
ASX ANNOUNCEMENT

15 November 2018

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

Following is the Chairman's address and the Managing Director's presentation to be delivered at today's Annual General Meeting of GDI Property Group¹.

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1. GDI Property Group comprises the stapled entities GDI Property Group Limited (ACN 166 479 189) and GDI Property Trust (ARSN 166 598 161).

CHAIRMAN'S ADDRESS

The financial year ended 30 June 2018 was, I am pleased to say, yet another outstanding success. Once, again, this year, our Managing Director, Steve Gillard, will talk about our operational successes.

As I announced in my Chairman's letter transmitting the Annual Report to investors, I am retiring from public company directorships after some 25 years on various Boards (mostly as Chairman).

This occasion is, therefore, a good time for me to reflect on that experience. I hope, therefore, that you will indulge me in a bit of reflection and prognostication.

I wrote in my letter transmitting this year's annual report to investors, that I believe the biggest single characteristic of productive and well-functioning Boards has been - to my mind and experience - **not** what most of the Corporate Governance industry would say - but a simple thing: **cohesiveness**, that is, in practical terms, a **good team**.

Good teams don't just comprise cardboard cut-outs - of each other, or of anything else. They bring together a diverse range of skills and insights and are prepared to pull their weight, by pooling those skills and insights, to produce a productive outcome.

There is no place on a Board for a mere **pretender**. Yet, I'm inclined to think, we see some mere pretenders on some Boards - typically Boards that have failed their basic responsibilities.

I am pleased to say that you will have a **good team** on **your Board** after Gina takes over as Chairman and Steve Burns joins John and Giles on the Board.

As I also wrote in my letter to investors, in the Corporate world, there is no place for the **dishonest**.

That really brings me to something close to my heart: **Corporate Responsibility** and **Good Governance**.

When I did Company Law at Law School in the '60's, the Company Law Handbook was only 2cm thick: now the *Corporations Law* runs to several volumes and is of many centimetres thick.

More than some of it is **incomprehensible** - at least to the non-lawyer. And much of it is just **restrictive**, not **productive**.

I believe that, as a society, we need to recognize that:

- regulation tends to compromise entrepreneurship;
- regulation tends to replace insight with formalism;
- regulation often reduces compliance to mere **form filling**, not **care and honesty**.

As I perhaps cheekily observed, having Amy Vanderbilt's *Guide to Gracious Living* on your shelf doesn't make you *polite* or *respectful*; so why should we think that even more Corporate Regulation makes for honesty? **Palpably not so.**

And on the need for honesty and integrity in Corporate life, the revelations before the Banking Royal Commission are nothing short of mind blowing - personally deeply disappointing.

The temptation is to see these infractions as failures of regulation, and to call for even more, '*better*', regulation.

But what troubles me far more is that they are also reflective of a regulatory system that is '*a failure and a farce*'.

The Corporate Sector has, in my view, suffered such escalating regulation that *avoidance*, or *disregard*, is easier and cheaper than compliance. Honesty and respect have been replaced by rules so complex that the pervasive importance of basic ethical behaviour has been lost in the mire.

The eyes of some participants in the Corporate Sector have glazed over, and their own selfish motive of a 'quick quid' has prevailed:

- some have looked for *loop-holes*, not *compliance*;
- some have come to regard the system with *distain*, not *respect*; and
- some have come to think that *good conduct* is what is *imposed* – unavoidably - on them, not a manifestation of *inherently ethically behaviour*.

We also need to reflect on the appalling failure, or inability, of the Regulators to act in support of good conduct.

As much as we are entitled to condemn aspects of the Financial Services Industry for the appalling conduct that has been uncovered by the Royal Commission, we should, in my view - even more strongly - condemn the *manifestly appalling* performance of the Regulators - whom we pay to ensure our interests are protected.

Personally, I think the Corporate Sector has been driven too far away from fixed remuneration and too much to the idea of 'skin in the game' remuneration. This, I regret to say, has very much been an outcome of demands from the organized 'Investment' community. And, I also regret to say, this '*good idea*' has been picked up in no small part by the Remuneration Consulting industry - a parasitic business if ever there was one - affecting to do a job that a good Board should do.

Another offshoot of the 'Corporate Governance Industry' has been the emergence of 'Proxy Advisers'. A Board's recommendation (that is, a recommendation from those who are paid to look after the Company on behalf of investors and might be reasonably be expected to know what they are talking about) is no longer good enough. Instead, recommendations are 'vetted' by unaccountable outsiders applying their own rules. Not a good development, to my mind.

For the most part, all the additional centimetres of legislation have been notoriously ineffective (except of course to bolster the income of my former colleagues in the legal profession). Hardly any corporate crooks have been charged under this myriad of new rules, let alone jailed.

