

# Commonwealth Property Office Fund (CPA)

Annual results to 30 June 2011

16 August 2011

## Agenda

- Overview
- Highlights
- Financial results
- Capital management
- Acquisitions
- Divestments
- Portfolio overview
- Australian office markets
- Development update
- Strategy
- Summary and outlook
- Appendices

## Overview

### State of the market

#### Economy

- Australian economy remained resilient, despite external shocks, recording 1.0% economic growth<sup>1</sup>
- Near full employment with unemployment rate at 5.1% in July 2011
- Australian dollar broke through parity with the US dollar

#### Capital markets

- Volatile Australian sharemarket
- Further opening up of domestic debt markets - an increase in debt issuance across the A-REIT sector
- Official cash rate at 4.75%

#### A-REIT sector

- Increased corporate and property investment activity
- A-REIT sector<sup>2</sup> delivered subdued performance for the year to 30 June 2011
- A-REITs are still trading at discounts to NTA<sup>3</sup>

#### Office

- An improvement in demand for office space and increased net absorption across Australia
- Australian office property sales volumes continued to increase during and post year-end
- Lead time before positive fundamentals translate into significant real growth in office property values

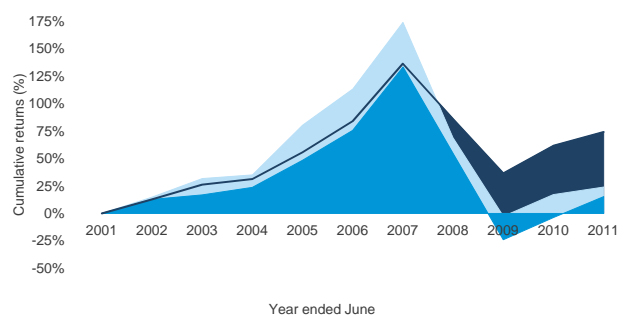
1. Gross domestic product for the 12 months to 31 March 2011.  
2. S&P/ASX 200 Property Accumulation Index.  
3. Net tangible asset backing.

## Overview

### Commonwealth Property Office Fund (CPA) performance

#### CPA cumulative total returns<sup>1</sup>

Total cumulative returns since June 2001



■ Commonwealth Property Office Fund (CPA) ■ S&P/ASX 200 Property Accumulation Index  
■ UBS Commercial 200 Accumulation Index

- Over 10 years:
  - CPA has delivered a total unitholder return of 74% (5.7% p.a.)
  - The Fund's benchmark index return was 15% (1.4% p.a.)
  - The S&P ASX 200 Property index return was 24% (2.2% p.a.)

Note: Past performance is not indicative of future performance.  
1. Assuming the reinvestment of distributions.  
Source: UBS Australia 2011.

## Overview

### Commonwealth Property Office Fund (CPA)



- CPA has bought and sold approximately \$1.8 billion of property over the past four years
- Demonstrated to be one of the most active managers in the A-REIT sector

CPA activity over the past four years	Quantity	Value
Divestments	10	\$872 million
Acquisitions	5	\$885 million
<b>Total value</b>		<b>\$1,757 million</b>

- As a result of these activities we have:
  - Repositioned the quality of the portfolio
  - Materially enhanced CPA's earnings and distribution profile
  - Well positioned the Fund in the current environment

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## Highlights



**5.50¢**

distribution per unit

**3**

assets acquired

**\$1.5b**

of debt restructured

**26.4%**

gearing  
as at 30 June 2011

**96.7%**

occupancy<sup>1</sup> achieved

**81%**

of office space committed  
at 175 Pitt Street, Sydney

1. Occupancy by income and excluding 5 Martin Place, Sydney (withdrawn for development), the post the period sales of three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

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## Post period highlights

- Divested \$590 million of assets post the period

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Perth assets -  
call option exercised<sup>1</sup>

15.3%

premium to latest valuation  
achieved with sale of  
259 George Street, Sydney<sup>2</sup>

50%

interest in  
5 Martin Place, Sydney<sup>3</sup>  
sold

- Divestments may result in a potential special distribution being payable in the 2012 financial year

1. Settlement expected on or before 1 December 2011.

2. Settlement expected on 31 October 2011.

3. Settlement expected on or before 20 June 2012 or on commencement of construction once 30% pre-commitment level is reached, whichever is the earlier.

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## Financial results

### Highlights for the year ended 30 June 2011

Key metrics	12-month change
Distributable income <sup>1</sup> \$155.3 million	↑ 14.0%
Distribution per unit of 5.50 cents per unit	↓ 0.9%
Net property income \$241.0 million	↑ 14.7%
Net property income (like-for-like <sup>2</sup> )	↑ 1.1%
Gross assets \$3.9 billion	↑ 24.2%
Net tangible asset backing (NTA) \$1.11 per unit	↓ 1.8%
Gearing <sup>3</sup> at 30 June 2011	26.4%

1. Distributable income equals profit excluding: net gains on revaluations of investment properties, associates and derivatives; the effect of straight-lining fixed rental increases; the movement in fair value of unrealised performance fees; and non-cash convertible notes interest expense.

2. Including those assets owned for both 12-month periods and excluding 175 Pitt Street, Sydney and 5 Martin Place Sydney.

3. Gearing equals borrowings to total assets. For this calculation, total assets exclude the fair value of derivatives and borrowings is the amount drawn down as per Note 11 of the Financial report, adjusted for the fair value of cross-currency swaps.

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## Financial results

### Composition of distribution per unit

Commonwealth Property Office Fund	Year ended 30 June 2011	
	\$m	cpu
<b>Profit</b>	<b>197.7</b>	
<i>Adjustments for unrealised impacts</i>		
deduct net gain from properties and associates revaluations	(35.3)	
deduct net gain from derivatives revaluations	(4.6)	
deduct straight-lining rental revenue	(4.1)	
deduct movement in the fair value of unrealised performance fees	(3.3)	
add back non-cash convertible notes interest expense	4.9	
<b>Distributable income</b>	<b>155.3</b>	
<i>Transfer (to)/from reserves for other adjustments</i>		
amount held in accordance with distribution policy	(31.0)	
transfer from undistributed reserves <sup>1</sup>	10.5	
<b>Distribution</b>	<b>134.8</b>	<b>5.50</b>

1. New units issued in November 2010 and December 2010 rank equally with existing units and are entitled to the full distribution for the year. Consequently the amount of \$10.5 million was transferred from undistributed reserves to deliver a distribution of 5.50 cents per unit.

