
ASX ANNOUNCEMENT

16 NOVEMBER 2017

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

Following is the Chairman's address and the Managing Director's presentation to be delivered at today's Annual General Meeting of GDI Property Group.

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Chairman's address

The financial year ended 30 June 2017 was another outstanding success. However, I will let our Managing Director, Mr Steve Gillard, talk about our operational successes.

Instead, I would like to focus attention on what are some of the Board's main responsibilities, that is, overseeing a strategy that stays true to course, ensuring we have best practice in relation to risk management and E.S.G, or environmental, social and governance matters, and developing succession plans for both the Board and management. I will address these in turn.

GDI Property Group's strategy

I want to take you back to our Prospectus and Product Disclosure Statement (Offer Document) dated 25 November 2013 in relation to the Initial Public Offer (IPO) of securities. This 290 page door stopper had all you needed to know plus much more about an investment in GDI Property Group. There was a lot of material in the Offer Document, but what really mattered was the description of GDI Property Group's strategy. I will repeat what was written then:

"GDI Property Group will be an owner of well-located CBD office properties diversified by geography, tenant and lease terms. Properties are intended to be acquired below management's opinion of value, having regard to replacement cost, with multiple exit options and which have typically been under managed or undercapitalised. Income is derived by receipt of net rental income from the properties. Over time, it is the intention to increase net rental income and capital values via asset management including:

- Improved leasing and tenant diversity;
- Selective capital improvements;
- Management of outgoings; and
- Incremental revenue initiatives including signage rent, additional car park income, storage, communication and other means.

It is expected the investment in Australian office properties on balance sheet will result in a reliable source of rental income for securityholders. Over time, GDI Property Group may divest some properties, if in the opinion of management, their value has been maximised or no longer meets the investment objectives of GDI Property Group."

Of the four properties owned by GDI Property Group at the time of the IPO, only one remains, Mill Green, in Perth. 233 Castlereagh Street, Sydney, was sold to a developer who has subsequently lodged a Development Application to demolish it and rebuild residential apartments on the site. When we acquired this property, we considered a sale for residential conversion a real possibility, but so too on an as is basis. Multiple exit options allowed us to maximise this property's value.

25 Grenfell Street, Adelaide, was sold this year. During the period of ownership it was our engine room, a well tenanted property in a small, in terms of Australian CBDs, market. With some short term vacancies emerging, it no longer met our investment objectives, and when we received a compelling offer for the property we decided to sell it.

We bought 307 Queen Street, Brisbane, from the proceeds of the IPO. We bought it because it was below our opinion of value, having regard to replacement cost, and we thought it had been under managed and undercapitalised. At the time the occupancy was only about 60% of net lettable area (NLA). We spent money on capex and leasing, got the occupancy to 85% of NLA and then sold it as we thought the value had been maximised.

Since our IPO we have also bought two more assets for our balance sheet, 66 Goulburn Street, Sydney for \$136.0 million in July 2014 and 50 Cavill Avenue, Surfers Paradise, for \$48.8 million in February, 2016. Both of these assets had leasing and capex opportunities, and we delivered on improving the appeal of each property, increasing their occupancy and rental rates and therefore significantly increasing their value. We have recently sold 66 Goulburn Street, Sydney, for \$252.0 million, which after selling costs and settlement adjustments will net us \$92.0

million more than what we paid for it. 50 Cavill Avenue, Surfers Paradise, is now valued at \$77.6 million, \$28.8 million more than we paid for it.

These transactions have delivered an Absolute Total Return since IPO of 14.85%p.a., an outstanding result for a real estate investment trust. Not only have we delivered this return on paper, we have crystallised it by selling properties and redeploying the capital to other opportunities. Most recently we have decided to deploy the proceeds from the sale of 66 Goulburn Street, Sydney, to buying Westralia Square, 141 St Georges Terrace, Perth. We are very excited about the opportunity Westralia Square offers.

We would also redeploy some of this capital to funds management initiatives, be it securing additional assets or buying businesses. Growing the funds under management in the Funds Business back to pre IPO levels was the second strategy at the time of the IPO. We have not been able to achieve this, not because of a lack of investor demand, but rather a lack of opportunity. Our crystallised funds have delivered an average IRR in excess of 20%, and we don't want to dilute this, our track record or our reputation by doing deals in the Funds Business that are done primarily to grow the funds under management. The recent acquisition of 6 Sunray Drive, Perth, home to IKEA's only Perth store, is a demonstration of how we can use our balance sheet to secure exciting opportunities for the Funds Business.

