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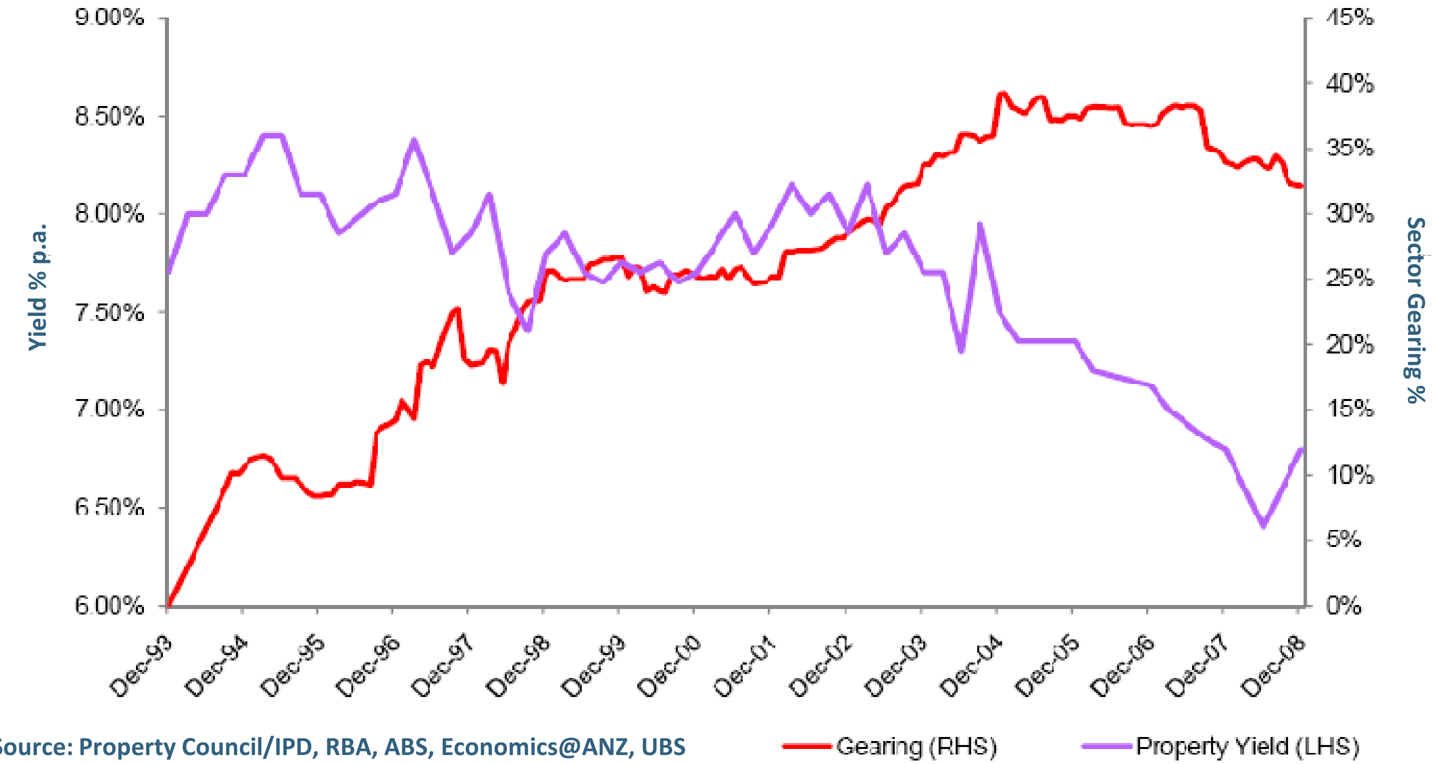
READING THE MARKETS

PCA Adelaide – October 2009

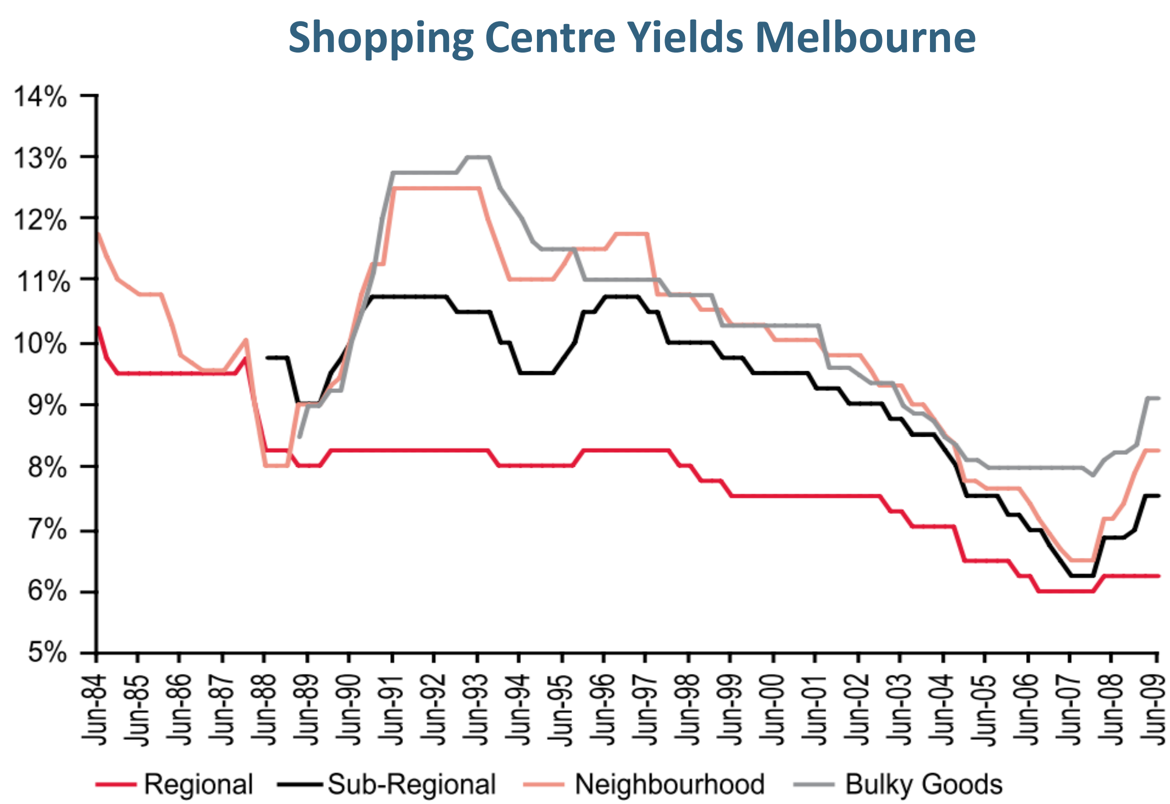
Why are we here?