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## Capital management

- We have maintained a strong balance sheet

### Capital management activities during the year

Renegotiated \$1.5 billion of debt through:

- Issuance of new medium term notes (MTNs)
- New bank debt facilities
- Restructuring existing bank debt facilities
- Repriced existing bank debt facilities

Re-entered the short term note commercial paper market

### Outcomes

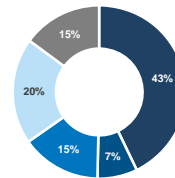
- ✓ Maintained the Fund's credit ratings
  - S&P credit rating of 'A-/A-2'
  - Moody's rating of 'A3/P-2'
- ✓ Maintained senior and unsecured debt
- ✓ Maintained gearing below the Fund's target gearing range of 30% - 40% (26.4% at 30 June 2011)
- ✓ Diversified the Fund's sources of funding
- ✓ Further staggered the debt maturity profile
- ✓ Extended the debt duration

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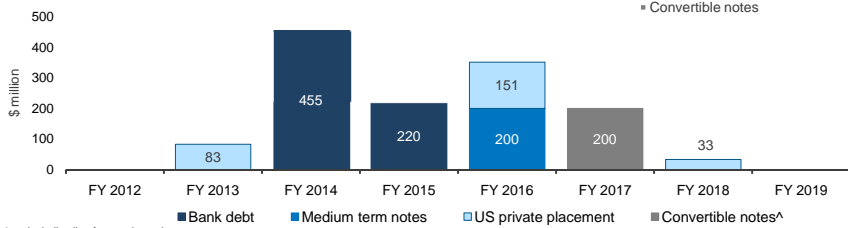
## Capital management

	At 30 June 2011	At 30 June 2010
Weighted average interest rate <sup>1</sup>	6.8%	7.2%
Weighted average duration of debt	4.1 years	3.9 years
Proportion of debt hedged	87%	94%
Undrawn debt facilities	\$323 million	\$653 million

Debt funding sources



Debt maturity profile<sup>2</sup>



1. Including line fees and margins.  
 2. Debt maturity profile excludes short term notes which are backed by bank debt facilities and therefore expiry risk rests with bank debt facilities.  
 \* Short-term notes (STN) are backed by bank debt facilities which remain undrawn while the STN facility is utilised.  
 ^ Convertible notes have an investor put option in December 2014.

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## Acquisitions

### Three A-grade Melbourne assets

- Acquired for \$581.4 million<sup>1</sup> for an acquisition capitalisation rate of 7.6%
- Improved portfolio quality and enhanced earnings

#### Benefits of the acquisition

Improved weighting to strong Melbourne market

Fixed reviews from assets with long weighted average lease expiry profiles to generate an estimated \$4.2 million net income uplift over the next 5 years

42,038 sqm exposure to market reviews in 2013/2014 at strong point of Melbourne office market cycle

Low medium term capex requirements

- Opportunity to enhance earnings by improving the retail offer

QV retail statistics	QV retail	Urbis <sup>2</sup>
Specialty sales/sqm (\$)	7,107	10,320
Specialty occupancy costs (%)	16.2	18.9

1. Excluding stamp duty and other transaction costs.  
 2. Urbis CBD major centres averages.



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## Divestments

### Post period sales

- Asset recycling strengthens balance sheet and enhances earnings

Asset	Sale price	Premium to latest independent valuation	Impact on gearing <sup>1</sup>	Settlement date
1 & 5 Mill Street and 197 St Georges Terrace, Perth	\$152.0 million	-	(3.0%)	On or before 1 December 2011
259 George Street, Sydney	\$395.0 million	15.3%	(8.6%)	31 October 2011
5 Martin Place, Sydney (50% interest)	\$42.3 million	15.9%	(0.9%)	On or before 20 June 2012 <sup>2</sup>
<b>Total</b>	<b>\$589.3 million</b>		<b>(12.4)</b>	

- Proceeds from these sales to be used for:
  - initially retiring debt
  - development or acquisition reinvestment opportunities
  - potential special distribution to unitholders

1. Impact to gearing reflects the relative change to gearing levels based on estimated net sales proceeds and 30 June 2011 gearing levels.  
2. Settlement expected on or before 20 June 2012 or on commencement of construction once 30% pre-commitment level is reached, whichever is the earlier.

## Divestments

### Potential special distribution to unitholders

- CPA's distribution policy is to distribute 70% to 80% of distributable income or taxable income whichever is the greater
- As a result of the sales a capital gain is likely to be triggered
- Taxable income is expected to be greater than distributable income
- Core distribution<sup>1</sup> guidance of 5.65 cents per unit for the 12 months ending 30 June 2012

Calculation of estimated net capital gain	\$m
Capital gains on the sale of the three Perth assets	74
Capital gain on the sale of 259 George Street, Sydney	39
Capital loss on the sale of 5 Martin Place, Sydney	-16
<b>Estimated net capital gain</b>	<b>97</b>

Calculation of potential special distribution due to divestments	\$m	cpu
Increase in taxable income (50% of estimated net capital gain)	49	1.97
less Tax deferred component <sup>2</sup> based on 30 June 2011 distribution (24% of 5.65 cpu guidance)	33	1.35
<b>Potential special distribution</b>	<b>16</b>	<b>0.62</b>

1. Assuming a performance fee is payable for one six-month period and the Fund's taxable income is no more than 80% of distributable income and there is no unforeseen material deterioration in existing economic conditions.  
2. The tax deferred component attaches to a distribution and is the difference between taxable income and distribution paid. The estimated tax deferred component for 30 June 2012 is based on the actual 30 June 2011 component equating to 24% of the estimated FY12 distribution of 5.65 cpu. The tax deferred component is subject to change and is affected by a number of variables such as the termination of swaps, performance fees, leasing incentives paid, capital gains and losses, depreciation and other items.

## Portfolio overview



58 Mounts Bay Road, Perth



750 Collins Street, Melbourne



2 Southbank Boulevard, Melbourne

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## Portfolio overview Leasing update

- Improved net property income outlook

Key leasing metrics	30 June 2011	30 June 2010
Occupancy (by income)	96.7% <sup>1</sup>	92.6%
New leases and renewals	79,851 sqm	78,522 sqm
Lease terms agreed	39,650 sqm	33,238 sqm
Portfolio WALE <sup>2</sup>	5.3 years <sup>1</sup>	4.7 years



2 Southbank Boulevard, Melbourne

1. Excluding 5 Martin Place, Sydney (withdrawn for development), the post the period sales of three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011). Including 5 Martin Place, Sydney occupancy is 94.2%.  
2. Weighted average lease expiry (by income).

