Agenda

- Evolution
- Lessons learnt
- The way forward
DEXUS Property Group – example A-REIT

- ASX Listed AREIT – Mkt Cap A$2.8 bn*
- Owner, manager, developer
- Assets under management: A$15 bn**
  - Direct property portfolio: A$9 bn
  - Third party funds: A$6 bn
- 1st in office / 3rd in industrial
- Leading 3rd party funds management
- Market leader in sustainability

*As at December 2008, **As at June 2008
DEXUS profile – example of REIT income

**Diversified Asset Base**
- Industrial US: 22%
- Industrial Europe: 4%
- Industrial AUS: 21%
- Retail AUS: 3%
- Cash/Other: 3%
- Office AUS/NZ: 47%

**Stable Operating Income**
- Development: 2%
- Funds Management: 2%
- International NPI: 24%
- Australian NPI: 72%

- 205 properties
- 96% of income is derived from stable property income

As at 30 June 2008
History of A-REITs: the 1970-80’s

Start up and early progress

S&P/ASX A-REIT Price Index Dec-79=500 & 3 year rolling average

- GPT listed in 1971
- Stockland (via Darling) 1972
- Westfield 1979
- DEXUS (via NMPT) in 1984
- Low gearing <10%
- Core, in local markets
- All passive rental income
- By 1989 there were 11 LPTs with mkt cap > than $100m

Source: DEXUS Research, IRESS, S&P/ASX A-REIT price index (prior to 1979 GPT price index)
History of A-REITS: the 1990’s

Growth phase

- 1990-94 credit squeeze saw real estate in hands of banks, then listed
- Liquidity crisis in unlisted property vehicles saw retail money go to listed
- Government privatisation & corporate restructures added to listed stock
- New superannuation laws stimulated demand for high yield products
- All externally managed
- All passive rental income
- Market cap quadrupled

Source: UBS, DEXUS Research
History of A-REITS: the 2000’s

Consolidation phase

- 1999 Managed Investments Act – Single Responsible entity replaced external Trustee...
- ...stimulated M&A Activity – Consolidation from 51 to 26 LPT’s
- Management internalised – GPT, Westfield, Goodman, DEXUS
- Drive for growth led to ‘stapling’ – allowed development & other activity
- Sale of assets to wholesale funds
- Equity capital de-listed

Source: UBS, DEXUS Research
Growth fuelled by higher risk revenue streams

A-REIT income split

Source: UBS, DEXUS Research
In 2008, 41% offshore

Overseas expansion driven by:
- Strength of capital inflows to sector
- Lack of domestic stock given high levels of securitisation
- Seeking growth and diversification

Source: DEXUS Research, UBS
Internal management - AREITs

Per cent of market capitalisation classified as stapled

Source: UBS, DEXUS Research
Debt levels increased, but are now easing

Historical debt to assets, A-REIT sector

Source: UBS, DEXUS Research
Listed property has become more equity-like

Global REIT beta

Source: UBS Research
Investor base changing

Investors in A-REITs

- Passive capital replaced by less loyal global capital eg hedge funds

Source: UBS Research
Rapid evolution – short term

- Credit crunch, equity market sell off and economic slowdown
- Lack of liquidity in capital and asset markets constrains activity

- Immediate focus on core business, particularly domestic
- Debt reduction, including by asset sales & capital raising
- Re-adjusting distributions to better reflect cash or rental income
- Likely improvement in pricing as cost of capital issues ease
Pricing reflects the risk of debt

% Gearing vs distribution yield FY09

Rule of thirds

<table>
<thead>
<tr>
<th></th>
<th>Gearing%</th>
<th>Yield%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best third</td>
<td>32</td>
<td>8</td>
</tr>
<tr>
<td>Worst third</td>
<td>50</td>
<td>40+</td>
</tr>
</tbody>
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(UBS data)

Source: UBS, DEXUS Property Group Research
Lessons learnt...

- Management rather than property has underperformed
- Global mis-pricing of risk (all asset classes)
- High leverage in rising interest rate environment
- Levered IRR’s vs unlevered
- Over-valuation of development and 3rd Party FM earnings
- Over-valuation of corporate assets
- Strategic vs non strategic international expansion
- Distribution of non-cash earnings
- In some cases, focus on fees not value
The way forward – long term issues

- Domestic vs international portfolios
- Asset managers vs fund managers vs developers
- Big vs boutique
- Passive REIT’s vs active PropCo’s
- Sector specialisation vs diversification

- Capital markets favour earnings growth; yet...
- Structuring and developing for growth creates volatility
- Do investors/analysts price this risk properly—poor record so far?
- Protective mechanisms for M&A activity on passive vehicles

- Role of large sovereign wealth funds and pension funds
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