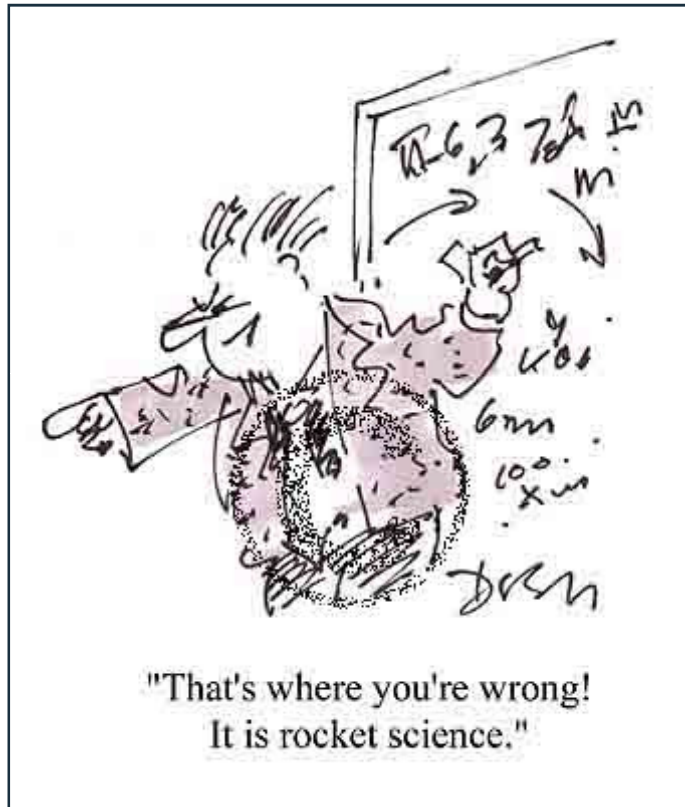


# A-REITs – Issues for the Industry

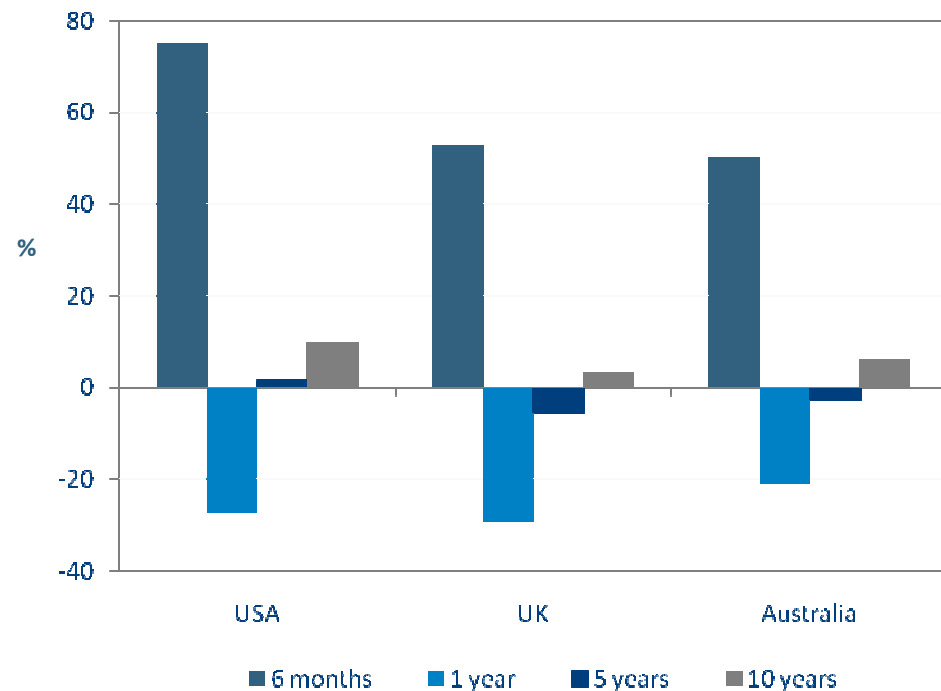
ASX – October 2009



# A-REIT Performance in Context



Global REITs: Total Returns to Sept 30 2009



Source: UBS, S&P

# Issues the Industry Must Address



## Back to Basics – Investors want:

- ◆ Lower and better mgt of leverage
- ◆ focus on sustainable income
- ◆ simpler structures
- ◆ greater transparency
- ◆ greater alignment
- ◆ independent oversight
- ◆ focused business models

***“This is what we call a ‘true to label’ issue...A-REITs engaged in much more risky activities than was realised... these are lessons that must be taken on board”***

Jeremy Cooper, Deputy Chairman, ASIC, 11/03/09

# Issues the Industry Must Address



## REITs vs Direct – Ongoing Debate?

- ◆ Industry must support both forms of investment
- ◆ REITs will return to more historical long-term performance
- ◆ REITs will continue to be used as liquid form of real estate
- ◆ Short-term pricing arbitrage between REITs and direct property will continue – driven by lag in direct property valuations
- ◆ For many investors – both will have a place in their portfolio

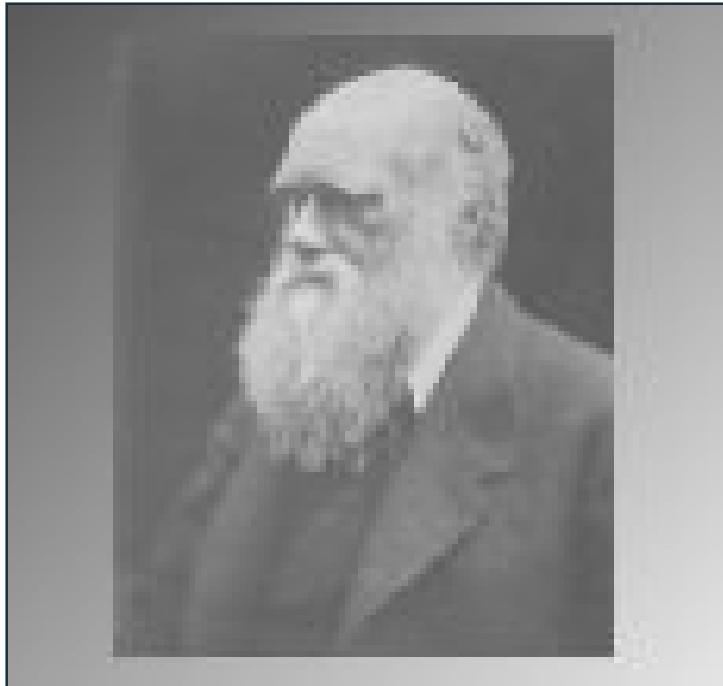
# The Next Cycle?



## What Rules Must We Remember?

- ◆ Capital flows at certain times in the cycle will overwhelm real estate fundamentals
- ◆ Real estate survives on equity and debt capital – but a balance is needed
- ◆ Risk matters – allocating capital efficiently is about paying attention to relative value – are you being properly compensated for the risk being taken on?

# Who Will Survive?



*“It’s not the strongest of the species that survives, nor the most intelligent, but the most responsive to change.”*

Charles Darwin

## REITs/Fund Managers that deliver:

- ◆ consistent performance driven by skill rather than market momentum
- ◆ deliver products that are simple, transparent and true to label
- ◆ use leverage appropriately
- ◆ maintain exceptional communication with investors
- ◆ well resourced management teams