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## Portfolio overview

### Key leasing achievements

- Addressed major income risks and secured quality tenants

Property	Tenant	Area sqm	Start date	Income %	Expiry
Finlay Crisp Centre, Canberra	ACT Government	7,506	Jul 2010	0.8	Jun 2020
36 George Street, Burwood	NSW Rail Corporation	7,241	Oct & Nov 2010	0.8	Oct 2018
201 Miller Street, North Sydney	Gallagher Bassett Services	3,998	May 2011	0.6	Jun 2017
60 Castlereagh Street, Sydney	Goodman Group	2,376	Jun & Nov 2011	0.6	Dec 2019
45 Pirie Street, Adelaide	Norman Waterhouse	2,226	Oct 2012	0.3	Oct 2019
225 George Street, Sydney	McCann	4,152	Sep 2011	0.2	Aug 2021
2 Southbank Boulevard, Melbourne	Microsoft	3,185	Nov 2011	0.1	Nov 2014

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## Portfolio overview

### 175 Pitt Street, Sydney

**81%**  
of space committed

#### Outcomes at 175 Pitt Street, Sydney

Eight tenants secured over 18,592 sqm

In line with budgeted rents and incentives

Target dates <sup>1</sup>	Target (%)	Achieved (%)
1 Jan 2011	25	22
1 Jul 2011	75	81
1 Jan 2012	100	81

1. For percentage of NLA committed.



175 Pitt Street, Sydney

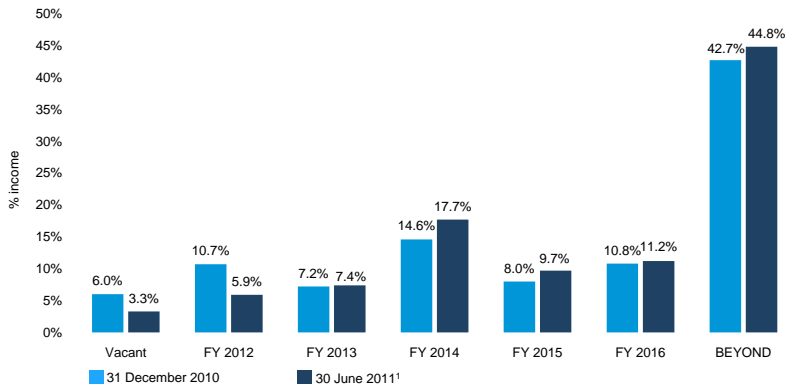
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## Portfolio overview

### Lease expiry profile

- Significantly reduced income risk

Lease expiry profile chart



1. Excluding 5 Martin Place, Sydney (withdrawn for development), the post period sales of three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

## Portfolio overview

### Leasing focus

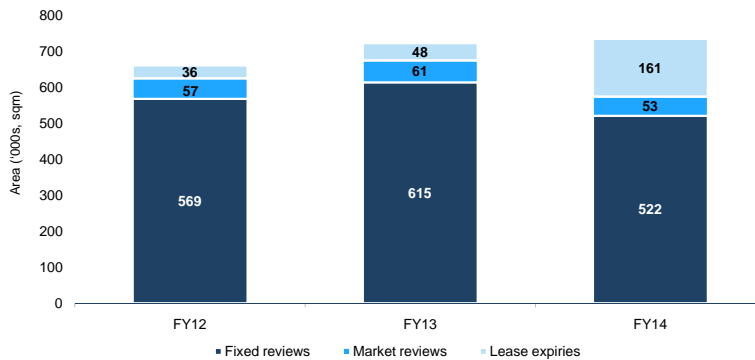
Property	Tenant	Area sqm	Expiry	Income %
<b>2011/12</b>				
60 Castlereagh Street, Sydney	Vacant	1,774	Available	-
385 Bourke Street, Melbourne	Vacant	3,151	Available	-
201 Miller Street, North Sydney	Vacant	1,100	Available	-
<b>2012/13</b>				
46 Colin Street, West Perth	NRMA Insurance	8,760	Sep 2012	1.6
225 George Street, Sydney	J.P. Morgan	9,416	Jul – Sep 2012	0.8
<b>2013/14</b>				
Finlay Crisp Centre, Canberra	Federal Government	21,132	Jun 2014	2.6
385 Bourke Street, Melbourne	Commonwealth Bank	18,194	Mar 2014	2.5
108 North Terrace, Adelaide	SA Government	20,112	Feb 2014	2.5
225 George Street, Sydney	Deloitte	21,313	Nov 2013	1.5
60 Castlereagh Street, Sydney	BNP Paribas	8,675	Jun 2014	1.5
180-222 Lonsdale Street, Melbourne	Telstra	18,429	Jun 2014	1.4
180-222 Lonsdale Street, Melbourne	BHP Billiton/NAB	17,939	Sep 2013	1.3

## Portfolio overview

### Rental review profile

- 558,848 sqm of rental reviews completed
- Achieved an average rental increase of 3.9% with 89% of reviews fixed

#### Upcoming reviews<sup>1</sup>



1. Excluding 5 Martin Place, Sydney (withdrawn for development), the post the period sales of three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

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## Portfolio overview

### Revaluations for 12 months to 30 June 2011

- All assets independently revalued twice during the year
- \$35.3 million net revaluation gain
- Underlying fundamentals of the Australian office market continue to strengthen
- CPA portfolio capitalisation rates have stabilised
- Transactional evidence emerging to support yield compression

#### Movement in investment yields

Period ending	30 Jun 09	31 Dec 09	30 Jun 10	31 Dec 10	30 Jun 11
NTA per unit	\$1.15	\$1.11	\$1.13	\$1.10	\$1.11
Weighted average capitalisation rate	7.7%	7.8%	7.7%	7.6%	7.6%
Weighted average discount rate	9.3%	9.4%	9.4%	9.3%	9.3%
Weighted average terminal yield	7.9%	8.0%	7.9%	7.8%	7.8%

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## Portfolio overview

### Responsible property investment



- Our focus on responsible property investment is consistent with CPA's vision

NABERS star ratings<sup>1</sup>(weighted portfolio averages)

Calendar year	2007	2008	2009	2010	2012 target <sup>2</sup>
NABERS Energy <sup>3</sup> rating	2.9	3.3	3.7	3.8	4.5
NABERS Water rating	2.9	3.0	3.3	3.5	3.8

#### Achievements

- ✓ 10 assets have improved their NABERS Energy rating
- ✓ 9 assets have improved their NABERS Water rating
- ✓ Highly commended in Asia Pacific Real Estate Association (APREA) best practices award - recognising the Fund's commitment to transparency and disclosure
- ✓ Continued inclusion in the Carbon Disclosure Leaders Index
- ✓ CPA was the only real estate entity identified in the Carbon Performance Leaders category

