

Property Insights

Spring 2011

Commercial property recovery continues to take shape

Why doing debt well can be a big deal

Meet the new additions to our property team

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Commercial property recovery continues to take shape



Mark Pratt

General Manager
Property, Mortgages & Capital Markets
Australian Unity Investments

Over the last two years we've seen a steady and gradual recovery in the Australian commercial property market.

Property fundamentals, which have been spurred on by a resilient Australian economy and a lack of new supply out of the global financial crisis (GFC), are continuing to result in gradual rent increases, low levels of vacancy, and steady and positive valuation results. Reinforcing this point, the Property Council of Australia/IPD Commercial Property Index for the year ended 30 June 2011 recorded a total return of 10.6%.¹

Sale transactions, often one of the first pieces of evidence for an improving market, have also been on the increase over the past 18 months. Most notable has been the entry of many offshore investors into the Australian marketplace, undeterred by the strong Australian dollar. Against a backdrop of global financial uncertainty, we believe this demonstrates a view of Australian commercial property as a relatively defensive investment with attractive investment fundamentals.

This market will reward those who are ready

Our view of the current property market is that it will most reward those who are ready to capitalise on its opportunities.

A good example of actively seizing opportunities has been the recent active capital management and hedging, which is run by our highly talented Capital Markets team. Taking advantage of better lending conditions and capitalising on market inefficiencies to lock in borrowing rates is expected to boost the bottom line for many investors in our property funds over the coming year.

In addition, we've been actively managing our property portfolios. Recently, a window of opportunity emerged to market two of our prominent office properties in Melbourne and Penrith for sale. Before seeking expressions of interest, we made arrangements to present them fully occupied and in the best possible condition. Both have received strong interest and we look forward to shortly announcing positive results for investors in funds that manage these assets.

In the meantime, some additional good news for investors in the Property Income Fund has been the new Government lease for the Fund's Canberra office property at Allara Street. As well as locking in a substantial income boost for the Fund, it also resulted in a strong increase of more than 6% over the property's prior book value.

Australian Unity property portfolio surges again, this time to \$2 billion

On 1 October 2011, Australian Unity Investments took responsibility for three funds that were previously managed by Investa Funds Management. The funds will now be known as the Australian Unity Office Property Fund, the Australian Unity Fifth Commercial Trust and the Australian Unity Second Industrial Trust.

On behalf of everyone at Australian Unity Investments, I warmly welcome our new group of investors.

Our intentions for these funds are clear: we'll continue to provide investors with a stable income stream alongside the potential for capital growth over the medium and long term. As well, we will look to restore a number of investor benefits, particularly to the Australian Unity Office Property Fund. This will include re-opening the Fund, re-launching its distribution reinvestment plan and re-introducing a measure of liquidity to the Fund as soon as practicable. Overall, we're confident we can continue to build on its already strong foundations.

This is the same successful approach that has delivered positive results for investors in the Australian Unity Diversified Property Fund, which we took responsibility for one year ago.

I hope you enjoy this issue of Property Insights.

¹ Property Market Review, Australian commercial property market, Investment Property Databank (IPD), 24 August 2011. Past performance is not an indication of future performance.

Australian Unity Investments – properties across Australia

Our property portfolio comprises more than 60 properties with around 550 leases. It is diversified across retail, industrial, office and healthcare sectors.

The portfolio is valued at approximately \$2 billion (as at 1 October 2011).

WESTERN AUSTRALIA

DIVERSIFIED PROPERTY FUND

218 Bannister Road, Canning Vale (Industrial)
7 Geddes Street, Balcatta (Industrial)
10 Clarke Street, O'Connor (Industrial)
Busselton Central Shopping Centre (Retail)
Dog Swamp Shopping Centre, Yokine (Retail)
Woodvale Boulevard Shopping Centre (Retail)
19 Prince Street, Busselton (Retail)
21 Prince Street, Busselton (Retail)

OFFICE PROPERTY FUND

80 Stirling Street, Perth (50% interest)

FIFTH COMMERCIAL TRUST

80 Stirling Street, Perth (50% interest)

SOUTH AUSTRALIA

HEALTHCARE PROPERTY TRUST

College Grove Private Hospital, Walkerville
Wakefield Medical Clinic, Adelaide
Wakefield Private Hospital, Adelaide
12 View Road, Walkerville, Adelaide

PROPERTY INCOME FUND

Salisbury Cinema Complex, Salisbury (Retail)

