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Where Are The Trade Winds Blowing

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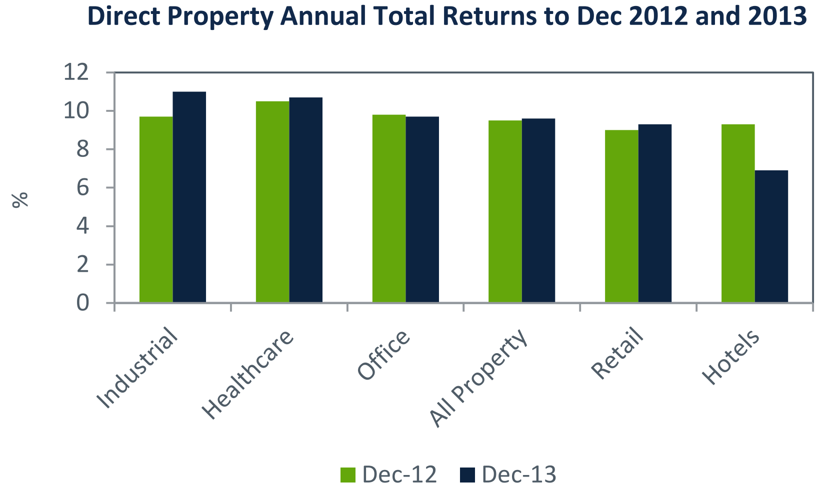
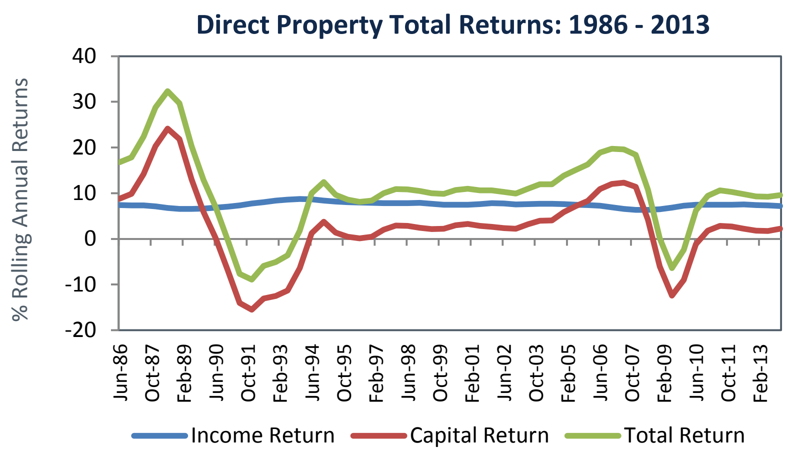
A specialist funds manager and developer providing real estate wealth solutions

Australian Market Conditions – Non-Residential

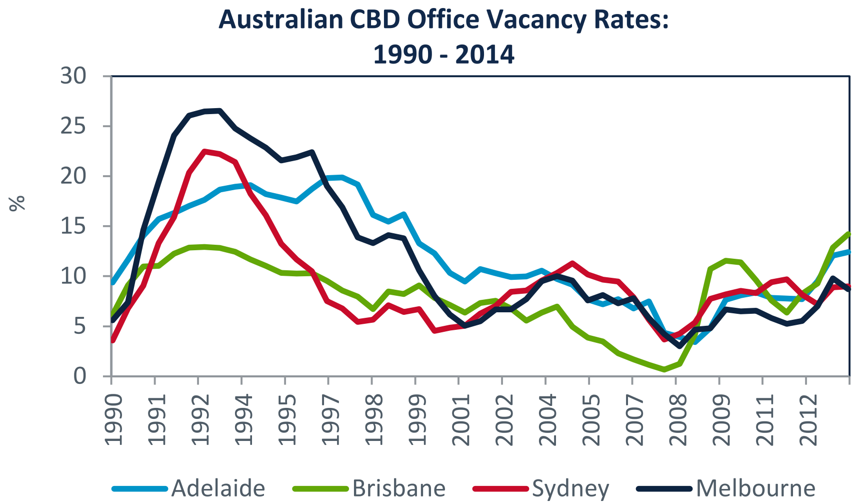




- Direct property returns up slightly in past year –
  - 9.6% total return in year to December 2013
  - industrial – 11.0% outperformed offices at 9.7% and retail at 9.3%
- Strong investor demand for yield investments is unlikely to abate – "core" real estate in demand
- Disconnect between capital and leasing markets will continue into 2014 – weaker tenant demand may be offset by cap rate compression from weight of money chasing assets
- Investors with higher risk appetite starting to look at secondary assets which have the potential to be refurbished and repositioned
- Active management will continue to be a key driver of performance – investors should focus on the underlying fundamentals of individual assets

