6 February 2020

MIRVAC GROUP HALF YEAR RESULTS – 31 DECEMBER 2019

Mirvac Group (Mirvac) [ASX: MGR] today released its interim results for the half year ended 31 December 2019, reporting a strong performance with operating profit after tax up 21 per cent from December 2018, reflecting the resilience of the Group's diversified business.

The Group reaffirmed its operating EPS guidance for FY20 of between 17.6 cents and 17.8 cents per stapled security (growth of between 3 and 4 per cent), and distribution guidance of 12.2 cents per stapled security (5 per cent growth). Net tangible assets per stapled security increased 3 per cent from FY19 to $2.58.

Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "We continue to successfully execute our focused urban asset creation strategy, generating sustainable, long-term returns for our securityholders and delivering on our promises. We are pleased to report a strong half year performance with earnings before interest and tax up 18 per cent to $460 million and operating profit after tax up 21 per cent to $352 million. This has been driven by an increase in residential settlements during the period, the result of a more balanced first half/second half settlement profile. At the same time, we have made a number of investments that will provide significant future earnings opportunities for the Group.

"Our high-quality investment portfolio and our urban asset creation capability continue to drive growth in passive earnings and generate value. The increase in capital allocated to passive assets and the recurring earnings that this will generate, will support growth in future distributions."

Highlights across the Group:

- operating profit after tax increased by 21 per cent to $352 million[1] (December 2018: $290 million), representing 9.0 cents per stapled security;
- earnings before interest and tax increased by 18 per cent to $460 million (December 2018: $390 million);
- statutory profit of $613 million (December 2018: $648 million), decreased 5 per cent from December 2018 as a result of higher net valuation gains on investment properties in the prior corresponding period;
- half year distribution increased 24 per cent to $240 million (December 2018: $193 million), representing 6.1 cents per stapled security;
- strong portfolio metrics maintained within the investment portfolio, with a high occupancy of 99.1 per cent[2] and a weighted average lease expiry of 5.9 years[3];
- 88 per cent of expected residential earnings (before interest and tax) secured for FY20;

[1] Excludes specific non-cash items and related taxation. The December 2018 operating profit after tax has been restated to align with the new operating profit definition adopted by the Group from 1 July 2018.
[2] By area, including investments in joint ventures and excluding assets held for development.
[3] By income, including investments in joint ventures and excluding assets held for development.

Level 28, 200 George Street
Sydney NSW 2000
Australia

T +61 2 9080 8000
www. mirvac.com

Mirvac Limited
ABN 92 003 280 699

Mirvac Funds Limited
ABN 70 002 561 640 AFSL 233 121
as reponsible entity of the Mirvac
Property Trust ARSN 086 780 645

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- achieved 1,232 residential lot settlements, with defaults remaining below 2 per cent and on track to meet the Group's target of more than 2,500 residential lot settlements in FY20;
- won the tender for the $800 million, mixed-use development at Waterloo Metro Quarter, Sydney, in partnership with John Holland;
- increased our office and industrial development pipeline to $8.5 billion[4], providing future recurring income, development profits and NTA uplift;
- commenced restocking the Group's residential development pipeline with two new masterplanned community projects in Milperra;
- extended our build to rent pipeline to over 1,600 apartments with new projects at Brunswick and Flinders West, Melbourne; and
- reached an agreement that will see the majority of our office and retail centres in Victoria, NSW and ACT supplied with 100 per cent renewable energy, reducing our carbon emissions by 60 per cent as of 1 January 2020.

Financial and capital management highlights:

- net tangible assets (NTA)[5] per stapled security increased 3 per cent from FY19 to $2.58 (June 2019: $2.50);
- weighted average debt maturity of 7.7 years;
- substantial available liquidity totalling approximately $944 million of cash and committed undrawn bank facilities held; and
- reduced average borrowing costs to 4.5 per cent per annum as at 31 December 2019 (June 2019: 4.8 per cent), including margins and line fees.

"Strong cash flows and sustainable distribution growth continue to characterise our financial results. Our transformational urban strategy supports a secure and growing distribution, driven by the passive income stream from our investment portfolio. The Group continues to maintain a healthy and flexible balance sheet and is well positioned to continue to operate through cycles," said Ms Lloyd-Hurwitz.

Office highlights:

- occupancy of 98.5 per cent[6], with a long WALE of 6.9 years[7];
- like-for-like net operating income growth of 5.6 per cent;
- over 33,000 square metres of leasing activity completed[8];
- valuation uplift of $208 million (or 3 per cent) over previous book value for the six months to 31 December 2019, reflecting an average capitalisation rate of 5.25 per cent; and
- progressed the Group's $3.1 billion committed office development pipeline which is 91 per cent pre-committed and includes Olderfleet (477 Collins Street), Melbourne, South Eveleigh and the Locomotive Workshops, Sydney and 80 Ann Street, Brisbane.

[4] Represents 100 per cent of expected end value.
[5] NTA per stapled security, based on ordinary securities including Employee Incentive Scheme securities.
[6] By area, including investments in joint ventures and excluding assets held for development.
[7] By income, including investments in joint ventures and excluding assets held for development.
[8] Excludes leasing of assets under development.

