

Market Update

7 July 2008

Key Points

- GPT's financial year ends 31 December 2008
- The end of the half-year and the continuing deterioration in global markets has prompted GPT to comprehensively review the six month outlook for its business, including the key assumptions underpinning GPT's earlier guidance to the market
- Difficult operating conditions are expected to continue for the balance of 2008
- Expected operating income for the year to December 2008 has been revised to \$464 million, reflecting the current environment, GPT's view on likely realisation of expected development profits, and the expected downsizing of the Joint Venture Fund
- EPS guidance for 2008 has been revised to 21.2 cents, DPS guidance to 20.0 cents
- Distribution policy has been amended to exclude development profits and pay out 90-100% of other operating income
- Based on current market conditions, GPT expects the Joint Venture Fund to downsize significantly between now and December 2009, at which time we expect a formal realisation period will commence, due to the triggering of a termination provision
- GPT's portfolio of high quality Australian retail, office and industrial property continues to perform very strongly
- The June quarter DRP will not be underwritten

The continuing deterioration of conditions in global financial, credit and property markets, as well as the broader economy, is having a marked impact on real estate companies globally.

In this light, and in conjunction with GPT's usual half-year business review process, GPT has in recent days conducted a comprehensive review across all business units of the guidance previously provided to the market for the year to December 2008, including stress-testing the assumptions underpinning this guidance. The review has had regard to both the accumulating negative impact of market conditions, and the increasing expectation that these market conditions will persist through the remainder of 2008.

The review has taken particular note of reduced demand for wholesale fund equity raisings (particularly for core real estate), and a major reduction in transaction activity globally. As a result, GPT management has decided to defer, or revise assumptions in relation to, certain initiatives previously assumed to occur in 2008, including:

- (i) the partial selldown of its 40% interest in the GPT Wholesale Office Fund ("GWOF");
- (ii) the realisation of development profits;
- (iii) asset sales, including assets owned by the Joint Venture Fund; and
- (iv) the proposed launch of various funds by the European funds management platform.

In addition, this review has identified likely reductions to 2008 operating income for a number of business units, excluding the Australian retail, office and industrial portfolios, which continue to perform very strongly.

GPT's revised operating income guidance for the full year ending 31 December 2008, along with a comparison to GPT's previous guidance, is outlined below¹:

\$ millions	Basis for Previous 2008 Guidance	Revised 2008 Guidance
Retail, Office and Industrial ²	502	516
Hotel/Tourism	57	42
US Seniors Housing	24	15
Australian Funds Management	31	28
European Funds Management	26	(15)
Joint Venture Fund	141	125
Development	88	29
Corporate ³	(235)	(275)
Total Operating Income⁴	633	464

This operating income guidance is equivalent to 21.2 cents per stapled security for the year ending 31 December 2008.

Commentary by Division

GPT's high quality Australian retail, office and industrial portfolios remain robust and continue to produce solid operating income results.

Development

Development of high quality Australian retail, office and industrial real estate for GPT's own balance sheet and its wholesale funds is a key part of GPT's domestic operating platform.

GPT has previously reported the sale of a two-thirds interest in One One One Eagle Street to GWOF and an existing capital partner, realising a development profit to GPT of \$29 million. This follows the sale of the workplace⁶ development in 2007, which realised a development profit of approximately \$21 million. In both of these transactions with GWOF, GPT has recognised only 60% of the relevant development gain as income (reflecting GPT's 40% unitholding in GWOF). This accounting outcome is despite the fact that GPT has received 100% of the post-tax cash gain on the development.

GPT's previous expectation was that it would reduce its stake in GWOF to 20% during the course of calendar 2008, which would have allowed GPT to recognise the remaining development profit outstanding on workplace⁶ and One One One Eagle Street of approximately \$25 million. However, having regard to current wholesale equity raising conditions globally, GPT now believes that it is prudent to assume that this sell-down does not occur in 2008.

It is important to note that the additional profit on these two assets sold to GWOF will likely be recognised by GPT at some point in the future (assuming GPT's stake in GWOF is reduced to 20%).

