
ASX ANNOUNCEMENT

21 FEBRUARY 2022

GDI results for the period ended 31 December 2021

GDI¹ is pleased to release its financial results for the period ended 31 December 2021.

Key highlights

- The sale of 50 Cavill Avenue, Surfers Paradise, for \$113.5 million, approximately \$7.8 million more than book value after settlement adjustments and selling costs
- The acquisition of the two Perth CBD car parks for \$68.5 million
- Commencement of the construction of the new approximately 9,500sqm office development on the excess land at Westralia Square (WS2)
- Leasing successes, particularly at Westralia Square, 197 St Georges Terrace and some of the unlisted funds, most notably 1 Adelaide Terrace, Perth, and more importantly, ongoing leasing momentum to start CY22
- Revaluation gains at Westralia Square and 180 Hay Street leading to an increase in the net tangible asset per security of \$0.03 to \$1.28 per security

Perth market

Following the acquisition of the two car parks in the Perth CBD and the sale of 50 Cavill Avenue, Surfers Paradise, all of GDI's wholly owned properties, other than the small strata unit at 46 Cavill Avenue, Surfers Paradise, are located in Perth. Including the assets held by the Funds Business, GDI has approximately \$1.20 billion, or 92% of its total assets under management, in Perth. The deliberate tilt to Perth has been based on the belief that Perth offers the greatest prospects of both income and capital growth in the medium term. Although all the economic indicators are pointing to a strong recovery in the Perth commercial property markets, the uncertainty surrounding COVID-19 and border reopening dates has impacted tenants' willingness to commit to new long-term leases. Notwithstanding this background, the Perth CBD recorded the strongest tenant demand of any of the major capital cities with nearly 50,000sqm of additional space occupied in the six months to January 2022. Perth's overall vacancy has fallen to 15%, down from 20% 12 months prior, with prime grade vacancy approximately 11%. Once the borders reopen and Perth has dealt with its Omicron "wave", we anticipate a sustained level of leasing activity, a sharp contraction in the vacancy rate and high effective rental growth.

Capital transactions

The highlights for the Property business were the sale of 50 Cavill Avenue, Surfers Paradise and the acquisition of the Perth CBD car parks. 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.

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. The carparks represent a unique investment opportunity for GDI. Both carparks were purchased following reduced occupancy and revenues as a result of COVID-19 related lockdowns and border closures. We were attracted to the high cash yield the carparks offer and the forecast low capital expenditure requirements. With limited new supply of carparking in the Perth CBD, we anticipate the carparks will perform well not only in the short 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 and we have already commenced preparing development schemes for one of the carparks, 301-311 Wellington Street, in anticipation of tenant briefs in FY22.

WS2

Construction of WS2 commenced during the period. On completion, WS2 will be Perth's most environmentally friendly premium grade office building. Constructed from a combination of steel and timber, WS2 will comprise approximately 9,500sqm of net lettable area over 11 levels. We signed a fixed price contract with Built Pty Limited and notwithstanding some delays to the delivery of materials, construction remains on time and budget with an expected completion date in the second half of 2022.

NABERs Energy ratings

Following the sale of 50 Cavill Avenue, all of GDI's office investment properties have a 5 Star NABERs Energy rating, with the exception of 180 Hay Street, Perth, which is unrated whilst it is being fully refurbished. This is particularly pleasing as only 235 Stanley Place, Townsville and Westralia Square had 5 Star NABERs Energy ratings at the time of acquisition. The construction of WS2 only enhances GDI's environmental credentials.

Leasing

GDI's largest asset by capital value is Westralia Square, 141 St Georges Terrace, Perth. We have had considerable leasing successes during the period, with the Minister for Works (WAPOL) taking additional space, being all of level 7, and agreeing to a 2.5 year lease extension to its existing lease and waiving a right to early termination. WAPOL now occupies 14,513.9sqm of Westralia Square with a lease expiry of 31 July 2028. In addition, we have leased level 13 (now referred to as level 14), being 1,882sqm for 10 years with a lease commencing 1 August 2022. These new leasing commitments takes committed occupancy to 72% of NLA. Given the current levels of enquiry, we anticipate that the remaining five floors will be committed prior to the end of CY22.

At 197 St Georges Terrace, following the departure of Jacobs from 4 upper floors in November 2021, occupancy has decreased to 79% of NLA, down from 89% at 30 June 2021. Similar to Westralia Square, we are seeing pleasing levels of leasing enquiry and would anticipate all these upper floors will be leased in CY22, with one full floor already subject to a heads of agreement. In addition, a further two full lower level floors were either extended or renewed.

Financial outcomes

NTA

We obtained independent valuations for a number of our consolidated properties during the period. The Westralia Square complex was revalued to \$385.0 million (from \$345.0 million), and 180 Hay Street, Perth was revalued to \$18.4 million (from \$15.0 million). The Westralia Square revaluation includes approximately \$12.5 million of costs spent to date at WS2 which are carried elsewhere in the balance sheet and therefore are not included in the carrying value of Westralia Square. Following these revaluations and the gain on sale of 50 Cavill Avenue, Surfers Paradise, GDI's NTA per security has increased to \$1.28 cents, up from \$1.25 at 30 June 2021.

Funds From Operations per security

FFO³ per security was 2.845 cents, an increase over the previous corresponding period (2.632 cents per security) notwithstanding the dilutive impact of the sale of 50 Cavill Avenue on FFO.

Distribution

We are pleased to be able to maintain the cash distribution for the period ended 31 December 2021 of 3.875 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 on its Principal Facility⁴ of \$166.7 million and undrawn debt of \$146.3 million to facilitate the construction of WS2 and for working capital purposes. GDI remains well within its Principal Facility covenants, with a Covenant Loan to Value ratio of 20.9% (Covenant of 50%) and a Covenant Interest Cover ratio of 8.1X (Covenant of 2X).

Guidance for FY22

We confirm that it is our intent to pay a cash distribution of 7.75 cents per security for FY22, subject to no material change in circumstances or unforeseen events. As with FY21, we would expect that a proportion of any cash distribution for FY22 will be paid out of capital.

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Authorised for release by David Williams, Company Secretary

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. Excluding finance costs and incentives
3. 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.
4. 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.