A great example – or perhaps more properly called an **appalling** example - of how this myriad of legislation has become so complex that even experts can't get it clearly right unfolded just this week.

The Federal Court of Australia declined to accept the agreed 'settlement' between Westpac and ASIC because it was not clear that **any** law had been breached by Westpac's conduct, nor that, if it had, the agreed penalty was **sufficiently high**. The issues were so complex that the Court had to take the unusual step of appointing an *amicus curiae* to help sort out the issues.

So what real use to the community is a law so complex as that?

One requirement that I have particularly railed against is, as innocuous as it may seem, to publish AGM addresses **before** they are delivered. In my simple, old fashioned, values, investors who make the effort to turn up are entitled to hear the news **first, not last**.

On the other hand, one really good development, in the last two or three decades, has been the enactment of stringent '**insider trading**' provisions. In a fair and open market, there is no scope for the **trickster**. ASIC has even had notable successes enforcing these provisions.

(By the way, I am pleased to say the GDI Property Group¹ has stringent pre-approval, and 'blackout', security trading provisions in place, and that these are meticulously observed.)

It is also my view that an immutable imperative is that decisions affecting other people's interests are not driven by conflicts of interest. Boards with strong independent Directors are especially important. And Companies with strong, clear thinking Executives, following methodically, but not blindly, clearly articulated strategies, are those that, in my experience, are most productive.

These are general concepts, borne out of general ethical and commercial values, not something that can be achieved by a plethora of detailed rules (often just thought up by the Bureaucratic Class).

It gives me great pleasure to say that your Board, and especially your Executive, have not lost the ability to be entrepreneurial and insightful, even while navigating the myriad of laws and regulations that GDI Property Group operates within.

The whole team is forthright and brings great care and skill to their tasks, always directed to the interests of our owners, you the Security Holders.

Finally, I want to say something about your incoming Chairman.

Gina Anderson has served with me on your Board since the float. So she is an experienced ASX Director.

She knows the GDI Property Group thoroughly. She knows how it works. She knows the Executive and how it works.

She knows what is expected of a Listed Company Director.

So, she starts from a position of strength.

But not only that.

Gina is an experienced businesswoman and corporate director, apart from GDI Property Group.

- She is a Director of The George Institute for Global Health and Chairman of The George Institute Foundation;
- She is the co-founder, and former Chairman, of Women's Community Shelters Limited. Under her leadership, WCS developed a new social franchise model to establish women's shelters in partnership with local communities;
- She served for five years as a founding member of the Advisory Board of the Australian Charities and Not-for-profits Commission. She is also a former Director of Landcare Australia Limited and Youth Off the Streets, important not-for-profit organizations;
- From 2005 to 2010, Gina was Chief Executive Officer of Philanthropy Australia; and
- Gina's earlier roles at Westpac and St Hilliers included senior general management, corporate affairs, stakeholder engagement, and human resources and project management.

Through all this, Gina has established strong professional, business, governmental and community links across, not only metropolitan, but also rural and regional, Australia.

She is eminently equipped to assume the role as Chairman of your company and I commend her election to you.

Turning now to the financial year ended 30 June 2018 of GDI Property Group, I am delighted to report that it was another highly successful one. The Group's excellent performance is a result of the hard work of Steve Gillard and his team of only 11 others.

The Group has stuck to its consistent strategy of:

- acquiring commercial assets at prices not reflecting their real potential;
- improving these assets, both physically (through simple things like better lobbies and improved lifts) and commercially (through better yielding rental returns and improved lease profiles); and
- selling assets at sufficiently improved values to generate proper reward for our shareholders.

The disciplined implementation of this strategy has resulted in a total return to investors since IPO of **14.82% p.a.**

Not a bad result at all; and one now reflected in a positive security price to NTA.



So, it is with great satisfaction that I wholeheartedly congratulate your Managing Director, Steve Gillard, and his whole team, on your behalf.

It is through their efforts that the Group has been able to achieve such wonderful results and create such a strong foundation for the future.

I would also personally like to thank my fellow Directors, and our Corporate Secretary, David Williams, for their support and commitment over the year.

No Chairman can be better than their fellow Directors, for their support is vital to the overall team effort, and a Board's Secretary is its instrument of success.

I am lucky, and most happy, to be able to say I leave GDI Property Group in such good shape, and in such good hands.

I will now hand over to Steve Gillard.

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GDI PROPERTY GROUP

Annual general meeting

15 November 2018

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A RECAP OF FY18

Overview of FY18



NTA – \$1.18 per security



FFO of 8.40 cents per security



Distribution of 7.75 cents per security



Securityholder return in FY18 of 33.41%



Absolute Total Return in FY18 of 12.28%



Loan to value ratio on Principal Facility of 8.9%

Operational highlights...