Our performance<sup>4</sup>

**29%**

more **energy** efficient

**26%**

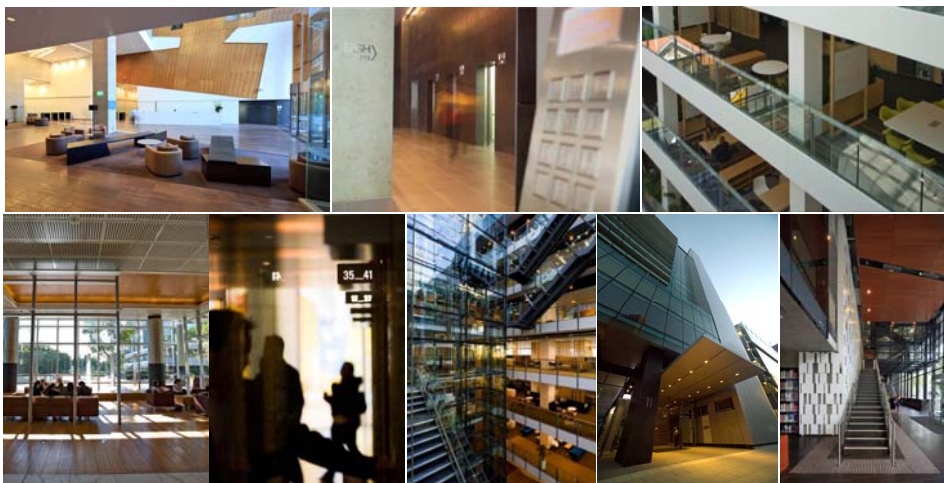
more **water** efficient

**30%**

lower **emissions** intensity

1. Excluding the Melbourne assets acquired during the year.  
 2. To be reported in 2013 annual reporting.  
 3. Excluding green power.  
 4. CPA portfolio performance improvement based on 2010 calendar year compared to the baseline (2006 calendar year).

## Australian office markets



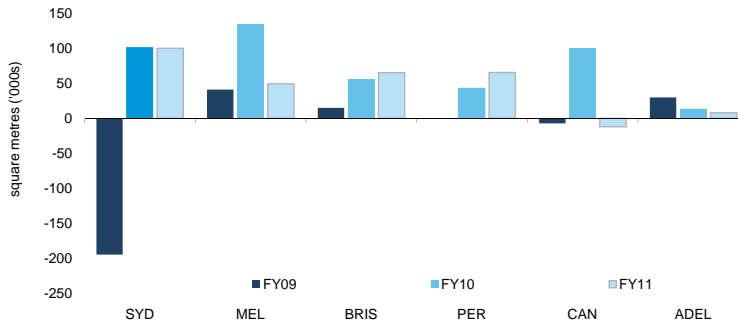
## Australian office markets

### Trend for national net absorption (demand)

- Demand turnaround most significant in Sydney

#### Net absorption of office space

CBD office markets as at June 2011



Source: Jones Lang LaSalle and CFSGAM Research.

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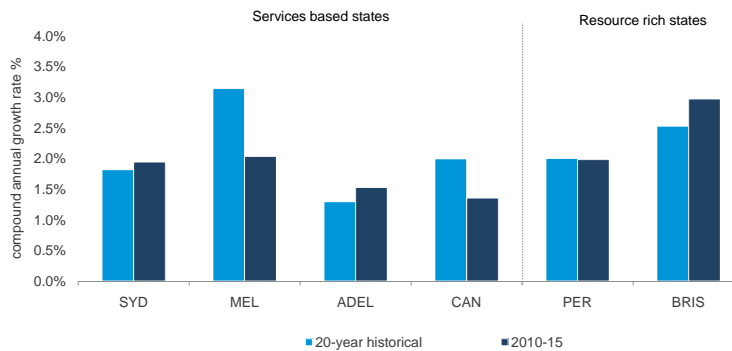
## Australian office markets

### Demand drivers

- White collar employment growth to remain solid

#### Forecast white collar employment growth

Key Australian office market comparison<sup>1</sup>



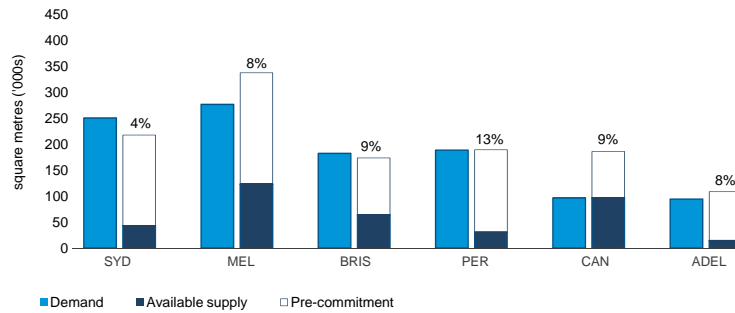
Source: Deloitte Access Economics and CFSGAM Research.  
1. Sydney, Melbourne, Brisbane, Perth and Adelaide CBDs and Canberra statistical division.

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## Australian office markets National demand and supply outlook

- Supply and demand balance in most markets

### Cumulative demand & supply outlook for office markets Forecast as at June 2011, 2011 to 2014



% for supply denotes the percentage of total stock added between 2011 and 2014.

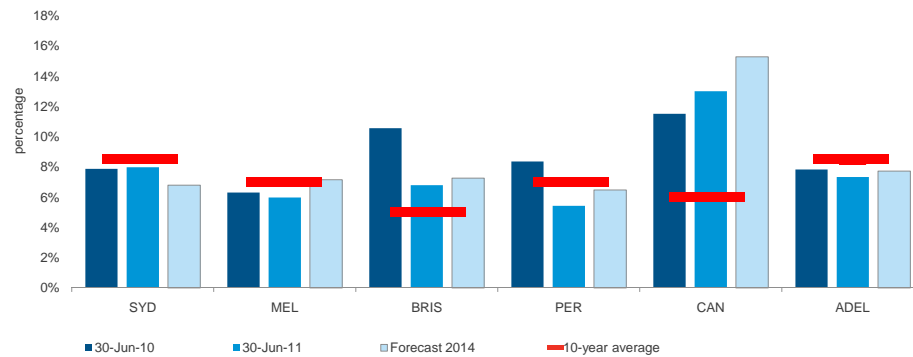
Source: CFSGAM Research forecasts.

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## Australian office markets National vacancy rates

- Vacancies are currently below historical averages in most markets

### Historical and projected average vacancy rates CBD office markets as at June 2011



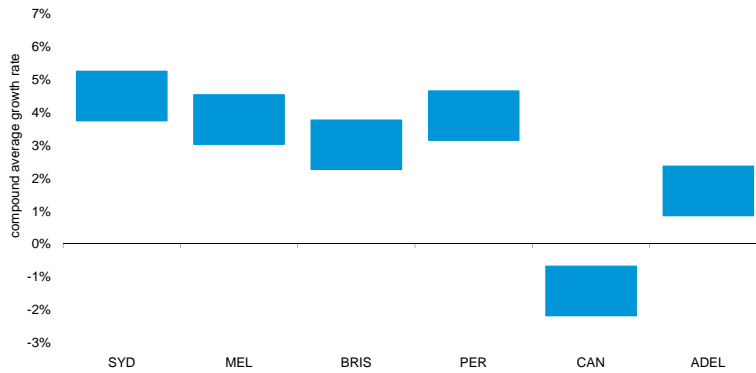
Source: Jones Lang LaSalle data and CFSGAM Research forecasts.

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## Australian office markets

### Forecast rental growth

Nominal gross effective rent five year forecasts  
CBD office markets as at June 2011



Source: CFSGAM Research forecasts.