Australian commercial property yields 1993-2008
vs.
A-REIT sector gearing (Debt/Gross Asset



Source: Property Council/IPD, RBA, ABS, Economics@ANZ, UBS

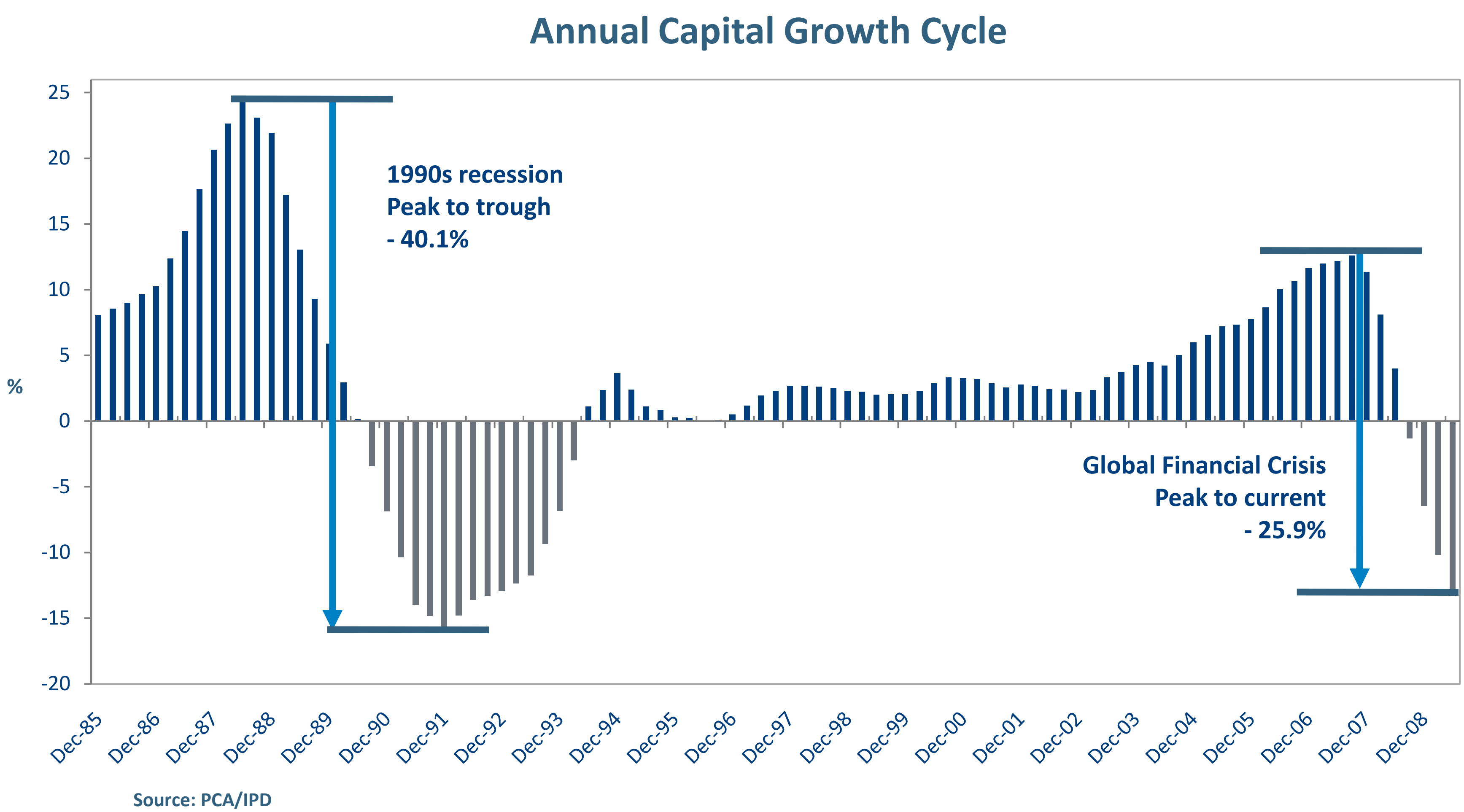
Prime vs. secondary property



