Growthpoint Properties Australia: Q4 2023 Earnings Call

Thank you for standing by and welcome to the Growthpoint Properties Australia FY 2023 Results. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session.

I would now like to hand the conference over to Mr. Timothy Collyer, Managing Director. Please go ahead.

Good morning, and welcome to Growthpoint Properties Australia full year 2023 results. My name is Tim Collyer, Managing Director of Growthpoint. Joining me this morning are Michael Green, Chief Investment Officer; and Dion Andrews, Chief Financial Officer. I will start this morning with a brief overview of our results and strategy. Michael will then provide an update on our property portfolio followed by Dion, who will give a more detailed review of our financials. And finally, I'll provide a summary and outlook. We will then be happy to answer any questions you may have.

Turning to slide 4. Our goal remains to provide securityholders with sustainable income returns and capital appreciation over the long-term. Growthpoint has a long track record of delivering the value by investing in high quality assets to maximize value for securityholders. In financial year 2023, we purchased the GSO building in Dandenong with a 9.4-year WALE and divested 333 Ann Street, Brisbane with a 3.7-year WALE. The group's leasing performance was strong, with over 156,000 square meters leased equivalent to 11.2% of income, resulting in occupancy of 93% across the portfolio. We have also successfully completed the integration of the Fortius Funds Management platform, which we acquired in September 2022.

Lastly, capital management remains a sharp (00:02:26) focus given the high interest rate environment. Our gearing will remain at the low-end of the target range, and we also completed the securities buyback program in May.

Turning to slide 5 and to our long-term portfolio metrics and a reminder of the stable long-term nature of the GOZ portfolio. The portfolio is underpinned by a long WALE and high occupancy, which has been consistent with the last 10 years.

Turning to slide 6 and the financial year 2023 overview. I'm pleased to be able to present another solid year for the group, despite challenging market conditions. FFO was lower but above initial guidance provided at the financial year 2022 results, of AUD 0.25 to AUD 0.26 per security. Distributions declared for the period were up 2.9%. This was a great outcome given the higher interest rates experienced throughout the financial year 2023.

As a result of higher interest rates and consequential impact on capitalization and discount rates, the group's property portfolio value decreased by 6.5% on a like-for-like basis over 12 months. This was a primary driver of the lower NTA. In funds management, we recorded AUD 1.8 billion of FUM, which is slightly down from the AUD 1.9 billion of FUM upon acquisition, which I will expand upon later.

Turning to slide 7 on metro and fringe CBD office market dynamics. metro and fringe CBD office locations offer a great alternative, particularly for those tenants that do not need to be in the CBD. According to JLL data, the CBD office markets have grown by 1.7 million square meters or 10.2% over the last 10 years. Non-CBD markets have grown AUD 1.5 million square meters or 17% over the same period. So the metro and fringe office market have been growing more strongly than CBDs reflective of tenant demand.

Many tenants, particularly government lag the (00:05:08) ability to occupy a building on their own given the security issues, and this is the case for our New South Wales property at 1 Charles Street, Parramatta. Across our office portfolio, we have a range of green credentials, high quality assets, close to key transport modes which are attractive to tenants.

For example, the government service office in Dandenong, an A-Grade modern office asset located in a growing major urban center 30 kilometres south east of Melbourne. The asset is well positioned for transport and retail amenities being approximately 400 metres from both the Dandenong Railway and a major regional shopping center. All in all metro office market dynamics and their (00:06:00) portfolio are well supported by a range of positive thematics (00:06:05).

Turning to slide 8 and some key themes within office markets. Tenants are accommodating for quick feasible (00:06:18) occupancy. And whilst this is still below pre-pandemic levels, more employers are mandating minimum days in the office. Vacancy rates have moved higher with Growth's (00:06:32) vacancy rate is 10% and has remained consistently lower versus the markets in which it operates. We have demonstrated an ongoing ability to lease significant amounts of the portfolio each year, reducing expiring lease (00:06:49).

