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API NSW Fellows Lunch

20 September 2013

A specialist funds manager,
investor and developer
providing real estate wealth solutions

Market Conditions

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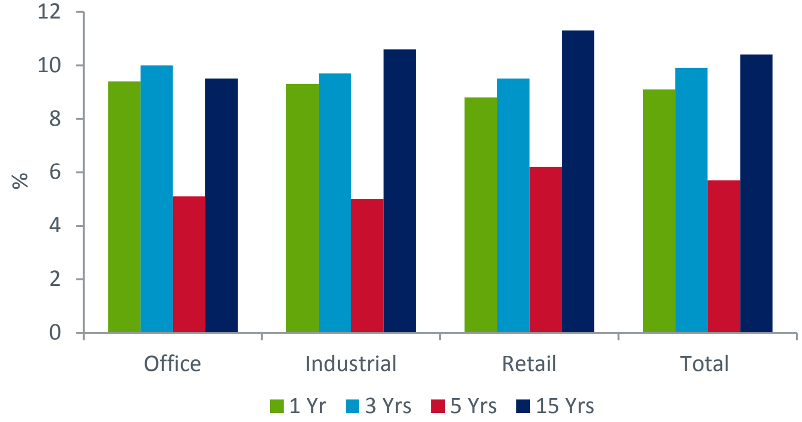
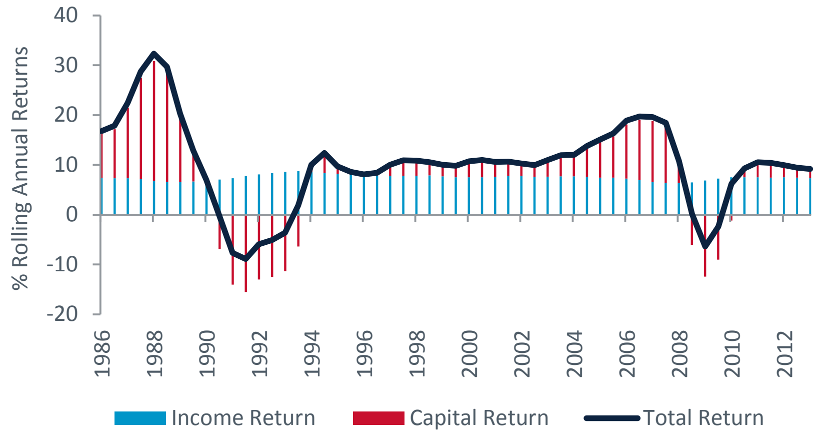
Australian Market Conditions – Non-Residential

