INVESTMENT STRATEGY LEADING TO SUSTAINABLE GROWTH

HY18 RESULTS HIGHLIGHTS AND OVERVIEW

- Statutory profit, before write down of intangibles, up 1.5% to $155.5 million ($153.2 million HY17)
- Underlying operating profit of $76.8 million or 4.32 cents per security (cps)
- Group gearing of 40.1% is down from 45.2% (FY17) and is now 38.9% on a proforma basis
- NTA up $0.04 to $0.93
- WALE extended to 7.2 years from 6.3 years
- Total AUM of $11.2 billion up 11%, or $1.1 billion
- Hedging profile extended and new capital sources identified
- HY18 Distributions of 4.2 cps (HY17 4.2 cps). Full year guidance maintained

Real Estate Investor and Manager Cromwell Property Group (ASX: CMW) today reported half-year (HY18) statutory profits, before the write down of intangibles, of $155.5 million up 1.5% on the prior comparable period (HY17 $153.2 million).

"The five year investment, and divestment programme we commenced in 2013 with the purchase of both Northpoint and our New South Wales (NSW) government portfolio, the planning and construction of the new Department of Social Services (DSS) building at Tuggeranong, the acquisition of the platform in Europe, and the creation of our office and Cromwell European Real Estate Investment Trust (CEREIT) in Singapore provides us with a platform from which we can drive sustainable growth," said Cromwell CEO Paul Weightman.

"We have been able to make substantial changes to the business over this period, whilst simultaneously carefully managing all of our operating levers."

"Having increased short term gearing over that period we are now operating with gearing towards the lower end of our target range," he said.

"The last six months have been particularly busy. DSS moved into their new building at Tuggeranong in September, we sold our stake in Investa Office Fund (ASX:IOF) for a handsome profit in October, executed our hedging strategy and sold the Health & Forestry buildings in November, before completing a strategic placement just before Christmas," said Mr. Weightman.

"Net Tangible Assets (NTA) is up, gearing is down, our Weighted Average Lease Expiry (WALE) has been extended and leasing activity has been strong. We have a very large percentage of our portfolio in assets with long term leases and a number that are in the process of being transformed into long leased assets."

"The move by DSS into their new building at Tuggeranong gives us back possession of their old offices. We have obviously had some time to prepare for this and are well progressed with plans for adaptive reuse of the old buildings into between 330 to 350 retirement or assisted living units plus communal areas. This is an exciting opportunity and I will touch on this shortly," he added.

"Within our funds management business the successful IPO of the Cromwell European REIT (CEREIT) in November was transformative for our funds platform," he said.

CEREIT has allowed Cromwell to establish a platform in Singapore, the largest wealth management centre in Asia and third globally. It also allowed us to significantly grow AUM, establish a presence in Italy, the Eurozone's third largest economy, and ensure the European platform has a higher level of recurring income.

In December 2017, Cromwell also completed the $170 million strategic placement to SingHaiyi Group Ltd and Haiyi Holdings Pte. Ltd. A $30 million Securities Purchase Plan, which gave retail securityholders the opportunity to acquire securities on similar terms closed earlier this month, oversubscribed at $35 million.

"Our ability to grow our funds management business is directly linked to our ability to connect capital to opportunity. We now have many more established capital sources, a blue-chip roster of private equity and capital partners in Europe, and significantly more depth and relationships in Asia."

"We are carefully, deliberately, strategically positioning ourselves for sustainable growth over the long term, and I am excited by the opportunities we are seeing already," Mr. Weightman concluded.

FINANCIAL AND CAPITAL MANAGEMENT UPDATE

Operating profit, considered by the Directors to reflect the underlying earnings of Cromwell, was $76.8 million (HY17 $78.7 million) equivalent to 4.32 cps. Distributions for the half were 4.2 cps, unchanged from the prior comparable period (4.2 cps HY17). This reflected a payout ratio of 97%.

Total assets under management (AUM) increased by 11%, or $1.1 billion, to a total of $11.2 billion in the six months to 31 December 2017.

