The State of the Retail Market

Scott Morgan
Australian Direct Property Investment Association
PRRES Industry Day 20 January 2009
State of the Market...

“We are living through the type of wrenching financial crisis that comes along only once in a century”
Alan Greenspan 2 October 2008

“When something important is going on, silence is a lie.”
Abe Rosenthal
New York Times Editor
Who is ADPIA?

- The Peak National Body representing Direct Property Investments
  - 79 Member Organisations and growing by the week
  - Strong Marketing and PR focus and well as cross promotion with other Industry Associations
  - Promoting and enhancing professionalism of its Members
  - Advocacy and Policy development on behalf of its Members with Government and Industry
  - Developing Industry Research and Education programs (both membership and general public)
  - Facilitating interaction between Members for their mutual benefit
The ADPIA History

- A 10 year growth story
- Current Network:
  - Membership of 79 Major Companies
    - 42 Fund Managers representing $60 billion of Unlisted Property FUM (retail and wholesale funds)
    - 37 Advisory Members from Legal, Accounting, Insurance, Specialist Consulting and support industries
  - Information network of over 800 people from Member and non-Member companies
  - Rapidly growing market presence and awareness
### ADPIA Members

<table>
<thead>
<tr>
<th>Fund Managers</th>
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<th>Advisory</th>
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<tr>
<td>Alba Capital Partners</td>
<td>FKP Funds Management</td>
<td>AET</td>
<td>Middletons Lawyers</td>
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<td>ANZ Investment Bank</td>
<td>Heathley Asset Management</td>
<td>Apex Property Consulting</td>
<td>Minter Ellison</td>
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<td>APN Funds Management Limited</td>
<td>IFC Capital Limited</td>
<td>Australian Pacific Exchange</td>
<td>Moore Stephens Melbourne</td>
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<td>Aspen Group</td>
<td>Japara Holdings</td>
<td>Barrington &amp; Co</td>
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<td>Napier &amp; Blakeley</td>
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<td>Keybridge Capital Limited</td>
<td>BDO Kendalls (VIC)</td>
<td>Nexia ASR</td>
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<td>Bellrock Broking Pty Ltd</td>
<td>Piper Alderman Lawyers</td>
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<td>MAB Corporation</td>
<td>Big Switch Projects</td>
<td>Property Investment Research</td>
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<td>DLA Phillips Fox</td>
<td>Sandhurst Trustees Limited</td>
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<td>Mirvac PFA Limited</td>
<td>Freehills</td>
<td>Standard &amp; Poor’s</td>
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<td>Opus Capital Group</td>
<td>General Security Australian Insurance Brokers (GSA)</td>
<td>Thinc Projects</td>
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<td>Grenroc Advisory Partners</td>
<td>Thomson Playford</td>
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<td>Primespace Property</td>
<td>Graystone Advisory</td>
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<td>Hall and Wilcox</td>
<td>WHK Greenwoods</td>
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<td>Henry Davis York</td>
<td>Young &amp; Connell Lawyers</td>
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<td>Clarence Property Corporation Ltd</td>
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<td>McMahon Clarke Legal</td>
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# ADPIA’s Focus on Key Issues

<table>
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<tr>
<th>Date</th>
<th>Key Issue</th>
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<tr>
<td>September 2008</td>
<td>ADPIA submits to ASIC on the treatment of superannuation funds as wholesale clients or sophisticated investors</td>
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<td>August 2008</td>
<td>ADPIA submits to ASIC regarding the proposed new disclosure regime for unlisted property trusts</td>
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<td>March 2008</td>
<td>ADPIA submits to the Offices of State Revenue and the Federal Government in relation the draconian stamp duty regimes</td>
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<td>March 2008</td>
<td>ADPIA submits to ASIC seeking class order relief to simplify the amendment of constitutions by fund managers in certain circumstances</td>
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<td>October 2007 to</td>
<td>ADPIA submits to ASIC regarding fee disclosure regulations and engages ASIC in further discussions</td>
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<td>January 2008</td>
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Conference 2009

The Perfect Storm
When Property and Debt Markets Collide

Annual Conference 2009
Stanton Noosa Resort and Spa
March 22 - 24

We will negotiate this perfect storm with insights from leading commentators and industry experts, including John Hewson, Chairman of GSA, Peter Barnes, Head of Property, CBA and David Rees, Head of Research, Australia, Jones Lang LaSalle.