Source: PCA / IPD Australia All Property Index

Australian Market Conditions – Office



Australian CBD Office Prime Rents & Yield: Year to March 2013

Market	Net Effective Rents	Net Effective Rents % Change	Yield %	Yield BPs Change
Sydney CBD	446	-1.9	6.6	-12.5
Melbourne CBD	266	-7.9	7.1	-12.5
Brisbane CBD	311	-15.1	7.4	+13.0
Perth CBD	495	-23.0	7.6	-24.5

Source: Property Council of Australia/JLL

- Vacancy rates increased in all major CBD markets except Melbourne
  - Adelaide CBD up from 9.5% to 12.4% in January 2014 – the highest on record
- Demand varies across CBD markets
  - Australia CBD office demand contracted by 107,000 sqm in 2013
  - driven by Brisbane (-98,767 sqm) and Perth (-46,442 sqm) CBD's
- Rents lower and higher incentives (already pushing 25% - 30% along the eastern seaboard) expected in 2014
- 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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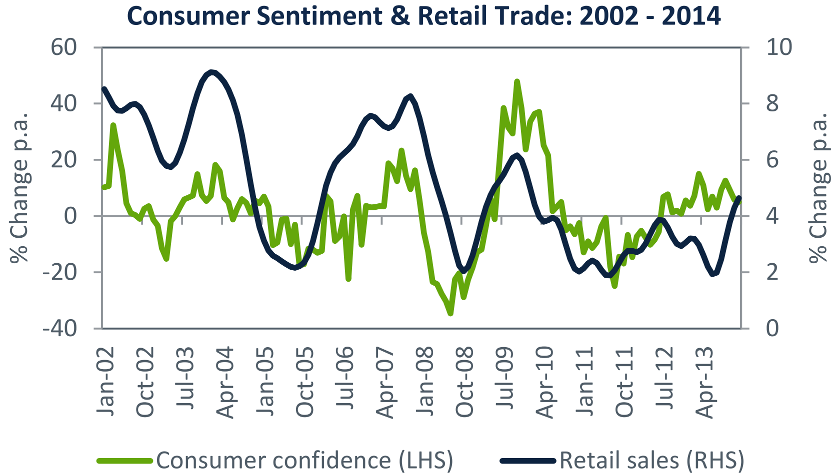
Investing in Non-Core Office Locations

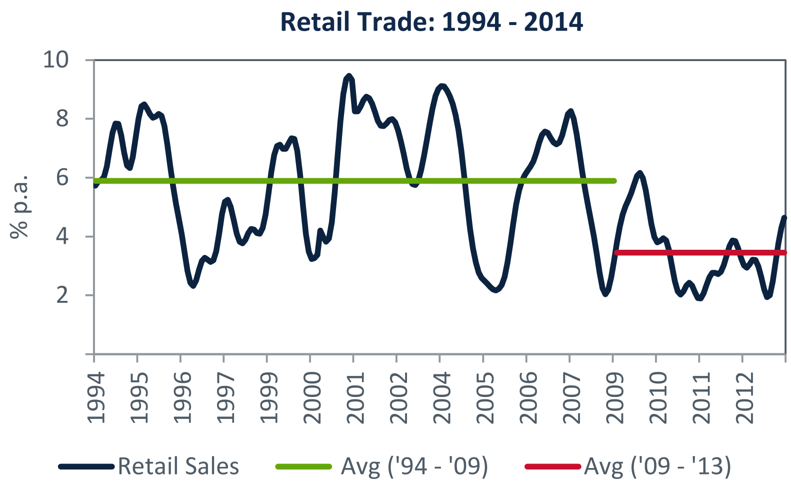
CBD vs Non-CBD Yields: March 2014

	Current Yield Range %	Current Midpoint %	Ten Year Average %	Current Midpoint to 10 Year Average	Current Suburban to CBD Spread
Sydney CBD	6.00 – 7.50	6.75	6.55	0.25	-
Parramatta	7.00 – 9.25	8.13	8.10	0.03	**1.28**
Macquarie Park	7.75 – 8.75	8.25	7.85	0.40	**1.50**
Melbourne CBD	6.25 – 8.00	7.13	7.15	-0.02	**-**
Melbourne Suburban	8.00 – 8.75	8.38	8.2	0.18	**1.25**
Brisbane CBD	6.50 – 8.00	7.25	7.15	0.10	**-**
Brisbane Fringe	7.75 – 8.75	8.25	8.15	0.10	**1.0**
Perth CBD	7.00 – 8.25	7.63	7.68	-0.05	**-**
West Perth	8.50 – 8.75	8.63	8.30	0.33	**1.1**