Direct Property Total Returns: to June 2013



Direct Property Total Returns: 1985 - 2013

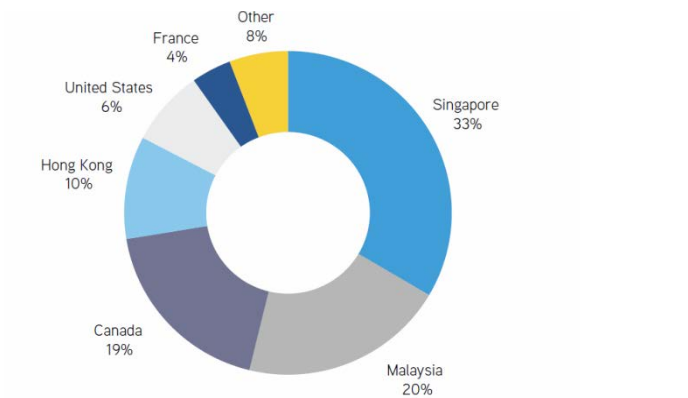


Source: PCA / IPD Australia All Property Index

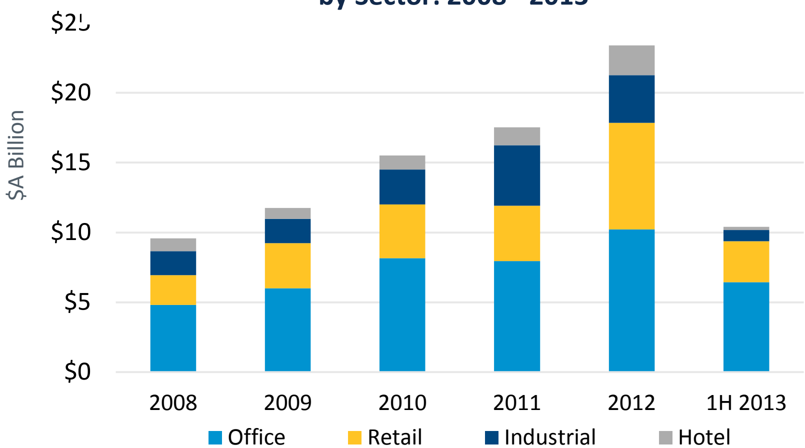
- Direct property returns have moderated – 9.1% in FY13 compared to 9.9% in FY12
  - office - 9.4% outperformed industrial - 9.3% and retail - 8.8%
- Strong investor demand for yield investments is unlikely to abate – “core” real estate well placed to benefit
- Disconnect between capital and leasing markets will continue for some time – weaker tenant demand may be offset by cap rate compression from weight of money
- Investors with higher risk appetite starting to look at secondary assets which have the potential to be refurbished and repositioned
- Performance across sectors will vary next year – industrial sector should outperform the office and retail sectors
- We expect property fundamentals to begin improving in 2014 as interest rate cuts and lower $A stimulate business/consumer confidence and economic activity
- Active management will continue to be a key driver of performance – investors should focus on the underlying fundamentals of individual assets

Capital Flows

Real Estate Capital Flows into Australia by Origin Country: 2012



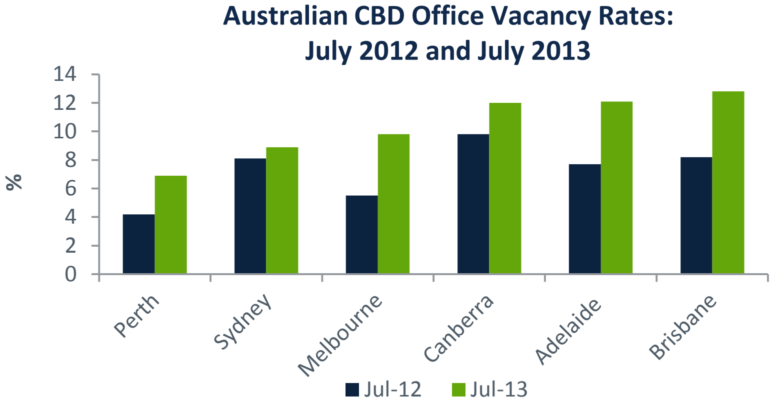
Value of Foreign Capital Flows Into Australian property by Sector: 2008 - 2013

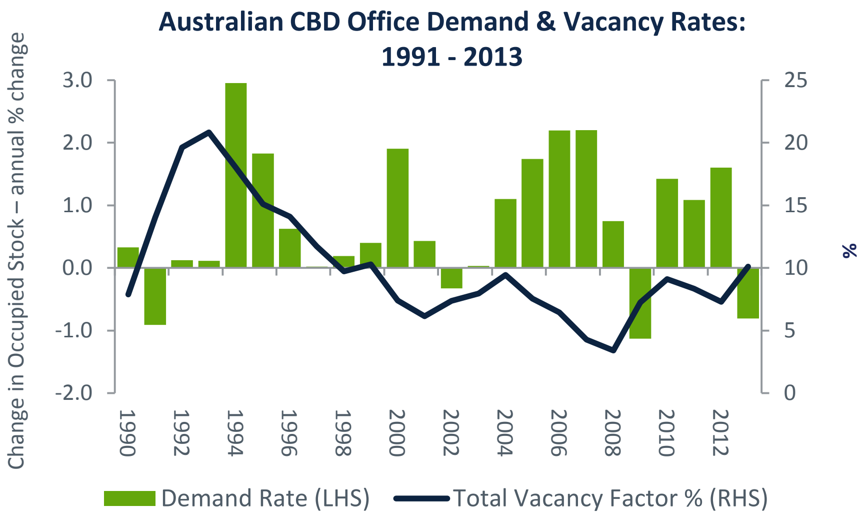


Source: Colliers

- Global capital flows into Australian real estate strong
  - $10b during first half 2013
- Australia remains a favoured destination
  - transparent market, economic growth, proximity to Asia, quality of real estate assets
  - Singapore, Malaysian and Canadian investors particularly active
- Domestic investors are competing strongly for assets in 2013
  - AREIT's increasingly active in local market – underpinned by higher share prices and low funding costs
    - IOF acquired 50% interest in 567 Collins St ($464m)
    - Charter Hall and clients acquired 61,564sqm Raines Sq ($458m)
    - Cromwell acquired NSW State Government portfolio ($405m)
    - SCA Property Group acquired 7 neighbourhood centres ($136m)
  - syndicators returning to the market – Cromwell, Folkestone, Centuria all active in 2013
  - focus on high quality core real estate assets

