



# Pacific Rim Real Estate Society 2009

## The Australian REIT Market – Evolution & the Way Forward

20<sup>th</sup> January 2009

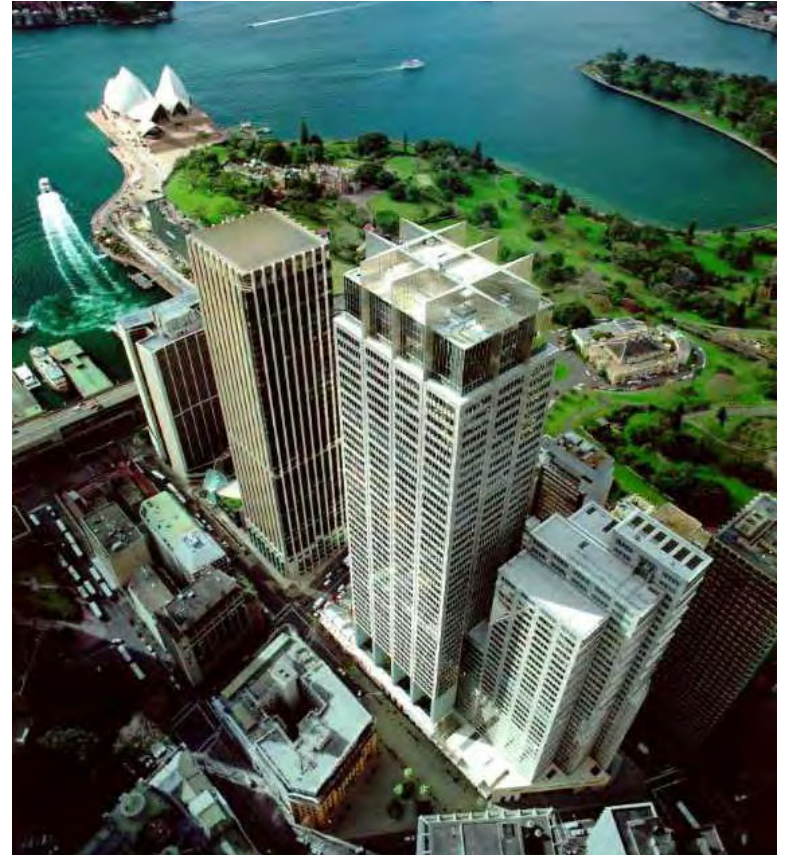
Peter Studley

Head of Research

DEXUS Property Group (DXS)

# 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**

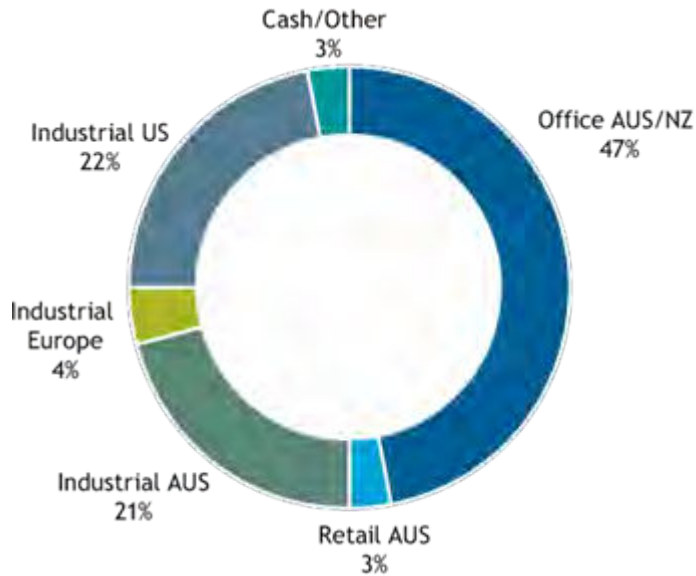
Artist's impression Space 1 Bligh, Sydney