- Non-CBD office markets are starting to offer a compelling risk-adjusted return

Australian Market Conditions – Retail

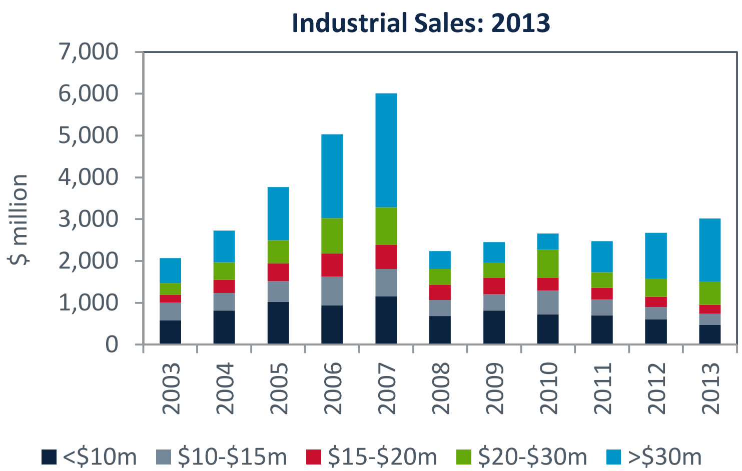




Source: Westpac/Melbourne Institute, ABS

- Retail environment remains challenging
- Driven by:
  - **cyclical** factors - price discounting, low consumer sentiment and continued high savings levels
  - **structural** factors – on-line and changing retail formats
- 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

Australian Market Conditions – Industrial



Source: PCA / IPD Australia All Property Index, Savills Research

- Two tier market - prime assets in strong demand from tenants and investors whilst secondary assets not as well supported
- Warehouse and distribution centres have performed strongly
  - up 11.9% and 12.3% in the year to December 2013
- Industrial currently attracting significant investor interest
  - strong demand from A-REITs and private investors
  - Fife Capital's Australian Industrial REIT IPO in November well supported
- Industrial attractive to investors for a number of reasons
  - positive yield spread to bonds
  - 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
- Rental growth for expected to pick-up, although uneven across markets

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Is this Cycle Different from Previous Cycles?

- **Perception and Reality of Risk is No Different**
  - One thing that never changes is the misconception that core real estate investment is the safest strategy.
  - Core may not be the safest strategy if an investor overpays for the asset or invests at the wrong-time in the cycle.
  - Office is the classic example – the long-term performance of CBD office markets is not behind office and retail and it is the most cyclically of the sectors.
- **Link to Capital Markets Stronger Now But Underlying Fundamentals Still Important**
  - There is no doubt real estate is now more closely linked into the capital markets than in 1991/1992 and 1973/74
  - The pricing of real estate relative to the risk free rate and numerous other capital market metrics is important but you cannot forget is that the drivers of real estate are determined not just by the capital markets but also by the space markets – demand and supply
- **Foreign Capital Not a New Phenomenon in this Cycle**
  - In the 70's we had the English lead by Hammerson and MEPC and in the 80's it was the Japanese
  - Now we have global funds, sovereign wealth funds and of course the Asian's – Chinese, Koreans and Malaysian in particular.
  - Some of the money that has come in in recent years is the "hot money" looking for a quick turn but for most its is long-term driven by the stability Australia has to offer

Is this Cycle Different from Previous Cycles?

- **Performance of the Sectors**
  - What is interesting when we compare the 1990-91 collapse and the GFC collapse is that there was little variation in downturn and recovery across the sectors compared to 1990-91 when retail held-up relatively well compared to office and industrial. In part, this reinforces that fact that the most recent downturn was driven primarily by capital market factors rather than purely property market fundamentals, and therefore all sectors were not immune
- **Risk**
  - No matter what you do in real estate, in some form or manner, you will be asked to evaluate risk
  - When you evaluate risk, expect the unexpected
  - Think broadly and expansively about events that can impact your probable outcome
  - Don't take the "conventional wisdom" approach to investing or evaluating risk
  - At times in our industry, there is a rush to herd mentality in pricing assets. The seemingly safest position today may actually be far riskier than might be perceived by the "herd" mentality. An example is core real estate in some of the gateway global cities is currently being priced to perfection
- **You Make Money Buying Well**
  - The best returns are made buying well. As Warren Buffet said "it is when the tides goes out you see the naked people swimming"