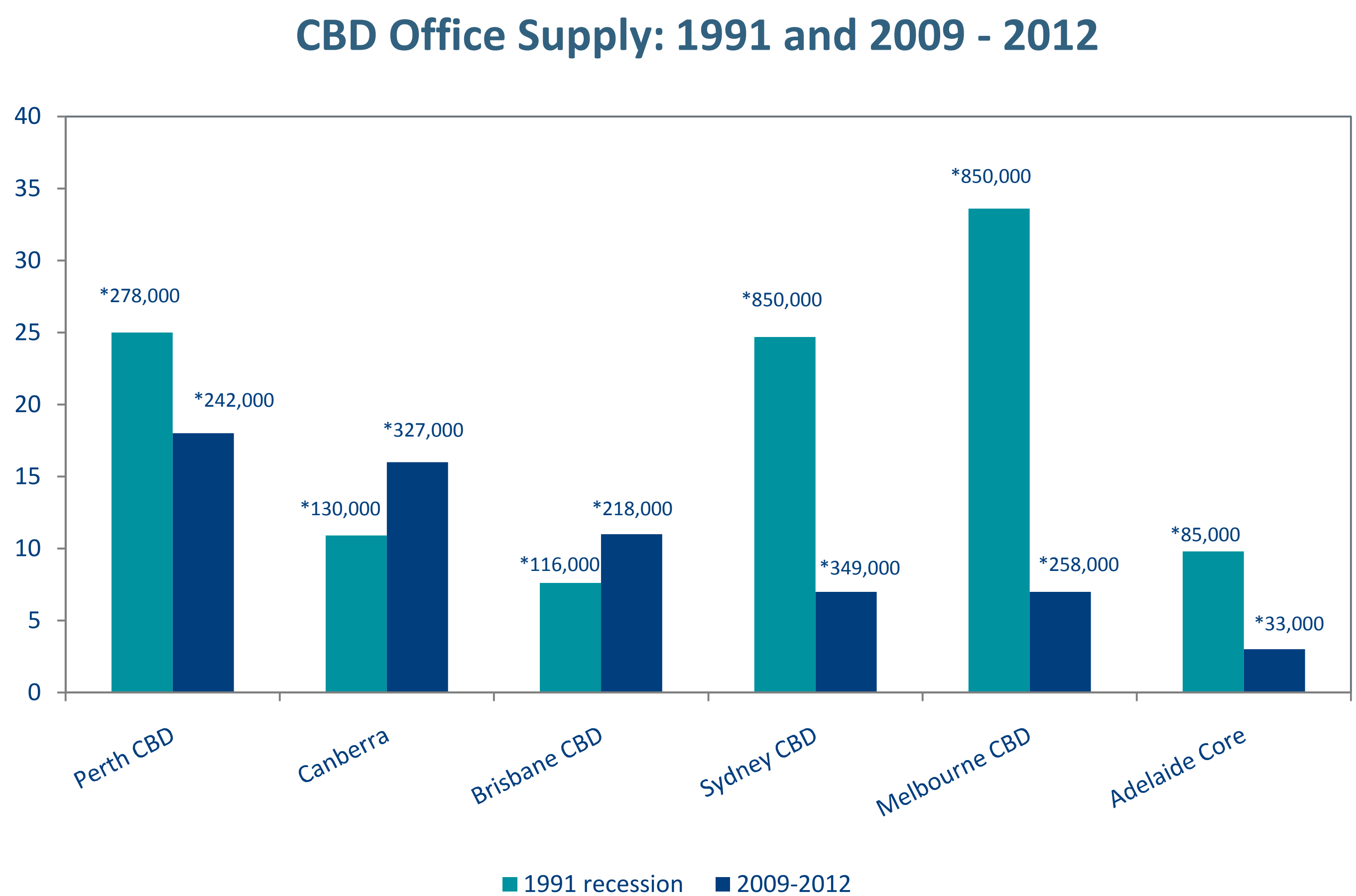
Note: Regional and sub-regional are medium equivalent yields, neighbourhood and bulky goods are mid-point of the yield range

Source: Jones Lang LaSalle

Downturn – Not that bad?



