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360 Capital Office Fund



21 August 2014

FY14 Financial Results Reflect Recapitalisation and Execution of Disposal Strategy

360 Capital Investment Management Limited as Responsible Entity for the 360 Capital Office Fund (Fund or ASX code: TOF) is pleased to announce the Fund's results for the year ending 30 June 2014.

The ASX-listing of the Fund in April 2014 was critical in providing an exit event for investors within the previously unlisted vehicle and repositioning the Fund for growth as the only AREIT currently focused exclusively on Australian, passive, suburban A-Grade and CBD B-Grade office property investment.

The Fund reported a FY14 statutory net profit of \$56.4 million compared to the previous financial year of \$6.3 million. After adjusting for non-cash and other non-operating items, the Fund's operating earnings were \$4.7 million, compared to a loss of \$0.20 million in FY13. The Fund's significant transformation as a result of its restructure, recapitalisation and ASX-listing strategy make comparisons to FY13 difficult.

Financial highlights

The key FY14 financial highlights were:

- Profit attributable to the Unitholders of the Fund of \$56.4 million or 349.8cpu;
- Operating profit of 29.0cpu was skewed by the weighted number of units on issue following the Fund's recapitalisation and ASX listing;
- June 2014 quarter distributions at 4.25cpu (17.00cpu annualised);
- LVR¹ 36.3% was in line with the LVR at the time of the IPO
- Net assets of \$166.3 million; and
- Net tangible assets (NTA) per Unit of \$2.14
- The ASX closing price at 30 June 2014 of \$1.98 per Unit reflected
 - A discount of 7.5% to the Fund's NTA per Unit of \$2.14
 - An annualised DPU yield of 8.6% based on the forecast FY15 DPU of 17.00cpu

Operational highlights

The key operational highlights for the year ended 30 June 2014 include:

- \$155.0 million recapitalisation and listing on the ASX in April 2014;
- Acquisition of two new properties with the proceeds of the capital raising, being 154 Melbourne Street, South Brisbane and 485 Kingsford Smith Drive, Hamilton Harbour, QLD for \$135.5 million;
- Exchanged unconditional contracts for the sale of 52-56 Railway Parade, Burwood for \$80.0 million, a premium of 32.7% above the 30 June 2013 carrying value of \$60.3 million;
- Leased 6,700sqm during the period eliminating expiries during FY15;
- Occupancy² was 99.6%, WALE³ of 4.2 years and portfolio WACR⁴ of 8.7%.

¹ LVR: loan to value ratio calculated in accordance with debt facility documentation as borrowings divided by property values as determined by last external valuation (valuations are subject to acceptance by the banking syndicate)

² By area

³ WALE: weighted average lease expiry by income

⁴ WACR: weighted average capitalisation rate

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Over FY14, the portfolio maintained its high occupancy of 99.6%. The Fund renewed the portfolio's major tenant, Telstra, over 3,300sqm six months prior to expiry, with the balance of the Telstra tenancy leased to Pacific Brands (circa 2,900sqm) and to the NSW Government (circa 520sqm).

As a result of the leasing activity within Burwood over the last 6 months, the Fund has no expiries within FY15 post the settlement of Burwood and has commenced discussions with major tenant Department of Environment at 33 Allara Street, Canberra, regarding its lease expiry in December 2015.

Property acquisition and disposal

The potential disposal of 52-56 Railway Parade, Burwood was identified during the IPO marketing process based on the property's significant residential development upside and in view of the current strength of the residential market within Sydney's inner west.

Commencing marketing the sale of the property via an expression of interest campaign, in June 2014 the Fund exchanged unconditional contracts with a private developer for \$80.0 million, a premium of 32.7% above the 30 June 2013 carrying value of \$60.3 million with the sale due to settle in early October 2014. The net proceeds of the sale will be used to pursue investment activities inline with the Fund's stated strategy.

On 29th and 30th April 2014, the Fund settled the acquisition of 485 Kingsford Smith Drive, Hamilton Harbour and 154 Melbourne Street, South Brisbane respectively for a combined purchase price of \$135.5 million. The acquisitions formed part of the IPO and the two near-new A-grade assets underpin Fund earnings stability with strong tenant covenants and income profiles.

Property valuations

The valuation of the Fund's property portfolio in June 2014 resulted in a net fair value gain of \$14.9 million after taking into account \$8.5 million in acquisition costs.

The carrying value of the property portfolio (including investment properties held for sale and rental guarantees receivable) at 30 June 2014 was \$253.5 million (compared to \$94.8 million at 30 June 2013).

Capital management and funding

As part of the recapitalisation and ASX listing the Fund entered into a new \$100.0 million syndicated debt facility with Bankwest and NAB. As at 30 June 2014, the debt facility was drawn to \$86.6 million, which represents a Loan to Value Ratio (LVR) of 36.3% based on the most recent external valuations (valuations are subject to acceptance by the banking syndicate), well within the debt facility covenant of less than 50.0%. Proceeds from the IPO were utilised to purchase the two new Queensland properties and reduce Fund borrowings.

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Outlook

Market:

- Leasing markets appear to be improving in line with the broader economy
- Demand for institutional grade office property investments is expected to continue to remain strong, resulting in further cap rate compression and capital growth over the medium term

Operational:

- At the portfolio level, the Fund is focused on:
 - executing its leasing strategy at 33 Allara Street, Canberra and securing an early renewal of the Department of Environment
 - Reinvesting Burwood disposal proceeds in accretive acquisition(s)
 - Growing the Fund, diversifying the asset base and driving earnings and distributions

Objectives:

- Fund level objectives are:
 - Continuing to market the Fund to close the trading price discount to NTA per Unit
 - Achieving ASX/S&P 300 Index inclusion in FY15
 - Remain well capitalised and nimble to take advantage of suitable opportunities to maximise TOF Unitholder returns

Mr James Storey, TOF Fund Manager said “TOF is a niche operator with an achievable and clear strategy to provide Unitholders with regular and sustainable income in the form of quarterly distributions and potential capital growth.”

Earnings and Distribution Guidance

FY15 distributions are forecast to be 17.00cpu, as per previous guidance, with forecast FY15 operating earnings per Unit above this level (formal FY15 earnings guidance expected to be provided post the reinvestment of the Burwood disposal proceeds). Based on the Fund’s ASX closing price of \$1.98 on 30 June 2014, the FY15 forecast DPU of 17.00cpu equates to a distribution yield of 8.6%, which, together with its niche positioning, places the Fund in an attractive position relative to its AREIT peers.

More information can be found on the ASX’s website at www.asx.com.au using the Fund’s ASX code “TOF”, on the Fund’s website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing 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 \$30.0 to \$100.0 million asset value range. The Fund is managed by 360 Capital Group which also has a co-investment stake of circa 25% in the Fund. The Fund has a diversified \$253.5 million portfolio of four quality assets, a weighted average lease expiry of 4.2 years, occupancy of 99.6%, appropriate gearing of approximately 36.0% (excluding the impact of the Burwood disposal), a forecast FY15 distribution of 17.00cpu substantially tax deferred.