

14 February 2022

## **GPT delivers 2021 NPAT of \$1,422.8 million and final distribution of 9.9 cents per security**

### **2021 Overview**

- Net profit after tax of \$1,422.8 million (2020: Net loss after tax \$213.2 million), with investment property valuation increases of \$924.3 million
- Funds From Operations (FFO) of \$554.5 million (2020: \$554.7 million) and FFO per security of 28.82 cents (2020: 28.48 cents)
- Full year distribution of 23.2 cents per security (2020: 22.5 cents per security), including a distribution of 9.9 cents per security for the six months to 31 December 2021
- Net Tangible Assets per security (NTA) of \$6.09 (2020: \$5.57)
- Gearing of 28.2% and weighted average debt term of 6.3 years; S&P A and Moody's A2 credit ratings
- Ranked second for real estate in S&P Global Corporate Sustainability Assessment and retained maximum 5 Star Green Star status by GRESB

The GPT Group ('GPT' or 'Group') announced its results for the 12 months to 31 December 2021.

GPT's Chief Executive Officer, Bob Johnston, said: "GPT commenced 2021 with solid momentum however this was disrupted by the Delta outbreak of COVID-19 in the second half of the year. Severe lockdown measures restricted trading activity and impacted the performance of our Retail portfolio, particularly during the third quarter. Despite these impacts the Group's diversified portfolio generated a total return of 14.1% for the year.

"When restrictions eased during the fourth quarter, most of our Retail assets benefitted from a rebound in customer visitation and sales. Melbourne Central experienced a lift in weekend foot traffic and sales but remains reliant on the reactivation of the Melbourne CBD and the return of office workers, students and tourism.

"Our Office and Logistics assets delivered strong results and good progress was made on implementing our strategy to increase our weighting to the Logistics sector. Logistics now represents approximately 27% of the Group's property portfolio after several acquisitions and completion of developments in the period. We also advanced the logistics partnership established with QuadReal Property Group, with GPT and QuadReal recently agreeing to increase the capital commitment to \$2 billion.

"Importantly, throughout the year we maintained our focus on ESG and delivering on our target to have all our managed assets independently certified as operating carbon neutral by the end of 2024.

"While Omicron has been another recent setback to the recovery, we are optimistic that the worst is behind us with case numbers trending in the right direction, high vaccination rates and the need for restrictive measures diminishing."

## Office

GPT has a portfolio of high quality, modern and sustainable Office assets in prime locations. Sustainability has increasingly become a differentiating factor and GPT's Office portfolio has a very high average NABERS Energy rating of 5.8 stars<sup>1</sup>. Furthermore, the GPT Wholesale Office Fund's (GWOFF's) operating portfolio was re-certified as carbon neutral, continuing to build on its delivery in 2020.

Leasing volumes increased during the period with leasing transactions including Heads of Agreement (HoA) totalling 151,800 square metres (sqm)<sup>2</sup>. The portfolio weighted average lease expiry (WALE) was stable at 5.0 years.

During the period, developments at 32 Smith and Queen & Collins were completed resulting in occupancy falling from 94.9% to 92.9%. Excluding these recent development completions, Office portfolio occupancy was stable at 94.8%.

The Group's 32 Smith in Parramatta reached practical completion in January and is 81.7% committed including HoA<sup>3</sup>. GWOFF's development of Queen & Collins in Melbourne reached practical completion in June and is currently 50.2% committed including HoA. Both projects incorporate a range of leading customer and sustainability initiatives, including workplace designs to embrace flexibility, collaboration and social connection supporting hybrid ways of working, and the achievement of 6 Star Green Star – As Built ratings.

In December, the Group commenced the development of 51 Flinders Lane in Melbourne for GWOFF. The project will deliver 28,300sqm of prime office space, targeting boutique occupiers in the east end of the CBD. The development is expected to be completed in early 2025. GWOFF's development opportunity in George Street, Parramatta, has expanded with the acquisition of a number of adjacent properties. The combined site is expected to support the future development of approximately 125,000sqm across two office towers.

The Office portfolio recorded a net valuation increase of \$338.3 million or 5.8% in 2021. In the six months to 31 December 2021, the Weighted Average Capitalisation Rate (WACR) of the portfolio firmed 10 basis points to 4.77% and the average discount rate of 5.91% firmed by 17 basis points, supported by recent market transactions.

## Logistics

GPT's Logistics portfolio grew by \$1.4 billion during the period and now totals \$4.4 billion. High levels of investor demand have resulted in tightening valuation metrics, with the portfolio recording a \$555.0 million or a 14.4% valuation increase in the 12 months to 31 December 2021<sup>4</sup>. Since June, the WACR firmed 27 basis points to 4.11%, and the average discount rate also firmed by 27 basis points to 5.54%.

