STRATEGY EXECUTION DRIVES 11% INCREASE IN OPERATING PROFIT

FY19 HIGHLIGHTS AND STRATEGY UPDATE

- Statutory profit of $159.9 million (FY18 $204.1 million);
- Operating profit up 11.1% to $174.2 million (FY18 $156.8 million);
- NTA of $0.97 (FY18 $0.96) post a 12.7% increase in the number of securities on issue;
- Gearing of 35.0% with look-through gearing of 42.3% (pro-forma gearing of 23.9%);
- Weighted Average Lease Expiry (WALE) of 6.9 years;
- Total AUM of $11.9 billion up $400 million;
- FY19 operating profit 0.21 cps ahead of guidance at 8.21 cps (FY18 8.36 cps); and
- FY19 distributions per security met guidance at 7.25 cps (FY18 8.34 cps).

Real estate investor and manager Cromwell Property Group (ASX:CMW) (Cromwell) today reported full-year (FY19) statutory profit of $159.9 million (FY18 $204.1 million).

Operating profit, considered by the Directors to best reflect the underlying earnings of Cromwell, was up 11.1% from the prior year to $174.2 million (FY18 $156.8 million). Post Cromwell's institutional and retail capital raisings during the year, distributions met guidance at 7.25 cps.

As at 30 June 2019, Cromwell had more than 3,800 tenant customers in 15 countries, leasing over 3.7 million sqm of space. Total assets under management (AUM) were $11.9 billion.

Cromwell launched its 'Invest to Manage' strategy in August 2018. The strategy involves investing capital where Cromwell can leverage returns from additional management revenues and create value. The initiatives identified as part of the strategy are intended to build enterprise value, add to medium-term earnings and generate higher total securityholder return.

"It has been 12 months since we first announced our 'Invest to Manage' strategy," stated Cromwell CEO Paul Weightman.

"Since then we have been focused on execution. This has included two large, multi-country transactions on behalf of the Cromwell European REIT (CEREIT). One for 23 assets in five different countries and one for six assets in two countries, for a combined €471 million ($775 million)."

"CEREIT's portfolio has grown more than 50% since its IPO in November 2017 and comprises 102 properties in seven different European countries. CEREIT is a great example of our strategy in action and I think it's fair to say the business is established," he said.

Cromwell sold $64 million of balance sheet assets during the financial year. On 1 July 2019, Cromwell exchanged contracts to sell its 50% interest in Northpoint Tower to Early Light International, subject to Foreign Investment Board Approval. Cromwell will retain asset management responsibilities and this will bring the total value of capital recycled from the start of FY18 to date to $520 million.

Last week, Cromwell announced the acquisition of 400 George Street in Brisbane for $524.75 million. The 35-level building, in the prestigious North Quarter precinct, has a total net lettable area of 43,978 sqm spread across office, retail and childcare. A 4.9-year Weighted Average Lease Expiry (WALE) and 99.8% occupancy rate are underpinned by blue-chip corporate and government tenants.

"As per our stated strategy, we are continuing to recycle capital from assets where we have already added significant value such as Northpoint Tower, to new opportunities such as 400 George Street. This enables us to add asset value through active asset management and repositioning initiatives and add enterprise value through the creation of new funds with capital partners," said Mr Weightman.

Cromwell has identified a c.$1 billion pipeline of value-add development opportunities. This includes the ongoing Seniors' Living redevelopment at Greenway, previously flagged developments at Chatswood and 700 Collins Street and a number of other confidential projects in negotiation.

"We have previously announced $600 million of projects and there is an additional $500 million of projects in negotiation which should keep the team busy," he added.

Yesterday, Cromwell exercised a pre-emptive right to acquire third party investor interests in the Cromwell Polish Retail Fund. The Fund contains seven catchment dominating shopping centres with a Gross Asset Value of approximately €600 million ($990 million). Cromwell's Polish team have been managing and developing the assets for over a decade.

Gross Domestic Product in Poland has grown by 4.20% on average over the last 25 years. It has been Europe's fastest growing economy over the past five years, and has one of the highest expected growths in disposable income, consumer spending and retail sales globally.

Mr Weightman commented, "Poland is Europe's success story. It is a market we know well and are very positive about. We have 34 professionals on the ground, managing 21 assets with more than 660 tenant customers and over 758,000 sqm of space."

"We propose to rollover the acquired interests into a new fund which will be offered to capital partners and we intend to initially underwrite the fund for the purposes of taking a co-investment stake."

"We have two months in which to conclude the acquisition and a further update will be provided in due course," he concluded.

CAPITAL MANAGEMENT UPDATE

In December 2018, Cromwell concluded a 2 for 13 accelerated non-renounceable entitlement offer which raised approximately $228 million and a new three-year €225 million syndicated facility agreement was successfully executed at the end of June.