I am extremely comfortable that our strategy in the Property Division and the Funds Business is going to be successful through cycle, that we have the right team to deliver on our strategy, and that our patience will be rewarded.

Risk management and ESG

Risk management is a priority for GDI Property Group. It is front of mind for all of us, but not as an impediment to doing business. Instead, it shapes the business we do. The assets we buy have opportunities to add value, but by buying well located buildings with easily divisible floors plates, we are mitigating leasing risks. We have always had a conservative capital structure, with our loan to value ratio on our principal facility being only 8% at 30 June 2017 and the gearing in our funds at what we consider conservative levels. We have mitigated the 'key man' risk associated with Steve Gillard by investing in our entire team and giving them responsibility in the business. These are all operational risks that can impair a business' entrepreneurial endeavour. For us, we think we've been entrepreneurial by embracing these risks and managing them to deliver superior outcomes for our securityholders.

We of course insure all our properties, but we also invest in to maintaining them to the highest standard. This includes having ongoing maintenance contracts for things like the lifts and air-conditioning systems. We also undertook a review of all our properties building components, including what is commonly referred to as cladding, and confirm we do not have any foreseeable risks arising from this review.

Our 'non-operational' risks, things like compliance with our licenses, compliance with regulations and the like are managed by utilising an automated, on line risk management system, which allows the team to focus on the business rather than the process.

I am particularly proud of our ESG practices. We believe that creating more sustainable, environmentally friendly, office buildings is fundamental to our business. It is good for our tenants, it is good for the environment, and it is good for our bottom line. GDI Property Group has been a market leader in sustainability since 2008 and was one of the first to receive Government grants to improve the sustainability of our buildings.

GDI Property Group has embraced the "Green Space" by piloting and implementing an energy performance program designed to measure, assess and improve the utility (energy & water) performance of all of the properties in our management.

This program includes utility audits, NABERS ratings, energy procurement improvements, and a formal utility monitoring program. Every asset manager at GDI is effectively a head of sustainability, as improving the sustainability of our office buildings is a core principle.

Our track record is second to none. When we acquired Mill Green Complex, Perth, 197 St Georges Terrace had a NABERS Energy rating of 3 stars. After a refurbishment and releasing program, we achieved a 5.0 Star Energy rating. 197 St Georges Terrace, Perth also has a 4.5 star NABERS Water rating and a 5 star NABERS Indoor Energy rating as at November 2016. This property was also recently awarded the PCWA Commercial Property Award for Ecologically Sustainable Development (ESD) – Premium/A Grade Asset Category.

Governance is also a matter that we take very seriously at GDI Property Group. A copy of our Corporate Governance Statement is on our website and I encourage you to read it.

Succession planning

Succession planning at GDI Property Group happens at all levels, even though the Company has only 11 staff and four independent directors. We train our staff, not only by funding additional education courses, but by also giving them on the job experiences they would be unlikely to receive elsewhere. We are confident that our management team contains individuals that are exceptionally well qualified to lead, and that our other staff can step up to the management team.

At a Board level, we have successfully replaced Mr Tony Veale, a GDI Property Group founder and major securityholder, with Mr John Tuxworth, with a resolution at today's AGM set to ratify his appointment. John has stepped seamlessly on to the Board and has brought with him a fresh approach to the Board meetings; he has immediately added value. John will introduce himself prior to the resolution to ratify his appointment.

We have also announced that Mr Les Towell, a director since 2005 who helped shape what GDI Property Group has become today, will retire as a director at the conclusion of this AGM. Subject to securityholder approval, Les will be replaced by Mr Giles Woodgate, a Chartered Accountant with his own practice who will strengthen our capabilities, particularly as a member of the Audit, Risk and Compliance Committee. Giles will also introduce himself prior to the resolution to appoint him as a director.

The financial year ended 30 June 2017 was another highly successful one. The Group's excellent performance is a result of the hard work of Steve Gillard and his team of only 11 people. It is through their efforts that we have been able to achieve such wonderful results and create such a strong foundation for the future.

I would also like to thank the Board for their support and commitment over the year and look forward to continuing to work with my fellow directors over the next 12 months.

I will now hand over to Steve Gillard.



GDI PROPERTY GROUP

Managing Director's presentation

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A investment in GDI Property Group is subject to investment risk, including possible delays in repayment, the loss of income and the loss of the amount invested.

