

# Pacific Rim Real Estate Society 2009

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

20<sup>th</sup> January 2009  
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# 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

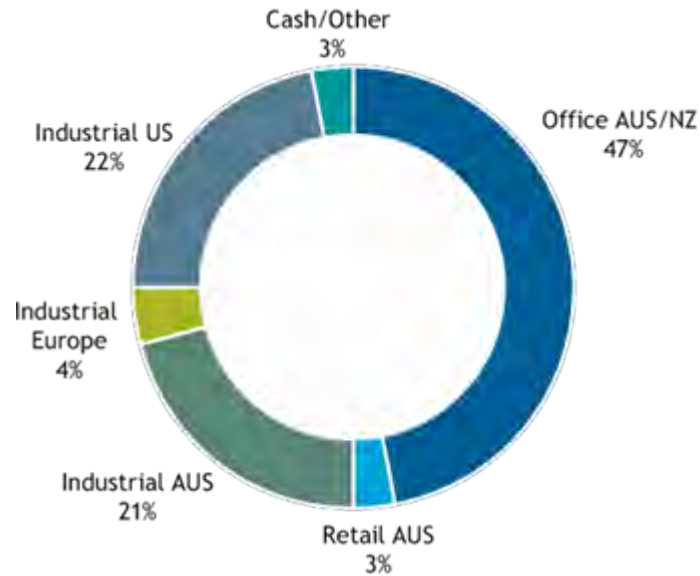
Artist's impression Space 1 Bligh, Sydney



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

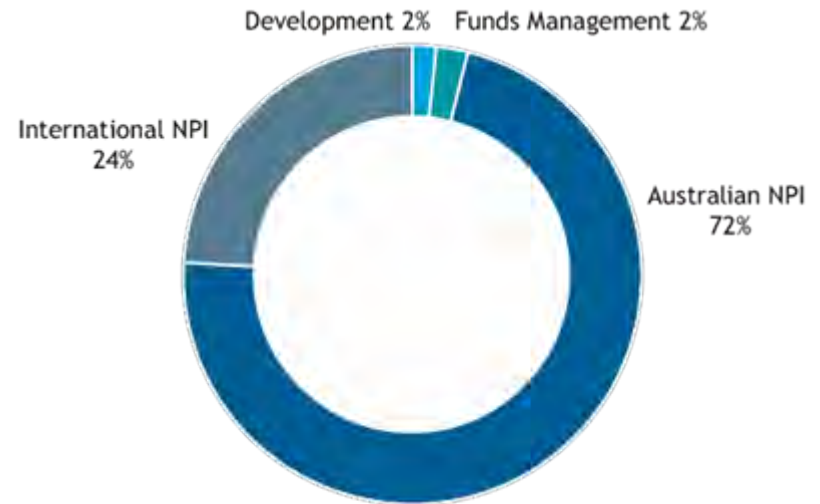
# DEXUS profile - example of REIT income

