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Goodman maintains strong operating momentum into FY2017

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Release Immediate

Goodman Group (Goodman or Group) today announced an operational update for the quarter ended 30 September 2016, with its operating performance reflecting the demand for quality, well located logistics space in key gateway cities globally. This continues to be driven by a number of structural macro themes transforming the sector, which are creating significant opportunities across the Group's development and management businesses. This is sustaining strong activity levels and ensuring that Goodman is well positioned to deliver consistent earnings growth, both in FY2017 and over the long term.

Operational highlights

- + **Total assets under management of \$34.2 billion, reflecting \$0.9 billion of asset sales (excluding urban renewal) and \$0.8 billion of development completions in the quarter**
- + **Leased 0.9 million sqm across the Group and Partnerships in the quarter, representing \$109 million of annual rental income**
- + **Occupancy maintained at 96% across the Group and Partnerships, achieving a weighted average lease expiry of 4.7 years**
- + **Development work in progress of \$3.5 billion across 80 projects, with a forecast yield on cost of 7.7%**
- + **Development commencements of \$1.0 billion in the quarter, of which 60% were pre-committed**
- + **Improving quality of assets across the Group and Partnerships – asset rotation providing \$0.9 billion (excluding urban renewal) in Q1, for reinvestment in development pipeline**
- + **Disciplined approach to development activities, with 90% of development completions pre-committed and 82% pre-sold**
- + **Urban renewal strategy progressing ahead of expectations - \$0.3 billion conditionally contracted for an overall total of \$2.4 billion, with \$0.1 billion settled in the quarter**
- + **Managed Partnerships successfully accessing debt capital markets, pricing A\$1.7 billion of new bonds**
- + **Reaffirming forecast FY2017 full year operating earnings per security of 42.5 cents, up 6% on FY2016**

Goodman Group

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Goodman's Group Chief Executive Officer, Greg Goodman said: "We have made a very positive start to FY2017, with strong performance right across our business. Goodman's focus on improving asset and income quality across the portfolio globally by reinvesting in our development business, coupled with the strength of our customer relationships and support of our investment partners, continues to generate significant growth opportunities. This is not only reflected in the operational performance we delivered in the first quarter, but also in Goodman's disciplined financial approach, which is building a sector-leading, financially robust business for the future."

Investments

The Group and Partnerships completed the disposal of a further \$0.9 billion of assets in the quarter (excluding urban renewal), with in excess of \$5 billion of assets now sold globally over the last three years through a clear and structured programme, which has strengthened our presence in identified gateway cities. The selective sale of assets in a number of markets including Australia, New Zealand, China, Japan, Continental Europe and the United Kingdom has provided capital for reinvestment into Goodman's development business, improving overall portfolio and income quality, and positioning the business for long-term growth.

Targeted re-investment is into preferred gateway city locations that offer attractive characteristics in relation to scarcity of land, demand exceeding supply and superior rental growth. These are the locations where the impact of the significant macro themes transforming the industrial sector are the greatest. The themes include the growth in consumerism and evolution of e-commerce, enabling technologies, urban regeneration and population growth, and customers seeking greater operating and supply chain efficiencies. The execution of this strategy has seen the ownership of assets increasingly concentrated in its identified gateway cities, with for example, 79% of Australian assets now in Sydney; 66% of Asian assets in Hong Kong and Shanghai; and 98% of the US portfolio in Los Angeles.

The execution of the Group's urban renewal strategy remains active, with the continued demand for rezoned residential sites resulting in a further \$280 million of Sydney sites conditionally contracted for sale during the quarter. This brings the accumulated total sold and conditionally contracted sites to \$2.4 billion as at 30 September 2016, with Goodman also settling \$0.1 billion of urban renewal transactions in the quarter. The Group has maintained its urban renewal pipeline at 35,000 apartments in Australia, with the focus on achieving positive planning outcomes across sites for long-term opportunities.

Developments

The ongoing demand for prime, well-located logistics space around major gateway cities and the positive impact of the macro themes within the industrial sector were key drivers in the performance of Goodman's development business in the first quarter. The strong activity levels across the Group's operating regions were reflected in the \$1.0 billion of developments commenced during the quarter and the growth in Goodman's development work book to \$3.5 billion.

Key highlights for the quarter included the continued out-performance in Continental Europe, which has seen the development work book increase to \$1.1 billion. This was driven by significant development activity for customers predominantly across the e-commerce, retail and third party logistics sectors, of which 94% was pre-committed.

The development of Stage 2 of Goodman Business Park at Chiba Newtown, Japan has commenced and comprises a modern four-storey multi-customer logistics facility, with a target completion date of January 2018. Solid pre-leasing interest in Stage 2 provides confidence that it will be as successful as the A\$300 million Stage 1 project, which is now fully leased.

Management

Goodman's \$29.3 billion investment management platform retained the support of investment partners during the quarter. With development continuing to provide the best risk-adjusted returns in this part of the property cycle, Goodman's Partnerships are increasingly implementing a development-led strategy to improve portfolio quality and maintainability of income, while providing investment partners with access to growth opportunities not readily available on the open market. A primary source of capital for this strategy is through the asset rotation initiatives being undertaken across the Partnerships, which resulted in \$0.9 billion of asset sales (excluding urban renewal) completed in the quarter to fund ongoing development opportunities, while also reducing gearing.

Highlighting the support of global debt and equity investment partners in the first quarter, two of Goodman's Partnerships accessed the debt capital markets, consistent with their capital management strategies of continually diversifying debt funding sources and lengthening term. Goodman Australia Industrial Partnership successfully issued its inaugural US\$600 million 144A bond on a 10 year term, while Goodman European Partnership successfully priced a €650 million European Medium-Term Note in two tranches of six and 10 year terms. Both issuances were more than four times oversubscribed, reflecting the strength and quality of the Group's investment management platform and brand. Separately, Goodman Japan Core Partnership completed a US\$200 million equity raising to fund the acquisition of Stage 1 of Goodman Business Park, Tokyo from Goodman Japan Development Partnership.

Outlook

Goodman has made a positive start to FY2017, with significant momentum across its operating regions providing a strong platform to deliver consistent and sustainable earnings growth. The ongoing focus remains to improve asset and income quality across Goodman's portfolio through targeted asset rotation initiatives, with the rate expected to slow as these sales are completed. Development activity is expected to remain strong, driven by key macro themes, including the growth in consumerism and e-commerce continuing to provide high quality development opportunities in Goodman's identified gateway cities globally. Settlement from urban renewal sites will result in the Group's gearing trending below 10% and coupled with the positive momentum in the first quarter, Goodman is well positioned to deliver earnings growth and reaffirms its forecast full year FY2017 operating earnings per security of 42.5 cents, up 6% on FY2016 and a forecast distribution of 25.4 cents per security, up 6% on FY2016.

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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 sustainable long-term returns for its Partners.

For more information: www.goodman.com

