Core Property
Fund Research & Ratings

Listed Property

Reporting Season Results for the December 2017 period

February 2018 – Weeks 3 & 4

A review of the major listed A-REIT results for the December 2017 period

Reporting Season Review for December 2017 results

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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February 2018

Reporting Season – Weeks 3 & 4 review

A-REITs reporting This Week:		
For full reporting calendar see Appendix		
Monday 19 February 2018		
CQR	Charter Hall Retail REIT	1H18
GDI	GDI Property	1H18
IDR	Industria REIT	1H18
Tuesday 20 February 2018		
CRR	Convenience Retail REIT	1H18
IOF	Investa Office	1H18
GOZ	Growthpoint	1H18
Wednesday 21 February 2018		
SGP	Stockland	1H18
SCG	Scentre Group	FY17
BWP	BlackWall	1H18
Thursday 22 February 2018		
WFD	Westfield Corp	FY17
ARF	Arena REIT	1H18
CHC	Charter Hall Grp	1H18
VVR	Viva Energy REIT	FY17
Friday 23 February 2018		
GDF	Garda Diversified Property Fund	1H18

*1H18 result is for 6-months to Dec-17
**FY17 result is for 12 months to Dec-17

Results for the December 2017 period

Throughout February 2018 the listed A-REITs will report results for the December 2017 period. This report provides a summary of the results reported in week 3 & 4.

Charter Hall Retail REIT (CQR): Operating Earnings per unit increased +0.6%, assisted by CQR's buyback. FY18 guidance upgraded to 30.4–30.6cps (from 30.2 – 30.6cps). Despite concerns in retail, CQR is on a attractive distribution yield of 7.5%+ for FY18 and a 12.6% discount to NTA.

GDI Property Group (GDI): GDI delivered 1H18 results in line with expectations, with guidance for FY18 distributions maintained at 7.75cps, representing a 6.3% yield. GDI is now poised to benefit from a potential recovery in the Perth office market, as it focusses on asset management, improving occupancy levels and a potential development at its 1 Mill St, Perth property.

Investa Office Fund (IOF): Results highlighted a steady 2% growth in like-for-like net property income, boosted by an accretive on-market buyback. Portfolio remains highly leveraged to the Syd/Melb CBD office markets, which are expected to remain robust. FY18 guidance was maintained.

Convenience Retail REIT (CRR): 1H18 FFO was in line with PDS forecasts however FY18 guidance was increased due to acquisitions benefitting 2H earnings. An attractive yield of 7.3%+ on a long 13.0 year WALE portfolio of petrol stations with average rent increases of 2.9% p.a.

Growthpoint Properties Australia (GOZ): 1H18 results for FFO was down 1.5% on 1H17, impacted by like-for-like net property income growth of -1.7% as well as a reduction in occupancy levels. Whilst FY18 guidance was maintained, FFO per unit is expected to reduce by 4.7%. At current levels, GOZ is trading on a FY18 distribution yield of 7.0% and a 2.6% premium to its NTA per unit.

Please see the next page for comments on **Scentre Group (SCG), Stockland (SGP), Westfield (WFD), Arena REIT (ARF), Charter Hall Group (CHC), Viva Energy REIT (VVR), Garda Diversified Property Fund (GDF) and Cromwell Property Group (CMW).**

Key financial and valuation metrics

Code	Price (cps[1])	Operating earnings		Distributions		Leverage		Valuation		Guidance on EPS & DPS		
		EPS (cps)	(% chg)	DPS (cps)	(% chg)	Gearing (%)	Chg (%)	NTA (cps)	Prem/ (Disc) to NTA %	FY18 EPS (cps)	FY18 DPS (cps)	Implied DPU yield
CQR	366	15.3	0.7%	14.0	-0.7%	33.9%	0.8%	419	-12.6%	30.4–30.6	27.4-29.1	7.7%
GDI	122	3.865	-18.4%	3.875	0%	9.5%	1.5%	112	8.9%	NA	7.75	6.4%
IOF	425	15.3	2.7%	10.15	1.5%	23.8%	2.4%	495	-14.1%	30.3	20.3	4.8%
CRR	269	8.1	NA	8.1	NA	29.3%	-0.7%	281	-4.3%	18.3-18.6	18.1	7.3%[2]
IDR	248	9.1	-7.1%	8.2	2.5%	32.2%	1.4%	257	-3.2%	18.4-18.6	16.5	6.7%
GOZ	316	12.5	-4.6%	11.0	3.8%	35.8%	-2.7%	308	2.6%	24.3	22.2	7.0%
SCG	389	24.29	4.25%	21.73	2.0%	32.1%	-1.8%	424	-8.3%	25.3	22.2	5.7%
SGP	411	18.0	16.9%	13.0	3.2%	23.0%	0.3%	418	-1.7%	35.1–35.6	26.5	6.4%
WFD[3]	860	43.0[3]	2.3%	32.3[3]	1.6%	38.1%	-0.3%	658	30.7%	NA	NA	NA
ARF	225	6.42	5.1%	6.4	9.4%	24.0%	-3.5%	189	19.0%	NA	12.8	5.7%
CHC	576	20.4	4.3%	15.6	8.4%	26.8%	6.7%	369	56.1%	37.0	31.45–35.15	5.8%
VVR	201	13.41	NA	13.2	NA	32.1%	-1.7%	212[4]	-5.2%	13.81-13.91	13.81-13.91	6.9%
GDF	113	4.63	-8.0%	4.5	-4.3%	27.1%	-4.6%	119	-5.0%	8.6 – 9.0	9.0	7.9%
CMW	100	4.32	-4.0%	4.2	0%	40.1%	-5.1%	93	7.5%	8.25	8.34	8.3%

Note 1: Price is based on closing price on day off announcement. Source: Company Announcements, Core Property Note 2: CRR FY18 yield is based on 6.7% yield for 11 months, equivalent to 7.3% p.a. Note 3: WFD's EPS, DPS and NTA are reporting in US dollars. We have assumed a conversion rate of 1.00 USD = 0.79 AUD. Note 4: VVR NTA of $2.19 adjusted to $2.12 for the Dec 2017 distribution of $0.066.

Scentre Group (SCG): FY17 result in line with previous guidance for operating earnings (or FFO) of 24.3cps. Rents and retail sales increased. Result highlights a subdued outlook on Australian retail sales – with minimal increases in specialty store sales. New leases executed in Australia were 2.5% below in-place rents. Balance sheet metrics look robust, with sufficient liquidity to fund growth.

Stockland (SGP): An impressive 18.2% growth in FFO was boosted by the Residential business benefitting from higher settlements and higher margins in Sydney. Whilst margins are expected to normalise in FY18, Core Property considers Residential has potential to surprise on the upside, which may offset any weakness in the Office and Retirement operations. FY18 guidance was reconfirmed.

Westfield (WFD): WFD reported a modest 1.0% increase in FFO for the 12 months to December 17. Management commentary suggests tough retail operating conditions over the last 12-months and perhaps the continuation of these conditions for the next 12-months. However, the real focus has been around the proposed takeover of WFD by Unibail-Rodamco announced in December 2017. A 18% premium to WFD price at the time has dwindled to a mere 1.5% premium. WFD management was quite clear that there was no 'Plan B' in the event that the takeover did not proceed. Overall, this puts WFD in a difficult predicament – unable to provide FFO forecast for FY18 and unable to pursue any new initiatives other than what is already in motion. An independent expert's report is expected to be released in April 2018 with a view to completing the transaction by June 2018. Until this time, it appears to be a wait and watch exercise.

Arena REIT (ARF): ARF delivered a healthy 5.1% increase in earnings per security, primarily driven by like-for-like rent review growth of 2.5% as well as development projects coming on board from the prior year. Eleven new development projects were completed in 1H18 with a pipeline of six more projects in 2H18 and one in FY19. ARF maintained its FY18 distribution guidance of 12.8cps, equivalent to a distribution yield of 5.7% and a 19% premium to NTA, which reflects the stability of earnings from a strong operator.

Charter Hall Group (CHC): A strong 4.3% growth in Operating Earnings per Security in 1H18, with Investments up 23.3% and Funds Management up 21.3% highlighting the power of Charter Hall's property platform that continues to deliver strong equity inflows providing a source of growth for the Funds Management business as well as growth in the investment portfolio. Guidance for FY18 has been increased to Operating Earnings per Security growth of no less than 3%, or 37.0cps (prior guidance was "no less than 35.9cps") with an implied FY18 distribution yield of 5.5% - 6.1%, at current prices.

Viva Energy REIT (VVR): VVR reported strong results with Distributable Income 2.6% above its PDS forecasts for FY17. The REIT has a highly stable portfolio of 438 petrol stations and convenience properties (the bulk of which are Shell/Coles petrol stations), with the outperformance due to a combination of acquisitions, lower debt costs and lower management expenses since listing. Additional growth is expected in FY18, as VVR benefits from the full year inclusion of 13 acquisitions undertaken since listing. FY18 guidance was increased to 13.81 – 13.91cps (previously 13.2cps), with an FY18 distribution yield of 6.9%.

Garda Diversified Property Fund (GDF): 1H18 results were in line with expectations with the portfolio on track to consolidate recent acquisitions. FFO increased 6.6%, as a result of the growth in the portfolio which increased 12.4% in the past six months. Guidance for FY18 was reconfirmed with distributions of 9.0cps, with the full year payout ratio expected to be between 100% – 105%.

Cromwell Property Group (CMW): 1H18 results for Operating Earnings was down 2.4% on 1H17, primarily impacted by vacancy loss at Tuggeranong Office Park, ACT where the Department of Social Services exiting the site and moving into a new CMW construction on adjoining land. CMW maintained its earnings and distribution guidance for FY18. At current levels CMW is trading on an FY18 distribution yield of 8.3%, and a 7.5% premium to its NTA.

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19 Feb 2018

Charter Hall Retail REIT (ASX: CQR) – 1H18

CQR delivered Operating Earnings growth of +0.3% with Operating Earnings per unit increasing at a higher rate of +0.6%, assisted by CQR's buyback of units during the period which was earnings accretive. With EPU of 15.3cps, the result places CQR in a good position to reach its full year guidance of 30.4 – 30.6cps (which was upgraded from 30.2 – 30.6cps).

