ASX ANNOUNCEMENT

22 AUGUST 2022

GDI annual results for the year ended 30 June 2022

GDI[1] is pleased to release its annual financial results for the year ended 30 June 2022.

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.

WS2

WS2 is an approximately 9,500sqm office building being constructed from a combination of steel and timber on top of the existing carpark at Westralia Square. This construction brings a step change approach to minimising embodied carbon across our portfolio, and importantly, in our built environment. The two primary areas of focus have been to firstly replace as much concrete as possible with cross laminated timber. Secondly, WS2 borrows structural support from an existing concrete carpark structure beneath it and spare thermal capacity from an adjoining office building (all owned and operated by GDI). These key factors, in combination, have driven an effective embodied carbon reduction of approximately 80% compared to the construction of an equivalent contemporary reinforced concrete building.

Once operational, WS2 is expected to generate significantly less emissions than a standalone building due to its high-performance thermal enclosure and sharing some of the services with the adjoining Westralia Square. We intend to secure green energy for WS2's base build energy requirements to eliminate scope 2 emissions and are reviewing whether to buy offset credits for scope 1 and 3 emissions, potentially making the operational phase of WS2 carbon neutral.

We are now approximately 70% through the construction timetable, with an estimated completion date of late 2022. Construction remains on budget, but has been delayed two months due to supply constraints, COVID outbreaks and recent inclement weather. We are having numerous discussions with the occupier market and are hopeful of successful leasing outcomes during FY23.

Sale of 50 Cavill Avenue, Surfers Paradise

50 Cavill Avenue was sold for $113.5 million on 31 August 2021, having been purchased in February 2016 for $48.75 million. At the time of acquisition, 50 Cavill Avenue was approximately 54% occupied with no NABERs Energy rating. Following an extensive refurbishment and releasing programme, it was sold with a 4.5 Star NABERs Energy rating and occupancy of approximately 97%. We realised that 50 Cavill Avenue could be the preeminent business address on the Gold Coast and we identified opportunities for capital expenditure to improve the asset's appeal, reduce its operating costs and improve its environmental performance. We were confident that if we did this the occupier market would follow, and we are very pleased with our successes on all these facets.

Acquisition of Perth CBD carparks

In December 2021, we purchased two Perth CBD carparks for a combined consideration of $68.50 million. The carparks were acquired on an approximately 5% passing yield, with considerable upside anticipated as occupancy and revenues return to pre-pandemic levels.

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419 – 431 Murray Street, Perth is a 10-level concrete framed carpark built in 1984 for 839 cars. It is located in the western end of the core CBD with a frontage to Murray Street and access via a right of way to Hay Street. It provides easy access to the Kwinana Freeway network situated to the east and is in near proximity to the Hay Street Mall precinct, several leading hotels and established office buildings including 240 St Georges Terrace, QV1, and GDI's own Mill Green complex. 419 – 431 Murray Street was acquired for $38.25 million and has been independently valued at $38.50 million.

301-311 Wellington Street, Perth is a six-level concrete framed carpark built in 1988 for 601 cars. It is located on the south-eastern corner of Wellington and Pier Streets and has easy access to the Graham Farmer Freeway, linking to the greater Perth freeway network. It is in near proximity to Royal Perth hospital, District Courts, the Murray Street Mall precinct, and several leading hotels. 301-311 Wellington Street was acquired for $30.25 million and has been independently valued at $30.25 million.

The carparks represent a unique investment opportunity for GDI. With limited new supply of carparking in the Perth CBD, we anticipate the carparks will perform well not only in the medium term but over a considerable period of time. Both carparks also offer medium term change of use potential, given a significant component of the acquisition price is land value. We have leveraged our experienced gained from WS2 to prepare plans for a similar lightweight construction to add approximately 25,000sqm of new office over the Wellington Street carpark and have had several discussions with potential whole of building occupiers.

Leasing

We are not as progressed as we had anticipated with our releasing of 197 St Georges Terrace, Westralia Square, 180 Hay Street and 1 Adelaide Terrace (GDI No. 36 Perth CBD Office Trust). However, since April 2022 following the reopening of the WA borders, we have signed four new leases (875sqm in total), six lease renewals (3,084sqm in total), have five new heads of agreement (4,169sqm in total) and one small renewal subject to a heads of agreement (87sqm). Although much of this activity has either been at the smaller end of the tenant market or short term in nature, we are now seeing significant levels of enquiry from larger (1,000+sqm) tenants and we remain very confident in the short and medium-term outlook for the Perth office market generally, and our assets in particular.

Financial outcomes

Funds From Operation per security

GDI's FFO[2] per security for the year was 5.29 cents (FY21: 5.37 cents), with the decrease from the prior year predominantly as a result of the dilutive impact from the sale of 50 Cavill Avenue, partly offset by a higher contribution from Westralia Square than the prior year and the half year contribution from the Perth CBD carparks.

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 of $206.8 million on its Principal Facility[3] and undrawn debt of $106.1 million. GDI remains well within its Principal Facility covenants, with a Covenant Loan to Value ratio of 26.0% (Covenant of 50%) and a Covenant Interest Cover ratio of 4.9X (Covenant of 2X).

NTA

Although we had significant revaluation gains during the year, paying a distribution in excess of our AFFO[2] has resulted in our NTA per security reducing from $1.28 at 31 December 2021 to $1.27 at 30 June 2022.

Hedging

At 30 June we had two $25.0 million interest rates swaps, one for three years (0.38% expiry May 2023) and one for five years (0.60% expiry May 2025). Post balance date, both these swaps were terminated, with the value created on termination used to acquire interest rate protection on $100.0 million of debt at BBSY of no greater than 3.0% until 31 December 2023, and a further $50.0 million of debt at BBSY of no greater than 3.0% until 31 December 2024.

Guidance for FY23

GDI's business plan is to deliver a consistent 10.0+% total return on equity, measured both annually and on a three-year rolling basis. Total return is measured as NTA growth per security plus distributions per security. This total return could be skewed to distributions per security, or in the alternative, NTA growth per security. However, we do consider that distributions are an important part of an investor's return, particularly from an AREIT, and we have paid a consistent distribution regardless of our level of earnings, FFO or AFFO. An AREIT that buys assets with leasing risk is never going to have consistent earnings, FFO or AFFO, and we have supported the distribution from the proceeds of asset sales (for example, 50 Cavill Avenue, Surfers Paradise) or by utilising our conservative balance sheet.

Our objective is to pay a distribution at levels similar to previous years. However, to do so we will need strong leasing outcomes and/or significant capital transactions, both of which are our main focus in FY23.

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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. 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.
3. 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.