OFFICE PROPERTY FUND

30 Pirie Street, Adelaide (50% interest)

FIFTH COMMERCIAL TRUST

30 Pirie Street, Adelaide (50% interest)

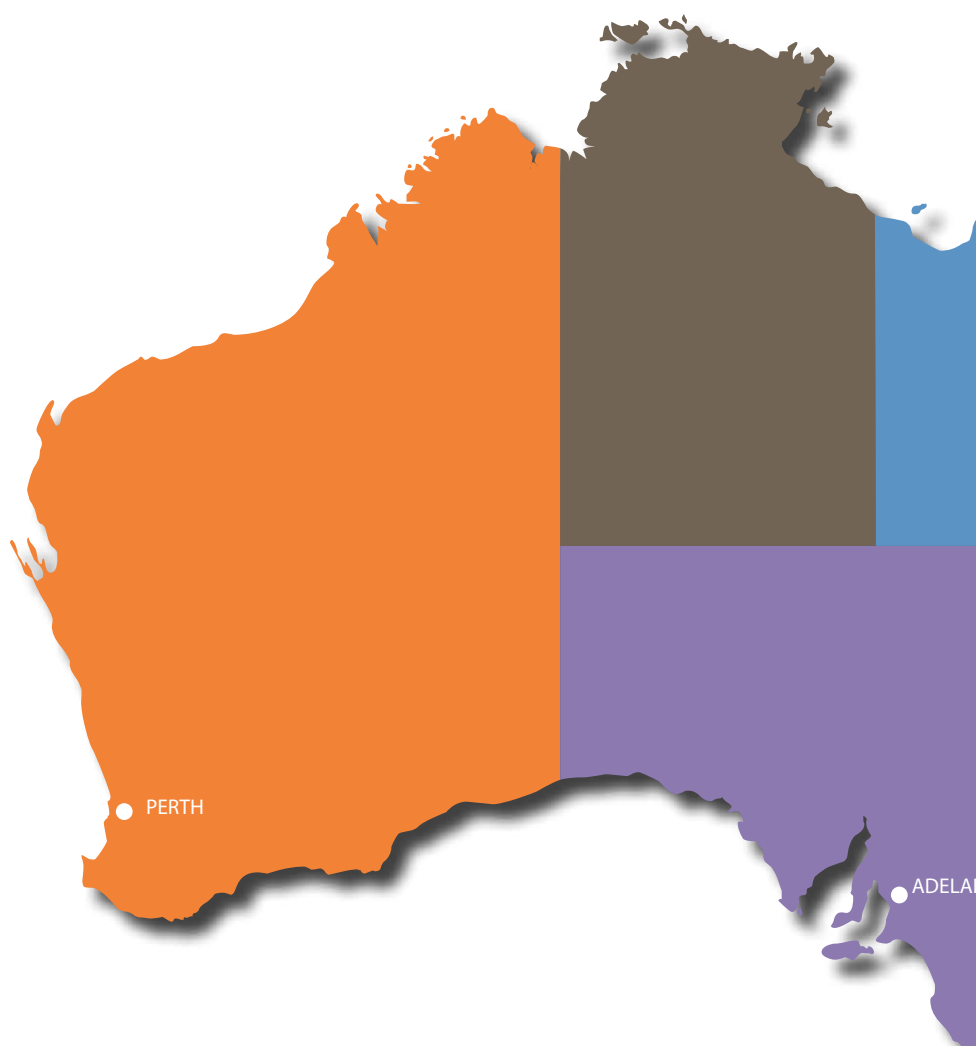
AUSTRALIAN CAPITAL TERRITORY

PROPERTY INCOME FUND

40 Allara Street, Canberra (Office)

OFFICE PROPERTY FUND

64 Northbourne Avenue, Canberra





QUEENSLAND

RETAIL PROPERTY FUND

Sunshine Homemaker Centre, Maroochydore

HEALTHCARE PROPERTY TRUST

Ipswich Medical Centre & Day Surgery, Ipswich
Mackay Medical Centre, Mackay

INDUSTRIAL PROPERTY TRUST

3 Hi Tech Court, Eight Mile Plains

DIVERSIFIED PROPERTY FUND

278 Orchard Road, Richlands (Industrial)

PROPERTY INCOME FUND

98 Ingelston Road, Wakerley (Industrial)
15 Telford Place, Arundel (Industrial)

OFFICE PROPERTY FUND

241 Adelaide Street, Brisbane

SECOND INDUSTRIAL TRUST

101 Beenleigh Road, Acacia Ridge

NEW SOUTH WALES

RETAIL PROPERTY FUND

Tamworth City Plaza, Tamworth
Caltex Twin Service Centres, Wyong

HEALTHCARE PROPERTY TRUST

IVF Australia Clinic, St Leonards
Berkeley Vale Private Hospital, Berkeley Vale
Constitution Hill Aged Care, Toongabbie
Forest Road Development Site, Orange
Hunters Hill Private Hospital, Hunters Hill
Figtree Consulting Suites, Figtree
Figtree Private Hospital, Figtree
Royal Prince Alfred Medical Centre, Newtown

OFFICE PROPERTY FUND

260-300 Elizabeth Street, Sydney (19.99% interest)
32 Phillip Street, Parramatta
10 Valentine Avenue, Parramatta

INDUSTRIAL PROPERTY TRUST

9 Coventry Place, Mt Druitt

DIVERSIFIED PROPERTY FUND

121-125 Henry Street, Penrith (Office)*
20 Smith Street, Parramatta (Office)
395 West Botany Street, Rockdale (Retail)

FIFTH COMMERCIAL TRUST

5 Eden Park Drive, North Ryde

SECOND INDUSTRIAL TRUST

2 Eden Park Drive, North Ryde
23-25 Waterloo Road, North Ryde

VICTORIA

OFFICE PROPERTY TRUST

477 Collins Street, Melbourne*
172-186 Moreland Road, Brunswick*

RETAIL PROPERTY FUND

Wauron Ponds Shopping Centre, Geelong
Wauron Ponds Development Site (50% interest)^
North Blackburn Square Shopping Centre,
North Blackburn
Wendouree Homemaker Centre, Ballarat

HEALTHCARE PROPERTY TRUST

Beleura Private Hospital, Mornington
Beleura Clinic, Moorooduc
Eureka Medical Centre, Ballarat
Manningham Medical Centre, Templestowe
Peninsula Private Hospital, Langwarrin
The Valley Private Hospital, Mulgrave
Brunswick Private Hospital &
Brunswick House Aged Care, Brunswick
Victoria House, Prahran*

DIVERSIFIED PROPERTY FUND

706 Lorimer Street, Port Melbourne (Industrial)

PROPERTY SYNDICATE NO. 2#

18-20 Lakewood Boulevard, Braeside (Industrial)

INDUSTRIAL PROPERTY TRUST

38-40 Vella Drive, Sunshine
104 Woodlands Drive, Braeside

PROPERTY INCOME FUND

65 Beverage Drive, Tullamarine (Industrial)
11 Dansu Court, Hallam (Industrial)
7-9 Siddons Way, Hallam (Industrial)

OFFICE PROPERTY FUND

468 St Kilda Road, Melbourne

^ An expansion of Wauron Ponds Shopping Centre is currently being constructed on this site. The expansion is targeted for completion in late 2012.