## Australian office markets

### Outlook for quality office assets

	12-month outlook
Investment yields	↓ Firming
Asset values	↑ Increasing
Buyer demand	↑ Increasing
Tenant demand	↑ Increasing
Tenant incentives	↓ Moderating
Supply	↔ Limited
Vacancy rates	↓ Improving



750 Collins Street, Melbourne

## Development update



145 Ann Street, Brisbane (under construction)

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## Development update

### Development pipeline breakdown as at 30 June 2011

Development projects	CPA estimated cost \$m	CPA cost to complete \$m
145 Ann Street, Brisbane	210	135
ble South Tower, 385 Bourke Street, Melbourne	180	172
5 Martin Place, Sydney	212	170
Site 4B, Sydney Olympic Park	130	130
<b>Total development pipeline</b>	<b>732</b>	

Forecast capex split <sup>1</sup>	FY12	FY13
Maintenance capex	\$36 million	\$25 million
Improvement capex	\$13 million	\$1 million
Leasing costs and tenant incentives	\$16 million	\$28 million

1. Excluding 5 Martin Place, Sydney (withdrawn for development), the post period sales of three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

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## Development update

### 145 Ann Street, Brisbane



Construction works at 145 Ann Street, Brisbane

1. Including land, construction costs, incentives and an allowance for finance costs.

2. Independently valued at 30 June 2011 and includes a development profit to date of \$4.8 million.

3. CPA's cost is capped at a value which provides a year one income of 8% on costs.

4. Including 72% pre-committed by tenants & 28% subject to a five-year rental guarantee provided by Leighton Properties (Brisbane) Pty Ltd with a parent guarantee from Leighton Holdings Ltd.

#### Key development metrics

Estimated cost <sup>1</sup>	\$210 million
Book value <sup>2</sup> as at 30 June 2011	\$79.5 million
Year one initial yield <sup>3</sup>	8.0%
Forecast internal rate of return	10.0%
Income secured	100% <sup>4</sup>
Project commenced	December 2009
Project to be completed	mid 2012

#### Development scope

Construction of new A-grade 27-level office building

Net lettable area of approximately 28,000 sqm

Achieved: 6 star Green Star design rating

Target: 5 star NABERS Energy rating

Target: 4 star NABERS Water rating

Additional 3,300 sqm leased to tenants already committed

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## Development update

### 5 Martin Place, Sydney



Artist's impressions of 5 Martin Place, Sydney

1. Represents CPA's 50% interest of 5 Martin Place, Sydney and includes land, construction costs, incentives, an allowance for finance costs.

2. Represents 100% of 5 Martin Place, Sydney prior to sale of 50% interest.

#### Key development metrics

Estimated cost <sup>1</sup>	\$212 million
Book value as at 30 June 2011 <sup>2</sup>	\$73 million
Target year one initial yield	7% - 8%
Target internal rate of return	10% - 11%
Net lettable area (approximate)	33,700 sqm
Development application	Approved
Project commences	On 30% pre-commitment
Expected completion	2014

#### Outcomes

- ✓ Development approval obtained
- ✓ Builder selected
- ✓ Secured Cbus Property as a 50% joint owner

#### Development scope

5 star Green Star rating

5 star NABERS Energy and 4.5 star NABERS Water rating

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## Development update

b|e South Tower, 385 Bourke Street, Melbourne



Artist's impression of b|e South Tower, 385 Bourke Street, Melbourne

1. Including construction costs, incentives and an allowance for finance costs.

### Key development metrics

Estimated cost <sup>1</sup>	\$180 million
Target year one initial yield	7% - 8%
Target internal rate of return	10% - 11%
Project commences	on pre-commitment

### Development scope

Development above existing food court retail

Construction of new 16-level 25,600 sqm A-grade commercial office tower with premium services and refurbishment of existing retail food court

5 star Green Star rating

5 star NABERS Energy rating

### Outcomes

- ✓ Development approval obtained
- ✓ Builder selected

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## Strategy

### Forward focus

- Continuing focus on prudent capital management
  - Continue asset recycling program
  - Other capital management initiatives
- Executing on accretive development pipeline
  - Achieve pre-commitments for key projects in the development pipeline
- Focusing on further value-enhancing acquisitions and divestments
  - Effective reinvestment of divestment proceeds
- Driving our existing asset base
  - Mitigating leasing risk ahead of time
  - Maximising sustainability initiatives to reduce costs



180-222 Lonsdale Street, Melbourne

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## Summary and outlook

- Cautiously optimistic that the positive Australian office market fundamentals will continue to translate into positive rental and capital growth
- Experienced and stable management team focused on execution
- Target payout ratio of 80% of distributable income, or the Fund's taxable income, whichever is the greater
- Guidance for the 12 months ending 30 June 2012
  - Core distribution<sup>1</sup> guidance of 5.65 cents per unit
  - Potential special distribution<sup>2</sup> currently estimated at approximately 0.6 cents per unit



2 and 4 Dawn Fraser Avenue, Sydney Olympic Park

1. Assuming a performance fee is payable for one six-month period and the Fund's taxable income is no more than 80% of distributable income and there is no unforeseen material deterioration in existing economic conditions.
2. For the special distribution the estimated tax deferred component for 30 June 2012 is based on the actual 30 June 2011 component equating to 24% of the estimated FY12 distribution of 5.65 cpu. The tax deferred component is subject to change and is affected by a number of variables such as the termination of swaps, performance fees, leasing incentives paid, capital gains and losses, depreciation and other items.

## Appendices

## Financial results

### Reconciliation of profit to distribution



Commonwealth Property Office Fund	12 months ended 30 June 2011		12 months ended 30 June 2010	
	\$m	cpu	\$m	cpu
<b>Profit</b>	<b>197.7</b>		<b>114.2</b>	
<i>Adjustments for unrealised impacts</i>				
net (gain)/ loss from properties and associates revaluations	(35.3)		27.9	
net (gain)/ loss from derivatives revaluations	(4.6)		13.9	
movement in fair value of unrealised performance fees	(3.3)		(21.8)	
straight-lining rental revenue	(4.1)		(0.5)	
non-cash convertible notes interest expense	4.9		2.5	
<b>Distributable income</b>	<b>155.3</b>		<b>136.2</b>	
<i>Transfer (to)/from reserves for other adjustments</i>				
amount withheld in accordance with distribution policy	(31.0)		(28.5)	
transfer from undistributed reserves <sup>1</sup>	10.5		-	
<b>Distribution</b>	<b>134.8</b>	<b>5.50</b>	<b>107.7</b>	<b>5.55</b>

1. New units issued in November 2010 and December 2010 rank equally with existing units and are entitled to the full distribution for the financial year ended 30 June 2011. Therefore the Fund has transferred an amount from undistributed reserves to deliver a distribution of 5.50 cents per unit.

