

# 360 Capital Office Fund

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18 February 2016

## Interim Financial Results for the Half Year Ended 31 December 2015

360 Capital Investment Management Limited (360 Capital) as Responsible Entity for the 360 Capital Office Fund (Fund or ASX code: TOF) is pleased to announce the Fund's results for the half year ending 31 December 2015.

### Highlights

- Statutory earnings of 6.0 cents per unit (cpu), up 27.7% on prior comparable period (pcp);
- Operating earnings of 9.9cpu, up 13.8% on pcp;
- Distributions of 8.5 cpu in line with FY16 guidance of 17.0 cpu;
- Leased over 9,500 sqm or 24.5%<sup>1</sup> of the portfolio, maintaining 98.7% occupancy;
- Completed disposal of 33 Allara Street, Canberra ACT for \$29.0 million, removing the major leasing and capital expenditure risk within the Fund and increasing the Fund's WALE<sup>2</sup> from 4.6 years to 5.1 years as at 31 December 2015;
- Reduced gearing from 28.7% (30 June 2015) to 18.3% (31 December 2015);
- WACR<sup>3</sup> of 7.4%, a firming of 40 basis points (bp) from 30 June 2015 due to the 33 Allara St disposal;
- Post period, the Fund agreed terms with the 360 Capital Group (subject to Fund Unitholder and other approvals including an Independent Expert's Report) for the acquisition of 360 Capital Group's holding in the 360 Capital 111 St George's Terrace Property Trust for \$30.4 million. The acquisition is forecast to be EPU and DPU accretive and NTA neutral.

### Financial performance

#### Earnings & distributions

Statutory net profit of \$4.3 million was 19.6% above pcp primarily driven by a 4.7% increase in rental income.

Operating earnings of \$7.2 million was 7.4% above pcp driven by higher property income from acquisitions, fixed rental increases and lower property expenses.

Distributions per unit remained unchanged at 8.50 cpu in line with guidance.

#### Assets & liabilities

The disposal of 33 Allara Street, Canberra, ACT for \$29.0 million decreased Fund total assets from \$230.5 million to \$200.2 million or -13.1%.

The Fund's net tangible assets (NTA) per Unit has decreased by -1.4% to \$2.11 per Unit from \$2.14 as at 30 June 2015 as a result of the loss on the sale and associated transaction costs of 33 Allara Street, Canberra ACT and mark to market movements of derivative instruments.

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<sup>1</sup> Based on area of 38,835 sqm including 33 Allara Street

<sup>2</sup> Weighted average lease expiry

<sup>3</sup> Weighted average capitalisation rate

## 360 Capital Office Fund

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The net proceeds from the disposal of 33 Allara Street, Canberra, ACT have been utilised to reduce the Fund's senior debt facility, reducing gearing from 28.7% (30 June 2015) to 18.3% (31 December 2015).

The Fund has approximately \$40.3 million of available debt capacity to pursue acquisitions.

### **Portfolio management**

The property portfolio continued to perform well, maintaining occupancy at 98.7% over the period.

A key focus for the Fund was the renewal of the Department of Environment lease at 33 Allara Street whose lease expired in December 2015. In August 2015, the Fund secured a 12 month extension of the Department of Environment lease which allowed the Fund to position the asset for sale.

### **Property disposal**

Shortly after securing the Department of Environment's 12 month extension, the Fund was approached by a number of parties to acquire 33 Allara Street. After a short marketing campaign, the Fund exchanged contracts in November 2015 for a sale price of \$29.0 million, subsequently settling the sale of the asset in late November 2015. The disposal removed much of the Fund's leasing risk and on-going capital expenditure requirements and increased the Fund's WALE from 4.6 years to 5.1 years.

### **Property valuations**

The Fund's properties were valued by Directors as at 31 December 2015 and values remained in line with previous independent valuations. The Fund's WACR firmed by 40bps to 7.40% as a result of the sale of 33 Allara Street.

