

1H17 RESULTS ANNOUNCEMENT. ON TRACK.

1H17 HIGHLIGHTS

Global Real Estate Investment Manager Cromwell Property Group (ASX: CMW) today reported first half (1H17) operating profit of \$78.7 million.

Operating profit was 4.50 cents per security (cps) and distributions were 4.20 cps.

Cromwell has demonstrated good progress in the first half in its lease renewal programme, and in its key funds management and value creation strategies.

“During the previous financial year we realised \$169 million from asset sales,” said Cromwell Chief Executive Officer Paul Weightman.

“This allowed us to recycle capital to invest for the future in a number of key strategic growth opportunities. Strong and stable cash flows from our portfolio, recurring revenues from our funds management business and income streams from the assets we are developing and repositioning give us the confidence to maintain our track record of consistently increasing distributions to securityholders,” he added.

Cromwell also announced today it would be rolling out a new brand and visual identity. The change follows almost 2 years of work integrating the Australian and European arms of the business.

“Cromwell continues to grow and evolve and it became apparent that it was time for our brand and visual identity, which are both nearly 20 years old, to properly reflect the scale and breadth of the business,” said Mr. Weightman.

“The new brand will bring together our Australian and European arms of the business, making it easier for us to consistently communicate the value we provide to our investors, capital providers, tenants and other stakeholders in the various markets and countries in which we operate.”

“We will progressively roll-out the new brand in all of our locations from today,” he added.

PROPERTY SEGMENT UPDATE AND LEASE RENEWAL PROGRAMME

Property segment operating profit was \$62.5 million, comprising 79% of total operating profit.

Overall portfolio valuations increased by \$41.4 million net of property improvements, lease costs and incentives and the weighted average cap rate improved to 6.96%.

Tenant quality remains strong with Government and Government related entities contributing 42% of gross income. The portfolio had a weighted average lease expiry (WALE) of 6.35 years and a vacancy rate of 8.0% by gross passing income.

Increases in rental income in most New South Wales assets have been offset by the previously forecast loss of income at two assets; 100 Huntingdon Avenue and Lovett Tower in Canberra, which are both earmarked for future repositioning and redevelopment.

Net property earnings, on a like for like basis including those 2 assets, decreased 5.7%. However net property earnings, across the rest of the portfolio, excluding these two assets increased by 1.9%.

This result reflected the successful execution of Cromwell's lease renewal programme with tenants including;

- The Therapeutic Goods Administration (TGA) who took up their five year renewal option over the TGA Complex in ACT (18,524 sqm)
- The Bureau of Meteorology who renewed their lease over 15,414 sqm at 700 Collins Street; and
- QUT who renewed their lease for a little over 9,400 sqm at 88 Musk Avenue, Kelvin Grove

"These renewals alone amounted to more than 43,000 sqm. The office space we refurbished at 700 Collins Street attracted strong tenant demand with a further 5,000 sqm leased to Open Universities Australia and Pacific Hydro in the half," Mr Weightman said.

"Refurbished space in our Mary Street asset has been leased and we continue to receive good enquiry on any vacant space. We have also seen improved take up and increased demand in our Gold Coast Asset with activity levels rising ahead of the Commonwealth Games."

"All of our New South Wales and Victoria office assets, other than Northpoint Tower which is being redeveloped, are very close to being fully leased," he added.

Cromwell expects to see stronger tenant demand and net effective rental growth in NSW and VIC in the near future.

"With limited opportunities to acquire assets in a highly competitive market, we are focused on creating value in our existing portfolio, and managing the \$300 million investments we are making into Northpoint Tower in North Sydney and the new Department of Social Services national headquarters at Tuggeranong Office Park in ACT," Mr Weightman said.

"Both projects remain on track and will contribute earnings growth and valuation uplifts to the Group in the near future."

FUNDS MANAGEMENT SEGMENT

Funds management operating profit was \$16.4 million, comprising 21% of total operating profit, and total assets under management as at 31 December 2016, were \$9.8 billion.

The wholesale funds business continues to be active, trading €3 billion of European property assets (€1.7 billion sold and €1.3 billion acquired) on behalf of its Private Equity investors during the calendar year. Wholesale funds operating profit was \$9.8 million

"We will continue to focus on broadening the Private Equity and Limited Partner investor base for the European business and on leveraging those relationships across the wider business," said Mr. Weightman.

Retail funds management operating profit of \$6.0 million included performance fees from the renewal of the Cromwell Riverpark Trust. The Trust returned 14.9% p.a. from inception to 30 June 2016.

