

**11 May 2017**

**CEO's Address**

**GPT 2017 Annual General Meeting**

**Held at Swissotel, 68 Market Street, Sydney.**

Thank you, Rob, and good afternoon everyone.

As Rob noted, the Group delivered a strong result for 2016, with growth in Funds from Operations of 5.6 per cent. Underpinning this result is a high quality portfolio, diversified across the three asset classes of Retail, Office and Logistics. Our Retail portfolio represents approximately 48 per cent of the Group's balance sheet investments with Office 39 per cent and Logistics 13 per cent. We continue to have a high investment weighting to NSW and Victoria, and we expect that this will serve us well given the size and growth outlook of each of these economies.

Our strategy is very clear, and aims to leverage the platform that has been established over many years.

Firstly, we remain focused on the three core sectors we are already invested in. We have deep skills, knowledge and capabilities in each of these sectors and a high quality asset base that we can continue to leverage to drive performance for the Group. As at December 31, the portfolio was 97 per cent occupied and delivered like-for-like income growth of 4.5 per cent for the year. The strong portfolio performance and strong demand for assets resulted in revaluation gains of \$612 million being recorded across the portfolio.

The second leg of our strategy is a measured increase toward developing product for both the balance sheet and the funds. Embedded within the portfolio is an extensive development pipeline and our plan is to realise this opportunity in the coming years. We are also seeking to expand on this development pipeline through acquisition opportunities. We have made a number of acquisitions during the year which I will speak about in a few moments.

The third plank of our strategy is to consolidate our position as a leading fund manager. We successfully renewed the fund terms for our Office Fund in 2016, and more recently the terms for our Shopping Centre Fund were also successfully renewed. In September last year we took the opportunity to increase our investment in both of these Funds. We saw both investments as compelling, particularly when compared to other opportunities in the broader market and given there were no transaction costs involved.

And finally, retaining a strong balance sheet remains paramount to the Group. Gearing at the end of 2016 was approximately 24 per cent, which is at the lower end of our preferred range. We also continue to diversify our lending sources, and during the year we took advantage of the debt capital markets to extend our debt maturity profile to 6.5 years. Accordingly, I am pleased to report that our balance sheet remains in

an excellent shape, and is regularly stress tested as part of our risk management framework with the Board.

Turning now to an update on each of the sectors.

The Retail portfolio delivered like-for-like income growth of 3.8 per cent for the year. This is a pleasing result, particularly given the backdrop of disruption by on-line retailing and a number of tenant failures which occurred during 2016. The portfolio recorded a valuation gain of \$230.8 million, is now valued at \$5.3 billion, and delivered a total return for the year of 10.6 per cent.

Our Retail portfolio occupancy remains high at over 99 per cent. The Group successfully negotiated over 500 specialty leases in 2016, achieving average fixed rent escalations of 4.8 per cent. These leasing outcomes, a high retention rate of around 75 per cent, and strong occupancy is enabling us to drive growth in income.

Specialty sales growth moderated during the year, but it was still healthy at 2.6 per cent. The growth in retail specialty sales has meant that productivity is now above \$11,000 per square metre, which is considered to be in line with “best in class”. This is particularly important as we believe that retail assets with dominant positions, and offering enjoyable experiences for the shopper, will continue to do well in the face of increased competition from on-line retailers such as Amazon and Alibaba.

Investment in our assets and development pipeline is progressing. In August last year we commenced the development of Sunshine Plaza, which will expand the centre by 34,000 square metres. GPT has a 50 per cent interest in this asset, and the investment is aimed at reinforcing the dominance of one of our strongest performing assets in a quality growth market.

We are continuing to progress plans for the retail expansion opportunity at the Rouse Hill Town Centre. The development application has been lodged and the focus is on securing the appropriate anchor tenants. Progress on that front is a little slower than we had hoped as retailers consider the outlook and recent moderation in sales growth.

The expansion of Macarthur Square was recently completed, and the repositioning of Wollongong Central is due for completion this year. Developments at Casuarina and Charlestown, which were completed last year, are performing in line with their investment case and are delivering upside for the Group.

We also remain optimistic about the opportunity we have for mixed use development at Sydney Olympic Park and the residential rezoning of our site at Camellia. Plans for both these sites will be advanced once greater clarity on transport solutions is provided by the relevant authorities.

The Office portfolio delivered a very strong result for the year, with comparable income growth of 6.3 per cent and a valuation uplift of \$336.5 million. This has driven a total portfolio return of 15.3 per cent for the year.

Market conditions for Sydney and Melbourne remain positive, with Sydney in particular benefitting from strong demand and the withdrawal of existing stock to accommodate the new Metro train stations. With supply in Sydney expected to remain constrained, vacancy rates are anticipated to fall to around 5 per cent through until 2020. This has led to effective rental growth of over 20 per cent in Sydney. Melbourne is also experiencing positive conditions, with high levels of demand from a broad range of tenants. On the other hand, the Brisbane market is somewhat softer but appears to have now stabilised.

Our portfolio is well positioned with a high weighting to Sydney and Melbourne. Furthermore, we have a good balance of longer leases and some expiries occurring over the next few years that should allow us to take advantage of what are positive conditions for landlords. With a strong rental growth outlook, we expect to see further valuation gains for prime assets, particularly in Sydney and Melbourne.