Australian Market Conditions – Office





Source: Property Council of Australia

- As at July 2013, CBD office vacancy rates ranged from 6.9% in Perth to 12.8% in Brisbane
- Demand varies across CBD markets
  - Sydney recorded the smallest increase (+ 70bps) in vacancy rate in FY13 and Brisbane the largest increase (+ 460bps)
  - demand in FY13 was significantly below the 20 year historical average – occupied space contracted by 61,663sqm
  - demand soft in mining related CBD's (Perth and Brisbane)
- Lower rental growth and higher incentives (already pushing 25% - 30% along the eastern seaboard) expected in FY14
- Supply levels are low in most CBD markets (Melbourne excluded) before next wave of supply hits in 2015/16 particularly in Sydney (Barrangaroo) and Perth
- Office assets with high occupancy, superior tenant quality and location will continue to be well sought after by investors
- Some secondary assets will continue to be under pricing pressure – unless there is an opportunity to refurbish, re-let or re-position

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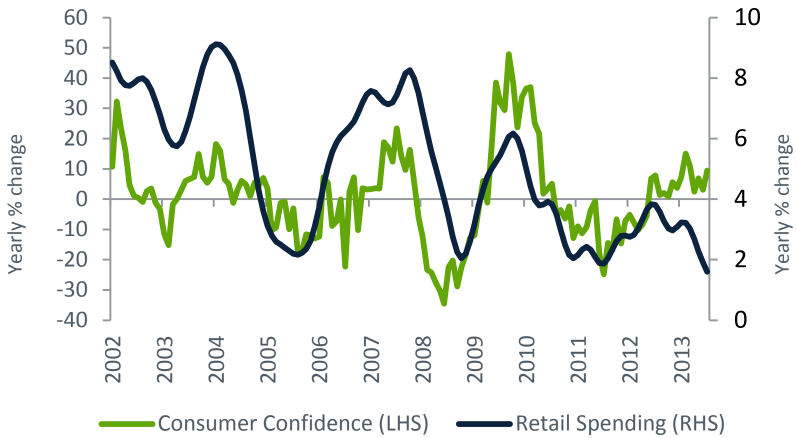
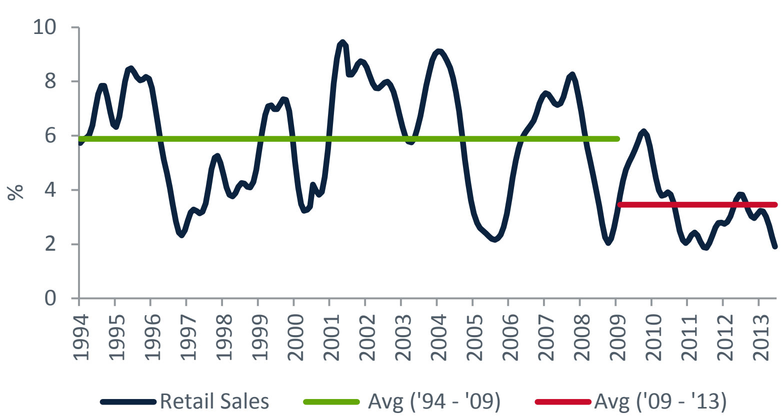
Australian Market Conditions – Retail

Consumer Sentiment & Retail Trade: 2002 - 2013



Retail Trade: 1994 - 2013



Source: Westpac/Melbourne Institute, ABS

- Retail environment remains challenging
- Low consumer confidence keeping retail spending below trend especially in the discretionary retail sector
- Cyclical factors (price discounting, low consumer sentiment and continued high savings levels) and structural issues (internet penetration and changing retail formats) continue to impact retailers
- Rental growth has slowed, incentives are increasing and vacancy rates are rising especially in secondary centres
- Competition between centres will continue to drive defensive investment by owners to improve amenity, maintain occupancy and drive foot traffic
- Grocery anchored neighbourhood centres and super regional destination centres should perform better than other types of retail centres
- Sub-regional centres and secondary centres in poor locations or with poor tenancy mixes are more likely to be impacted by the cyclical and structural changes impacting the retail sector

