management fees to AUPM.

Other fees

Figure 30: Other Fees charged

	Range	Average	ECF	AOF
Performance fee	Capped at 0.35% - 0.4%	Capped at 0.38%	Capped at 0.35%	n/a
Property Management	1.5% - 4.0%	2.8%	3.0%	3.0%
Leasing Fees	7.5% - 17.0%	12.4%	11% - 15%	9% - 15%
Capital Works Fee	1.0% - 5.0%	4.8%	5.0%	5.0%
Acquisition/Disposal Fee	1.0%	1.0%	n/a	n/a
Disposal Fee	1.0%	1.0%	n/a	n/a

Source: Company data, Ords

Elanor Commercial Property Fund

Elanor Asset Services Pty Ltd is entitled to an annual performance fee if ECF outperforms both its 10% p.a total return (growth in NAV plus distribution) and 10% Total Shareholder Return (TSR) hurdle in a given financial year. The performance fee is subject to a high-water mark and is capped at 0.35% per annum of Gross Asset Value (GAV).

The fee is calculated based on 15% of the outperformance over the 10% p.a TR hurdle. The aggregate of the management and performance fee must not exceed 1% of GAV in any given financial year. Any excess performance fee (over the TR hurdle) will be carried forward and paid in subsequent financial years (the excess performance fee will still be paid in subsequent years if the fund underperforms its TR hurdle, but outperforms its TSR hurdle). If the Manager is replaced, the Manager becomes immediately entitled to all deferred performance fees.

The first performance fee (if any) will be payable after FY21, over the period from IPO date to 30 June 2021. We do not expect ECF to pay out any performance fees for the period from IPO to 30 June 2021 given its TR and TSR is likely to fall below 10% (see Figure 31).

Figure 31: Performance Fee Forecast

	IPO	FY20	FY21f	FY22f	FY23f	FY24f	FY25f
NTA ($)	1.19	1.16	1.06	1.02	1.11	1.20	1.26
Distribution (cps)		5.25	9.73	10.05	10.45	10.84	11.16
Forecast TR			1.4%	5.8%	19.5%	18.0%	13.7%
Meets TSR Hurdle			N	N	Y	Y	Y
Performance Fee Payable			n/a	n/a	1.4%	1.2%	0.6%
Performance Fee Paid			n/a	n/a	0.35%	0.35%	0.35%
Acccumulated			n/a	n/a	1.1%	1.9%	2.1%

Source: Ord Minnett Limited estimates

Ord Minnett is only aware of three REITs in the ASX300 Index that charges a performance fee. These REITs cap their performance fees at between 35bps and 40bps.

On top of its management and performance fee, ECF may be required to pay the following fees to Elanor Asset Services Pty Ltd:

- Property management fees of 3% of gross income
- Leasing fees ranging from 11% and 15% of the first years' gross rental income
- Capital works fee of 5%

ECF does not charge any acquisition or divestment fee.

Overall, ECF's fees are higher than its peers. Its MER of 0.86% is higher than the peer average of 0.68%. Moreover, ECF may charge a performance fee, which could materially increase its overall management fee. It is important to highlight ECF manages a much smaller portfolio than its peers. It is expected that as ECF grows it should be able reduce its MER.

Australian Unity Office Fund

AOF does not charge a performance, acquisition or divestment fee. However, on top of its management fees, AOF may be required to pay the following fees to AUPM:

- Property Management Fees of up to 3% of gross property income
- Leasing Fees of between 9% and 15% of the average annual gross rental income achieved under the term of the relevant lease
- A project supervision services fee of up to 5%% of the cost of the capital works.

Overall, AOF's fees are slightly higher than its peers. While its MER of 0.81% is higher than the peer average of 0.68%, its other fees are below (does not charge a performance fee and has lower leasing fees). AOF's GAV is also below the peer average. As such, as AOF grows, it is expected that AOF should be able reduce its MER.

Portfolio Overview

Figure 32: Peer Portfolio Metrics – at 30 June 2020

	Office BV $b	No. of assets	% Office	Avg Value $m	WACR	WALE	Rent Collection	Occ	Val. Change#	Lease Expiry FY21	FY22	FY23	FY24+
DXS	14.2	47	86%	302	5.0%	4.2	94%	97%	-1%	10%	15%	12%	24%
MGR	7.3	29	53%	251	5.3%	6.4	93%	98%	1%	10%	8%	7%	73%
GPT	6.1	25	42%	244	4.9%	5.2	94%	94%	-2%	11%	14%	16%	57%
GOZ	2.9	26	68%	111	5.6%	6.7	96%	92%	-1%	6%	9%	10%	67%
COF	2.1	23	100%	91	5.9%	4.7	92%	98%	-1%	15%	7%	18%	58%
ABP*	1.5	24	48%	62	5.5%	3.6	90%	92%	-2%	23%	12%	12%	53%
SGP	1.0	4	7%	250	5.8%	3.2	92%	94%	1%	10%	16%	16%	52%
CLW	1.0	11	27%	89	5.6%	8.4	93%	99%	-4%	1%	0%	6%	3%
GDI	0.8	5	89%	158	6.9%	2.7	88%	86%	2%				
AOF	0.7	9	100%	74	6.1%	2.9	92%	94%	-2%	4%	22%	37%	31%
ECF	0.4	7	100%	53	6.9%	4.3	98%	97%	-1%	8%	7%	3%	82%
Avg.	**3.4**	**19**	**65%**	**153**	**5.8%**	**4.8**	**93%**	**95%**	**-1%**	**10%**	**11%**	**14%**	**50%**

*Source: Company data. # Valuation change from December 2019. * Includes Retail leases in the lease expiry profile. Rent collected between April – June 2020*

Elanor Commercial Property Fund

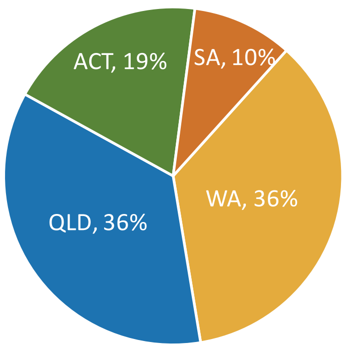
ECF was listed on the ASX in December 2019 with 6 assets and book value of $306.4 million. Since its listing, ECF has acquired an additional asset in the ACT for $71.5 million. At 30 June 2020, ECF was invested across 7 commercial property assets valued at $373 million.

As can be seen in Figure 33, ECF's assets are spread across QLD, WA, the ACT and SA, with no exposure to NSW or VIC (although Management has not ruled out investing in these markets). Assets are spread across CBD (Brisbane and Canberra), Fringe (Perth) and Metro markets. The average property value across ECF's portfolio was $53 million with an occupancy rate of 96.6%.

ECF's weighted average cap rate (WACR) was 6.9% at 30 June 2020, the highest amongst its peers (along with GDI). This was largely driven by its exposure to QLD and WA. ECF's portfolio metrics stack up solidly relative to its peers, with higher occupancy (ECF 97% vs peer average 95%) and less lease expiries (ECF 15% vs peer average 19% over the next two financial years) than the peer average. ECF also reported the highest rent collection (98%), with only 8 tenants granted rental waivers.

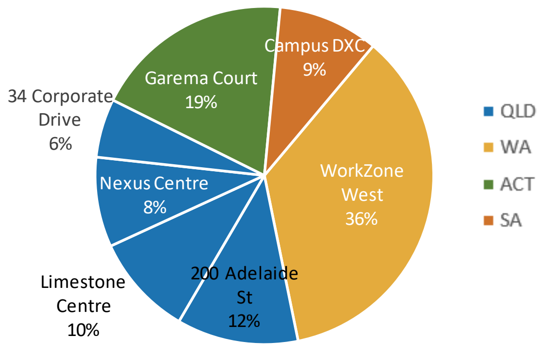
ECF is one of the few REITs with no exposure to Victoria. As such, ECF is likely to be more immune to the Stage 4 Lockdowns occurring in Victoria. ECF also has a large exposure to metropolitan and fringe assets (~70%), with a focus on resource heavy states i.e QLD and WA.

Figure 33: ECF's geographic exposure



Source: Company data

Figure 34: ECF's exposure by asset



Source: Ord Minnett Limited estimates

Leasing Profile

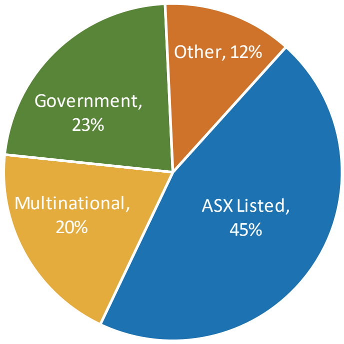
88% of ECF's income is derived from ASX listed, multinational or government tenants. Rental waivers granted by ECF in FY20 (8 tenants) accounted for 1.3% of income.

The majority of ECF's leases are subject to fixed annual rental escalations. Only 3% is linked to CPI (with majority of these leases having rachets). The weighted average rent review (WARR) on ECF's leases is 3.8%.

