



**GPT** | METRO OFFICE FUND

## HALF YEAR UPDATE

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December 2015



## GPT Metro Office Fund

The GPT Metro Office Fund (GMF or the Fund) is an externally managed, ASX-listed real estate investment trust established in October 2014. It offers investors an exposure to a quality portfolio of six A-grade metropolitan and business park office properties located across Sydney, Melbourne and Brisbane. Its Responsible Entity has a majority independent Board and the Fund benefits from The GPT Group's significant resources and proven expertise in real estate and funds management.

The Fund's portfolio has been independently valued at \$412.9 million.





**1.** **Optus Centre**  
Fortitude Valley



**2.** **Quad 2**  
Sydney Olympic Park



**3.** **Quad 3**  
Sydney Olympic Park



**4.** **3 Murray Rose**  
Sydney Olympic Park



**5.** **5 Murray Rose**  
Sydney Olympic Park



**6.** **Vantage**  
Hawthorn

Exceeded revised earnings guidance – Six months to 31 Dec 15

**7.97c**

Earnings per unit

**7.65c**

Distribution per unit

Solid capital management

**\$2.15**

NTA per unit

**28.3%**

Net gearing

# Fund Manager's Report



**Chris Blackmore**  
FUND MANAGER

Dear Investor,

The GPT Metro Office Fund has had another strong set of results for the six months to 31 December 2015, with earnings<sup>2</sup> exceeding our previously revised forecast and distributions in line with forecast. The Fund's assets have grown in value and gearing is slightly lower than previously reported. We are also moving to paying distributions on a quarterly basis, with the next distribution being for the quarter ending 31 March 2016.

GMF's Product Disclosure Statement (PDS) covered the period from IPO Allotment (the Initial Public Offering and Allotment of units on 29 October 2014) through to 31 December 2015. Against the PDS forecasts for this period, the Fund has delivered earnings per unit 3.7 per cent higher, with distributions 1.9 per cent higher and we are proud of these results. With the Fund consistently trading above its IPO issue price over the last year, we look forward to leveraging this successful start and establishing a track record as we move forward.



### Quality portfolio of 100% A-Grade office assets

**\$412.9m**

Asset portfolio  
representing a \$9.4m  
asset revaluation uplift

**94.1%**

Office occupancy<sup>1</sup>

### Growth outlook – FY16 Guidance

**16.1c–16.3c**

Earnings per unit

**15.35c**

Distribution per unit  
within 90%–100%  
payout ratio

As we have outlined previously, management of the Fund is undertaken with a strategic focus in mind. The Fund's strategy is to own a high quality portfolio of Australian metropolitan office buildings that attract tenants and offer a stable income stream. In this way, we seek to appeal to investors looking for high relative income returns with liquidity, secure capital, and demonstrating best in class governance, capital management and asset management. We take a research-led approach to investing in markets and assets that meet the needs of tenants and we seek to build enduring relationships with them, by solving their property needs with our superior service offering.

From an investment perspective, our strategy enables us to differentiate the Fund in the following ways:

#### Quality property investment

We focus on A-grade assets and those at the upper end of the quality grade spectrum. Our portfolio of properties has a long weighted average lease expiry of 5.9 years and are relatively recently built, with an average age of 4.6 years. This means that compared to older buildings on shorter leases, our income is relatively secure and we expect lower levels of maintenance expenditure.

#### Attractive yield with structured rental growth

We delivered a 7.4 per cent distribution yield for the reporting period, based on our 31 December 2015 closing price of \$2.06. We have structured rental growth built into the Fund's leases, with 92 per cent of contracted income subject to a fixed rent review at an average annual increase of 3.6 per cent.

#### Best in class management and corporate governance

The GPT platform offers the Fund best in class property and asset management overseen by a majority independent Board committed to strong corporate governance practices.

