Westpac Funds Management Limited

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ASX Announcement

Westpac Office Trust (WOTCA)

Total pages: 5

28 August 2009

Release - Full year results for year ended 30 June 2009

Attached is a release on results for the year ended 30 June 2009.

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28 August 2009

ASX Release

Westpac Office Trust (“WOTCA”)

Full year results for year ended 30 June 2009
Westpac Funds Management Limited (“WFML”), the Responsible Entity of the Westpac Office Trust (“the Trust”) today announced the Trust’s results for the year ended 30 June 2009 and re-affirmed distribution guidance for the full year ending 30 June 2010.

Highlights for the period

- Distribution of 6.65 cents per unit or 3.40 cents per instalment receipt in line with August 2008 guidance
- Like for like portfolio net property income growth of 3.4%
- 98.7%[1] portfolio occupancy maintained with WALE[2] of 9.2 years
- Net tangible assets at $0.86 per unit
- Rent review increases of 2.75% - 5.00% p.a. across the portfolio

Financial Performance

Distributable Income (after excluding fair value adjustments to properties and financial derivatives, straight lining of fixed rental increases and amortisation of debt establishment costs) was $33.7 million, an increase of 1.2% over the previous corresponding period.

Total Distribution was $32.1 million, a reduction of 8.0% over the previous corresponding period. The lower Total Distribution is due to the more prudent distribution policy adopted for the 2009 financial year. Stable property portfolio operating performance delivered net property rental income for the year of $84.4 million, an increase of 11%, or 3.4% on a like for like basis, on the previous corresponding period.

The statutory result, after including fair value adjustments to property values, unrealised mark to market losses on interest rate hedges, A-IFRS adjustments and other unrealised adjustments is a Net Loss of $159.5 million.

FY10 Distribution Guidance

As previously announced the distribution for the full year ending 30 June 2010, is expected to be 6.65 cents per unit equating to 3.40 cents per instalment receipt after deduction of instalment debt interest. Distributions were 100% tax deferred for the year ended 30 June 2009.

This guidance maintains 2010 forecast distributions at the same level as distributions paid in 2009.

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[1] Excluding a rental guarantee pertaining to 2,471 sqm at Cannon Hill 2, generating 0.9% of portfolio rental income until August 2010
[2] Weighted Average Lease Expiry

Gross and Net Assets

Total gross assets at 30 June 2009 were $1,201.8 million, a decrease of $173.1 million from 30 June 2008. The decrease comprises $108.6 million from property revaluation adjustments, $70.5 million from fair value adjustments to interest rate hedges, $18.0 million from reduced cash balance and $3.0 million from reduced receivables.

Net Tangible Asset Value (NTA) decreased by $183.7 million to $413.7 million from 30 June 2008.

At 30 June 2009 the NTA per unit was $0.86, a decrease of $0.38 cents from 30 June 2008. The NTA per instalment receipt was $0.36 after reducing the instalment debt obligation of $0.50.

Portfolio Valuations

The Trust's entire portfolio was revalued at 30 June 2009, with 5 of the 9 properties, including the flagship Westpac Place property, comprising 69% of the total portfolio by value, independently valued. The balance of the portfolio was subject to Directors valuation.

The carrying value of the portfolio decreased $114.5 million or 8.9% from the prior year to $1,172.5 million at 30 June 2009.

The weighted average capitalisation rate (WACR) for the portfolio was 7.32% at 30 June 2009. The capitalisation rate for the Trust's flagship asset, Westpac Place 275 Kent Street Sydney, was 6.88%, whilst the WACR for the remaining portfolio, excluding Westpac Place, was 8.06%.

Capital Management

With no refinancing requirement until July 2011 and 100% of borrowings hedged for this period, the Trust made no changes to its debt facilities during the period.

The Trust's debt facilities comprise a $505 million Commercial Mortgage Backed Securities issue maturing in November 2011, a term debt facility of $251 million from Westpac Banking Corporation ("Westpac") maturing in July 2011 and a working capital facility of $15 million from Westpac, maturing in November 2011.

Total debt facilities of the Trust at 30 June 2009 are therefore $771 million and total drawn facilities are $741 million. The Trust's gearing ratio (debt/total assets) was 61.5%.