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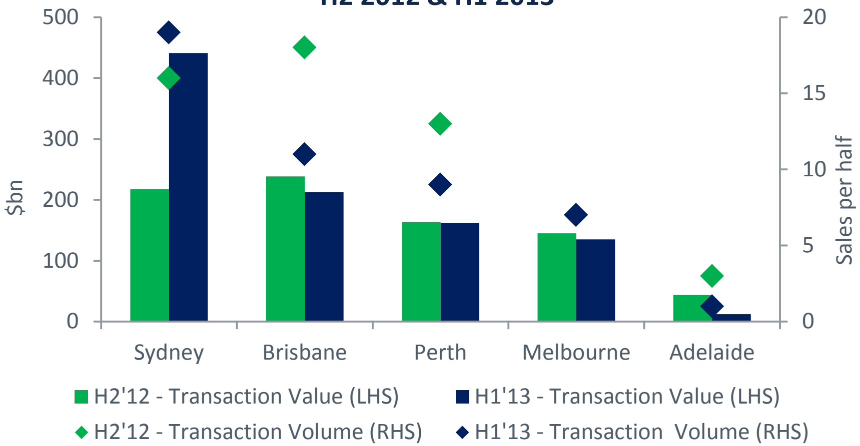
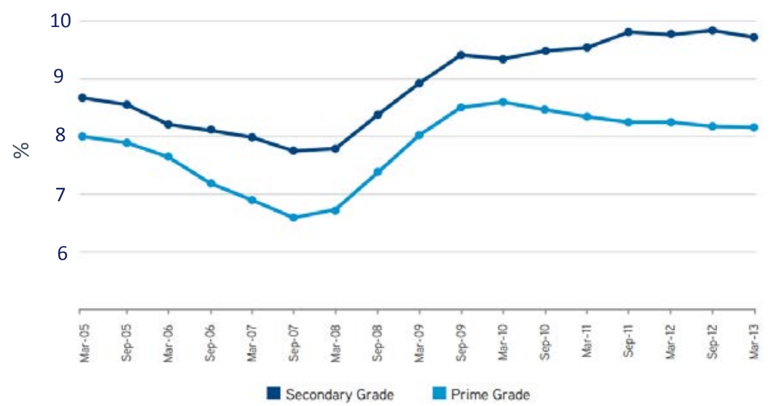
Australian Market Conditions – Industrial

Capital City Industrial Transaction Volumes: H2 2012 & H1 2013



Sydney Industrial Average Yields: Mar 2005 to Mar 2013



Source: Colliers

- Industrial currently attracting significant investor interest
  - Strong demand from A-REITs (Goodman, Mirvac, GPT, Dexus) and private investors
  - Fife Capital industrial REIT IPO well supported
- Approximately $1bn worth of investment in H1 2013 with Sydney the focus of buyer activity
- Industrial attractive to investors for a number of reasons
  - yields - prime grade Sydney industrial yields range between 7.75% and 8.25%
  - typically long term leasing structures with fixed increases
  - changes to the structure economy (decline of local manufacturing, growing online retailing and improved infrastructure) driving increased demand for distribution and logistic centres
- Increasing industrial development activity driving up supply across most markets[1]
  - nationally c. 367,000sqm of stock is under construction with 61,000sqm in Sydney – driven by active pre-leasing activity
  - Melbourne has 122,021sqm under construction with lower pre-commitments putting pressure on rents and incentives (averaging 12%)
- Two tier market with prime assets in strong demand whilst secondary assets not as well supported