Turning to the industrial property sector on slide 9. The positive momentum in the industrial markets continued in financial year 2023 due to a shortage of modern warehouse space across all markets, underpinned by growth in e-commerce and demand for supply chain infrastructure. Vacancy continued to fall in the group's markets as demand outstripped limited supply with the national vacancy rate reaching a record low of 0.6% in June 2023. Rent growth continued over the year, with most markets recording double-digit growth in rents.

Moving to slide 10 and funds management. A long-term growth platform for the group is the acquisition of Fortius Funds Management, which was completed in September 2022. Fortius is a property fund manager with a 30-year plus track record of delivering strong returns to its investors. During the period we successfully integrated Fortius and we are now operating as one business. Despite challenging transaction market conditions which impacted our ability to grow FUM, we have been active but diligent. There remains good appetite from investors for the risk-adjusted investment returns. You can also see on the slide 2 of the funds divested assets, providing excellent returns for investors. And this was the main driver of the declining funds since acquisition. We are most excited about the prospects for the funds management business and are pleased to be working with a fantastic team that has a clear focus on growth and generating strong investor returns.

Turning to slide 11, and the macro environment. Whilst interest rates may still increase, it's fair to say that they are unlikely to appreciate what they (00:09:11) have in the past year. The futures market at this time is indicating the cash rate is closer to the peak. Inflation, while still high, is abating, and unemployment remains resilient in spite of higher interest rates. Population growth remains strong and Australia still leads the way in this regard, which is a positive for industrial office and retail real estate.

I'll now hand over to Michael for a more detailed look at the portfolio.

Thank you, Tim. And good morning, all. Starting on slide 13 with a brief overview of our portfolio, which has remained largely stable over the year. Early in the financial year, we acquired the government services office building in Dandenong, a modern, long WALE Victorian Government tenanted building located in Melbourne's south eastern expansion corridor power. This acquisition, predominantly funded by the divestment of 333 Ann Street, a CBD Brisbane asset which were acquired back in 2012 for AUD 109 million. And we have actively asset managed that asset over the last decade.

The Growthpoint AUD 4.8 billion balance sheet portfolio consists of the modern office and industrial assets, which are principally leased to government listed and large private tenants and provide the bedrock of a resilient cash flow for our securityholders.

On slide 14, we highlight the key office and industrial portfolio metrics. Increased interest rates have negatively impacted on the group's valuations over the year, with cap rate expansion being exhibited across the portfolio. The group's office portfolio is reduced by 9.4% on a like-for-like basis over the year. Growthpoint's industrial portfolio valuations only have witnessed a slight decline, with the 70 basis points of yield expansion being largely offset by strong market rental growth.

Office occupancy is lower and the year-to-year decline is primarily attributable to the vacancy of (00:11:24) 5 Murray Rose Avenue in Sydney Olympic Park, accounting for 3% of the office portfolio income. The leasing campaign is progressing with the 6 stars NABERS rated building and positively viewed by prospective tenants. It is important to remember that we have received a surrender payment from the tenant, which is reflected in the accounts this year as the lease was due to expire in April 2024.

Dion will expand on this later. The WALE has remained stable across the portfolio at 6 years. The office portfolio WALE, 6.3 years continues to underpin the resilience of the portfolio. On slide 15, our portfolio is exemplified by secure tenants with long leases with positive industry fundamentals. 40% of our office portfolio income is derived from government tenants. Our high quality, energy efficient buildings are attractive for government tenants, and importantly, in this period of uncertainty, the WALE of our government office tenants is 10.3 years. Tenant engagement is a major focus for Growthpoint, and this has been reflected by achieving industry leading tenant satisfaction results in the independent annual tenant survey.

Moving to slide 16, and the leasing activity during the year. Across the office portfolio, the group executed 33 leases, accounting for approximately 32,000 square meters of space, representing

9.2% of the office portfolio income. The group provided an average incentive of 24% across the office portfolio leases signed in FY 2023. A couple of key office leasing transactions to highlight over the year include 8,000 square meters, which were leased to multiple government departments at our 100 Skyring Terrace, an excellent leasing outcome, de-risking the space which had unfortunately become vacant after the previous tenant, Collection House, entered into voluntary administration at the end of FY 2022. Pleasingly one of our major tenants at 75 Dorcas Street, South Melbourne, Mondelez Australia extended their 4,500 square meter lease to 2028.