ECF's has ~15% of lease income expiring in over the next two financial years. While lease expiries over the next two years are less than peers, we note significant lease expiries in FY24 and FY26.

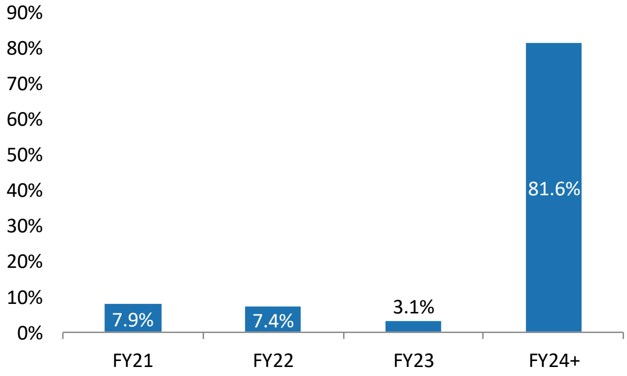
ECF's portfolio has demonstrated strong resilience against the impact of COVID-19 with rent collection totalling 98% at July 2020. ECF's focus on quality tenants (88% leased ASX listed, multinational or government tenants) has supported ECF through the current environment. Over the next year, ECF has 8% of lease income expiring. While ECF has conservatively factored in vacancies for these expiries, we believe the risk will be on FY22 earnings.

Figure 35: Tenant Composition



Source: Company data

Figure 36: Lease Expiry



Source: Company data

Workzone West

Workzone West is ECF's largest asset (36% of book value) and is located on the fringe of the Perth CBD. The property was valued at $133.3m at 30 June 2020 at a cap rate of 6.8%. ECF acquired a 51.5% equity interest in the Workzone West Syndicate in 2018, which acquired the Workzone West commercial property located at 202 Pier Street, Perth, Western Australia for $125.3 million from a Charter Hall unlisted fund. In 2019, ECF acquired the remaining 48.5% interest in the Workzone West Syndicate.

Workzone West was constructed in 2014 by CPB Contractors (formally known as Leightons) alongside its sister tower Workzone East. The two buildings span over seven levels and are A-grade office towers.

Workzone West has a NLA of 15,602 sqm and is fully leased to CPB Contractors, a wholly owned subsidiary of CIMIC Group; an ASX listed construction company with a market cap of over $6 billion. The lease with CPB Contractors expires in August 2025 and is subject to fixed rental escalations of 4%. There is a vacant retail tenancy (0.5% of income), which has been unoccupied since the building's construction (restrictive covenant – The Cutting Board lease does not allow the tenancy to be leased to another café or hot food provider). Approximately ~80% of the Workzone West building is sub-leased to Vocus, NBN, Perenti Group, Bethanie Group and Open Colleges. CPB Contractors currently pays a passing rent of $794psm, significantly above market rents of $425psm.

CPB Contractors has also leased 3 levels of the Workzone East building (47% of the buildings NLA). The lease similarly expires in August 2025 and is leased at $794psm. CPB Contractors does not occupy any of the space in the Workzone East building and have subleased level 1 and level 2 to the WA Government. Level 3 is currently unoccupied, with CPB marketing the space for sublease.

Workzone East is owned by the Corval Workzone Trust and is slightly smaller than the Workzone West building with a NLA of 12,362sqm. Telstra, BP and JDSI

Consulting Engineers lease out the remainder of the Workzone East building. JDSI Consulting Engineers' is currently marketing its space for sublease.

Workzone West appears to be significantly over rented with CPB Contractors sub-leasing a material proportion of their space within both the Workzone West and Workzone East buildings. We believe there could be a material rebasing of rents when the lease expires in FY26. We forecast rental reversions of -38% and downtime of 1 year when the lease expires in August 2025. There may be upside to our numbers if ECF can convert some of the existing subleases into direct leases which will reduce downtime on the asset.

Workzone West has a 5.5-star NABERS energy rating and comprises flexible floor plates averaging approximately 2,443sqm. The asset also has 138 parking bays.

Garema Court

Garema Court was acquired by ECF in February 2020 for $71.5 million (from Dexus Group) and is ECF's first asset in the ACT. The property was valued at $71.5m at 30 June 2020 at a cap rate of 6.5%.

Garema Court is a seven level, A-Grade office building in the Civic precinct of the Canberra CBD. The building also comprises of ground floor retail which was recently refurbished in 2019. Four retail shops currently occupy the ground floor. Two of those tenants have been provided rental support.

Garema Court is fully occupied and spans over 11,438sqm of NLA. The Commonwealth of Australia wholly occupies the office space (94% of income) with the lease expiring in March 2024. The building's leases are subject to fixed rental reviews of between 3.75% and 4.0%.

Garema Court has a 5-star NABERS energy rating and comprises flexible floor plates ranging from 1,225sqm to 1,841sqm, with full height windows. The property is leasehold titled and was built in 1997.

The average rent psm on the building is ~$480psm which is 17% above market rents. We have conservatively assumed that the Government will be vacating the premises when its lease expires in FY24, forecasting downtime of 1 year and rental reversions of -22%. We believe there could be upside to our forecasts, noting the Government has occupied the building since it was built in 1997 (originally occupied by DEEWR, now occupied by DRALGAS).

200 Adelaide St, Brisbane

200 Adelaide St, Brisbane was acquired by ECF in December 2019 for $44.2 million (from a Charter Hall unlisted fund), reflecting a cap rate of 6.75%. 200 Adelaide Street is a heritage office building located in the Brisbane CBD. 200 Adelaide St, Brisbane forms part of Anzac Square; a building comprising of six inter-connecting buildings constructed between 1931 and 1957. In 1999, Anzac Square was redeveloped and volumetrically titled as separate residential, retail, service apartment and commercial office components. ECF own two of the six inter-connecting buildings.

200 Adelaide St comprises 5,957sqm of NLA, including ground floor retail, basement level car parking for 22 vehicles, five upper levels of office accommodation and a rooftop function and terrace area. A capital works program was recently completed on the building including new lifts, lobby upgrade and tenancy improvements. A rental guarantee equivalent to $0.8 million was provided to ECF by Charter Hall when ECF purchased 200 Adelaide St in December 2019. Charter Hall will provide a 12-month leasing guarantee over vacant tenancies.

Hub Australia is the buildings largest tenant, representing 71.6% of income. Hub Australia occupies three levels (Level 4 – 6) and is Australia's largest privately-owned workspace operator. The lease with Hub Australia expires in November 2028 (with options to 2038).

Clemenger BBDO also occupies the building and represents 23.1% of the buildings income. Clemenger BBDO is a marketing communications company with agencies Melbourne, Sydney, Brisbane, and Wellington. The lease with Clemenger BBDO expires in April 2025. Excluding the guarantee, 200 Adelaide St is 78.6% occupied.

Two of the buildings retail tenants have been provided rental support.

With the rental guarantee expiring in December 2020, we believe the near-term risk will be the vacancy on Level 2. There may be an opportunity for existing tenants to expand their footprint in the building. We have assumed ECF will secure tenants for 50% of the vacancy by Dec 2020 at existing rents.

Limestone Street Centre, Ipswich

The Limestone Street Centre is located at 38 Limestone St, Ipswich, ~31km southwest from the Brisbane CBD. The Limestone Street Centre was acquired by ECF in December 2018 from an ENN managed Syndicate (the Limestone Street Centre Syndicate established in November 2015).

The Limestone Street Centre is located ~500m away from the Ipswich Hospital, which has been identified as a growing health precinct. The Queensland Government has committed to a 15-year Master Plan to redevelop Ipswich Hospital. Stage 1A of the Master Plan includes a MRI suite which opened in December 2019, a new 50-bed secure mental health unit (early works have commenced on the $91m facility) and a community health precinct.

The Limestone Street Centre is located on a 8,064sqm site comprising of two buildings with a NLA of 7,183sqm. While the building caters largely for office accommodation, there is 285sqm of retail space and 305 car bays. The site also includes ~1,000sqm of vacant land (with no value attributed to the land). At 30 June 2020, the building was valued at $36.3 million at a cap rate of 7.5%.

The property is in an area that had sustained flooding in the past. The building and liability insurance cover for that property has a sub-limit for flood related claims of $1.5 million in any one year.

The building is 93.6% occupied, with Government Entities representing 55.4% of total income. Expiries on the government leases vary. The Uniting Church also occupies a material portion of the building, representing 10.8% of income.

Although tenant retention has been strong for the asset since Elanor has managed the asset in 2015, we note vacancies fell slightly over the last 7 months from 97.6% to 93.6%. The Limestone Street Centre has large expiries in FY2022.

While the asset has some large expiries over the next two years, we believe it will benefit from the region's growing health precinct. ECF has outlined that it may seek to develop its vacant land into additional 2,000sqm of NLA, targeting pre-commitments from health service tenants. The asset has been valued at a cap rate of 7.5%, which is higher than most medical centres that are typically valued at sub 7.0% cap rates.