[1] Colliers, July 2013

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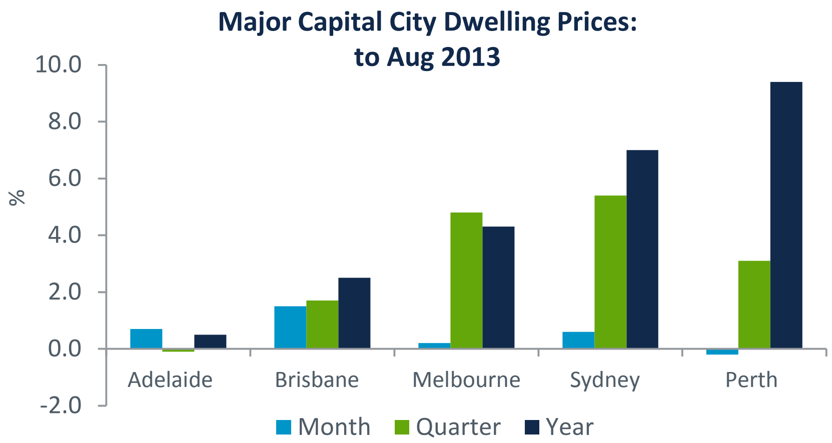
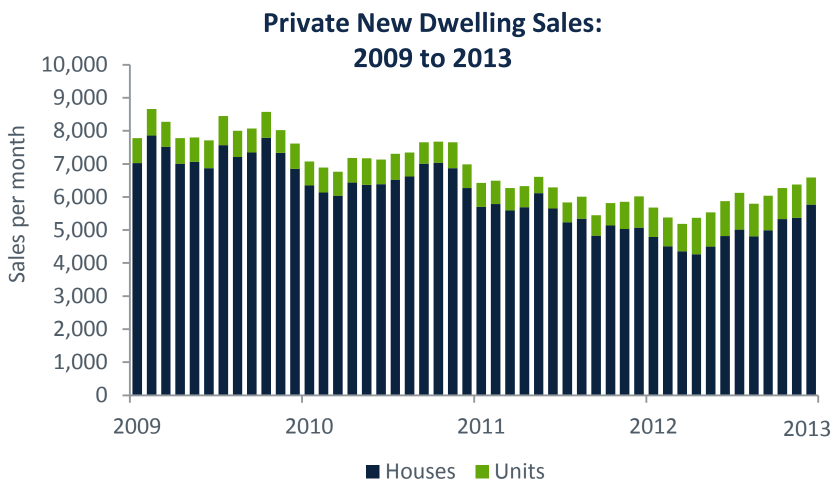
Australian Market Conditions – Residential





Source: RP Data – Rismark Index, HIA New Homes Sales

- Housing recovery is strong in Sydney and Perth however is patchy across the rest of the capital city markets
- Buyer activity varies
  - first home buyers subdued - 14.7% of the loan market in July 2013 (down from 31.9% in May 2009 and below 20yr average of 19.9%)
  - investor activity is increasing - loans to investors 36% of total loans in June 2013, above 20 year average of 32%
- New home sales up and auction clearance rates improving
  - sales activity up in four months to June 2013
  - Sydney and Melbourne averaging above 60% in recent months with Sydney topping 84% on 14 Sep 2013
- Rental growth remains strong as vacancies remain low
  - median Sydney inner ring rents $575/wk up 4.5% year to June 13
  - national vacancy rate 2.1% and 1.8% in Sydney (as at Aug 2013)
- Sydney should lead the recovery given limited price growth over past decade and low levels of construction activity
- Medium term outlook positive – high population growth, demographic changes, undersupply of dwellings and growing acceptance of medium density accommodation forcing developers to rethink what consumers want

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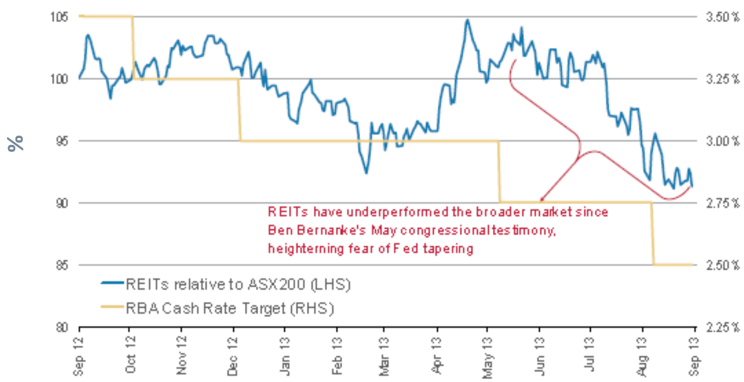
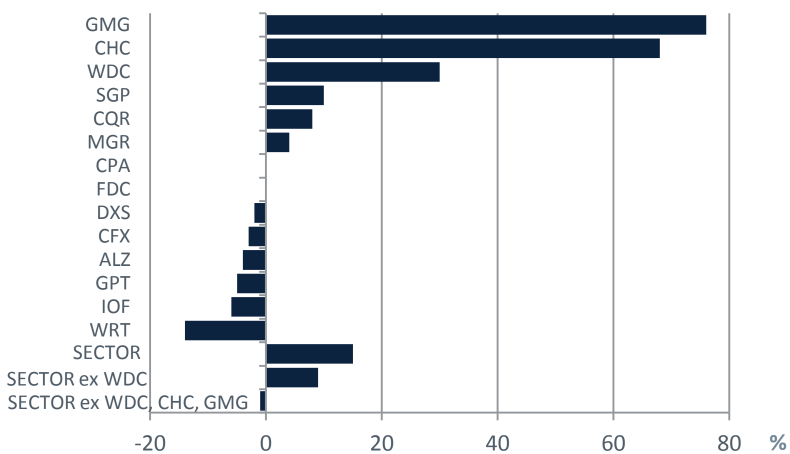
A-REITs