#### Liquidity

Listing on the ASX provides investors with liquidity and therefore ready access to their investment. This was boosted in March 2015 with the Fund's inclusion in the Standard & Poor's (S&P)/ASX 300 Index.

1. Includes rental guarantees.

2. Defined as Distributable Earnings/Funds From Operations (FFO).



# Financial Performance

Key financial highlights for the six months to 31 December 2015 include:

- ▶ Earnings per unit of 7.97 cents.
- ▶ Distribution yield of 7.4 per cent.<sup>1</sup>
- ▶ Half year cash distribution of 7.65 cents per unit.
- ▶ Gearing of 28.3 per cent.
- ▶ Earnings guidance of 16.1 to 16.3 cents per unit for the 2016 financial year.
- ▶ Distribution guidance of 15.35 cents per unit for the 2016 financial year.



6 months to 31 December 2015	Actual	PDS	Change
<b>Net Profit After Tax</b>	<b>\$18.3m</b>	<b>\$10.9m</b>	<b>▲ 68.1%</b>
Less: Valuation increases	(\$9.4m)	\$0.0m	
Add: Treasury items marked to market	\$1.2m	\$0.0m	
Less: Other items <sup>2</sup>	\$0.1m	(\$0.3m)	
<b>Distributable Earnings / Funds From Operations (FFO)</b>	<b>\$10.2m</b>	<b>\$10.5m</b>	<b>▼ 2.5%</b>
Earnings per unit <sup>3</sup>	7.97 cents	8.23 cents	
Distribution per unit	7.65 cents	7.65 cents	

As at	31 Dec 2015	30 Jun 2015	Change
Total assets	\$417.3m	\$406.5m	▲ 2.7%
Total borrowings	\$119.4m	\$119.5m	▼ 0.1%
Net tangible assets per security	\$2.15	\$2.09	▲ 3.1%
Net gearing	28.3%	28.9%	▼ 60 bps

IPO Allotment to 31 December 2015 (PDS)	Actual	PDS	Change
Distributable Earnings / Funds From Operations per unit	19.25 cents	18.56 cents	▲ 3.7%
Distributable per unit	17.80 cents	17.46 cents	▲ 1.9%

1. Based on the period end price of \$2.06.

2. Other includes amortisation expense, profit/(loss) on sale and the tax impact.

3. Revised guidance of 7.84 cents per unit was provided at the 2015 Annual Result.



The 7.65 cents per unit distribution declared for the half year to 31 December 2015 represents a 96 per cent payout ratio and is in line with the Fund's distribution policy to payout between 90 per cent to 100 per cent of earnings.

Statutory net profit after tax was \$18.3 million, materially exceeding the PDS forecast. This was driven by positive asset revaluations of \$9.4 million, offset in part by \$1.2 million in unrealised mark to market losses on our fixed interest rate hedges. Earnings were \$10.2 million, slightly behind the PDS forecast due to the timing of when earnings were received. Lease surrender fees received in the last financial year included amounts relating to rent that would have otherwise been received in the six months to 31 December 2015. This was highlighted in the 2015 Annual Result and the earnings result now reported is actually ahead of our earlier expectations.

In relation to capital management, GMF continues to benefit from a strong balance sheet, with conservative gearing of 28.3 per cent, at the low end of the target 25 to 40 per cent range. We have seen our assets revalued upwards, increasing the net tangible asset to \$2.15 per unit and we have taken the initiative

to refinance our debt on favourable terms. The weighted average term to maturity of borrowings is now 4.1 years, having increased following a one year extension of the Fund facilities, which resulted in a reduction in bank margins and fees. Going forward the Fund will be on average 69 per cent fixed over the hedged term.

Savings in net financing costs over the six month period are due to a lower interest rate of 4.6 per cent compared to the PDS forecast of 4.8 per cent, resulting from lower floating interest rates and bank margins. We expect the average cost of debt for the next six months to 30 June 2016 to remain at 4.6 per cent. The Distribution Reinvestment Plan was not active for the six month period.

