16 February 2023

Growthpoint Properties Australia 1H23 Results, FY23 guidance re-affirmed and buy-back extended

Growthpoint Properties Australia (Growthpoint or the Group) today announces its financial results for the six months ending 31 December 2022 (1H23).

1H23 financial and capital management overview:

- Statutory loss after tax of -$109.6 million (1H22: profit after tax $347.3 million), primarily reflecting the movement in office portfolio valuation
- Positive funds from operations (FFO) per security growth to 15.3 cents per security (cps), up 12.5% on prior corresponding period (pcp)[1]
- Net tangible assets (NTA) per security of $4.25[2], -6.8% on 30 June 2022
- Gearing of 34.5%[2] at 31 December 2022, below target range of 35% to 45%
- Entered new debt facilities of $200 million with one $90 million facility maturing, with average cost of drawn debt 4.3%[2] at 31 December 2022 (3.4% at 30 June 2022)
- Fixed rate debt of 66.7%[2] (60.9% at 30 June 2022) and a weighted average cost of fixed debt of 3.0% at 31 December 2022, with the Group entering $170 million of new swaps in the period
- 1H23 distribution of 10.7 cps, 2.9% higher than pcp
- FY23 FFO guidance upgraded in December 2022 to 25.5 to 26.5 cps, FY23 distribution guidance of 21.4 cps re-affirmed

1H23 operations review:

- Completed acquisition of Fortius Funds Management Pty Ltd (Fortius) for $45.0m[3] in September 2022
- Settled acquisition of predominantly government leased A-Grade office asset in Dandenong, Victoria for $165 million in July 2022
- Entered contract of sale to divest office asset 333 Ann Street, Brisbane, Queensland, for $141.1 million[4] which settled in January 2023
- Net property income (NPI)[5] up 19% to $144 million and like-for-like NPI up 10.8% on pcp
- Directly owned property valuation movement (-3.4% on a like-for-like basis over 6 months), reflects changing market conditions with the portfolio valued at $5.0 billion[2] at 31 December 2022 ($5.1 billion at 30 June 2022)
- Weighted average capitalisation rate (WACR) of 5.2%, moving +23 basis points (bps) from 30 June 2022
- Weighted average lease expiry (WALE) maintained at 6.3 years (30 June 2022: 6.3 years)
- Leasing success with over 89,000 square metres of leasing completed in 1H23, or 5.2% of portfolio income
- Portfolio occupancy of 94%[2] at 31 December 2022 (97% at 30 June 2022), with the industrial portfolio fully leased and office portfolio 91%[2] occupied
- Recognised as GRESB Sector Leader[6] in 2022 Sustainability Benchmark, scoring 81/100 (from 80/100 in prior year) and CDP score of B maintained

Timothy Collyer, Managing Director of Growthpoint, said, “Growthpoint has delivered positive funds from operations growth for securityholders in the first half of the year, driven by net property income growth of 19%. Delivering on our strategy, Growthpoint was also pleased to enter funds management in the period, completing the acquisition of Fortius, a key growth opportunity for the Group. We settled the acquisition of a high-quality modern office asset in Dandenong, Victoria with a long WALE of 9.4 years, for $165 million early in the half and toward the end of the period entered a contract of sale to divest our CBD office asset 333 Ann Street in Brisbane, Queensland for $141.1 million[7], which subsequently settled in January 2023.

[1] Prior corresponding period is the six months ended 31 December 2021
[2] Pro forma for sale of 333 Ann Street, Brisbane, Queensland, which settled in January 2023
[3] Initial purchase price, with an additional net asset adjustment
[4] Gross sale price
[5] Net property income plus distributions from equity related investments
[6] Overall Regional Sector Leader – Diversified – Office/Industrial
[7] Gross sale price

"The Group successfully leased over 89,000 square metres of accommodation, 5.2% of portfolio income in 1H23, maintaining a strong portfolio WALE of 6.3 years and total portfolio occupancy of 94%. We are also seeing good leasing momentum on our current office portfolio vacancies.

"Positive net absorption across the metropolitan and fringe office markets over the 12 months to 31 December 2022 continues to support the resilience of these markets. Growthpoint is well placed to meet tenant demand in the 'flight to quality' environment as the largest ASX-listed owner of a modern well-located A-grade metropolitan office portfolio, with high green credentials. In the Group's office markets, net office absorption has been broadly positive, with modest face rent growth.

"The Group's directly owned portfolio was valued at $5.0 billion[8] as at 31 December 2022, declining -3.4% on a like-for-like basis over the half. The movement reflects increased cost of capital and the demand for higher hurdle rates from investors in the commercial property market.