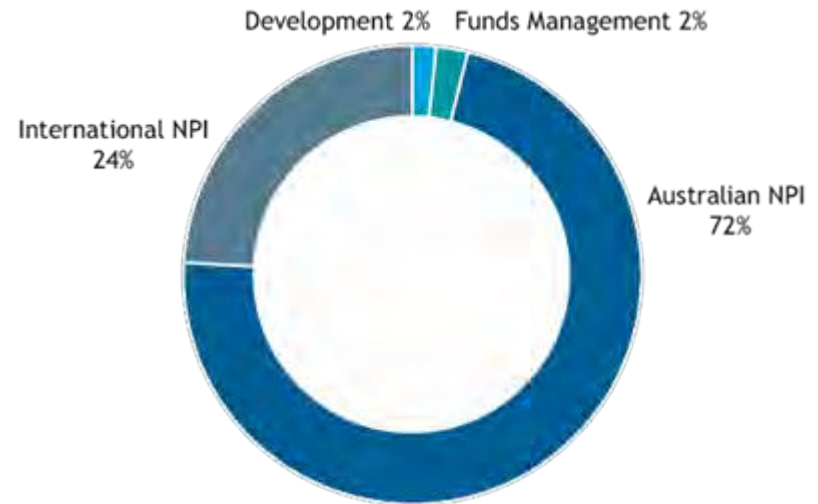
\*As at December 2008, \*\*As at June 2008

# DEXUS profile – example of REIT income

## Diversified Asset Base



## Stable Operating Income



▪ 205 properties

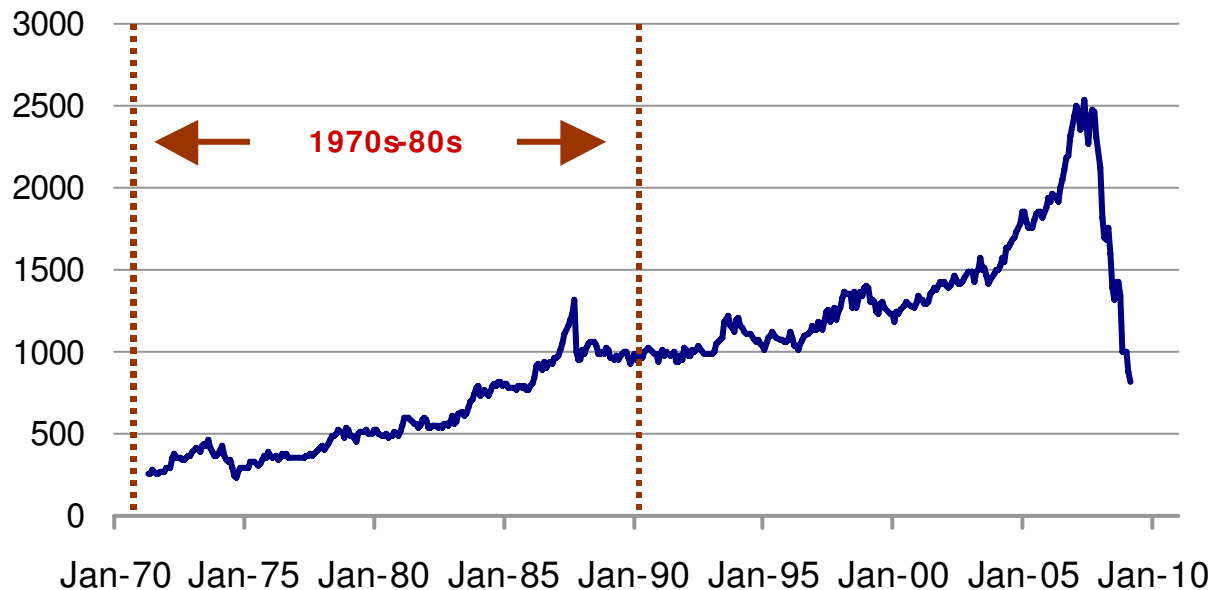
▪ 96% of income is derived from stable property income