Campus DXC, Adelaide

Campus DXC was acquired by ECF in May 2018 from Centennial Property for $35 million at an initial yield of 7.9%. At 30 June 2020, the property was valued at $35.9 million at a cap rate of 7.3%. Campus DXC is a two-level campus style office building located in Felixstow; 6km north-east of the Adelaide CBD.

The building is located on a 12,240sqm site with 333 car bays and is surrounded by low density residential, a shopping centre (<500m from the site) and commercial businesses along Payneham Road. The Property is also within walking distance to multiple childcare centres, sports grounds and cafes and takeaway shops.

The building has a NLA of 6,288sqm and is fully leased to DXC Technology. The lease with DXC Technology expires in August 2025, with two five-year options.

DXC Technology is Fortune 250 company listed on the New York Stock Exchange (Ticker DXC.NYS). The company had a market cap of over US$4.5 billion at October 2020. DXC provides end-to-end IT services and solutions. DXC maintains a strong presence in Australia, winning the ACC Australian Legal Team (Large) of the Year award in 2019. In addition, DXC continues to expand in Australia, acquiring Bluleader; an Australian consulting company focused on delivering customer experience solutions in 2019.

Sole tenant DXC Technology suffered a blow in late 2019 when the South Australian Government scaled back its contract with DXC. However, DXC has wasted no time in its South Australian office, opening a new global digital transformation centre at the Felixstow campus, housing 150 digital technologists. DXC announced that they expect to grow their digital transformation centre to ~300 staff over the next 24 months.

We believe there is a strong probability that DXC Technology will renew its lease at Campus DXC before the end of its lease term, however have conservatively assumed one year downtime (DXC vacates) and rental reversions of -18%. With DXC planning to grow its footprint (from 150 to 300 staff) at Felixstow, we believe there may also be development upside for the asset.

Nexus Centre, Upper Mount Gravatt

Nexus Centre was acquired by ECF in 2017 from CorVal Partners for $29.75m. At 30 June 2020, the asset was valued at $32.1 million at a cap rate of 7.25%. The asset benefited from a 4% revaluation gain in the 7 months to June 2020, a result of Bunnings extending its lease at the Property. The Nexus Centre is a four-level freestanding office building located in Upper Mount Gravatt, ~13km south-east of the Brisbane CBD.

The Property is one of three institutional grade office buildings in the Upper Mount Gravatt sub-market (Charter Hall and Quintessential Equity own the other two institutional assets; i.e 28 MacGregor and The Garden Square Office Park). The building is located on a 6,455sqm site with 215 car bays. The site is adjacent to Club Southside and is surrounded by low to medium density residential. The building is within walking distance (<1km) to Westfield Garden City, which is anchored by Kmart, Coles and Aldi, and has over 350 stores (including retailers such as Zara and H&M). There is also a smaller retail precinct closer to the building (650m away), anchored by Coles and supported by several cafes and fast food restaurants.

The building has a NLA of 7,392sqm with large floor plates (2,005sqm). Bunnings and Coles occupies the majority of the building (29% and 28% of income respectively). In June 2020, ECF announced that Bunnings had extended its lease at the building by a further four years, with the lease now expiring in October 2024. Bunnings is an Australian hardware chain owned by ASX listed conglomerate Wesfarmers Limited.

The lease with Coles expires in December 2021. Coles is an ASX listed Australian supermarket, retail and consumer services chain. National Bank also occupies a reasonable proportion of the building (10% of income) which expires in January 2025.

With the Coles lease expiring in January 2021, the immediate focus for the Nexus Centre will be its upcoming lease expiry. We have assumed the Coles space will be vacate for a year upon lease expiry and will be re-let at slightly lower rents (-7%)

34 Corporate Drive, Cannon Hill

34 Corporate Drive is ECF's smallest asset and was valued at $21m at 30 June 2020 at a cap rate of 7.0%. 34 Corporate Drive is an office and warehouse asset located 6km East of the Brisbane CBD. The complex sits on a 12,930 sqm site and has an NLA of 5,313sqm. The asset was written down by ~7% in the seven months to June 2020, a result of pending lease expiries.

The property was last refurbished in 2011 on behalf of Optus. The property is located 280m from Cannon Hill train station and is within walking distance of various local restaurants and fast food eateries

The asset forms part of the Southgate Corporate Park in Cannon Hill. Southgate Corporate Park is one of Brisbane's newest high-tech business parks, with easy access to the Gateway Motorway. Major corporates in the Business Park include Canon, Westpac, Honeywell, Holden and Bayer.

34 Corporate Drive's major tenants include Optus (2,574sqm NLA/58% of income) and Kaelus (2,739sqm NLA/42% of income). Optus is owned by Singtel and is the 2nd largest tier 1 Australian telecommunications company with revenue of $9 billion in 2019. It provides various voice, wireless, internet and television telecommunications services. Its lease expires in June 2021.

Kaelus is a leader in the field of test and measurement instruments, BTS antennas, cell-site filters combiners and tower mounted amplifiers. It's lease at Cannon Hill expires in October 2020. ECF have advised that Kaelus will be vacating the Building by the end of 2020 and is currently marketing the space for lease. The Kaelus space features 1,732sqm of warehouse and 1,007 of office accommodation.

The Building has a 4.5-star NABERS Energy rating.

The Kaelus expiry is ECF's focus in the near term, with Kaelus vacating in October 2020. While the asset is slightly under rented (+4%), we have assumed the Kaelus space will remain vacant for one year – slightly above the PDS forecast of 9 months.

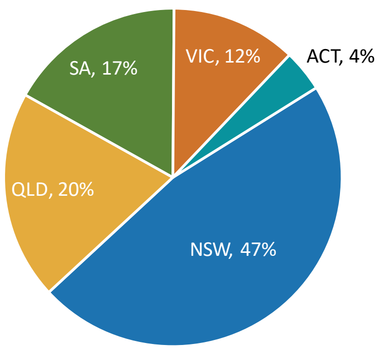
Australian Unity Office Fund

AOF was listed on the ASX in June 2016 with 8 assets valued at $391.1 million. Since its listing, AOF has acquired an additional asset, 150 Charlotte Street, Brisbane for $105.75 million. The asset was acquired in October 2017 at an initial passing yield of 6.7% and cap rate of 6.0%. At 30 June 2020, AOF was invested across 9 commercial property assets valued at $670 million.

AOF's assets are diversified across Australia, with exposure to NSW, QLD, SA, VIC and the ACT (see Figure 37). AOF has no exposure to WA, however Management has outlined it is an exposure that AOF may expand into in the future. Almost half of AOF's assets are in Metro markets with the remaining spread across CBD (41%) and Fringe (12%) locations. AOF has a large exposure to Parramatta, NSW (30%), which is likely to increase if AOF goes ahead with the development of 2 Valentine Avenue.

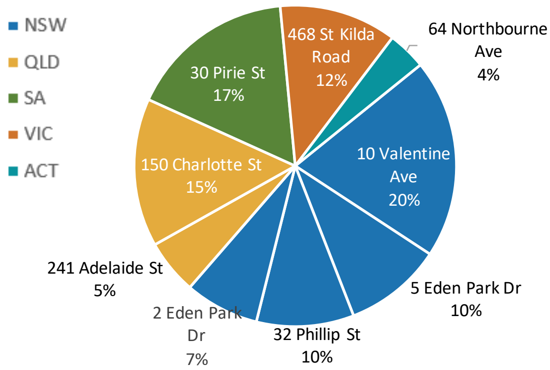
AOF's CBD exposures are focused around the smaller CBD markets, including the Brisbane, Adelaide and Canberra CBD. AOF has no exposure to the Sydney or Melbourne CBD, with AOF noting a significant discount between its assets and the Sydney CBD market (between a 51% and 71% discount on a gross effective basis). While AOF has not ruled out investing in the Sydney and Melbourne CBD markets, AOF highlighted it will continue to focus on metropolitan locations. This was reiterated in January 2020 when AU and Keppel Capital formed a partnership to focus on the Australian metropolitan office markets.

Figure 37: AOF Geographic exposure



Source: Company data

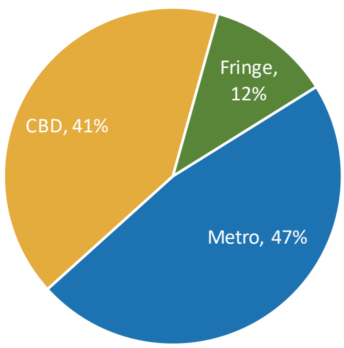
Figure 38: AOF Exposure by asset



Source: Company data

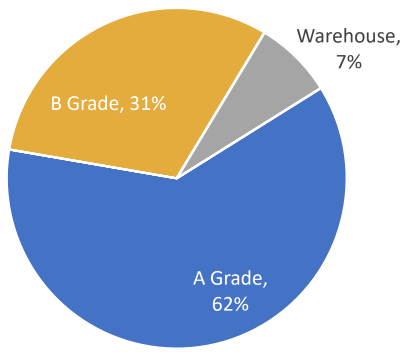
At 30 June 2020, AOF's WACR was 6.1%, above the peer average of 5.8%. AOF's exposure to the Adelaide CBD and B-Grade office assets drove the higher cap rate. Four of AOF's nine assets (62% by book value) are A-Grade office buildings, four B-Grade (31% by book value) and one (7% of book value) not graded. The average property value across AOF's portfolio was $74 million with an occupancy rate of 93.7%.