Whilst MAT growth was a reasonable +2.3% at December 2017 (from +1.6% at June 2017), net property income grew by +1.3%, impacted by a lower number of supermarkets paying turnover rent (51%, down from 52%). Higher borrowings during the period also impacted the result, with gearing at 33.9% (or 36.9% on a look through basis). Amidst a backdrop of a challenging retail environment, CQR's centres are reasonably well placed as it is focused on the non-discretionary segment with anchor supermarket tenants predominantly on the eastern seaboard of Australia. Despite concerns in retail, CQR is trading on a reasonably attractive distribution yield of 7.5%+ for FY18 and at a 12.6% discount to its NTA.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$80.8M**	$178.9M	(54.8%)
Operating earnings	**$61.9M**	$61.7M	+0.3%
Operating earnings per unit	**15.3cpu**	15.2cpu	+0.7%
Distribution per security	**14.0cpu**	14.1cpu	(0.7%)
Payout ratio	**91.5%**	92.7%	(1.3%)

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$4.19**	$4.13	+1.5%
Gearing %	**33.9%**	33.1%	+0.8%
Weighted average cost of debt	**3.8%**	4.0%	(5%)
Weighted average debt maturity	**5.6 years**	6.1 years	(0.5 years)
Borrowings	**$1,015M**	$938M	+8.2%
Interest cover ratio	**4.3x**	4.6x	(0.3x)
Portfolio			
Property Valuation	**$2,907M**	$2764M	+5.2%
Occupancy rate	**97.8%**	98.0%	(0.2%)
Number of properties	**66**	71	(5)
Weighted Average Capitalisation Rate	**6.16%**	6.31%	(15bps)
WALE (Weighted Average Lease Expiry)	**6.7 years**	6.8 years	0.1 years

Source: CQR, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

Key Points

- **Operating Earnings** of $61.9M was up 0.3% on the prior corresponding period, with Operating Earnings per unit increasing 0.6% to 15.3 cps. The higher growth in Operating Earnings per unit was assisted by the buyback of units on issue, with CQR purchasing approximately 0.5% of its units on issue during the six-month period.
- **Net Property income delivered sales growth of 1.3%** on a like-for-like basis (up from 1.0% growth recorded at June 2017)**.** Around 93% of rental income is from non-discretionary

retailers, with 76% of major tenant rental income generated by supermarkets.

- **Tenants' Moving Annual Turnover (MAT)** grew by +2.3% during the period, driven by majors (+2.8%) and mini-majors (+3.3%). MAT growth by supermarkets was +2.9% (from +1.8% at June 2017) with Wesfarmers and Woolworths representing 48% of rental income and delivering 4.1% MAT growth. Around 51% of supermarkets are trading in turnover rent, down slightly from 52% at June 2017, whilst 19% of supermarkets are within 10% of turnover rent (up from 14%). Specialty stores delivered low MAT growth of +0.3% (from +0.2% at June 2017).
- **Key property metrics** include:
  - **Occupancy levels** fell marginally to 97.8% (from 98.0% at June 2017).
  - **Weighted Average Lease Expiry (WALE)** reduced slightly to 6.7 years (from 6.8 years at June 2017).
  - **Disposals** – CQR sold 11 properties which it considered as lower growth centres, for a total of $229.8M at an average yield of 6.9% (5.1% - 8.7% range).
  - **Acquisitions –** Salamander Bay Centre, NSW was acquired for $174.5M and Highfields Village, QLD for $41.0M, with both centres representing a yield of 6.0%.
- **Net Tangible Assets (NTA)** increased to $4.19 per unit, from $4.13 at June 2017, driven by a $143M uplift in the portfolio to $2.9B. The portfolio capitalisation rate reducing by 15bps to 6.16% with 36% of the portfolio revalued at December 2017 (52% of the portfolio was revalued in June 2017). At current levels CQR is trading around a 12.6% discount to the NTA, and management has indicated that it will consider continuing its buy-back, which may be partially funded from asset sales. CQR has a Distribution Reinvestment Plan ("DRP", offered at a 1% discount to the 15-day VWAP) however this was inactive for the December 2017 half year. Whilst CQR trades at below NTA, we do not expect CQR to reactivate the DRP.
- **Gearing** was up at 33.9% (33.1% at June 2017) and is in the middle of CQR's target range of 30% - 40%. The average cost of debt reduced to 3.8% (from 4.0% at June 2017) with debt maturity reducing to 5.6 years (from 6.1 years at June 2017). Around 60% of debt is hedged, with no debt maturing until FY21. Look through gearing was higher at 36.9% (from 36.2% at June 2017) and we expect that any further asset sales will look to repay debt as a priority.
- **Distributions** of 14.0cps was paid during the half, lower than the 14.0cps paid in the prior corresponding period. The payout ratio of 91.5% was at the lower end of CQR's target payout range of 90% - 95%.
- **Earnings Guidance for FY18 earnings** was tightened to 30.4 – 30.6cps (previously 30.2 – 30.6cps). The payout ratio of 90% - 95% equates to FY18 distributions of 27.4 – 29.1cps.

19 Feb 2018

GDI Property Group (ASX: GDI) – 1H18

GDI delivered 1H18 results in line with expectations, with lower FFO per unit reflecting the repositioning of the portfolio. GDI is now poised to build on the potential recovery in the Perth office market, with 86% of its portfolio in WA. Over the next 12 months GDI will be focusing on asset management, including looking to increase occupancy levels at 197 St Georges Terrace, Perth as well as exploring opportunities at 1 Mill St, Perth through a recently signed Memorandum of Understanding with Lendlease to develop the site. The outlook for Perth appears to have stabilized and improved slightly with the Property Council of Australia noting that vacancy levels have decreased by 1.3% to 19.8% (from 21.1%) in the six months to January 2018. GDI's ownership of some key office properties, places it in a good position to benefit significantly from any improvement in the Perth office market.

Guidance for FY18 distributions was maintained at 7.75cps, representing a yield of around 6.3% at current levels.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$19.8M**	$55.6M	(64.3%)
Funds From Operation	**$20.7M**	$25.5M	(19.6%)
FFO per security	**3.86cps**	4.73cps	(18.4%)
Distribution per security	**3.87cps**	3.87cps	No change
Payout ratio	**100%**	82%	+18%

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$1.12**	$1.12	No change
Gearing %	**9.5%**	8.0%	+1.5%
Weighted average cost of debt	**4.97%**	4.97%	No change
debt maturity[2]	**Oct 2018, Jun 2019**	Oct 2018, June 2019	No change
Borrowings	**$91.1M**	$79.9M	+14.0%
Portfolio			
Property Valuation	**$727.5M**	$722.6M	+0.7%
Occupancy rate	**84.6%**	88.2%	(3.6%)
Weighted Average Capitalisation Rate	**7.36%**	7.32%	+4bps
WALE (Weighted Average Lease Expiry)	**2.5 years**	3.6 years	(1.1 years)

Source: GDI, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes. 2. GDI's debt maturity includes 59.4M debt maturing Oct 2018 and $32M in debt maturing June 2019 held in GDI No.42 facility as at Dec 2017.

Key Points

- **Funds From Operations** of 3.865 cps was down from 4.725cps in 1H17, reflecting the repositioning of the portfolio through the period, including the sale of 66 Goulburn St, Sydney and the acquisition of Westralia, Perth. The portfolio now has an 86% exposure to the Perth market, and GDI is now focused on asset management to maximise the value of its properties.
  - **Portfolio WALE** fell to 2.5 years (from 3.0 years at June 2017) and occupancy reduced slightly to 85% (from 86% at June 2017). Of particular note, 197 St Georges

    - Terrace occupancy fell to 77% (from 94%) and GDI is currently working on replacing the lease expires at the property.
    - **66 Goulburn St, Sydney** was sold for $252.0M in November 2017, after GDI acquired the property for $136.0M in July 2014.
    - **Westralia Square, 141 St Georges Terrace, Perth** was acquired for $216.25M in October 2017.
    - **The GDI No43 Property Trust**, was established in January 2018 to acquire 6 Sunray Drive, Innaloo, Perth, for $143.5M. The property is leased to the only IKEA store in Perth with GDI expected to book $2.7M in fees in the 2H18.
    - GDI recently signed a Memorandum of Understanding with Lendlease to develop **1 Mill Street, Perth.** The property is currently unoccupied and the MOU would look to development opportunities at the building, including the possibility of demolition of the existing building, which forms part of the complex with 5 Mill St and 197 St Georges Terrace, Perth.
- **NTA** was flat at $1.12 per security since June 2017. Valuation gains in the portfolio were largely offset by the writing off of stamp duty from the Westralia Square acquisition.
- **Gearing** remains very low at 9.5%, with GDI having $55.6M of undrawn debt capacity available to fund working capital requirements and any potential acquisitions. The weighted average cost of debt was 4.97% with debt maturing in October 2018 and June 2019.
- **GDI has extended its on market share buyback** by a further 12 months, with the potential to buyback up to 5.0% (of 26.9M units) of GDI securities. GDI is currently trading above its NTA, and at current levels we estimate that any buyback would not be accretive. As such, we consider the buyback announcement as providing flexibility as a capital management option over the next 12 months.
- **Distributions** of 3.875 cps were paid, which were in line with the 3.875cps paid in 1H17.
- **Guidance** for FY18 distributions was maintained at 7.75 cps. A portion of the distribution is likely to be paid out of capital, in line with its prior guidance.

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20 Feb 2018

Investa Office Fund (ASX: IOF) – 1H18

IOF's results highlighted a steady 2% growth in like-for-like net property income, with growth in earnings per unit boosted by an accretive on-market buyback of securities. The portfolio remains highly leveraged to the Sydney and Melbourne CBD office markets, which are expected to remain robust over the next few years.

IOF maintained its FY18 guidance for like-for-like net property income growth of ~2%, and FFO per unit to increase 25 to 30.3cps. Forecast FY18 distributions of 20.3cps was maintained (up 0.5% on FY17), however we note that a continuation of the on-market buyback at current (accretive) price levels provides potential for an increase in distributions. At current levels, IOF is trading at a 14% discount to its NTA of $4.95 per unit, with an FY18 distribution yield of around 4.8%.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$151.2M**	$224.0M	(32.5%)
Funds From Operations	**$92.9M**	$91.3M	+1.8%
FFO per unit	**15.3cpu**	14.9cpu	+2.7%
Distribution per unit	**10.15cpu**	10.0cpu	+1.5%
Movement over 6 months	**As at Dec 2017**	**As at June 2017**	**Change**
Balance Sheet			
NTA per security	**$4.95**	$4.79	+3.3%
Gearing (look through)	**23.8%**	21.4%	+2.4%%
Weighted average cost of debt	**4.0%**	4.1%	(2.4%)
Weighted average debt maturity	**4.7 years**	4.7 years	No change
Borrowings	**$954M**	$826M	+15.5%
Interest cover ratio	**5.0x**	4.8x	+0.2x
Portfolio			
Property Valuation	**$3,967M**	$3,824M	+4.0%
Occupancy rate	**97%**	97%	No change
Number of properties	**20**	20	No change
Weighted Average Capitalisation Rate	**5.65%**	5.74%	(9bps)
WALE (Weighted Average Lease Expiry)	**4.8 years**	5.1 years	(0.3 years)

Source: IOF, Core Property *Including weighted average swap rate, facility establishment fees and all-in margins (base & line fees).

