ASX ANNOUNCEMENT

22 February 2016

GDI Property Group[1] is pleased to release its half yearly financial results for the period ended 31 December 2015. Mr Steve Gillard, Managing Director of GDI Property Group, stated that GDI Property Group had a strong first half and has solid foundations to continue to grow earnings and NTA per security. "Notwithstanding the slight decrease in the independent value of Mill Green, our NTA per security has remained unchanged at $0.99 and we are upgrading our earnings guidance, subject to no material change in circumstances, from Funds From Operation (FFO)[2] of 8.2 cents per security to 8.8 cents per security" Mr Gillard stated.

Key highlights

- Funds From Operations (FFO) of $26.0 million, 59% of the previous full year 'as is' guidance of $44.3 million
- FFO of 4.82 cents per security
- Increasing full year FY16 guidance, subject to no material change in circumstances, from FFO of 8.2 cents per security to at least 8.8 cents per security
- Distribution of 3.875 cents per security, in line with guidance
- Payout ratio of 80% of FFO and 102% of AFFO[3]
- Statutory profit of $17.0 million
- All properties revalued, with a resultant increase in the independent valuation of the property portfolio of $13.0 million
- NTA[4] of $0.99 per security, unchanged from 30 June 2015 (including derivative financial instruments, NTA: $0.99 per security)
- Gearing of 31% as at 31 December 2015
- As at 31 December 2015, portfolio occupancy of 88%[5] and a weighted average lease expiry (by NLA) of 3.4 years[5]
- Confirming previous FY16 distribution guidance of 7.75 cents per security

Operational highlights during the period included settlement of 233 Castlereagh St, Sydney, for $156.0 million, exchanging contracts to acquire (and subsequently settling) 50 Cavill Avenue, Surfers Paradise, for $48.8 million and the acquisition of 223 – 237 Liverpool Road, Ashfield, for $35.0 million on behalf of the recently launched GDI No. 42 Office Trust.

Valuations

All assets were independently revalued as at 31 December 2015, with a resultant increase in the independent valuation of the portfolio of $13.0 million. Commenting on the valuations, Mr Steve Gillard, Managing Director at GDI Property Group stated that the valuation for Mill Green (-$8.0 million to $326.0 million) would be of most interest to investors in GDI Property Group. "The effective rent assumptions have obviously softened, but when you have a near full property like 197 St Georges Terrace (+$2.0 million to $241.0 million), with a long WALE and limited capex to spend, you are obviously going to see some tightening in capitalisation rates. 197 St Georges Terrace has recently received a 5.5 Star NABERS rating, which together with its 4.5 Stars NABERS Water rating and 5 Star

NABERS indoor environment rating make it one of Perth's most efficient buildings with one of the lowest outgoings amongst its A-grade and Premium peers. A tightening in the core market capitalisation rate from 8.00% to 7.50% for an asset of this quality, with its income profile, is not unexpected" Mr Gillard stated. Mr Gillard further explained that the counter to the valuation of 197 St Georges Terrace was also true for 1 Mill Street, Perth (-$9.0 million to $32.0 million). "1 Mill Street, Perth, being vacant, has not benefited from any tightening in its core market capitalisation rate since 31 December 2014 (8.25%). The impact of lower effective rent assumptions and a longer leasing up time has resulted in a 22% decrease in its current valuation and 30% decrease since IPO."

Whilst Mr Gillard stated an $8.0 million decrease across all of Mill Green was disappointing, he added that the current valuation did not put any value on the alternate use options for the 2 acre site. "Mill Green remains a strategic asset with a capacity to build approximately 38,000 sqm of additional plot ratio" Mr Gillard stated.

Mr John Garland, Head of Property at GDI Property Group, stated that the $12.0 million increase in the valuation of 66 Goulburn Street, Sydney, ($169.0 million) in six months from its 30 June 2015 valuation was a result of a tighter core market capitalisation rate (+0.25% to 6.75%) and higher market rent assumptions following completion of the upgrade of the foyer, the successful leasing up of the lower floors and lease renewals. "GDI Property Group paid $136.0 million for 66 Goulburn Street in July 2014, and in 18 months through a refurbishment and releasing program we have increased its value by over 22%. We believe that there remains a significant amount of upside to the value once we have addressed the Consolidated Media Holdings Limited FY17 expiry" Mr Garland stated.

25 Grenfell Street, Adelaide (+$5.0 million to $114.0 million) increased in valuation principally from a 0.75% tightening in the core market capitalisation rate to 7.5% following the successful renewal of the Government of SA (PIRSA) lease for 8 years, whilst the valuation of 307 Queen Street, Brisbane (+$4.0 million to $126.5 million) benefited from higher occupancy.

Notwithstanding the $13.0 million increase in the independent valuations, due to capital expenditure, other capitalised items like incentives and leasing fees and accounting charges for straight line rental income capitalised since the last valuation of each property, GDI Property Group incurred a revaluation loss of $3.8 million.

Leasing

Occupancy in all of GDI Property Group's assets either increased slightly, or remained unchanged from 30 June 2015. At Mill Green in Perth, notwithstanding the difficult leasing conditions 5 Mill Street (occupancy 87%; 30 June 2015: 85%) continues to attract interest, particularly since the decision was made to showcase some fitted out suites. Similarly, the one vacancy in 197 St Georges Terrace (occupancy 99%; 30 June 2015: 99%) has now been fitted out and is receiving strong enquiry. There is currently little interest in 1 Mill Street.