¹ Figures have not been adjusted for allocation of overheads.

² Includes co-investments in GWOF and GWSCF.

³ Corporate includes operating costs, interest expense, interest rate and currency hedging positions, and tax.

⁴ Sum of the individual components does not add to the total indicated, due to rounding.

In addition, expected development profits for 2008 have also been adjusted to reflect the revised assumption that no further development profits will be realised during the remainder of the year. This includes a deferral of the sale of the recently completed development at 818 Bourke Street in Melbourne, previously assumed to occur in the second half of 2008.

Joint Venture Fund

GPT's previous distribution guidance assumed that trading profits realised by the Joint Venture Fund during the course of the year would not be distributed to securityholders. While GPT continues to believe that such treatment of trading profits is appropriate in the current environment, the Joint Venture Fund had previously assumed that capital recycled as a result of such trading would be reinvested at higher rates of return. Having regard to current market conditions in both the United States and Europe, GPT no longer considers that it is appropriate to assume that such recycling will occur this year.

Accordingly, income guidance for the Joint Venture Fund in 2008 has been reduced to \$125 million. This revised guidance excludes trading profits or losses and assumes GPT's weighted average capital employed through 2008 is approximately \$2 billion, and is subject to change in the event that capital employed is reduced by asset sales.

Australian Funds Management

GPT's Australian funds management business continues to perform in line with previous expectations, with both GWOFF and the GPT Wholesale Shopping Centre Fund ("GWSCF") producing solid operating results for the financial year ended 30 June 2008.

European Funds Management

GPT's European funds management platform (consisting of GPT Halverton and an 80% ownership interest in Hamburg Trust) is not performing to earlier expectations as a result of extremely challenging market conditions in Europe, resulting in deferral of new fund launches.

As a result, GPT Halverton is not correctly structured to operate in the current environment. Accordingly, GPT intends to reduce GPT Halverton's annualised cost base by approximately 30% during the third quarter of 2008, with the aim of moving the business to a breakeven position from mid-2009.

In view of this performance, GPT expects a writedown in the value of the goodwill component of the European funds management platform. This writedown will be finalised as part of the half-year financial reporting process.

Hotel/Tourism

The strong Australian dollar, higher fuel prices, aviation capacity reductions and weaker consumer confidence, continue to impact the Australian tourism market. Despite the high quality of GPT's Hotel/Tourism assets and intensive operational management, earnings have been negatively impacted by these market trends, particularly the Tourism assets. A continuation of these trends is assumed for the balance of 2008.

US Seniors Housing

The dramatic downturn in United States residential housing and weakening of the broader US economy are impacting the US seniors housing market.



Occupancy has reduced to approximately 89% as at the end of June across the portfolio (versus an average occupancy in 2007 of 92%) as a result of prospective residents taking longer to sell their homes prior to taking up residence in the communities. This is a trend being observed across the industry.

Accordingly, GPT's revised assumption is that occupancy will continue to decline marginally over the course of the year. Input cost inflation is also evident, resulting in additional earnings pressure.

Corporate

As a result of revised assumptions in relation to previously assumed initiatives, as well as higher interest costs, GPT has increased the estimate of overall Group corporate costs to approximately \$275 million.

Whilst GPT's previous guidance assumed a significant increase in interest costs during the year, a portion of this increase was assumed to be offset by capital recycling and the unwinding of currency and interest rate positions around assets assumed to be sold.

Revised Distribution Policy

Development and resultant capital recycling remain important parts of GPT's business model going forward. However, in the current environment we believe it is appropriate to retain development profits earned, given their lumpy nature and unpredictable timing. Therefore, development profits will no longer be distributed, and will instead be retained as part of GPT's capital management programme.

In addition, GPT will now distribute approximately 90-100% of other operating income (excluding development profits). The exact percentage will be determined based on the composition of operating income, capital management strategies of the Group, and general market conditions, as well as taking into account taxation consequences for trust distributions.