Earnings since IPO Allotment are 19.25 cents per unit, which is 3.7 per cent ahead of the PDS forecast, resulting from a slightly longer listing period, increased net property income, interest savings and establishment cost savings. Distributions since IPO Allotment are 17.80 cents per unit, which is 1.9 per cent ahead of the PDS forecast.

# Operational Performance

Key operational highlights for the six months to 31 December 2015 include:

- ▶ Portfolio net income of \$14.0 million.
- ▶ 94.1 per cent portfolio occupancy.<sup>1</sup>
- ▶ \$9.4 million asset valuation uplift.
- ▶ 5.2 star portfolio NABERS Energy and Water Ratings.
- ▶ 2 tenancies re-leased at Quads 2 and 3, Sydney Olympic Park.



We are moving to paying distributions on a quarterly basis, with the next distribution being for the quarter ending 31 March 2016. Increasing the frequency of distributions is something that a number of our investors have raised with us and it will enable us to provide a more regular income return for all unit holders.

We had two of our assets valued at 31 December 2015 (3 and 5 Murray Rose Avenue at Sydney Olympic Park) and saw the portfolio value lift by \$9.4 million. This reflected lower capitalisation rates, as observed in the prices paid for comparable metropolitan properties. The portfolio's weighted average capitalisation rate has moved to 7.09 per cent representing a 61 basis point tightening since IPO Allotment, which is consistent with A-grade metropolitan properties over the same period. Our portfolio is in a strong position, with valuation increases since IPO Allotment of \$33.4 million, taking the portfolio to \$412.9 million at 31 December 2015. Supporting the performance of the portfolio is the structured rental growth increases we have in place, with 92 per cent of contracted income subject to fixed rent reviews at an average annual increase of 3.6 per cent. The weighted average lease expiry remains long at 5.9 years and the portfolio is showing occupancy at 94.1 per cent, with space to lease across level 1 and part of level 4 at our Vantage asset in Hawthorn.

We have kept tenant relationships and leasing front of mind. In the past six months we have re-leased another two tenancies at Quad 2 and Quad 3, leaving us with just one suite remaining from the eight tenancies that expired within two years of the IPO. We have seen great momentum in the

demand for this space at Sydney Olympic Park and these deals have been done ahead of budget and ahead of forecast.

With regard the space we have available for lease at Vantage in Hawthorn, we have fully refurbished the level 1 space, including a new reception area and on-floor changing facilities. The part level 4, handed back from McConnell Dowell as part of their seven year lease renewal, has also been refurbished, which we did before their old lease expired. Projects to upgrade the building's main lobby and install new end of trip facilities are about to commence, and our café operator has also renewed their lease for a further five years, ensuring we have a full complement of services to offer new tenants.

As mentioned at our Annual General Meeting (AGM) in November, at the Optus Centre in Fortitude Valley, Oil Search have surrendered a small suite which comes back to us in April 2016. Our negotiations with the vendor of this asset at the time of acquisition, has meant that we will continue to receive rent through to 30 June 2016, as well as a lump sum payment. We are already in discussions with prospective tenants to take this space.

We have successfully leased 5,800 sqm since the IPO and we remain focused on leasing in the months ahead.

Environmental sustainability is an important feature of our buildings as we look to attract and retain quality tenants. Pleasingly our portfolio energy and water ratings are both at a high 5.2 stars, which does not yet include 3 Murray Rose as we wait for a full 12 months of operational data.

1. Includes rental guarantees. Excluding rental guarantees, occupancy (including signed leases) was 93.2% and WALE remained at 5.9 years.





## Outlook

The Australian economy has increased its modest GDP growth to 2.5 per cent per annum, but still below the long term trend. Demand for metropolitan space has increased, with supply again matching demand rather than exceeding it, resulting in a 10.8 per cent overall vacancy rate, slightly below the three year average. Supply remains modest, as developers remain focused on pursuing alternative, mostly residential, uses, as well as seeking substantial pre-commitments before starting construction on new office developments. Liquidity has been strong with asset transactions in 2015 totalling \$4.5 billion, up from the \$1.8 billion recorded at June.