We were also active across our industrial portfolio, leasing 124,000 square meters, representing 15.4% of the industrial portfolio income where we saw a positive average effective rental leasing spread of 30%. We continue to see buoyant demand for industrial space, which remains in short supply. With leasing originating from a variety of industries, including pharmaceutical supply, the automotive industry, clothing retailers, and third-party logistics providers. Industrial incentives granted remained low at (00:14:12).

The defensive characteristics of the group's portfolio illustrated on slide 17. The portfolio WALE reduced slightly over the year from 6.3 years to 6 years. However, we retained one of the longest office portfolio WALE in the REIT sector at 6.3 years. The portfolio was 93% occupied with 2% of additional leasing in advanced negotiation. Growthpoint continues to focus heavily on managing leasing risk, and we are confident in our ability to negotiate the current challenges within the office leasing market. We have a modern, highly green credentialed office portfolio, and we have a strong track record of leasing on average 11.8% of the Growthpoint portfolio annually over the last five years.

Switching now to sustainability on slide 18. Our portfolio continues to achieve a high average NABERS Energy rating of 5.2 stars, and we increased our GRESB score to 81, and remain a sector leader in our space. Progress has been made with respect to the group's 2025 net zero target through the execution of new electricity contracts, which include green power purchases. Green power will substantially contribute to achieving Growthpoint's 2025 target. We've significantly increased our onsite solar rollout with seven additional installations progressed over the year. We also issued our first sustainability linked loans, which Dion will touch on.

I'll now hand over to Dion for the financial overview.

Thanks, Michael. Starting on slide 20, we again highlight our solid performance delivering FFO of AUD 0.268 per security, a slight decrease of 3.2% on last year. Whilst down, this was a good outcome given the rapid increase in interest rates and subsequent impact on interest costs. However, NPI was up mainly due to two one-offs occurring during the year, which included a surrender of lease payment received in October 2022 for 5 Murray Rose Avenue in Sydney Olympic Park. The lease was originally due to expire on April 2024 and the surrender payment enabled Growthpoint to receive the net present value of the remaining leasing cut, meaning 22 months of income within the FY 2023 result. AUD 6.5 million bank guarantee payment received when Collection House entered voluntary administration in June 2022, as we received a lease termination for its 8,000 square meters at our 100 Skyring Terrace, Newstead. The quality office space was progressively leased in FY 2023 by two high quality government tenants and the property is now 100% occupied.

At least two (00:16:58) properties had leased for all of FY 2023 as per their original lease terms, then FFO would have been around AUD 0.016 per security lower. Increased operating expenses, including the cost of operating the Fortius business, and generating a general cost inflation. We were very pleased to declare a distribution of AUD 0.214 per security, up 2.9%.

On slide 21, we've highlighted the key movements in FFO and NTA per security. The key drivers of the FFO decrease include a substantial increase in interest costs up AUD 30 million or almost AUD 0.04 per security, which was partially offset by increased rental income and income contribution from Fortius. NTA per security decreased to AUD 4, down 12.3%, which is consistent with lower portfolio valuations, which in turn were driven by a significant increase of the risk-free rate during FY 2023.

Turning to slide 22, gearing increased from 31.6% at 30 June, 2022 to 37.2%, remaining within the group's target range of 35% to 45%. The increase relates to changes in portfolio valuations, completion of the share buyback, purchase of Fortius, and of the GSO in Dandenong. These were partially offset by the sale of 333 Ann Street.

We retain a good buffer in our target gearing range to withstand any further potential changes in valuations. We also have ample headroom to our bank covenants of LCR of 60% and ICR greater than 1.6 times. Our distribution payout ratio was in the middle of the target payout ratio range of between 75% and 85% of FFO.

On slide 23, we take a look at our capital position moving into FY 2024. As you can see, we're in good shape. Our weighted average cost of debt as of 30 June, 2023 was 4.6% versus 3.4% same time last year and reflects the rapid increase in interest rates during the year. The group entered into eight new interest rate swaps for the total notional amount of AUD 280 million at a weighted average fixed rate of 3.48%. As of 30 June, our debt facilities had a weighted average remaining term to maturity of 3.4 years, and we retained AUD 300 million of undrawn bank debt facilities. We have no debt maturing until FY 2025.