This new distribution policy will see a proportion of GPT's earnings reinvested into the Group on an ongoing basis. GPT regards this payout policy as meeting the requirements for a sustainable business model, and as beneficial to the long term earnings growth prospects and financial flexibility of the Group.

Estimated Distribution

As a result of lower operating income guidance following the internal review and GPT's revised distribution policy, GPT's distribution for the year ending 31 December 2008 is expected to be 20.0 cents per stapled security.

Taking into account the March quarter distribution already paid of 7.2 cents per stapled security, the expected distribution for the quarter ending 30 June 2008 is 4.2 cents per stapled security.

The Distribution Reinvestment Plan for the June quarter distribution will not be underwritten.



Joint Venture Fund Update

As announced in February, GPT and Babcock & Brown are in negotiations with respect to accelerating the redemption of capital from the Joint Venture Fund. These negotiations are continuing.

Market transaction activity is currently at abnormally low levels. Nonetheless, the Joint Venture Fund is and will continue to look to undertake prudent asset sales as market conditions allow. As there is long term debt in place in the Joint Venture Fund and the income yield from the Joint Venture Fund assets exceeds the cost of that debt, the Joint Venture Fund is not under pressure to sell assets. It will pursue the realisation of assets only when it makes sense to do so.

Nevertheless, based upon current market conditions, we expect the Joint Venture Fund to be materially downsized between now and December 2009, at which time we anticipate the Joint Venture Fund will begin a formal realisation period, due to the triggering of an ROE target related termination provision.

Capital Position

Both headline and look through gearing remain comfortably within the Group's policy ranges of 30-40% and up to 50% respectively. As at December 2007, headline gearing was 36.3% and look through gearing was 46.8%. These ratios are expected to have improved slightly in the period to 30 June 2008.

GPT's debt remains within all covenants and there are no provisions with respect to market capitalisation. There is no recourse to GPT for debt within any of GPT's funds, including the Joint Venture Fund, nor is there any cross-collateralisation between the Group and any of the funds.

Only \$100 million of refinancing is required for the remainder of 2008, with 2009 maturities of approximately \$700 million, and GPT has sufficient undrawn facilities available to meet these refinancing requirements.

GPT is looking to selectively dispose of non-core assets to ensure efficient utilisation of the balance sheet as part of its usual ongoing capital management. The combination of some asset sales, and return of capital from the Joint Venture Fund, is expected to see GPT's look through leverage move to below 40% over time.

Outlook

"The revised earnings expectations for GPT as a result of our internal review are clearly very disappointing for all our stakeholders", Mr Nic Lyons, CEO of GPT said.

"However, we believe that this updated guidance is appropriate at this half-way mark of the financial year, owing to a persistently challenging operating environment. We expect difficult conditions to continue for at least the second half of this calendar year."

"Given current market conditions, GPT has revised assumptions in relation to certain initiatives and transactions previously expected to occur in calendar 2008. These include realisation of development profits and the selldown of GPT's stake in GWOF."

“GPT remains committed to its strategy of ownership/management/development of high quality real estate. We continue to believe this is the optimal business model to deliver long term value to investors over the market cycle,” he said.

GPT's high quality Australian retail, office and industrial property portfolios which comprise the majority of GPT's total asset base, have stood the test of time. We expect the quality of these assets to continue to hold GPT in good stead.”

“GPT has built successful funds management platforms based on the same principles of high quality Australian assets. These funds have very low leverage and are therefore well-positioned to take advantage of market conditions.”

“The GPT management team is fully focused on maximising performance from the Group's asset base, despite the more difficult operating environment”, he added.

GPT's half yearly results are scheduled for announcement on 27 August 2008.

Market Briefing

A market briefing by Nic Lyons will be presented today at 9.15am, Sydney time.