Supply not the issue this time



Source: PCA

*Supply sqm's

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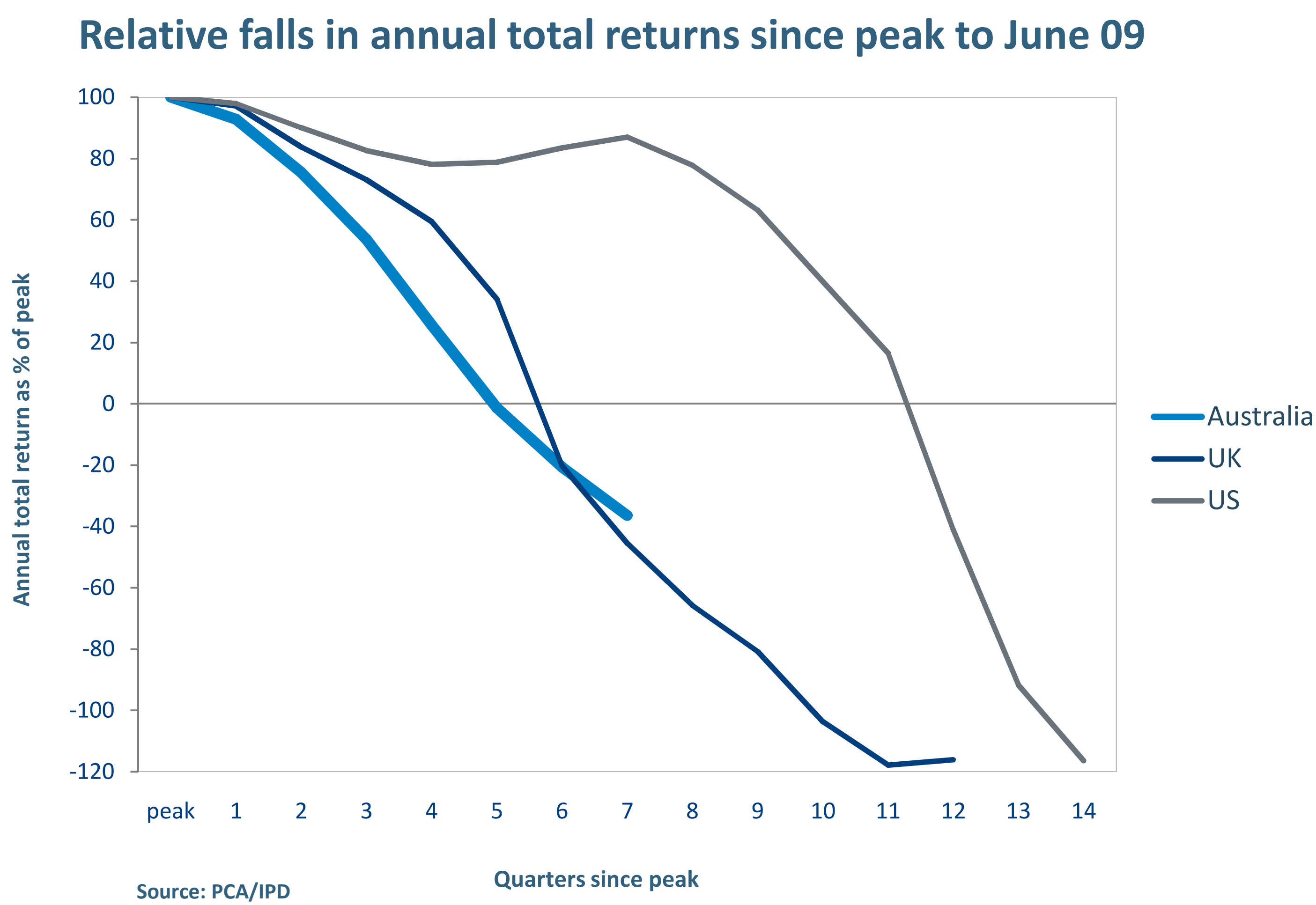
Global cycle – Australia holding up?