## Diversified Asset Base



- 205 properties

## Stable Operating Income



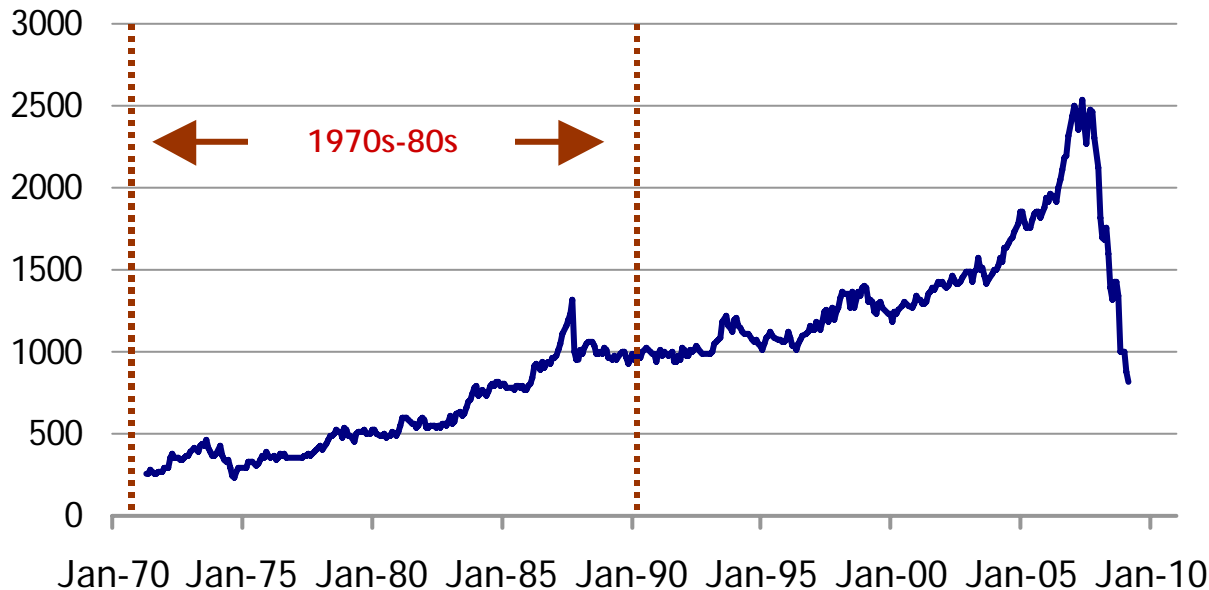
- 96% of income is derived from stable property income

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

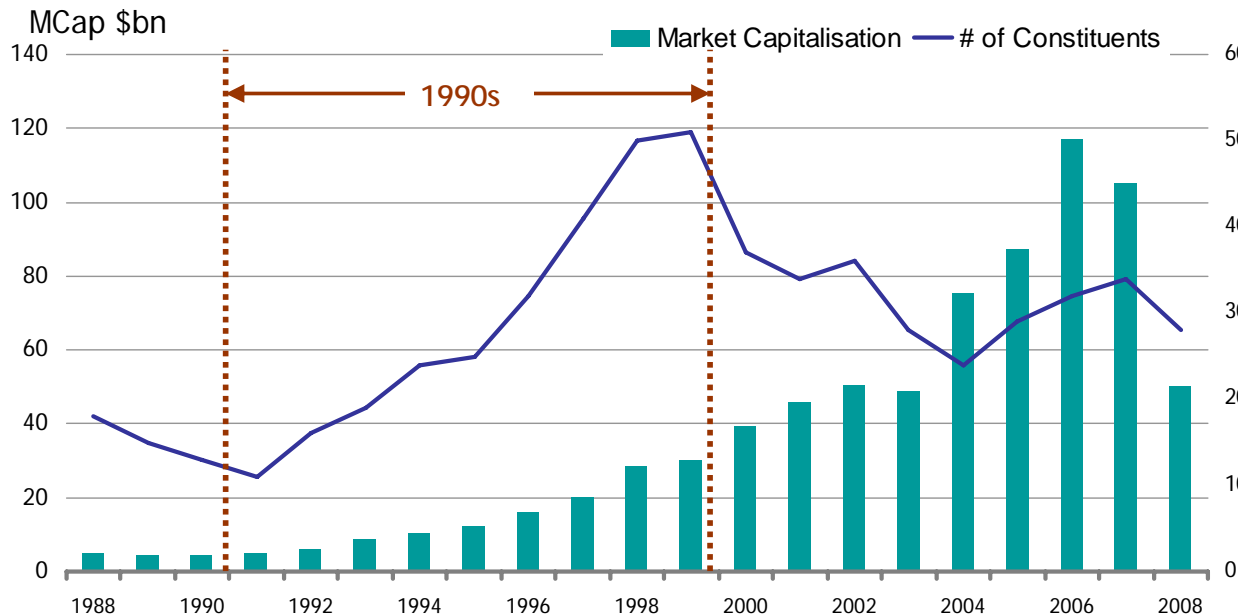


- GPT listed in 1971
- Stockland (via Darling) 1972
- Westfield 1979
- DEXUS (via NMPT) in 1984
  
