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ASX ANNOUNCEMENT

Abacus Property Group 2016 Full Year Results

Results highlights

- The Group's¹ consolidated AIFRS statutory profit is \$185.9 million up 39% from \$133.5 million in FY15
- Abacus underlying profit² \$124.0 million
- Abacus underlying earnings¹ per security 22.4 cents
- Abacus FY16 distribution per security maintained at 17.0 cents
- Distribution per security 100% sourced from recurring earnings
- Net tangible assets of \$2.66 per security, up 6.8%
- Gearing conservative at 25.8%
- Added over \$240 million of investment properties including office and storage assets
- Further \$123 million invested in residential development projects
- Expanded our product offering across our third party capital platform with commercial, residential joint ventures and investment mandates
- Like for like rent growth from the commercial portfolio of over 2.7% for the period
- RevPAM³ growth from the storage portfolio of 3.2% for the period

Abacus Managing Director, Dr Frank Wolf, commented "The business is performing and we have delivered a strong result in FY16. The benefits of our multi-business model have been illustrated. Strong contributions from our storage and property ventures businesses offset reductions in our commercial portfolio from sales. We have successfully invested across our storage and residential development platform, selectively adding strong assets in sectors offering the best risk-adjusted returns at this time in the cycle. We continued to expand our product

¹ The Group consists of the merged Abacus Property Group, Abacus Hospitality Fund, Abacus Wodonga Land Fund and ADIF II

² Underlying profit and earnings per security are non-AIFRS measures that the Group uses to assess performance and distribution levels. They are calculated in accordance with the AICD/Finsia principles.

³ RevPAM: Revenue per available square metre. This metric excludes facilities in lease up and assumes a steady FX rate of NZ\$1.0489.

offering across our third party capital platform with over \$1 billion of assets managed with our investment partners.”

Capital management

The Abacus balance sheet was in a strong capital position at balance date with gearing at low levels of 25.8%. The post balance date placement of the DRP shortfall provided additional liquidity for future acquisitions of investment properties. During the year Abacus utilised its acquisition capacity, growing its investments in storage facilities and also residential land approval projects.

Mr Rob Baulderstone, Abacus Chief Financial Officer, noted “Our balance sheet continues to maintain good levels of liquidity and gearing, with capacity to add to our investment portfolio and project pipeline in the 2017 financial year.”

Segment review

Property

- 94 assets valued at \$1.6 billion
- Revaluation gains of \$74.0 million across the portfolio
- Portfolio remixing continues with increases across the storage, office and retail portfolios

Commercial portfolio

- \$63.1 million underlying EBITDA contribution
- 32 commercial properties valued at \$994 million
- Portfolio capitalisation rate: 7.2%
- Occupancy⁴: 91.2%
- Like for like rental growth of 2.7%⁴
- Weighted average lease expiry (*WALE*) profile of 4.3 years⁴.

The turnover of investment properties through the year and lease expiries at some industrial and retail properties impacted on the portfolio’s metrics with occupancy down to 91.2% from 93.4%. Development potential at the recently acquire Lutwyche City Shopping Centre required a number of tenancies to be vacant in preparation of development works in H117. Pleasingly like for like rental growth of 2.7% was achieved, driven by strong leasing successes at Ashfield Mall in Sydney, Bacchus Marsh Village Shopping Centre in VIC and 14 Martin Place also in Sydney. The commercial portfolio increased its *WALE* to 4.3 years.

During the year Abacus sold 8 small office, retail and industrial assets for a total consideration of \$64 million. These funds were utilised in the acquisition of our interest in Lutwyche City Shopping Centre, Brisbane QLD for \$65 million (Abacus share 75%) and 201 Pacific Highway, St Leonards NSW for \$115 million (Abacus share 50%).

Abacus’ third party capital joint ventures are an integral strategic investment platform for the Group. Abacus expanded the platform further during the year with a number of new joint ventures with new investment partners. Since 2009, Abacus has invested in \$1.4 billion of assets in partnerships with third party capital. As the business has evolved across changing market cycles we have adjusted our product offering to meet the needs of our investment partners, recently entering into a new mandate to manage The Red Cross Building, Sydney.

⁴ Excluding development assets.

Storage portfolio

- \$32.7 million underlying EBITDA contribution
- 62 storage assets valued at \$574 million
- Portfolio capitalisation rate: 8.0%
- Occupancy⁵: 87.4%
- Average rental pa⁵: \$259 per m²
- RevPAM⁵: up 3.2% to \$227

Business trading improvements and portfolio acquisitions delivered EBITDA growth of over 15% for the 12 months to 30 June 2016 on the prior period. The result benefitted from further increases across the stabilised portfolio⁵ in occupancy to 87.4% and the average rent to \$259 per m². These metrics lead to a strong improvement in revenue per available square metre (RevPAM), which grew 3.2% to \$227.

