
ASX ANNOUNCEMENT

23 AUGUST 2021

GDI annual results for the year ended 30 June 2021

GDI¹ is pleased to release its annual financial results for the year ended 30 June 2021.

Key highlights

- Development approval for the new approximately 9,300sqm office development on the excess land at Westralia Square (WS2)
- Development approval for the new approximately 45,000sqm office development at 1 Mill Street, Perth
- Settlement of the acquisition of 180 Hay Street, Perth, with an immediate \$2.2 million uplift in value
- Post balance date, sale of 50 Cavill Avenue, Surfers Paradise, for \$113.5 million, approximately \$8.0 million more than book value (after settlement adjustments and selling costs), with settlement expected on or around 31 August 2021
- Notwithstanding falls in revenue and FFO compared to FY20, both were in materially in excess of internal budgets due to significant leasing successes across the portfolio, most notably at Mill Green, Perth and 50 Cavill Avenue, Surfers Paradise

Perth market

On settlement of the sale of 50 Cavill Avenue, our wholly owned portfolio will be exclusively located in Perth. Pleasingly, with positive net absorption, decreasing vacancy and increased levels of leasing enquiry we are confident that the recovery in the Perth market has begun. Perth's vacancy rate has decreased from 19.9% in January 2021 to 16.8% in July 2021, through a combination of positive net absorption, permanent withdrawals and withdrawals for refurbishment. Leasing agents are reporting sustained levels of enquiry, with most tenants either maintaining or increasing their space requirements.

We positioned our portfolio to Perth in anticipation of a recovery in the market. We did this before the current COVID-19 pandemic. We believe that COVID-19 impacted demand in the short term, particularly during the first half of FY21, but in the long run Perth and other export facing markets will be beneficiaries of the global response of governments investing into new infrastructure projects to stimulate their economies and generate wage growth.

Operational highlights

GDI has a small number of assets that have significant capital value upside through active asset management, including development opportunities, capital expenditure programmes and releasing.

Development

Both of GDI's major development opportunities were progressed during the period. At Westralia Square, development approval was granted for the new approximately 9,300sqm office building on the vacant land. The approval is for a new timber/steel hybrid office building (WS2) with market leading Ecologically Sustainable

Development credentials, and post balance date, we signed a building contract with Built Pty Limited to construct WS2 with an anticipated completion date in late 2022. The total estimated costs to complete of approximately \$63.0 million² includes \$10.0 million of precinct works that are expected to not only result in WS2 being classified as a premium grade building, but also re-position the existing Westralia Square to its former premium grade status. The actual cost of construction of WS2 alone is extremely low given there is no land cost, no substructure required and an ability to share some of the existing services of Westralia Square. The expected improvements in the Perth leasing market, the anticipated appeal of WS2 on completion as a unique boutique offer, the relatively low costs of construction and the positive impact that WS2 will have on the existing Westralia Square building gives us confidence to commence construction without any leasing pre-commitments. With the limited publicity and marketing undertaken to date we have had solid early enquiry.

Plans were also approved for a new approximately 45,000sqm office tower on 1 Mill Street, Perth. The proposed new development has generated significant interest with the occupier market and we are hopeful that the opportunity will be significantly progressed this year.

Leasing

Our largest asset by capital value is Westralia Square. As previously disclosed, the Minister for Works agreed to two new leases commencing 1 February 2021, a five-year lease to the Western Australia Police Force (WAPOL) (12,689sqm) and a six-year lease to Births, Deaths and Marriages (1,833sqm). Post balance date we have agreed terms with the Minister for Works for WAPOL to also occupy level 7, and to increase the entire tenure of WAPOL's lease by 2.5 years. During the year we also leased levels 11 (1,807sqm, 10-year lease) and 12 (1,807sqm, 6.5-year lease). Subject to documentation of the WAPOL extension, levels 1-12 will be leased, leaving only levels 13-18 vacant. With current interest in this space, we are confident that all of WS1 will be committed during FY22.