At 66 Goulburn Street, Sydney, leases have now been executed and have commenced for all the space that was subject to signed Heads of Agreement at 30 June 2015, with occupancy at 100%. The focus has now shifted to the Consolidated Media Holdings Limited ("CMH") 10,432 sqm expiry in August 2016. GDI Property Group has gained early access to one floor (the loss of income can be covered by the guarantee) which it is currently refurbishing and given the success of leasing up the bottom six floors, expect much of this potential vacancy to be addressed by the time of the CMH expiry.

Occupancy at 307 Queen Street, Brisbane (occupancy 79%[6]; 30 June 2015: 73%[6]), continues to track higher, although GDI Property Group no longer benefits from a rental guarantee over 3,176 sqm of space (expired 16 December 2015). Strong momentum to start 2016 has resulted in three new heads of agreement for over 1,100 sqm of space and lease renewals or agreements to renew for over a further 2,400 sqm. In addition, GDI Property Group is currently negotiating terms for potential new leases on over 2,000 sqm of space

Although occupancy at 25 Grenfell Street, Adelaide, remained unchanged at 95% at 31 December 2015, impending vacancies include the Department of Water (4,176 sqm) and Minter Ellison (408 sqm), which will result in a decrease in the occupancy to [77%] if not re-let. 25 Grenfell Street is one of Adelaide's best properties and it is therefore not surprising that strong interest is already being received for the Department of Water space.

The recently acquired 50 Cavill Avenue, Surfers Paradise has received strong leasing interest since GDI Property Group exchanged contracts to acquire the building. At the time of exchange occupancy stood at 54%, rising to 58%[7] on settlement on 1 February 2015, and now stands at 61%[7].

Funds Business

GDI Property Group's Funds Business continues to perform strongly, with Assets under Management steadily growing back to pre-IPO levels. On 19 February 2016 GDI Property Group announced the launch of the $88.5 million GDI No. 42 Office Trust, taking AUM in the Funds Business to approximately $380.0 million. GDI No. 42 Office Trust will own 223 – 237 Liverpool Road, Ashfield, and 235 Stanley Street, Townsville and is forecast to have a commencing yield of 8.5%[8] growing to 8.75%[8] in FY18.

Highlights of the Funds Business during the period included:

- 1 Adelaide Terrace, Perth (GDI No. 36 Perth CBD Office Trust) was revalued to $129.0 million (from $102.6 million) following over 10,000 sqm of leasing and lease renewals with WA State Government;
- Two assets were sold from GDI No. 38 Diversified Property Trust, with resultant gains over acquisition price of 37% and 42% in under 18 months of ownership;
- The cosmetic upgrade of 80 George Street, Parramatta (GDI No. 40 Office Trust) was completed and leases were either renewed or agreed to renew over 47% of the property's NLA;
- The capital expenditure program for both assets in GDI No. 27 Total Return Fund was completed and GDI Property Group will monitor exit opportunities for those assets.

Capital management

On settlement of 233 Castlereagh Street, Sydney, GDI Property Group amended and reduced the size of its existing debt facility, with all tranches now having an October 2018 expiry. GDI Property Group remains well within its facility's covenants with an LVR at 31 December 2015 of 31% (Covenant 50%) and ICR of 4.1X (Covenant 2.0X). GDI Property Group also reviewed its hedge book at this time, but made no change to either the levels or duration of its hedging.

This strong financial position enabled GDI Property Group to extend its buyback with an additional 3,703,247 securities bought back and cancelled in the period. During the 12 month buyback, GDI Property Group purchased and cancelled 28,755,927 securities at an average price of $0.916.

Although the buyback has not been extended for a further 12 month term, GDI Property Group is constantly reviewing its capital management strategies and will consider recommencing the on-market buyback on either completion of the capital raising for GDI No. 42 Office Fund or the sale of a property.

Guidance for FY16

GDI Property Group is pleased to upgrade its FFO guidance, subject to no material change in circumstances, to at least 8.8 cents per security for FY16. Principle contributors to this upgrade from the previous 'as is' guidance[9] of 8.2 cents per security are:

- Net transactional fees from the Funds Business (+0.2 cents)
- Interest income from the delayed settlement of 233 Castlereagh Street, Sydney (+0.15 cents)
- Rent received from 233 – 237 Liverpool Road, Ashfield, prior to its syndication (+0.10 cents)

There is further upside potential to this guidance, subject to leasing principally at 50 Cavill Avenue, Surfers Paradise and 25 Grenfell Street, Adelaide.

GDI Property Group's distribution guidance remains unchanged at 7.75 cents per security for FY16.

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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. 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. GDI Property Group also adjusts funds management performance fees charged that remain unpaid from its calculation of FFO.
3. AFFO adjusts FFO for incentives and maintenance capital expenditure
4. Net Tangible Assets. Calculated as total assets less deferred tax assets, intangible assets and derivative financial instruments less total liabilities less derivative financial instruments divided by securities on issue.
5. Occupancy is based on executed leases only, WALE calculations include amended lease expiry dates where there is an agreement to renew
6. Includes Corporate Travel Management Group Pty Limited with a lease commencement of 1 February 2016. 30 June 2015 comparison number excludes the vacancy guarantee, which included as previously shown, occupancy was 89%
7. Includes signed leases yet to commence and signed Heads of Agreement, and in relation to the now 61% occupancy, also includes tenants where terms have been agreed
8. The expected yield is based on certain assumptions that may not be achieved
9. "As is" is defined as all contracted rents or those subject to Heads of Agreement as at 18 August 2015, base management fees from the Funds Business and disposal fees where a sale of an asset is considered certain, budgeted FY16 expenses of $6.3 million (including the issue of FY16 LTI performance rights) and on settlement of 233 Castlereagh Street, Sydney, execution of the amended and extended debt facility on terms consistent with the credit approved terms.