
ASX ANNOUNCEMENT

10 November 2016

CHAIRMAN'S ADDRESS

In a somewhat digression from a usual Chairman's address, I would like to reflect on our journey over the past two and a half years since our listing, rather than simply focus on the outstanding year we have just had.

GDI Property Group was formed in late 2013 by three separate but interrelated transactions, the merger of three unlisted property funds managed by the then private GDI group of companies, the acquisition of our building in Brisbane at 307 Queen Street, and finally the acquisition of the Funds Business from Steve Gillard, our current Managing Director and Tony Veale, my fellow board member. The listing process began in April 2013 and did not complete until the end of that year. It was time consuming, complicated, and exhaustive.

Management have been asked on numerous occasions on their decision to list. Listing on the ASX is not for every entity. Reasons often include access to capital, succession planning and liquidity for owners. The first two of these were very true for Steve and Tony. Since listing on the ASX GDI Property Group has been able to secure 66 Goulburn Street, Sydney and 50 Cavill Avenue, Surfers Paradise, for the balance sheet, and the UGL Portfolio, 80 George Street Parramatta, 223 – 237 Liverpool Road, Ashfield and 235 Stanley Street, Townsville for the Funds Business, in total over \$375 million of real estate. Without having access to capital GDI Property Group would not have been able to secure such outstanding assets.

The other benefit of listing is the increased responsibility and accountability on senior management, providing employees that can deal with this a career pathway and a business with a high calibre internal pool of candidates for more senior roles. In our case, with a small staff of only 12, this increased responsibility, workload and accountability has been borne by all staff. At the time of listing there was very little public market experience amongst us, but two and a half years later all our staff have embraced the changes required as a listed entity and have thrived under the additional attention a public entity receives. As a consequence, all staff participate in our long term incentive plan, not just the senior management team. What is an even bigger endorsement to Steve and the culture at GDI Property Group is that not one employee has left or resigned in my time as Chairman, over two and a half years.

Listing also provides liquidity for owners. As a result of the listing we had many old owners, not just Steve and Tony, but also the investors in the three unlisted funds that merged. Steve and Tony, although out of escrow, remain two of our largest securityholders. But even more humbling is the number of investors in the unlisted funds that remain holders of our listed securities today. They, like all of us at GDI Property Group, have not lost faith in our strategy, notwithstanding a security price that has disappointed all of us since listing. I also welcome all our securityholders that have joined the register since our listing. It is always humbling to have people believe in you and your strategy.

We began 2014 as a newly minted ASX listed property group. We believed then and still believe today that our strategy is the most appropriate strategy for a real estate owner, particularly an office owner, be it listed or unlisted. We buy well located buildings, typically with four sides of natural light, easily divisible floor plates for what we believe to be well below replacement cost. These buildings will often be in need of an active asset management strategy, be it refurbishment or re-leasing. Although we always believe most of our return will be from rent as a result of having improved the income profile of a building following our asset management strategy, we also believe that once we have completed this asset management strategy there is little more we can add to the building's value. Of course, values may rise because buyers are prepared to pay more for the same cash flows, but equally values may fall if the opposite happens. We cannot control that. This is why we may look to sell a property once our asset management strategy has been completed. This holds true whether we own the property on our own balance sheet or in a fund. We believed this strategy was unique for Australian listed property trusts when we listed, and we still believe it is unique.

Since 2014 we have been true to this strategy. This has enabled us to deliver a compound annual growth rate in our Funds From Operations¹ of over 12% p.a. since IPO and an absolute total return² of over 12.5% p.a. over the same period. We have delivered this strategy within a risk management and governance regime that enables our team to be entrepreneurial, but not reckless. I personally got to know Steve, Tony and their team during the IPO process. What was apparent was that the then GDI group of companies had one of the soundest compliance and governance attitudes I have experienced. Although no registered scheme had been operated by the GDI group of companies prior to listing, it had an Australian Financial Services Licence and was well practiced in adhering to the strict licencing requirements that justifiably come with managing other peoples' money. Listing took this to a new level, and the process has enabled us to document and publish what GDI Property Group has always practiced.