In September we entered into unconditional contract for the sale of this property.

* Expressions of interest are currently being sought on the property.

Why doing debt well can be a big deal for property investors

Anyone who's ever taken out a mortgage to purchase a property knows how important negotiating a loan with the bank is. Different lenders offer different terms, and the contracts they present to sign usually look like novels filled with terms and conditions. Sorting out the best deal possible can make a huge difference to how much you're paying and how much is left in your account.

Australian Unity Investments is one of the few retail property fund managers who have appointed a Capital Markets team to manage the borrowings it has for its funds. The total debt managed is close to \$1 billion. Fortunately, when tight credit became the bane of many property funds during the GFC, the Capital Markets team continued to achieve successful financing outcomes for our funds in what were very challenging times.

Two years on, credit markets have improved and the team is now doing some great deals for investors.

Carolyn Ireland and Osvaldo Acosta play a significant role in contributing to the strength of our property funds' balance sheets. Here, we reveal some of their expertise and why this can have such a big impact on returns for investors.



Osvaldo Acosta, Capital Markets Manager and Carolyn Ireland, Head of Capital Markets

Active debt management a differentiator

As managers on the flip side of the balance sheet, Carolyn and Osvaldo have a delicate role in making sure investors aren't stuck with restrictive loan covenants and expensive borrowing costs. In a nutshell, they are responsible for loan negotiations and ensuring that the funds adhere to any imposed conditions or covenants while being shielded from an array of risks associated with the external lending and economic environment.

The team is careful to seek an optimal debt position that is diversified across Australia's top five banks, with a maturity profile that extends over two years. The team also works closely with the portfolio managers to ensure that loan covenants – such as loan-to-valuation ratios (LVRs) and interest cover ratios (ICRs) – negotiated with lenders are achievable for the funds and are managed well within their limits.

With our latest acquisition of three property funds from Investa Property Group, the number of debt facilities managed by the team now stands at nine. Not surprisingly, loan negotiations form the bulk of the team's work.

"Active debt management is one of the things that distinguishes us from other property fund managers," Carolyn highlighted. "It creates a real point of difference and is able to add significant value for our investors."

The team usually starts preparing for loan negotiations a long way ahead, usually six months from when the loan expires. The process involves delivering a carefully planned presentation on the strengths and strategy of the particular fund, supported by performance data, forecasts and other key financial metrics.

This process allows the team sufficient lead time to invite participation and competition from other lenders, which can sometimes give them a better chance of securing more attractive terms.

Deals done well boost investor returns

In June 2011, the team negotiated a \$200 million loan facility, well ahead of expiry, for the Healthcare Property Trust. The facility, also one of our largest property loans, was provided by four top-tier banks. Significant to the new deal was the introduction of a new lender who created competition among the others, which was important for the final deal.

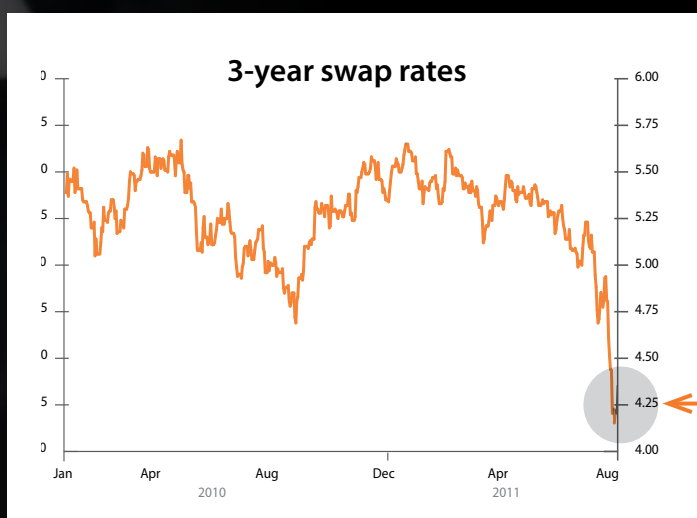
“The Healthcare Property Trust’s facility is a good example of how we were able to negotiate a very attractive package from a good level of competition from Australia’s top four banks,” Carolyn said. “As a result, all things being equal we estimate a healthy boost to the ongoing distribution return for investors.”

Negotiations are the key to value

Understanding what lenders expect and managing their expectations plays a crucial role in delivering these results. Frequently, the team will consult with property asset managers and our Portfolio team to help ensure our funds have healthy gearing levels and cash flows with a solid interest cover.

Carolyn acknowledges the value created through this collaborative approach. “Particularly over the past four years banks have seen the tangible results we delivered to their own bottom lines. As a result, they’re now approaching us with increased interest to lend. This not only reflects their positive view about the commercial property market, but also our own credibility as a quality borrower and property manager.”

Once a year, the team and senior executives across the Australian Unity Group meet with Australia’s top banks to reinforce the relationship they have built over the years. For the team, it is a good opportunity to highlight and leverage the Group’s prominent deposit book with the banks.



Source: Australian Unity Investments

Active hedging a big help in containing borrowing costs

Active debt management certainly doesn’t stop with the successful negotiation of a new loan facility. From there, the team continues to manage the interest rate costs of the loans through a sophisticated and active approach to hedging.