Despite the strong conditions we are not complacent, and we continue to pro-actively engage with our larger customers to secure early renewals where appropriate. An example of this is the renewal of IAG's lease at CBW in Melbourne through until 2030.

Consistent with our strategy of investing in Sydney, we have increased our focus on opportunities in the Metropolitan markets, particularly Western Sydney. We believe that these markets will benefit from strong population growth, significant expenditure on infrastructure projects, and competitive rents when compared to the Sydney CBD.

In December we acquired a development site in the Parramatta CBD for \$31 million. The site will see the Group develop 26,000 square metres of new A-grade office space. A design competition for our development has commenced, with construction timing subject to achieving a pre-commitment. The development is expected to have an end value in excess of \$220 million and deliver a yield on cost of over 7 per cent.

We have also commenced the development of an office asset at 4 Murray Rose, Sydney Olympic Park, after securing a 60 per cent pre-commitment with the State Government to accommodate the Rural Fire Service. This 15,700 square metre A Grade development is expected to have an end value in excess of \$100 million and deliver a yield on cost of over 7 per cent when completed in late 2018.

At Darling Park in Sydney, our Office Fund and the co-owners of Towers 1 & 2, have submitted a Development Application for a potential new office development. The project remains subject to authority approvals and could deliver a new office tower of some 70,000 square metres, up to 13,000 square metres of retail space, and an expanded public domain.

Turning now to the Logistics portfolio.

Leasing activity during 2016 improved the portfolio's occupancy to 95 per cent at year end.

Comparable income growth was 1.4 per cent, slightly lower than expected, as a result of downtime following the expiry of several leases at the Citiwest Business Park in Melbourne. The valuation uplift for the portfolio was \$38.9 million, increasing the value of the portfolio to \$1.3 billion. This has driven a total return of 10.8 per cent for the year across the Logistics portfolio.

Like the office sector, Sydney is the strongest market for logistics given the healthy economic conditions. We are also seeing demand being driven by the withdrawal of older stock from the market as sites are converted to residential and other mixed uses.

We continued to enhance the quality of the portfolio through divestment and development, with an asset at Kings Park in Sydney being divested for \$50 million, an 8 per cent premium to book value. The development pipeline was also enhanced with four acquisitions completed in the Sydney market during the year.

We recently completed the development of an 18,000 square metre facility at Seven Hills, and construction has commenced on a new 26,000 square metre building at Eastern Creek. We have now negotiated a Heads of Agreement with a tenant to lease the recently acquired Huntingwood facility, and are working through approvals for a new warehouse adjacent. These facilities, along with a pre-committed development at Wacol in Brisbane, will deliver approximately \$125 million of investment product with a yield on cost in excess of 7 per cent. Our plan is to continue to grow the portfolio through development. Securing further acquisitions to complement the portfolio remains a key focus for the team.

Turning now to the Funds Management business.

Over the year, funds under management increased by 4 per cent to \$10.4 billion.

Both our wholesale funds delivered strong returns to investors. The total return for our Office Fund was 14.5 per cent, while the Shopping Centre Fund produced a return of 11.5 per cent. As a result of the strong returns from our Office Fund, the Group earned \$28 million in performance fees in 2016.

A key objective of the business over the past 18 months has been the renewal of the fund terms for both the Office and Shopping Centre Funds. As mentioned previously, this has now been successfully completed, with both Funds extended for a further 10 year term.

A total of \$1.25 billion of asset transactions were completed by the funds during the year. We took advantage of the strong capital market environment to sell a number of our non-core assets, and we also made two acquisitions for the Office Fund.

The Office Fund acquired the remaining one third stake in the One One One Eagle Street office tower in Brisbane, and also acquired 100 Queen Street in Melbourne.

In line with the Shopping Centre Fund's investment strategy, the Fund divested its 50 per cent interest in Westfield Woden for \$335 million, achieving a 12 per cent premium to book value. This was an excellent outcome for the Fund, and reflects the strong investment demand for tightly held retail assets.

As I noted earlier, we increased our investment in both wholesale Funds during 2016, taking our ownership position to approximately 25 per cent in each.

In summary, it is pleasing to report that the Group is in a healthy position, with a high quality portfolio and an experienced management team delivering results.

Geopolitical issues, an increasing level of disruption, and the outlook for interest rates continues to exercise the minds of the Board and Management. Having said that, we remain optimistic that the transition of the Australian economy will see GDP growth continue to improve during 2017, underpinning jobs growth and consumption, particularly in NSW and Victoria, and we believe we are well placed to benefit from this.

Our guidance for FFO per security growth for 2017 is approximately 2 per cent, with distribution growth expected to be approximately 5 per cent. The lower FFO growth in 2017 reflects the fact that there were a number of items that contributed to 2016 that will not be repeated this year, namely performance fees and income from the Ayers Rock Resort loan. Asset sales last year from the balance sheet and funds were also dilutive to earnings until the capital can be reinvested. We are forecasting higher growth in distributions given our expectation that leasing incentives are expected to reduce this year. We maintain a distribution payout ratio of approximately 100 per cent of Adjusted Funds from Operations.

In terms of asset values, we anticipate that we will see further growth in valuations during 2017.

Overall we remain optimistic about the outlook for the Group and believe we are well positioned to deliver earnings growth over the course of this year.

I would like to take this opportunity to thank all securityholders for their support, and to also thank management and staff across the business for their hard work in delivering a great result for 2016.