

ASX ANNOUNCEMENT GROWTHPOINT PROPERTIES AUSTRALIA (ASX Code: GOZ)

6 November 2015

Confirmation of Baa2 rating from Moody's

Moody's Investor Service ("**Moody's**") has confirmed its senior secured debt rating of Baa2 to Growthpoint Properties Australia ("**Growthpoint**") with a stable outlook.

Moody's report is attached to this announcement.

In confirming its rating, Moody's noted (among other things) Growthpoint's:

- Simple and transparent business model.
- Predictable and reliable rental income growth.
- Long weighted average lease expiry.
- High quality tenant profile.
- Strong profitably when compared with other real estate investment trusts.
- Low management costs.
- Strong and supportive parent (Growthpoint Properties Limited).

This rating has been confirmed on the basis of Growthpoint's current target balance sheet gearing range of 35-45%

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Growthpoint Properties Australia

Growthpoint Properties Australia is a publicly traded ASX listed A-REIT (ASX Code: GOZ) that specialises in the ownership and management of quality investment property. GOZ owns interests in a diversified portfolio of 55 office and industrial properties throughout Australia valued at approximately \$2.4 billion and has an investment mandate to invest in office, industrial and retail property sectors.

Growthpoint is included in the S&P/ASX 200 Index and has been issued with an investment grade rating of Baa2 for senior secured debt by Moody's.

GOZ aims to grow its portfolio over time and diversify its property investment by asset class, geography and tenant exposure through individual property acquisitions, portfolio transactions and corporate activity (M&A transactions) as opportunities arise.

Growthpoint's Key Metrics at 31 October 2015*	
Total property portfolio value	\$2.4 billion
Distribution guidance FY16	20.5 cents
Number of properties	55
Office / industrial	50% / 50%
Average property age	8.5 years
Occupancy	96.6%
Weighted average lease expiry	6.7 years
Weighted average rent review* <small>*assumes CPI of 1.5%</small>	3.0%
Weighted average capitalisation rate	7.3%
Gearing	39.9%
Average debt term	4.3 years
Average duration of fixed debt	4.7 years

Key dates for Securityholders	
Annual General Meeting	25 Nov 2015

Credit Opinion: Growthpoint Properties Australia Ltd

Global Credit Research - 04 Nov 2015

Australia

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Sr Sec Bank Credit Facility -Dom Curr	Baa2

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Key Indicators

[1]Growthpoint Properties Australia Ltd

	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011
Revenue (AUD Million)	\$202.6	\$177.7	\$159.6	\$127.0	\$96.8
Gross Assets (AUD Million)	\$2,414.7	\$2,137.4	\$1,690.5	\$1,620.8	\$1,190.1
Net Debt / EBITDA	5.1x	5.9x	5.7x	6.4x	7.5x
Debt / Gross Assets	37.2%	41.2%	47.1%	46.0%	56.1%
EBITDA / Fixed Charges (YTD)	3.8x	3.0x	2.5x	2.2x	2.1x

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

Transparent business model, with 100% of income derived from rents under lease contracts

Stable cash flows, supported by high occupancy rates and stable operating margins

Tenant concentration, but high quality lessees

Medium-term growth strategy through acquisitions

Linkages to South African parent company

Moderate leverage profile

Corporate Profile

Growthpoint is an Australian Securities Exchange (ASX) listed A-REIT (Code: GOZ), that invests in property within Australia. It has a stapled entity structure, with internalized management, comprising Growthpoint Properties Australia Limited (the responsible entity) and Growthpoint Properties Australia Trust.

At 30 June 2015, Growthpoint held a portfolio of 53 wholly owned investment properties across Australia, comprising 36 industrial and 17 office. The value of the portfolio totaled AUD2.4 billion.

Rating Rationale

Growthpoint Australia's Baa2 senior secured rating reflects its simple and strong business and operating profile, which is underpinned by high occupancy levels and a long-weighted average lease expiry (WALE). The rating is additionally supported by its good quality and modern properties, with increasing levels of geographic, segment and tenant diversity.

The rating is constrained by the company's moderate scale and still limited, but improving, diversity. The Baa2 also reflects the company's moderate-to-high financial leverage and gearing policies for the rating level.

We expect that Growthpoint Australia's leverage -- as measured by net debt/EBITDA -- will remain at 5.0x-6.0x and that the company will operate within its stated gearing target of debt/total assets of around 35%-45%.

Growthpoint Australia's rating also reflects the portfolio's high exposure to non-CBD office properties which may exhibit higher volatility in demand than CBD office properties. However, this situation is partially mitigated by the low age and long WALEs of those properties, as well as their proximity to major infrastructure and transport.

The company also has an acquisitive history and it will likely continue to grow its portfolio through acquisitions over the medium term.

While this approach presents some downside risk, Growthpoint Australia will likely continue to focus on properties that will provide returns above its capitalisation rates, improve the diversity of its portfolio, and exhibit WALEs -- as well as occupancy rates -- similar or stronger than the Group's current profile.