In a nutshell, a hedge is a transaction or an agreement that seeks to reduce risk on an investment. In the context of borrowings, the Capital Markets team will use interest rate hedges to ‘lock in’ a fixed interest rate on the borrowings for a set period of time. By locking in a fixed interest rate, a fund can have greater certainty over its distributions as the total interest costs are known.

“Hedging is not about picking the rates when they are at the bottom, because you never really know where the bottom is until it’s passed,” says Osvaldo. “It’s more about identifying opportunities to lock in lower rates over a period of time to average down interest costs when interest rates are historically low and opportunity presents.”

Osvaldo keeps a close watch on market interest rates and makes recommendations to enter into hedges based on his analysis of how interest rates compare to long term averages and the requirements of our funds.

“It’s not simply looking at interest rates; hedging involves a great deal of sensitivity analysis as to how our funds are likely to be impacted by a certain move in rates, as well as comparing the yield curves, that is, expected interest rate movements over specific timeframes.”

Recently, Osvaldo saw an opportunity created by the extraordinary volatility that emerged in financial markets during August. During that period markets suddenly began to price in expectations for large interest rate cuts over the short term. Seizing the opportunity, Osvaldo acted quickly to recommend and gain approval to execute new hedges for three of our largest property funds. The average interest rate cost for these funds is now locked in at an attractive level compared to the long-term three year swap rates, for the next two to three years – a result that not only delivers certainty as to the funds’ future borrowing costs, but also reduces volatility in distribution returns for investors.

The outcome is active management that delivers real results and real value for investors.

Meet the new additions to our property team

Up close and personal with Mark Lumby and Grant Nichols

With the new acquisition of Investa's retail property funds, we were so impressed by the abilities of the portfolio managers we asked if they'd also join Australian Unity Investments. The good news for investors is they accepted and will continue to manage the Australian Unity Office Property Fund, the Australian Unity Fifth Commercial Trust and the Australian Unity Second Industrial Trust.

Arriving promptly for our scheduled interview, Mark Lumby and Grant Nichols made a strong impression throughout our conversation with their professionalism.

Both joined the Australian Unity Investments' property team on 1 October 2011, and both were formerly part of the management team at Investa, playing key roles in the management of the three property funds. They will also be joined by Simon Beake, a fund analyst, also formerly with Investa, who was unable to be present at the interview because he has just had a new baby girl.



Mark Lumby
Head of Office and
Industrial Property Funds

Standing up to the ultimate stress test

Asking Mark about his experience managing property funds, he vividly recalls that when he joined Investa, the GFC was just getting started. "I joined Investa in July 2008 and by December all property and capital markets had changed significantly. It was certainly one of the biggest challenges in my career."



Right now, we see a lot of intrinsic value in our properties and we're looking forward to realising this over coming years.



Grant, who worked alongside Mark during this time, recalled some of the hard decisions they had to make. But he says it was the willingness to make the decisions that made a big difference in the long run.

"It was active property management during this period that enabled us get back to a position where the Office Property Fund delivered a positive 10% total return for the year to 30 June 2011," Grant says. "Even during the GFC, none of our funds breached their debt covenants or had a vacancy rate of more than 5%."

One of the biggest priorities Mark says the team has is in the quality of information they've provided to investors. "Over the past three years we've transformed our reports so they deliver comprehensive details about what's happening – the good and the bad news. We've also sought out financial advisers to speak with them and provide regular briefings."

Looking ahead to a brighter future

As Grant points out, having quality assets in the funds is what has enabled them to recover quickly. "Despite the GFC, all three funds have delivered positive returns since inception,"¹ he says.

Today, all three funds are paying regular quarterly distributions, and all report high occupancy rates and a tenancy base that includes strong long-term leases with high-profile brands and government agencies. Notably, all three funds also have a prudent and conservative level of debt.

Both Mark and Grant are looking forward to leveraging the experience of Australian Unity Investments to grow the funds. Mark says, "The funds are already in a strong position and we look forward to building on this by utilising the expertise of Australian Unity Investments."

Looking ahead, the team plans to continue focusing on strengthening tenancy profiles and maintaining the assets. "The funds have performed well and one of our first priorities with Australian Unity Investments is to look at ways to introduce liquidity for investors," Mark says.

As experts in the office and industrial property space, Mark and Grant's view is that the commercial office property sector will be the likely standout performer over the medium term, with the Sydney and Melbourne markets expected to deliver the strongest capital and rental growth.

As Mark summarises, "Right now, we see a lot of intrinsic value in our properties and we're looking forward to realising this over coming years for investors in the funds."

¹ The Australian Unity Office Property Fund was inceptioned on 1 June 2005, the Fifth Commercial Trust was inceptioned on 16 May 2003 and the Second Industrial Trust was inceptioned on 14 June 2002.

Past performance is not an indicator of future performance.

Retail property sector update

Australian Unity Investments knows retail property

The Australian Unity Retail Property Fund is an unlisted property fund that invests primarily in retail-related commercial property.

→ Gross asset value	\$386.95 million
→ Number of tenants	200+
→ Occupancy	96.03%
→ Weighted average lease expiry by income	4.72 years
→ Borrowings	\$191.43 million
→ Gearing ratio	49.47%

Despite the heavy headlines about the state of the Australian retail sector in the closing months of the last financial year, the first day of spring in 2011 delivered hopes of a potential 'green shoots' spending recovery. New sales showed a surprise lift in retail spending of 1.2% for July.¹

According to Peter Lambden, Head of Diversified Property, there is no doubt that some in the retail sector are doing it tough, but the current period is also a good example of quality assets proving their worth.

Peter notes, "In this environment, competition is increasing among some of the major retailers. The commercial property investment winners will be those who can best position themselves to create thriving centres and, at the same time, keep competitors out."