The Serious Stuff
Draft Plenary Program

23/03
Monday 23rd - Asking the Questions
- What's the Weather? - Forecasting the Economic Environment
- Discover your inner Chef and How to Relish
- The Perfect Storm - Surfing or Wipe-Out? - Plane Discussion
- Sink or Swim? (Do We Really Need a Cabin in the Storm?)
- Round Table Discussions on the Practical Issues Facing the Sector

24/03
Tuesday 24th - Looking to the Future
- Is it Still Raining? The Outlook for Real Estate
- After the Storm - Picking up the Debris, Opportunities for Buyers
- Surfing Classes for the New Decade, Business Strategies in Challenging Times
- ADPIA Update
- What we are doing for you

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GSA
nexia asf
McMahon Clarke Legal

2009 ADPIA Association Supporters
Property as an Asset Class

Three Retail Perspectives:

1. Retail Market – Financial Planners and their Clients

2. Fallout for Funds Under Administration

3. Retail Realities
A new Ice Age

Issues

❖ Unit Pricing
❖ Fund Raising
❖ Gearing
❖ Sector Consolidation
Retail Market

Financial Planners and their Clients
In these Uncertain Markets....

What do the Financial Planners Say?
What do the Financial Planners Say?

Simon Davis

Financial Planner / Practice Owner (Brisbane)

Professional Investment Services
“We’re not putting anything into the unlisted sector...we don’t consider anything [is] valuable”
What do the Financial Planners Say?

Anthony Blythe

Financial Planner / Practice Owner (Albury)
Professional Investment Services
“Confidence levels... [are] on the low side for property in general....... 

I’m still a great believer that property as an asset class still has a place.....”
What do the Financial Planners Say?

Chris Saunders
Group CEO
Premium Wealth Management
“...the financially engineered products have certainly come into trouble.

...I think [the planners] are looking for open transparency now....”
In Summary...

- Transparency
- Simplicity
- Communication
- Credibility
Fallout for Funds Under Administration
Australia Funds Management Industry $1.6 trillion of which $1.2 trillion in superannuation – 4th largest in the world

Highest average balance @ $65k per account

Largest component is Platforms: Funds Under Administration $380 billion up from $333 billion in 2006

Total flows into super 2007 $100bn: SMSF $60bn – fastest growing sector – high weighting to real estate

Source: Rainmaker (2007), APRA (June 2008)
Source: Morningstar (June 2008)
Fallout for FUM

- PIR predicted inflows to unlisted sector to halve in 2008
- ADPIA Member Survey in May:
  
  “No one is really investing in Property at the moment, with an 8% cash rate, that is where the money is going”

- 65% of ADPIA Members expected to be under budget
Platforms Under Pressure

- Platform Funds Under Administration fell by $42.5 billion in the six months to June 2008
- This was despite annual net flows to June 2008 of $24.8 billion
- On the Macquarie Wrap the allocation to property is dropping as a percentage of FUA
  - 08/06: 11.8%; 08/07: 12.35%; 08/08: 9.93%
- Are planners moving away from platforms?

Source: Morningstar (June 2008)
Retail Realities
The LPT / Debt Cycle

2007/08 LPTs with high debt fall over

1989/90
LPTs with high debt fall over

2000’s Debt levels continue to increase, some OS influence

Early 1990’s LPTs go through period where cash positive

Mid to late 1990’s
Confidence increases - debt is reintroduced
The Liquidity Cycle for UPTs

2007/08
UPTs trying
to provide
liquidity
freeze
redemptions

2000’s UPTs move
onto platforms &
grow faster than
non-liquid funds

1989/90
UPTs
providing
short term
liquidity
frozen

1990’s
Syndicates
emerge -
fixed term,
no liquidity

Late 1990’s
UPTs
emerge to
provide
some
liquidity
Retail Realities

What is the Market after?
- Back to Basics
- WYSIWYG – Closed end with set strategy
- “Ownership” of the assets
- Capital guarantee

What we need to achieve....
- Gearing levels < 40%
- LIMITED liquidity (agreed formula)
- Re-education of Fund Managers, Planners & Clients
Thank you