- Low gearing <10%
- Core, in local markets
- All passive rental income
  
- By 1989 there were 11 LPTs with mkt cap > than \$100m

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

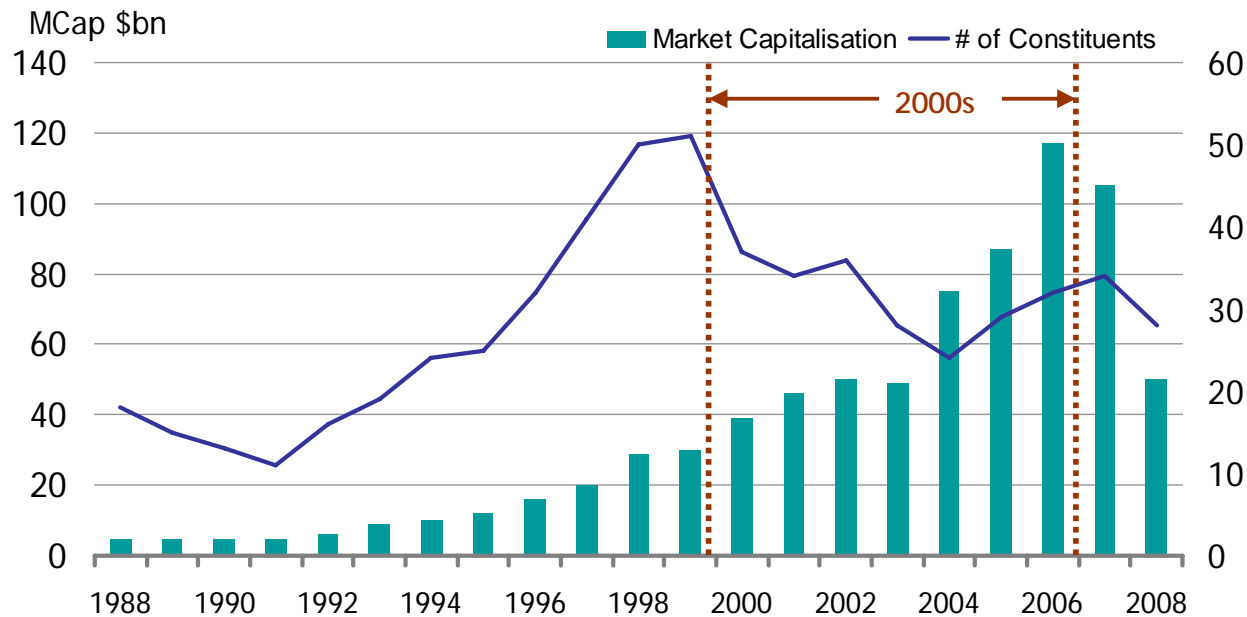


- 1990-94 credit squeeze saw real estate in hands of banks, then listed
- Liquidity crisis in unlisted property vehicles saw retail money go to listed
- Government privatisation & corporate restructures added to listed stock
- New superannuation laws stimulated demand for high yield products
- All externally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