Cromwell's business segments reported the following earnings:

- Property Investment segment earnings were $58.2 million, a 6.9% decrease on the prior comparable period, mainly due to asset sales and the vacancy at Tuggeranong Office Park;
- Asset services earnings increased on the back of higher project management fees;
- Retail Funds Management earnings were $2.1 million, down $3.9 million from the prior corresponding period which saw $4.1 million in fees from the Cromwell Riverpark Trust extension; and
- Wholesale Funds Management earnings increased 14% on the back of the successful listing of CEREIT

As at 31 December 2017, cash and cash equivalents increased by more than 40% to $123.7 million and Net Tangible Assets (NTA) per security increased by $0.04 to $0.93 in the half.

Cromwell has continued to take a conservative approach to writing down all remaining goodwill, previously recognised on the acquisition of the European business. Whilst maintaining a focus on Private Equity Funds and Mandates which contribute short term transactional revenues we are continuing to focus on longer term funds which provide recurring revenues. More than one third of AUM has been rolled into longer term funds with the success of the CEREIT IPO.

Investors in Europe's two largest remaining mandates, representing €1.1 billion of the €4.0 billion assets under management, have decided to take advantage of the current strong demand for stabilised assets and it is expected their interests in these funds will be offered to the market or made available for sale within the next 12 months.

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Mr Weightman said, “Cromwell has taken a conservative view on the outcome of any sale process, a conservative view on acquisition and disposal fees that could be earned from managing the CEREIT portfolio, a conservative view on any possible roll-over option for these, or other funds.”

“We also recognise, in accordance with accounting standards, that the value of revenues from any new funds, mandates or rollovers promoted or secured by Cromwell cannot be used to support the current carrying amount of goodwill.”

“The full remaining amount has therefore been written-down,” he said.

During the half, and as flagged at the FY17 results, Cromwell implemented capital management initiatives and used proceeds from the sale of the Investa Office Fund stake, as well as from asset recycling initiatives, to pay down debt.

Gearing reduced from 45.2% as at 30 June 2017, to 40.1% at the half year, and reduced further to 38.9% on a pro-forma basis.

“This is towards the lower end of our target gearing range,” said Mr. Weightman.

“In fact, it is lower than we have been at any time in the last ten years,” he added.

Debt facilities continue to be well diversified across eight lenders with varying maturity dates. More than half of the expiry in FY19 relates to the construction loan for Soward Way, which is secured against the new building, valued at $260 million. Cromwell is in the process of refinancing the construction loan into a long term facility.

“Cromwell holds sufficient liquidity to meet all debt expiries through FY19 and to access capital to fund value enhancing opportunities in our property portfolio and funds management businesses,” said Mr. Weightman.

“Negotiations to further lengthen tenor and further diversify debt sources are well underway.”

“We will provide further details of the outcome of these initiatives in the second half,” he added.

In October, Cromwell announced the successful execution of its hedging strategy with protection extended to 2.6 years on 73% of projected debt. Forward exposures are actively managed, within ranges, against an annually agreed target to ensure the best possible protection.

PROPERTY SEGMENTS UPDATE AND LEASE RENEWAL PROGRAMME

Cromwell’s longstanding recycling and reinvestment strategy has resulted in 55% of the property portfolio, or $1.35 billion, being represented as low risk, stabilised assets with long WALEs and minimal capex or incentive exposure. Like for like net property earnings increased by 7.7%. A number of other assets are in the process of being transitioned to core.

The remaining portfolio is divided between assets with medium term WALEs, and which are subject to asset enhancement initiatives (“core+”), or those that are vacant, or have short WALEs, and have “active” repositioning potential.

The core+ portfolio consists of eight assets with a combined value of $962.1 million, representing 39% of the total investment properties of Cromwell.

Active assets included Tuggeranong Office Park, ACT, 13 Keltie Street, ACT, Wakefield Street, Adelaide and Huntingfield Avenue, TAS, which has subsequently been sold.

