

8 May 2014

GPT 2014 Annual General Meeting – CEO's Address

Held on Thursday, 8 May 2014 at 2:00pm (AEST)

Doltone House (Hyde Park), Level 3, 181 Elizabeth Street, Sydney

Good afternoon everyone and thank you for joining us today.

It is a pleasure to provide you with an update on GPT's performance.

Late in 2013, I outlined the next evolution of our strategy, with a focus on Total Return, and a goal to grow funds under management, whilst maintaining a frugal approach and fortress balance sheet.

I am pleased to report that last year we delivered on our strategy, producing a result that was again ahead of expectations with a 6.1 per cent increase in earnings per security. This combined with an improvement in the quality of the portfolio through a significant number of transactions and developments, helped deliver a Total Return for the year of 8.5 per cent.

Our Funds Management business continues to perform strongly, achieving 7.5 per cent growth in funds under management, with GPT managing the number one performing office, and number one performing retail wholesale core funds in the sector.

Our balance sheet remains in excellent shape with only 22 per cent gearing and we continue to manage our costs down as reflected in our low management expense ratio and cost of debt.

2013 was a period of high activity.

We completed \$1.1 billion of transactions to enhance the quality of the portfolio. This included the divestment of a number of retail assets, and acquisitions in office and logistics. We also completed \$760 million in developments, including the expansion of Highpoint Shopping Centre in Melbourne and the completion of a new office tower, Liberty Place, in Sydney. Both of these assets achieved material valuation uplift on completion, over and above the development cost.

We executed on a substantial level of leasing activity during the year, including 551 retail leasing transactions, approximately 124,000 sqm in office leases, and 157,000 sqm in logistics leases. These active management strategies helped drive a \$92 million uplift in valuations.

GPT has a 20 per cent stake in our two Wholesale Funds, both of which delivered a 10 per cent Total Return. GPT is both an investor and the manager of these Funds. The additional income generated as the manager delivered us an 11 per cent Total Return from our Funds Management business, providing a good example of how we can enhance property returns. It also reinforces our strategy to grow these funds.

In addition to good capital allocation in buying and selling assets, capital management can create significant value. This includes opportunistic security repurchases with our continuing security buy-back throughout the year.

The activity summarised on this slide does not include the \$1.2 billion of asset acquisitions associated with our bid for the Commonwealth Property Office Fund (CPA).

Realised Operating Income in 2013 was up 3.4 per cent to \$472 million. This outcome reflected a year of solid performance from the investment portfolio and operating divisions, a significant reduction in management expenses, and the lower cost of debt.

Net profit after tax was \$572 million reflecting a lower uplift in portfolio valuations, offset by a positive movement in derivatives.

Earnings per security increased by 6.1 per cent to 25.7 cents, higher than the increase in operating income due to the impact of the security buy-back over the period.

A distribution of 20.4 cents per security was delivered, an increase of 5.7 per cent on the prior year as we continue to payout 80 per cent of realised operating income which reflects 100 per cent of our cash earnings.

Our balance sheet remains in excellent shape with low gearing of 22 per cent. This combined with the low gearing in both of our wholesale funds provides significant flexibility to pursue well priced opportunities including the ability to buyback GPT securities.

The cost of debt was reduced by a further 50 basis points over the period, and the average term to maturity increased to 5.5 years as we issued some longer dated offshore bonds.

We recommenced the security buyback during the year, acquiring 73.8 million securities and creating \$10 million in value. This takes the total value created for securityholders to approximately \$60 million since the buyback commenced in 2011.

In addition to the \$8.6 billion of assets on the Balance Sheet, we also manage over \$7 billion of assets in wholesale funds.

The weighted average occupancy of the portfolio remains high at 96 per cent, with a long weighted average lease expiry of 4.8 years.

Rents from our property portfolio make up 95 per cent of our earnings.

Our portfolio continues to be supported by a high level of structured rental increases built into our tenant contracts. Regardless of sales turnover or CPI, approximately 80 per cent of 2014 rental

reviews are fixed at an average increase of 4 per cent. These structured rental increases underpin our income growth and performance, delivering a consistent level of income, year after year.

As I previously mentioned, in 2013 we completed a review of our strategy, with a focus on leveraging our capabilities and building on the strong position the organisation has achieved.

The three key outcomes of the review were:

- Firstly, Total Return to securityholders is how we want to be measured and rewarded. We will continue to be a sector specialist in retail, office and logistics, with a flexible approach, with capital allocation at the centre of everything we do;
- Secondly, we have an aspiration to increase our percentage of active earnings from three per cent to 10 per cent, primarily by growing funds under management by \$10 billion; and
- Thirdly, we will continue to apply a frugal approach to managing the business, and we will maintain a fortress balance sheet that will give us the capacity to be opportunistic.

Consistent with this strategy, last year we made an offer for CPA. When a higher competing bid was put forward, we chose not to increase the price we were willing to pay. This approach was consistent with our disciplined track record, and in particular our focus on the most effective allocation of capital. That said, as a result of our bid, we were able to secure \$1.2 billion in assets for our Funds, whilst retaining investment capacity on our balance sheet.

We are extremely well positioned with significant opportunities to create value.

We will continue to build a high quality portfolio to deliver low volatility and secure, steady Total Returns. I believe this is more closely aligned with investors' long term aspirations and better reflects the characteristics of property as an asset class.

Although we had the best performing funds management platform again this year, the value of the platform is yet to be recognised in GPT's security price. This is now more relevant given we plan to grow the platform.

The primary objective of our development business is to preserve and grow value rather than inflate earnings at certain points in the cycle.

We have a straight forward business, operating at best practice expense levels. We continue to manage our employee incentive levels down, and performance measurement is based on total return targets.

Also, we have ended the year with investment capacity of \$3 billion for asset acquisitions and buybacks. This is supported by a proven decision framework to ensure we use it in the right way.

Our strategies are aimed to outperform in the long term. While there is a temptation to use leverage when rates are low, or take more risk to inflate short term earnings per security (EPS), I believe it's

better to be true to label, to deliver realistic annual earnings growth and a stronger NTA, together producing solid returns every year.

We expect economic growth to remain below trend in 2014, however I believe there is renewed confidence in Australia's future, with stable low interest rates and a lower Australian dollar likely to support conditions improving.

In the retail sector, consumer spending has improved, supported by confidence in rising house prices, stable interest rates and job security. I believe that Regional centres are well placed to benefit from improved conditions.

Whilst the office sector remains challenging, leading property and economic indicators point to an inflection point in office demand, particularly in Sydney and Melbourne. We will continue to derisk our portfolio by reducing future lease expiries.

In the logistics sector, the balance in supply and demand will continue to drive activity and value. In addition, the business will benefit from the ongoing development momentum established in 2013.

In conclusion, our target is to deliver a Total Return of greater than nine per cent, and we are confident that the current portfolio will deliver EPS growth of three per cent in 2014.

I would like to thank you for your ongoing support and I look forward to presenting our scorecard to you at the end of the year.

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