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

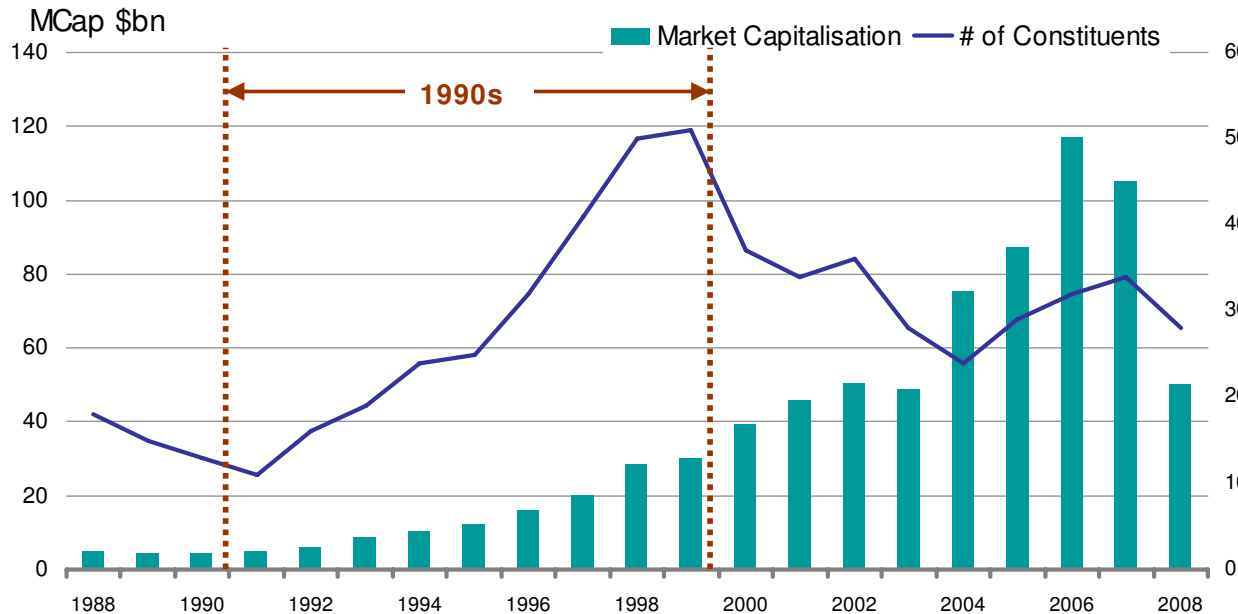


- GPT listed in 1971
- Stockland (via Darling) 1972
- Westfield 1979
- DEXUS (via NMPT) in 1984
  