On a pro-forma basis, new securities were allotted last month for June's institutional placement which raised $375 million and the Security Purchase Plan which raised a further $32.5 million.

"The strong support from the market for these activities was very pleasing and shows they are firmly behind our 'Invest to Manage' strategy and asset recycling initiatives," said Mr Weightman.

Proceeds from the pro-forma capital raisings have been used to pay down debt and will be invested into Cromwell's pipeline of value enhancing opportunities. Pro-forma gearing post raisings is 23.9%.

"We have a strong, secure balance sheet with liquidity ready to be deployed. Short term gearing will fluctuate as we acquire, warehouse and then sell down opportunities as per our 'Invest to Manage' strategy. Through the cycle our revised target range is 30% to 40%," he confirmed.

As at 30 June 2019 Net Tangible Assets were $0.97 per security and gearing was 35.0%, which is right within the middle of the new revised, through the cycle target range of 30% to 40%. Debt tenor was 4.5 years and cash and cash equivalents were $101.6 million.

DIRECT PROPERTY SEGMENT UPDATE

Cromwell's direct property investment segment reported operating profit of $136.1 million, a 12.8% increase on the prior year. The portfolio had like-for-like Net Operating Income (NOI) growth of 5.5%, a WALE of 6.9 years and occupancy of 91.7%.

The portfolio consists of 21 assets, valued at $2.5 billion, divided into three components:

1. The Core portfolio comprises ten assets, representing 69% of the portfolio by value ($1.7 billion), and has a WALE of more than 9.4 years. It has 99.2% occupancy and NOI growth of 3.3%;
2. The Core+ portfolio comprises six assets, or 28% of the portfolio ($700 million), has a WALE of 3.1 years and NOI growth of 5.3%. It has occupancy of 95.4%; and
3. The Active portfolio consists of five assets or 3% of the portfolio ($81 million) and has a WALE of 0.6 years, occupancy of 52.7% and NOI growth of 120.1%.

56,000 sqm of new and renewed lease deals were struck during the year in 67 transactions. 24,800 sqm of renewals were signed at HQ North in Brisbane with AECOM, Technology One and Bechtel taking occupancy to 94% and the WALE to 5.7 years. HQ North has been added to the Core portfolio.

Elsewhere, 24 separate deals were concluded at Northpoint Tower for 9,800 sqm, the majority of which was office - 8,200 sqm - with 1,600 sqm of retail. Kent Street in Sydney also benefited from strong demand with 5,500 sqm of space signed to take occupancy to 99% with a WALE of 4.3 years.

"There are just three expiries greater than 1% of income before 30 June 2021," said Mr Weightman.

"One of these is Wakefield Street in Adelaide, which is an active asset where we are considering repositioning options and we are in active discussions with the tenant customers for the other two."

Valuations for the direct portfolio increased by $74.9 million during the year (2018: $85.7 million), net of property improvements, leasing incentives and lease costs. This was equivalent to an increase in value of approximately 3.1% or 3.3 cents per stapled security from June 2018 valuations.

INDIRECT PROPERTY INVESTMENT SEGMENT

The indirect property investment segment contains earnings from Cromwell's warehousing of assets or investments in mandates or trusts as part of its 'Invest to Manage' strategy. Segment profit, after finance costs, was $45.4 million, up 95% from $23.3 million in the prior year. Nearly all of this was attributed to Cromwell's 35.8% interest in CEREIT.

Cromwell's share of CEREIT operating profit recorded for the year was $44.6 million (2018: $23.2 million). CEREIT's distribution per unit for the first half of the 2019 calendar year was €2.04 cents per unit which was 4.6% above IPO forecasts.

"CEREIT's success has been achieved by leveraging Cromwell's integrated funds management platform and ability to source off-market properties," highlighted Mr Weightman.

The segment also contains earnings relating to Cromwell's 50% interest in LDK Healthcare and Northpoint Tower. The latter showed an increase in operating profit from $5.4 million in FY18 to $7.1 million in FY19 with contracts exchanged for sale on 1 July 2019.

"The ongoing repositioning of Greenway, ACT into Seniors' Living with LDK Healthcare is progressing well with residents due to move in next calendar year," said Mr Weightman.

"The premium end of the Seniors' Living market is benefitting from strong demographics and growing demand. LDK will have two operational villages next year which is a great base to grow from. We believe it is an opportunity that will attract substantial future investor interest," he stated.

FUNDS AND ASSET MANAGEMENT SEGMENT

Funds and asset management segment operating profit, after finance costs, was $28.5 million (FY18: $35 million). Total segment AUM increased 3.2% to $9 billion, driven by an increase in retail AUM to $2.3 billion (FY18: $2 billion) while wholesale AUM was unchanged at $6.7 billion versus the prior year.