Source: UBS, DEXUS Research

# History of A-REITS: the 2000's

## Consolidation phase

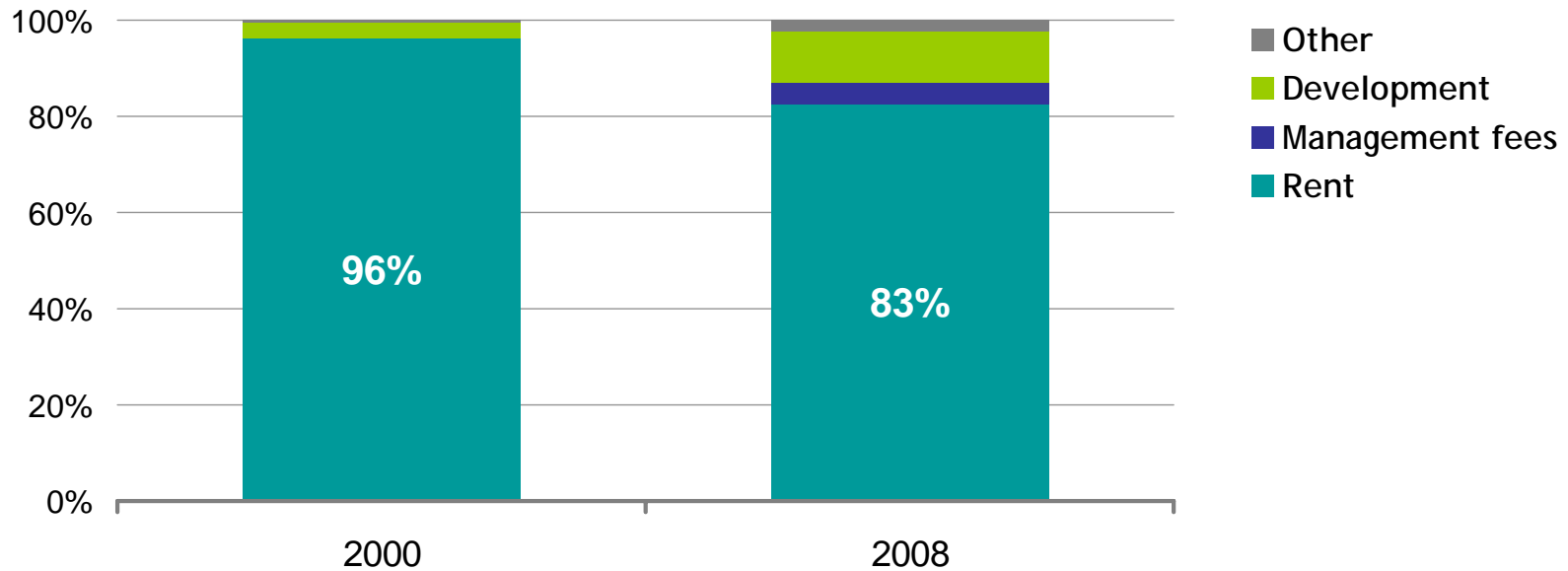


- 1999 Managed Investments Act - Single Responsible entity replaced external Trustee...
- ...stimulated M&A Activity - Consolidation from 51 to 26 LPT's
- Management internalised - GPT, Westfield, Goodman, DEXUS
- Drive for growth led to 'stapling' - allowed development & other activity
- Sale of assets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