### **Capital management**

As at 31 December 2015, the Fund's \$80.0 million debt facility was drawn to \$39.6, representing a gearing ratio of 18.3%. The Fund's weighted average debt maturity is 1.3 years.

The Fund has interest rate hedges over \$70.0 million of debt at a weighted average interest rate of 2.64%. The weighted average interest rate hedge term is approximately 4.1 years.

The Fund remains well within its debt covenants, with the current interest cover ratio of 6.4 times against a bank covenant of 2.0 times and loan to value ratio of 20.2% against a bank covenant of 50.0%.

The Fund has approximately \$40.3 million of debt capacity which it will look to deploy into the proposed acquisition of the 360 Capital Group's holding in the 360 Capital 111 St George's Terrace Property Trust.

### **Asset Recycling**

Since the Fund's listing in April 2014, the Fund has focused on improving underlying earnings quality through the recycling of non-core assets. The Fund sold its Burwood and Canberra assets in June 2014 and October 2015 respectively for a combined 9.5% premium to the book values contained in the Fund's Initial Public Offering (IPO).

Besides improving the quality of rental income received by the Fund, these non-core disposals also removed the majority of medium term lease expiry and forecast capital expenditure and deleveraged the Fund's balance sheet.

## 360 Capital Office Fund

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Post the reporting period, the Fund agreed terms with the 360 Capital Group (subject to Fund Unitholder and other approvals including an Independent Expert's Report) for the acquisition of 360 Capital Group's 44.4% holding in the 111 St George's Terrace Property Trust for \$30.4 million. The acquisition is forecast to be EPU and DPU accretive and neutral to NTA per Unit. The 360 Capital 111 St George's Terrace Property Trust is an unlisted registered managed investment scheme owning one asset, being 111 St George's Terrace, Perth, WA.

Full details of the proposed acquisition will be made available in the Notice of Meeting to be lodged with the ASX in due course.

### Outlook & guidance

The Fund's closing price on 31 December 2015 of \$2.05 per Unit reflected a -2.8% discount to the 31 December 2015 NTA of \$2.11 per Unit. Closing this gap is a key focus of the Fund for FY16.

Looking forward, the Fund is well placed to take advantage of transaction opportunities, utilising 360 Capital Group's reputation and network to continue to grow and diversify the Fund's earnings base.

Based on the current assets of the Fund, earnings and distribution guidance for the full year to 30 June 2016 is forecast to be 18.0cpu and 17.0cpu respectively.

The Fund will update the market on the proposed acquisition of 360 Capital 111 St George's Terrace Property Trust in due course.

More information on the Fund can be found on the ASX's website at [www.asx.com.au](http://www.asx.com.au) using the Fund's ASX code "TOF", on the Fund's website [www.360capital.com.au](http://www.360capital.com.au), by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing [investor.relations@360capital.com.au](mailto:investor.relations@360capital.com.au)

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#### **About 360 Capital Office Fund (ASX code TOF)**

360 Capital Office Fund is the only ASX-listed office sector A-REIT focused on suburban A grade and CBD B grade rent collecting properties in Australia in the \$30 to \$100 million asset value range. The Fund has a diversified \$196.1 million portfolio of three quality assets, a weighted average lease expiry of 5.1 years, occupancy of 98.7%, gearing of approximately 18.3% and a forecast FY16 distribution of 17.0cpu. The Fund is externally managed by 360 Capital Group, a leading ASX-listed real estate investor and fund manager, that operates under a transparent fee structure and is the largest unitholder in the Fund with a co-investment stake of circa 30% to ensure ongoing alignment of interests with Unitholders.

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#### **About 360 Capital Group (ASX code TGP)**

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group manages nine investment vehicles holding assets valued at over \$1.4 billion on behalf of over 12,500 investors and has over \$200 million worth of co-investments across the 360 Capital Group.

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