Overview for FY17



NTA – \$1.12 per security



FFO of 8.46 cents per security



Distribution of 7.75 cents per security



Securityholder return in FY17 of 24.58%



Absolute Total Return in FY17 of 18.56%



Loan to value ratio of 8%

FY17 Operational highlights...

- Sales

- 25 Grenfell Street, Adelaide, for an effective sales price of \$124.0 million, a premium of \$10.0 million over the last independent valuation
- 307 Queen Street, Brisbane, for an effective sales price of \$141.0 million, a premium of \$14.5 million over the last independent valuation
- 80 George Street, Parramatta (GDI No. 40 Office Trust), for \$51.9 million, a 34% premium over the acquisition price

- Leasing success in both strong and difficult markets, which has continued through to FY18

Property	Occupancy ¹ as a % of NLA		
	16 November 2017	1 August 2017	16 August 2016
66 Goulburn Street, Sydney	100.00%	97.98%	79.54%
50 Cavill Avenue, Surfers Paradise	95.30%	90.14%	65.75%
5 Mill Street, Perth	100.00%	98.06%	87.26%

- Capital management

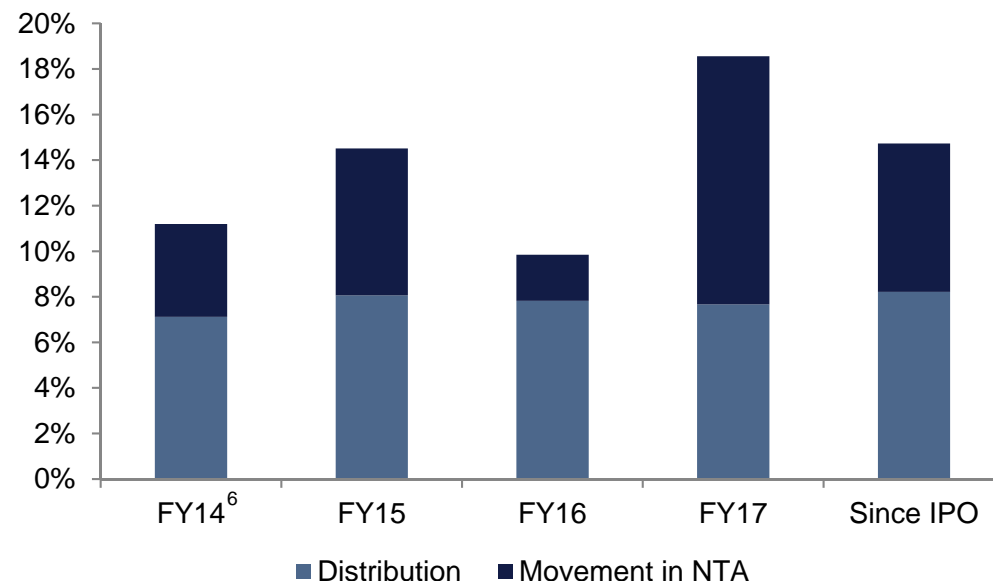
- Repayment of \$240.5 million of the principal facility from the sales of 25 Grenfell Street, Adelaide and 307 Queen Street, Brisbane
- Principal facility loan to value ratio as at 30 June 2017 only 8%
- Instigated an on-market buy back in February 2017 for up to 5% of securities on issue, but to date only bought back approximately 2.2 million securities (1.1 million in the first half of CY17)

1. Includes signed heads of agreement and tenancies with agreed terms.

...which led to financial success

- NTA¹ of \$1.12 per security
 - ↑ of 11.00 cents per security from 30 June 2016
 - Significant valuation gains at 66 Goulburn Street, Sydney (+\$35.5 million) and 50 Cavill Avenue, Surfers Paradise (+\$22.6 million)
- FFO^{2,3} of 8.46 cents per security
 - Payout ratio of 91.6% of FFO
- Distribution of 7.75 cents per stapled security
- Absolute total return⁴ of 18.56% for FY17
 - Absolute total return since listing of 14.73% p.a.
- Total securityholder return⁵ of 24.58% for FY17

Absolute total return



1. Net tangible asset.

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.

3. Calculated using weighted average securities on issue.

4. Defined as (movement in NTA + distributions)/opening NTA.

5. Based on 30 June 2016 and 30 June 2017 closing prices of \$0.885 and \$1.025 respectively, and paid and declared distributions for the year of \$0.0775.