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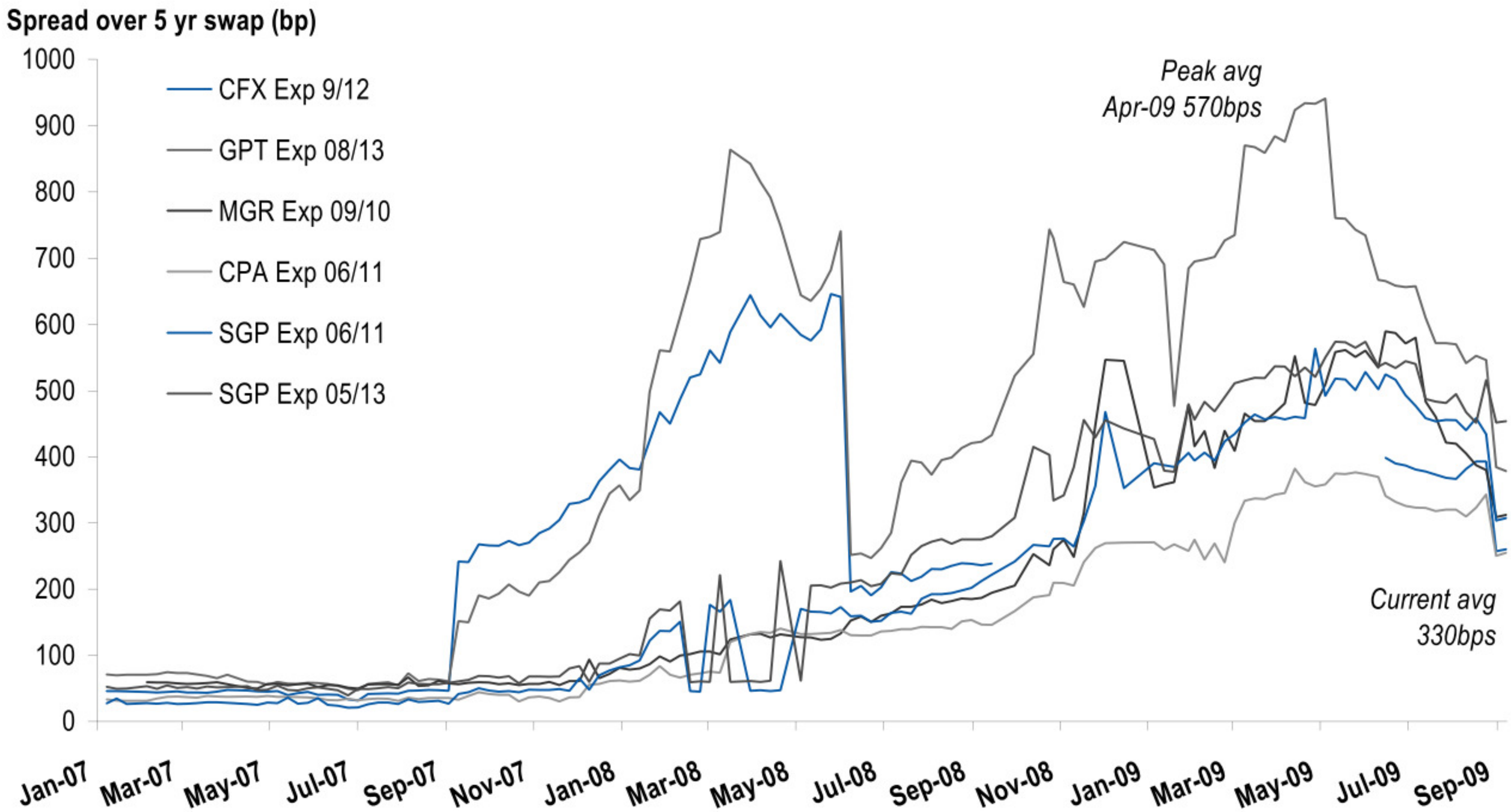
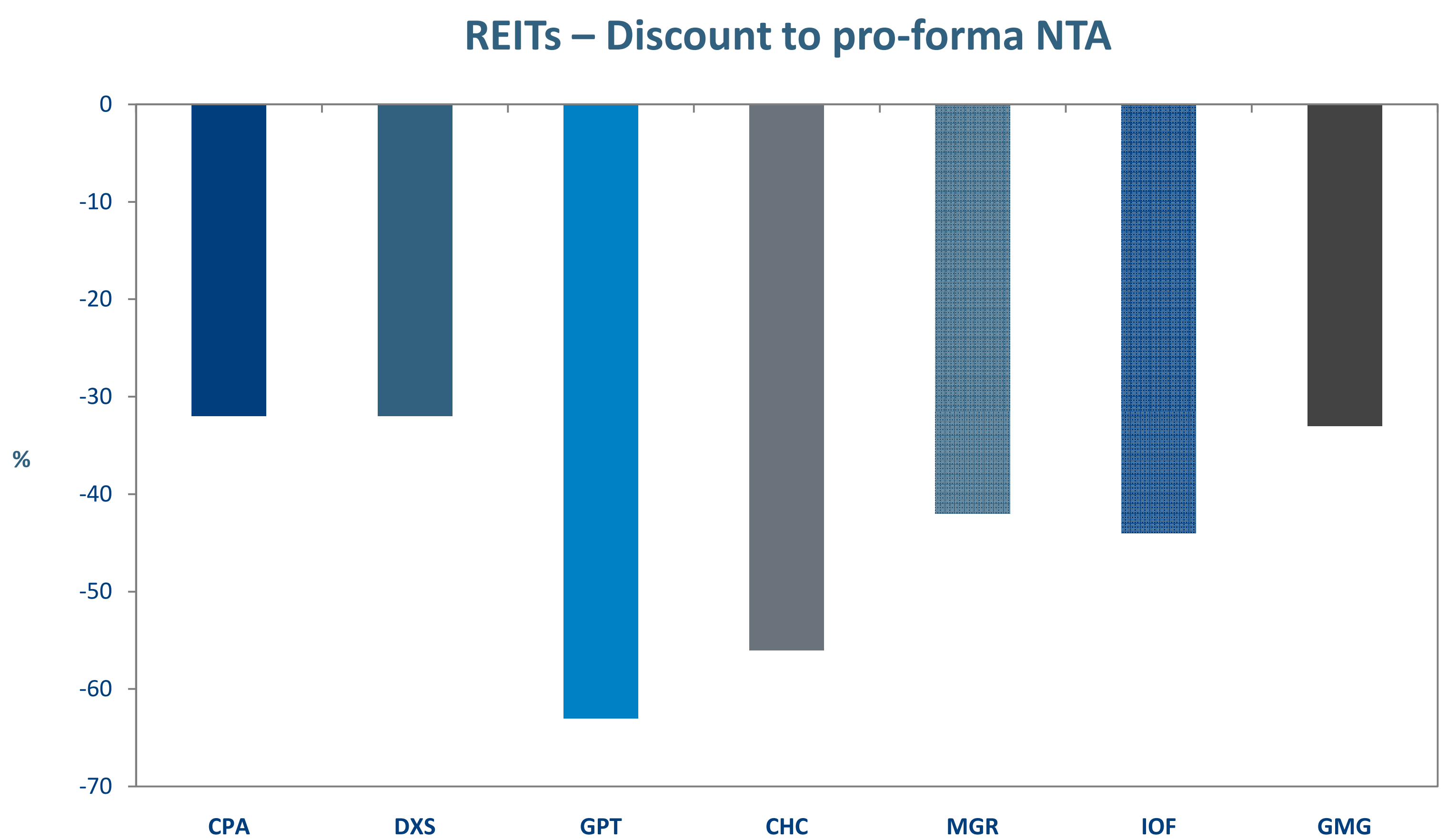
Debt costs remain high