DETAILED RATING CONSIDERATIONS

TRANSPARENT BUSINESS MODEL WITH 100% OF INCOME DERIVED FROM RENTS UNDER LEASE CONTRACTS

Growthpoint adopts a simple business model, investing solely in Australian assets, without any fund management or development businesses, and exhibits an internalized management structure. This results in the Group deriving only rental income on fully owned properties with no exposure to fund or asset management fees.

This situation -- together with its predominantly fixed-rate escalation lease structure and long WALE -- underpins the stability and reliability of its cash flows. The company's development risk is low, as it does not operate a property development business and has stated that it does not intend to take on any significant development risk.

Growthpoint will likely continue to purchase properties to be developed, fund construction of developments, or enter joint ventures where the Group becomes the owner of the properties on completion, but only where material leases are in place. The Group's strategy is also to avoid developing properties primarily for the purpose of selling a portion, or all of the investment, to a third party.

Growthpoint benefits from predictable and reliable rental income growth, as approximately 80%-85% of its lease agreements are subject to annual fixed-rate increases, typically between 2.5% and 4.0%. In addition, around 11%-14% of its rental contracts benefit from CPI indexation, with the remaining 0% to 3% subject to market-based adjustments.

Such rental increases have led to steady like-for-like annual rental growth rates. Over the last three years, its rental income has risen between 2.7% and 3.2% per annum.

We expect Growthpoint to achieve steady like-for-like rental income growth rates, given the company's long WALE of around 6.7 years, its strategy of entering into leases with fixed escalation structures, its very high occupancy rates (97% at June 2015), and the low proportion of rents expiring over the next several years.

However, we expect that it will continue to face challenges in securing office rental income. Like many other

REITS, the Group will likely need to provide substantial incentives to office tenants to renew existing leases coming up for renewal.

STABLE CASH FLOWS SUPPORTED BY HIGH OCCUPANCY RATES AND STRONG OPERATING MARGINS

Growthpoint's ratings are underpinned by the sustainable rental income it generates from young properties with high occupancy rates, long WALEs and solid lease counterparties.

Growthpoint's average WALE measured 6.7 years at 30 June 2015, and its average occupancy rate was at 97%. Both factors, together with its large proportion of fixed rental increases, support the stable and predictable nature of its earnings. Its weighted average rent review for the period averaged around 3.0%.

In addition, its outgoings are likely to be low and predictable, given that its young and modern assets exhibit an average portfolio age of around 8.3 years. Its high proportion of industrial properties should also result in low capital expenditure requirements.

Growthpoint's profitability profile is strong when compared to similarly rated Australian and global REITs, and as measured by its Moody's-adjusted EBITDA margin of around 84% for the 12 months to 30 June 2015.

The company's margins have remained fairly stable over the past five years, as indicated by its adjusted EBITDA margin volatility of around 3%-5%.

We expect that Growthpoint will continue to generate margins in the 80%-85% range, reflecting low vacancy rates, low management costs of around 0.4% of total asset values, a limited number of rents expiring in any given year, and average rental increases of around 3% per year.

TENANT CONCENTRATION, BUT WITH HIGH QUALITY LESSEES

Growthpoint's tenant profile for its industrial portfolio shows that its key tenant, Woolworths Ltd (Baa1 stable), accounts for approximately 23% of the group's total rental income at 30 June 2015.

While such a percentage indicates a high level of tenant concentration and counterparty risk, this situation is mitigated by the strategic location of the assets tenanted to Woolworths, and which the retail giant considers as key distribution centers for its national, state and regional purposes.

Growthpoint owns 6 of the 10 distribution centers used by Woolworths to distribute its groceries throughout Australia. The assets were also purpose-built by Woolworths and subsequently sold to Growthpoint pursuant to leaseback arrangements, with options to extend.

Woolworths' leading market position in the supermarket industry positions it as a good quality Baa1-rated counterparty. Its history of continually spending significant amounts of money on the infrastructure within the facilities also mitigates tenant concentration risks.

At the same time, the Woolworths assets benefit from a long WALE of around 7.1 years. The first maturities are for 4 of the 6 centers in 2021. The next maturity is in 2022, and relates to Woolworths' flagship distribution center in Larapinta in Queensland. Woolworths also has 10 five-year options to renew its leases with Growthpoint.

The next largest tenant exposure is to the New South Wales Police (New South Wales Government, Aaa), which now represents around 10% of passing rent. Growthpoint's third largest tenant exposure is 6% to GE Capital Finance Australasia (unrated), a subsidiary of General Electric Capital Corporation (A1 Stable). The Commonwealth of Australia (Aaa stable) represents 4% of passing rent with a long WALE of around 9.7 years.

MEDIUM-TERM GROWTH STRATEGY THROUGH ACQUISITIONS

Growthpoint has more than doubled its portfolio value over the last five years, increasing its total assets to over AUD2.4 billion, largely through property acquisitions.

We expect Growthpoint will continue to fund its acquisitions through a sizable equity component, such as to maintain a gearing position in line with its stated debt/assets target of 35%-45%. The company has a track record of partially funding acquisitions with equity issuances and proceeds under its dividend reinvestment program.