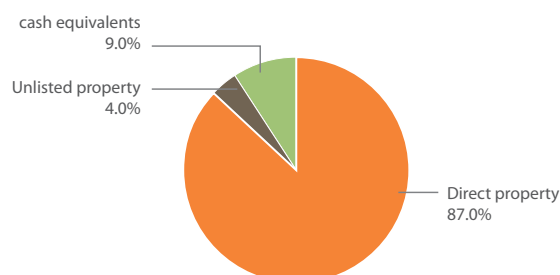
How the retail market has performed

According to the latest Jones Lang LaSalle report, the retail property sector retreated marginally in the three months to 30 June 2011.² Despite the economy's strong fundamentals – low unemployment, solid wages growth, steady population growth and a sharp recovery in household wealth – relatively low retail turnover growth and a decline in consumer sentiment ahead of 30 June caused retailers to remain cautious. Tenant demand generally remained stable, although it was weaker for retailers of discretionary goods such as fashion, books and music, due in part to the impact of the strong Australian dollar and competition from online retailers.

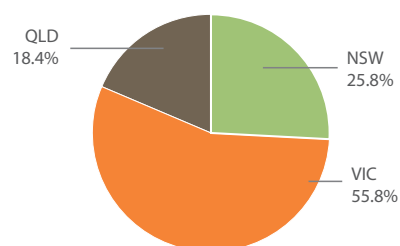
Development activity has remained broadly subdued, although works continue to be above 2010 levels when many development projects stalled in response to the GFC. Pockets of activity are strong, for example the growth in new bulky goods projects as Bunnings has sought to increase its pipeline in response to the new entry of Woolworths Masters brand.

Across the industry, vacancies have risen slightly during 2011, although there is considerable variation in this activity for sub-markets, with discretionary retailers hit harder than those selling non-discretionary items. Growth in rent has remained minimal, except in Melbourne where Jones Lang LaSalle has reported "retail rents continuing to grow steadily in most sub-markets".³ Capitalisation rate analysis from Knight Frank in September 2011, which looked at the assumed rental yield for the sector, reported a slight firming of rates in 2011. Looking ahead, the report suggested a modest tightening in cap rates will likely continue for the next 12 months.⁴

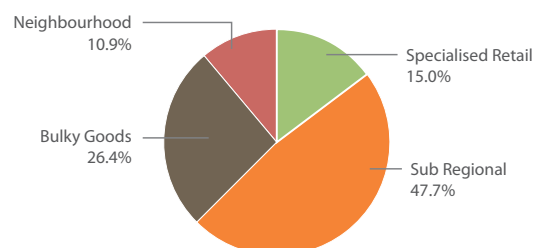
Asset allocation



Geographical allocation



Sector allocation



Data is at 30 June 2011

Outlook

Our view of retail sales for the 2011–12 financial year is that steady but unremarkable growth is likely to continue, particularly for the stronger non-discretionary sector. A lot will depend on the actions of the Reserve Bank of Australia, which has so far elected to leave official interest rates steady for the past nine months, creating considerable debate as to whether the next rate movement will be up or down. Encouragingly, Westpac recently observed a "surprisingly strong" rise in consumer sentiment. Reasons for the rise, according to Bill Evans, chief economist at Westpac, were the strong recovery in economic growth in the June quarter and moderating interest rate expectations.⁵

Our view is that activity in the retail commercial property sector over the coming two years will continue to be broadly positive, due mostly to persisting low levels of supply that came about because of minimal development during the GFC. As a result, there will be a continuation of relatively low vacancy levels, moderate growth in rents and a steady but gradual uplift in valuations leading to moderate capital growth in the sector.

¹ Retail sales post surprise jump, The Age, 1 September 2011

² Jones Lang LaSalle, Real Estate Intelligence Service, Preliminary Market Overview Q2/2011 (Retail)

³ Jones Lang LaSalle, Real Estate Intelligence Service, Preliminary Market Overview Q2/2011 (Retail)

⁴ Knight Frank, Cap Rate Analysis (Post A-REIT Reporting Season), Commercial Property Insight, September 2011

⁵ Westpac Melbourne Institute Index of Consumer Sentiment, 14 September 2011 (Media release)

Office property sector update

For the past 18 months office property markets have generally been talked about as the standout sector in the commercial property market. Over this time period, vacancy rates have fallen to a point where they now sit at, or below, historic averages.

Tenant demand, which had all but evaporated in 2008 due to the global economic uncertainty, noticeably bounced back during 2010. Office space absorption – the industry measure of demand – was nearly twice the historic average in 2010, buoyed by improving market confidence that drove business expansion.

During 2010, office markets were powered by increasing activity in Sydney and Melbourne, and, while Brisbane and Perth were initially oversupplied, strong demand during late 2010 and early 2011 has reduced the oversupply significantly.

Most recently, in the second quarter of 2011, this recovery has slowed as business economic conditions weakened and doubts about global financial markets reignited fears of second wave of the GFC. Leasing activity in early 2011 was reported as patchy in Sydney and Melbourne. Against the trend, however, the pace of recovery continued to quicken in Perth.

For the first five months of 2011 Australia's employment growth was constrained, with only 30,900 jobs created (seasonally adjusted). This slow employment growth is one of the things holding back new office developments. As a result, the number of options available for tenants with pending expiries is limited, increasing the competitive tension for available office space.

These factors have helped existing property managers to drive good rental returns for the year to June 2011, particularly in markets like the Melbourne and Sydney CBDs.

Outlook

Our view is that the rate of rental growth will continue to strengthen over the medium term. Vacancy rates are expected to stay low as there are few new office developments, which have not already been substantially pre-let, forecast to come onto the market before 2014.