There has been strong tenant demand for Logistics space, focusing on the efficient movement of goods, inventory management and growth in e-commerce. These drivers are expected to continue to underpin demand into 2022. Occupancy for the Logistics portfolio was 98.8% at 31 December 2021, with 118,600sqm of leases signed and 63,700sqm of HoA in place. The WALE of the portfolio is 6.5 years.

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<sup>1</sup> 5.8 stars with GreenPower, 5.3 stars without GreenPower.

<sup>2</sup> Based on GPT and GWOFF ownership net lettable area.

<sup>3</sup> Inclusive of post balance date leasing.

<sup>4</sup> Inclusive of assets held as inventory.

The Group acquired \$694 million of Logistics assets and development land during the year. This includes acquiring 23 Logistics assets from Ascot Capital for \$597 million. In addition, in Laverton North, Melbourne, an asset was acquired for \$72.5 million, and the Group's landholding at Yiribana Logistics Estate in Kemps Creek was expanded following the acquisition of an adjacent 3.9 hectares.

Four Logistics developments with a combined end value of \$201 million were completed in 2021. All projects have been leased to high-quality tenants, including Mainfreight and The Hut Group. Four projects are underway or will commence in the first quarter of 2022. The development pipeline currently has an expected end value on completion of approximately \$1.6 billion<sup>5</sup>, providing further growth for the business and enhanced returns.

GPT also made good progress executing on its Logistics partnership with QuadReal, having committed approximately 70% of the \$1 billion target investment, inclusive of pipeline projects. The GPT QuadReal Logistics Trust (GQLT) acquired three fund-through developments totalling \$308 million across Melbourne and Brisbane. It has also secured \$96 million in land, including 10.3 hectares of land at Kemps Creek and three future development sites in Brisbane. Given the successful progress, in February 2022, the partnership increased the AUM target for GQLT to \$2 billion (GPT share 50.1%).

## **Retail**

In the first half of 2021, GPT's Retail portfolio experienced an improvement in customer visitations and sales turnover. However, in July, the reintroduction of lockdowns in New South Wales (NSW) and Victoria significantly impacted trading conditions until restrictions were lifted towards the end of the year.

Despite extended lockdowns and restricted trading conditions, retail sales showed a recovery on the prior year. Total Centre sales were up 3.7% and Total Specialty sales were up 6.2% for the 12 months to 31 December 2021, compared to the prior year. Specialty sales productivity at 31 December 2021 was \$9,313 per sqm, up on the prior year but below pre-COVID levels, impacted by lockdowns and reduced customer visitation.

Given the asset's location in the Melbourne CBD, the performance of Melbourne Central continues to be impacted with its reliance on foot traffic from office workers, students and tourists. Melbourne Central is one of the country's leading retail destinations and continues to have strong demand from retailers, and GPT is confident in the asset's prospects once the CBD is reactivated.

Occupancy for the Retail portfolio was 99.1% at 31 December 2021. The Group completed 561 leasing deals during the year, with an average leasing spread of -8.5%. Deals achieved fixed rental increases averaging 4.3% and an average lease term of 4.3 years. Specialty store leasing deals continue to include fixed base rents with annual increases.

Following the introduction of lockdowns in Sydney and Melbourne, rent collection for the Retail portfolio softened to 82% of gross billings in the second half, resulting in a 91% collection rate for the full year.

The NSW and Victorian governments extended the Commercial Tenancy Code of Conduct to March 2022. The Code requires landlords to provide rent relief to eligible businesses impacted by COVID-19. GPT continues to work with its tenants to provide relief as required by the Code.

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<sup>5</sup> Assets under management (AUM), inclusive of GPT QuadReal Logistics Trust share.

The Retail portfolio recorded a net valuation gain of \$30.7 million or 0.5% in 2021. The valuation metrics remained stable over the past six months, with a WACR of 5.03% and an average discount rate of 6.21% at 31 December 2021.

In December, the GPT Wholesale Shopping Centre Fund (GWSCF) divested Wollongong Central for \$400 million. In February 2022, joint owners GPT and GWSCF announced the exchange of contracts for the sale of Casuarina Square for a net sale price of \$397 million, with settlement of the transaction expected before the end of March 2022. Casuarina Square and Wollongong Central were not considered long-term strategic assets for GPT and GWSCF. Capital proceeds from the sales will be redeployed into new opportunities to generate long-term value for investors.

## **Sustainability**

GPT continues to be recognised as a sustainability leader, demonstrated by strong performance in international benchmarks. GPT achieved GRESB's maximum 5 Green Star status, ranked second globally for real estate in the S&P Global Corporate Sustainability Assessment and attained the ISS Corporate ESG Prime rating.

The Group is on track toward its target for all GPT managed assets to be operating on a carbon neutral basis by 2024, being well advanced with the certification of its Office assets with GWOF's portfolio achieving carbon neutral status in 2020. Further GPT assets will be certified as operating carbon neutral in 2022, including two Retail shopping centres. Other proactive initiatives to minimise GPT's impact on the environment include the 51 Flinders Lane development targeting a 40% reduction in whole of life embodied carbon, and in 2022 a Smart Energy Hub at Chirnside Park will be operational including a two megawatt hour battery, with renewables and demand-side management.

