

## ASX Announcement

6 June 2017

### **Propertylink divests 320 Pitt Street for \$275 million delivering an outstanding return for investors and provides an operational update**

#### **Highlights**

- Divestment of 320 Pitt Street, Sydney for \$275 million, realising an IRR of 40% for the Propertylink Office Partnership II (POP II)
- Completion of the 320 Pitt Street sale is expected to occur in July 2017 and will generate a performance fee of approximately \$17.9 million to Propertylink, contributing \$12.5 million after tax to distributable earnings in FY2018
- Over 30% of the property portfolio transacted on since the IPO delivering strong results from leasing activity, increasing WALE to 4.5 years and occupancy to 95.4%
- Contract exchanged for the sale of 150-156 McCredie Road, Smithfield for \$23 million reflecting a 15% premium to book value
- FY2018 lease expiry profile of 17% reducing to 10% following completion of the sale of Rydalmere and Smithfield properties
- Completion of the redevelopment of 122 Newton Road Wetherill Park, with the 9,614 sqm refurbished warehouse leased and a signed heads of agreement on the new 8,648 sqm warehouse delivering a weighted average lease term of 6.6 years
- Growth in funds under management (FUM) of \$371 million achieved since IPO with FUM of approximately \$1.2 billion expected at the close of FY2017
- Ongoing support for growth in investment management as institutional capital continues to seek exposure to the strong Australian property market
- FY2017 guidance of distributable earnings of 6.67<sup>1</sup> cents per security and a distribution of 6.32<sup>1</sup> cents per security reconfirmed

#### **Divestment of 320 Pitt Street, Sydney**

The Propertylink Office Partnership II (POP II) fund has entered into a contract with ARA Australia and Straits Real Estate for the sale of 320 Pitt Street Sydney for \$275 million. The sale price represents a 12.2% premium to current book value and realises an IRR of 40% against a target of 15% for POP II. Propertylink has a 5% co-investment in POP II with 320 Pitt Street as the fund's sole asset.

Completion of the sale is expected to occur in July 2017 and will generate a performance fee of approximately \$17.9 million to Propertylink. The performance fee will contribute \$12.5 million after tax to distributable earnings in FY2018. Propertylink anticipates that these funds will be retained for redeployment to other investment opportunities.

The commercial office building located in the Sydney CBD maintains 29,159 sqm of net lettable area with Telstra as the major tenant until 2020. Propertylink acquired the property in partnership with Grosvenor Group and Goldman Sachs in June 2015 for \$200 million on an acquisition yield of 8.27%. Given unsolicited inquiries from potential purchasers and the general strength of the Sydney office market, Propertylink reviewed the POP II fund strategy with its investment partners and as a result, entered into a marketing campaign in February 2017 for 320 Pitt Street.

Propertylink's Head of Property, Peter McDonald said "This commercial building was initially acquired with our institutional investment partners, as an opportunity in the strengthening Sydney market, with the intention to enjoy income from the asset, leased to Telstra until 2020 and then assess further opportunities to enhance the building at that time. While there was no requirement to divest the asset at this stage, we have been very pleased to realise a superior outcome for our investment partners, furthering our track record of delivering strong returns across our business."

Stuart Dawes, Propertylink's Managing Director and CEO said "This transaction is representative of Propertylink's disciplined approach to investment management through all phases of the asset's lifecycle, from acquisition and the identification of strong investment opportunities, through active asset management and ultimately to the divestment of assets."

### **Property Portfolio**

Propertylink continued to strengthen the property portfolio during the second half of FY2017 through redevelopment, strong leasing activity and the sale of non-core assets delivering:

- An increase in WALE to 4.5 years
- Increased occupancy to 95.4%
- A reduction in lease expiry for FY2018 to 10%, following the sale of Rydalmere and Smithfield
- Solid premium to book value on asset sales

"We continue to deliver value across the property portfolio through our strong approach to active asset management, underpinned by portfolio's exposure to our key strategic themes of urbanisation, last mile logistics and the aging population. This is evidenced in strong tenant demand for our assets and the solid performance of our portfolio" said Peter McDonald.

### *Redevelopment 122 Newton Road, Wetherill Park, Sydney*

Propertylink's \$10.5 million redevelopment of 122 Newton Road Wetherill Park, has achieved practical completion, delivering a new warehouse of 8,646 sqm at the rear of the property and refurbishment of the 9,614 sqm existing warehouse. The refurbished building has been leased to Sika Australia from 1 May 2017 as sole occupant. Heads of agreement has been signed on the new warehouse to commence on 1 July 2017. These transactions have delivered a weighted average lease term of 6.6 years across the property.

Peter McDonald said “The work we have undertaken at Wetherill Park demonstrates Propertylink’s selective approach to redevelopment. We identified an opportunity to reposition and expand this well located asset by utilising surplus land to deliver enhanced rental income and capital value to further maximise returns within our portfolio.

“The redevelopment of 122 Newton Road, delivered using our in-house project management, has been a great success for Propertylink and clearly showcases the development capabilities across the Group.”

### *Leasing Activity*

Since 31 December 2016 Propertylink has leased a further 29,681 sqm of space across 15 transactions, which includes 10 new deals and 5 renewals.

Peter McDonald said “With over 158,000 sqm or 30% of the portfolio now transacted on since the IPO, we have continued to see excellent results from leasing activity delivered by our strong in-house property and asset management team. Our active asset management approach provides Propertylink with a clear point of difference in the industrial property market and is illustrated in our continued ability to strengthen our portfolio.”