Figure 39: Location of assets



Source: Company data

Figure 40: Grade of building



Source: Company data

AOF's portfolio is focused around metropolitan locations, with a material exposure to Parramatta.

Leasing Profile

More than 60% of AOF's income is derived from Investment Grade tenants, including Telstra (24%), Government tenants (29%), Boeing Defence Australia (13%) and GE Capital (8%). However, at July 2020, ~15% of AOF's tenants (by monthly gross income) have requested proportionate rent relief under the code.

AOF received ~92% of its rent roll during 4Q20. While no rent relief has been formally documented at June 2020, AOF has recognised a doubtful debt provision of $1.1 million in FY20 (8% of 4Q20 gross income). This conservatively assumes that AOF will not recover any of its rent roll that is in arrears.

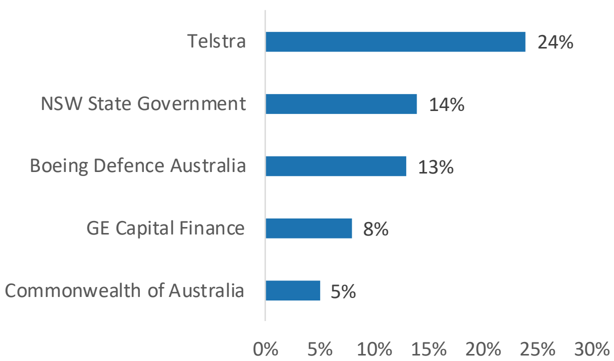
The majority of AOF's leases are subject to fixed annual rental escalations of between 3% and 4% (95% fixed, with the remaining subject to market reviews). The weighted average rent review (WARR) on AOF's leases is 3.8%.

AOF's has ~26% of its leases expiring over the next two financial years. AOF's biggest expiry over the next financial year is 2 Eden Park Drive, with 4 office/warehouse units expiring. AOF has advised a heads of agreement has been signed for one of the units.

While AOF has adopted conservative assumptions on its rental arrears (written off all rents in arrears in FY20), we believe there is still a material risk to FY21 earnings, with tenants requesting rental relief increasing from 11% to 15%. For every month the Government extends the Code of Conduct, earnings could be impacted by up to 1.3% (assuming tenants that fall under the Code receive 100% in waivers).

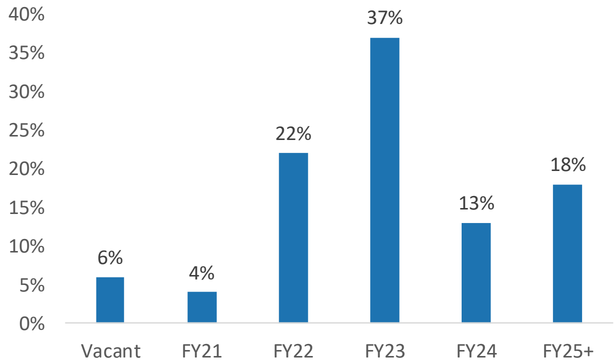
AOF also has substantial lease expiries in FY22, which could impact FY23 earnings.

Figure 41: AOF Top 5 Tenants



Source: Company data

Figure 42: AOF Lease Expiry



Source: Company data

10 Valentine Ave, Parramatta

10 Valentine Ave is AOF's largest asset and is centrally located in the Parramatta CBD, 20km west of the Sydney CBD. The property was valued at $134.5m at 30 June 2020 at a cap rate of 5.5%. The A-grade office building spans across 14 levels, with a NLA of 16,020sqm and is located ~200m from the Parramatta train station. The property is also within 200m of Westfield Parramatta, Australia's 10th largest shopping centre.

The building is 97% leased to the NSW State Government, with several state departments occupying the building. The lease with the NSW State Government expires in June 2022. The Property has been leased by the NSW State Government since the building's construction in 1987. There is also a café in the lobby (currently seeking rental relief). The building is currently 3% vacant.

The building was last refurbished in 2017 (foyer and bathrooms and the construction of end of trip facilities) and includes a 6-level freestanding car park (2 Valentine Ave). The car park is operated by Secure Parking however is currently being considered for development. Should the development go ahead, 10 Valentine will be left with 20 parking bays (plus parking from 2 Valentine once the development is complete). There however appears to be ample parking space with Secure Parking also operating nearby sites on Wentworth Street and Woodhouse Lane.

10 Valentine Ave has a 5.0-star NABERS Energy Rating and a 4.0-Star NABERS Water rating.

We believe there is a strong likelihood that the NSW State Government will renew its lease before it expires in 2022, noting 1) the State Government has leased the building since 1987; and 2) the State Government remains committed to growing the Parramatta CBD. We have conservatively assumed that the NSW Government will be vacating the premises in 2022 and have assumed one-year downtime and rental reversions of +8% in FY24. We believe there is upside to our forecast.

2 Valentine Ave, Parramatta

2 Valentine Ave is a 6-level car park operated by Secure Parking (provides parking for 282 vehicles). Secure Parking and AOF have agreed to a monthly lease contract. AOF is proposing to develop the site into a 24-level office building.

AOF has received DA approval to build a 28,000sqm A-Grade commercial office tower on the existing car park, including two outdoor terraces on levels 14 and 22. The proposed office building will have 1,235sqm floor plates with the design to incorporate a 5.5 star NABERS Energy and 6 Green Star rating.

AOF has completed the construction tender process and selected a preferred builder for the project (Buildcorp – A family owned commercial construction business who were recently involved in the $45m refurbishment of 347 Kent Street, Sydney). AOF will also conduct early works (~$1m spend) on the site to reduce delivery risks.

AOF have outlined that it will seek a pre-commitment before beginning major construction works. The project is expected to have a build time of 2 years with an estimate end value of $300m and yield on cost of ~7%. 2 Valentine and 10 Valentine are under one title.

In June 2020, the ATO submitted a brief for between 16,000 and 19,000sqm of office space in Parramatta. The ATO's lease at Jessie Street Centre, Parramatta expires in March 2023. We believe this could be an opportunity for AOF to secure a government tenant at its development site.

AOF is still seeking a pre-commitment on the proposed development site. Should AOF be able to secure a major tenant, we believe the development could deliver an IRR of at least 12%. We note a number of projects are due for completion in Parramatta in 2023 including 6 and 8 Parramatta Square and 140 George Street.

30 Pirie Street, Adelaide

30 Pirie Street is an A-Grade office building located in the Adelaide CBD. The asset was valued at $112m at June 2020, with a cap rate of 7.125%. 30 Pirie Street is AOF's only asset in Adelaide and spans over 23 levels across 24,665sqm of NLA. The building was constructed in 1987 and underwent an extensive refurbishment in 2012 (c$19m) which included lobby, toilet and common amenity refurbishments, lift upgrades and the construction of end of trip facilities. The ground floor comprises of casual waiting areas as well as a café and internal and outdoor dining areas. The building currently has a 4 Star NABERS Energy Rating.

The building is located within the heart of the CBD and is <1km from the Adelaide Railway Station, ~250m from the Adelaide GPO and ~400m from Rundle Mall.

The building is predominantly leased to Telstra (92% of NLA), who currently maintains a head lease over the Ground Floor to Level 21. Telstra is Australia's largest telecommunications company and is a member of the S&P/ASX 20. Telstra had previously leased the entire office building, however, in February 2017 exercised its right to hand back two floors. Telstra has also sublet 5 levels (~21% of NLA) to tenants such as TSA Group and Kineo. The lease with Telstra expires in February 2023. Australian Unity currently occupies part of level 22 (2% of income), with the lease expiring in November 2023.

A vacancy currently exists on level 22, with the space spec fitted. Level 23 is also vacant and offers an open plan space that is yet to be fitted. The building had a total vacancy of ~960sm (4% of NLA)

There is a risk that Telstra will significantly reduce its floor space when its lease expires in February 2023. AOF have advised that they maintain an active dialog with Telstra and may convert existing sub leases to direct leases should Telstra choose to return some space (prior to lease expiry). We have conservatively forecast downtime of 1 year and rental reversions of -17%.

150 Charlotte Street, Brisbane

150 Charlotte Street is AOF's most recent acquisition. AOF acquired the asset in October 2017 for $105.75m at cap rate of 6.0%. At June 2020, the asset was valued at $100m at a cap rate of 6.0%. 150 Charlotte Street is an A-Grade office building located in the midtown precinct of the Brisbane CBD. The building spans across 16 levels with a NLA of 11,081sqm. The building also includes 3 levels of basement parking, providing 102 car parking bays and 13 motorbike bays.