At 30 June, 70.5% of debt is fixed for a weighted average remaining term to maturity 2.9 years. ICR of 3.4 times remains well above our covenant of 1.6 times. And during the year, Growthpoint diversified its funding sources by adding two new lenders with total facility limits of AUD 200 million, while repaying a maturing lender with a facility limit of AUD 90 million.

In February 2023, Growthpoint extended its on market securities buyback program for up to 2.5% of issued capital. The program was completed in May 2023, having purchased 19.3 million securities for a total consideration of AUD 63.4 million. Total purchases represented an average discount for June 30, 2023 NTA of 17.9%. I'm also happy to convey that Moody's have reaffirmed their BAA2 rating with a stable outlook for our debt. Finally, we entered into sustainability linked loans, converting AUD 520 million of the group's existing debt arrangements, and established an overarching sustainability finance governance framework. Interest margin reductions are tied to the successful achievement of sustainability KPIs and targets. The KPIs will be measured against reductions in Scope 1, 2, and 3 emissions and performance measured against the NABERS and GRESB ratings.

I'll now hand back to Tim to wrap up.

Thank you, Dion. Our investment proposition is very simple. We invest in high quality office and industrial real estate. (00:21:22) management business and manage the balance sheet prudently. We have a strong team with deep experience and we are very committed to delivering (00:21:34).

Turning to the current security price discount to NTA on slide 26. This is a common theme across the REIT sector, and somewhat more acute with respect to office REITs and those REITs with significant office sector exposure. The discount to NTA at 30th of June, 2023 implies a 25% reduction (00:22:03) for both the office and industrial GOZ portfolios. We believe that the defensive characteristics of the office portfolio being long WALE and high quality tenants, and a strong industrial market with a historic low vacancy rate will be attractive to investors in a low growth environment.

Turning to the focus in financial year 2024. The rate of inflation has been declining since December 2022 quarter whilst interest rate futures indicate that the official cash rate is near the peak. However, A-REIT prices remain at a discount to NTA. Commercial real estate transaction activity remains low relative to longer term historical averages. Although volumes may increase as development pipelines and redemption requests require funding. Growthpoint is well placed to manage through the cycle with a portfolio of high quality modern assets with strong WALE from government, ASX listed, and large corporate tenants.

Turning to financial year 2024 guidance. Given the outlook and factoring in interest costs on (00:23:33) forward, we provide FFO guidance of between AUD 0.225 and AUD 0.231 per security for financial year 2024. We also provide distribution guidance of $0.193 per security whilst maintaining our FFO payout ratio in the target range of 75% to 85% at the midpoint of guidance. At current pricing, the financial year 2024 distribution yield is an attractive 7.3%. We remain committed to providing our security holders with sustainable income returns and capital appreciation over the longer term.

Thank you very much for your participation today. Thank you also to the Growthpoint team for their hard work and dedication in financial year 2023. We will now open up the lines and are happy to take your questions.

Thank you. Your first question comes from Caleb Wheatley at Macquarie Group. Please go ahead.

Good morning, Tim and team. Thank you for the presentation and congratulations, Tim, on your tenure at Growthpoint. My first question was just around the guidance, I know you mentioned the $0.16 per share impact from the one-off in FY 2023. But if you reverse that at getting to an FY 2023 underlying FFO of $0.252 per share, conscious cost of debt is going to be a headwind. But just trying to understand some of the other components, in order to get down to the guidance range, particularly with respect to things like operational expenditure, and any high level expectations on office occupancy, and industrial NPI as well, please.

Thanks, Caleb. It's Dion here, I'll start on that one. So when we compare 2023 to 2024, there are two key drivers. And you're right, debt is obviously one of them. And that's a factor across the REIT sector, I think. Our cost of debt at 4.6% at 30 June, we're going to average similar to that across the year, and that's obviously higher than it was in 2023. So that's one factor, but that's pretty common, and relatively easy to work out. The key factor, of course, is the one-offs, as you pointed out. Another way to think about those one-offs though, if you take 5 Murray Rose alone, there's 22 months' worth of rent in FY 2023, and the building is currently vacant going into 2024. We do assume leasing up across the year, but there are some weaker office leasing markets in the month, so we're taking those into account. That is a very big driver of the comparison of FFO.