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## Financial results

### Reconciliation of net property income to distribution



Commonwealth Property Office Fund	12 months ended 30 June 2011		12 months ended 30 June 2010	
	\$m	cpu	\$m	cpu
net property income <sup>1</sup>	241.0		210.2	
interest and other income	1.0		1.1	
other property income	0.9		0.5	
<b>Total operating income</b>	<b>242.9</b>		<b>211.8</b>	
borrowing costs	64.9		51.6	
base fee	14.3		13.5	
performance fee	5.0		9.0	
other expenses	3.4		1.5	
<b>Total operating expenses</b>	<b>87.6</b>		<b>75.6</b>	
<b>Distributable income</b>	<b>155.3</b>		<b>136.2</b>	
amount withheld in accordance with distribution policy	(31.0)		(28.5)	
transfer from undistributed reserves <sup>2</sup>	10.5		-	
<b>Distribution</b>	<b>134.8</b>	<b>5.50</b>	<b>107.7</b>	<b>5.55</b>

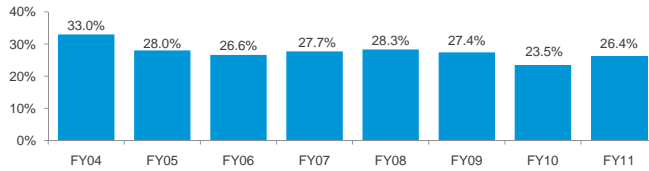
1. Excluding straight-lining rental revenue.

2. New units issued in November 2010 and December 2010 rank equally with existing units and are entitled to the full distribution for the financial year ended 30 June 2011. Therefore the Fund has transferred an amount from undistributed reserves to deliver a distribution of 5.50 cents per unit.

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## Capital management

### Gearing history



### Key debt covenants

	Threshold	As at 30 June 2011
Loan to value ratio <sup>1</sup> (LVR) (Total liabilities to total assets)	Not to exceed 45%	30%
Interest cover ratio <sup>2</sup> (ICR)	Not to fall below 2.0 times	3.2 times

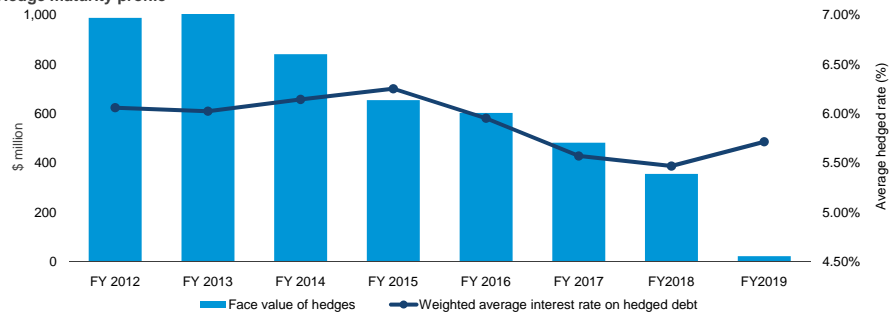
1. Calculated as total liabilities divided by total assets, excluding the option component of the convertible notes and the non-cash impact of the mark to market of the derivatives.  
2. Calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represents net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest, less non-cash convertible notes interest expense.

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## Capital management Hedging profile<sup>1</sup>

	At 30 June 2011	At 30 June 2010
Proportion of debt hedged	87%	94%
Weighted average interest rate on hedged debt <sup>1</sup>	6.1%	5.8%
Weighted average duration of hedged debt	5.5 years	5.7 years

### Hedge maturity profile<sup>1</sup>



1. Including convertible notes and fixed rate medium term notes and excluding line fees and margins.

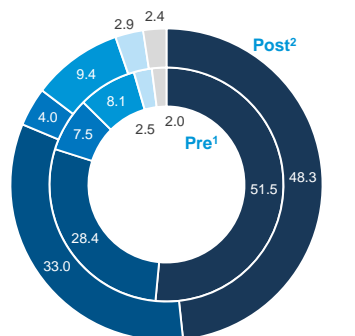
42

## Capital management Hedging profile

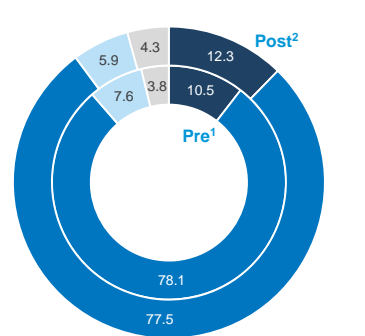
	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Face value of hedges	988	1,006	841	655	603	483	356	23
Weighted average interest rate on hedged debt	6.06%	6.02%	6.14%	6.25%	5.95%	5.57%	5.47%	5.72%
Average % hedged over FY	92%	84%	64%	49%	45%	38%	25%	2%

## Portfolio overview Portfolio diversification pre and post divestments

Portfolio geographic diversification (by value)



Portfolio property grade diversification (by value)



■ NSW ■ VIC ■ WA ■ SA ■ ACT ■ QLD

■ Premium ■ A-grade ■ B-grade ■ Other\*

1. Pre: Portfolio diversification at 30 June 2011.

2. Post: Portfolio diversification at 30 June 2011 excluding the sales of a 50% interest in 5 Martin Place, Sydney, the three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

\* QV retail at 180-222 Lonsdale Street, Melbourne.

## Portfolio overview

### Strong tenant covenants

#### Top 15 tenants<sup>1</sup>

Tenant	% of income
1. Commonwealth Bank	10.8%
2. Federal Government	6.9%
3. SA Government	6.1%
4. AXA	5.9%
5. KPMG	3.8%
6. NSW Government	3.8%
7. Telstra	2.7%
8. Fairfax Media	2.6%
9. GHD	2.4%
10. Deloitte	2.1%
11. PricewaterhouseCoopers	2.1%
12. Clough Projects Pty Ltd	2.0%
13. NRMA Insurance	1.6%
14. TRU Energy	1.5%
15. BNP Paribas	1.5%
<b>Top 15</b>	<b>55.8%</b>

- 388 tenants<sup>1</sup> (from 322 as at 30 June 2010)
- Top 15 tenants generate 55.8% income

1. Excluding the sale of the three Perth assets (settlement expected on or before 1 December 2011) and 259 George Street, Sydney (settlement expected on 31 October 2011).

