



From Grant Jackson,
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Independent Director
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Strategists

Commercial property values have continued to appreciate in 2017 driven by historically low interest rates, limited supply and a weight of capital seeking placement in the Australian market. While appetite for Australian property remains robust, diverging trends between markets are emerging. NSW and Victoria remain the focal point of investor attention given their strong economies. Offshore groups, who now make up 39%¹ of all commercial property transactions in Australia, are particularly attracted to CBD and CBD-fringe office properties in Sydney and Melbourne where capitalisation rates (the rental yields provided by property) have fallen to levels not seen since prior to the Global Financial Crisis (GFC).

Despite this reduction in capitalisation rates, the margin between bond yields and property yields in Australia remains healthy, and is particularly

attractive when compared to both offshore markets and pre-GFC levels in Australia. During 2006-2007, the spread between bond yields and property yields in the Sydney CBD office market fell to ~3%, and to ~3.5% in Melbourne's CBD. Whilst the spread between bond and property yields in major offshore office markets has reduced to these levels or below, the current spread in the Melbourne and Sydney office markets remains more than 1 percentage point higher than pre-GFC levels. This suggests Australian commercial property is unlikely to be as sensitive to increases in interest rates as many offshore markets.

Over the last five years most Australian property markets have experienced relatively limited rental growth. However, the Sydney CBD, Sydney Fringe and Melbourne CBD office markets are now leading a national leasing recovery, recording strong effective rental growth in 2016

Our key metrics

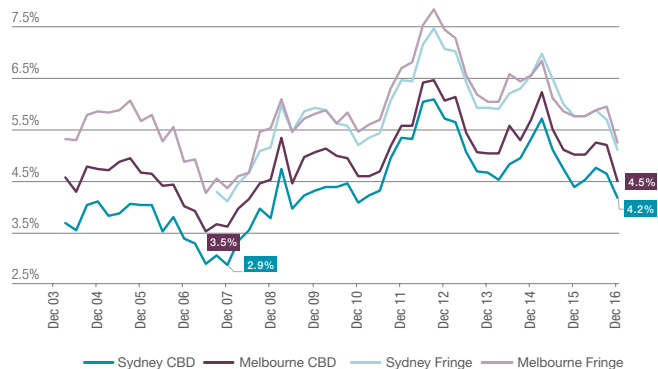
as at 31 March 2016²

Total property portfolio value	\$3.1 billion
Distribution guidance FY17	21.5 cents
Number of properties	57
Office / industrial	65% / 35%
Average property age	9.9 years
Occupancy	98%
Weighted average lease expiry	6.2 years
Weighted average rent review (assumes CPI of 1.5%)	3.2%
Weighted average capitalisation rate	6.7%
NTA per stapled security (as at 31 Dec 16)	2.72%
Balance sheet gearing	39.4%
Percentage debt fixed	> 75%
Average debt maturity (Post settlement of USPP pro forma 31 Dec 17)	5.3 years
Average NABERS rating (energy)	4.4 stars

which is expected to continue in 2017. Evidence of rent growth is also fuelling further investor interest in these markets.

Whilst yield compression has driven most of the value appreciation in commercial property in recent years, rent growth, particularly in the office markets of Sydney, Melbourne, Canberra and, to a lesser extent Brisbane, is now likely to be the primary driver of future capital growth. As a result, groups weighted to eastern seaboard states seem likely to benefit most. This is part of the reason why Growthpoint has focussed on the Eastern Seaboard, increasing the portfolio weighting in these states to 88%, with a particular focus on Sydney and Melbourne which have moved to 25% and 30% of the portfolio respectively.

Spread between average property yields and real bond rates³



1. Offshore percentage of commercial property transactions, buyers and sellers (2016). Source: JLL Research.

2. Includes the sale of assets as per ASX announcement dated 5 April 2017, and leasing updates as per ASX announcements dated 10 April and 19 April, 2017.

3. Source: JLL Research.

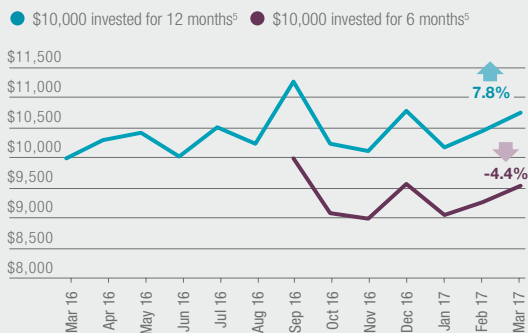
Leases completed since 31 December 2016

Address	Sector	Tenant	Start date	Term (yrs)	Annual rent increases (%)	NLA (sqm)	Car Parks
A4, 52 Merivale St, South Brisbane, QLD	Office	Subway Realty	Q3, FY17	7.0	Fixed 4.00%	81	-
333 Ann St, Brisbane, QLD	Office	Frontier Software	Q3, FY17	6.2	Fixed 4.00%	333	4
102 Bennelong Parkway, Sydney Olympic Park, NSW	Office	Charles Sturt University	Q4, FY17	1.0	n/a	470	11
Building C, 211 Wellington Rd, Mulgrave, VIC	Office	Guardian Community Early Learning Centres	Q4, FY17	10.0	Fixed 3.25%	922	57
109 Burwood Rd, Hawthorn, VIC	Office	Orora	Q4, FY17	8.0	Fixed 3.25%	4,358	190
120 Link Rd, Melbourne Airport, VIC	Industrial	The Workwear Group	Q1, FY18	10.0	Greater of CPI & 3.5%	26,517	135
1500 Ferntree Gully Rd, Knoxfield, VIC	Office/ Industrial	PFD Food Services	Q1, FY20	7.0	Fixed 3.25%	2,985	-
Total / Weighted Average				8.4	3.4%	35,666	397