We believe that the Australian office market is now more balanced from a supply/demand perspective, although the Melbourne market continues to take the lead and demand in this market is most likely to outpace supply. Certainly, both Perth and Brisbane are back on investors' radar. Adelaide, too, has recently experienced some significant transactions. In Canberra, despite the office market continuing to be sluggish, we were recently pleased to successfully lease a sizeable portion of office space in our Property Income Fund's Allara Street, Canberra property to a Government tenant on a long-term lease. This property is now 100% occupied.

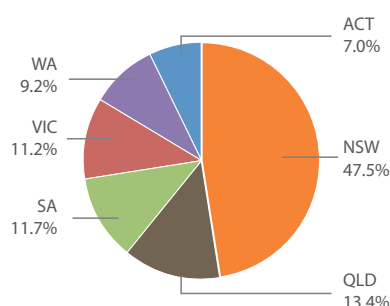
In broad terms, our view is that the Australian office property sector remains robust and the supply/demand fundamentals in most markets will likely support growth over the next two to three years.

Australian Unity Investments knows office property

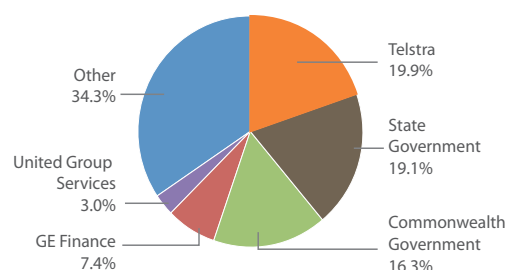
From 1 October 2011 Australian Unity Investments took responsibility for the management of the Australian Unity Office Property Fund (formerly the Investa Diversified Office Fund). The Fund holds interests in eight office buildings in most of Australia's major centres and was the first retail property fund to receive certification from the Responsible Investment Association of Australasia (RIAA).

→ Gross asset value	\$290.09 million
→ Occupancy	95.3%
→ Weighted average lease expiry by income	3.34 years
→ Average cap rate	8.87%
→ Borrowings	\$130.4 million
→ Gearing ratio	45%
→ Fund NABERS energy rating	4 stars
→ Fund NABERS water rating	3.3 stars

Geographical allocation



Top tenants by income



In addition, we also manage the Australian Unity Investments Office Property Trust, which owns two properties, the Olderfleet Buildings, located at 477 Collins Street, Melbourne and a smaller office building at 172-186 Moreland Road, Brunswick, Victoria. We are presently seeking expressions of interest for both assets.

Data is at 30 June 2011 (Quarterly Report, Investa Retail Funds)

Healthcare property sector update

The Australian healthcare property sector continues to display its characteristic strength and stability, providing investors with a unique and niche investment opportunity for excellent income and growth potential.

Chris Smith, the Head of Healthcare and Retirement Property Funds, points out that, unlike other commercial property sectors, healthcare was only modestly impacted by the GFC. Chris says, "Australia's ageing population and its increasing need for healthcare services continues to support the sector. The economic climate is largely irrelevant to healthcare needs. As such, we continue to observe a growing demand for healthcare properties."

How the healthcare market has performed

Understanding the success of the healthcare property sector is relatively simple once it is understood how important health services are to our economy. According to the most recent available data, health expenditure in Australia in 2008–09 reached \$112.8 billion, an increase of \$9.2 billion over 2007–08. Hospitals account for around 39% of this expenditure, medical services for 19% and medications for 14%.¹

Private hospitals treat approximately 40% of all hospital patients in Australia. In 2009–10, this amounted to approximately 3.5 million patients. And demand for private healthcare is growing strongly. Comparing the financial years 2008–09 and 2009–10, the number of patients admitted to private hospitals rose by 5.1%. Over the same period the number of patients admitted to public hospitals rose by 3.7%.²

For the private healthcare sector, one significant positive during the past year has been the increased level of interest from offshore investors seeking to acquire portfolios of Australian healthcare businesses. Some notable transactions occurred during the past financial year, including the acquisition of some of Australia's leading private healthcare providers, Healthscope and HealthCare.

This demand and increased activity in private healthcare, in turn, provides strong foundations for the healthcare property sector. There have also been a number of acquisitions involving large healthcare property trusts over the past 12 months.

Across the sector, as rents have generally continued to rise, capitalisation rates have remained stable. In most cases this has resulted in improving capital values.

Outlook

The outlook for the healthcare property sector remains strong and we believe 2011–12 will be another solid year for the sector. Australia's ageing population and its straining public healthcare sector continue to present private operators with demand for medical and health-related services. Offshore investors are also likely to continue to look to capitalise on this potential.

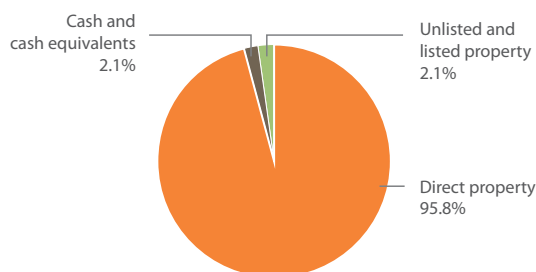
Our view is that long-term occupancy demand will continue, which will translate to consistent distributions for investors in the healthcare property sector. Further, capitalisation rates for healthcare property will continue to remain stable. This, along with the continued increase in rents, is expected to gradually reflect positively in property valuations in the year ahead.

Australian Unity Investments knows healthcare property

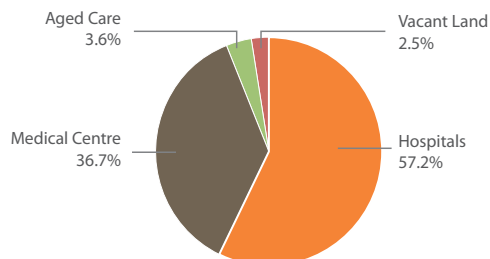
The Australian Unity Healthcare Property Trust launched in 1999 to capitalise on Australia's ageing population and the growing demands for healthcare. The Trust was the first fund of its kind to invest exclusively in hospitals and medical centres.