- Transactions
 - Sold 66 Goulburn Street, Sydney, for \$252.0 million, having bought it for \$136.0 million in July 2014
 - Bought Westralia Square, 141 St Georges Terrace, Perth, for \$216.3 million, or \$6,626/sqm, heavily weighting the wholly owned portfolio to the improving Perth market
 - Valued at \$255.0 million at 30 June 2018
 - Bought 6 Sunray Drive, Innaloo, Perth, home to the only IKEA Home Furnishings store in Perth, for a new unlisted fund, GDI No. 43 Property Trust
 - Completed the acquisition in January 2018 following the successful \$95.9 million capital raising
 - Awarded Core Property Research Pty Limited's Unlisted Property Fund of the Year for 2018

- Leasing success in both strong and difficult markets

Property	Occupancy ¹ as a % of NLA		
	30 June 2018	1 August 2017	16 August 2016
66 Goulburn Street, Sydney ^{1,2}	100.00%	97.98%	79.54%
50 Cavill Avenue, Surfers Paradise	97.59%	90.14%	65.75%
5 Mill Street, Perth	100.00%	98.06%	87.26%

- Unlocking the value at 1 Mill Street, Perth
 - Memorandum of Understanding signed with Lendlease Developments Pty Limited (Lendlease)
 - The intention is to partner together to explore the development potential of Mill Green to create a leading commercial and retail precinct in the City of Perth
 - Significant progress made during the last six months

1. Includes signed heads of agreement.
 2. As at the date of settlement, 17 November 2017

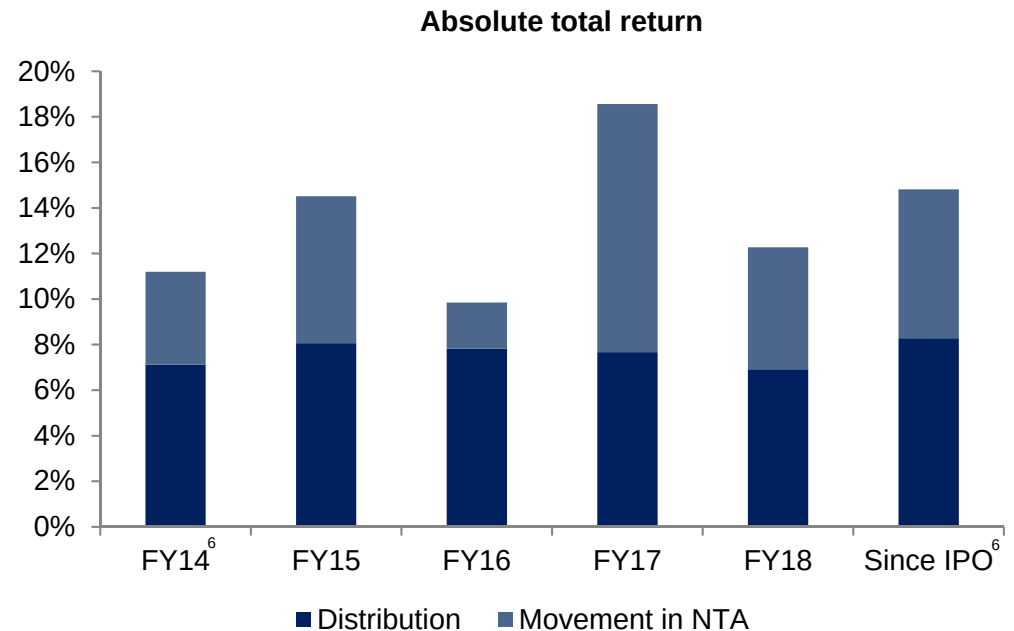
...led to financial success

- NTA¹ of \$1.18 per security
 - ↑ of \$0.06 on 30 June 2017 NTA per security of \$1.12
 - Significant increase in Westralia Square (+\$38.75 million), profit on sale of 66 Goulburn Street, Sydney (+\$5.0 million) and valuation gain at 50 Cavill Avenue, Surfers Paradise (+\$10.5 million), partially offset by stamp duty written off for Westralia Square (-\$11.8 million)
- FFO^{2,3} of 8.40 cents per security
 - Payout ratio of 92.3% of FFO and 113.7% of AFFO
 - Profit on sale of 66 Goulburn Street, Sydney (+\$5.0 million) not included in either FFO or AFFO
- Distribution of 7.75 cents per stapled security
 - In line with guidance
- Absolute total return⁴ of 12.28% for FY18
 - Absolute total return since listing of 14.82% p.a.
- Total securityholder return⁵ of 33.41% for FY18
 - Total securityholder return since listing of 13.92% p.a.