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"We are in the process of either assessing or executing redevelopment or repositioning strategies for all of the remaining assets within this category, said Mr. Weightman.

A total of 11 property assets were externally revalued at 31 December 2017, representing approximately 48% of the property portfolio by value. Valuations for investment properties increased by $32.8 million during the half-year net of property improvements, leasing incentives and lease costs.

The weighted average capitalisation rate (WACR) was 6.34% across the portfolio, compared to 6.56% as at 30 June 2017.

Tenant quality remains strong with Government and Government related entities contributing nearly two fifths (39.6%) and the top 5 tenants three fifths (59.7%) of gross income.

The portfolio weighted average lease expiry (WALE) is 7.2 years.

"The WALE has increased from 6.35 years in HY17, in part due to the commencement of the new lease with DSS at Soward Way," said Mr Weightman.

"The headline vacancy rate of 12.1% reflects the move by DSS out of their old building. Portfolio vacancy excluding the active assets is 2.6%," he added.

Cromwell's lease expiry profile is favourable with less than 20% of leases expiring in the next three years. A third of these expiries are in the Sydney office market which is showing increased demand and rental growth over that period."

"There are only three expiries which represent more than 1% of income in this period," said Mr Weightman.

"Two of these are in assets which we are proposing to redevelop and reposition and we are in active negotiations with the tenant in the third asset," he concluded.

Cromwell had strong leasing activity in the half, executing 67 transactions on over 43,300 sqm of space. 58 of these were new leases on over 15,600 sqm of space including:

- Northpoint had 25 new leases signed in the retail precinct and seven office leases;
- Bechtel signed a new lease at HQ North in Brisbane for 1,300 sqm;
- Nine leases were signed over spaces in which speculative fit-outs were underwritten at 200 Mary street. Pro-forma occupancy is now 85%; and
- Leases of 3,900 sqm have been signed at 207 Kent Street. The most recent transactions have achieved rentals over $1,000 per sqm gross.

There were nine renewals for 27,700 sqm with nearly 90% of this being in two deals:

- Therapeutic Goods Administration (TGA Complex) for five years over 18,500 sqm; and
- Australian National Audit Office (ANAO) at 19 National Circuit, ACT have signed a Heads of Agreement for 12 years over 5,600 sqm

Cromwell continues to recycle capital from assets that have reached the end of their optimal investment term. Health & Forestry House, twin interconnected towers in Brisbane, were sold for $69 million in the half. Post balance date Huntingfield Avenue, TAS was sold for $4.5 million completing in January 2018 and Musk Avenue, Kelvin Grove is currently under contract.

"Northpoint will reach practical completion on 19 March on budget and time," said Mr. Weightman.

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“25 new retail leases have been signed and fit-outs have commenced in most tenancies. Woolworths have finished stocking shelves, the rooftop bar provider has submitted a DA and the Vibe Hotel, a 4.5 Star, 187 room hotel with conference facilities and swimming pool is due to open after Easter.”

“Having completed the development of the podium and new hotel, we will now turn our attention to leasing opportunities in the commercial office tower, where significant interest is being shown in areas with speculative fit-outs in the 100 to 500 sqm range,” he added.

Construction of the new property at Soward Way, ACT was completed in September, creating a new fully leased commercial office building at Tuggeranong Office Park.

The total cost of construction was $170 million, funded from cash reserves and a $159.5 million loan facility. The building is now valued at $260 million, leased for 15 years to the Commonwealth of Australia and will add to income growth in the core portfolio in FY19.

“I mentioned previously that the old buildings at Tuggeranong Office Park, ACT are now vacant following DSS’ move to their new premises,” said Mr. Weightman.

“We have been progressing plans to transform the old buildings into between 330 to 350 retirement or assisted living units plus communal areas.”

“Careful analysis has been conducted into the supply and demand of retirement and independent living units in the Tuggeranong area.”

“We know there is a marked undersupply, with strong demand and minimal competition in the local market.”

“The ACT government has also earmarked Tuggeranong as one of their three aged care hot spots,” he confirmed.