The building was constructed in 1987 and underwent a $21m refurbishment in 2012. The refurbishment involved an upgrade of all bathrooms, an extensive refurbishment of the ground floor including the foyer, meeting rooms and café, as well as lift modernisation, construction of end of trip facilities and the installation of a building management system.

Boeing Defence Australia and the Commonwealth of Australia are anchor tenants in Building. Boeing Defence Australia occupies 81% of the building (levels 2 to 15), with its lease expiring June 2024. Boeing Defence Australia is a 100% owned subsidiary of Boeing within the Boeing defence, space & security business unit. The company has 2000 employees over 14 Australian sites. Boeing is well entrenched in the building (we believe Boeing has spent significant CAPEX in the building). Moreover, AOF has spent between $400,000 to $500,000 on upgrading the fire stairs and security of the building over the last year. The Commonwealth of Australia occupies 13% of the building, with its lease expiring in June 2022. The building is 2% vacant.

The building sits adjacent to Brisbane's the 'Golden Triangle' which is within close vicinity to major bus/train networks and is 300m from the Eagle Street pier for ferry services. The asset is located 350m from Queen Street mall which is anchored by retailers such as Coles and David Jones and boasts a total of 700 other stores.

We believe there is a strong likelihood that Boeing Defence Australia will renew or extend its lease before it expires in June 2024 given the CAPEX spent by both Boeing and AOF on the building. However, we do note that the asset is >20% over rented. The biggest upcoming risk is the Commonwealth of Australia expiry in June 2022 (13% of NLA).

468 St Kilda Road, Melbourne

468 St Kilda Road is a free-standing B-Grade office building located 5km from the Melbourne CBD. The Property is located in the established Melbourne fringe office market on St Kilda Road and is AOF 3rd largest asset (by NLA – 11,211sqm). The property was valued at $79.0m at June 2020 at a cap rate of 5.25%.

The building was constructed in 1985 and refurbishments have been carried out progressively on the asset since 2010. The property sits on St Kilda road which is an established commercial and residential precinct located 3km south of Melbourne CBD. The property comprises of 13 levels including two basement car parking levels and has water views of Albert Park Lake from the upper levels. The ground floor also contains a dentist and coffee shop.

The building is located alongside the South Yarra tram line directly adjacent to the Leopold Street/St Kilda Road tram stop which has direct services to the Melbourne CBD. The property is leased to a large number of smaller tenants, with the lease expiry profile well spread. However, as a result of the assets exposure to smaller tenants (SMEs who fell under the Code of Vonduct), the property was written down ~4% in 2H20. The assets largest tenant is EGA corporate advisors (11% of NLA), a company that offers business/finance advisory services in in banking, tax, property, estates, M&A and accounting. There are also a large number of property companies (Fawkner Property, Capitol Property Group, APD Projects, Brilliant Real Estate, Cropley Commercial) and Mortgage Brokers (Port Finance Group, Broker Hub, OwlBroker, Michael Sudarski, Patrick Morgan) in the building.

The building is currently 8% vacant, with 700sqm available on level one. A Suite on level 8 (400sqm) is also vacant.

Given the Stage 4 lockdown in Melbourne and 468 St Kilda Road's relatively high exposure to SMEs, we expect some earnings and valuation risk to the asset in the short term.

5 Eden Park Drive, Macquarie Park

5 Eden Park Drive was acquired by AOF in February 2014 and is comprised of predominantly office accommodation, with a warehouse area. The building was valued at $70m at the 31st of August 2020. An out of cycle independent valuation was prepared for the asset in August, following the completion of a lease restructure which resulted in valuation uplift of +6%.

The building is located in an established commercial precinct (Macquarie Business Park) in Sydney's North Shore; 15.5km away from the Sydney CBD. The property comprises of three levels of office accommodation, with an adjoining single level hi-tech production and warehouse area.

The Ground Floor and Level 1 were purpose built for major tenant Contract Pharmaceutical Services Australia (CPSA subsequently acquired by Aegros), with separate lift lobby/entrance and 5.4 metres ceiling heights.

Following Aegros' acquisition of CPSA, AOF successfully completed a lease restructure which included:

- CPSA surrendering its Level One lease (2,593sqm).
- Salunda Medical (a global medical device company) directly leasing Level One from AOF, with the lease extended by a further three years to June 2029.
- Aegros (a biotech company) will maintain the Ground Floor warehouse and production facility lease (4,426sqm) to 30 June 2026.

The building spans across 11,029sqm of NLA and incorporates a wide range of energy efficient features (4.5 stars NABERS energy rating).

The recent lease restructure has been a positive outcome for AOF, with the next big lease expiry occurring in August 2022 (Commonwealth of Australia).

32 Phillip Street, Parramatta

32 Phillip Street is AOF's third asset in Parramatta. The asset was valued at $65.5m at a cap rate of 5.5% at 30 June 20. The free-standing B Grade office building has 8 levels with a NLA of 6,750sqm. There are also 104 car parking bays spread across levels 1 to 4. The site is located adjacent to three parking lots including metred parking, Secure Parking and Riverbank Car Park.

32 Phillip St is located within the northern portion of the Parramatta commercial precinct, less than 200 metres away from Parramatta River. The property is surrounded by numerous restaurants, gyms and general retailers, given its proximity to the Church Street retail strip (one block away). The asset is within a 10-minute walk to Westfield Parramatta and the Parramatta train station.

The property was last refurbished 2013 when AOF secured GE Capital Finance as its sole tenant. GE Capital Finance is part of the larger conglomerate General Electric and is focused on financing customers and markets aligned with GE's industrial business. GE Capital Finance services the aviation sector with 245 customers in 75 countries. The lease with GE expires in June 2023, which is currently subject to fixed annual rental increases of 3.5% p.a.

The asset should benefit over the medium term from the State's proposed Parramatta Powerhouse, which is located adjacent to the Property. The Powerhouse Museum in Parramatta is expected to add 3,000 jobs and be completed in mid-2024.

In the near term, the lease with sole tenant GE Capital Finance expires FY23. We have assumed one-year downtime and rental reversions of -10%.

2 Eden Park Drive, Macquarie Park

2 Eden Park Drive was acquired by AOF in June 2013 and is comprised of office and warehouse space. The property was valued at $50 million at June 2020 at a cap rate of 6.25%.

The Property was built in 1999, incorporating three levels of office space at the front of the building and two levels of warehousing to the rear. There are 16 individual office/warehouse units on the Ground Floor and Level 1 and a further 8 office suites on level 2. A total of 188 car parking spaces are available on site, including 118 car parking bays on the basement level and 70 external car parking spaces.

2 Eden Park Drive is located within the Industrial precinct of the Macquarie Business Park on Sydney's North Shore, 15.5km from the Sydney CBD. The property is 450m from the Macquarie Park railway station on the Chatswood to Epping railway link.

The Building has a NLA of 10,345sqm. Its major tenant is NuSkin Australia, a premier Australia "natural" skin cosmetics brand with over 200 products and routinely featured in prestigious magazines such as WHO and Vogue. Tenant exposure and lease expiries are well spread. Four of the Property's units expire in FY21. A Heads of Agreement has been signed on one of the asset existing vacancies (Unit 14) in addition to one of the assets upcoming expires (Unit 8).

2 Eden Park has no NABERS Energy rating given its significant warehouse component.

While 2 Eden Park has several expiries in FY21, AOF appears to be progressing with a number of its leases (two HOAs signed). The demand for industrial space remains strong, which should support the asset. Management has advised that they are investigating development opportunities for the asset.

241 Adelaide Street, Brisbane

241 Adelaide Street, Brisbane "Brisbane's Club Tower" is AOF's second smallest asset (by value) and is located within the centre of the Brisbane CBD. The property was valued at $36.75m at June 2020 at a cap rate of 7.25%. The B grade office building was completed in 1988 and has been progressively refurbished since 2012. It is comprised of 4 levels of basement car parking allowing for 90 vehicles, foyers to the ground and first levels, retail tenancies and 19 levels of office accommodation. Each floor (excluding ground) provides column free space with typical floor plates of 509sqm. The Buildings NLA totals 10,075sqm.

The Property has a large number of smaller tenants (a material portion fell under the Code of Conduct) and as a result, was written down >10% in 2H20. The Property houses the Brisbane club which is Brisbane's premier private club and is 86% occupied.

The property is located 160m from Brisbane's Central train station and 500m from the Riverside Ferry Terminal. It is 190m from Queens Plaza shopping mall anchored with companies such as Coles and David Jones and extending to high end retailers from Chanel and Gucci.

A sales campaign has commenced on 241 Adelaide Street, with AOF citing its leasehold (43 years left) as the main reason for the planned divestment. The funds from the divestment may be used to fund the development of 2 Valentine Ave, Parramatta.