Medium Term Note's issued by REITs



Source: Reuters, JP Morgan

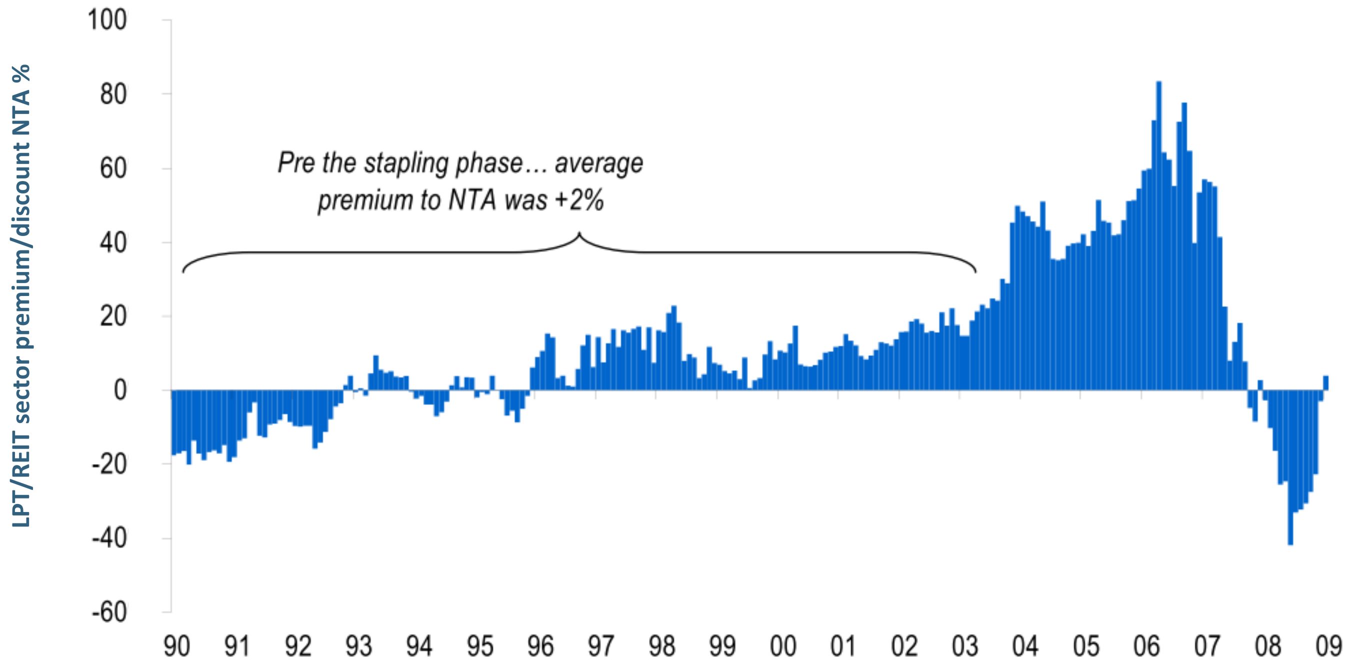
Capital raisings – creating value?



Source: Company reports

REIT Pricing – expensive?

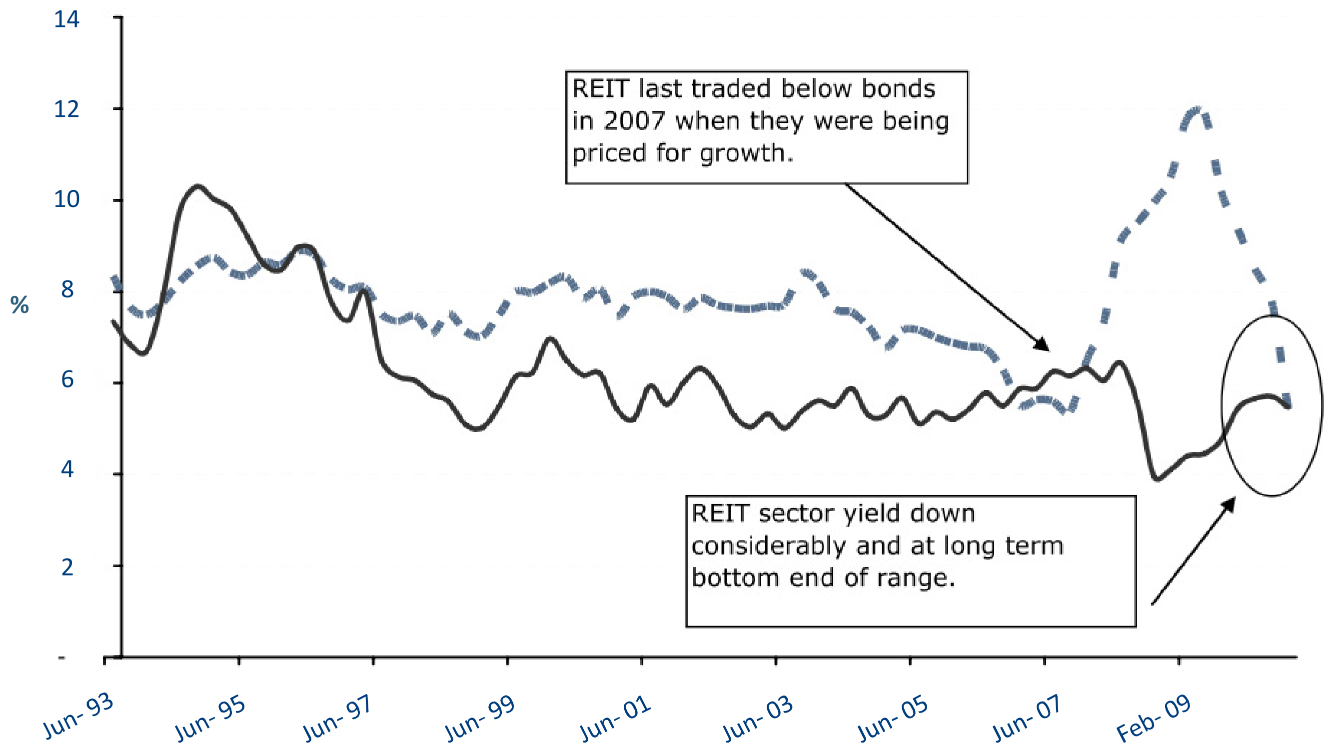
Property Trust Sector Premium/Discount on NTA



Source: J.P. Morgan

REIT Yields - Attractive?