“We are close to finalising the details of the project, including partnering with an aged care provider with a solid track record of providing quality services to residents. The project will increase the value of the buildings at Tuggeranong and provide another growth opportunity for the business,” he said.

Other asset enhancement opportunities within the existing portfolio, include the potential for additional office space at Victoria Avenue Chatswood, additional development and office expansion at 700 Collins Street in Melbourne and the redevelopment of the Wakefield Hospital site in Adelaide.

FUNDS MANAGEMENT SEGMENTS

Total funds management operating profit was $16.3 million up 5% on the prior comparable period (HY17 $15.6 million).

Total Assets Under Management (AUM) increased 11% or $1.1 billion to $11.1 billion. This was in part due to €400 million of assets in Italy being acquired from Cerberus for the CEREIT mandate as well as the onboarding of the remainder of the assets in the Artemis portfolio.

Cromwell sold its stake in Investa Office Fund in October.

“The most public issue for us in 2017, certainly the one that garnered most media column inches was Investa Office Fund,” said Mr. Weightman.

“I think enough has been said about Investa. Suffice to say we acquired our stake at $4.24 and divested for $4.65 per unit. This resulted in a $24.75 million gain on sale with net distribution income of $10.9 million. Our equity IRR was 18.2%.”

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On 30 November CEREIT had a successful debut on Singapore Exchange Securities Trading Limited (the SGX-ST). The €1.4 billion S-REIT was the first Euro denominated REIT on the SGX-ST and the largest REIT IPO in Asia since 2013 by market capitalisation.

"Cromwell's 35% sponsor stake is worth €303 million, and one-off transactional income of $10.1 million was booked in HY18," said Mr. Weightman.

"CEREIT debuted at €0.55 per unit and, even though it is early days, I'm delighted to see that it is trading ahead of the S&P Singapore REIT Index since its debut," he said.

Cromwell has established an office in Singapore, the largest wealth management centre in Asia. The IPO has increased exposure to institutional investors and allowed the business to identify additional sources of capital and capital providers interested in Australian and European opportunities.

"I have said this before, but I believe CEREIT, and everything else that comes with it, has the potential to transform our business and is already opening up a whole range of new possibilities for us," said Mr. Weightman.

As at 31 December 2017, Cromwell had €4.0 billion in AUM in Europe, up 18% from €3.4 billion just six months previously.

Mark McLaughlin was appointed as Managing Director in October 2017 with a remit to continue the transition to funds with longer term recurring fees, grow the business and broaden its range of capital partners.

€2.1 billion of assets were traded by the business in the six months to 31 December 2017. During the calendar year, more than 600 lease deals have been signed, equivalent to 12 leases signed every working week across the platform.

"We expect next year to be one of further transition and change. We will continue to invest into the platform to support Mark and his team," said Mr. Weightman.

"The business now has a €1.4 billion long term property management mandate from CEREIT and is very focused on delivering its objectives for this key client," he added.

"We will take advantage of our new sources of capital to connect them to suitable value enhancing opportunities identified by our, on the ground, local network in Europe," Mr. Weightman concluded.

Retail funds management contributed operating profit of $2.1 million. AUM was steady at $1.8 billion.

The Cromwell Direct Property Fund purchased its fourth direct asset in Spring Hill in Brisbane. The Fund is highly recommended by independent research houses Lonsec and Zenith, has returned 11.3% per annum since inception, and has gearing of just 6.3%.

"We see substantial opportunity in this fund," said Mr. Weightman.

"It is well positioned and we are happy to wait for the right opportunity. We would rather be cautious and ensure that the fund bought well, rather than simply look to build scale," he stated.

The Cromwell Phoenix Opportunities Fund closed after reaching capacity. The Fund had a six year annualised performance of 22.3% net after fees in December 2017.

The award-winning Cromwell Phoenix Property Securities Fund reopened in October for a limited capital raise. It is expected to close again shortly after attracting significant inflows.