64 Northbourne Ave, Canberra

64 Northbourne Avenue is AOF's smallest asset (by value/NLA) and located within the Canberra CBD 3 blocks from City Hill. The property was valued at $25.9m at June 2020 at a cap rate of 7.25%. The B grade office building is comprised of 6 levels spread across 6,429sqm of NLA and has been progressively refurbished since 2012 with upgrades to mechanical services and refurbishments of bathrooms. Its major tenant is the Commonwealth of Australia and Defence Force Recruiting. The property was 77% occupied at 30 June 2020.

The property is located ~50m from Alinga Street train station, is in walking distance of numerous gyms, parks, restaurants, bars and shopping centres including the Canberra Centre (<300m distance), which is anchored by Myer, David Jones, ALDI and 299 other supporting retail stores.

The Property is currently 22.7% vacant and although there are opportunities to enhance income via increase occupancy, we note significant vacancy in the CIVIC precinct for secondary assets (17.3%).

Financials

EPS and DPS Forecast

Below are our EPS and DPS forecasts for AOF and ECF. As can be seen in Figure 43, we believe ECF will deliver more stable earnings and growth over the next three years.

Figure 43: Forecast

	FY20A	FY21E	FY22E	FY23E	FY21 Guidance	Comments
FFO Per Share (cps)						
AOF	17.0	17.3	18.1	11.5	Implied FFOPS of between 15.0 and 18.8cps	
ECF	6.6	12.2	12.0	12.4	Guided to 12.0cps	
FFO Per Share Growth						
AOF	-2.9%	2.1%	4.6%	-36.3%		FY23 - fall driven by 10 Valentine and 30 Pirie St expiries. We assume 12 months downtime
ECF	n/a	85.2%	-1.6%	4.0%		FY22 - fall driven by Cannon Hill and Limestone expiries. We assume 12 months downtime
DPS (cps)						
AOF	15.0	15.0	15.4	9.8	Guided to 15.0cps	
ECF	5.3	9.7	10.1	10.5	Implied DPS of between 9.6 and 12.0cps	
Payout Ratio						
AOF	88%	87%	85%	85%		
ECF	80%	80%	84%	84%		Payout increases to smooth DPS growth
DPS Growth						
AOF	-5.1%	0.0%	2.6%	-36.3%		
ECF	n/a	85.3%	3.3%	4.0%		

Source: Ord Minnett Limited estimates. Implied FFO and DPS based on stated payout ratio

Key assumptions

The key assumptions for our forecast are below in Figure 44:

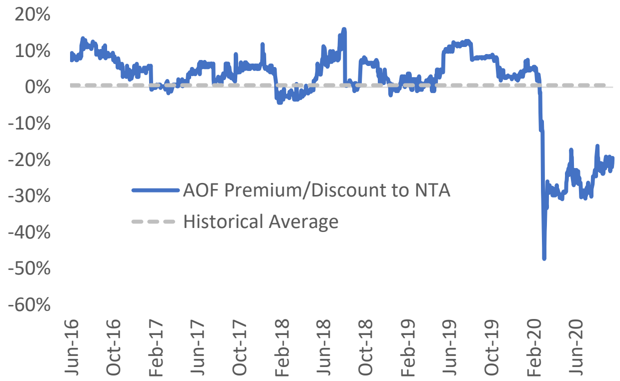
Figure 44: AOF Forecast

	FY20A	FY21E	FY22E	FY23E	Notes
LFL FFO Growth					
AOF	-1.2%	-1.0%	3.1%	-25.1%	FY23 - fall driven by 10 Valentine and 30 Pirie St expiries. We assume 12 months downtime
ECF	n/a	1.4%	-1.8%	7.1%	FY22 - fall driven by Cannon Hill and Limestone expiries. We assume 12 months downtime
Management Expense Ratio					
AOF	0.81%	0.80%	0.80%	0.80%	
ECF	0.86%	0.90%	0.90%	1.24%	FY23 - Assumes Performance fee paid
WACD					
AOF	3.1%	3.0%	3.0%	3.0%	
ECF	2.2%	2.1%	2.1%	2.1%	

Source: Ord Minnett Limited estimates

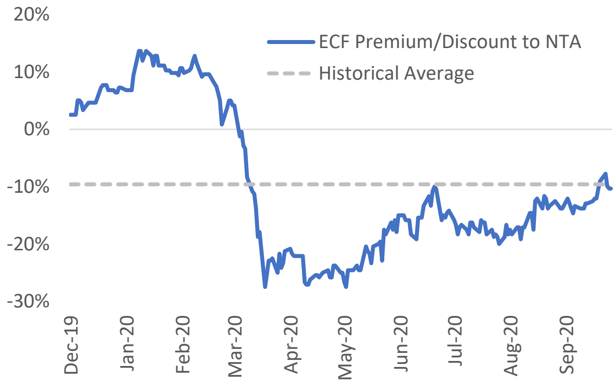
Key Charts

Figure 45: AOF Price to NTA



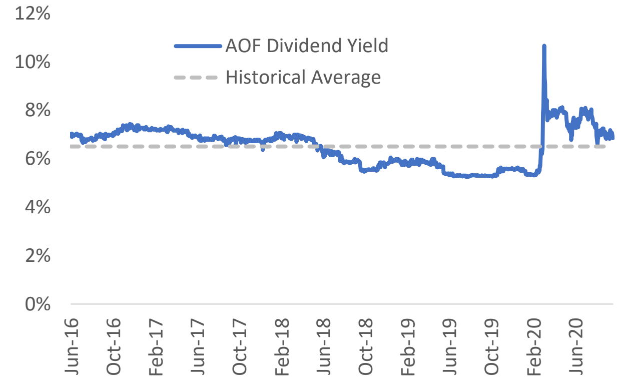
Source: Bloomberg, Company data

Figure 46: ECF Price to NTA



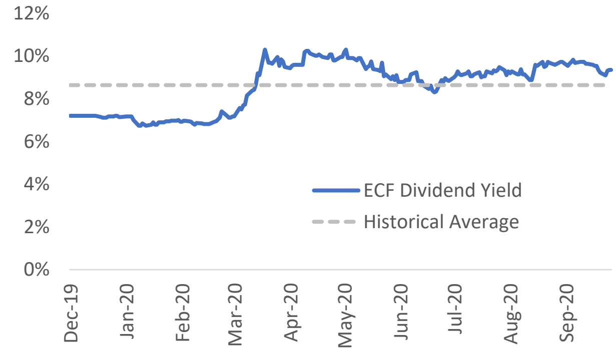
Source: Bloomberg, Company data

Figure 47: AOF Distribution Yield



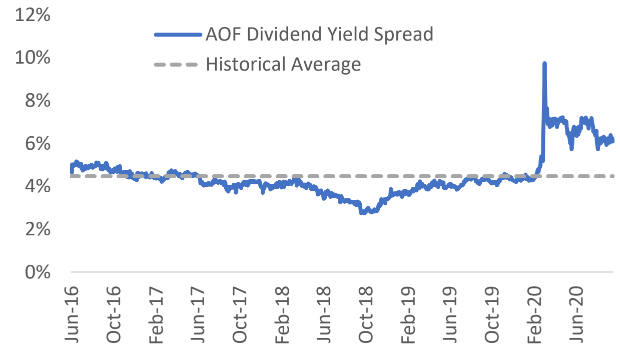
Source: Bloomberg, Company data

Figure 48: ECF Distribution Yield



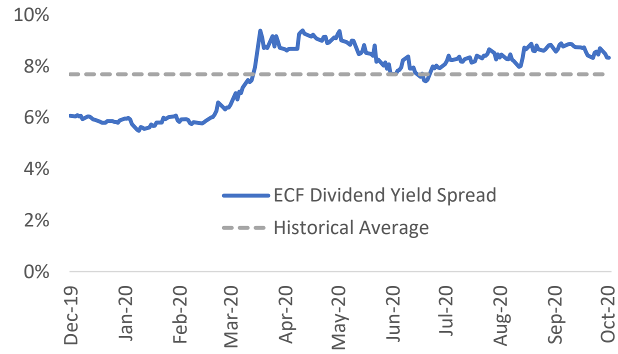
Source: Bloomberg, Company data

Figure 49: AOF Dividend Yield Spread



Source: Bloomberg, Company data

Figure 50: ECF Dividend Yield Spread



Source: Bloomberg, Company data

Appendix 1 – Board and Management

Elanor Commercial Property Fund

Paul Bedbrook: Chairman

Paul has over 30 years' experience in financial services industry. In 2014 he was appointed a Director of Elanor Investors Group and Elanor Funds Management Limited. He started his career as an analyst, fund manager and then the GM & Chief Investment Officer for Mercantile Mutual Investment Management Ltd. Paul was an executive at ING for 26 years with positions as CEO of ING Canada, CEO of ING Australia/ANZ Bank Wealth and Regional CEO of ING Asia Pacific. Paul is currently the Chairman of Zurich Financial Services Australia and its Life, General and Investment Companies, and a Non-Executive Director of Credit Union Australia and the National Blood Authority.