→ Gross asset value	\$420.04 million
→ Occupancy	98.93%
→ Weighted average lease expiry by income	6.41 years
→ Borrowings	\$185.80 million
→ Gearing ratio	44.24%

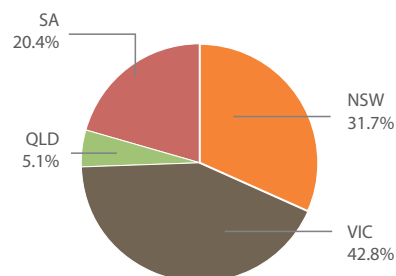
Asset allocation



Direct property by sector



Geographical allocation



Data is at 30 June 2011

¹ Health expenditure, Australian Institute of Health and Welfare, www.aihw.gov.au, September 2011

² Provision of Services in Private Hospitals, Australian Private Hospitals Association, www.apha.org.au, September 2011

Industrial property sector update

It may not be the glamorous or high-end segment of the commercial property market but things have generally continued to improve for the industrial property sector.

During 2011, Peter Lambden, the Head of Diversified Property at Australian Unity Investments, says he has generally experienced good, solid demand from both buyers and owners. Typically, industrial property assets are able to provide investors with higher yield, but can be more volatile and sensitive to changing economic conditions.

How the industrial market has performed

Jones Lang LaSalle recently reported that sentiment for the industrial property sector appeared to be more cautious in the second quarter of 2011 than previous periods. It also noted a similar soft patch, which lasted only one quarter, occurred in the first quarter of 2010.¹

Despite this, occupier activity increased as tenants sought expansion in existing facilities, while there was a moderate amount of pre-lease activity recorded in the first half of 2011.

Supply of industrial property generally remained below the previous year, but new construction is beginning to pick up. On average, existing market rents have been broadly flat, although Perth has recorded an increase. Yields were largely stable during the first half of 2011 and land values were similarly flat.

Outlook

In its recent Industrial Investor Survey Jones Lang LaSalle reported “the primary investment criteria of the majority of industrial property investors is passive investment”. However, one of the more interesting elements of the survey’s findings was a strong upswing in investors reporting they were looking for greater potential returns by increasing their risk tolerance through development activity, and the conversion of an asset’s primary use.² Noting the trend for increased risk, the report said “40% of respondents [to the survey] were actively developing industrial assets and, of those, 53% will be increasing development activity in the next 12 months”.

At current values, our view for commercial industrial property is generally positive, supported by strong underlying fundamentals in the Australian economy. A good demonstration of this is that many landlords are now taking a more aggressive approach to rental growth, with 43% of respondents to the Jones Lang LaSalle survey planning to broadly reduce incentives offered over the next 12 months for both new leases and lease renewals.

While we maintain a positive outlook for the industrial property market, our view is that investor expectations should be for a gradual and steady uplift rather than short-term or rapid investment gains.

¹ Jones Lang LaSalle, Real Estate Intelligence Service, Preliminary Market Overview Q2/2011 (Industrial)

² Jones Lang LaSalle, Industrial Investor Survey 2011: Part 2 – Investment Criteria, September 2011

Australian Unity Investments know industrial property

Australian Unity Investments has a long and established history in industrial property management.

- We currently manage the Australian Unity Industrial Property Trust, which holds four industrial properties across Australia’s eastern seaboard.
- During the past year, we have also sold and are in the process of winding up two industrial property syndicates.
- As part of the Australian Unity Diversified Property Fund, we manage five industrial properties in Western Australia and Victoria.
- From 1 October we took responsibility for managing the Australian Unity Second Industrial Trust, which was formerly managed by Investa. This Trust holds industrial assets valued at approximately \$48.9 million as at 30 June 2011.

Our property experience

Australian Unity Investments has more than 30 years of funds management experience and more than 10 years experience in property asset management. Our property portfolio is currently valued at close to \$2 billion (at 1 October 2011) and comprises property assets in the retail, industrial, healthcare and office sectors.

Our property executive team

The property management team is arguably one of the highest calibre in the Australian market.



David Bryant

Chief Executive Officer

David joined Australian Unity Investments in 2004 and is responsible for all the investment management activities across our financial and property assets. David has more than 25 years experience in investment and financial services.



Mark Pratt

General Manager – Property, Mortgages & Capital Markets

Mark joined Australian Unity Investments in 2004. He is responsible for the commercial management and growth of our in-house property and mortgages asset management businesses.



Martin Hession

Head of Property

Martin joined Australian Unity Investments in 2002 and is responsible for our property portfolio, valued at approximately \$2 billion. His 30 years experience in property includes portfolio management, commercial and land development, and real estate agency management.



Peter Lambden

Head of Diversified Property Funds

Peter joined Australian Unity Investments in 2001 and has more than 35 years experience in portfolio and property management. He is highly regarded for his knowledge of the commercial property sector and is responsible for the performance of our Retail Property Fund, Diversified Property Fund, Office Property Trust and Property Income Fund.



Mark Lumby

Head of Office and Industrial Property

Mark recently joined Australian Unity Investments from Investa Property Group and has more than 13 years experience in property funds management. He was responsible for the performance of the Office Property Fund, Fifth Commercial Trust and Second Industrial Trust over the past three years and will continue to lead in the management of these funds.