"Market rent growth and leasing success has largely off-set yield expansion in the Group's industrial portfolio valuations at 31 December 2022. Our industrial portfolio remains 100% leased at 31 December 2022, as the industrial market continues to see high demand and historic low vacancy rates, with assets leased to premium tenants across a well-placed, diversified industrial logistics and warehouse portfolio."

Mr Collyer added, "Growthpoint was pleased to upgrade FY23 FFO guidance to 25.5 to 26.5 cps in December 2022 and re-affirm FY23 distribution guidance of 21.4 cps. Growthpoint remains well positioned to manage through the current period of macroeconomic volatility, with a high-quality, defensively positioned portfolio with a consistently strong WALE and leading asset management capability.

"The disruption and dislocation in commercial property market conditions presents opportunities for the value-add strategy of the funds management business. As we move forward with the combined execution capability and experience of the team to grow the business, we are focused on continued delivery of returns to fund investors and disciplined execution of new opportunities. Growthpoint intends to grow the funds management business, targeting 10% to 20% of Group EBIT over the medium term, with the aim of delivering incremental growth to earnings and income stream diversification for Securityholders."

Strategic property acquisitions, divestments and asset expansions

The Group successfully settled the acquisition of A-grade office asset 165-169 Thomas Street, Dandenong, Victoria in July 2022. Predominantly leased to the Victorian State Government with a long WALE of 9.4 years, the asset was acquired for $165 million on an initial yield of 5.3%.

In November 2022, the Group exchanged contracts to sell its 333 Ann Street, Brisbane, Queensland office asset for $141.1 million[8], with settlement occurring in January 2023. Net proceeds from the sale were used to repay debt.

Two asset expansions were completed in the half to accommodate the growth of existing portfolio tenants, supporting lease extensions and creating value.

- $26.1 million expansion of ASX listed tenant Autosports Group's state of the art Melbourne BMW dealership headquarter at 75 Dorcas Street, South Melbourne, Victoria; entered into as part of the 15 year and 11 month lease extension in late FY21. The works included ground floor and level one showroom extension and the addition of mezzanine offices, increasing the lettable area by approximately 3,773 square metres.
- $3.4 million warehouse expansion with a seven year lease from completion was completed at 120-132 Atlantic Drive, Keysborough, Victoria for Symbion, a national wholesaler of healthcare products and services. The works extended the warehouse by 2,910 square metres. Growthpoint separately agreed with Symbion to add a 330kW solar array, with installation being completed in 1H23. Symbion agreed to add an additional 2.5 years to their lease as a consequence of the Group funding installation, taking it to 2032.

[8] Pro forma for sale of 333 Ann Street, Brisbane Queensland, which settled in January 2023

Property portfolio valuation

The Group engaged external valuers to value 35 of its 58[9] directly owned properties, or 64%[9] of its portfolio by value as at 31 December 2022. The remaining valuations were undertaken as internal or Directors' valuations in line with the Group's valuation policy.

The Group's pro forma like-for-like portfolio valuation saw a decline of -3.4%, or -$169.3 million, over the six months to 31 December 2022, reflecting changing market conditions with increased cost of capital and demand for higher hurdle rates from investors in commercial property markets. The Group's portfolio was valued at $5.0 billion[9], -2.0% on $5.1 billion as at 30 June 2022.

Office

The value of the Group's office portfolio was $3.3 billion[9] at 31 December 2022, declining -5.0%, (-$165 million) on a like-for-like basis from 30 June 2022. 94% of the Group's office assets (24 properties) saw a decline in value, with 5% remaining stable (1 property), and 1% increasing (1 property).[10]

The Group's office WACR of 5.4% at 31 December 2022, expanded 23 bps since 30 June 2022 as office markets adjust to changing macro-economic and market conditions, as noted above. Also impacting the Group's 31 December 2022 office valuations:

- Lease surrender of Lion at 5 Murray Rose Avenue, Sydney Olympic Park, New South Wales effective from 31 October 2022 (-$21 million, -20% on prior book value)
- Uncertainty regarding the tenant's future accommodation requirements at 10-12 Mort Street, Civic, Australian Capital Territory following the current lease expiry, WALE of 2.2 years at 31 December 2022. (-$13 million, -14% on prior book value)
- Re-pricing of ultra-long WALE asset (yield expansion 25bps), 1 Charles Street, Parramatta, New South Wales (-$35 million, -6% on prior book value)

Industrial

The value of the Group's industrial portfolio was $1.7 billion at 31 December 2022, declining -0.2%, (-$4 million) on a like-for-like basis compared with 30 June 2022. 42% of the Group's industrial assets saw an increase in value (14 properties), with 18% remaining stable (9 properties), and 40% declined in value (8 properties).[10]

Market rent growth and leasing success has largely off-set yield expansion in the Group's industrial portfolio valuations at 31 December 2022. The Group's industrial WACR of 5.0% at 31 December 2022, has seen 23 bps expansion since 30 June 2022. Valuations results were also impacted by the repricing of long WALE industrial asset (yield expansion), 599 Main North Road, Gepps Cross, South Australia (-$11 million, -4% on prior book value).