Glenn Willis: Chief Executive Officer & Managing Director

Glenn has over 30 years' experience in capital markets. Glenn was most recently the CEO and co-founder of Moss Capital. He also founded Grange Securities and led the business as CEO before it was acquired by Lehman Brothers International in 2007. He held senior positions with Lehman Brothers including Vice Chairman of Lehman Brothers Australia.

Nigel Ampherlaw: Non-Executive Director

Nigel has extensive experience in risk management, technology, consulting and auditing in Australia and the Asia-Pacific region. Nigel currently holds various board positions and sits on committees of Credit Union Australia, Quickstep Holdings Ltd and Australia Red Cross Blood Service. Nigel was a Partner of PWC for 22 years where he held several leadership positions, including heading the financial services audit, business advisory services and consulting businesses. Nigel was appointed a Director of both the Company and the Responsible Entity of ERF/ECF in 2014.

Kin Song Lim: Non-Executive Director

Kin Song has 20 years of experience in property specialising in acquisitions, asset management, business development and leasing. He was appointed a Director of Elanor Investors Group and Elanor Funds Management Limited in 2019. Kin Song is the CEO of Rockworth Capital Partners with skills in strategy, transactions, business development and investor relations. Prior to founding Rockworth in 2011, Kin Song held various positions in leading property groups in Asia such as Frasers Centrepoint Ltd, Ascendas-MGM Funds Management and the CapitaLand Group.

Anthony Fehon: Non-Executive Director

Tony has more than 30 years' experience in the financial services industry. Tony has extensive knowledge in developing and completing investment structures for real estate investment and development, financial assets and leisure assets. Tony currently holds senior roles at Volt Bank, enLighten Australia and Team Mates and has previously held senior roles at Macquarie Bank where he was involved in the formation and listing of several of Macquarie's listed property trusts including being a director of the listed leisure trust. Tony was appointed a Director of both Elanor Investors Group and Elanor Funds Management Limited in 2019.

David Burgess: Co Head of Real Estate. Fund Manager (ECF:ASX)

David has more than 20 years' experience in property and equity markets, most recently as the Head of Investment, Office and Logistics at GPT, having previously managed over $5 billion in assets. David is responsible for the development and overall investment performance of Elanor's commercial real estate investment and asset management platforms and has prior experience in property valuation roles and had equity research roles at Credit Suisse and Citigroup.

Paul Siviour: Chief Operating Officer (Elanor Investor Group)

Paul has over 30 years' experience in senior roles in financial services, investment banking and corporate finance. Paul was a partner of EY in the Corporate Finance practice for 11 years and served as a member of the Board of Partners of EY Australia for a period of six years. He has held several positions at Investec Bank (Australia), including Co-Head of the Private Bank and Senior Mergers & Acquisitions Adviser. Paul most recently was Oceania Leader of Banking and Capital Markets and a partner in the Financial Services practice at EY.

Australian Unity Office Fund

Peter Day: Independent Director & Chairman – Audit & Risk Committee of fund

Peter Day is currently is a non-executive director of several ASX listed companies, including Alumina, Ansell, Boart Longyear, SAI Global and is a member of the Takeovers Panel. His professional career includes senior executive roles in finance and general management in mining, manufacturing, food and financial services industries at companies including Bonlac Foods, Rio Tinto, CRA, Comalco & Amcor. Previously he held senior board positions at Federation Centres, Corporation Limited, Australian Accounting Standards Board and ASIC.

Don Marples: Independent Director– Audit & Risk Committee of fund

Don Marples has more than 30 years' experience in senior management positions working in real estate funds management, infrastructure, construction, banking and investment banking. Don's current Board positions include NSW Crown Holiday Parks Trust, Northern Sydney Local Health District and MPC Funding Limited. Don was Joint MD at Fortius Funds Management and General Manager/Global Head of Project, Finance & Infrastructure at the Commonwealth Bank. He also held the positions of Chief Executive, Project Finance and Executive Director, Lend Lease Capital Services at Lend Lease Group.

Eve Crestani: Independent Director– Audit & Risk Committee of fund

Eve Crestani has over 35 years of experience primarily in financial services and professional services industries. She is a professional director and business consultant with a background in law and management. Ms Crestani is a former Non-Executive Director of Australian Unity Limited and a former Chairman of Mercer Superannuation Australia Limited, and Mercer Outsourcing (Australia). Eve is currently a director of booking.com Limited, a director of Seres Capital Management Limited (Caymans) and Seres Asset Management Limited (Hong Kong) and a director of Zurich Financial Services Australia Limited and Zurich Australia Limited.

Erle Spratt: Non-executive Director

Mr Spratt's career began in audit and advisory services for Deloitte. He has worked for Lendlease holding various roles at Lendlease including CFO for Lendlease Development Australia and Lendlease Real Estate Investments Japan. Mr Spratt joined M&G Real Estate as Investment Director and Fund Manager of the Asia Property Fund in 2010. Erle then was a Non-Executive Director at ESR-REIT for 2 years whilst concurrently being the CEO of Aerial equity. He has now been appointed director or Auriel and a director of Keppel Capital. He is currently the Australian head of Keppel Capital, a property and infrastructure manager.

Greg Willcock: Non-executive Director

Mr Willcock has over 33 years' experience in banking and financial services spanning 7 years in general management roles at NAB Bank focused in risk management, strategy and change management. Mr Willcock has been a director of Australian Unity since 2012 and is also the chairman of Big Sky Building Society Limited, and a director of the Customer Owned Banking Association (COBA), the industry advocate for Australia's customer owned banking sector.

James Freeman: Fund Manager (appointed 2020)

Mr Freeman has over 20 years' experience across the property and financial markets. Prior to joining Australian Unity, Mr Freeman was a Portfolio Manager at Mirvac Group, an Assistant Portfolio Manager at Investa Property Group and was also previously employed at Stockland and Macquarie Capital Group.

Simon Beake: Portfolio Manager (appointed 2011)

Simon has over 20 years of financial and transaction experience; the last eight in property. Prior to joining Australian Unity, Simon worked at Investa Property Group as a Senior Fund Analyst and has held various roles in the UK at Biwater/Cascal Services developing and acquiring international PPP projects. Simon is responsible for the financial management of the Fund.

Giovanna Reale: Senior Asset Manager (appointed 2006)

Giovanna has 20 years' property experience, including in management and leasing gained with leading real estate agencies and owner managers including industrial, healthcare, commercial and retail property. Giovanna is responsible for the asset management of the Fund.

Elanor Commercial Property Fund

Accumulate

PROFIT & LOSS (A$m)	2019A	2020A	2021E	2022E	2023E
Net operating income	-	27.6	30.7	30.1	32.3
Management EBIT	-	-	-	-	-
Development EBIT	-	-	-	-	-
Other EBIT	-	(0.8)	(0.9)	(0.9)	(0.9)
Unallocated overheads	-	(2.6)	(2.4)	(2.3)	(3.6)
EBIT	**-**	**24.2**	**27.4**	**26.9**	**27.8**
Net interest expense	-	(4.0)	(2.8)	(2.8)	(2.7)
Pre-tax profit	**-**	**20.2**	**24.6**	**24.2**	**25.1**
Net tax (expense) / benefit	-	-	-	-	-
Minorities	-	-	-	-	-
Normalised NPAT	**-**	**20.2**	**24.6**	**24.2**	**25.1**
Significant items/Adj.	-	(22.5)	(17.6)	(9.9)	15.9
Reported NPAT	**-**	**(2.3)**	**6.9**	**14.2**	**41.0**
Normalised dil. EPS (cps)	-	9.9	12.0	11.8	12.3
FFO/share (cps)	-	6.6	12.2	12.0	12.4
Reported EPS (cps)	-	(1.1)	3.4	7.0	20.1
DPS (cps)	-	5.3	9.7	10.1	10.5
Dividend yield (%)	-	5.0	9.2	9.5	9.9
Payout ratio (%)	-	79.9	80.0	84.0	84.0
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	-	204.4	204.4	204.4	204.4

CASH FLOW (A$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	-	24.2	27.4	26.9	27.8
Change in working capital	-	-	-	-	-
Interest Paid	-	(4.3)	(2.8)	(2.8)	(2.7)
Interest Received	-	0.1	-	-	-
Tax Paid	-	-	-	-	-
Other Operating Items	-	(2.7)	-	-	-
Operating Cash Flow	**-**	**17.3**	**24.6**	**24.2**	**25.1**
Capital expenditure	-	-	(2.7)	(1.6)	(0.4)
Acquisitions	-	(125.5)	-	-	-
Divestments	-	-	-	-	-
Other Investments Items	-	(8.8)	-	-	-
Investment Cash Flow	**-**	**(134.4)**	**(2.7)**	**(1.6)**	**(0.4)**
Inc/(Dec) in equity	-	121.2	-	-	-
Inc/(Dec) in borrowings	-	10.6	(7.0)	-	(7.0)
Dividends paid	-	(14.7)	(14.8)	(20.2)	(21.0)
Other financing items	-	-	-	-	-
Financing Cash Flow	**-**	**117.1**	**(21.8)**	**(20.2)**	**(28.0)**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	-	(0.0)	0.1	2.3	(3.2)