A-REIT Sector

A-REIT Relative Price Performance v RBA Cash Rate: Sep 2012 – Sep 2013



A-REIT NTA Premium/Discount Aug 2013



Source: Morgan Stanley, JP Morgan

- A-REIT storey of two halves to August 2013[1]
  - Annual return of 16.7%
  - Six month return of -0.3%
- AREITs have underperformed the ASX since global bond yields started rising in May 2013
- Despite recent underperformance the sector is in good health
  - manageable gearing (currently 29%)
  - more sustainable payout ratios – currently average 83%
  - focus on core activities
  - strong focus on capital management – refinancing debt, buy backs (WDC, WRT, GPT)
- Sector currently trading at[1]:
  - 15% premium to NTA although this is skewed by WDC, GMG, CHC[1]
  - 1% discount to NTA excluding WDC, CHC and GMG
- A-REIT investor profile has changed significantly
  - domestic A-REIT securities funds ownership share lower
  - large number of hedge funds /general equity funds owning A-REITs - typically short-term focused

[1] JP Morgan, as at Sep 2013

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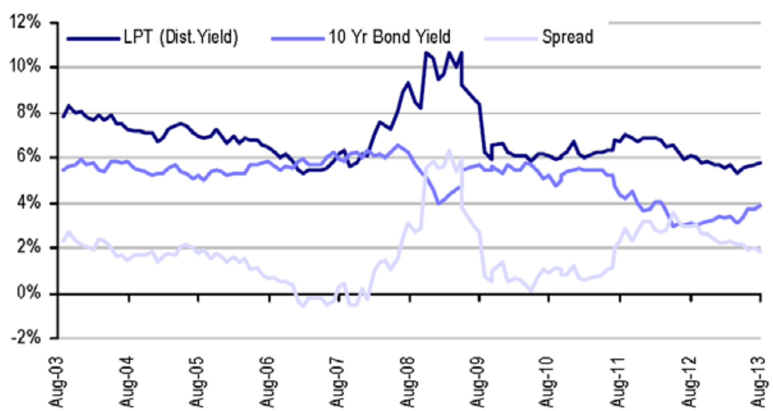
A-REIT Yields

A-REIT & Bond Yield Spreads: Aug 2003 to Aug 2013



A-REIT Dividend Premium v ASX 200: 1990 - 2013

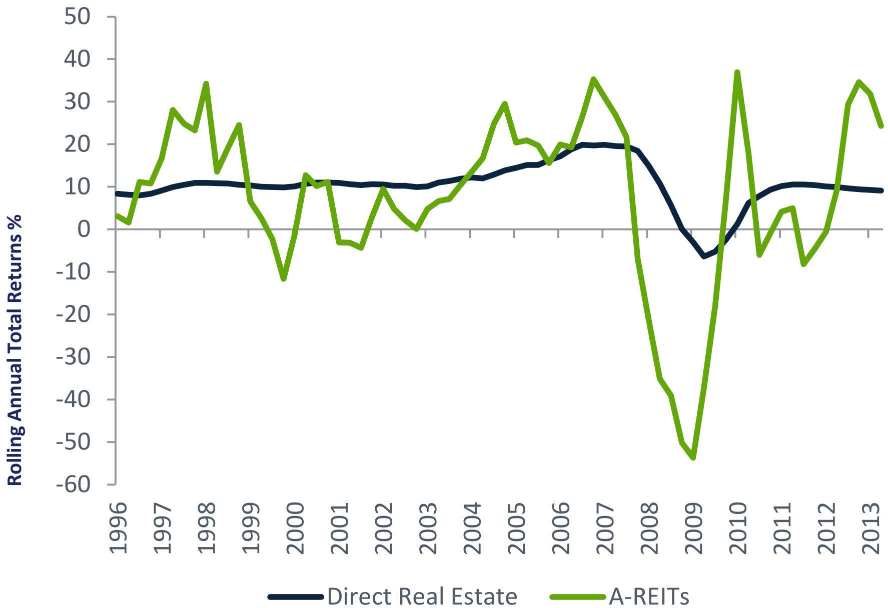
- A-REIT sector currently offering a FY14 cum-adjusted EPS yield of 7.0% and DPS yield of 5.8% [1]
  - DPS premium of 320bps on 90-day bank bills and 200bps premium on 10 year bonds
  - average distribution spread over 10 year bonds over:
    - 5 years - 230bps
    - 10 years - 180bps
- AREIT yield premium over bonds is despite payout ratios dropping below 100% - currently 83%
- A-REIT dividend yield premium relative to the rest of the market is at long term low levels – reducing one of the sectors key selling points
- Rising global interest rates have reduced the A-REIT yield premium over 10 year bonds however it is still likely to be sufficient to maintain sector support