I am particularly proud of our corporate governance practices. During the year as a Board we undertook our bi-annual performance evaluation program, the conclusion of which was we are operating effectively and competently. Our Board comprises individuals with a variety of skills, which when blended gives the Board as a whole the right mix of strategic thinking and commercial expertise within a sound risk, compliance and governance framework.

Diversity is important to GDI Property Group. Unfortunately the focus of diversity seems to be around the percentage of women on Boards and in senior management. We believe at GDI Property Group that diversity is more about thought rather than simply gender. People from different backgrounds, be it education, race, physical ability, religion, age, gender, or any other difference between humans, bring different skills and thoughts to a table, and this is what we encourage. We consider both our Board, management team and staff as being wonderfully diverse, even though we have not met our diversity objectives in relation to the number of women on both the Board and in senior management. As we have had no turnover in either this has not proved possible to date.

The financial year ended 30 June 2016 was extremely successful, but I will let Steve elaborate on that. What excites me is the prospects for GDI Property Group in the current financial year and beyond. We are unique, we are entrepreneurial, but we are also risk adverse. This year may see us crystallise some of our assets to enable us to capitalise on future opportunities. Knowing that we may sell one or more assets makes forecasting difficult, but what I do know is that Steve and his team will not deviate from their strategy, a strategy that has been highly successful for over 23 years.

MANAGING DIRECTOR'S ADDRESS

Thank you Graham for your kind words. Like you, I am extremely proud to present at our third Annual General Meeting. FY16 saw us continue to deliver on our strategy of delivering high risk adjusted returns to investors. In financial terms, our Funds From Operations (FFO)¹ for FY16 was \$49.1 million, an increase of \$2.7 over FY15 FFO. This equated to FFO per security of 9.11 cents per security, an increase of 10.8% over FY15 FFO of 8.22 cents per security and a compound annual growth rate in FFO of 12.1% since the IPO in December 2013. At 30 June 2016, our NTA was up \$0.02 to \$1.01 and our distribution per security was in line with guidance of 7.75 cents per security. This increase in NTA coupled with our distribution is how we measure our absolute total return². During FY16 we delivered an absolute total return of 9.9% and an annualised absolute total return since IPO of 12.5% p.a.

Operational highlights during FY16 included settling the disposal of 233 Castlereagh Street, Sydney, for \$156.0 million, a net cash pre-tax profit of \$32.3 million over the Initial Public Offer acquisition price, and acquiring 50 Cavill Avenue, Surfers Paradise, for \$48.8 million, in February 2016, with the property now valued at \$55.0 million.

Other highlights included leasing, agreeing to lease or renewing over 9,700sqm of the 14,300sqm of FY17 expiries at 66 Goulburn Street Sydney, the property that is directly above us. The leasing success led to a valuation increase of \$30.5 million, or 19.4%, over the course of FY16 and given the increased occupancy which I will talk about later and higher rents we are now achieving, there is scope for the valuation to have increased further.

The Funds Management division had another extremely successful year, with assets under management (AUM) growing to approximately \$356.1 million, as a result of the positive increase in AUM from the establishment of GDI No. 42 Office Trust, offset by asset sales from GDI No. 38 Diversified Property Trust. The Funds Management division delivered a segment FFO result of \$4.28 million, up from \$2.93 million a year ago. This increase is largely a result of the greater assets under management and higher levels of transactional fees, including disposal fees relating to the sale of assets by GDI No. 38 Diversified Property Trust (\$0.7 million) and the establishment of GDI No. 42 Office Trust (\$0.9 million).

GDI No. 42 Office Trust was established in June 2016 and owns two assets with a total value of \$88.5 million, 223 – 237 Liverpool Road, Ashfield and 235 Stanley Street, Townsville. Both assets are well tenanted to State and Federal government tenants, and have multiple exit options. For the first time in our history, GDI Property Group subscribed for a meaningful stake in a fund, holding 43.68% of the units on issue of GDI No. 42 Office Trust.