Key Points

- **Funds From Operations (FFO)** of $92.9M was up 1.8% on 1H17, with FFO per unit increasing by a stronger 2.7%. The result includes strong like-for-like portfolio FFO growth of 5.1% offset by the divestment of two non-core assets in early 2017. The buyback of 2.5% of IOF units on issue during the period was also accretive to FFO per unit.
    - **The IOF portfolio** consists of 20 office buildings valued at $4.0B, with 63% of the portfolio in Sydney, 16% in Melbourne, 15% in Brisbane, 45 in Perth and 3% in Canberra.

- Portfolio WALE reduced to 4.8 years (from 5.1 years at June 2017) and occupancy levels were maintained at 97% since June 2017. Current lease expires include 3.1% of income expiring in 2H18 and 19.2% of income expiring in FY19.
    - **Like-for-like net property income growth** of 2% was recorded, which includes 6.5% like-for-like growth from the Sydney A and B grade assets, offset by the amortization of incentives on two lease deals in Perth and Brisbane.
    - **151 Clarence St, Sydney (Barrack Place)** is on track for completion in October 2018 with pre-commitment leasing of 57%.
    - **347 Kent St Sydney** will undergo around $40M-$45M in capital expenditure, commencing in January 2019, as part of ANZ's lease renewal.
    - **388 George St, Sydney** will undertake $85M-$95M in refurbishments, commencing in October 2018 when IAG exit the building. The works are expected to be completed by early FY20 and IOF is currently undertaking a leasing campaign for new tenants at the property. IOF own 50% of the property.
    - **Capital Expenditure** of $80M -$95M if forecast for FY18, including $20M - $25M in maintenance capex and $60M-$70M in incentive capex. A total of $185M is forecast to be spent over the next 2.5 years.
- **The CBD Office markets** continue to remain strong, with IOF's commenting:
    - **Sydney CBD** is expected to remain strong with weak supply through 2018 as a result of office withdrawals. The cycle over the next 2 years is expected to be steady, with a modest increase in supply.
    - **Melbourne CBD** is expected to have another strong year ahead, before an increase in supply begins to impact on the market in 2019. Vacancy levels are expected to increase to around 8% in the next few years.
    - **Brisbane CBD** remains strong the prime office market, however the secondary market remains soft with increases in vacancy levels.
    - **Perth CBD** has shown signs of improvement with an increase in activity for higher quality assets driven by higher incentives and easing face rents. Many tenants are upgrading as a result of excess capacity in the market.
- **NTA** increased by 3.3% to $4.95 per unit (from $4.79 per unit at June 2017). The entire portfolio was previously independently revalued in April 2017 and IOF independently valued five properties again in December 2017, representing 23% of the portfolio. This resulted in valuation gains of $80.8M, with the portfolio weighted average capitalisation rate reducing 9bps to 5.65% (from 5.74% at June 2017).
- **Gearing** (on a look through basis) remains low at 23.8%, although this has increased from the 21.4% level in June 2017. The weighted average cost of debt was 4.0%, down slightly from 4.1% at June 2017. In particular, IOF has increased its hedging to 81.2% of the portfolio (form 50.1% at June 2017), which is at the upper end of its target hedging range of 50% - 80%, and has indicated that it intends to remain at the upper end of its hedging range.
- **The on-market buyback** remains on the agenda since IOF's August 2017 announcement to buy-back of up to 5% of its securities on issue. To date IOF has purchased 2.5% of its units, and, given the current discount to NTA, we expect the continuation of the buyback to be accretive to earnings per unit.
- **Distributions** of 10.15 cps were paid, up 1.5% from the 10.0cps paid in 1H17.
- **Guidance** for FY18 remains unchanged with IOF expecting like-for-like net property income growth of ~2% and FFO per unit of 30.3 cps, up 2% on FY17. The FY18 distribution forecast remains at 20.3 cps, up 0.5% on FY17. Core Property notes the guidance may be increased if IOF undertakes any additional buy-back of units at accretive prices.

20 Feb 2018

Convenience Retail REIT (ASX: CRR) – 1H18

CRR reported its first results following its IPO and ASX listing on 27 July 2017. The results reported were for the five-month period 1 August 2017 to 31 December 2017. CRR is a stapling of three separate REITs, and as such there is no prior comparable result for the entity. The portfolio owns 68 properties consisting of service station and convenience retail assets leased predominantly to Puma Energy, Woolworths and 7-Eleven.

The result was in line with PDS forecasts, however CRR has increased its FY18 earnings guidance as a result of two acquisitions which will flow through into second half earnings. Distributions guidance for the 11 months to June 2018 has been increased to 18.1cps (previously 17.9cps), or 19.7cps on an annualized basis – representing a 7.3% yield at current price levels. We expect CRR will increase its FY19 distribution guidance for 1) the inclusion of the two acquisitions, and 2) once it has finalised its position on five additional properties that it is currently looking to acquire. Core Property considers CRR to offer a reasonably attractive yield of 7.3%+ on a long 13.0 year WALE portfolio with average rent increases of 2.9% p.a.

1H18 Results to 31 December 2017

1H18 results	1H18
Earnings	
Statutory Net Profit after tax	**$8.2M**
Funds From Operations	**$6.4M**
FFO per security	**8.1cps**
Distribution per security	**8.1cps**
Payout ratio	**100%**

Movement over 6 months	As at Dec 2017	As per IPO PDS[1] (June 2017)	Change
Balance Sheet			
NTA per security	**$2.81**	$2.73	+2.9%
Gearing %	**29.3%**	30.0%	(0.7%)
Weighted average cost of debt	**3.9%**	4.2%	(0.3%)
Weighted average debt maturity	**3.1 years**	3.5 years	(0.4 years)
Borrowings	**$97.1M**	$91.8M	+5.8%
Interest cover ratio	**6.7x**	NA	NA
Portfolio			
Property Valuation	**$324.4M**	$307.6M	+5.5%
Occupancy rate	**99.6%**	99.4%	+0.2%
Number of properties	**68**	66	+2
Weighted Average Capitalisation Rate	**7.12%**	7.20%	(8bps)
WALE (Weighted Average Lease Expiry)	**13.0 years**	13.6 years	(0.6 years)

Source: CRR, Core Property 1.CRR was listed on the ASX on 27 July 2017.

Key Points

- **Funds From Operations (FFO)** of $6.4M for the period (representing 8.1cps) was in line with PDS guidance.
- **CRR's portfolio** enjoys some strong metrics, including:
  - **68 properties valued at $324.4M** consisting of service station and convenience

retail assets. Income is derived from major tenants Puma Energy (67%), Woolworths (19%), 7-Eleven (9%), Viva Energy (1%) and complementary retail tenants (3%).
  - **Occupancy** levels 99.6%
  - **Weighted Average Lease Expiry (WALE)** of 13.0 years, with a long-dated lease expiry profile:
    - Only 0.2% of income falls due before FY22.
    - 23.5% of lease income falls due in FY22, primarily from longstanding Woolworths leases, with all leases having options to extend by at least 5 years.
    - A further 1.1% of lease income falls due between FY23 and FY29.
  - **The portfolio has contracted average fixed rental growth** of 2.9% p.a. – with 78% of the portfolio with fixed rental growth of 3.0%+ p.a., and the remaining 22% of the portfolio with annual rental growth linked to CPI each year.
- **Gearing** remains conservative at 29.3% well within the REIT's target range of 25% - 40%. with CRR having $27.3M of undrawn debt capacity available to fund working capital requirements and any further potential acquisitions. The weighted average cost of debt was 3.9% with debt maturing in 3.1 years. Around 36% of interest is hedged.
- **Property valuations** of $324.4M was recorded as at Dec 2017, a $16.8M increase at IPO influenced by revaluations and acquisitions.
  - $7.2M valuation uplift.
  - $9.6M from the acquisition of the Durack and Dakabin properties.
- **Additional acquisitions:** CRR is currently in exclusive due diligence to acquire up to five properties. The Fund has advised the acquisitions would be entirely debt funded and has $27.3M in undrawn debt to facilitate this. Core Property estimates the acquisitions would be earnings accretive, with the current all in cost of debt at around 3.9%. However gearing levels would increase to around 36% if the facility is fully utilized for the acquisitions.
- **Net Tangible Assets (NTA)** increased to $2.81 per security, from $2.73 at IPO, driven by a $16.8M uplift in the portfolio to $324.4M. The portfolio capitalisation rate reducing by 8bps to 7.12%.
- **Distributions** of 8.13cps were declared for the period 1 August 2017 to 31 December 2017.
- **FFO Guidance for FY18 (11 months) was increased** to 18.3 – 18.6cps, compared to CRR's PDS guidance of 18.2cps at the time of listing. The increase in FY18 guidance was as a result of the two acquisitions which will flow through in the second half earnings. Distributions guidance for FY18 was increased to 18.1cps (from 17.9cps previously). The FY18 guidance is for the 11 months 1 August 2017 to 30 June 2017. On an annualized basis, FY18 distributions of 19.7cps represents a 7.3% yield at current price levels.
- **FY19:** CRR has not undertaken any upgrade to its FY19 distribution forecast of 20.1cps from its PDS. At current levels, this represents a 7.4% yield. Core Property expects that FY19 distributions will be upgraded once CRR has made a decision on the five properties that it is currently looking at acquiring.

Core Property
Fund Research & Ratings

20 Feb 2018

Growthpoint Properties (ASX: GOZ) – 1H18

GOZ reported 1H18 results with FFO down 1.5% on 1H17, impacted by like-for-like net property income growth of -1.7% as well as a reduction in occupancy levels. During the half period GOZ worked to reduce its gearing levels to 35.8%, at the lower end of its target 35% - 45% range and continues to look at opportunities to reduce the impact of debt, with current hedging at 79%. Whilst FY18 guidance has been maintained, FFO per unit is expected to reduce by 4.7%, whilst GOZ is forecasting distributions to grow by 3.3%, on a 91.4% payout ratio. At current levels, GOZ is trading on a FY18 distribution yield of 7.0% and a 2.6% premium to its NTA per unit.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$207.3M**	$113.5M	(4.1%)
Funds From Operations	**$82.5M**	$83.8M	(1.5%)
FFO per security	**12.5cps**	13.1cps	(4.6%)
Distribution per security	**11.0cps**	10.6cps	+3.8%
Payout ratio	**88.3%**	81.2%	(7.1%)

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$3.08**	$2.88	+6.9%
Gearing %	**35.8%**	38.5%	(2.7%)
Weighted average cost of debt	**4.4%**	4.3%	+1.0%
Weighted average debt maturity	**5.0 years**	5.0 years	No change
Borrowings	**$1,237M**	$1,299M	(4.8%)
Portfolio			
Property Valuation	**$3,285M**	$3,283M	+0.1%
Occupancy rate	**98%**	99%	(1.0%)
Number of properties	**56**	58	(2)
Weighted Average Capitalisation Rate	**6.36%**	6.50%	(0.14%)
WALE (Weighted Average Lease Expiry)	**5.6 years**	6.1 years	(0.5 years)