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	-	6.8	6.9	9.2	6.0
Receivables	-	1.0	1.0	1.0	1.0
Inventory	-	-	-	-	-
Other current assets	-	0.7	0.7	0.7	0.7
PP & E	-	-	-	-	-
Property Investments	-	373.5	355.9	345.9	361.9
Inventory	-	-	-	-	-
Equity Acc Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Intangibles	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Other non-current assets	-	-	-	-	-
Total Assets	**-**	**382.0**	**364.5**	**356.9**	**369.6**
Short term debt	-	-	-	-	-
Payables	-	3.2	3.2	3.2	3.2
Other current liabilities	-	1.4	1.4	1.4	1.4
Long term debt	-	139.6	132.6	132.6	125.6
Other non-current liabilities	-	1.4	1.4	1.4	1.4
Total Liabilities	**-**	**145.6**	**148.5**	**148.9**	**142.3**
Total Equity	**-**	**236.4**	**215.9**	**208.0**	**227.3**
Net debt (cash)	-	132.8	125.7	123.4	119.6

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	-	-	8.4	(1.8)	7.1
EBITDA growth	-	-	13.1	(1.7)	3.3
EBIT growth	-	-	13.1	(1.7)	3.3
Normalised EPS growth	-	-	21.4	(1.6)	3.9
EBITDA margin	-	85.6	89.2	89.4	86.2
OCF /EBITDA	-	0.0	0.0	0.0	0.0
EBIT margin	-	85.6	89.2	89.4	86.2

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	-	-	31.3	15.2	5.3
Normalised P/E	-	10.7	8.8	9.0	8.6
Price To Free Cash Flow	-	16.1	9.8	9.5	8.6
Price To NTA	-	0.9	1.0	1.0	1.0
EV / EBITDA	-	9.2	8.2	8.4	8.0
EV / EBIT	-	9.2	8.2	8.4	8.0

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	-	36.0	36.8	37.2	34.5
Net Debt / EBITDA (%)	-	548.4	459.0	458.1	429.7
EBIT Interest Cover (x)	-	6.1	9.7	9.7	10.3
EBITDA Interest Cover (x)	-	6.1	9.7	9.7	10.3

SUBSTANTIAL HOLDERS	m	%
Elanor Investors Group	30.7	15.0%
Kenxue Pty Ltd	19.2	9.4%
Perpetual	26.4	12.9%

VALUATION	
Cost of Equity (%)	8.0
Equity NPV Per Share ($)	**1.14**
Multiples valuation method	SOTP
Multiples valuation	1.03
Target Price Method	50% DDM / 50% SOTP
Target Price ($)	1.08
Valuation disc. / (prem.) to share price (%)	1.9

Australian Unity Office Fund

Accumulate

PROFIT & LOSS (A$m)	2019A	2020A	2021E	2022E	2023E
Net operating income	39.4	35.4	33.7	34.7	26.0
Management EBIT	-	-	-	-	-
Development EBIT	-	-	-	-	-
Other EBIT	(1.2)	(4.2)	(1.3)	(1.3)	(1.3)
Unallocated overheads	(3.9)	(4.2)	(4.0)	(3.9)	(4.0)
EBIT	**34.2**	**27.0**	**28.4**	**29.5**	**20.6**
Net interest expense	(7.8)	(7.8)	(6.5)	(6.6)	(6.7)
Pre-tax profit	**25.4**	**19.2**	**21.9**	**23.0**	**13.9**
Net tax (expense) / benefit	-	-	-	-	-
Minorities	-	-	-	-	-
Normalised NPAT	**26.4**	**19.2**	**21.9**	**23.0**	**13.9**
Significant items/Adj.	18.4	(6.0)	(25.5)	12.9	(165.2)
Reported NPAT	**44.8**	**13.2**	**(3.7)**	**35.8**	**(151.3)**
Normalised dil. EPS (cps)	16.2	11.8	13.4	14.1	8.5
FFO/share (cps)	17.5	17.0	17.3	18.1	11.5
Reported EPS (cps)	27.5	8.1	(2.3)	22.0	(92.9)
DPS (cps)	15.8	15.0	15.0	15.4	9.8
Dividend yield (%)	7.2	6.8	6.8	7.0	4.5
Payout ratio (%)	90.4	88.4	86.6	85.0	85.0
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	162.8	162.8	162.8	162.8	162.8

CASH FLOW (A$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	34.2	27.0	28.4	29.5	20.6
Change in working capital	1.0	-	-	-	-
Interest Paid	(7.6)	(8.0)	(6.5)	(6.6)	(6.7)
Interest Received	0.0	0.0	-	-	-
Tax Paid	-	-	-	-	-
Other Operating Items	2.2	2.6	-	-	-
Operating Cash Flow	**28.9**	**21.6**	**21.9**	**23.0**	**13.9**
Capital expenditure	-	-	(0.7)	(4.4)	(7.1)
Acquisitions	(10.1)	(8.3)	-	-	-
Divestments	-	-	-	-	-
Other Investments Items	-	-	-	-	-
Investment Cash Flow	**(10.1)**	**(8.3)**	**(0.7)**	**(4.4)**	**(7.1)**
Inc/(Dec) in equity	(1.0)	-	-	-	-
Inc/(Dec) in borrowings	6.5	11.0	-	5.0	10.0
Dividends paid	(25.6)	(26.0)	(24.4)	(25.1)	(16.0)
Other financing items	-	-	-	-	-
Financing Cash Flow	**(19.1)**	**(15.0)**	**(24.4)**	**(20.1)**	**(6.0)**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	(0.4)	(1.7)	(3.2)	(1.5)	0.9

BALANCE SHEET (A$m)	2019A	2020A	2021E	2022E	2023E
Cash	7.5	5.8	2.6	1.0	1.9
Receivables	1.1	1.8	1.8	1.8	1.8
Inventory	-	-	-	-	-
Other current assets	-	-	-	-	-
PP & E	-	-	-	-	-
Property Investments	668.4	669.7	644.1	657.0	491.8
Inventory	-	-	-	-	-
Equity Acc Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Intangibles	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Other non-current assets	0.5	0.8	0.8	0.8	0.8
Total Assets	**677.5**	**678.1**	**649.3**	**660.6**	**496.2**
Short term debt	-	-	-	-	-
Payables	6.9	6.2	6.2	6.2	6.2
Other current liabilities	-	-	-	-	-
Long term debt	203.9	214.9	214.9	219.9	229.9
Other non-current liabilities	6.1	9.2	9.2	9.2	9.2
Total Liabilities	**223.4**	**235.2**	**236.4**	**241.6**	**249.3**
Total Equity	**454.0**	**442.8**	**412.8**	**419.0**	**246.9**
Net debt (cash)	-	209.1	212.3	218.9	228.0

DIVISIONS	2019A	2020A	2021E	2022E	2023E

KEY METRICS (%)	2019A	2020A	2021E	2022E	2023E
Revenue growth	12.0	(10.1)	(4.8)	3.1	(25.1)
EBITDA growth	11.1	(21.1)	5.2	3.9	(30.1)
EBIT growth	11.1	(21.1)	5.2	3.9	(30.1)
Normalised EPS growth	4.5	(27.2)	13.8	5.0	(39.5)
EBITDA margin	86.9	76.3	84.3	85.0	79.4
OCF /EBITDA	0.0	0.0	0.0	0.0	0.0
EBIT margin	86.9	76.3	84.3	85.0	79.4

VALUATION RATIOS (x)	2019A	2020A	2021E	2022E	2023E
Reported P/E	8.0	26.9	-	10.0	-
Normalised P/E	13.5	18.6	16.3	15.5	25.7
Price To Free Cash Flow	14.2	14.7	13.0	14.2	30.4
Price To NTA	0.8	0.8	0.9	0.9	1.4
EV / EBITDA	10.6	13.4	12.6	12.1	17.4
EV / EBIT	10.6	13.4	12.6	12.1	17.4

LEVERAGE	2019A	2020A	2021E	2022E	2023E
ND / (ND + Equity) (%)	-	32.1	34.0	34.3	48.0
Net Debt / EBITDA (%)	-	774.4	747.6	741.4	1,104.8
EBIT Interest Cover (x)	4.4	3.5	4.3	4.5	3.1
EBITDA Interest Cover (x)	4.4	3.5	4.3	4.5	3.1

SUBSTANTIAL HOLDERS	m	%
Hume Partners	81.4	19.6%
Australian Unity Group	24.3	14.9%
Valtellina Properties	8.6	5.3%

VALUATION	
Cost of Equity (%)	8.0
Equity NPV Per Share ($)	**2.29**
Multiples valuation method	SOTP
Multiples valuation	2.27
Target Price Method	50% DDM / 50% SOTP
Target Price ($)	2.28
Valuation disc. / (prem.) to share price (%)	4.1

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Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.