We continue to grow the portfolio through acquisition, adding four stabilised facilities for \$44.7 million and three industrial assets for \$17.5 million for conversion to self-storage facilities. We target assets that will contribute to improving the portfolio's metrics, particularly focusing on conversion opportunities in metropolitan areas on Australia's Eastern Seaboard that will deliver higher average rental rates than the current portfolio average.

We increased the portfolio's net lettable area (NLA) by 14.2% or 36,000m² to over 290,000m² of NLA. Importantly the development pipeline of approved and unapproved stages will deliver an additional NLA over the next two years.

During the year, the self-storage sector has continued to be seen as an additional institutional asset class alongside office, retail and industrial sectors. This increased institutional recognition has driven strong pricing of assets as demand for facilities has increased as new and existing entrants to the sector seek assets and market share.

Property Ventures

The Property Ventures division generated strong growth in underlying EBITDA, more than doubling to \$57.0 million for the period. This was driven by increases in finance income consistent with the increase in invested capital across the platform. Abacus also enjoyed strong transactional returns from a number of development projects during the year, despite the previously announced impairment to Muswellbrook residential development as a result of the downturn in the resources sector.

We have invested a further \$123 million into new and existing projects providing total assets of \$500 million in property venture investments. Abacus controls over 9,000 units or land lots which equates to c\$55,000 cost base per unit/land lot. This low average price provides evidence that the property ventures business has prospects for strong returns.

Abacus has a number of joint ventures that own land sites in Metropolitan Sydney areas undergoing residential rezoning. We continue to work with all stakeholders to ensure the expeditious delivery of rezoning approvals, including projects in Camellia and Campsie both in Sydney NSW. It is anticipated that these sites will either be sold to developers or built with our joint venture partners. The recent council amalgamations and subsequent court actions have created headwinds for developers seeking development approvals.

⁵ Excluding development assets or assets in lease up.

Administrators placed into councils affected by amalgamations have caused a back log of approvals while mergers are implemented. This has caused delays to a number of rezoning applications and has created uncertainty to delivery and realisation timings. The Group's project in Camellia, Sydney NSW has been delayed as a result and following requests by council for further information.

Funds Management

In line with a reduction in assets under management, the funds management business generated an underlying EBITDA result of \$10.7 million for the period. Abacus has \$146 million of funds invested across the platform. Abacus continues to manage these unlisted funds to try to optimise the returns with selective sales and acquisitions of assets where opportunities and market conditions allow. In line with this strategy, ADIF II and AHF are expected to sell their remaining assets during FY17.

Outlook

The business remains strong with a conservative balance sheet and capacity for future opportunities. The increased exposure in property ventures projects is a direct reaction to the opportunities presented at this time in the cycle. It is expected our exposure will reduce over FY17 as a number of developments projects are realised. Our property ventures exposure at c.\$55,000 per unit/land lot and a 73% exposure to the Sydney market suggest our capital has been invested well. Despite the ambiguity of local council approval timeframes, we are confident of continued strong returns from the business.

The growth in our third party capital platform continues with over \$800 million of assets currently under management. We expect to grow this business as we continue to expand our investment relationships and product offerings.

We are pleased with the performance of the entire storage portfolio and are encouraged by our conversion strategy successes. We are excited at the potential that our portfolio of stabilised facilities and conversion assets can deliver over the short term as we continue to grow our position in the storage sector.

Dr Frank Wolf said "We are disappointed with the delays in our residential development approvals that have eventuated as a result of the council amalgamations in Sydney but are confident that these timing delays will not ultimately impact our anticipated returns. We are nevertheless pleased by the continued successes across our property ventures projects and storage portfolio. We have a large portfolio of assets and projects that we are working to deliver the next round of returns for the Group."

Further information

Further information on Abacus' full year results and an update on current operations are provided in the financial report and investor presentation.

19 August 2016

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About Abacus

Abacus Property Group is a diversified property group that specialises in investing in core plus property opportunities across Australia's commercial property markets. Abacus was established in 1996 and listed on the ASX in November 2002. Abacus has achieved a successful track record of acquiring property based assets and actively managing those assets to enhance income and capital growth. Abacus has a market capitalisation of over \$1.7bn.