## 175 Pitt Street, Sydney

### Leasing and vacancy overview

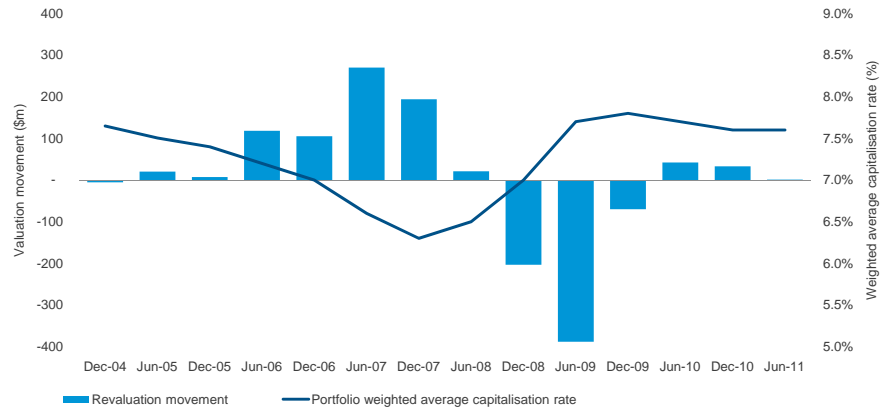
Level 21	AUSTRALIAN COMPETITION & CONSUMER COMMISSION (ACCC)			
Level 20	AUSTRALIAN COMPETITION & CONSUMER COMMISSION (ACCC)			
Level 19	AUSTRALIAN COMPETITION & CONSUMER COMMISSION (ACCC)			
Level 18	VACANT			
Level 17	VACANT	KEMP STRANG		
Level 16	KEMP STRANG			
Level 15	KEMP STRANG			
Level 14	KEMP STRANG			
Level 13	EMPLOYERS MUTUAL			
Level 12	EMPLOYERS MUTUAL			
Level 11	VACANT	EMPLOYERS MUTUAL		
Level 10	TAX INSTITUTE OF AUSTRALIA			
Level 9	STATE SUPER FINANCIAL SERVICES			
Level 8	VACANT			
Level 7	VACANT			
Level 6	VACANT	<UNDER OFFER>		
Level 5	AUSTRALIAN HUMAN RIGHTS COMMISSION (AHRIC)			
Level 4	AUSTRALIAN HUMAN RIGHTS COMMISSION (AHRIC)			
Level 3	AUSTRALIAN HUMAN RIGHTS COMMISSION (AHRIC)			
Level 2	AUSTRALIAN HUMAN RIGHTS COMMISSION (AHRIC)			
Level 1	BENDIGO AND ADELAIDE BANK			
Mezzanine	BENDIGO AND ADELAIDE BANK			
Retail	WESTPAC	GNC LIVEWELL	QUICKSILVER	
Retail	HSBC	LONGINES	PROVIEW	VACANT
Lower ground	FITNESS FIRST			
Basement	CARPARK			

## Portfolio overview

Trend for capitalisation rates and asset values

### Historical revaluation trends

CPA portfolio to June 2011, on six-monthly rests



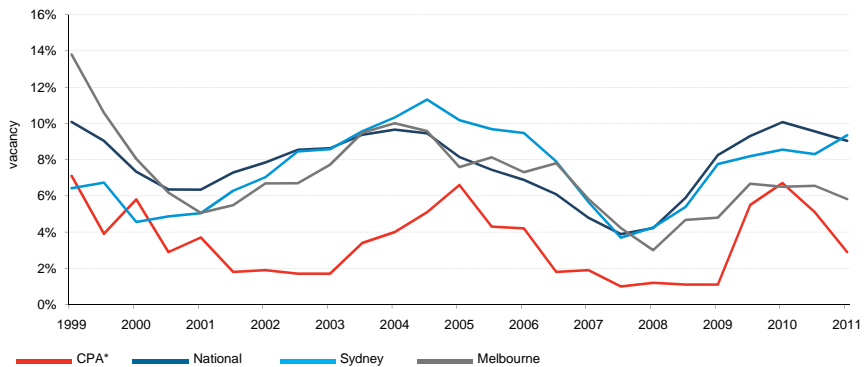
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## Australian office markets

Historic CPA portfolio vacancy rate comparison

### CPA portfolio vacancy (by area) comparison

CBD office markets as at June 2011



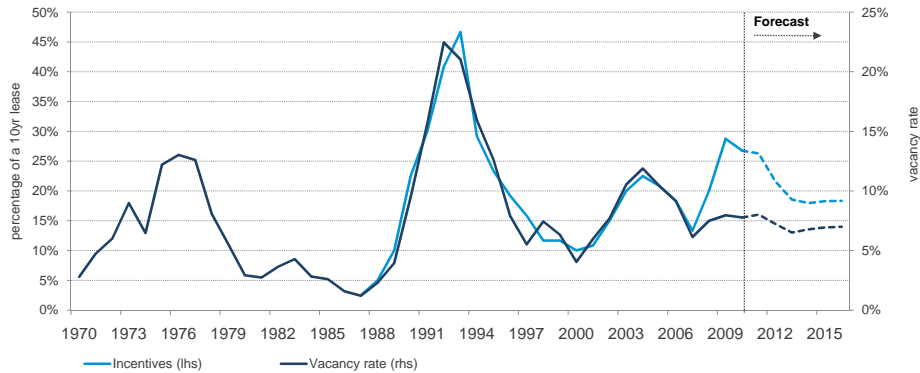
\* CPA vacancy calculated on an ownership basis.

Source: CPA data, Property Council of Australia & CFSGAM Research.

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## Australian office markets Sydney incentives and vacancy rates

**Incentive and vacancy rates**  
Sydney CBD office market as at June 2011

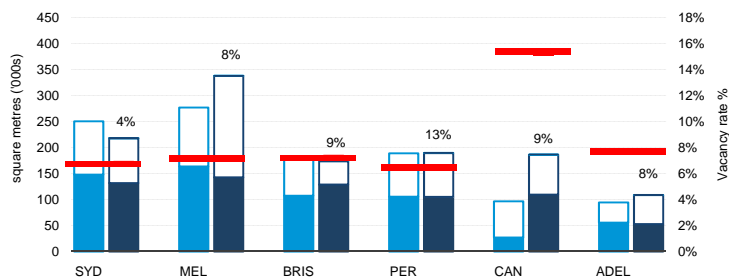


Source: Jones Lang LaSalle data & CFSGAM Research forecasts.

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## Australian office markets National demand and supply outlook

**Demand and supply for office markets (2011 to 2014)**  
Forecast as at June 2011



% for supply denotes the percentage of total stock added over the current supply cycle.

■ Demand 2011-12 ■ Demand 2013-14 ■ Supply 2011-12 ■ Supply 2013-14 ■ Vacancy rate 2014 (RHS)

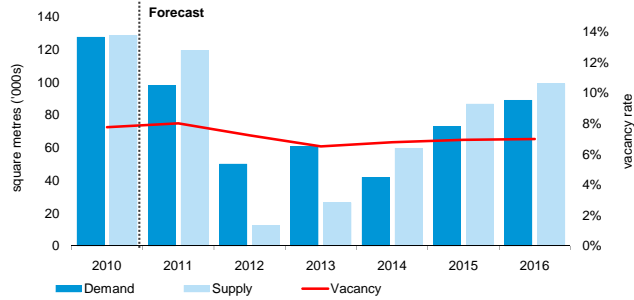
	SYD	MEL	BRIS	PER	CAN	ADEL
Supply 2011 – 2014 (sqm)	217,700	337,600	173,700	189,400	186,000	108,500
Pre-committed space	80%	64%	63%	84%	48%	87%

Source: CFSGAM Research forecasts.