The total average interest rate on all borrowings, inclusive of margin, is 6.55% p.a.

Portfolio Activity

Rent reviews were completed during the year over more than 192,180 square metres of tenanted space. Rent increases varied from 2.75% to 5.00%.

Portfolio occupancy was 98.7 % at 30 June 2009 with the only non tenanted area being the rental guaranteed area of 19 Corporate Drive Cannon Hill Qld.

The portfolio maintains one of the longest average lease term profiles in the listed property sector with a weighted average lease expiry of 9.2 years and the Trust has no material lease expiry exposure until mid 2011 when 5.7% of leases expire.

No acquisitions or divestments were undertaken during the period.

Performance Fee

The performance fee is calculated for each twelve month period to 31 December. In the event that the Trust outperforms its benchmark index the Trust's Manager receives a performance fee payable as units issued to the Manager at the 31 December NTA.

The deferred performance fee entitlement for the year to 31 December 2008 of $7.8 million is recognised as an unrealised adjustment at 30 June 2009. The fee is not payable until the end of the first subsequent year of positive total return by the Trust and will then be payable in units issued to the Manager at the 31 December 2008 NTA of 91 cents per unit.

For the six months to 30 June 2009 the Trust has underperformed its benchmark index by 20%.

Proposed Instalment Receipt restructure

On 14 August 2009 WFML announced a meeting of investors to be held on 10 September 2009 to seek approval for the Proposal to:

- Cease trading instalment receipts and commence trading units in the Trust on the ASX;
- Extend the term of the instalment receipts from 1 November 2011 to 1 November 2013; and
- Reduce the amount of instalment debt payable on 1 November 2011 from $0.50 per instalment receipt to $0.25 with the remaining $0.25 per instalment receipt payable on 1 November 2013.

The expected benefits of the Proposal include:

- Increased flexibility for existing investors to continue to hold instalment receipts or convert to units
- Extension of instalment receipts for a further two years until November 2013
- Reduced market risk from amending and extending the payment terms for the final instalment
- Broader investor support from investors who prefer units to instalment receipts
- Increased market capitalisation from recognition of the value of the Trust's units
- Potential for earlier REIT index inclusion
- Enhanced capital flexibility for the Trust
- Removal from the ASX 'partly paid' trading requirement relating to instalment receipts

A Notice of Meeting and Explanatory Memorandum detailing the Proposal was mailed to investors on 18 August 2009. An Independent Expert opinion from KPMG is included in the Explanatory Memorandum and concludes that the Proposal is in the best interests of investors.

Outlook

The impact of the economic downturn and dislocated capital markets upon listed property during the period has been comprehensively severe.

The deterioration in tenant demand shows little sign of turning until late CY10 and credit remains constrained and expensive. The valuation correction is however, working through more quickly than in previous cycles and there is a growing expectation that yields will stabilise for prime office property by early CY10 although properties with greater cashflow risk may have further pressure on valuations. The muted supply outlook in the major office markets offers a positive medium outlook for investors able to look beyond the near term and underpins the strengthening recovery in transactions activity which is now evident.

The secure cashflows and minimal lease expiry exposure of the Trust’s portfolio have underpinned a resilient performance in both valuation correction and stable operating performance to date and will continue to do so.

The Trust’s Manager is now focussed on ensuring the Trust is best positioned to capitalise upon market recovery.

The proposed restructure of the instalment receipts is an important step in this direction offering benefits to existing investors and the opportunity to secure support from a broader range of investors.

There is potential to enhance the performance from the existing portfolio by expansion of some of the Trust’s assets and these options are being actively pursued.

The Trust has the opportunity to benefit from improving debt markets with no refinance requirements until July 2011 and continues to pursue sales of smaller assets to reduce gearing.

Consolidation of the listed property sector is likely to be evident during 2010 and the Trust seeks to participate in opportunities that are consistent with the current investment criteria.

Finally, the Trust’s Manager restates that the Trust expects to pay a distribution of 6.65 cents per unit or a net distribution of 3.40 per instalment receipt after payment of instalment debt interest of 3.25 cents for the year to 30 June 2010 therefore maintaining the same distribution as paid in 2009. This distribution is again expected to be 100% tax deferred.

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