AUM within Europe was steady at €3.8 billion, with €668 million traded during the year. This was substantially less than the prior period where €2.1 billion of assets were traded.

"If we acquire on balance sheet and then sell down the Cromwell Polish Retail Fund, AUM in Europe underpinned by longer term capital will increase from approximately half to around two thirds, providing a secure foundation of recurring fee income from which the platform will grow," said Mr Weightman.

"The local teams have done a great job of staying focused on the needs of our investors and tenant customers while transforming the platform and broadening our sources of capital," he added.

In addition to transacting on €470 million of assets for CEREIT, Cromwell also acquired the 21,688 sqm Pirelli Tyre Research and Development Facility in Milan for €88 million on behalf of a Korean partner. Cromwell's Polish team this month also completed a 21,000 sqm redevelopment of the Centrum Janki shopping centre in Warsaw for €65 million.

"The level of activity in Europe remains high. We signed 437,000 sqm of leases in 550 transactions, equivalent to more than ten per week, every week, for the year," added Mr Weightman.

In Australia, unitholders of the Cromwell Ipswich City Heart Trust voted to approve an extension of the initial term of the Trust by four and a half years, until June 2023. A $4.1 million performance fee was realised following the rollover.

Retail AUM increased by $300 million driven by growth at Oyster Group in New Zealand and the Cromwell Direct Property Fund which successfully acquired two properties on behalf of unitholders.

420 Flinders Street in Townsville, was acquired for $63.5 million in December 2018 and Altitude Corporate Centre in Mascot, Sydney was acquired for $113 million on 28 June 2019.

"The Fund is well positioned to continue to deliver a solid return for unitholders," Mr. Weightman said.

"It provides investors with monthly liquidity and has a WALE of 8.2 years. The distribution yield is 5.8% per annum which is approximately 4.0% better than most retail investors can earn on cash," he added.

In New Zealand, Oyster Group AUM reached NZ $1.7 billion (FY18 NZ $1.5 billion) with the settlement of the 6.2-hectare Central Park Corporate Centre for NZ $209 million in July 2018 accompanied by the successful offer for 33 Corinthian Drive, Albany, Auckland which settled in April 2019.

OUTLOOK AND GUIDANCE

The ripple effects of the US-China trade war are being felt everywhere. Spiking economic policy uncertainty will lead to an increase in global market volatility, and opportunity.

As an open economy Australia is not immune despite being protected by increased demand for its mineral wealth. Exports continue to grow although low domestic wage growth coupled with a soft residential housing market has prompted the Reserve Bank to reduce interest rates. While a recession is not the most likely scenario, growth has been marked down to around 1.8%.

The Eurozone economy has also slowed with Brexit looming and 2019 GDP growth now anticipated to be 1.20%. This however masks sizable variances within Europe as Poland, Czech Republic, Netherlands and Sweden are all expected to out-perform other European countries, and Australia.

Globally commercial real estate markets remain highly liquid boosted by lower bond rates. The hunt for yield continues, albeit to different degrees in different sectors. Office, logistics and specialist sectors are popular while e-commerce and changing consumer tastes are causing disruption in retail.

Cromwell's focus remains on the continuing execution of its 'Invest to Manage' strategy, asset recycling and value-add development opportunities.

"Though we have to acknowledge the economic noise we are very positive with where we are. The balance sheet is strong and we are well positioned to take advantage of the opportunities that we have in our pipeline, and those that we see in the market in general," said Mr Weightman.

"In Australia, our Core and Core+ portfolios will continue to drive NOI and support our distribution policy. We will also continue with our asset recycling and $1 billion pipeline of development opportunities." he said.

"Overseas, Europe remains the most liquid real estate market in the world for foreign capital. Total office stock for example is approximately 350 million sqm, more than 14 times the volume in Australia."

"There are 34 different, distinct locations, each with more than 2 million sqm of office space, and some countries like Poland with substantially better fundamentals than Australia. If you have the local expertise and know where to go, when and why, there is a lot of opportunity to find value for our capital partners," Mr Weightman stated.

"We have demonstrated this capability with CEREIT and with 200 professionals in 20 offices in 12 European countries we believe we are very well positioned for the future," he concluded.

FY20 operating profit is affirmed at the upper end of previous guidance at 8.30 cps and distributions to at 7.50 cps. Cromwell's securities closed at $1.24 on 28 August 2019 meaning this represents an operating profit per security and distributions per security yield of 6.69% and 6.05% respectively.

Ends.

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ABOUT CROMWELL PROPERTY GROUP

Cromwell Property Group (ASX:CMW) is a Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2019, Cromwell had a market capitalisation of $3.0 billion, a direct property investment portfolio in Australia valued at $2.5 billion and total assets under management of $11.9 billion across Australia, New Zealand and Europe.