Dial in details:

Conference ID: 55073370

Australia dial in: 1800 148 258

International dial in: +61 2 8524 6650

This briefing will be recorded and available for playback on the number below:

Playback details:

Conference ID: 55073370

Australia: 1800 766 700

International: +61 2 8235 5000

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Market update

ASX announcement

7 July 2008



Guidance update summary

- Financial year ending 31 December 2008 guidance revised to reflect current environment
 - EPS guidance of 21.2 cents
 - DPS guidance of 20.0 cents
- Revision of distribution policy
 - Retain development profits
 - Payout 90-100% of other operating income
- June quarter DRP will not be underwritten

Market environment

- Global financial, credit and property markets continue to be challenging
- GPT considers it prudent to expect market conditions to remain weak for the balance of 2008
- Major reductions in transaction volumes globally and reduced demand for wholesale fund equity raisings
- Market conditions are impacting GPT's operating results

Segment operating income - 2008 guidance

\$m	Previous	Revised
Retail, Office & Industrial	502	516
Hotel/Tourism	57	42
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Australian Funds Management	31	28
European Funds Management	26	(15)
Joint Venture Fund	141	125
Development	88	29
Corporate	(235)	(275)
Total	633	464

- Portfolio of high quality Australian retail, office and industrial properties continue to produce solid operating income results

Development profits

- Sale of two-thirds interest in One One One Eagle Street to GWOOF and existing capital partner
 - \$29m development profit to GPT realised
- Follows sale of workplace⁶ development to GWOOF in 2007
- GPT only booked 60% of gain to operating income in both transactions - reflects GPT's 40% unitholding in GWOOF
- Partial sell down of GPT's unitholding in GWOOF deferred, delaying recognition of remaining 40% development profit
- GPT has assumed no further realisations of development profits for remainder of 2008

Joint Venture Fund

- Negotiations with Babcock & Brown continue
- Results for 2008 assumed to be \$125m, reflecting no trading profits or capital recycling
- JV Fund has long term debt in place and will only realise assets when it makes sense to do so
- Expect the JV fund to materially downsize from now to December 2009
- Anticipate a three year realisation period commencing December 2009, based on not meeting agreed ROE targets, triggering termination provisions

European Funds Management

- Extremely challenging market conditions, resulting in deferral of fund launches
- GPT has undertaken a review of the GPT Halverton funds management platform
- Aim to reduce GPT Halverton annualised cost base by approximately 30% during Q3 and move business to breakeven position from mid-2009

Tourism portfolio

- Tourism market negatively affected by the strong Australian dollar, rising fuel costs and aviation capacity reductions
- Weakness is evident in GPT's Tourism portfolio, notwithstanding intensive operational management
- Four Points Hotel (Sydney) still performing strongly

US Seniors Housing

- Dramatic deterioration of US housing market and weakening broader economy has negatively impacted earnings
- Occupancies declining as new resident move-ins decrease
- Input cost inflation is also evident

Revised distribution policy

- Realised development profits will be retained going forward
- Payout range of 90-100% of other operating income
 - Will be determined on composition of operating income, GPT capital management strategies and general market conditions
- Therefore a proportion of earnings reinvested into the Group on an ongoing basis
 - Financially prudent
 - Long-term growth prospects
 - Financial flexibility

Distribution guidance

- Full year ended 31 December 2008 distribution guidance of 20.0 cents per security
- Expected payout ratio of 94%
- Distribution for the quarter ending 30 June 2008 at 4.2 cents per stapled security
- Underwriting of the June quarter DRP cancelled

Capital position

- Headline and look through gearing remain comfortably within policy ranges and debt covenants
 - Headline 36.3%¹ (policy range 30-40%)
 - Look through 46.8%¹ (policy range 40-50%)
 - Both expected to have improved in the period to 30 June 2008
- Debt maturities total only \$100m in 2008 and \$700m in 2009
 - GPT has sufficient undrawn facilities available to meet these refinancing requirements

Note:

1) As at 31 December 2007

Outlook

- Financial, credit and property market conditions are challenging
- Regardless, Management and the Board recognises that the revised earnings outlook is a very disappointing outcome for all stakeholders
- GPT remains committed to the strategy of ownership, development and funds management of quality real estate
- Optimal business model to deliver long-term value to investors over the market cycle