Australian REIT Sector

PRRES Conference

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Less price growth as you would expect from a lower risk and lower volatility sector.

All Ords has survivorship bias and higher failure rate.
Adding in the income, shows the stellar performance.

Despite the introduction of the CGT discount rule and the redeemable excess franking credit regimes.

EITs vs All Ords - Accumulation Index

REITs
All Ords

^ source: IRESS
Performance

Illing Annual REIT Accumulated Return vs 10 Year Bonds

Highly correlated most of the time

Secular trend has been beneficial

More recently, Bonds have been in a range but REITs continue to outperform

Other factors are at work........

Source: IRESS
Performance

Performance has not been all bond related

Properties have done their job

Sector has changed too
   Growth and consolidation
   Internalisation
   Globalisation
   Gearing

De-rated relative to bonds?

Source: IRESS, GSJBW Research yield estimates
Real estate assets have done well and this explains part of the performance of the sector.

Retail has powered ahead.

Offices have come off a high.

Industrial solid.

Growth from assets 2004.

Source: Company data, GSJBW Research estimates.
Growth and Consolidation

Good managers have grown accretively

Have resulted in bigger, more liquid, more diverse portfolios

Best managers have survived

Has enabled trusts to gear

Has enabled benefits of scale

Has broadened the investor base

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ket Cap#</td>
<td>$13bn</td>
<td>$67bn</td>
</tr>
<tr>
<td>No. of Stocks</td>
<td>34</td>
<td>22</td>
</tr>
<tr>
<td>Gest</td>
<td>$2bn</td>
<td>$23bn</td>
</tr>
<tr>
<td>LIAN</td>
<td>$0.2bn</td>
<td>$1.5bn</td>
</tr>
<tr>
<td>No. of assets</td>
<td>~15</td>
<td>&gt; 50</td>
</tr>
<tr>
<td>Merging</td>
<td>15%</td>
<td>35%</td>
</tr>
<tr>
<td>Net Spreads</td>
<td>75-125bps</td>
<td>55-80bps</td>
</tr>
<tr>
<td>MER</td>
<td>75bps</td>
<td>25bps</td>
</tr>
</tbody>
</table>

Source: IRESS, GSJBW Research estimates
Internalisation

Stapled security format has gained dominance
Cost efficient
Aligned interest
Flexibility

Synergies have existed for the vertically integrated manager

New risks emerging.

Note: Including GPT and MGI internal is 83%

Source: IRESS, GSJBW Research estimates
Globalisation

Mature local market

US and UK compatible markets

Risk management
  Property
  Financial

Portion of sector by market cap

Source: IRESS, GSJBW Research estimates
Gearing

Adding risk but likely to continue to climb in our view

Traditional measurement exacerbates the movement

REITs better placed to leverage as a result of growth and expertise

Low by world / private standards

Source: Company data
Summary

In the race to create superior returns the internally operated, vertically integrated, global companies are believed to be the best proponents at the moment.

But it is unlikely that everyone can do it all. Some may make mistakes too.

From time to time, company specifics will be more important than the real estate.

- Corporate strategy
- Financial leverage
- Services industries

But the bulk of the income is still rental and the market will select the best operators with the most efficient structure to control the assets.
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