Key leasing deals completed since 31 December 2016 include:

- A new 10 year lease to Sika Australia of 9,614 sqm at 122 Newton Road, Wetherill Park commencing 1 May 2017 delivering full occupancy of the newly refurbished warehouse
- Renewal of the Baxter Healthcare lease at 164-166 Newton Road, Wetherill Park for 4 years across 6,362 sqm
- Renewal of the Freestyle Energy Two lease at 18-24 Ricketts Road, Mount Waverley for 4.7 years across 2,592 sqm

### *Property sales*

Propertylink has continued to realise non-core assets within the portfolio, with key sales activity since 31 December 2016 set out below.

Property Address	State	Sale Price	Premium to Book Value	Status
Unit 2/22 Beaumont Road, Mount Kuring-Gai <sup>2</sup>	NSW	1.97m	nil	Complete
9-13 Titanium Court, Crestmead <sup>2</sup>	NSW	7.50m	4.7%	Complete
Unit 3/22 Beaumont Road, Mount Kuring-Gai	NSW	2.00m	2.6%	Complete
10-12 Pike Street, Rydalmere <sup>2</sup>	NSW	27.50m	25.6%	Exchanged
150-156 McCredie Road, Smithfield	NSW	23.00m	15.0%	Exchanged

In addition to the announced sale of Rydalmere and Crestmead, both divested at premium to book value, Propertylink has exchanged contracts for the sale of 150-156 McCredie Road, Smithfield for \$23 million to a private owner occupier. The sale represents a 15% premium to book value and with the existing lease on the property

to expire on 1 July 2017, will further improve WALE across the Propertylink portfolio on completion. Settlement is expected to occur in early July 2017.

Peter McDonald said “We have continued to assess the individual assets in our portfolio in order to capitalise on opportunities to realise value in the strong Sydney market. This has enabled us to achieve some significant premiums and redeploy capital into other investment opportunities across the business.”

### *Key Property Portfolio Metrics*

The table below provides a comparison of the property portfolio at 31 March 2017 against the PDS and the HY2017 results, reflecting the activity undertaken in the first quarter of 2017.

Key Metrics	PDS	31 Dec 2016	31 March 2017 <sup>3</sup>
Property portfolio value	\$685m	\$698m	\$687m
Number of properties	33	32	31
Gross lettable area	515,403 sqm	503,698 sqm	495,169 sqm
Occupancy	95.0%	95.1%	95.4%
Tenant incentives	15.49%	11.04%	10.32%
WALE	3.6 years	4.4 years	4.5 years
Weighted average capitalisation rate	7.65%	7.40%	7.37%

Propertylink’s Head of Property, Peter McDonald said “Building on the momentum achieved during the first half of the financial year, we have continued to strengthen our property portfolio. This has delivered further improvements in our key portfolio metrics, notably an increase in WALE to 4.5 years and occupancy to 95.4%.

“We have significantly de-risked our portfolio leasing for FY2018, with a current expiry profile of 17% further reducing to 10% following the completion of the sale of the properties at Rydalmere and Smithfield.”

### **Investment Management**

Funds under management are \$1.16 billion following the acquisition of 50 Ann Street, Brisbane under the expanded Propertylink Enhanced Partnership (PEP) fund and an industrial asset in Queensland under the Propertylink Australian Industrial Partnership II (PAIP II) fund. Gross FUM growth achieved since the IPO is now \$371 million.

Propertylink is currently raising additional capital for the Propertylink Australian Industrial Partnership II fund (PAIP II). In addition to the Queensland asset, contracts have exchanged on the acquisition of a \$19 million industrial asset in Sydney, with further capacity to pursue opportunities in the pipeline into FY2018.

Funds under management are expected to be around \$1.2 billion at the end of the 2017 financial year, including POP II FUM of \$245 million. Propertylink currently manages two industrial properties on behalf of M&G Investments which contributes

\$85.4 million to FUM. Following M&G's consolidation of property management services globally this agreement will cease in July 2017.

Stuart Dawes said "We continue to identify good acquisition opportunities in the market, as evidenced by our recent purchase of 50 Ann Street in Brisbane, driven by our ability to deliver value through our ground up active approach to asset management. This along with our strong track record in delivering returns through the cycle provides a point of differentiation in the current market.

"There continues to be a weight of institutional capital seeking exposure to the Australian property market due to attractive yields and strong total returns, which will support the ongoing growth of our investment management business. At the forefront is our ongoing commitment to achieving outstanding returns for our investment partners which given the weight of capital seeking to invest in Australia, requires a disciplined approach to the acquisition of assets."

### Guidance

Propertylink reiterates that the Group remains on target to deliver previous FY2017 guidance of:

- Forecast distributable earnings of 6.67 cents per security<sup>1</sup> excluding the sale of 10-12 Pike Street, Rydalmere.
- Distribution of 6.32 cents per security<sup>1</sup>, including the 2.7 cent interim distribution.

### Further Enquiries

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### About Propertylink

Propertylink is an A-REIT, listed on the Australian Stock Exchange under the code "PLG". Propertylink is an internally managed real estate group that owns and manages a diversified portfolio of logistics, business park and office properties and is a leading investment and asset management business with over A\$1.8 billion of assets under management. Propertylink's integrated, in-house approach to active asset management is aimed at maximising the performance and value of assets under management for our global investors from North America, Europe, the Middle East, Asia and Australia.

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#### Footnotes

1. Pro-rata from completion of the IPO until 30 June 2017 and excludes the impact of the sale of 10-12 Pike Street Rydalmere. Performance fees associated with the sale of 320 Pitt Street are expected to be recognised in FY2018.
2. Contract exchange announced at HY2017.
3. 31 March 2017 metrics adjusted for lease of refurbished warehouse at 122 Newton Road Wetherill Park executed in April 2017.