28 October 2013

Strategy Update and September Quarter Result

GPT strategy driven by total return, targeting an extra $10 billion in funds under management, and maintaining a frugal approach and disciplined use of a“fortress” balance sheet

2013 earnings guidance upgraded to at least 6% EPS growth

The GPT Group (GPT) today unveiled its strategy update, which sees GPT elevate Total Return to be the primary measure across the business, significantly expanding its Funds Under Management (FUM) by $10 billion and maintaining a frugal approach with the capacity that a fortress balance sheet provides.

CEO and Managing Director, Michael Cameron, said the Group’s strategy update had involved a deep dive examination of the trends impacting on property sector fundamentals, as well as sourcing external insights to ensure the business was well placed to deliver its Total Return target of greater than 9 per cent.

Mr Cameron also announced GPT’s September quarter result, upgrading guidance to at least 6 per cent Earnings Per Share (EPS) growth for 2013.

STRATEGY UPDATE

GPT’s strategy outlines the way forward for the Group and is built around three key focal points:

- Driven by Total Return
- $10 billion growth in Funds Management
- Frugal approach and a fortressbalance sheet.

1. DRIVEN BY TOTAL RETURN

GPT’s primary financial metric is Total Return at the Group and at an asset level. In addition, from next year Short Term Incentives (STI), will be based 100 per cent on achieving Total Return targets.

GPT will continue to be a sector specialist in retail, office and logistics, however, its investment decisions will be led by the quality of assets, being driven by stock selection rather than portfolio weightings.

GPT’s core portfolio strategy is to remain diversified. An important finding of the strategic review was that there is no compelling evidence to suggest that one sector will outperform over another in the long term. This supports diversification rather than a shift to single sector specialisation and points to a need to be more flexible and tactical in the approach to sector weightings.

“The quality of asset selection will drive long term investment returns regardless of sector, ensuring we access the right opportunities as they become available,” Mr Cameron said.

"In order for GPT to maximise returns from its diversified portfolio, we must recognise value within sectors at different points in the cycle, achieve appropriate sector scale and competency and make stock selection our focus within each sector."

The key to success for GPT is ensuring that capital is allocated in the most effective manner. Strong skills in capital allocation provide a unique competitive advantage resulting in outperformance.

GPT will take a disciplined approach to capital allocation with one process to determine all capital decisions for the Group and strategic research taking an even more prominent role in capital and strategic decisions. As part of this, the research function now reports into the Chief Investment Officer, Carmel Hourigan.

2. $10 BILLION GROWTH IN FUNDS UNDER MANAGEMENT

Growth in FUM will enable GPT to increase active earnings from 3 per cent to 10 per cent for the Group. This will come from increasing the size of the existing funds and the creation of new funds. As a near term priority, GPT intends to launch a metropolitan office fund and an industrial fund.

The rationale for increasing GPT's exposure to FUM is built around two key points:

Low cost of capital maintained while driving total returns

Defensive REITs have a lower cost of capital than active REITs. GPT has a low cost of capital and preserving that is central to driving Total Return. GPT's view however, is that active earnings through fee streams can increase to 10 per cent without materially impacting cost of capital.

Investment allocation to unlisted property

There is a large and growing demand for real estate assets and investment products in Australia from both domestic and offshore capital sources. Domestically, superannuation assets continue to grow at more than 10 per cent per annum. The default allocation to unlisted real estate has nearly doubled since 2004. Superannuation guarantee increases and Australia's ageing population will continue to drive further growth.

Strong demand from offshore investment continues, particularly for direct acquisitions, clubs and joint ventures. Investors remain underweight in their target allocation to real estate.

"The FUM target is ambitious but achievable and one that will deliver excellent results for our investors," Mr Cameron said.

"Our funds have grown to $7.2 billion today. Since 2010, GPT has raised 15 per cent of all the capital raised in the wholesale sector and has the two best performing unlisted wholesale funds in the market. The Group has demonstrated that it can execute well in this space, so this expansion is a natural progression."

3. FRUGAL APPROACH AND A FORTRESS BALANCE SHEET

Efficiency is correlated to REIT performance, with an average Management Expense Ratio (MER) of 47 basis points for the most efficient REITs globally.

A frugal approach will enable GPT to deliver a MER of less than 45 basis points, while a fortress balance sheet will give the Group capacity to be opportunistic.

“Our goal is to be a hyper-efficient organisation. A target MER of less than 45 basis points would make GPT one of the most efficient REITs in Australia,” Mr Cameron said.

“We will get there by focussing on value adding activities, streamlining our systems and procedures, automating and harnessing technology where possible, and outsourcing activities where it is more effective to do so,” Mr Cameron said.

“GPT also believes it is important to reinvest in growth. We have allowed up to $8 million per annum towards Research & Development and additional capabilities, which will be included in the target MER.”

Mr Cameron said that, for its size, GPT has one of the strongest balance sheets in the sector, with gearing at 21.2 per cent, well below its policy gearing rate of 25-35 per cent and covenant levels. In addition, both the GPT Wholesale Office Fund (GWOF) and GPT Wholesale Shopping Centre Fund (GWSCF) have low gearing of 12.1 per cent and 16.4 per cent respectively. Together, this provides approximately $3 billion in capacity for the Group.