Value of hypothetical \$10,000 investment in Growthpoint

An investor purchasing \$10,000 worth of GOZ securities on 1 April 2016 would have had securities worth \$10,765.71 one year later on 31 March 2017 (assuming distributions were reinvested). \$10,000 invested on 1 October 2016 would have been worth \$9,549.08 on 31 March 2017.

Total operating costs attributable to a hypothetical investment over these periods was approximately \$41.53 for the full year or \$19.55 for six months; approximately 0.4% of the value⁴.



4. Operating costs being all costs other than interest.

5. Assumes reinvestment of distributions.

Property sales since 31 December 2016

1231-1241 Sandgate Road, Nundah, QLD

This property was acquired via a fund-through in 2011 for \$77.9 million. The 12,980 square metre office building is currently leased to multiple tenants, including Energex and Powerlink. Growthpoint has entered into agreements to sell the property to Centuria Property Funds Limited for \$106.25 million, reflecting a 6.9% initial yield on sale. The sale is expected to complete in early July 2017. The property is expected to deliver Growthpoint a 15% ungeared Internal Rate of Return (IRR) over the ownership period.

29 Business Street, Yatala, QLD

Growthpoint sold 29 Business Street, Yatala to a private investor for \$10.65 million. The 8,680 square metre industrial facility was leased to CMC Steel Distribution until 31 March 2017. Settlement of the sale occurred on 30 March 2017. The property has delivered Growthpoint an 8% ungeared IRR over the ownership period.

Portfolio update⁶

as at 31 March 2017

		Office	Industrial	Total
Number of properties	no.	25	32	57
Total value	\$m	1,992.5	1,088.5	3,080.9
Occupancy	%	97.8	99.7	98.5
Total /average lettable area	sqm	310,289	733,527	1,043,816
Weighted average valuation cap rate	%	6.5	7.1	6.7
Weighted average lease expiry	years	6.6	5.5	6.2
Weighted average rent review ⁷	%	3.5	2.8	3.2
Average value (per square metre)	\$	6,421	1,484	2,952
Average rent (per square metre, per annum)	\$	493	208	225
Number of tenants	no.	99	33	132

Portfolio lease expiry profile

per financial year, by income



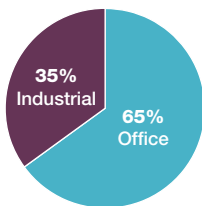
Top ten tenants

by passing rent

	%	WALE (yrs)
Woolworths Limited	17	5.6
NSW Police	9	7.2
Commonwealth of Australia	5	9.1
GE Capital Finance Australasia ⁸	5	14.0
Linfox	4	6.2
Samsung	3	5.0
Lion	2	7.1
ANZ Banking Group	2	3.0
Jacobs Group	2	8.0
Central SEQ Dist Retail	2	6.2
Total / Weighted Average	52	7.1
Balance of portfolio	48	4.7
Total portfolio	100	6.2

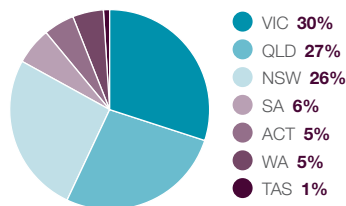
Sector diversity

by property value



Geographic diversity

by property value



6. Includes the sale of assets as per ASX announcement dated 5 April 2017, and leasing updates as per ASX announcements dated 10 April and 19 April, 2017.

7. Assumes Consumer Price Index change of 1.5% per annum as per Australian Bureau of Statistics release for year to 31 December 2016.

8. Leases to Country Road / David Jones, with a weighted average lease term from commencement of 14.5 years over two of the three buildings, will replace the existing lease to GE Capital Finance Australasia upon the lease expiry. The WALE listed reflects this.



FY17 Distribution Guidance

Distribution guidance for the financial year ending 30 June 2017 is expected to be 21.5 cents per stapled security, with a distribution of 10.9 cents per stapled security payable for the 6 months ending 30 June 2017.

Growthpoint's dividend yield is 6.8% based on the security price as at 31 March 2017 and FY17 distribution guidance.

The 2H17 distribution is expected to be paid to security holders on 31 August 2017.

Contact details

Retail Investors:

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Email: info@growthpoint.com.au

Investor Services Line: 1800 260 453

www.growthpoint.com.au

2017 Securityholder Calendar

21 August

- Results for the year ended 30 June 2017 announced to ASX

31 August

- Distribution paid for the half year ended 30 June 2017
- Annual Tax Statement for year ended 30 June 2017 mailed
- FY17 Annual Report sent to Securityholders

22 November

- Annual General Meeting (webcast available for Securityholders unable to attend)

* Dates indicative and subject to change by the Board.