## **Balance Sheet**

The Group had \$934.7 million of available liquidity held in cash and undrawn bank facilities at 31 December 2021, a weighted average debt term of 6.3 years and a weighted average cost of debt of 2.4%.

The debt funded acquisition of the Ascot Capital portfolio primarily drove the increase in the Group's gearing to 28.2% at year end. This resulted in Standard & Poor's (S&P) placing GPT's A stable rating on negative outlook. The rating remains within GPT's target A-rating band. GPT remains well within its stated gearing range of 25% to 35%.

During the year, the Group bought back approximately 32.3 million securities (1.7% of securities issued) for a total consideration of \$146.8 million, at an average price of \$4.54 per security. The on-market security buy-back program formally concluded on 14 February 2022.

## **Distribution for the six months to 31 December 2021**

The Board of GPT has declared a distribution for the six months to 31 December 2021 of 9.9 cents per security. This takes the 2021 full year distribution to 23.2 cents per security, which represents a distribution payout of 95.1% of free cash flow for the year.

The 2021 final distribution payment will be made in accordance with the following timetable:

- Ex-distribution date: Thursday, 17 February 2022
- Record date: Friday, 18 February 2022
- Payment date: Monday, 28 February 2022

## Outlook for 2022

The global COVID-19 pandemic continues to disrupt the Australian economy and GPT's operating environment however, the acceleration of vaccination and booster programs in the second half of 2021 provides optimism that the impacts from COVID-19 should be less severe during the course of 2022 than what was experienced in prior years.

Health and safety measures reintroduced in NSW and Victoria, including mandatory mask-wearing in indoor office and retail settings and advice to work from home where possible, continue to impact office space utilisation and visitations to shopping centres. An improvement in customer visitations and retail sales at GPT's shopping centres is expected when COVID-19 cases subside and measures such as mandated mask-wearing are lifted, as previously experienced.

The recovery of Melbourne Central, GPT's largest retail investment property and one of the leading retail destinations in Australia, is expected to be more protracted than the broader portfolio. As the Melbourne CBD is reactivated, we expect the recovery of Melbourne Central's trading performance to accelerate. This will be further supported by the recent announcement that Australia's borders will reopen to international visitors later this month. For the retail sector, record low unemployment, wages growth and high household savings provide additional capacity for further discretionary spending into 2022.

Office demand lead indicators remain positive, with continued economic growth and unemployment falling to the lowest level since 2008 and expected to fall further through the course of 2022. However, vacancy is expected to remain above long-term average levels for the year ahead, and accordingly, tenant incentives are likely to remain elevated. GPT currently has 7% of its Office portfolio vacant following the completion of two development projects in 2021. GPT's prime quality portfolio and focus on the customer positions the Group well to secure tenants for this vacancy and the 11% of the portfolio's leases by income due to expire in 2022. Office lease incentives are anticipated to increase with higher levels of leasing activity.

The logistics sector continues to benefit from structural tailwinds driving tenant and investor demand. Vacancy rates remain low in core markets, and investor demand for logistics assets has resulted in strong valuation growth. GPT has a Logistics development pipeline with an estimated end value of approximately \$1.6 billion, which positions the Group to continue its growth in this sector.

The reactivation of the CBDs of Melbourne and Sydney will be important for the Group's performance in 2022 in terms of office leasing and the recovery of Melbourne Central. It is expected that CBDs will continue to play an important role for businesses and the broader economy, and GPT's high quality assets will benefit from their prime locations, access to public transport and amenity.

The global pandemic, inflationary pressure and the commencement of unwinding of RBA monetary stimulus, continues to provide uncertainty in relation to GPT's operating conditions for the year ahead.

While uncertainty remains, GPT currently expects to deliver 2022 FFO in the range of 31.7 to 32.4 cents per security and a distribution of 25.0 cents per security. GPT's guidance assumes operating conditions normalise before the end of the first quarter of 2022, including a return of workers to CBD workplaces and a recovery of retail sales and foot traffic at its shopping centres. GPT is also assuming that lockdowns will not be re-introduced.

GPT's strong balance sheet, high quality diversified portfolio, experienced management team, and strategy to create long term value for securityholders positions it well going forward.

## **Market Briefing**

GPT will conduct a market briefing at 10.30am (AEST) today, 14 February 2022, which will be webcast via GPT's website [www.gpt.com.au](http://www.gpt.com.au). Additional detail on GPT's 2021 Annual Result is available in the associated Annual Report, Presentation, Data Pack and Property Compendium released to the ASX today and available at [www.gpt.com.au](http://www.gpt.com.au).

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Authorised for release by The GPT Group Board.

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