Source: GOZ, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes

Key Points

- **Funds From Operations (FFO)** of $82.5M was down 1.5% from the prior corresponding period, with FFO per security down 4.6%. The result was impacted by like-for-like net property income growth of -1.7% aswell as a reduction in occupancy levels.
- **The property portfolio metrics** include:
  - **A portfolio of 56 properties valued at $3.285B** with Office properties accounting for 66% of portfolio and Industrial properties 34% of portfolio. During the period GOZ acquired $114.1M in property and divested $90.8M.
  - **Occupancy** levels reduced to 98%, from 99% at June 2017.
  - **Weighted Average Lease Expiry (WALE)** fell to 5.6 years (from 6.1 years at June 2017).
  - **Like-for-like net property income growth** was -1.7% across the portfolio (+0.7% on an FFO basis)

  - **The weighted average rent review** delivered growth of 3.3% during the period.
- **Gearing** of 35.8% (38.5% at June 2017) is at the bottom end of GOZ's target range of 35%-45%. The weighted average cost of debt was 4.4% with average debt maturity of 4.5 years. Around 79% of interest is hedged.
- **Property valuations** increased by $124.6M, an increase of 4% during the half year period with the portfolio capitalisation rate reducing 17bps to 6.36%.
- **Net Tangible Assets (NTA)** increased by 6.9% to $3.08 per security.
- **Distributions** of 11.0cps were up 3.8% on the prior corresponding period.
- **GOZ owns an 18.2% stake in Industria REIT (ASX: IDR),** which it purchased in July 2017 and advised that it has not made a decision on its intentions with the investment. GOZ also confirmed that it continues to look at investments in the listed market where the metrics are more favourable than the direct property market.
- **FFO Guidance for FY18 was reconfirmed at 24.3cps**, representing a decline of 4.7% on FY17 FFO of 25.5cps. Distribution guidance for FY18 was reconfirmed at 22.2cps, up 3.3% on FY17. At current price levels GOZ is trading on an FY18 distribution yield of 7.0%.

21 Feb 2018

Scentre Group (ASX: SCG) – FY17 Annual Result

SCG reported a 4.25% increase in FFO for the 12 months to Dec-17, largely underpinned by growth in net property income and new income from completed developments.

SCG's FY17 result was in line with previous guidance for operating earnings (or FFO) of 24.3cps. Rents and retail sales increased. However, the result did highlight a subdued outlook on Australian retail sales – SCG recorded minimal increases in specialty store sales, and new leases executed in Australia were 2.5% below in-place rents. That said, balance sheet metrics look robust, and there is sufficient liquidity to fund growth.

Strategic initiatives are delivering higher ROE. The return of the 'old' Westfield model to suit the 'new normal' appears to be the strategic pursuit (as opposed to a capital light model that WDC pursued prior to the spin-off of Australian assets into SCG). Management guided to developments delivering yield on cost above 7% which augers well given current cap rates hover around 5%. This value creation via development is expected to sustain SCG management's target return (IRR) of 15%.

Investment thesis. Management guided to FY18 FFO of 25.3cps (+4.0% over FY17) and distributions of 22.2cps. This is predicated on NOI growth ranging 2.5%-3.0%pa. SCG trades at a discount to its reported NTA and does not take into account the value attributed to fee streams from development and fund management streams. Actually, a material departure from the way the Westfield Group used to be valued by the market. It appears the market is valuing SCG on an ex-growth basis, which presents an opportunity for investors to get progressively set during periods of price weakness albeit keeping in mind the structural shift in the retailing sector and the threat of rising bond yields.

FH18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$4,218M**	$2,991M	+41%
Funds From Operations	**$1,290M**	$1,237M	+4.25%
FFO per security	**24.29cps**	23.3cps	+4.25%
Distribution per security	**21.73cps**	21.3cps	+2%
Payout ratio	**89.5%**	89.4%	+0.1%

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$4.24**	$3.83	+10.7%
Gearing %	**32.1%**	33.9%	(1.8%)
Weighted average cost of debt	**4.4%**	4.4%	No change
Weighted average debt maturity	**4.6 years**	5.1 years	(0.5 years)
Borrowings	**$12,300M**	$12,000M	+2.5%
Portfolio			
Property Valuation	**$35,387M**	$33,600M	+5.3%
Occupancy rate	**99.5%**	99.5%	No change
Number of properties	**39**	39	No change
Weighted Average Capitalisation Rate	**4.91%**	5.25%	(0.34%)
WALE (Weighted Average Lease Expiry)	**8.2 years**	NA	NA

Source: SCG, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes

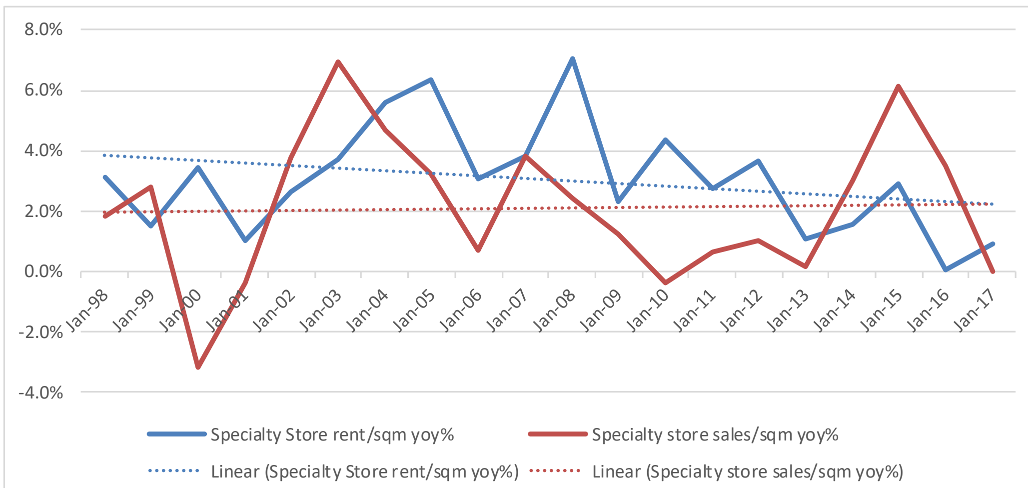
Key Points

Operational Metrics

A consistent theme across AREITs owning shopping centres has been the declining growth rates experienced by major retailers over the past few reporting seasons, particularly department stores such as Myer. The trend for specialty stores (<400 sqm) appears to follow a similar trend as we show in the chart below for SCG over the last 19 years. The chart highlights that the rate of rent growth is declining and follows the direction of retail sales.

This is further confirmed by the negative leasing spreads (lower rents on lease renewal and new leases executed) highlighted during the reporting season. As such, a combination of a subdued retail environment and approximately $5B of development activity forecast across major retail landlords, may inhibit any material increases to rent growth over the medium term.

SCG specialty store rent and sales growth (YoY % change)



Source: Core Property, SCG

Portfolio metrics comparison across AREITs with retail exposure

Portfolio metrics	SCG*	VCX	GPT*	SGP	MGR	CQR	SCP
Occupancy	99.5%	99.5%	99.6%	99.5%	99.4%	97.8%	98.4%
Majors sales growth	-0.4%	3.0%	3.10%	1.7%	3.7%	0.8%	2.5%
Specialty Store sales growth	1.5%	-0.7%	0.30%	0.6%	5.2%	0.3%	3.2%
Specialty stores sales ($/sqm)	11,201	9,347	11,185	8,826	10,034	9,467	7,162
Comparable net income growth	2.8%	1.0%	3.80%	1.1%	3.10%	1.30%	2.4%
Avg specialty rent ($/sqm)	$1,622	1,383	1,913	1,359	1,535	$994	$709
Occupancy cost (rent/sales)	14.5%	14.8%	17.1%	15.4%	15.3%	10.5%	9.9%
No. of lease deals completed	2,466*	499	402*	232	162	192	110
Leasing spread	-2.4%	0.8%	-1.20%	1.90%	2.20%	0.8%	NA

Source: Core Property   *SCG and GPT are based on full year results

Comparable valuation metrics

The key risk from a valuation perspective is the potential deterioration of global market conditions and the continued evolution of online retailing. While this is very clearly outside the realm of any management team, a prudent approach to managing capital and operational efficiency remain the key tools available to protect investors. SCG management has a long and successful history on managing both drivers.

SCG in recent months has traded at a discount to NTA and the current pricing does not reflect, the value creation potential from its development pipeline, and the value attributable to fee streams from property development, and asset management. A big departure from the way Westfield Group was previously valued by the market. Perhaps, the market is valuing SCG on an ex-growth basis, which presents an opportunity for investors to get progressively set during periods of price weakness albeit keeping in mind the impact of rising bond yields and potential structural shifts in the retail sector.

Comparable valuation metrics

	SCG	VCX	CQR	SCP	BWP
Price cps*	389	252	377	224	293
FY18 distribution (cents)	21.7	8.1	14.0	6.8	8.7
FY18f distribution yield	5.7%	7.1%	7.7%	6.3%	6.0%
NTA (cents)	424	293	419	223	282
Prem/ disc to NTA	-8.3%	-14.0%	-10.0%	0.4%	3.9%

Source: Core Property/ company data/ IRESS * Price is based on closing price of 21 Feb 2018

21 Feb 2018

Stockland Group (ASX: SGP) – 1H18

SGP's reported 1H18 results with a headline FFO growth of 18.2%. The result was boosted by an 82.8% increase in earnings from the Residential business, which both increased its revenue from the settlement of more lots, as well as increasing its margin due to a greater weighting of sales in the higher margin Sydney market. SGP expects margins will normalise over the full year with more settlements outside of Sydney expected in the second half. Core Property considers the Residential business has the potential to surprise on the upside through stronger settlements and margins, which may offset any continued weakness in the Office and Retirement Living operations.

SGP has maintained its FY18 guidance for FFO growth of 5.0% – 6.5% and distributions of 26.5cps (representing 4% growth). At current levels SGP is trading on an FY18 yield of 6.4%.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$684M**	$702M	(2.6%)
Funds From Operations	**$436M**	$369M	+18.2%
FFO per security	**18.0cps**	15.4cps	+16.9%
Distribution per security	**13.0cps**	12.6cps	+3.2%
Payout ratio	**72%**	82%	(10%)

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$4.18**	$4.04	+3.5%
Gearing %	**23.0%**	22.7%	+0.3%
Weighted average cost of debt	**5.3%**	5.5%	(0.2%)
Weighted average debt maturity	**5.1 years**	5.7 years	(0.6 years)
Borrowings	**$3,800M**	$3,500M	+8.6%
Interest cover ratio	**5.1x**	4.8x	+0.3x
Portfolio			
Property Valuation	**$10,247M**	$9,941M	+3.1%
Occupancy rate – Retail Town Centres	**99.5%**	99.5%	No change
Occupancy rate – Logistics & Business Parks	**98.8%**	99.0%	(0.2%)
Occupancy rate – Office	**91.1%**	91.4%	+0.4%
Weighted Average Capitalisation Rate	**6.1%**	6.2%	(0.1%)

Source: SGP, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes

Key Points

Funds From Operations (FFO) of $436M was up 18.2% from the prior corresponding period, driven by a strong performance in the Residential Communities operations from higher settlements in the Sydney market.