The recovery of face and effective rents (adjusted for incentives) throughout 2015 has been most evident in Sydney and Melbourne, assisted by incentives remaining steady. Face rents in Brisbane have also risen but increased incentives have held back growth in effective rents, while in Perth both rental metrics have fallen. For metropolitan office markets across the Eastern Seaboard, the overall balanced fundamentals and on-going positive rental growth, together with low future supply and high rates of pre-commitment, indicate a continued stable outlook. This is a positive for GMF as we settle into life beyond the PDS. We see the best opportunities in the strongest markets of Sydney and Melbourne, where GMF stands to benefit the most across our portfolio, as we remain focused on leasing.

We had a successful year in 2015, delivering results ahead of the PDS, and our earnings guidance for FY16 of 16.10 to 16.30 cents per unit and guidance for distributions of 15.35 cents per unit show growth over the next six months. We are focused on continuing to deliver sustainable returns and see our high quality portfolio as one of GMF's key attributes. Maintaining a conservative capital structure will keep us in a strong position. We see a stable outlook across the Eastern Seaboard markets, with Sydney and Melbourne being the clear front runners.



Chris Blackmore  
FUND MANAGER

# Unitholder Information

For full details of the Fund's recent announcements, activities and Interim Result information, visit the GMF website, [www.gptmetroofficefund.com.au](http://www.gptmetroofficefund.com.au). To access information about your holding in GMF online, visit the Fund's Registry website <https://investorcentre.linkmarketservices.com.au>.

## Change in Frequency of Distributions

The Fund has changed in the frequency of its distribution payments, from half yearly to quarterly, to take effect from March 2016.

The change in distribution frequency will not affect the distribution amount paid to unitholders. Unitholders will continue to receive their entitlement to distributions, providing they are a registered holder at the record date for each declared distribution

From March 2016 onwards, the distribution dates each year will at 31 March (to be paid in April), 30 June (to be paid in August), 30 September (to be October) and 31 December (to be paid in February).

## Receive Securityholder Updates Electronically

Sustainability is core to the Fund's vision and values. As part of our sustainability initiatives we would like to offer you the opportunity to receive notification of GMF's investor communications electronically.

We encourage unitholders to visit [www.gptmetroofficefund.com.au](http://www.gptmetroofficefund.com.au) to view the online versions of these reports.

As an investor opting to receive your unitholder updates electronically, you will benefit by receiving prompt information and have the convenience and security associated with electronic delivery. There are also significant cost savings associated with this method of communication and above all this is a responsible and environmentally friendly option.

To receive your investor communications electronically, please go to [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and register for online services.

## Investor Calendar

29 February 2016	December 2015 half year distribution payment date
22 March 2016	March 2016 quarter distribution announcement date
31 March 2016	March 2016 quarter distribution record date
29 April 2016	March 2016 quarter distribution payment date
23 June 2016	June 2016 quarter distribution announcement date
30 June 2016	June 2016 quarter distribution record date
August 2016	2016 Annual Result announcement date
August 2016	Annual Tax Statement sent to investors
31 August 2016	June 2016 quarter distribution payment date

## Access Your Investment Online

You can access your investment online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) signing in using your SRN/HIN, Surname and Postcode. Functions available include updating your address details and downloading a PDF of your Annual Tax Statement.

Also online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) are regularly requested forms relating to payment instructions, name corrections and changes and deceased estate packs.

For assistance with altering any of your investment details, please phone the GMF Registry on 1800 336 109 (free call within Australia) or +61 1800 336 109 (outside Australia).