And the other one you touched on is office vacancy. So again, we had a tenant (00:26:46) at 15 Green Square Close up in Queensland and they left in May. So again we had income for 11 months in FY 2023, and the building is currently â€“ that area, sorry, is currently vacant as we head into FY 2024 and again we'll need to lease up. So there is some occupancy as well. They are the main drivers. Everything else is really pretty fringe operational expenses, and share buyback impact, all of those, I think are relatively minor in comparison to those two driving factors.

Thank you. And just so I understand, the AUD 0.252 should be outside of the one-off. So is cost of debt really the difference between potentially going from AUD 0.252 to AUD 0.225.

Yeah. That AUD 0.016 what we said there is, if the leases continued as they were, right. Or the rent just continued as it was that would have been a AUD 0.016 difference. That's not what actually happened. We got 22 months worth of rent in the case of 5 Murray Rose. So don't get too high up on the AUD 0.016, that was just meant to be a like-for-like sort of figure. The impact is bigger when you take into account what actually happened, then the cost of debt is the rest.

Okay. And sorry, just to confirm in terms of what actually happened, I guess you're referring to occupancy (00:28:13) opposed to what would it have been otherwise in FY 2023?

Yeah. I think in respect of that particular transaction, it's Tim here, is you received 22 months of income in one year, and in the following year you have no income until you lease the property. So there's a big swing. I think Dion is trying to point that out.

Yes, yes.

It's not a matter of deducting AUD 0.016 from the FFO result for this year.

Okay. (00:28:48-00:28:54) year-on-year, but that's helpful. My next question, maybe one for Michael just around the office portfolio and some leasing outcomes. So conscious, there were those tenant exits throughout the year. But it seems to have ticked down again from 92% in March to 90% as at June. Just beginning to understand what the incremental drivers were in the most recent quarter like the 2% under discussion. But any thoughts on how tenants are viewing the office portfolio at the moment?

Yeah. Sure, Caleb. Thanks for the question. Really the difference between March and June comes to that QUU expiry (00:29:31) and vacation that Dion mentioned.

So at 7,500 square meters, in Fortitude Valley, where they're located, and moved up, and we're just progressively leasing that up. But that's really the difference between the two. And the start of the leasing portfolio, I mean, we did more leasing in the second half than we did in the first half across our office portfolio. So that was pleasing to see sort of 10,000 square meters in the first half versus 19,000 in the second half. As I mentioned on the call, we had some really strong results, and good tenant inquiry from the government, so backfilling 8,000 square meters in Skyring Terrace was a terrific effort, particularly given that that had unexpectedly become vacant. And I think it just shows the high quality of the assets that we own when you can have limited downtime for that property space. Clearly we're trying to execute a similar strategy with 5 Murray Rose, and that property as I mentioned is getting some good attention, but we need to execute on that. So that's the real focus (00:30:31).

Right. And maybe just if you had any sort of broader thoughts or statements then in terms of how you're thinking about health of tenants across the portfolio, that the WALE is clearly quite helpful until potentially some tenants go into administration, et cetera, as we saw in FY 2023. (00:30:56) government should be fine but just in terms of the other corporate across government portfolio?

Yeah. We have a very strong portfolio of tenant covenants really that there was a bit of an exception where we had a tenant go into administration. We monitor our lease on a weekly basis on the de minimis side, we're not seeing any signs across the portfolio of any distressed tenants. We've got 95% of the income being derived from non-SME tenants, and like we saw during COVID period, we really have very limited, rent related questions (00:31:36). So, our portfolio was in very good shape (00:31:40).

Okay. Great. Thank you very much. That's really helpful. And congratulations again, Tim.

Thank you, Caleb.

Thank you. Your next question comes from Solomon Zhang at JPMorgan. Please go ahead.

