

ASX ANNOUNCEMENT

22 FEBRUARY 2021

GDI half year results for the period ended 31 December 2020

GDI¹ is pleased to release its half year financial results for the period ended 31 December 2020.

Key highlights

- Development approval for the new approximately 9,000sqm office development on the excess land at Westralia Square (WS2)
- Significant progress with the development at 1 Mill Street, Perth, with development approval anticipated shortly
- Leasing successes, particularly at Westralia Square and 197 St Georges Terrace, Perth
- Settlement of the acquisition of 180 Hay Street, Perth, with an immediate \$2.2 million uplift in value

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 9,000sqm office building on the vacant land. The approval is for a new timber/steel hybrid office building (WS2) and full precinct public realm upgrade to the existing office building (WS1). Construction is anticipated to commence around June 2021 with total forecast costs of \$63.0 million, including precinct works but excluding incentives and finance costs. We anticipate WS2 will be highly sought after by the occupier market on completion in late 2022.

Plans were also lodged for a new approximately 45,000sqm office tower on 1 Mill Street, Perth. We are in discussions with a number of either all or part of building tenants to pre-commit to the development and are hopeful that significant progress will be made this year.

Leasing

Our portfolio comprises assets that have a significant amount of leasing opportunities. Pleasingly, in Perth there are numerous indicators that point to an increase in leasing activity over 2021 and we are very heartened by the number of inspections and enquiries at the start of 2021.

Our largest asset by capital value is WS1. We purchased Westralia Square in October 2017 for \$216.25 million, equating to a rate of approximately \$6,700/sqm of NLA. In our opinion, we were able to purchase the property so well due to its very short lease expiry profile, with both the Minister for Works (25,664sqm) and UGL's (3,374sqm) leases expiring in the first half of 2020. As previously disclosed, the Minister for Works agreed to two new leases commencing 1 February 2021, a five-year lease² to the Western Australia Police Force (12,689sqm) and a six-year lease to Births, Deaths and Marriages (1,833sqm). During the period we concluded the lease negotiations with Cash Converters Pty Limited for a new 10-year lease (level 11, 1,807sqm) commencing 1 October 2021 and post balance date have executed a heads of agreement for all of level 12 (1,807sqm) for a new 6.5 year lease commencing early 2022.

These successful leasing transactions, which together with the existing lease to Hartleys Limited, means Westralia Square is now 63% committed, and if the interest in level 7 converts to a leasing outcome, then we will only have the upper levels 13 – 18 to lease.

We also had leasing successes at 197 St Georges Terrace, with occupancy increasing to 89% and have seen interest rebound strongly at 5 Mill Street, Perth and 50 Cavill Avenue, Surfers Paradise.

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 2021.

Financial outcomes

Funds From Operation per security

GDI's FFO³ per security for the period was 2.632 cents (31 December 2019: 4.397 cents), with the decrease from the prior corresponding period predominantly a result of the expiries of the Minister of Works and UGL's leases at Westralia Square during 2020, and the transition of the Western Australia Police Force from the upper to the lower floors at the same building.

Distribution

Notwithstanding the lower reduction in FFO, GDI was pleased to be able to maintain its level of cash distribution for the period ended 31 December 2020 of 3.875 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 \$152.8 million and undrawn debt of \$52.2 million. The increase in debt on the Principal Facility from 30 June 2020 was used to fund the acquisition of 180 Hay Street, Perth (\$12.8 million) and working capital purposes (\$20.0 million). GDI remains well within its Principal Facility covenants, with a Covenant Loan to Value ratio of 19.5% (Covenant of 50%) and a Covenant Interest Cover ratio of 7.9X (Covenant of 2X).

NTA

We obtained independent valuations for a number of our consolidated properties during the period. Westralia Square was revalued to \$345.0 million (from \$327.5 million) with the valuer now ascribing some value to the excess land. Mill Green was valued at \$326.0 million (from \$343.0 million), with a slight increase in the valuation of 1 Mill Street offset by decreases in the value of 5 Mill Street (\$56.0 million vs \$58.5 million at 31 December 2019) and 197 St Georges Terrace (\$230.0 million vs \$251.0 million at 31 December 2019). 5 Mill Street's valuation was impacted by the increased vacancy, and 197 St Georges Terrace's valuation by the impending lease expiries of Amec (FY23) and Jacobs (FY22). Stanley Place was revalued at \$51.5, down from \$53.5 million at 30 June 2019, with the decrease due to the increased vacancy following the ATO's departure in August 2020. The IDOM portfolio was also revalued, with the portfolio's value increasing to \$105.9 million (from \$98.0 million).

The combined impact of these revaluations, together with the fact that AFFO³ per security was substantially lower than the distribution per security, has meant that GDI's NTA per security has reduced by 3 cents to \$1.27 per security.

Guidance for remainder of FY21

We confirm that it is our intent to pay a cash distribution of 7.75 cents per security for FY21, regardless of our level of FFO, subject to no material change in circumstances or unforeseen events, noting that the cash distribution for the six-month period ended 31 December 2020 was 3.875 cents per security. As with the period ended 31 December 2020, we would expect that a proportion of any cash distribution for the second half of FY21 will be paid out of capital.

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Authorised for release by David Williams, Company Secretary

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. WAPOL has certain 12-month lease extension and termination rights on the giving of at least 18 months-notice, and in the case of termination, compensation to GDI.
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.