The following table provides a summary of FFO by division:

Funds From Operations - 1H18 Results

	1H18	1H17	Change
Funds From Operations			
Retail Town Centres	$209M	$207M	1.1%
Logistics & Business Parks	$74M	$72M	1.9%
Office	$26M	$34M	(23.1%)
Trading Profit	$1M	$5M	
Net Overhead Costs - Commercial	($8M)	($6M)	
Total Commercial Property	**$302M**	**$312M**	**(3.4%)**
Total Residential Communities	**$182M**	**$100M**	**82.8%**
Total Retirement Living	**$18M**	**$26M**	**(29.7%)**
Corporate Overheads	($30M)	($29M)	5.6%
Net Interest Expense	($36M)	($40M)	(10.9%)
Total Funds From Operations (FFO)	**$436M**	**$369M**	**18.2%**
FFO per security	18.0cps	15.4cps	16.9%

Source: SGP, Core Property

- **Commercial Properties** delivered FFO of $302M (down 3.4% from the $312M delivered in 1H17):
  - Retail Town Centres: SGP has 40 retail centres valued at $7.3B (being SGP's share of $7.8B in assets) with 53% in Regional locations, 37% in Sub-Regional locations and 10% in Neighbourhood locations. FFO was up 1.1% on 1H17 with average rental growth of 1.9% (down from the 2.9% in FY17). Moving Average Turnover (MAT) increased by 1.7%, with Specialty MAT growth of 0.6% and Supermarket MAT growth of 2.3% driven by increased sales at Woolworths. Fast casual dining/food remained strong with 2.8% MAT growth while Retail Services delivered an impressive 10.0% MAT growth. Weakness was still experienced in Apparel with -2.0% MAT growth, and Department Stores/Discount Department Stores delivered -1.4% MAT growth. Occupancy levels were steady at 99.5%.

  - Logistics & Business Parks: SGP has 27 assets valued at $2.1B (being SGP's share of $2.3B in assets). FFO increased by 1.9% driven by strong comparable FFO growth of 4.6%, high occupancy levels of 98.8% (slightly down from 99.0% at June 2017). The business has a development pipeline of around $766M in projects, including $77M of completions in FY18, and $99M in FY19, which we expect to underpin over the next few years.

  - Office: SGP has 8 assets valued at $0.8B (being SGP's share of $1.2B in assets) with 80% of assets in Sydney. FFO was down 23.1% to $26M and was impacted by lower occupancy levels of 91.1% (91.4% at June 2017) including higher vacancies in the Perth and Canberra properties. Average rental growth of declined by 6.2% during the period, impacting FFO.

- **Residential Communities** increased FFO by 82.8% to $182M off the back of settlements for 3,210 lots during the period (up 12.5% on the 2,853 lots settled in 1H17). Total revenue from settlements of $870M was up 22.9%, with a greater proportion of lots settled in Sydney which has a higher operating margin. The total operating margin in 1H18 was 20.9% and SGP expects this to reduce to around 17% for FY18 as the weighting shifts to non-Sydney settlements in the second half. SGP confirmed that it is on track to settle around 6,500 lots in FY18.

- **Retirement Living** delivered FFO of $18M, down 29.7% on 1H17, impacted by adverse media coverage in July 2017 impacting sales, as well as fewer units being completed during the period.

- **Gearing** remains conservative at 23.0% (up slightly from 22.7% at June 2017). The weighted average cost of debt was 5.3% (a reduction from 5.5% at June 2017) with an average debt maturity of 5.1 years (down from 5.7 years at June 2017). SGP issued new 13.1 year debt in January 2018 which has increased pro forma debt maturity back to 5.7 years. Currently SGP has fixed 100% of its debt and, as such, expects the cost of debt to remain at 5.3% for FY18.
- **Net Tangible Assets (NTA)** increased by 3.5% in the six month period to $4.18 per security.
- **Distributions** of 13.0cps were up 3.2% on the prior corresponding period. The payout ratio of 72% in the 1H18 period reflects the skew of earnings to the first half of the year. SGP suspended its Distribution Reinvestment Plan (DRP) for the December 2017 distribution as it would have been dilutive to earnings per unit.
- **Guidance for FY18 was reconfirmed** with FFO per security growth of 5.0 – 6.5% (equivalent to FFO of 35.07cps – 35.57cps). Guidance for FY18 distributions was reconfirmed at 26.5cps, representing 4% growth, and a payout ratio of around 75%, which is at the lower end of SGP's target payout range of 75% - 85% of FFO. SGP's guidance is based on:
  - Commercial Property FFO growth of 2-3%: indicating the division will deliver a turnaround from the -3.4% growth in 1H18.
  - Residential settlements of around 6,500 lots with margins of around 17%: Core Property estimates this may deliver 2-5% growth in FFO for the division.
  - Retirement Living conditions to remain the same: indicating the weaker result in 1H18 will continue into 2H18.
- **At current price levels** SGP is trading on an FY18 distribution yield of around 6.4% and is at a slight 1.7% discount to NTA per unit.

Core Property
Fund Research & Ratings

22 Feb 2018

Westfield Corporation (ASX: WFD) – FY17 annual result

WFD reported a modest 1.0% increase in FFO for the 12 months to December 17. Please note the results presented in the table below are in US dollars. The focus in recent years has been to transform the business model to focus on flagship centres in major gateway cities - "centres where retailers will "need" to have a presence to benefit from significant customer footfall. While this transition has delivered, it has come at the risk of underperformance in other regional centres owned by WFD, primarily in the US market. Management commentary suggests tough retail operating conditions over the last 12-months and perhaps the continuation of these conditions for the next 12-months, if we were to read between the lines.

The result aside, the real focus has been around the proposed takeover of WFD by Unibail-Rodamco which was announced in December 2017. Based on the prevailing prices and currency exchange rates at the time of the announcement valued each WFD security at A$10.01. Since then, Unibail-Rodamco's price has fallen circa 14-15% resulting in WFD being valued at $8.74 per security. As we highlight on the pricing sensitivity table on the next page, a 18% premium to WFD price at the merger announcement has dwindled to a mere 1.5% premium when the results were announced.

WFD management was quite clear that there was no 'Plan B' in the event that the takeover did not proceed, and separately Unibail-Rodamco, while being committed to going ahead with the takeover, did leave a little exit door open stating that it has the right to reverse the offer.

Overall, this does put WFD in a difficult predicament – unable to provide FFO forecast for FY18, unable to pursue any new initiatives other than what is already in motion, and the substantial costs to be incurred (all-up estimate of $250M) to complete the transaction. An independent expert's report is expected to be released in April 2018 with a view to completing the transaction by June 2018. Until this time, it appears to be a wait and watch exercise.

FY17 Results to 31 December 2017

FY17 results (in USD)	FY17	FY16	Change
Earnings			
Statutory Net Profit after tax *	**$1,551M**	$1,366M	+13.5%
Funds From Operations	**$707M**	$700M	+1.0%
FFO per security	**34.0cps**	33.7cps	+0.9%
Distribution per security	**25.5cps**	25.1cps	+1.6%
Payout ratio (based on FFO)	**75.0%**	74.5%	+0.5%

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$5.11**	$4.74	+7.8%
Gearing %	**38.1%**	37.1%	+1.0%
Interest cover (x)	**3.2x**	3.8x	(0.6x)
Weighted average debt maturity (bonds/ bank)	**6.3/1.5 years**	6.3/2.5 years	-
Borrowings	**$9,399M**	$8,145M	+15.4%
Portfolio			
Property Valuation	**$35,387M**	$33,600M	+5.3%
Occupancy rate	**93.2%**	94.9%	(1.7%)
Weighted Average Capitalisation Rate	**4.6%**	4.6%	No change

Source: WFD, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. FFO is a more appropriate measure to assess changes.

Operational metrics

As we observed with several of the Australia centric retail centre A-REITs, specialty stores growth rates in WFD's portfolio have also slowed over the last 12 months. Retail operating conditions remain difficult.

WFD highlighted the performance of its flagship centres in major gateway cities in Europe and the US as being better than regional centres in its portfolio albeit at lower growth rates than that reported 12-months ago.

WFD specialty store rent and sales growth (YoY % change)

	Flagship centres			Regional centres			All centres		
Portfolio metrics	**FY17**	**FY16**	**%chg**	**FY17**	**FY16**	**%chg**	**FY17**	**FY16**	**%chg**
No. of centres	17	17	-	18	18	-	35	35	-
Occupancy	94.9%	96.0%	-1.1%	93.2%	93.0%	0.2%	93.2%	94.9%	-1.7%
Specialty Store sales growth	2.7%	3.5%	-0.8%	-0.3%	0.5%	-0.8%	2.0%	2.2%	-0.2%
Specialty stores sales ($/sqm)	908	898	1.1%	455	457	-0.4%	733	725	1.1%
Comparable net income growth	2.7%	4.0%	-1.3%	0.7%	0.6%	0.1%	2.2%	3.2%	-1.0%
Avg specialty rent ($/sqm)*	$117	109	6.6%	$55	54	0.7%	$94	89	6.2%
Occupancy cost (rent/sales)	15.8%	15.1%	0.7%	14.1%	13.7%	0.4%	15.4%	14.9%	0.5%

Source: Core Property/ Company data

Portfolio metrics comparison across A-REITs with retail exposure

Portfolio metrics	**WFD (USD)***	**SCG***	**VCX**	**GPT***
Occupancy	93.2%	99.5%	99.5%	99.6%
Majors sales growth	-	-0.4%	3.0%	3.10%
Specialty Store sales growth	2.0%	1.5%	-0.7%	0.30%
Specialty stores sales ($/sqm)	7,890	11,201	9,347	11,185
Comparable net income growth	2.2%	2.8%	1.0%	3.80%
Avg specialty rent ($/sqm)	1,011	$1,622	1,383	1,913
Occupancy cost (rent/sales)	12.8%	14.5%	14.8%	17.1%
No. of lease deals completed	-	2,466*	499	402*
Leasing spread	-	-2.4%	0.8%	-1.20%

Source: Core Property *SCG and GPT are based on full year results

Comparable valuation metrics

WFD is one of few AREITs still trading at a significant premium to NTA and is a reflection of the value created by management via valuation uplifts through development and the fees earned on development and management of retail centres globally. In contrast Scentre Group (the spin-off of Westfields Australian assets) trades at a discount to NTA with no value attributed to development and management income.

Perhaps, the potential takeover of WFD by Unibail-Rodamco before June 2018 at the announced metrics provides a floor to pricing. However, WFD securityholders need to be mindful of the impact of currency and Unibail-Rodamco's share price when deciding to vote in favour or against the proposed takeover.