Good morning, Tim and team. First question for me is just on gearing. So I understand you're well within covenant limits, but 37% is I guess, a bit high versus peers. And in the context of a devaluation cycle, just curious, how comfortable are you with current gearing and have you been considering chopping assets or punching out (00:32:16)?

Thanks Solomon, Dion here again. Look, currently your question first off, we're very comfortable where the gearing currently sits. We've got a range of 35% to 45% we're at the bottom of that range. We're below the bottom of the range at the start (00:32:32), which has now been going for a year. And as you mentioned, we've got plenty of headroom to our covenants. So we're very, very comfortable and we wouldn't be selling assets just to reduce gearing.

(00:32:43) no assets on the market or in the process.

We do have two small industrial assets on the market right now, but that's really just normal portfolio maintenance.

Yep. Got you. Next question is just on the office portfolio, is it a fair comment? I mean, lots of your office portfolio, I guess, is characterized by large (00:33:00). Is this proving to be a bit more challenging to lease up given smaller (00:33:08) are more active in leasing markets right now?

That's not what we're really saying. We've done a number of (00:33:15) tenants over the last 12 months. We've also done a number of multi-floor tenanted spaces. We've never been adverse to chopping close up where we see it's necessary and we're going to drive better leasing outcomes. But due to the nature of the asset, the A-grade, high quality, high green credential components of those assets they still tend to attract the larger requirements.

Yeah. Got you. Maybe another one for you Michael. Just on the re-leasing spreads in industrial, what are you seeing in your recent leasing and where would you mark to market your rents?

Yeah. So I've mentioned on the call that we saw an effective basis sort of circa 30% uplift on the effective rents across the industrial portfolio. On the mark-to-market against the value is rents at 30 June, I think about 8% under, but that's really (00:34:09) on where the rents sit, and obviously the market's been moving quite quickly into June.

Yeah.

So, it's a bit â€“ on a valuation basis (00:34:20).

Thank you. Appreciate it.

Thank you. Your next question comes from Ben Bradshaw at Barrenjoey. Please go ahead.

Tim, congratulations on a very successful tenure as CEO, and all the best for the future.

Thank you.

First question, just on logistics, I was wondering if you could just describe liquidity at the moment in the current environment as to how it relates to the markets in which you operate for the type of assets in which you own. What sort of buyer demand are you seeing, and is there a bid/ask spread?

So, a good question, Ben. So we obviously work across all the three principal markets and through the funds management business in the retail sector. So all of those (00:35:20) sectors, and this is my observation, that the retail property market is quite liquid with a large format retail, we're seeing neighborhood shopping centers, and a bit more recently we're seeing (00:35:38) in regional shopping centers. So they are trading. Industrial, I think a lot of rentals have held off to capture the rental growth coming through. So they're probably a bit more reluctant, but we obviously have the AUD 560 million sale of the Korean pension fund to AustralianSuper and (00:36:08) managed portfolio. So that's a significant transaction in the market, and shows that there are large institutional investors for large logistics portfolios.

And then probably on the smaller side of logistics assets are still trading, still being marketed. So it's not as liquid as it was a couple of years ago, but nevertheless, fairly liquid. I think the office sector, as you've probably witnessed, there's probably a larger bid/ask spread, and the volume of assets has come back significantly. And so I would say the liquidity in the office sector is probably less strong.

Terrific, Tim. Thanks once again. And congratulations on your time at Growthpoint.

Thank you.

Thank you. Your next question comes from Howard Penney at Citi. Please go ahead.

Thanks, guys, for the presentation. Just one or two additional questions. The first one on the funds management business. What's the outlook to grow the assets under management there and attracting additional funds there?

Think you, Howard. It's Tim here. We're confident about it. Obviously, there is less as we just commented. There has been less liquidity in the market. We certainly are looking across sectors for investment opportunities for the investors that we cater for. So our experience, if you find a good deal, the investors will be there. So the high net worth investors and also key cornerstone investors are also keen to invest again for the right opportunities. I think it's important to note that Australia on a global context is still seen as very attractive. We have a growing population. We have a relatively strong economy, and it's well regulated. And any correction in the market for any type of asset is really being seen as an opportunity in the cycle for offshore investors. So over the medium term, we are confident about the prospects for the funds management business.