Emerging Real Estate Sectors

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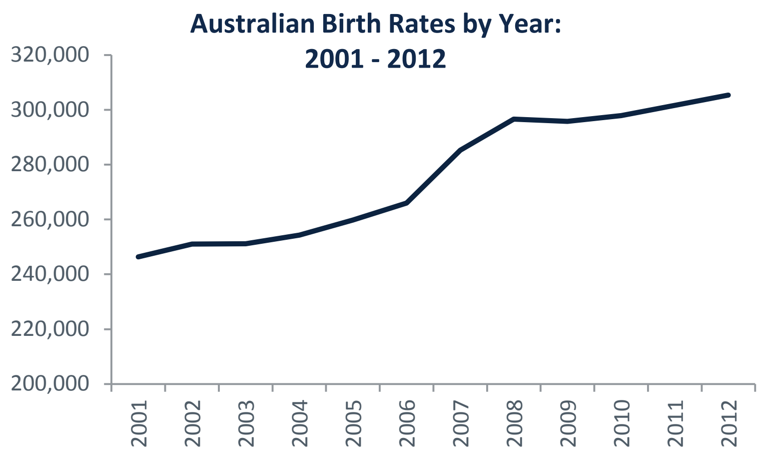
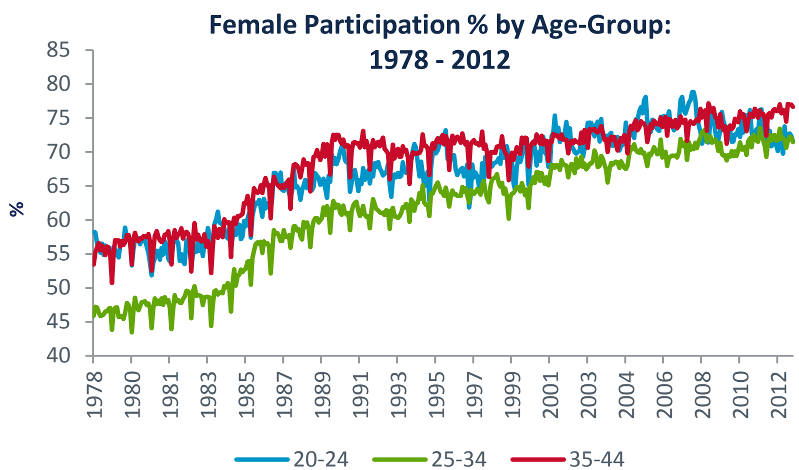
Social Infrastructure Assets

- 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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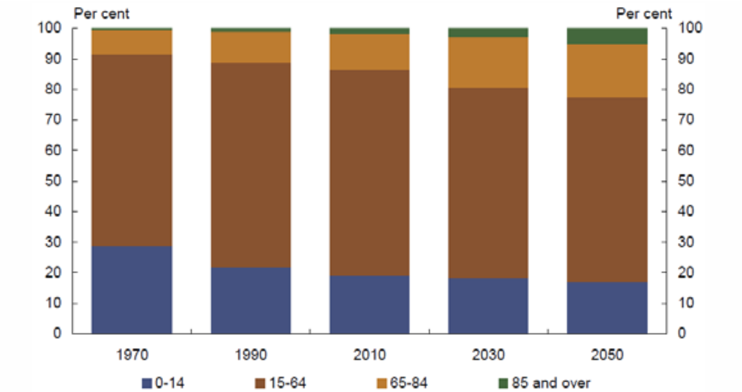
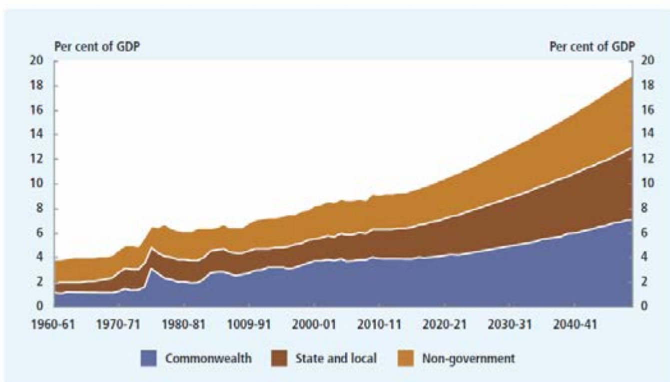
Seniors Living and Health Care

Proportion of the Australian Population by Age Cohort – Aging Population: 1970 - 2050



Projected Health Expenditure in Australia – Demand for Health to Increase: 1960 - 2050



Source: Treasury projections based on data from the Australian Institute of Health and Welfare. Based on current arrangements.