The table below provides a simple scenario on the impact of a change in Unibail-Rodamco's share price from its closing price as at 22 Feb 2018.

Comparable valuation metrics

In AUD	WFD	SCG	VCX
Price cps*	861	389	252
FY18 distribution (cents)	32.3	21.7	8.1
FY18f distribution yield	3.7%	5.7%	7.1%
NTA (cents)	658	424	293
Prem/disc to NTA	30.8%	-8.3%	-14.0%

Source: Core Property/ company data/ IRESS

Implied takeover price for WFD: Scenarios

	At Merger proposal	At FY17 result	-5% drop in Unibail price	-10% drop in Unibail price	5% increase in Unbail price
Cash component (AUD)	3.708	3.380	3.380	3.380	3.380
Scrip of .01844 per WFD security	0.018	0.018	0.018	0.018	0.018
Unibail pricing (EUR)	220.00	189.40	179.93	170.46	208.34
EUD to AUD conversion	1.554	1.573	1.573	1.573	1.573
Implied Unibail price in AUD	341.84	297.93	283.03	268.13	327.72
Implied WFD price	**10.01**	**8.74**	**8.60**	**8.32**	**9.42**
Actual WFD pricing	8.50	8.61	8.61	8.61	8.61
Prem/disc since announcement	17.8%	1.5%	-0.1%	-3.3%	9.4%

Source: Core Property/ company data/ IRESS

22 Feb 2018

Arena REIT (ASX: ARF) – 1H18 Result

ARF delivered a healthy 5.1% increase in earnings per security, primarily driven by like-for-like rent review growth of 2.5% as well as development projects coming on board from the prior year. Eleven new development projects were completed in 1H18 with a pipeline of six more projects in 2H18 and one in FY19.

ARF maintained its FY18 distribution guidance of 12.8cps and highlighted the increased competition in the market with new centre openings. Additional government funding for childcare will commence in July 2018 which is expected to provide a boost to the sector. However, ARF remains cautious about the impact until the effects are able to flow through to operators. At current levels, ARF is trading on a FY18 distribution yield of 5.7% and a 19% premium to NTA, which reflects the stability of earnings from a strong operator.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$37.08M**	$59.6M	(38.0%)
Net operating profit	**$16.8M**	$14.2M	+18.0%
Earnings per security	**6.42cps**	6.11cps	+5.1%
Distribution per security	**6.40cps**	5.85cps	+9.4%
Movement over 6 months	**As at Dec 2017**	**As at June 2017**	**Change**
Balance Sheet			
NTA per security	**$1.89**	$1.79	+5.6%
Gearing %	**24.0%**	27.5%	(3.5%)
Weighted average cost of debt	**3.80%**	3.75%	5 bps
Weighted average debt maturity	**4.9 years**	2.5 years	+2.4 years
Borrowings	**$169M**	$171M	(1.2%)
Portfolio			
Property Valuation	**$676.6M**	$591.7M	+14.0%
Occupancy rate	**100%**	100%	No change
Number of properties	**214**	205	+9
Weighted Average passing yield	**6.55%**	6.76%	-0.21%
WALE (Weighted Average Lease Expiry)	**13.1 years**	12.8 years	+0.3 years

Source: ARF, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating profit is a more appropriate measure to assess changes.

Key Points

- **Net operating profit** of $16.8M was up 18.0% over 1H17, with Earnings per security growth of 5.1% with the issue of 32M new securities in August 2017. The new securities raised $65M in equity to fund the development portfolio acquisition August 2017.
- **ARF has 214 properties valued at $676.6M,** with 207 Early Learning Childcare (ELC) centres (88% by value) and 7 medical centres (12% by value). The portfolio increased by $84.9M during the six-month period, driven primarily by the completion of 11 new developments for $68M, plus $21.3M in revaluation gains (representing a 3.6% increase in portfolio value). One new ELC property was acquired and one development site was divested.
- **ARF's portfolio metrics remained strong** during the period:

  - **Occupancy levels** remained at 100%.
  - **Weighted Average Lease Expiry (WALE)** increased to 13.1 years (from 12.8 years at June 2017), with the 11 new developments entering the portfolio on a WALE of 19.8 years.
  - **An average like-for-like rent review increase of 2.5%** was achieved during the period with 54% of the portfolio undergoing annual rent reviews. Four properties underwent market reviews with an average increase of 6.3% in rental income.
- **ARF has a development pipeline** of seven new ELCs with six to be completed in 2H18 and one in FY19. The forecast total cost of the projects is $45M with $22M remain to be spent. Project initial yield on cost is 6.3%. ARF is maintaining a cautious approach to assessing new investments with a preference for lower risk developments.
- **Gearing** was 24.0% at December 2017, down from 27.5% at June 2017. ARF has undrawn debt capacity of $61M to fund development capex and expects to utilize $22M for the seven development properties currently in the pipeline. ARF was able to extend its average debt facility term to 4.9 years (from 2.5 years previously) with the weighted average cost of debt increasing to 3.80% (up 5bps), with 75% of debt being hedged.
- **NTA** increased 5.6% to $1.89 per security, from $1.79 at June 2017.
- **Distributions** for the half were 6.4cps, up 9.4% on the prior corresponding period.
- **FY18 forecast distribution guidance** was maintained at 12.8cps representing a 6.7% increase on FY17.

22 Feb 2018

Charter Hall Group (ASX: CHC) – 1H18

CHC delivered a strong 4.3% growth in Operating Earnings per Security in 1H18, driven by strong growth in its property management platform. Property Investments increased by 23.3% off the back of a 25.2% increase in investments since the prior corresponding period. Property Funds Management increased by 21.3% with a 15.3% increase in FUM in the past 12 months, boosted by a lower expense ratio.

The result highlights the power of Charter Hall's property platform that continues to deliver strong equity inflows providing a source of growth for the Funds Management business as well as growth in the investment portfolio. Look through gearing increased but remains relatively low, at 26.8%. More importantly, CHC has $2.9B in undrawn debt capacity across its funds, from which it can use to fund further growth.

Guidance for FY18 has been increased to Operating Earnings per Security growth of no less than 3%, equivalent to 37.0cps (previous guidance was "no less than 35.9cps"). A payout ratio of 85% - 95%, (equivalent to 31.45cps – 35.15cps) implies a FY18 distribution yield of 5.5% - 6.1% at current prices.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$121M**	$173M	(30.4%)
Operating earnings post-tax	**$95.1M**	$80.8M	+17.7%
Earnings per security (post-tax)	**20.4cps**	19.6cps	+4.3%
Distribution per security	**15.6cps**	14.4cps	+8.4%
Payout ratio	**76%**	73%	+3.9%

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$3.69**	$3.60	+2.5%
Gearing (look through %)	**26.8%**	20.1%	+6.7%
Weighted average cost of debt	**4.05%**	4.09%	(0.04%)
Weighted average debt maturity	**4.0 years**	4.3 years	(0.3 years)
Borrowings - on balance sheet	**$5.0M**	$0	NA
Portfolio			
Property Valuation	**$21,900M**	$19,900M	+10.05%
Occupancy rate	**97.8%**	98.0%	(0.2%)
Number of properties	**336**	329	+7
Weighted Average Capitalisation Rate[1]	**5.93%**	6.09%	(0.16%)
WALE (Weighted Average Lease Expiry)[1]	**7.4 years**	7.4 years	No change

Source: CHC, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes 1. Based on the Property Investment portfolio.

Key Points

Operating Earnings increased by 17.7% following significant growth in Property Investment earnings (+23.3%) and Property Funds Management earnings (+21.3%) as a result of growth in FUM and increased co-investment across the group's funds management platform. On a per security basis, operating earnings increased a more modest, yet strong 4.3% due to increase in securities on issue.

The following table provides a breakdown of Operating Earnings for 1H18:

Earnings Summary - 1H18 Results

Earnings Summary	1H18	1H17	Change
Property Investment – Op Earnings	$51.0M	$41.3M	23.3%
Property Funds Mgmt – Op Earnings	$60.8M	$50.1M	21.3%
Operating Earnings – Pre Tax	**$111.7M**	**$91.4M**	**22.2%**
Tax	($16.6M)	($10.6M)	(56.2%)
Operating Earnings – Post Tax	**$95.1M**	**$80.8M**	**17.7%**
Change in Valuation	$28.3M	$99.1M	(71.5%)
Other	($2.9M)	($6.6M)	(56.1%)
Statutory Profit After Tax	**$120.6M**	**$173.3M**	**(30.4%)**
Securities on Issue	465.8M	412.7M	+53.1M
Op Earnings per Security (pre-tax)	24.0 cps	22.2 cps	8.3%
Op Earnings per Security (post tax)	**20.4 cps**	**19.6 cps**	**4.3%**

Source: CHC, Core Property

- **Property Investment**: CHC's investment portfolio increased to $1,631M, up 25.2% in the past 12 months ($1,303M at December 2016). The increase in investments has flowed through to increased Operating Earnings which were up 23.3% on the prior corresponding period. The portfolio consists of $562M of Office, $528M of Retail, $291M of Industrial and $249M of Diversified investments across 18 unlisted funds. The portfolio Weighted Average Capitalisation Rate reduced to 5.93% (from 6.09% at June 2017) and CHC currently receives a yield of 6.4% on the portfolio, down from the 6.9% yield at June 2017. The decrease in yield has been attributed to the increase in value of the portfolio as well as an increase in the quality of assets. Portfolio WALE was flat at 7.4 years and occupancy was up slightly to 97.8% (from 97.7%).

- **Property Funds Management:** CHC receives a management fee on its unlisted and listed funds under management. Total funds under management increased 15.3% in the past 12 months to $21.9B (from $19.0B). Revenue increased 14.7% and Operating Earnings increased 21.3%, boosted by a lower expense ratio. Equity Flows continued to remain strong with CHC raising $880M across their platforms. After excluding equity raised in the listed entities, the amount is tracking above prior year levels, providing CHC with capital for growth in FUM.