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## Australian office markets Sydney

### Demand and supply for Sydney CBD Forecast as at June 2011



Source: Jones Lang LaSalle data and CFSGAM Research forecasts.

#### Market outlook

- Demand expected to outweigh supply
- Vacancy to remain below long-term average

1. Excluding CPA's interests in assets divested post the period.  
2. Excluding 5 Martin Place, Sydney (withdrawn for development) and 259 George Street, Sydney assets divested post the period.

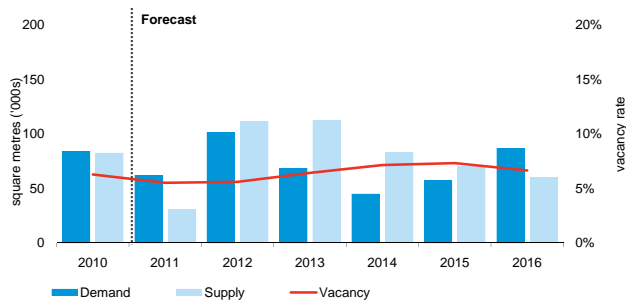
#### CPA Sydney

No. of assets	13
Portfolio % by value <sup>1</sup>	48.3%
Vacancy % by income <sup>2</sup>	5.3%
WALE by income <sup>2</sup>	4.1 yrs

51

## Australian office markets Melbourne

### Demand and supply for Melbourne CBD Forecast as at June 2011



Source: Jones Lang LaSalle data and CFSGAM Research forecasts.

#### Market outlook

- Near-term supply largely pre-committed
- Vacancy remains in balance

1. Excluding CPA's interests in assets divested post the period.

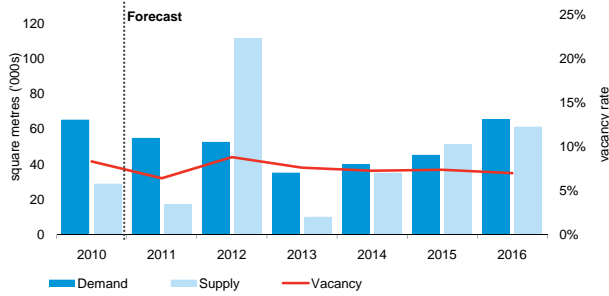
#### CPA Melbourne

No. of assets	5
Portfolio % by value <sup>1</sup>	33.0%
Vacancy % by income	3.0%
WALE by income	6.2 yrs

52

## Australian office markets Brisbane

### Demand and supply for Brisbane CBD Forecast as at June 2011



Source: Jones Lang LaSalle data and CFSGAM Research forecasts.

#### Market outlook

- Vacancy forecast to peak below 10%
- Two-tier market evolving

1. Excluding CPA's interests in assets divested post the period.

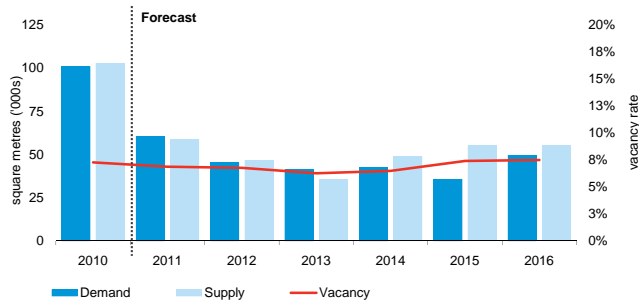
#### CPA Brisbane

No. of assets	1
Portfolio % by value <sup>1</sup>	2.4%
Vacancy % by income	0.0%
WALE by income	9.3 yrs

53

## Australian office markets Perth

### Demand and supply for Perth CBD Forecast as at June 2011



Source: Jones Lang LaSalle data and CFSGAM Research forecasts.

#### Market outlook

- Supply and demand in check but subject to volatility
- Solid demand driven by resources sector

1. Excluding CPA's interests in assets divested post the period.

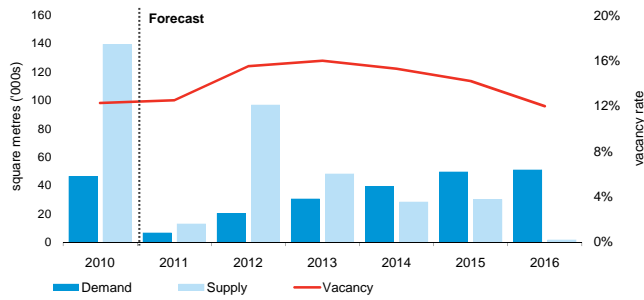
#### CPA Perth<sup>1</sup>

No. of assets	2
Portfolio % by value	4.0%
Vacancy % by income	0.0%
WALE by income	6.9 yrs

54

## Australian office markets Canberra

### Demand and supply for Canberra Forecast as at June 2011



Source: Jones Lang LaSalle data and CFGAM Research forecasts.

#### Market outlook

- High level of supply in 2010 dragging on market
- Vacancy levels to remain high over forecast period

1. Excluding CPA's interests in assets divested post the period.

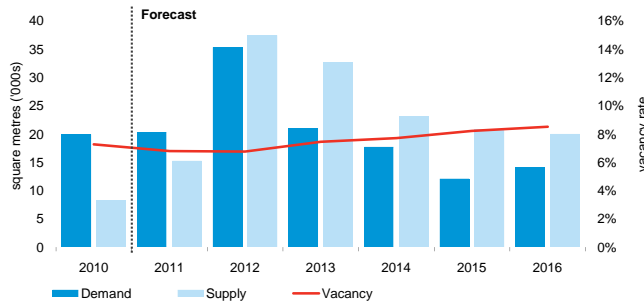
#### CPA Canberra

No. of assets	1
Portfolio % by value <sup>1</sup>	2.9%
Vacancy % by income	0.0%
WALE by income	4.5 yrs

55

## Australian office markets Adelaide

### Demand and supply for Adelaide CBD Forecast as at June 2011



Source: Jones Lang LaSalle data and CFGAM Research forecasts.

#### Market outlook

- Olympic Dam expansion project expected to influence demand
- Higher supply expected in the medium-term

1. Excluding CPA's interests in assets divested post the period.

#### CPA Adelaide

No. of assets	3
Portfolio % by value <sup>1</sup>	9.4%
Vacancy % by income	0%
WALE by income	4.4 yrs

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## Further information



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**About Commonwealth Property Office Fund**  
*Commonwealth Property Office Fund (CPA or the 'Fund') is an office sector-specific Australian Real Estate Investment Trust (A-REIT) which invests in prime quality office property located in central business districts and major suburban markets across Australia. Its stock market trading code is CPA. The Fund is managed on behalf of more than 25,000 investors from 28 countries.*

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