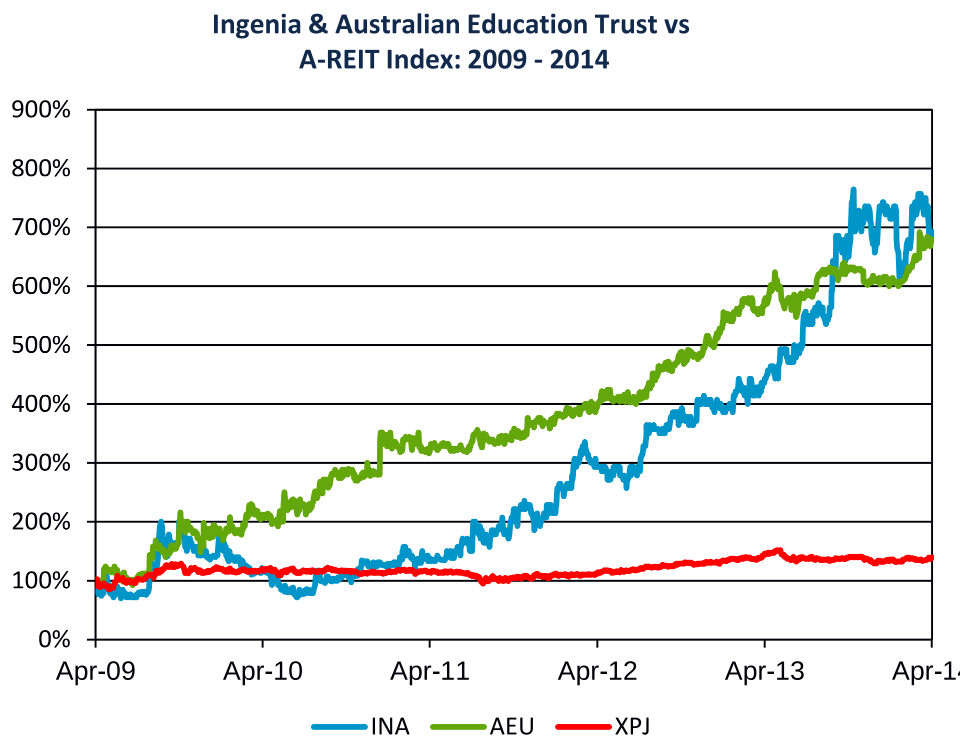
- Demographics – aging population requires increased provision of seniors living (manufactured homes, retirement villages & aged care) and health care services
- Government's looking to private sector to deliver aged care and health care services – partners rather than competitors
- Relatively inelastic nature of aged care and health care services
- Real estate facilities key part of the provision of seniors living/aged care and health care services

Source: Australian Treasury

Social Infrastructure – Listed A-REITs

A-REIT	Sector	Market Cap $M	No of Assets	Average Cap Rate %
Ingenia	Manufactured Housing / Retirement & Rental Villages	342	57	>9.5
Australian Education Trust	Childcare	323	351	9.2
Arena	Childcare / Medical	199	199	9.1
Generation Healthcare	Health / Medical	153	10	8.5
Lifestyle Communities	Manufactured Housing	130	7	-
Australian Social Infrastructure Trust	Childcare / Medical	71	49	9.4
Total		1,218	673	

Social Infrastructure – Listed A-REITs



- Over 5 years annualised total return:
  - Ingenia – 69% p.a
  - Australian Education Trust – 65% p.a.
  - Index – 16%

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Outlook

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Lesson's from Past – A Guide to the Future

- Real Estate & Capital Markets
  - Need to understand real estate and capital markets
  - Capital structure is important - balance between debt and equity and investing across the capital stack
  - Capital flows at certain times in the cycle will overwhelm real estate fundamentals
  - Markets come unstuck when risk is not understood and therefore not priced properly!
- Investors
  - Managers must remember investors come first
  - Be transparent with investors
  - Investors want basic, true to label products
- Business
  - Need to always be looking out ahead - what are the key drivers? what are the keys risks? Be prepared to adapt and change
  - Your team is critical – right people, culture and skills
  - Have good governance and risk mgt backing you up

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