## For more information

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### Contact GMF's Registry

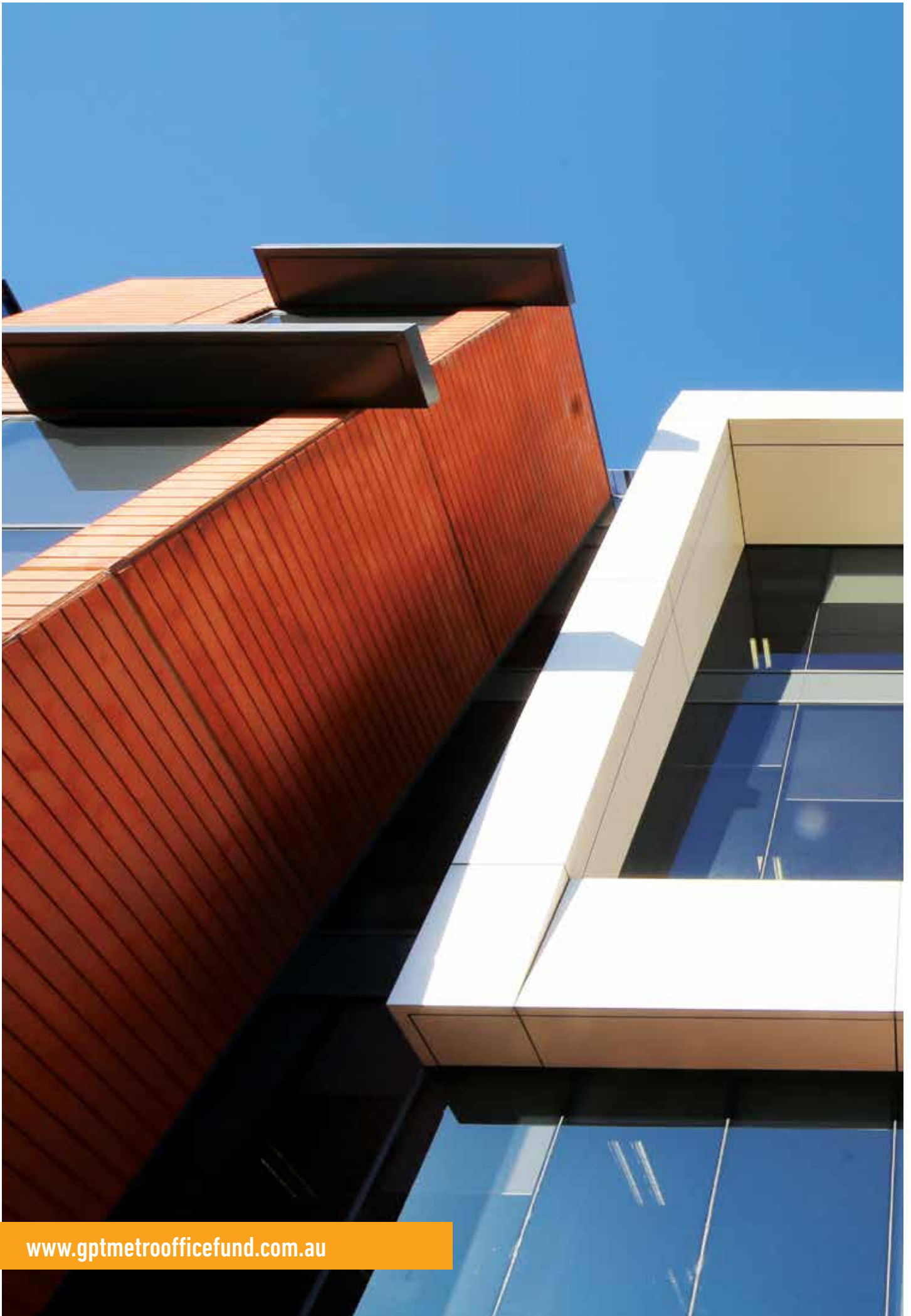
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