Chris Smith

Head of Healthcare and Retirement Property Funds

Chris joined Australian Unity Investments in 2001 and has more than 20 years experience in portfolio and property management. Over the past decade, he has played a vital role in shaping our Healthcare Property Trust into one of the largest and highest rated property funds in Australia.

Performance of our open property funds as at 31 August 2011

Fund	1 Year %			3 Years % p.a.			5 Years % p.a.			Since Inception % p.a.		
	Growth Return	Dist'n Return	Total Return	Growth Return	Dist'n Return	Total Return	Growth Return	Dist'n Return	Total Return	Growth Return	Dist'n Return	Total Return
Diversified Property Fund [#] Inception date: 31 Aug 2006	2.02	6.78	8.80	(8.74)	7.13	(1.61)	-	-	-	(3.61)	6.74	3.13
Geared Property Income Fund - Wholesale Inception date: 30 Apr 2005	(5.14)	4.24	(0.90)	(13.71)	5.49	(8.22)	(10.30)	7.32	(2.98)	(7.38)	7.94	0.56
Geared Property Income Fund - Retail Inception date: 30 Apr 2005	(4.87)	2.70	(2.17)	(13.48)	3.97	(9.51)	(10.20)	5.79	(4.41)	(7.36)	6.46	(0.90)
Healthcare Property Trust - Wholesale Inception date: 28 Feb 2002	1.71	6.53	8.24	(2.31)	6.89	4.58	2.01	7.58	9.59	3.16	9.17	12.33
Healthcare Property Trust - Class A Inception date: 28 Feb 2009	1.40	6.23	7.63	-	-	-	-	-	-	(2.25)	6.30	4.05
Healthcare Property Trust - Retail Inception date: 30 Jun 1999	1.65	5.73	7.38	(2.32)	6.08	3.76	2.09	6.66	8.75	2.63	8.37	11.00
Industrial Property Trust* Inception date: 30 Sep 1999	(4.48)	11.81	7.33	(12.45)	11.55	(0.90)	(6.98)	10.34	3.36	(1.97)	10.48	8.51
Property Income Fund - Wholesale Inception date: 31 May 1999	(2.49)	6.01	3.52	(7.04)	5.99	(1.05)	(5.15)	7.28	2.13	(1.50)	8.22	6.72
Property Income Fund - Retail Inception date: 31 Mar 2005	(2.34)	5.02	2.68	(7.00)	5.10	(1.90)	(5.13)	6.39	1.26	(3.35)	6.74	3.39
Retail Property Fund - Wholesale Inception date: 31 Aug 2010	(3.48)	7.97	4.49	-	-	-	-	-	-	(3.48)	7.97	4.49
Retail Property Fund - Class A Inception date: 31 Aug 2010	(2.64)	7.14	4.50	-	-	-	-	-	-	(2.64)	7.14	4.50
Retail Property Fund - Retail Inception date: 28 Feb 2009	(5.38)	6.62	1.24	-	-	-	-	-	-	(10.45)	6.60	(3.85)

Performance is calculated after fees and expenses and assumes the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Performance for the Diversified Property Fund is calculated as at 31 July 2011.

* The unusually large distribution and growth returns, which flow through to other quoted periods, occurred because capital gains were distributed to investors. The distribution was a result of the three property sales that occurred during the 2009-10 year.

Visit our website at www.australianunityinvestments.com.au for the latest performance information and updates on our investment products.

Our research ratings

The table below shows the current ratings (September 2011) from leading, independent research houses for Australian Unity Investments' products.

Fund				
Australian Unity Healthcare Property Trust	Highly Recommended	Four Stars	Highly Recommended	4.25 Stars
Australian Unity Diversified Property Fund	Recommended (Upper End)	Three Stars	Recommended	-
Australian Unity Retail Property Fund	Recommended (Upper End)	-	-	3.75 Stars
Australian Unity Property Income Fund	Recommended	Three Stars	-	3.75 Stars

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Important information

Australian Unity Funds Management Limited ABN 60 071 497 115 AFS Licence No. 234454 is the product issuer of the Australian Unity Healthcare Property Trust. Australian Unity Property Limited ABN 58 079 538 499 AFS License No. 234455 is the product issuer of the Australian Unity Retail Property Fund, the Australian Unity Property Income Fund, the Australian Unity Investment Office Property Trust, the Australian Unity Industrial Property Trust and Australian Unity Property Syndicate No.2. Australian Unity Property Funds Management Limited ABN 28 085 352 405 AFS License No. 233718 is the product issuer of the Australian Unity Diversified Property Fund, Australian Unity Property Investment Management Limited ABN 48 120 839 447 AFS License No. 303614 is the product issuer of the Australian Unity Office Property Fund, Australian Unity Fifth Commercial Trust and Australian Unity Second Industrial Trust.

This information is general information only and does not take into account the financial objectives, situation or needs of any particular investor. Investment decisions should not be made on the basis of past performance or any rating given by a ratings agency, as these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency itself. Before deciding whether to acquire, hold or dispose of a product, you should refer to the relevant Product Disclosure Statement (PDS). A copy of the PDS can be obtained by calling us on 1800 649 033 or 13 29 39 or visiting www.australianunityinvestments.com.au. The information provided here was current at the time of publication only. Past performance is not a reliable indicator of future performance.

The Lonsec Limited (Lonsec) ABN 56 061 751 102 ratings (assigned as follows: Healthcare Property Trust – September 2010; Diversified Property Fund – March 2011; Retail Property Fund – October 2010; Property Income Fund – April 2011) presented in this document are limited to General Advice and based solely on consideration of the investment merits of the financial products. They are not a recommendation to purchase, sell or hold the relevant products, and you should seek independent financial advice before investing in these products. The ratings are subject to change without notice and Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria.

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