The company is also focused on acquiring properties that improve its WALE and tenant and geographic diversity. For example, its acquisition of 1 Charles Street in Parramatta, Sydney in 2014 was funded with around 50%

equity, and had a remaining lease duration of around 10 years. The property also increased the Group's sector, tenant and geographic diversity.

LINKAGES TO SOUTH AFRICAN PARENT COMPANY

Growthpoint takes its name from its largest shareholder, Growthpoint Properties Limited (South Africa) (GSA Baa2 stable), which currently holds around 65%. GSA is the largest listed REIT in South Africa (country rating Baa2 stable) by assets and by market capitalization.

GSA has proven to be a strong and supportive parent, since the recapitalization of Growthpoint in 2009, when GSA acquired a 76% stake for around AUD200 million. GSA has shown its willingness and ability to support Growthpoint by injecting capital to fund growth, as well as through participating in equity raisings and in the Group's dividend reinvestment program.

We expect that GSA's solid financial profile and improving liquidity position will allow it to continue to support Growthpoint through equity contributions to fund further growth, as well as our view that it is unlikely that GSA will look to extract additional cash from the Group beyond its current distribution levels.

MODERATE LEVERAGE PROFILE

Growthpoint's maintenance of its financial profile is underpinned by predictable rental income from creditworthy tenants with long WALEs. Adjusted net debt/EBITDA for the 12 months to June 2015 measured 5.1x, while adjusted EBITDA/interest was at around 3.8x for the same period.

The company targets a gearing ratio of 35%-45% on a total debt/gross assets basis. We consider this level of gearing appropriate for its rating, given the predictable cash flows we expect from the company's solid leasing profile. Gearing as of 30 June 2015 was around 37%.

Assuming gearing levels remain around the current 35%-45% range, and Growthpoint's cash flow generation from its leases remain stable, we expect net debt/EBITDA to remain in the 5.0x-6.0x range.

We expect EBITDA to interest to range between 3.0x and 3.4x over the next 12 to 18 months, given our expectation of net property income growth, the company's improved cost of debt -- as it has lowered its gearing levels over the last several years -- and its solid hedge profile.

Liquidity

Growthpoint has an adequate liquidity profile for its rating. As of June 2015, the company had debt facilities totaling AUD1.125 billion, with around AUD228 million of undrawn capacity. The earliest maturity date of its debt relates to the AUD255 million syndicated facility tranche, maturing in December 2017.

Primary sources of liquidity include cash flow from operations of around AUD90-AUD100 million, and a cash balance of around AUD23 million at 30 June 2015.

Growthpoint's minimal maintenance capex and high dividend payout ratio are characteristics that are in line with REITs generally, representing 85%-95% of distributable earnings.

Rating Outlook

The rating outlook is stable, reflecting our expectation of continued highly predictable earnings and cash flow generation. This situation, combined with the Group's targeted gearing levels of 35%-45% should lead to stable credit metrics around current levels, which in turn are appropriate for its ratings.

What Could Change the Rating - Up

Upward ratings pressure could emerge in the medium term if Growthpoint improves its leverage position such that it maintains net debt/EBITDA of 5.0x or below and a fixed charge coverage in excess of 3.5x.

Upward ratings pressure could also emerge if the company successfully refinances its secured debt, such that secured debt-to-gross assets improves to less than 25%.

What Could Change the Rating - Down

Downward ratings pressure could evolve if the company's credit metrics deteriorate, such that its net

debt/EBITDA exceeds 6.0x and its fixed charge coverage falls below 2.5x on a consistent basis.

Rating Factors

Growthpoint Properties Australia Ltd

REITs and Other Commercial Property Firms Industry Grid [1][2]	Current FY 6/30/2015	
Factor 1: Liquidity and Funding (24.5%)	Measure	Score
a) Liquidity Coverage	Ba	Ba
b) Debt Maturities	Baa	Baa
c) FFO Payout	93.1%	Ba
d) Amount of Unencumbered Assets	0.0%	Ca
Factor 2: Leverage and Capital Structure (30.5%)		
a) Debt / Gross Assets	37.2%	Baa
b) Net Debt / EBITDA	5.1x	Baa
c) Secured Debt / Gross Assets	36.9%	B
d) Access to Capital	Ba	Ba
Factor 3: Market Position and Asset Quality (22%)		
a) Franchise / Brand Name	Baa	Baa
b) Gross Assets(USD Million)	\$1,855.9	Ba
c) Diversity: Location / Tenant / Industry / Economic	Baa	Baa
d) Development Pipeline	Aa	Aa
e) Asset Quality	Ba	Ba
Factor 4: Cash Flows and Earnings (23%)		
a) EBITDA Margin (YTD)	83.6%	Aa
b) EBITDA Margin Volatility	3.3%	Baa
c) EBITDA / Fixed Charges (YTD)	3.8x	A
d) Joint Venture Exposure (YTD)	Aa	Aa
Rating:		
a) Indicated Rating from Grid		Baa3
b) Actual Rating Assigned		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 06/30/2015; Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.

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