Trust & 10 year bond yields



Source: GSJBW Research

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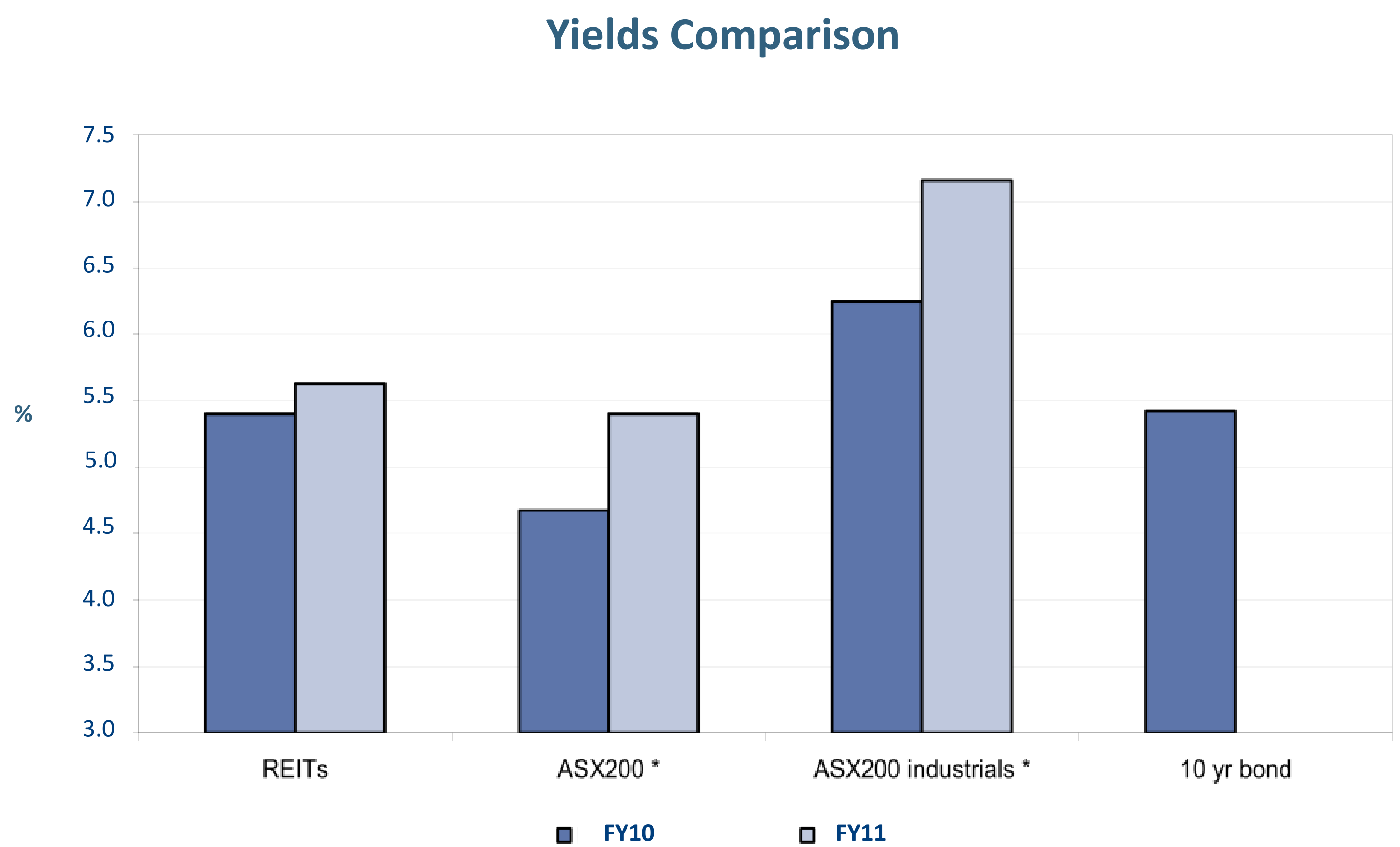
Comparing REIT Yields



Source: GSJBW Research

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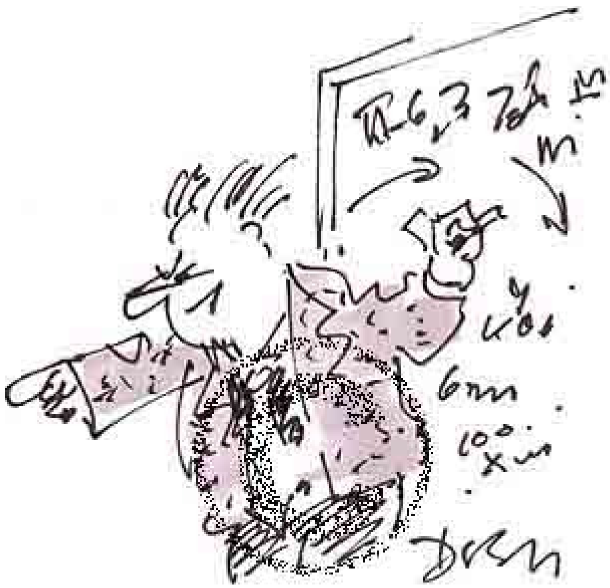
SURVIVING THE FUTURE