CHC: Equity Flows

($m)	FY15	FY16	FY17	1H FY18
Wholesale Pooled Funds	653	606	776	232
Wholesale Partnerships	598	467	217	248
Listed Funds[1]	274	76	988	78
Direct Funds[2]	180	318	355	323
Gross equity raised	**1,705**	**1,467**	**2,336**	**880**
Net equity raised	1,297	1,099	1,689	783

Equity flows includes equity received or returned only and excludes undrawn equity commitments
1. Listed Funds include equity raised in CHC, CQR and CLW
2. Funds and syndicates for retail, SMSF and high net worth investors

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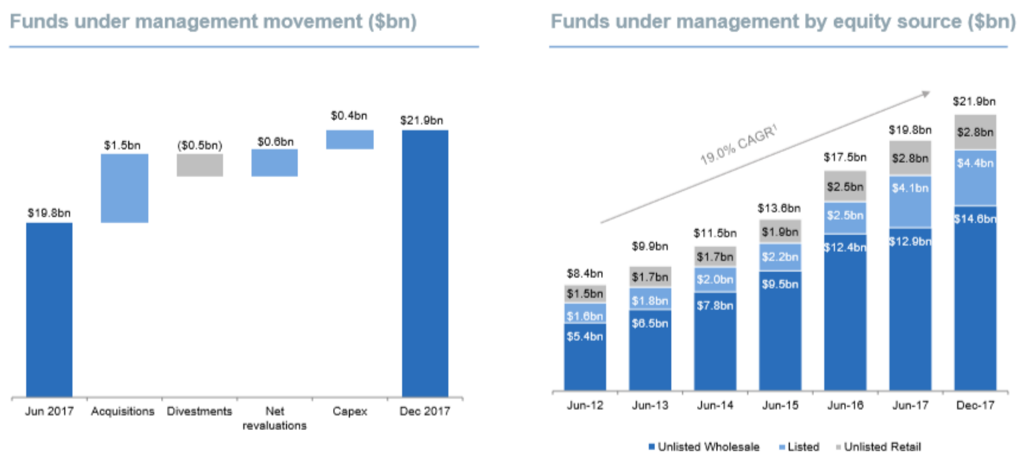
Source: CHC

CHC: Growth in FUM



Source: CHC

- **Gearing** on a look through basis increased to 26.8% (from 20.1% at June 2017). CHC has $2.9B of undrawn debt capacity across its funds from which it can use to fund additional acquisitions. The look through weighted average cost of debt was 4.05% (down from 4.3% at June 2017) with average debt maturity of 4.0 years. Hedging on a look through basis was 58%.
- **Net Tangible Assets (NTA)** increased to $3.69 per security, from $3.60 at June 2017.
- **Distributions** of 15.6 cps were declared for the period, up 8.4% on the 1H17.
- **Guidance for FY18 has been increased** for Operating Earnings per Security growth to be no less than 3%, equivalent to 37.0cps (from 35.9cps in FY17). The prior earnings guidance was for Operating Earnings per Security to be no less than 35.9cps The distribution payout ratio is expected to remain within CHC's range of 85% - 95%, implying distributions of 31.45cps – 35.15cps.

Core Property
Fund Research & Ratings

22 Feb 2018

Viva Energy REIT (ASX: VVR) – FY17 Annual Results

VVR reported Distributable Income which was 2.6% above its PDS forecasts for FY17. The REIT has a highly stable portfolio of 438 petrol stations and convenience properties (the bulk of which are Shell/Coles petrol stations), with the outperformance due to a combination of acquisitions, lower debt costs and lower management expenses since listing.

Additional growth is expected in FY18, as VVR benefits from the full year inclusion of 13 acquisitions undertaken since listing. We expect VVR to continue with value accretive acquisitions, likely to be debt funded, with VVR having $160M in undrawn debt facilities. At current price levels, VVR may also consider a buy-back of securities which would also be accretive.

FY18 guidance was increased to 13.81 – 13.91cps (previously 13.2cps), with an FY18 distribution yield of 6.9%. Core Property considers VVR to offer an attractive investment portfolio with a long WALE of 13.7 years, with fixed average rental growth of 3% p.a., no significant lease expiries until 2026, and the potential for additional growth from value accretive acquisitions.

FY17 Results to 31 December 2017

1H18 results	12 months to 31 Dec 2017 (FY17)	IPO – PDS Forecast	Change
Earnings			
Statutory Net Profit after tax *	**$170.5M**	$117.6M	+45.0%
Distributable Income	**$95.0M**	$90.2M	+5.3%
Distributable Income per security	**13.41 cps**	13.07 cps	+2.6%
Distribution per security	**13.20 cps**	13.07 cps	+2.6%
Payout ratio	**98.4%**	100%	No change

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$2.12[1]**	$2.01[2]	+5.5%
Gearing %	**32.1%**	33.8%	(1.7%)
Weighted average cost of debt	**3.72%**	3.72%	No change
Weighted average debt maturity	**2.6 years**	3.1 years	(0.5 years)
Borrowings	**$733M**	$742M	(1.2%)
Interest cover ratio	**4.4x**	4.1x	+0.3x
Portfolio			
Property Valuation	**$2,281M**	$2,145M	+6.3%
Occupancy rate	**100%**	100%	No change
Number of properties	**438**	437	+1
Weighted Average Capitalisation Rate	**5.8%**	5.9%	-10bps
WALE (Weighted Average Lease Expiry)	**13.7 years**	14.2 years	(0.5 years)

Source: VVR, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Distributable Income is a more appropriate measure to assess changes. Note 1: NTA of $2.12 is based on the 31 December 2017 NTA of $2.19 adjusted for $0.066 of distributions attributed to the December 2017 period. Note 2: NTA of $2.01 is based on the 30 June 2017 NTA of $2.07 adjusted for $0.066 of distributions attributed to the June 2017 period.

Key Points

- **VVR listed on the ASX** on 3 August 2016. We have reviewed the results in comparison to VVR's Product Disclosure Statement (PDS) forecasts for the 12 months to 31 December 2017, as the prior corresponding period represent only the 5-month period to 31 December 2016.

- **Distributable Income of** $95.0M exceeded PDS forecasts of $90.2M with VVR outperforming on a number of fronts: 1) rental income was higher, with $103.2M of acquisitions undertaken since IPO, 2) borrowing costs of 3.72% p.a. coming lower than IPO forecasts of 3.86% p.a., and 3) lower expenses as a result of scale, with Management Expenses of 0.24% p.a., compared to 0.32% p.a. at the time of listing.
- **Portfolio metrics remained strong**, including:
    - **438 properties valued** at $2.28B with a weighted average capitalisation rate of 5.8% at December 2017 (5.9% at June 2017). A total of 167 properties (38% of the portfolio) were independently valued during the year, with independent valuations undertaken every three years. The portfolio has 429 properties on triple net leases, with nine properties on double net leases in place.
    - **Occupancy** levels of 100% since listing.
    - **Weighted Average Lease Expiry (WALE)** of 13.7 years, with less than 1% of income expiring before 2026.
    - **The portfolio has contracted average fixed rental growth** of 3.0% p.a. on 429 out of the 438 properties.
- **Gearing reduced** to 32.1% from 33.8% at June 2017. We note that VVR has an undrawn debt capacity of $160M, which, if fully utilized, would increase gearing to 36.6%, at the bottom end of its target range of 35%-45%. This provides VVR with additional capacity to undertake value accretive acquisitions over the next 12-24 months. Drawn-debt is 100% hedged.
- **Total acquisitions of** 13 properties for $103.2M since August 2016 with seven in metropolitan locations and six in regional locations. The weighted average capitalisation rate on acquisitions was 5.9% (which is slightly higher than the current 5.8% on the portfolio) with acquisition WALE of 9.5 years. The acquisition pipeline appears to remain strong for VVR with a potential for a further $50M in the next 12 months, including $13M of completed acquisitions which are not announced, $23M of announced acquisitions which are expected to contribute in FY18, and a further $15M of estimated unidentified acquisitions.
- **Net Tangible Assets (NTA)** increased to $2.12 per security, from $2.01 at June 2017. (Please note December 2017 reported NTA of $2.19 has been adjusted to $2.12 to take into account $0.066 in distributions relating to the December 2017 period; and the June 2017 NTA of $2.07 has been adjusted to $2.01 to take into account $0.066 of distributions relating to the June 2017 period). At current levels VVR is trading at a 5.2% discount to its NTA per security, with management advising that it would consider the possibility of buying back its securities if the discount persists. We expect the possibility of a buy back would be considered as part of capital management initiatives, including using capital for value accretive acquisitions.
- **Distributions of 13.2cps** for FY17 were higher than PDS forecasts of 13.07 cps.

Guidance for FY18 Distributable Earnings has been increased to 13.81 – 13.91 cps, from prior guidance of 13.2cps in August 2017. The increased guidance represents an increase of 3% - 3.75% on FY17. Based on a 100% payout ratio, this represents an FY18 distribution yield of around 6.9% at current prices, with VVR trading at 5.2% discount to NTA per unit.

Core Property
Fund Research & Ratings

23 Feb 2018

GARDA Diversified Property Fund (ASX: GDF) – 1H18

GDF reported 1H18 results in line with expectations with the portfolio on track to consolidate recent acquisitions. FFO increased 6.6%, as a result of the growth in the portfolio (which increased 12.4% in the past six months).

The key focus for GDF in the second half of the year will be on consolidating its recent acquisitions, most notably: 1) Manage the construction of the new A-grade office building at 588 Swan St, Richmond Vic and initiate the leasing program to secure tenants by completion in February 2019, 2) complete the fund through acquisitions of the Wacol and Pinkenba properties, as well as 3) manage lease expires and occupancy levels at the Cairns, Murarrie and Varsity Lakes properties.

We expect gearing levels to increase to around 43% and would expect GDF to either sell a small asset, or undertake a small equity raising in order to reduce gearing. Nevertheless at current FY18 distribution guidance of 9.0 cps, GDF is trading on a ~7.9% yield, which provides sufficient headroom to undertake these measures whilst maintaining an attractive yield.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$4.7M**	$3.6M	32.1%
Funds From Operations (FFO)	**$5.5M**	$5.2M	6.6%
FFO security	**4.63 cps**	5.03 cps	(8.0%)
Distribution per security	**4.5 cps**	4.7 cps	(4.3%)
Payout ratio	**91.6%**[1]	93.6%	(2.0%)
Units on Issue	**138.4M**	112.3M	+26.1M
Movement over 6 months	**As at Dec 2017**	**As at June 2017**	**Change**
Balance Sheet			
NTA per security	**$1.19**	$1.21	-$0.02
Gearing (%)	**27.1%**	31.7%	-4.6%
Weighted average cost of debt	**4.0%**[2]	3.87%	+13 bps
Weighted average debt maturity	**4.36 years**	2.76 years	+1.6 years
Borrowings - on balance sheet	**$57.2M**	$63.4M	-$6.2M
Portfolio			
Property Valuation	**$211.5M**	$188.1M	$23.4M
Occupancy rate	**97%**	94%	+3%
Number of properties	**10**	9	+1
Weighted Average Capitalisation Rate	**7.11%**	7.37%	-26bps
WALE (Weighted Average Lease Expiry)	**5.5 years**	5.6 years	-0.1 years

Source: GDF, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating Earnings is a more appropriate measure to assess changes. Note 1: Payout ratio is adjusted to take into account 26.1M of new units issued on 20 December 2017, which were not entitled to receive a distribution for the December 2017 period. Note 2: As at 20 February 2018 and taking into account the repayment of $15.05M on 2 January 2018.

Key Points

- **Funds From Operations (FFO)** of $5.5M increased by 6.6% on the prior corresponding period, driven by net acquisitions in the portfolio over the past 12 months. Units on issue increased by 23% (26.1M units) at the end of the period (20 December 2017) to partially fund the acquisition and construction of 588 Swan St, Richmond Vic.