- Low gearing <10%
- Core, in local markets
- All passive rental income
  
- By 1989 there were 11 LPTs with mkt cap > than \$100m

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

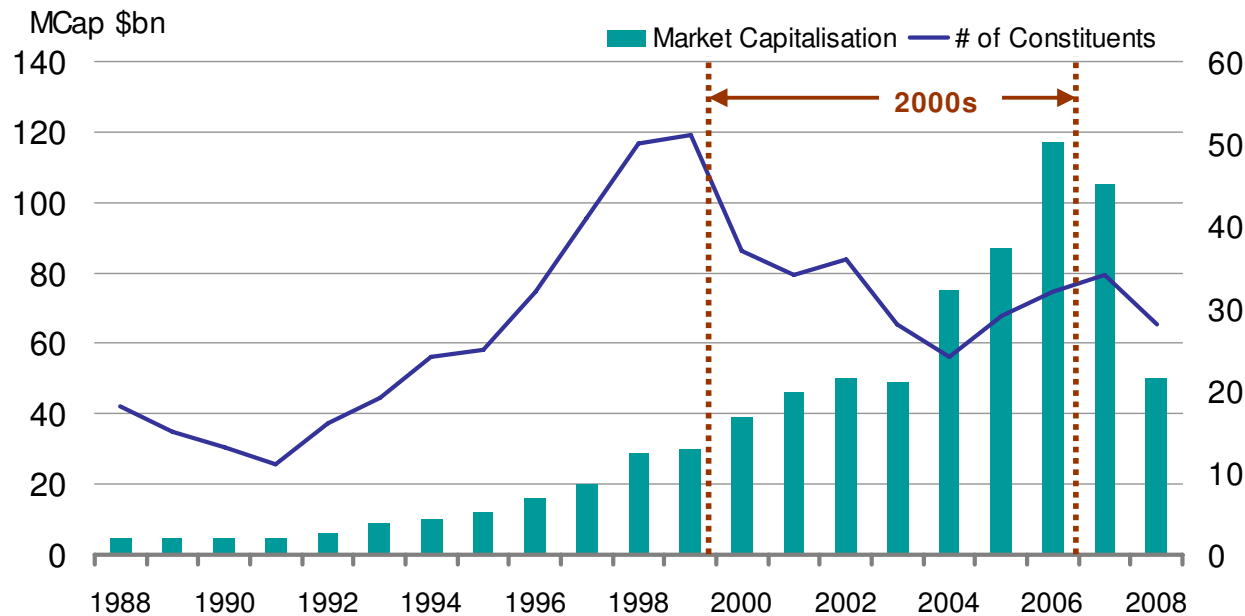


- 1990-94 credit squeeze saw real estate in hands of banks, then listed
- Liquidity crisis in unlisted property vehicles saw retail money go to listed
- Government privatisation & corporate restructures added to listed stock
- New superannuation laws stimulated demand for high yield products
- All externally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