1. Net tangible asset.

2. 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.

3. Calculated using weighted average securities on issue.



4. Defined as (movement in NTA + distributions)/opening NTA.

5. Based on 30 June 2017 and 30 June 2018 closing prices of \$1.025 and \$1.290 respectively, and the paid and declared distributions of \$0.0775.

6. Annualised



STRATEGY UPDATE FOR FY19

FY19 Goals – what we said in August 2018

Financial

To have paid a
distribution of 7.75c

Substantial increase
in NTA

New or extended
finance facility

Property Business

Levels 9 and 10 and
majority of highrise
floors leased at 197 SGT

Significant progress with
1 Mill St development

DA received for
Westralia Square excess land

Leasing momentum
at Westralia Square
following completed
capex

Funds Business

Sales of:

Burnie
Lvls 6 & 8 at 10 Market St

Leasing at:

6 Sunray Drive
1 Adelaide Terrace
Stanley Place

Much larger investor and
intermediary database

Significant progress in achieving FY19 goals...

FINANCIAL

Distribution guidance

- Confirm distribution guidance of 7.75c for FY19

PROPERTY BUSINESS – LEASING

Westralia Square, 141 St Georges Terrace, Perth WA

- Significant contraction in available prime grade contiguous floors of over 1,000 sqm in Perth means Westralia Square is well positioned to deal with its 2020 lease expiries
 - Discussions are ongoing with all existing tenants

197 St Georges Terrace, Perth WA

- Three of the six suites on levels 9 and 10 now leased¹
- Levels 20 and 21 subject to a conditional heads of agreement for a new three year lease, with an option to also take Level 22
- Level 22 currently occupied under a short term licence
- Level 24 occupied under licence and negotiating a new long term lease

5 Mill Street, Perth WA

- Anticipate the majority of FY19 expiries at 5 Mill Street will renew, although we are aware of one departure (242 sqm in November 2018)

50 Cavill Ave, Surfers Paradise QLD

- Only three suites (490 sqm in total) remain vacant with very little FY19, FY20 expiry risk

1. Including signed heads of agreement

Significant progress in achieving FY19 goals...

PROPERTY BUSINESS – SALES

50 Cavill Ave, Surfers Paradise QLD

- Currently assessing offers following a sales campaign that closed on 13 November 2018
 - Will only sell if a satisfactory price is received

PROPERTY BUSINESS – DEVELOPMENT & CAPEX

Westralia Square, 141 St Georges Terrace, Perth WA

- DA for development of excess land at Westralia Square expected to be lodged in December 2018
- Anticipate construction to commence during the first half of 2019
- Upgrade of all lifts well underway and should be completed within two years
- Upgrade of the foyer and fit out of Level 7 all but complete
- Well advanced on plans to upgrade the end of trip facilities

1 Mill Street, Perth WA

- This development opportunity is now tenant led and will be actively seeking pre-commitments in 2019

Significant progress in achieving FY19 goals...

FUNDS BUSINESS – SALES

223-237 Liverpool Road, Ashfield NSW (GDI No. 42 Office Trust)

- Contracts exchanged for the sale of 223-237 Liverpool Road, Ashfield, for \$46.0 million, an \$11.0 million premium over the acquisition price of \$35.0 million
- Settlement anticipated on or around 31 January 2019

10 Market Street, Brisbane QLD (GDI No. 33 Brisbane CBD Office Trust)

- Improving Brisbane CBD leasing market has led to positive momentum in CBD strata sales
 - Unconditional exchanged contracts of \$2.1 million to settle prior within the next three months
 - Terms agreed/contracts issued for a further \$700,000 of sales
 - Currently negotiating, enquiry and early interest in a further approximately \$3.5 million of sales

FUNDS BUSINESS – LEASING

6 Sunray Drive, Innaloo WA (GDI No. 43 Property Trust)

- Kathmandu and Innaloo Discount Drugs renewed / extended their leases
- Negotiations with numerous existing and potential tenants for current vacant peripheral tenancies

235 Stanley Place, Townsville QLD (GDI No. 42 Office Trust)

- ATO departure of approximately 5,000 sqm anticipated in February 2020
- Confident of limited downtime given lack of competing quality stock, the improvement in the Townsville local economy and both Federal and State Government support for the region

1 Adelaide Terrace, Perth WA

- WA Government (levels 6 and 7 – 6,487 sqm) extended lease for 6 months to September 2019
- Will reposition floors and anticipate to being leasing into a much stronger market