- **The portfolio metrics** remain in line with our expectations, with a positive upside to portfolio occupancy of 97% (from 94% at June 2017) as a result of new leasing at the Cairns property.
  - **7-19 Lake St, Cairns Qld** significantly improved its occupancy to 94% (from 81%) with 1,575sqm of previously vacant space being leased to three tenants. However occupancy levels may be at risk in the coming months due to 1) during 2H18, five tenancies (accounting for 769sqm) are due to expire, and 2) the Department of Transport and Main Roads (4,579sqm) lease is due to expire in November 2018 and is under currently negotiation.
  - **Botanicca 9** was acquired in November 2017 – the site at 588 Swan St, Richmond Vic has begun construction on a 7,254sqm A-grade office building due to be completed by February 2019. The Fund is expected to shortly commence its marketing campaign for tenant pre-commitments.
  - **Wacol** construction remains on track with practical completion expected in August 2018 with Volvo Group Australia being pre-committed on a 10 year lease at the site.
  - **Pinkenba** construction remains on track with completion expected in June 2018, with Byrne Group pre-committed on a 15 lease.
- **Gearing** reduced to 27.1% (as at 20 February 2018) following the December 2017 capital raising and repayment of debt (In December 2017 GDF raised $30.0M in equity through the issue of 26.1M new units at an issue price of $1.15 per unit. Subsequently on 2 January 2018 GDF repaid $15.05M of debt to St George Bank). GDF has a credit approved term sheet with ANZ for a new $30.65M debt facility to assist the funding of the Wacol and Pinkenba properties. Core Property estimates gearing to peak around ~43% in the short term as a result of the acquisitions, which is below current LVR covenants of 50%+. We expect gearing will be managed down through the sale of smaller assets and/or a minor capital raising.
- **Guidance for FY18** was reconfirmed with distributions of 9.0 cents per unit, with the full year payout ratio expected to be between 100% and 105%. In FY19 GDF expects this to normalise to the lower levels of around 94% following the completion of the three current acquisitions.

Core Property
Fund Research & Ratings

28 Feb 2018

Cromwell Property Group (ASX: CMW) – 1H18 Result

CMW's 1H18 result recorded a 2.4% decline in Operating Earnings due to lower occupancy levels in the Property Investment portfolio, which accounts for 76% of earnings. The portfolio was impacted by vacancy at the Tuggeranong Office Park, ACT with the Department of Social Services exiting the site and moving into a new CMW construction on adjoining land. The CMW portfolio now has 7 of its 24 properties classified as "Active", which require improvement in occupancy or repositioning, in order to improve portfolio metrics.

CMW maintained its earnings and distribution guidance for FY18. At current levels CMW is trading on an FY18 distribution yield of 8.3%, and a 7.5% premium to its NTA.

1H18 Results to 31 December 2017

1H18 results	1H18	1H17	Change
Earnings			
Statutory Net Profit after tax *	**$80.8M**	$153.2M	(47.3%)
Operating earnings	**$76.8M**	$78.7M	(2.4%)
Operating earnings per security	**4.32 cps**	4.50 cps	(4.0%)
Distribution per security	**4.2 cps**	4.2 cps	No change
Payout ratio	**97%**	93%	+4.3%

Movement over 6 months	As at Dec 2017	As at June 2017	Change
Balance Sheet			
NTA per security	**$0.93**	$0.89	+4.5%
Gearing %	**40.1%**	45.2%	(5.1%)
Weighted average cost of debt	**2.92%**[1]	3.96%	(1.04%)
Weighted average debt maturity	**1.8 years**	2.4 years	(0.6 years)
Borrowings	**$1,404.7M**	$1,462.4M	(3.9%)
Portfolio			
Property Valuation	**$2,748M**	$2,593M	+6.0%
Occupancy rate	**85.9%**	92.1%	(6.2%)
Number of properties	**25**	25	No change
Weighted Average Capitalisation Rate	**6.34%**	6.56%	(0.22%)
WALE (Weighted Average Lease Expiry)	**7.2 years**	7.2 years	No change

Source: CMW, Core Property *Statutory Net Profit after Tax includes non-cash items which distorts operating income. Operating profit is a more appropriate measure to assess changes. Note 1: Weighted average cost of debt includes the net impact of cross currency swaps. Core Property estimates the cost of debt to be ~3.5% if this is excluded.

Key Points

- **Statutory Net Profit After Tax** was down 47.3%, and includes a $74.7M write down of goodwill relating to CMW's European acquisition. Excluding the write downs, Operating Earnings declined 2.4% primarily due to lower earnings in the Property Investment operations.
- **Gearing** remains relatively high at 40.1%, despite reducing form 45.2% at June 2017. In February 2018 CMW completed a Securities Purchase Plan (SPP) raising $35M which will be used to pay down debt to around 38.9%. Look through gearing was 44.8%.
- **NTA** increase 4.5% to $0.93 per unit, driven by valuation increases.
- **Distributions** of 4.2 cps were in line with the prior corresponding period, although the payout ratio increased to 97%.

Operating Profit: 1H18 Results

1H18 results	1H18	1H17	Change
Operating Profit			
Property Investment	**$58.2M**	$62.5M	(6.9%)
Asset Services	**$2.3M**	$0.6M	283.3%
Funds Management	**$16.3M**	$15.6M	4.5%
-Funds Management Internal	$3.0M	($0.2M)	NA
-Funds Management Retail	$2.1M	$6.0M	(65.0%)
-Funds Management Wholesale	$11.2M	$9.8M	14.3%
Operating Profit	**$76.8M**	$78.9M	(2.7%)
Operating Profit per security	**4.32 cps**	4.50 cps	(4.0%)

Source: CMW, Core Property

Property Investment (76% of earnings): Although CMW's investment portfolio increased 6.0% during the half year, Operating Profit declined 6.9% as the portfolio was impacted by much lower occupancy levels during the period.

Lower occupancy levels of 85.9% (down from 92.1% at June 2017) were driven by the exit of the Tuggeranong Office Park, ACT site where the Department of Social Services (DSS) vacated the existing property and moved into newly constructed adjoining premises at Soward Way, ACT also owned by CMW. The vacant site is being considered for development as an aged care facility by CMW in a potential wholesale unlisted fund. Net Property Income also declined at Victoria Avenue, Chatswood NSW and Kelvin Grove, Qld (due to a tenant vacancy, with occupancy down to 83.5% and CMW contracted to sell the property in March 2018).

CMW interestingly provided further details about its portfolio split, which highlights the impact of the Active portfolio as a key consideration for CMW's total portfolio performance.

- Core Portfolio: Consists of 9 properties, 99.7% occupancy and a long WALE of 11.7 years.
- Core+ Portfolio: Consists of 8 properties, 94.2% occupancy and a WALE of 3.9 years.
- Active Portfolio: Consists of 7 properties, 39.0% occupancy and a WALE of 1.8 years.

Asset Services (3% of earnings) benefitted from increased project management fees during the period.

Funds Management (21% of earnings) increased, with total Assets Under Management (AUM) increasing 11% to $11.1B, primarily due to new European mandates (a 400M euro mandate on the CEREIT Italian portfolio as well as the rest of the Artemis pan-European portfolio).

- Retail Funds Management operations was lower due to a one-off benefit in the prior corresponding period relating to a $4.1M performance fee on the Cromwell Riverpark Trust.
- Wholesale Funds Management earnings increased off the back of the listing of Cromwell's European Real Estate Investment Trust (CEREIT) on the Singapore Stock Exchange, where CMW earned a $10.1M acquisition fee, which was reinvested as units in CEREIT.

Guidance: CMW maintained its guidance for FY18 Operating Profit of 8.25 cps, which is a 4.6% decline on FY17 Operating Earnings of 8.65 cps. Guidance for FY18 distributions was maintained at 8.34 cps, in line with FY17 distributions. At current price levels CMW is trading on an FY18 distribution yield of 8.3% and a 7.5% premium to its NTA per unit.

Appendix: A-REITs Reporting Timetable

The following is a timetable of expected reporting dates for the A-REITs in February 2018.

A-REITs Reporting Timetable – February 2018

Mon 5 Feb	Tue 6 Feb	Wed 7 Feb	Thu 8 Feb	Fri 9 Feb
		Week 1		
	AOF – 1H18	**BWP** – 1H18	**CIP** – 1H18	
	SCP – 1H18		**CMA** – 1H18	
			MGR – 1H18	
Mon 12 Feb	**Tue 13 Feb**	**Wed 14 Feb**	**Thu 15 Feb**	**Fri 16 Feb**
		Week 2		
	GPT – FY17	**GMG** – 1H18	**CLW** – 1H18	
	PLG – 1H18	**DXS** – 1H18		
		VCX – 1H18		
		FET – 1H18		
Mon 19 Feb	**Tue 20 Feb**	**Wed 21 Feb**	**Thu 22 Feb**	**Fri 23 Feb**
		Week 3		
IDR – 1H18	**CRR**- 1H18	**SCG** – FY17	**WFD** – FY17	**GDF** – 1H18
GDI – 1H18	**IOF** – 1H18	**SGP –** 1H18	**ARF** – 1H18	
CQR – 1H18	**GOZ** – 1H18	**BWP** – 1H18	**CHC** – 1H18	
			VVR – FY17	
Mon 26 Feb	**Tue 27 Feb**	**Wed 28 Feb**	**Thu 01 Mar**	**Fri 2 Mar**
		Week 4		
		CMW – 1H18		

Source: Company Announcements, Core Property

Ratings Process for A- REITs

Core Property Research evaluates recommendations on listed A-REITs continuously, based on a range of qualitative and quantitative criteria ranging from management, appropriateness of the A-REIT's capital structure and the property portfolio metrics. From a quantitative perspective, Core Property's recommendations are based on Total Expected Returns (forecast distribution yield plus forecast capital gain or loss) for a 12-month time horizon, using a range of valuation methodologies. The two most commonly used valuation techniques are Discounted Cash Flow (DCF), which uses an A-REI's expected free cash flow, and the net Asset Valuation (NAV) approach.

The 12-month Total Return is compared with set total return bands and assigned a 12-month recommendation based on the Recommendation Definitions below.

Recommendation Definitions

Recommendation	Definition
Buy	If the 12-month Total Expected Return is forecast to be 15% or more.
Accumulate	If the 12-month Total Expected Return is forecast to be at least 10% and less than 15%.
Hold	If the 12-month Total Expected Return is forecast to be at least 5% and less than 10%.
Reduce	If the 12-month Total Expected Return is forecast to be at least 0% and less than 5%.
Sell	If the 12-month Total Expected Return is forecast to be less than 0%.

At times of extreme volatility, it is quite possible that the recommendations will swing between each of our bands. During such times, Core Property will adopt a more flexible approach to recommending stocks, based on a slightly longer duration, and as such, recommendations may appear to be inconsistent when compared with the bands. This is to avoid clouding value judgments with short-termism.

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