Source: UBS, Morgan Stanley

[1] UBS as at 31 August 2013

Valuation – Direct & Listed

A-REITs vs Direct Real Estate: 1996 – 2013



- Transparency in the market is critical – valuers have a key role to play
- Prices between public and private markets diverges in short term but converges in the long term
- Capital markets driven by short-term factors not related to real estate fundamentals
  - equity movements
  - hedge fund trading
  - liquidity
- Short-term pricing arbitrage between REITs and direct real estate will continue – driven by lag in direct property valuations
- A-REIT market focus on EPS and DPS but NTA is still a valuable measure
- Property valuers offer more than valuation – useful insight into market trends

Source: IPD and MSCI

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Emerging Real Estate Sectors

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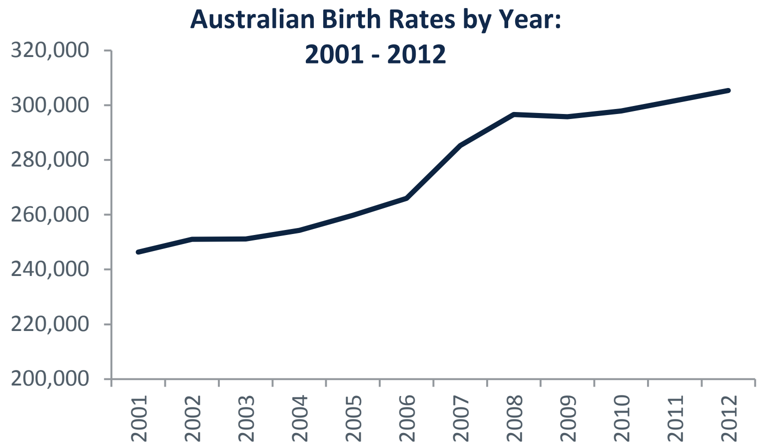
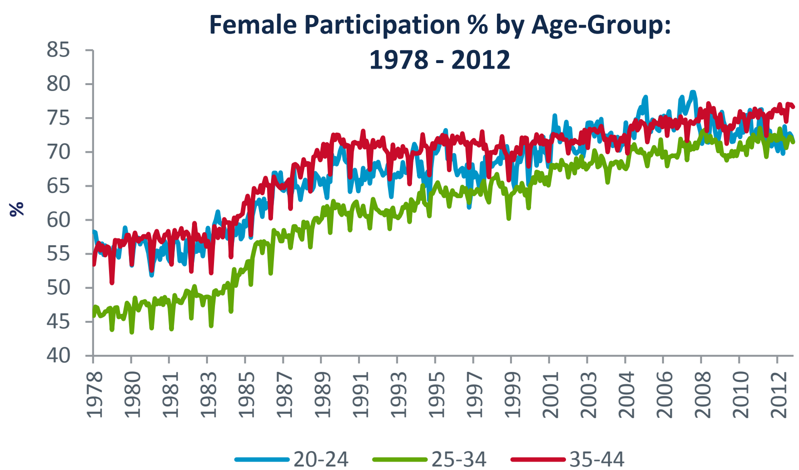
Social Infrastructure Assets

- Real estate assets that provide accommodation for fundamental community services including:
  - education - early learning (childcare) centres, schools, tertiary facilities, student accommodation
  - health - medical centres, hospitals, specialist facilities
  - retirement/aged care
  - social housing
  - transport – bus & train stations, park & rides, carparks
  - government accommodation (i.e. police stations, courthouses, prisons, defence housing)
- Benefits of investing in social infrastructure typically include:
  - longer leases than traditional real estate assets
  - net or triple net leases (operator/tenant pays outgoings)
  - secure (often government backed) cashflows
  - low correlation to other real estate and non-real estate assets
- Growth in social infrastructure real estate opportunities driven by:
  - demographic and social changes
  - government financing/budget constraints
  - allows agencies (operators) to focus on core business – managing and delivering core services to the community - rather than the provision, ownership and management of the underlying real estate assets