We have continued to be very active since 30 June 2016. In particular, occupancy (including signed heads of agreement) has improved in most of our assets. 197 St Georges Terrace, Perth, is now 100% occupied, and 5 Mill Street, Perth sits at 91%³, up from 87%³ when we released our annual results. 66 Goulburn Street, Sydney is now 92%³ leased compared to 80%³ in August, and 50 Cavill Avenue, Surfers Paradise is 71%³ leased, up from 66%³ in August. 1 Mill Street, Perth remains our millstone, but we are continuing to pursue our asset management strategies for this asset and remain extremely confident in its long term value. Our leasing success is in part a result of our sustainability capabilities. We are experts at refurbishing buildings and improving the NABERS ratings. A prime example of this is 197 St Georges Terrace Perth, which was originally built in 1983.

Since acquiring it at the end of 2011, GDI Property Group has extensively refurbished the property, taking its NABERS rating to 5.5 Stars and last week winning the Sustainability Award for Premium / A Grade buildings at the 2016 Property Council of Australia WA Property Awards.

Earlier today we announced that we had exchanged contracts to sell one of our headstock properties, 25 Grenfell Street, Adelaide, for \$125.1 million, or approximately \$124 million after selling and other costs. This compares favourably with our last independent valuation of \$114 million. Settlement of the transaction is forecast to be on or around 5th January 2017. We have also announced that we have exchanged contracts to sell 80 George Street, Parramatta, for \$51.88 million. This asset is owned by GDI No. 40 Office Trust, which was only established in June 2015. Having completed the asset management strategies for the asset, and after receiving an off market offer, we decided to crystallise the value we had created. This is an exceptional result for the investors in GDI No. 40 Office Trust who will receive an IRR of in excess of 19%. Our focus remains on growing the assets under management in our Funds Business and we are currently reviewing a number of potential opportunities to offer the GDI No. 40 Office Trust investors when that trust is wound up.

As the asset management strategies of two of our other headstock assets, 66 Goulburn Street, Sydney, and 307 Queen Street, Brisbane are nearing completion, we decided to market both these assets for sale. As the sales processes for these assets are at this stage incomplete, I am unable to comment on the likelihood of any transaction occurring for either asset. Suffice to say, we will not be selling either asset unless the price received reflects what we believe to be fair value, particularly as we have now transacted to sell one of our other headstock assets in 25 Grenfell Street, Adelaide.

Given the probability, timing and price received for any sale of either or both of 66 Goulburn Street, Sydney or 307 Queen Street, Brisbane, is at this stage unknown, we are still unable to provide FFO guidance for FY17. However as stated in August when we released our annual results:

- as a result of asset sales, FFO per security (excluding the profit from asset sales) is likely to be lower than FY16; and
- it is forecast that distributions, including from profits on sale of properties, will be at least 7.75 cents per security, not including any capital returns or reductions.

In the first instance we intend to repay debt with the proceeds from the sale of 25 Grenfell St, Adelaide. Subject to the success of the public market campaigns for 307 Queen Street, Brisbane and 66 Goulburn Street, Sydney, we would look to redeploy some or all of the proceeds from 25 Grenfell Street, Adelaide and any proceeds from the other potential sales into acquisition opportunities. In the absence of any acquisition opportunities, we would look to undertake a number of capital management initiatives, including but not limited to further debt repayment, a return / reduction of capital and a security buyback. As I have previously stated, there is no certainty of any transaction proceeding in relation to either or both of 307 Queen Street, Brisbane or 66 Goulburn Street, Sydney.

In conclusion, I would personally like to thank Graham and all the Board for their ongoing support and guidance. All the team at GDI Property Group have a healthy working relationship with the Board that helps us to deliver on our strategy.



On behalf of all the team at GDI Property Group, I truly thank you for your support and we look forward to a bright future together.

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1. 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.
 2. Defined as (movement in NTA + distributions)/opening NTA.
 3. Including signed Heads of Agreement.

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