"This was a great result for investors and, unitholders voted overwhelmingly to extend the Trust for a further five years in July 2016," said Mr. Weightman.

In New Zealand, Oyster Group AUM at 31 December was NZD \$977 million which represented 30% growth in the 2016 calendar year.

"The team at Oyster have had another strong year. They reopened the Oyster Direct Property Fund which provides investors with exposure to over NZ\$ 240 million of commercial property assets and

are also currently managing the acquisition and syndication of the NZ\$ 210 million, 43,500 sqm Millennium Centre,” said Mr Weightman.

Distributions of \$5.9 million were received from the Group’s 9.83% stake in Investa Office Fund (ASX:IOF).

During the presentation of Investa Office Fund’s (IOF) HY17 results yesterday, a number of matters were raised regarding Cromwell’s written proposal to IOF in November and its interest in pursuing a transaction with IOF.

Investa Listed Funds Management Limited (ILFML) says Cromwell’s proposed CA and standstill arrangements are not market standard, however the standstill arrangements proposed by Cromwell are consistent with those agreed between IOF and Dexu in 2015.

Despite IOF’s assertion that there has been no correspondence since its 3 February 2017 announcement, there has been continual correspondence and communication in relation to this matter between the advisors to Cromwell and IOF (albeit not the Independent Directors) up until the week ending 17 February 2017.

As announced on 20 February 2017, Cromwell sees value for IOF at a range of \$4.45 per IOF security up to \$4.75 per IOF security.

Cromwell has recently been granted FIRB approval to acquire stapled securities in IOF greater than the 10% threshold proscribed under the Foreign Acquisitions and Takeovers Act.

Cromwell remains open to continuing discussions with ILFML and its advisors with a view to putting forward an increased cash offer to all IOF securityholders.

CAPITAL MANAGEMENT

As at 31 December 2016 Cromwell held cash and cash equivalents of \$80.2 million, Group gearing was 43.8% (45.0% Look-through) and Net Tangible Assets (NTA) per security had increased by \$0.05 to \$0.86.

The Group’s debt facilities continue to be well diversified across eight lenders and a Convertible Bond issue with varying maturity dates. Future interest rates are hedged through an interest rate cap to May 2019.

The Group has a weighted average debt expiry of 3.2 years with 79% not expiring until FY20 and beyond. Moody’s Investors Service continues to assign a Baa3 Issuer Rating for the Group and a stronger Baa2 for the secured debt platform.

The average interest rate for the Group was 4.03% down from 5.27% for the year ending 30 June 2016.

“We will continue to focus on capital management, gearing levels and cash reserves and manage our overall position to both the cycle and strategic opportunity,” said Mr. Weightman.

OUTLOOK

“Australia continues to experience moderate economic growth,” Mr. Weightman said.

“We expect interest rates to stay relatively low as we continue to transition from the mining investment boom.”

“Real estate capital values will continue to compress due to offshore demand for property assets in developed markets and in anticipation of rental growth in Sydney and Melbourne.”

“Bond rates have increased from cyclical lows and further rises will, at some point, begin to impact property values. This impact will be countered to some extent by net effective rental growth particularly in New South Wales and Victoria.”

“Our portfolio is 65% weighted to the Sydney and Melbourne office markets where low vacancy rates and stock withdrawals are already leading to lower incentives and higher rents. Our exposure to the weaker resource states is limited to Queensland where, as previously mentioned, we have seen some promising leasing successes in both Brisbane and on the Gold Coast.”

“Canberra remains an ongoing focus for us. We were successful in renewing the lease of TGA for a further five years and I’m confident that we will be able to make positive announcements on our Woden, Tuggeranong and Centenary House assets in the second half.”

“Our European platform offers considerable opportunity for growth. One third of global real estate transactional volume is within Europe, and its population of 508 million is 20 times larger than that of Australia,” he concluded.

Cromwell confirmed FY17 guidance and expects FY17 operating profit of not less than 8.40 cps and a distribution of not less than 8.34 cps.

This represents an operating profit per security and distributions per security yield of 8.32% and 8.26% respectively based on closing price of \$1.01 on 23 February 2017.

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ABOUT CROMWELL PROPERTY GROUP

Cromwell Property Group (ASX:CMW) is a Global Real Estate Investment Manager. The Group is included in the S&P/ASX 200. As at 31 December 2016, Cromwell had a market capitalisation of \$1.7 billion, a direct property investment portfolio in Australia valued at \$2.4 billion and total assets under management of \$9.8 billion across Australia, New Zealand and Europe.