Early Learning Sector





Graph Source: ABS

[1] Department of Education, Employment and Workplace Relations – Childcare in Australia - August 2013

- The key drivers of the early learning sector:
  - demand for childcare services remain strong
  - birth rates has grown steadily - 2012 birth rate at an all time high
  - increased female participation rate in the labour force, supporting demand for long day care
  - recognition of social and educational benefits of early learning in children aged 1-5 years
  - government assisting with access to childcare, largely through Child Care Benefit and Child Care Rebate schemes, with the government forecast to spend $22bn to 2016-17[1]
  - population of children less than 5 years in the catchment area of a centre drives occupancy and profitability
- State of the market:
  - there are 6,192 long day care centres in Australia, an increase of 1,635 centres or 35.9% since 2004[1]
  - since 2004, the number of children using long day care centres has increased by 39.5 per cent to 615,630 children[1]
  - 49.2% of 3 to 5 year olds used childcare in 2012, up from 43.0% in 2006. In the 0-2 years age cohort, 31.4% used childcare compared to 26.9% in 2006[1]
  - there continues to be unmet demand, as evidenced by healthy waiting lists, in many areas across Australia.

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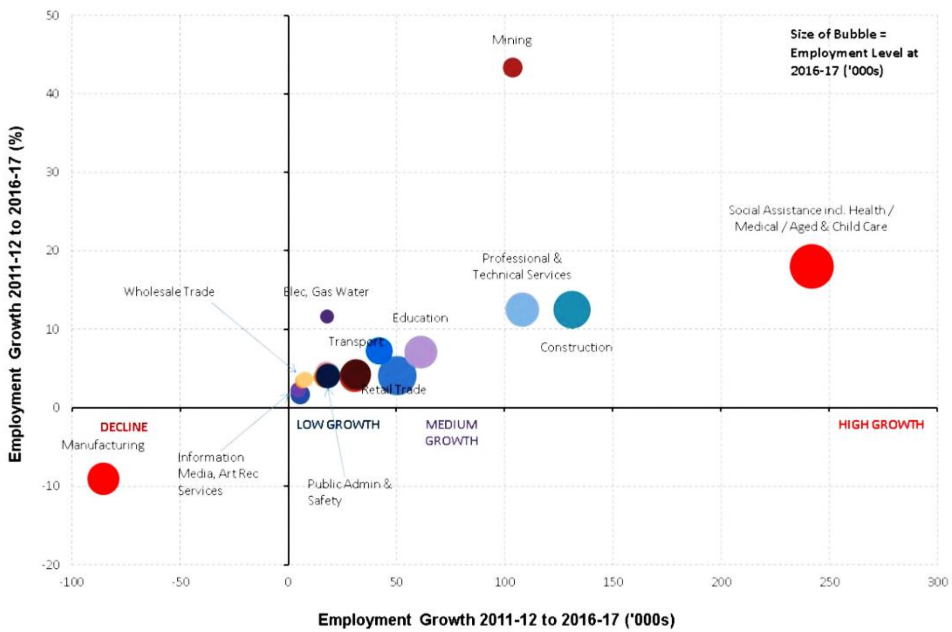
Social Infrastructure Sector Growth Forecasts

Growth Forecasts: 2011-12 to 2016-17



- Forecast growth in 'Social Assistance' employment totalling 242,000 jobs (3.4% p.a. growth) over 5 years to 2016-2017
  - expected to contribute more than one in four new jobs
  - driven by Australia's ageing population, and associated demands on health care services and facilities, and strong population growth
- Education and training is expected to grow at around 1.4 per cent per annum, totalling 61,300 jobs driven by increasing numbers of children entering the pre-school and school education systems
- Early learning centres growth strong
  - utilisation up 9% in 2011
  - record demand for approved childcare in the 0-12 category
  - emerging demand for new centres

Source: Department of Education, Employment and Workplace Relations (DEEWR) 2012

Outlook

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Outlook

- Weight of capital to support values despite weak real estate fundamentals
- Residential market recovery underway
- Mixed fortunes across the non-residential real estate sectors
  - Office – subdued demand and future supply increases to limit upside
  - Retail – difficult trading conditions and structural changes to continue
  - Industrial – currently favourite asset class
- Higher global bond yields will provide a challenge across all sectors
- Development of niche real estate sectors to continue
- Longer term trends supportive of continued investment into real estate from both
  - domestic and global institutions
  - private client investors especially SMSF's

Sources: IbisWorld Industry Report July 2012, DEEWR 2012

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