
ASX ANNOUNCEMENT

24 AUGUST 2020

GDI annual results for the year ended 30 June 2020

GDI¹ is pleased to release its annual financial results for the year ended 30 June 2020.

Key highlights

- Net Tangible Asset (NTA) per security of \$1.30, up \$0.04 per security from the NTA at 30 June 2019, but a slight decrease from the 31 December 2019 NTA of \$1.32
- Funds From Operations (FFO)² per security of 8.22 cents
- Distribution per security for the year of 7.75 cents, in line with guidance

Operational highlights

Leasing

The highlight from a leasing perspective was the Minister of Works executing two new leases for 14,522sqm at Westralia Square. The Western Australia Police Force (WAPOL) has leased 12,689sqm over levels 1-5, 8 and 9 for a period of five years³ commencing 1 February 2021, and Births Deaths and Marriages (BDM) has entered in to a new six-year lease for 1,833sqm over level 10, also commencing on 1 February 2021. The previous leases over 25,664sqm to the Minister of Works were varied, largely to facilitate WAPOL's relocation within Westralia Square from the upper levels to the lower levels, and the departure of the Department of Justice.

Securing WAPOL has meant that all the lower levels at Westralia Square, excluding the fitted-out show floor, level 7, are now leased and we anticipate releasing the upper levels into an improving Perth market as they become available during FY21.

Funds Management division

The highlight for the Funds Management division was securing a \$98.0 million portfolio of 17 metropolitan Perth properties (Portfolio) occupied by high profile car dealerships and service centres located on major arterial roads. The Portfolio is fully leased for a term of approximately 10.4 years, with the tenant⁴ having 5 x 5-year options. The leases have annual CPI⁵ + 1% rental increases, with market reviews⁵ in 2023 and 2028. The acquisition was funded by the establishment of a new unlisted unregistered managed investment scheme, GDI No. 46 Property Trust (the Trust). GDI holds approximately 47% of the 75.7 million units on issue.

Development opportunities

GDI has two exciting development opportunities in the core of the Perth CBD. At Westralia Square, we have increased the size and scale of the proposed development of the excess land (WS2) to approximately 9,130sqm of lettable area over 11 floors. At 1 Mill Street, we are continuing to discuss the opportunity with several major occupiers.

Capital markets

Although only a small acquisition, we are very pleased to have now settled⁶ the acquisition of 180 Hay Street, Perth, for \$12.59 million, with the property having an independent valuation of \$15.0 million. Constructed in 1999, 180 Hay Street comprises 4,925sqm of well-presented office space over four floors of over 1,000sqm each and a mezzanine level. The property was 100% vacant on settlement.

NTA per security

As at 30 June 2020, our wholly owned portfolio⁷ was independently valued at \$771.5 million, with each of Mill Green (+\$13.0 million to \$343.0 million), Westralia Square (+\$42.5.0 million to \$327.5 million) and 50 Cavill Avenue (+\$1.0 million to \$101.0 million) revalued at least once during the year. Following the revaluations, our NTA per security has increased \$0.04 since 30 June 2019 to \$1.30, albeit a slight decrease from the 31 December 2019 NTA per security of \$1.32.

The \$0.02 NTA reduction from 31 December 2019 is primarily a result of:

- Westralia Square's second half valuation gain (\$11.5 million) being less than the capital expenditure incurred including incentives in the period (\$16.6 million); and
- The right off of stamp duty and other acquisition costs on GDI's ownership interest in GDI No. 46 Property Trust (\$3.6 million).

With only \$120.0 million of drawn debt as at 30 June 2020, our balance sheet remains in a strong position giving us the financial flexibility to continue our asset management initiatives and fund any future acquisitions.

COVID-19

Perth to perform well

In a counter-cyclical strategy, since the beginning of 2017 we have been repositioning GDI's portfolio away from the East coast markets to Perth, while at the same time retaining a very conservative capital structure. Perth has limited new prime grade office supply until the end of 2023, and although the headline vacancy rate is the highest of the Australian CBDs, the vacancy is concentrated in secondary grade assets, not the prime grade assets that we own. We believe that the resource centric CBDs like Perth will be beneficiaries of the probable global response of governments investing into new projects to stimulate their economies. Therefore, notwithstanding the uncertain economic outlook, we anticipate strong growth in effective rents in Perth.

Rent relief to tenants

Our approach to rent relief requests depended on the tenant. Detailed in the table below is the breakdown of how much rent relief we provided to tenants in our wholly owned portfolio during the financial year ended 30 June 2020. Waived rent, either by agreement or in accordance with the Code, has been written off. Deferred rent has been capitalised. Several tenants agreed to restructure existing incentives and we do not consider this to have any material economic cost to GDI. Other tenants agreed to extend leases on commercial terms that we would have agreed to with or without the pandemic, with the incentive taken as rent relief upfront.

	FY20
Wholly owned portfolio	\$'000
Rent waived	518
Rent deferred (to be paid back)	149
Rent free (incentive)	126
Restructure of incentives	238
Relief not yet agreed	503
Total rent not collected	1,534

At the time of signing the Financial Report we anticipate that the total relief provided to tenants in our wholly owned portfolio in FY21 will be less than FY20.

We also provided rent relief in three of our unlisted, unregistered managed investment schemes, GDI No. 33 Brisbane CBD Office Trust, GDI No. 43 Property Trust and GDI No. 46 Property Trust. Most of the relief provided in dollar terms to tenants in these three funds was simply a deferral of part of the tenants' rent for the period April – June 2020.

Distribution guidance for FY21

Our aim is for GDI to deliver a consistent 12.0+% 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 heavily skewed to distributions per security, or in the alternative, NTA growth per security.

Historically, GDI's distributions have been referenced to GDI's FFO, not AFFO. In all but its first financial year since the Initial Public Offer of securities, distributions have been in excess of its AFFO, but not its FFO. The resulting cash shortfall to pay the distribution has been funded from the proceeds of asset sales or funded out of capital through utilising GDI's conservative balance sheet. Given the significant value of lease expiries in FY21, particularly at Westralia Square, there is a higher degree of uncertainty than usual in estimating GDI's FY21 FFO on an existing business basis. That said, in the absence of any acquisitions GDI believes that FY21 FFO will be materially lower than its FY20 FFO.

We have previously stated that in the absence of any asset sale(s) GDI is unlikely to pay distributions materially in excess of FFO⁸. However, given the strength of our balance sheet our intent is 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 events⁹. If this happens, we would expect that a proportion of any distribution for FY21 would be paid out of capital.

Media Enquiries:

Steve Gillard
 Managing Director
 +61 2 9223 4222

steve@gdi.com.au

David Williams
 Chief Financial Officer
 +61 2 9223 4222

david@gdi.com.au

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.
 3. 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.
 4. The tenant is either Buick Holdings Pty Limited (Buick), or wholly owned subsidiaries of Buick. Buick is owned 67% by IDOM Automotive Group Pty Limited, a wholly owned subsidiary of IDOM Inc, an entity listed on the Tokyo Stock Exchange, and 33% by entities associated with the DiVirgilio family.
 5. CPI is Perth Capital City CPI and the market reviews have a 10% cap and 5% collar.
 6. Settlement occurred on 31 July 2020.
 7. Excluding the strata unit at 38 / 46 Cavill Avenue, Surfers Paradise.
 8. See the FY19 Annual results presentation and FY20 Half year results presentation
 9. The ability to pay a capital distribution in excess of GDI's earnings will require compliance with the terms of its bank facility at the time of payment.