Source: UBS, DEXUS Research

# History of A-REITS: the 2000's

## Consolidation phase

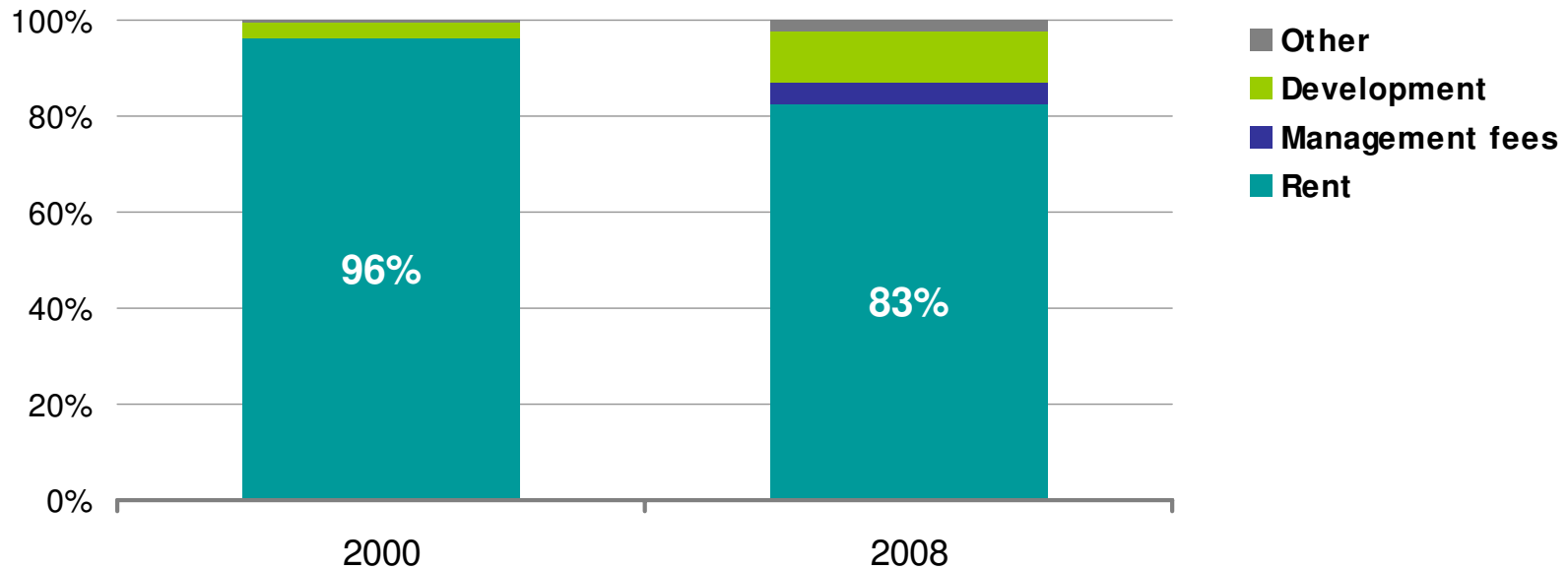


- 1999 Managed Investments Act – Single Responsible entity replaced external Trustee...
- ...stimulated M&A Activity – Consolidation from 51 to 26 LPT's
- Management internalised – GPT, Westfield, Goodman, DEXUS
- Drive for growth led to 'stapling' – allowed development & other activity
- Sale of assets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

