The GPT Group

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Dear Securityholder

Last week we announced that we expected earnings and distributions for the year ended 31 December 2008 to be significantly less than we had indicated at the Annual General Meeting on 1 May. You are no doubt very disappointed with this news, as are the Board and management team. I am therefore writing to provide you with some further explanation of our 7 July 2008 announcement.

The information available to GPT in April led GPT very carefully to set its assumptions in relation to market conditions, activity and transactions for the (then) remaining eight month period of the financial year. With that prevailing data and the assumptions which flowed from it, GPT confirmed its forecast guidance at the May Annual General Meeting.

The information flow in the following two months challenged the level of confidence GPT had in the assumptions taken in April. As you know, market conditions have been unpredictable and have deteriorated in recent times. In this unprecedented crisis in global financial and asset markets (the biggest cyclical downturn in decades) accumulating data caused GPT to undertake a rigorous reassessment of those assumptions across its entire business.

This resulted in a revised judgement call with particular regard to the likelihood of achieving (in the forecast period to December 2008) development profits in Australia and the probability of raising capital in our funds management businesses. These new assumptions, along with tougher conditions in our Hotel/Tourism and Seniors Housing businesses has led to the 7 July announcement of lower earnings and distribution forecast guidance for 2008.

However, it is important to assess our guidance in context. While GPT has downgraded its earnings for the December year by 27%, GPT itself remains in a strong financial position. It remains a business that still expects to generate nearly half a billion dollars in operating income. Its balance sheet as at 31 December 2007 had 36% gearing (that is, GPT has approximately $14 billion of assets and approximately $5 billion of debt) and we have an excellent portfolio of high quality assets. Importantly there is no recourse to GPT for debt within any of GPT's funds including the Babcock & Brown managed Joint Venture Fund in Europe. On a look through basis (i.e. taking into account all off balance sheet non-recourse debt) total gearing is 47%.

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This year we now expect to generate $464 million of operating income. GPT intends to distribute (including distributions already made) 94% of this income to securityholders via a distribution of 20.0 cents per security for the year, with an anticipated June 2008 quarter distribution of 4.2 cents per security. Previous guidance was for a distribution of 28.9 cents per security for the year.

While it is a time for consolidation it is not a time for over reaction. In this difficult and volatile environment our shared disappointment must be balanced with the need to preserve the long-term interests of securityholders.

We are not infallible. Like the rest of the market, we have found the challenge of assessing how quickly market conditions have changed over recent times a difficult one. We will of course adapt our strategies to the new economic realities in a careful and measured way.

The Board and management of GPT thank you for your patience and understanding during this time. GPT remains a great business with quality assets. Its management team and employees are of the highest quality and have always endeavoured to act in the best interest of its owners. We are committed to ensuring we reward your loyalty through setting the right course for prosperity and growth into the future.

A more detailed commentary of GPT's Half Year review is attached.

Yours sincerely

P L Joseph

Peter Joseph
Chairman

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Half-year review

GPT has revised it's operating income guidance for the year ending 31 December 2008 from $633 million to $464 million.

This operating income guidance is equivalent to 21.2 cents per stapled security for the year ended 31 December 2008. The most significant changes relate to our revised assumptions with respect to the timing of the creation of new funds in Europe and realisation of development profits in Australia including the proposed reduction in GPT's interest in the GPT Wholesale Office Fund (GWOF).

The dramatic change in global debt and credit markets has impacted many sectors of the economy, including real estate. Despite its size and diversity, and as advised at this year's Annual General Meeting, GPT is not immune from these turbulent and uncertain market conditions.

GPT's half-year reporting process enables the Group to assess our operations with the most up to date information available. On our most recent review it became clear that GPT's earlier assumptions about market activity, investor demand and transaction levels are more challenging than initially expected, with difficult operating conditions expected to continue for the balance of 2008.