“We will maintain our disciplined approach but its important to note that we do have both the capacity and the skill to execute on investment opportunities as they arise.”

KEY FINDINGS AND IMPLICATIONS OF THE STRATEGY UPDATE

- GPT is well placed to meet the growing demand for property investment products from both domestic and offshore capital sources.
- Growth in online shopping and ‘non retail’ consumer spending is expected to stabilise, with retail spending growth expected to trend back towards historical averages. GPT will continue to evolve its retail mix and improve the shopping experience to capture greater share of retail wallet.
- Offshoring of white collar work is growing at around 15 per cent per annum, this combined with denser workspace ratios, is leading GPT to diversify and enhance the quality of its office portfolio.
- Supply chain efficiencies continue to be the biggest driver of change in logistics and GPT has identified how this is driving demand for better located assets, close to rail and road, as well as increased specialisation of facilities. GPT is responding to these trends by creating and acquiring assets around multi-modal locations and with flexible logistics solutions.
- GPT’s development capability will remain an important part of the business but will be used as a way of improving and growing our balance sheet and our funds’ assets as opposed to being a key profit contributor in its own right.

- The new purpose statement, summarised as 'Property to Prosperty', is reflective of the renewed direction in GPT's strategy.

SEPTEMBER QUARTER RESULT

Key Highlights

- Guidance upgraded targeting EPS growth of at least 6 per cent for 2013
- Low gearing with approximately $3 billion capacity, including Funds' investment capacity
- Robust portfolio metrics maintained
- GWOF and GWSCF the top performing funds in the Mercer/IPD Unlisted Pooled Property Fund Index
- GWSCF successfully raised $569 million over the last 12 months
- Highpoint expansion delivered significant revaluation uplift
- GPT leadership position in sustainability continues as evidenced by Green Globe awards, Dow Jones Sustainability Index (DJSI) and Global Real Estate Sustainability Benchmark (GRESB) results

GPT today also announced its result for the quarter ended 30 September 2013. Mr Cameron said the team continues to remain focused on delivering robust operational performance. For the September quarter, occupancy remained steady at 96.8 per cent with the portfolio performing in line with expectations.

The Group maintained its disciplined capital approach during the September quarter, with gearing remaining low at 21.2 per cent. GPT's weighted average term to maturity was 6.0 years with a sector low cost of debt at 5.05 per cent.

Portfolio Results

	Portfolio Size	WALE	Occupancy	WACR
Retail	$4.4 bn	4.3 years	99.6%	6.00%
Office	$2.8 bn	5.4 years	95.4% [1]	6.78%
Logistics & Business Parks	$1.0 bn	5.6 years	95.4%	8.27%
Total	$8.3 bn	4.9 years	96.8%	6.51%

In the retail portfolio, sales growth remained positive despite the lingering cautious consumer environment. Occupancy levels remained stable at 99.6 per cent. Significant valuation uplift was achieved at Highpoint Shopping Centre, following the completion of its $300 million expansion in March.

During the quarter, the office portfolio metrics were solid with occupancy levels maintained and leasing activity during the quarter secured an additional 26,110 sqm, resulting in 72,840 sqm of leases signed in

[1] Includes Heads of Agreement

The GPT Group

the year to date. With a focus on retaining existing tenants, renewals represented 78 per cent of September quarter leasing activity.

In the logistics & business parks portfolio, the weighted average lease expiry increased slightly to 5.6 years. Following the close of the quarter, GPT continued to grow its logistics portfolio with two acquisitions across New South Wales and Queensland totalling $88.1 million.

Mr Cameron said growth in the logistics & business park portfolio will come from both acquisitions as well as development of GPT's existing land bank and other development opprtunities.

"In addition to the acquisitions, five new projects valued at $328 million were committed during the quarter with an average 17 year WALE," said Mr Cameron.

Funds Management

GPT's Funds Management platform has grown to $7.2 billion in FUM and continues to deliver strong performance. GWOF continued to be the best performing office fund over one, three and five years by Mercer/IPD Unlisted Property Fund Index, Office Sector. GWOF was also named Global Sustainability Leader (listed and unlisted) in the 2013 GRESB, out of 543 entries. During the quarter, GPT internalised the property management of eight assets in the GWOF portfolio.

GWSCF was ranked highest in the Mercer/IPD Unlisted Property Fund Index over one year, delivering 11.3 per cent total return over the 12 months. During the quarter, GWSCF closed its capital raising with an additional $178 million in new equity, successfully raising $569 million above its $500 million target. GWSCF also achieved Global Retail Sustainability Leadership in the 2013 GRESB survey.

Outlook

"GPT has upgraded its guidance, targeting to achieve growth in earnings per security of at least 6 per cent for the full year and will maintain a distribution payout ratio of 80 per cent of Realised Operating Income," Mr Cameron said.

– Ends –

GPT's Strategy Update and September Quarter Result will be webcast via the Group's website www.gpt.com.au on Monday, 28 October 2013 at 11.00am (AEDT).

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