Source: UBS, DEXUS Research

# Growth fuelled by higher risk revenue streams

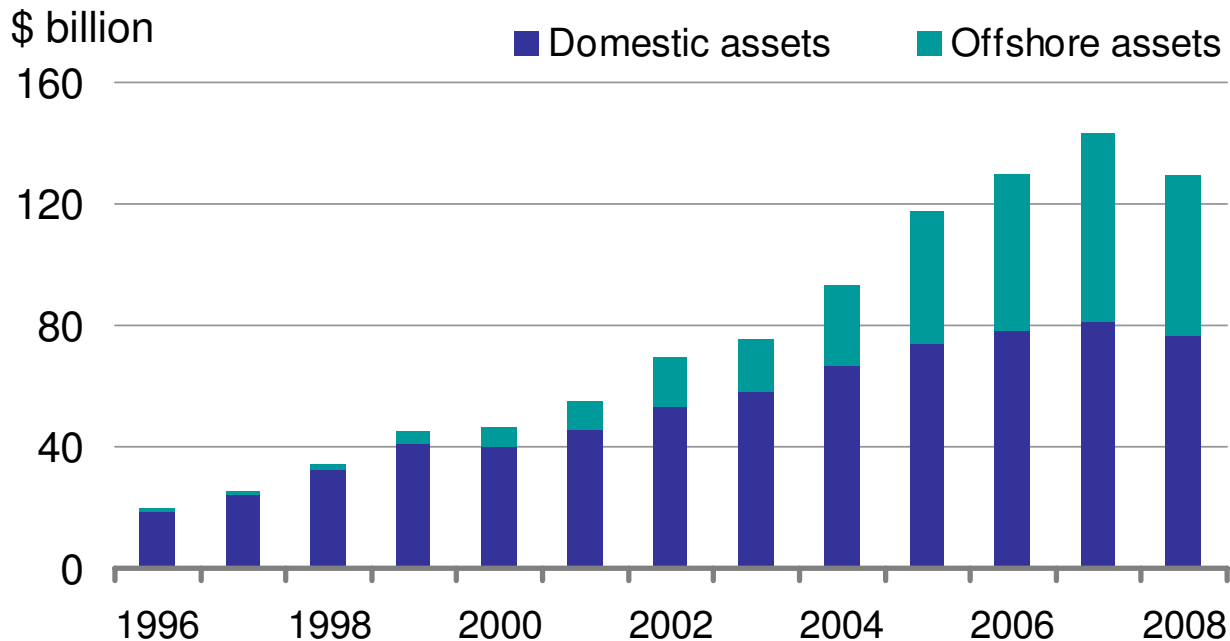
## A-REIT income split



Source: UBS, DEXUS Research



# Offshore assets held in A-REITs



In 2008, 41% offshore