6. Annualised.

Post balance sheet



Sale of 66 Goulburn Street, Sydney



Successful raising for GDI No. 43 Property Trust



Acquisition of Westralia Square, Perth

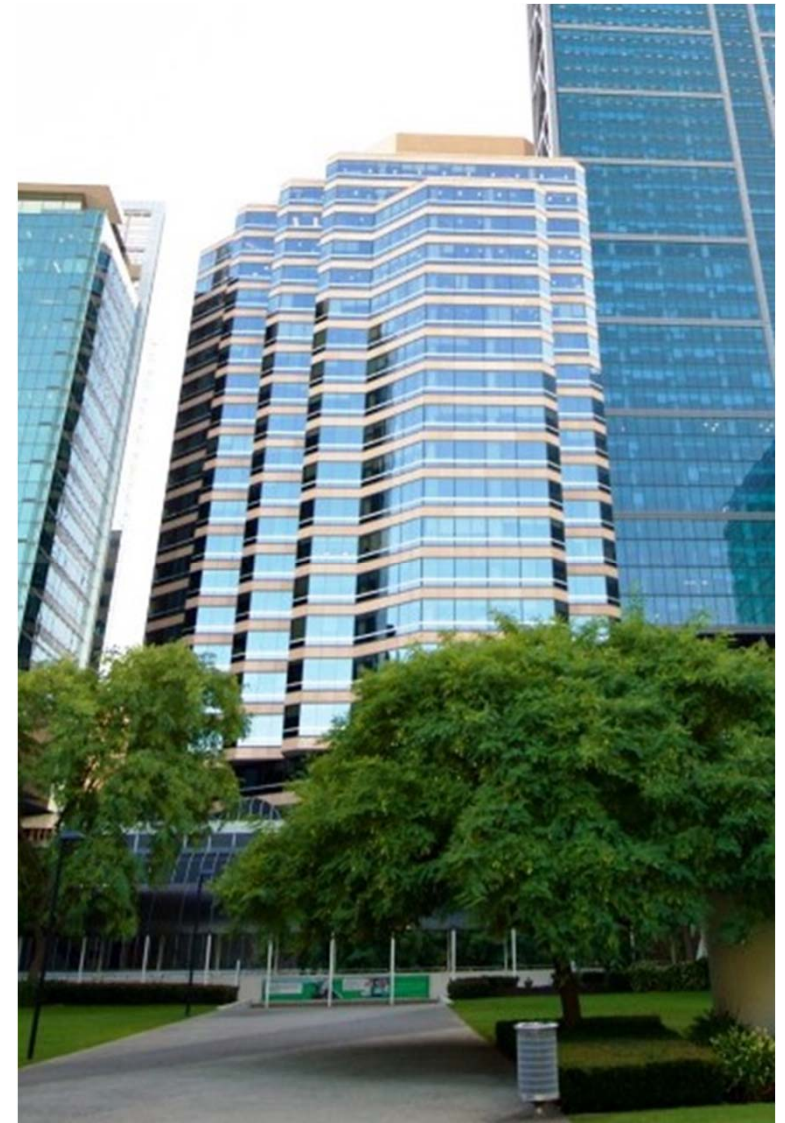
Sale of 66 Goulburn Street, Sydney

- Settlement of the sale of 66 Goulburn Street, Sydney set for 17 November 2017 (tomorrow)
- Sale price of \$252.0 million, an effective price of approximately \$228.0 million
 - \$5.0 million premium over the 30 June 2017 valuation
 - \$92.0 million premium over the July 2014 acquisition price of \$136.0 million
 - During three years of ownership, 100% of the property's NLA was either leased or renewed



Acquisition of Westralia Square, Perth

- Settled the acquisition of Westralia Square, Perth on 27 October 2017
- Acquisition metrics:
 - Price: \$216.25 million
 - Price/sqm: \$6,626
 - Passing yield: 11.34%
 - Occupancy: 93.5%
 - WALE by NLA: 2.5 years
- Immediately commenced a \$30 million capex program, including:
 - Lift maintenance
 - New end-of-trip facilities
 - Refurbishment of all floors as they become available
 - Destination control lifts
 - Facelift of foyer and surrounds
- Level 7 “show floor” will be all but completed by Christmas 2017
- First expiry is 1,379sqm in December 2018