Funds management

Growthpoint completed the acquisition of 100% of the shares in Fortius in September 2022. The transaction comprised a $45 million initial purchase price, with an additional net asset adjustment, paid in cash and funded from the Group's existing liquidity and debt facilities. An additional earn out component of up to $10 million is payable based on agreed milestones being met over the period to June 2024.

Successful integration of the funds management business is ongoing, with positive feedback received from fund investors. The Group holds $1,874 million third-party funds under management at 31 December 2022 (-2.1% on $1,914 million at acquisition). Property divestments of $55 million since the acquisition include the sale of 99 Gawler Place, Adelaide, South Australia in December 2022 returning an equity IRR of 19.8%[11]. Property fund FUM saw positive movement of $12 million to 31 December 2022 since the acquisition, including external valuations of 52%[12] of property assets, with a moderate 0.7%[13] uplift in the value of investment properties across the funds.

[9] Pro forma for sale of 333 Ann Street, Brisbane Queensland which settled in January 2023
[10] Valuation movements: Increased: valuation increased by more than 1%, Stable: valuation change between -1% and 1%, Declined: valuation reduced more than 1%. Weighted by value
[11] Pre-tax and performance fee. Internal Rate of Return (IRR). Past performance is not an indication of future performance
[12] Percentage by value of total funds property assets at 31 December 2022, excluding debt
[13] Excluding sale of 99 Gawler Place, Adelaide, South Australia in December 2022

On-market securities buy-back extended

As part of its capital management strategy, Growthpoint has extended its on-market securities buy-back program for up to 2.5% of its issued capital[14] for a further 12 months. Of this amount, the Group has purchased 6,893,095 securities (0.9% of issued capital) for $24.3 million as at 31 December 2022. Please refer to the Appendix 3D released today for further information in relation the on-market securities buy-back program.

Outlook and guidance

The Group is pleased to reaffirm the guidance provided on the 20 December 2022 of FY23 FFO of 25.5 to 26.5 cps, and FY23 distribution of 21.4 cps. A key assumption to guidance is in respect of rising interest rates, with the Group assuming an average FY23 floating cash rate of 3.0%[15]. This guidance anticipates no significant market movements or unforeseen circumstances occurring during the remainder of the financial year.

Market briefing

Growthpoint will provide a market briefing at 11:00am (AEDT) today, 16 February 2023. A webcast of the briefing will be available at https://webcast.openbriefing.com/9385/.

This announcement was authorised for release by Growthpoint's Board of Directors.

For further information, please contact:

Kirsty Collins
Investor Relations and Communications Manager
Telephone: +61 3 8681 2933

Growthpoint Properties Australia

Level 18, 101 Collins Street, Melbourne, VIC 3000
growthpoint.com.au

About Growthpoint

Growthpoint provides space for you and your business to thrive. For more than 13 years, we've been investing in high-quality industrial and office properties across Australia.

Today, we have $6.9 billion[16] total assets under management. We directly own and manage 58 high quality, modern office and industrial properties, valued at approximately $5.0 billion[16]. We actively manage our portfolio and invest in our existing properties, ensuring they meet our tenants' needs now and into the future. We are also focused on growing our property portfolio.

We manage a further $1.9 billion[16] on behalf of third-party investors through our funds management business, which manages funds that invest in office, retail and mixed-use properties and debt investments across value-add and opportunistic strategies.

We are committed to operating in a sustainable way and reducing our impact on the environment. We are targeting net zero by 2025 across our 100% owned on balance sheet operationally controlled office assets and corporate activities.

Growthpoint Properties Australia (ASX: GOZ) is a real estate investment trust (REIT), listed on the ASX, and is part of the S&P/ASX 200. Moody's has issued us with an investment-grade rating of Baa2 for domestic senior secured debt.

[14] Upon announcement of initial buy-back on 25 February 2021
[15] Up from 2.9% provided as an assumption to guidance of 20 December 2022, based on changes to interest rates to date and forecasts for the remaining five months of FY23
[16] Total $6.9 billion AUM as at 31 December 2022 includes: $5.0 billion directly owned property valuations, pro forma for sale of 333 Ann Street, Brisbane, QLD which settled in January 2023 and $1.9 billion third-party funds under management