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Ms Lloyd-Hurwitz commented, “As Sydney CBD’s office market moves past the trough in vacancy, our young, low capex portfolio with 96 per cent of assets either prime or A-grade is well positioned to continue to experience sustained demand. We also secured several new opportunities to deploy our proven asset creation capability during the half, including Waterloo Metro Quarter, Sydney and Flinders West, Melbourne, further extending our future office development pipeline with a focus on Sydney urban fringe and Melbourne CBD locations where quality space remains relatively scarce,” Ms Lloyd-Hurwitz said.

Industrial highlights:

- occupancy of 100 per cent[9], with a long WALE of 7.4 years[10];
- over 21,600 square metres[11] of leasing activity achieved; and
- progressed the Group’s $1.2 billion[12], 100 per cent Sydney weighted industrial pipeline which includes a new industrial led employment precinct at Manchester Road, Auburn, a 56-hectare land holding proposed to be included in the Western Sydney Employment Area at Kemps Creek, and stage one of a future 244-hectare industrial estate at Badgerys Creek, which has been included in a priority precinct for the Aerotropolis SEPP.

“Sydney’s industrial market continues to benefit from growing e-commerce and over $30 billion of new road and transport infrastructure for Western Sydney. Moreover, supply remains tight and rents continue to increase. We’re responding to these favourable market conditions by advancing our 100 per cent Sydney weighted, $1.2 billion[12] industrial pipeline, which is ideally placed to benefit from this substantial infrastructure commitment, and particularly the growth of the Western Sydney Aerotropolis precinct,” said Ms Lloyd-Hurwitz.

Retail highlights:

- high occupancy maintained at 99.0 per cent[13];
- executed approximately 29,300 square metres of leasing activity (190 leases), with positive leasing spreads of 1.4 per cent;
- valuation uplift of 0.4 per cent, reflecting a capitalisation rate of 5.37 per cent;
- solid 2.0 per cent like-for-like income growth;
- comparable moving annual turnover sales growth of 2.8 per cent and comparable specialty sales growth of 2.4 per cent;
- comparable specialty sales productivity of over $10,000 per square metre;
- specialty occupancy costs of 14.8 per cent; and
- sold St Marys Village, Sydney for $68 million, reflecting a 36 per cent premium to its 30 June 2019 book value.

[9] By area.
[10] By income.
[11] By area.
[12] Represents 100 per cent of expected end value of committed and uncommitted future developments subject to planning.
[13] By area.

Ms Lloyd-Hurwitz commented, "In a constantly evolving retail landscape, we believe there is great opportunity for those willing to and capable of adapting to their market. Our commitment to change is evidenced in the sale of St Marys Village, the 170 new concepts we've recently introduced, the unique and locally inspired entertainment and dining precinct at Toombul and our entertainment partnership with Live Nation which will take eventing in Australian shopping centres to another level. This is all enabled by a highly progressive, early-adopting urban audience which is appealing to our progressive partners. The retail portfolio continues to deliver consistently solid performance metrics."

Residential highlights:

- settled 1,232 residential lots. The Group is on track to meet its target of more than 2,500 residential lot settlements in FY20;
- defaults remained below 2 per cent;
- secured future income with over $1.2 billion of residential pre-sales[14], with 88 per cent of expected residential earnings before interest and tax secured for FY20;
- released approximately 650 lots across new and existing projects;
- commenced restocking the residential portfolio in a capital efficient manner. New sites include Riverlands and the Western Sydney University Campus at Milperra, Sydney; and
- remain on track to release approximately 1,000 lots[15] in the second half of the financial year, in response to improving sales conditions in many markets.

"As forecast, our projects at Eastbourne, Melbourne and St Leonards, Sydney have settled strongly. At the same time, the established residential market continues to rebound in most locations, along with improved access to, and cost of finance, for our customers and improved purchaser sentiment. This has contributed to a strong settlement and sales profile across our Residential business during the half and we remain on track to reach our target of more than 2,500 lot settlements for the full financial year.

"We have capitalised on the recent moderation in the residential market and commenced restocking the portfolio with several new sites. Our robust development pipeline means we are well positioned to take advantage of the housing market as it continues to recover," Ms Lloyd-Hurwitz commented.

Sustainability highlights:

- ranked number one in Asia Pacific and number two in the world for gender equity by Equileap, out of 3,519 researched companies;
- topped BOSS Magazine's Most Innovative Companies List, in the Property, Transport and Construction category; and
- became the first Australian property group to join RE100, a global initiative of businesses committed to 100 per cent renewable energy.

[14] Adjusted for Mirvac's share of JVA and Mirvac managed funds.
[15] Subject to planning approvals and market conditions.

"This summer, the catastrophic bush fire season has demonstrated the impact of global warming. Looking forward, we expect climate-related challenges to increase in both their frequency and intensity. We are focused on working proactively to reduce our impact on the planet, and late last year, we reached an agreement that will see the majority of our office and retail centres in Victoria, NSW and ACT supplied with 100 per cent renewable energy. As a result, of 1 January 2020, our carbon footprint was reduced by 60 per cent, a significant step in our journey to becoming net positive carbon," Ms Lloyd-Hurwitz added.

For more information, please contact:

Media enquiries:
Kate Lander
General Manager, Communications
+61 2 9080 8243

Investor enquiries:
Bryan Howitt
General Manager, Investor Relations
+61 2 9080 8749