GDI No. 43 Property Trust

- Exchanged conditional contracts to acquire 6 Sunray Drive, Innaloo, Perth, home to IKEA's only Perth store, for \$143.5 million for a new unlisted, unregistered scheme, GDI No. 43 Property Trust
- Key highlights of GDI No. 43 Property Trust:
 - Prominently located property between Stirling Station and Westfield, Innaloo
 - Purpose built Ikea store accounting for 88% of passing income
 - Annual CPI increases and market reviews every 5 years and at each option renewal date, all subject to a ratchet clause
 - Ikea lease expiring February 2023 with three 5 year renewal options
 - Significant upside in underlying land value
- On becoming unconditional on 10 October 2017, immediately sent out a one page briefing flyer with an Expression of Interest form (EOI) to GDI Property Group's database
- Expressions of interest in excess of \$100 million for the \$95.9 million raising
- Offer opened 17 October 2017, offer closing on 24 November 2017
 - Conversion rate of EOI to applications would suggest the offer will be significantly oversubscribed
- Settlement anticipated on or around 10 January 2018

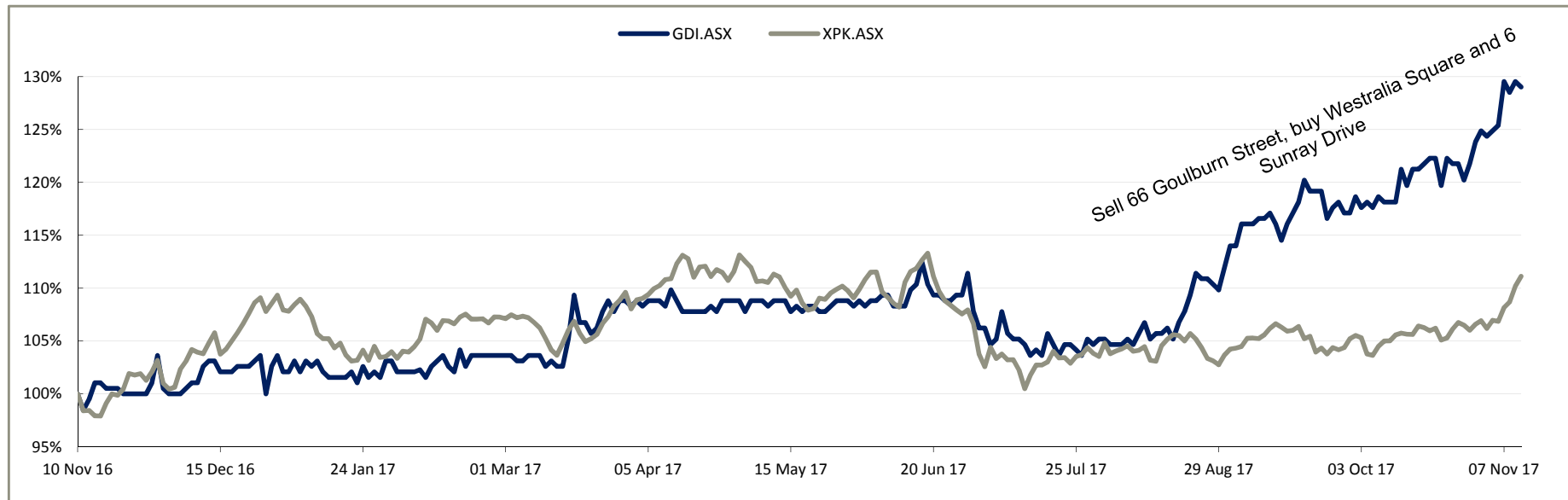


A conservative approach to capital management

- 5% buy-back announced in February 2017
 - 2.2 million securities purchased at an average price of \$1.035
 - Highest price paid \$1.10 (September 2017)
 - Lowest price paid \$0.99 (March 2017)
- 24.8 million securities remain to be bought back
- Following transactions, 'pro forma' loan to value ratio on principal facility will be 10%
 - Pro forma drawn debt of \$59.4 million, pro forma undrawn debt of \$55.6 million
- Anticipate utilising additional gearing capacity to secure future opportunities for the Funds Business

Strategy is being supported

1 year security price vs S&P / ASX 300 A-REIT Index ("XPK")¹



Total return vs S&P / ASX 200 A-REIT Index¹

Total Return	1mth	3mth	6mth	1yr	2yrs	3yrs	Since IPO
GDI	7.8%	22.7%	23.0%	39.2%	28.7%	21.0%	13.7%
S&P/ASX 200 A-REIT Index	6.7%	8.1%	3.5%	16.1%	12.2%	12.2%	15.9%
Out(under)performance	1.0%	14.6%	19.5%	23.1%	16.5%	8.8%	-2.2%

1. To 10 November 2017.