Issues Going Forward

Issues the Industry Must Address



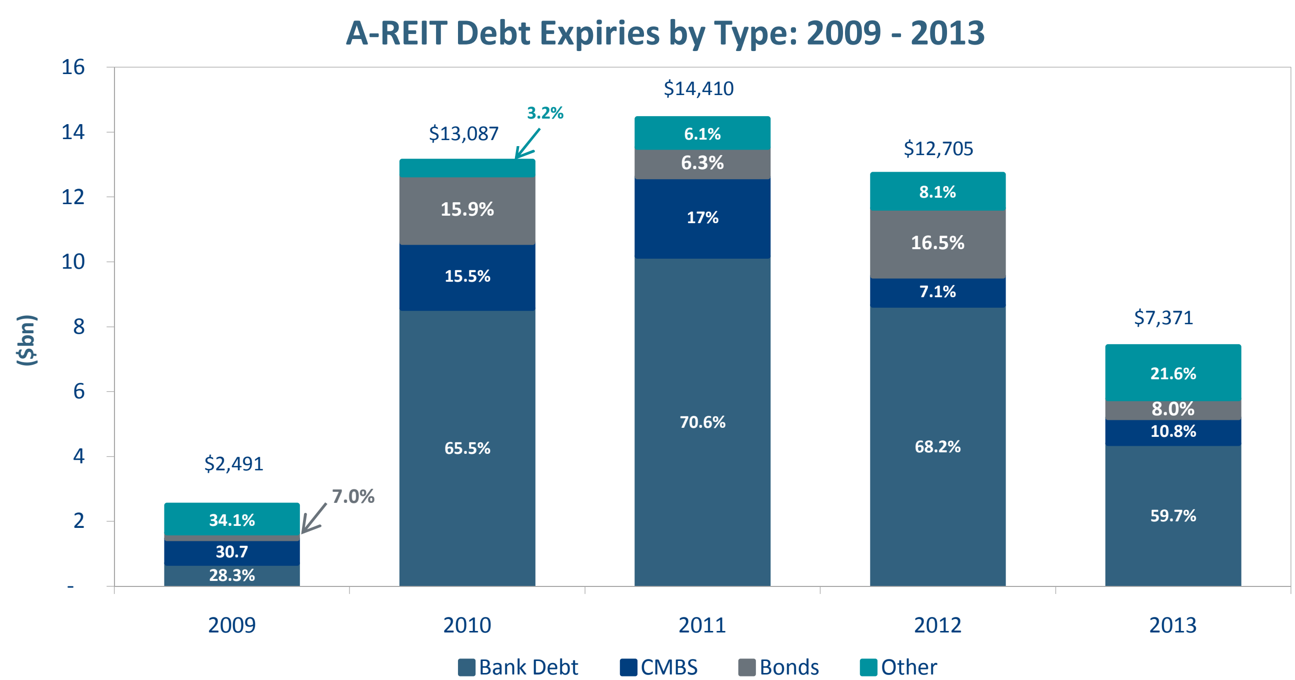
"That's where you're wrong!
It is rocket science."

Back to Basics – Investors want:

- less leverage
- focus on sustainable income
- simpler structures
- greater transparency
- changes to fee structures and greater alignment
- independent oversight

Issues the Industry Must Address

- Underwriting standards tough, margins high, more emphasis on recourse
- Industry must pro-active to avoid banks taking advantage of situation
- ‘ABIP style’ entity must fill the void of banks reducing exposure to property
- Sector will continue to de-lever
- Super funds/SWF’s could be a potential new source of debt



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

Issues the Industry Must Address

Public Perception & Trust

- Industry needs to win back investors
- We've let many investors down – especially retirees
- Managers must remember investors come first
- Need clear and transparent message – no surprises
- Some manager brands are damaged, some terminally

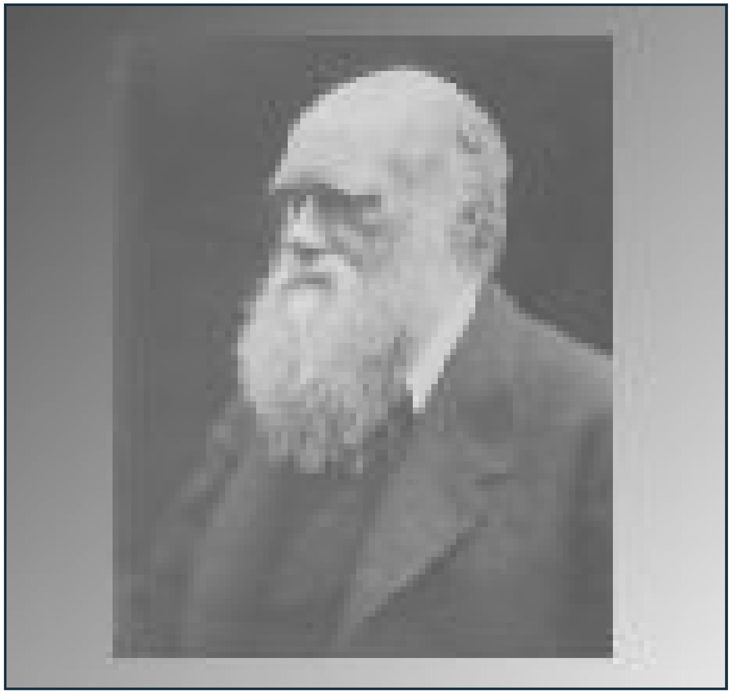
"This is what we call a 'true to label' issue…A-REITs engaged in much more risky activities than was realised… these are lessons that must be taken on board"
Jeremy Cooper, Deputy Chairman, ASIC, 11/03/09

The Next Cycle?

What Rules Must We Remember?

- Capital flows at certain times in the cycle will overwhelm real estate fundamentals
- Property 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?



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 team

"It's not the strongest of the species that survives, nor the most intelligent, but the most responsive to change."
Charles Darwin