Great. Thank you very much. And I see in the slide pack you mentioned on the vacant space at 5 Murray Rose and also some advanced negotiations of 2% of the total space. Do you have any additional info on that or timing that you could share?

Howard, it's Michael here. We can't right now, they're sort of progressing at various stages. And I expect that there'll be a further update obviously at our quarterly announcement, but until then, we can't really disclose anything further.

Understood. And just a final question from me. You mentioned that bid/ask spread on office transactions is still wide. But given where cap rates have shifted in this results season on the office side, how far do you think those expectations are from these levels?

I think I think you'll see more liquidity into the market in this next half, clearly the cap rates have moved up in line with some of the transactions that have happened. So I would anticipate the bid/ask spread will be narrower this time around.

Great. Thanks a lot. And well done, Tim. Thank you for the service.

Thank you, Howard.

Thank you. Your next question comes from Edward Day at Moelis Australia. Please go ahead.

Good morning, Tim and team. And Tim congratulations on your tenure at Growthpoint. Just a couple for me. Just trying to understand your guidance range. Clearly, (00:40:30) 5 Murray Rose is a bit of a swing factor, but wondering what your assumptions are around the contribution from the Fortius business?

Yeah. Thanks. I'll take that one. Look, the contribution from the funds management arm is still relatively minor as it is, we need to grow the funds so it start to increase its contribution to our results. So not a big swing factor. Clearly, interest rates, we do have an average that we put into our assumptions. But, if you go back two months, that number would have been quite a bit different to what it is today. So although it looks a lot more stable today, it is still quite volatile. So I think you'll see guidance ranges reasonably wide on that basis alone.

Thanks, Dion. And just one more on the funds management business just in terms of relationships with your capital partners, there's obviously been a press around redemption pressure. Are you seeing any of that coming through that the funds management business?

Thanks, Ed. Well, the funds management business obviously has been impacted by higher interest rates, which is across the industry and we have fixed term funds as well. So we're in the process of paying particular attention to each fund and what the appropriate strategies might be to renegotiate covenants and might be to sell the property at their term and realize the funds, and then attractive IRR for investors or might be extending the term of the fund for the benefit of the investors. So there's a range of strategies, but no doubt the market circumstances of a (00:42:30) fund is, that which is being experienced by the other fund managers as well.

Great. Thank you.

Thank you. Your next question comes from Alex Prineas at Morningstar. Please go ahead.

Thank you, and thanks for the presentation. Are you able to say what interest cover ratio is implied by your FY 2024 guidance?

We're not providing forecast ICRs. Not really in the business of doing that. I think the important thing is, when you look at the flexibility or the amount of headroom that we do give in our presentation to ICR, (00:43:22) over 50% before we reach that covenant, which I think is highly unlikely. So we're not concerned about covenants. We do have a lower covenants and most of them at (00:43:33) 1.6 times, and yeah we're over 3 times as we enter the year, but no, we won't provide a forecast.

Okay. No problem. And just a second one on â€“ so there's a decent well, pretty low expiries the next couple of years, but FY 2026 it looks like there's a bit of a step up in lease expiries.

Just wondering, it maybe too early, but can you comment at all on how entrenched those tenants may be or are they more likely to be in the market for space at that time?

Yeah. So two of the key tenants we're looking at there are Woolworths and Linfox. And Linfox, for example, occupy three of our logistics properties at Erskine Park, which is probably the hottest logistics market in the country right now. And suffice to say that, that valuation base is considered to be (00:44:32) on the market rent right now. So I would anticipate that if the market conditions prevail in the logistics sector, they'll be very sticky to that location. And if they're not, then we'll have sound reasoning to think that we'll find other tenants in a quick action.

And Woolworths is the other large logistics provider in our experience, given that we've had Woolworths as a major tenant across our portfolio for the last 15 years. It generally takes Woolworths approximately four to five years to move from one of their major logistics hubs and this is the key distribution center for Western Australia. So again, we would anticipate that there's a high likelihood of renewal and extension there.

Great. Very interesting. Thanks for that.

Thank you. That does conclude our question-and-answer session and our conference for today. Thank you all for participating. You may now disconnect your lines.