We also had leasing successes at 5 Mill Street, Perth, with occupancy increasing from a low during the year of approximately 60% of NLA to 86%, 197 St Georges Terrace, with occupancy increasing to 89% (from 85%) and 50 Cavill Avenue, with occupancy of approximately 97%.

During the period we settled the acquisition of 180 Hay Street, Perth. 180 Hay Street was constructed in 1999 and comprises 4,925sqm of well-presented office space over four floors of over 1,000sqm each and a mezzanine level. The property was purchased with vacant possession. We gained early access in June 2020 and immediately commenced a refurbishment programme including upgrading all the floors, a new end of trip facility and a chiller upgrade. Although we have not concluded any leasing transactions yet, we have been pleased with the level of inspections and remain confident that we will have some leasing successes in FY22.

Financial outcomes

Net profit

GDI's net profit for the year was \$22.96 million (FY20 \$66.74 million). GDI's net profit is subject to significant volatility from:

- the timing and quantum of valuation increases or decreases. During the year all assets except 50 Cavill Avenue were valued at least once, with an annual total valuation increase of \$2.32 million lower than in previous years (FY20: \$32.86 million); and
- the nature of the properties on the balance sheet at any point in time. During FY21, particularly our Perth assets were in a lease up phase. Pleasingly, the contribution to net profit from these assets was in excess of internal forecasts due to leasing successes.

Funds From Operation per security

GDI's FFO³ per security for the year was 5.37 cents (FY20: 8.22 cents), with the decrease from the prior year predominantly a result of the expiries of the leases at Westralia Square, and the transition of WAPOL from the upper to the lower floors at the same building.

Distribution

Notwithstanding the reduction in FFO, GDI was pleased to be able to maintain its level of cash distribution for the year of 7.75 cents per security. We were able to maintain the distribution at prior levels due to our very conservative balance sheet.

Gearing

GDI has drawn debt on its Principal Facility⁴ of \$168.8 million and undrawn debt of \$36.2 million. GDI remains well within its Principal Facility covenants, with a Covenant Loan to Value ratio of 21.5% (Covenant of 50%) and a Covenant Interest Cover ratio of 5.3X (Covenant of 2X). Post balance date, we executed an Amendment and Restatement Agreement amending the Principal Facility, with the primary amendments being:

- an extension of the maturity date to August 2024;
- on settlement of 50 Cavill Avenue, the reduction in Tranche's B and C by \$45.6 million to \$159.4 million, from the previous \$205.0 million; and
- the establishment of Tranche E, an undrawn \$85.0 million tranche providing GDI with capacity to finance the construction of WS2.

On settlement of 50 Cavill Avenue, we will have undrawn debt of approximately \$84.6 million, in addition to the undrawn \$85.0 million Tranche E, providing GDI with the financial flexibility to continue both its asset and capital management initiatives.

NTA

Although we had a small increase in the value of our assets, paying a distribution in excess of our AFFO³ has resulted in our NTA per security reducing from \$1.27 at 31 December 2020 to \$1.25 at 30 June 2021. The NTA per security excludes the approximately \$8.0 million profit on sale of 50 Cavill Avenue.

Guidance for FY22

We confirm that it is our intent to pay a cash distribution of 7.75 cents per security for FY22, subject to no material change in circumstances or unforeseen events. As with FY21, we would expect that a proportion of any cash distribution for FY22 will be paid out of capital.

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Authorised for release by David Williams, Company Secretary

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1. The stapled group comprising GDI Property Group Limited (ACN 166 479 189) and GDI Property Trust (ARSN 166 598 161) and their controlled entities.
 2. Excluding finance costs and incentives
 3. FFO is a Property Council of Australia definition which adjusts AIFRS net profit for non-cash changes in Investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives, straight-line adjustments and other unrealised one-off items. AFFO adjusts FFO for incentives paid during the period and maintenance capital.
 4. GDI's Principal Facility is secured by first registered mortgage over the wholly owned investment properties held by GDI and a registered GSA over the assets of GDI.