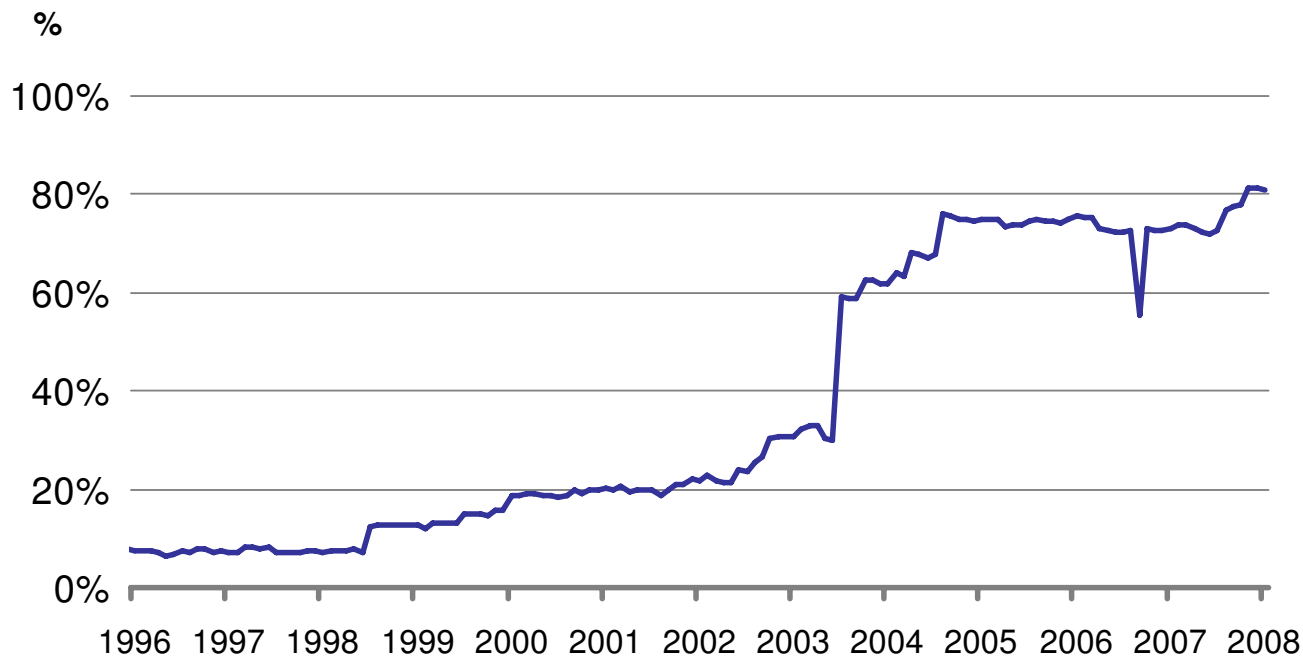
Overseas expansion driven by:

- 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

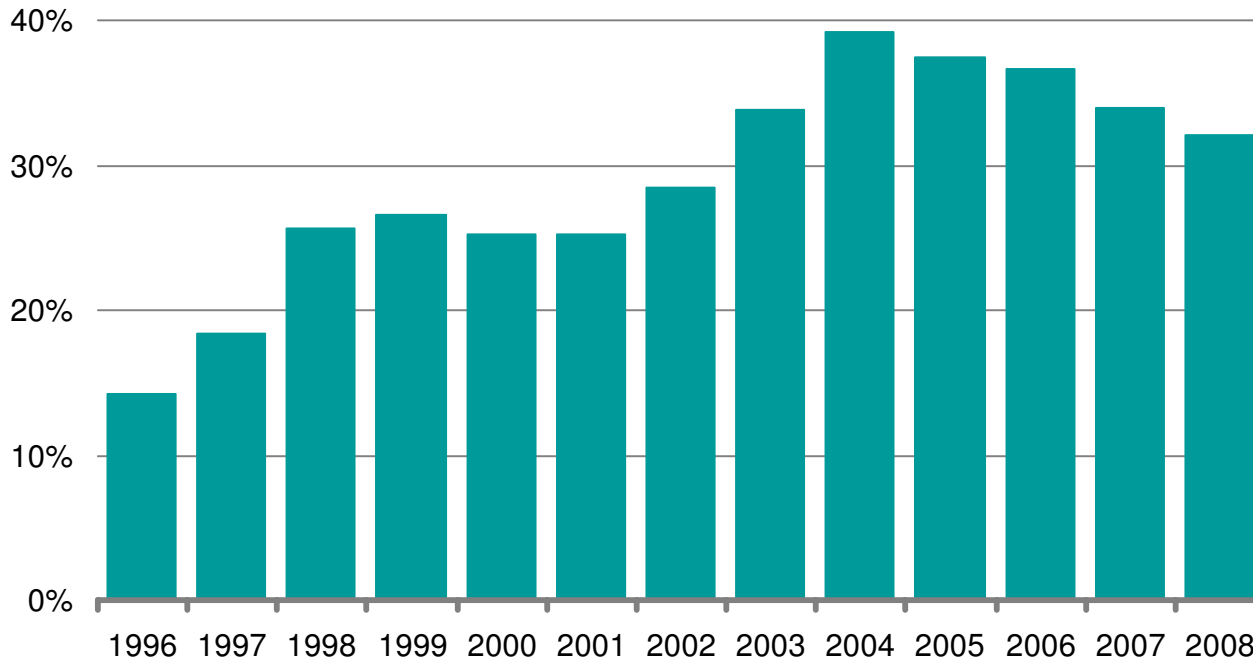
## Per cent of market capitalisation classified as stapled