It is important to note the strength of the Group's core retail, office, and industrial/business park portfolios which continue to perform well. These portfolios represent 71% of GPT's real estate portfolio by asset value and include some of the highest quality assets in Australia. We anticipate earnings from these core assets to remain strong.

Other parts of GPT's portfolio operate in markets which have been adversely affected by the current global market and poor real estate conditions in general.

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 below[1]:

$ millions	**Basis for Previous 2008 Guidance**	**Revised 2008 Guidance**
Retail, Office and Industrial[2]	502	516
Hotel & Tourism	57	42
Seniors Housing	24	15
Australian Funds Management	31	28
European Funds Management	26	(15)
Joint Venture Fund (managed by Babcock & Brown)	141	125
Development	88	29
Corporate[3]	(235)	(275)
Total Operating Income[4]	**633**	**464**

[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.

- **Hotel/Tourism Portfolio and US Seniors Housing Portfolio**

  The underperformance of the Hotel/Tourism portfolio is a result of a variety of factors including the high Australian dollar, reduction in inbound tourism (particularly from Japan), fuel costs and resulting higher travel costs, and poor weather which impacted a number of the island resorts in the first quarter. The US Seniors Housing portfolio has been impacted by the slowdown in the US economy and, in particular, the housing sector.

- **European Funds Management**

  GPT is currently undertaking a strategic review of the operating and cost structure for the GPT Halverton European funds management platform. GPT intends to downsize the operation to manage existing funds under management, recognising that new funds are now unlikely to be launched this year.

- **Joint Venture Fund (Managed by Babcock & Brown)**

  The JV Fund was established three years ago. Up until December 2007, the JV Fund delivered on all of our expectations, both strategic and economic. However, given deteriorating offshore market conditions, we have revised those expectations and determined that we should, as market conditions allow, undertake prudent asset sales to retire debt. The JV Fund continues to generate income in excess of the cost of its debt, and therefore makes a positive contribution to GPT's earnings. Accordingly, the JV Fund is not under any pressure to sell assets but will certainly do so when it makes sense. The JV Fund's debt position is secure and is non-recourse to GPT.

- **Development Profits**

  Strong development profits have been made this year from the sale of two-thirds of One One One Eagle Street in Brisbane, and last year from the sale of Workplace[6] in Sydney to GWOF. However, given the challenging market conditions, GPT has now taken the view that it is unlikely to realise further development profits this year and reduced the anticipated contribution from this part of the business accordingly. It was GPT's intention to reduce it's holding in GWOF to 20%, which would allow it to recognise 100% of development profits derived from the sale of developments to GWOF. It is important to note that a substantial portion of the previously forecast development profits have already been realised but the recognition for accounting purposes has been deferred until the sell down of GWOF to 20% occurs.

- **Corporate Costs**

  The Corporate category is largely the cost of funding GPT's operations and servicing debt. These costs are forecast to be higher due to the revised timing of the anticipated sell down of GPT's stake in GWOF and other asset sales.

Setting the course for future growth

GPT believes that it is critical to recognise and manage the divergent income streams from its businesses. The structure of property trusts has changed in recent years, and income is now derived from development profits and management fees, as well as traditional rental streams. Development profits are

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inherently large and irregular, and often unpredictable, whereas rental streams are inherently steady and predictable.

GPT has revised its distribution policy consistent with this trend. It now proposes to retain development profits and to distribute between 90 to 100% of other operating income. The retained earnings will be utilised to finance capital expenditure and will be reinvested into the group on an ongoing basis. GPT believes that the retention and reinvestment of development profits and a small proportion of operating income is a necessary ingredient in a sustainable business model, and will be beneficial to the long-term earnings growth prospects for GPT.

This step change in our guidance is part of our strategic response to the extraordinary changes in the global environment. GPT will continue to adapt its strategies to meet these new realities. Short term strategic responses have already commenced with the listing for sale of GPT's high quality, but non core Hotel and Tourism portfolio.