Cromwell continues to actively engage with its retail investors, ensuring they are well informed about their investments, the funds they are invested in and the wider property market in general.

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“We are delighted that unitholders have again provided Cromwell with a market leading Net Promoter Score (NPS) of +34,” said Mr. Weightman.

In New Zealand, Oyster Group AUM was also steady at NZ $1.2 billion at 31 December 2017, having grown by more than 60% since 30 June 2015.

On a pro-forma basis, AUM will have increased further with the purchase of the 6.2 hectare Central Park Corporate Centre for NZ $209 million. The purchase, with an international Private Equity joint venture partner, was confirmed subject to Overseas Investment Office approval.

“We continue to support the Oyster team and they are making great progress. We will increasingly look to connect them to our network of international capital partners,” Mr. Weightman concluded.

OUTLOOK AND GUIDANCE

Australia is still working through an extended period of moderate economic growth. The key drivers for Australia continue to be the rise and fall of the mining production and investment cycle, tentative business investment, the impact of the Australian dollar and the prospect of rising bond rates.

“We believe this means continued moderate growth in demand for the next few years. The X-factor of course is offshore capital. This won’t stop but, as bond rates rise, the search for yield will focus on assets which can produce strong and predictable rental income,” said Mr. Weightman.

Elsewhere, the US economy is strengthening and once the benefit of tax cuts kick-in growth will strengthen further. Europe has struggled with the imbalances of a fixed exchange rate system but labour costs have pulled back in high cost countries allowing for a rebuilding of eurozone economies.

“European growth has shown positive momentum over the past three fiscal years,” said Mr. Weightman.

“The impact of Brexit remains uncertain, and risks remain, but the macro outlook is more positive than it has been for any time since the Global Financial Crisis,” he said.

Capital continues to be exported from Asia in search of growth and yield. Nearly half of all Asian outbound capital is targeted for deployment into European commercial real estate, and while Australia is forecast to receive a smaller nominal amount, this is in the context of being a substantially smaller market.

Within the Asia-Pacific region, however, Australia does provide two of the top three destinations for Asian capital deployment.

“These factors have led us to actively seek diversification to ensure that the risk of lower growth due to an economic slowdown in Australia is mitigated, and that we have exposure to growth in Europe, and the capital movements that continue to come out of Asia,” he said.

Cromwell’s strategy is to recycle capital to enhance future earnings quality and minimise risk and future cost. The proceeds are reinvested to improve earnings quality for core stabilised assets, fund investment upside in core+ assets, improve active assets and grow funds management.

“The purpose is to build a pathway to continued sustainable business growth,” said Mr. Weightman.

“The investments made over the last few years, including those in people, processes, the platform and sustainability have left Cromwell in a strong position with future growth opportunities.”

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"The core stabilised portfolio will deliver NOI growth. The WALE has been extended, NTA is up, leasing expiries minimised and there is also a strong pipeline of active 'adaptive reuse' assets," he said.

"Cromwell also has substantial cash reserves, undrawn long-dated banking facilities and gearing is now at its lowest level in ten years."

"Europe has the potential to scale up by more than 50% with minimal changes to its cost base, and the retail funds business has a significant and engaged investor base."

"With the establishment of a presence in Singapore and the successful IPO of CEREIT, Asia will be an increasing source of capital for the business. The strategic placement was the first example of Asian capital funding value enhancing opportunities either in our property portfolio or our funds management business."

"I believe these new sources of capital will provide the business with a wide range of additional and exciting growth opportunities. We are focused on harnessing these opportunities and our pathway to sustainable business growth," said Mr. Weightman.

Full-year guidance is maintained with FY18 operating profit of 8.25 cps and a distribution of 8.34 cps.

FY18 guidance represents an operating profit per security and distributions per security yield of 8.25% and 8.34% respectively based on closing price of $1.00 on 27 February 2018.

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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 2017, Cromwell had a market capitalisation of $2.0 billion, a direct property investment portfolio in Australia valued at $2.5 billion and total assets under management of $11.2 billion across Australia, New Zealand and Europe.

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