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

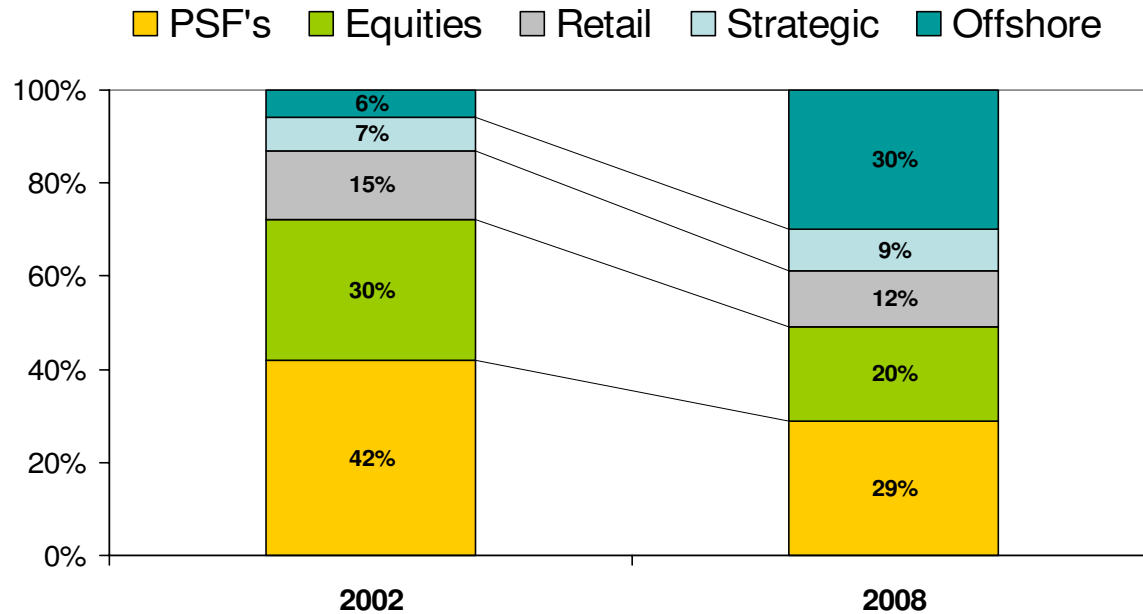
## Global REIT beta



Source: UBS Research

# Investor base changing

## Investors in A-REITs



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

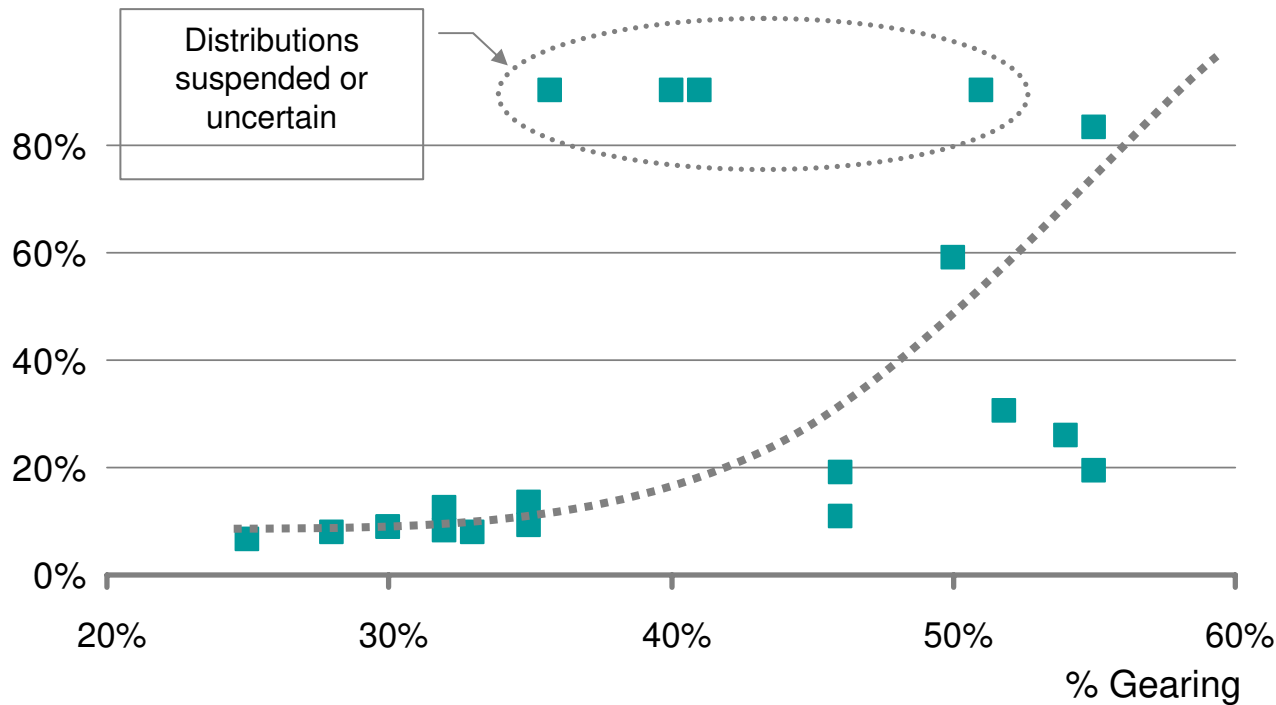
# Rapid evolution – short term

- 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

	Gearing%	Yield%
Best third	32	8
Worst third	50	40+

(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 3<sup>rd</sup> 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



# Disclaimer

- This presentation is issued by DEXUS Funds Management Limited (DXFM) in its capacity as responsible entity of DEXUS Property Group (ASX: DXS). It is not an offer of securities for subscription or sale and is not financial product advice.
- Information in this presentation including, without limitation, any forward looking statements or opinions (the Information) may be subject to change without notice. To the extent permitted by law, DXFM and DXS, and their officers, employees and advisers do not make any representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of the Information and disclaim all responsibility and liability for it (including, without limitation, liability for negligence). Actual results may differ materially from those predicted or implied by any forward looking statements for a range of reasons outside the control of the relevant parties.
- The information contained in this presentation should not be considered to be comprehensive or to comprise all the information which a DXS unitholder or potential investor may require in order to determine whether to deal in DXS stapled securities. This presentation does not take into account the financial situation, investment objectives and particular needs of any particular person.
- The repayment and performance of an investment in DXS is not guaranteed by DXFM or any of its related bodies corporate or any other person or organisation. This investment is subject to investment risk, including possible delays in repayment and loss of income and principal invested.

