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Goodman benefits from repositioning strategy – Q1 FY2018 operational update

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Release	IMMEDIATE

Goodman Group's (Goodman or Group) strategy to reposition its portfolio to focus on high-quality properties in key consumer-dominated locations is delivering consistently high occupancy levels and rental returns across its portfolio. In its operational update for the quarter ended 30 September 2017, the Group outlined how rising consumption and improved supply chains led by the advance of e-commerce, are driving the growth of the sector. Goodman also highlighted the significant liability management initiatives undertaken during the quarter to provide financial flexibility and position the company favourably for the long term.

Operational highlights include:

- + Total assets under management (AUM) of $33.9 billion concentrated in quality locations in major urban centres with $1.25 billion in asset sales during the quarter
- + Occupancy increased to 98% across the portfolio reflecting higher quality properties and locations in core markets
- + 0.9 million sqm of new leasing across the global platform reflecting $116 million of property income per annum and positive rental reversions of 3.2%
- + Development work in progress (WIP) maintained at $3.5 billion across 76 projects
- + $0.5 billion of development commencements and $0.5 billion of completions undertaken in the quarter, with 77% of developments being undertaken within Partnerships
- + More than $3.5 billion of liability management initiatives undertaken in the quarter, substantially improving the debt expiry profile and reducing costs
- + Reaffirming forecast FY2018 full year operating earnings per security (EPS) of 45.7[1] cents, up 6% on FY2017

Goodman Group Chief Executive Officer, Greg Goodman said: "The macro environment is favouring logistics real estate. E-commerce is expected to grow by more than 60% by 2020[2] and companies are continuing to look for supply chain efficiencies as consumer expectations around product delivery and availability rise. Warehouse proximity to consumers has become a critical factor in reducing delivery time and cost. In this shifting consumer landscape, having the right footprint matters."

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[1] Operating EPS comprises profit attributable to Securityholders adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items.

[2] Source: eMarketer: Worldwide Retail and Ecommerce Sales: eMarketer's Estimates for 2016–2021

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"Our strategy to rotate assets and reposition our portfolio to focus on key locations close to consumers, is delivering tangible results, with excellent occupancy rates and higher rental returns."

"In addition to our portfolio repositioning strategy, we have successfully executed on our liability management strategy this quarter, with over $3.5 billion of transactions in various markets. These activities have extended our debt maturity profile for the long term, to ensure we have the ability to continue to invest and deliver through the cycle."

Liability management – long term funding secured

Goodman's liability management initiatives and financial risk management (FRM) framework have been designed to deliver competitive debts costs, a natural currency hedge and diversified sources of sustainable funding for the Group through cycle. Following changes to the FRM policy and credit rating agency upgrades, the Group took advantage of the positive market conditions during the September quarter and undertook a significant liability management programme which included:

+ $1.8 billion in new bonds issued, including US$850 million 10.5 and 20-year 144A/RegS notes and €500 million 8 year 144A/RegS notes
+ Repurchase of Goodman PLUS hybrid
+ Part repurchase of shorter-dated UK denominated and US bonds

Together these initiatives delivered a lower cost of funding and longer dated debt with the weighted average cost of debt decreasing. The Group achieved a weighted average expiry of 11.6 years on the new bonds, and increased the overall average weighted debt maturity from 3.6 years to 7.1 years.

Own – high-quality properties, high-quality metrics

Goodman's improved portfolio saw an increase in occupancy rates to 98% with retention remaining high at 78%. The portfolio is generating positive rental reversions of 3.2% per annum on new leasing deals. The weighted average lease expiry has also improved, increasing slightly to 4.8 years.

Demand and pricing for industrial assets around the world remains strong, with $1.25 billion of asset sales in the quarter. The asset sales took place across Australia, China and most significantly, the UK, where the sale of the Arlington Business Parks Partnership to TPG Real Estate settled, contributing approximately $800 million to the total.

The Arlington sale continues the strategic alignment of Goodman's UK operations with the global strategy. In the UK, Goodman is strategically targeting long-term opportunities in the M1/M6 corridor and close to London's M25 motorway. The Group is also continuing to work through the existing landbank commencing a new facility in Derby during the quarter.

Develop – increasing global contribution

Goodman continues to see development as the best means of accessing high-quality product at this point in the cycle. The geographic spread of the 76 projects underway is now more evenly diversified across the four regions.

Goodman's development programme in The Americas now accounts for 24% of WIP, up from 13% this time last year. 100% of development in the US is being undertaken in the Goodman North America Partnership and is reflective of the Group's strategy to move development into Partnerships.

Manage – Partnerships nearing net investment

Goodman's external AUM was $30.2 billion, with the impact of asset sales offsetting the development workbook and positive revaluations. The dilutionary effect from asset sales is expected to ease as the targeted repositioning program nears completion and the Partnerships move to net investment. As a result, income and asset price growth are expected to complement the strong performance to date, and support growing performance fees for the Group in the future.

Outlook – Structural demand drivers continue

The demand drivers for high-quality industrial real estate are continuing. Increased consumerism, the rise of e-commerce and supply chain efficiencies, continue to drive the need for Goodman's properties. The Group's strategy is continuing to deliver and as such, the Group reaffirms its forecast FY2018 operating earnings per security of 45.7 cents, up 6% on FY2017.

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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist investment managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant investment management platform ensures it creates innovative property solutions that meet the individual requirements of its customers, while seeking to deliver long-term returns for investors.