Source: UBS, DEXUS Research

# Growth fuelled by higher risk revenue streams

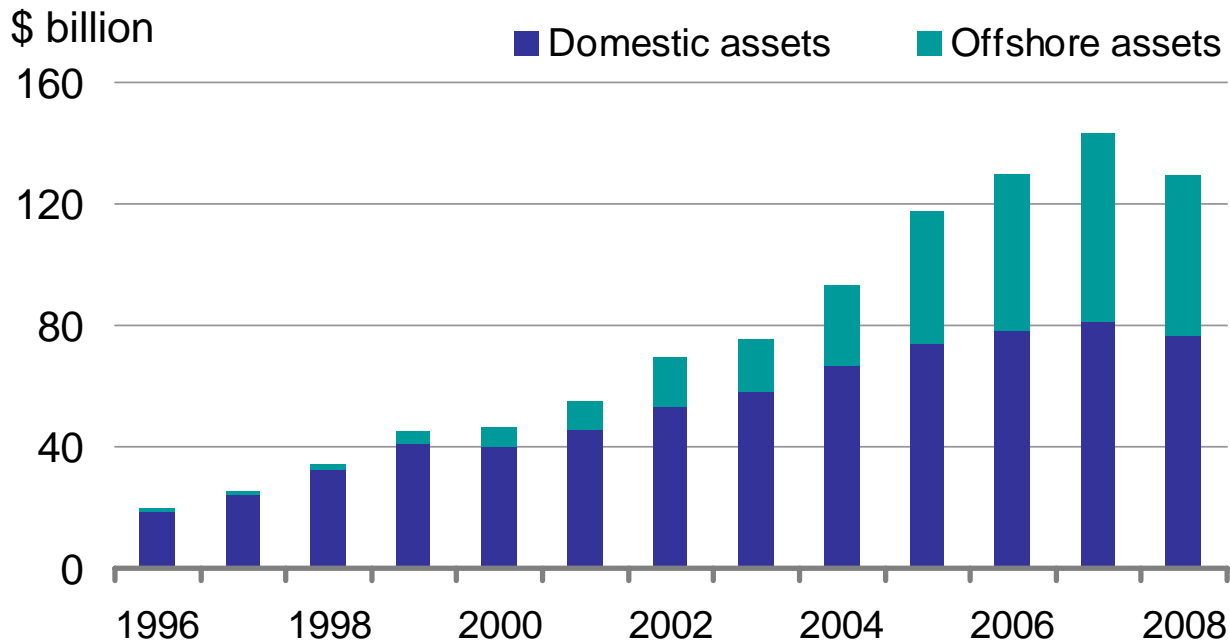
## A-REIT income split



Source: UBS, DEXUS Research



# Offshore assets held in A-REITs



In 2008, 41% offshore

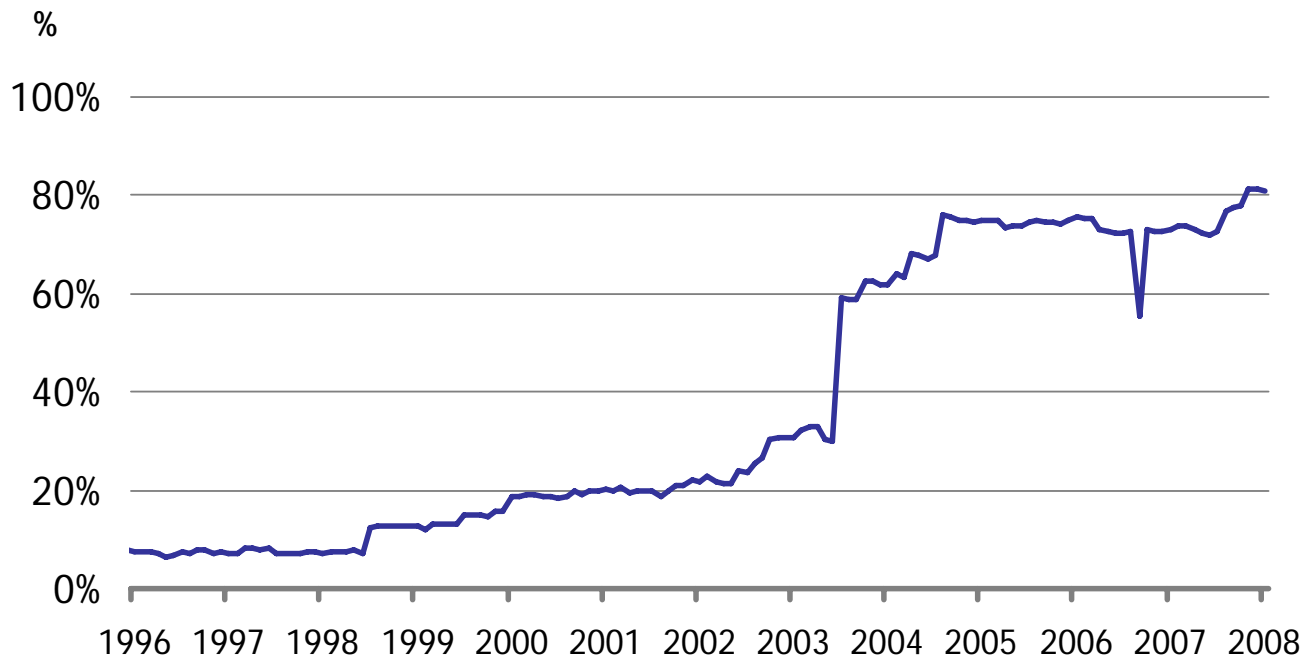
Overseas expansion driven by:

- 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

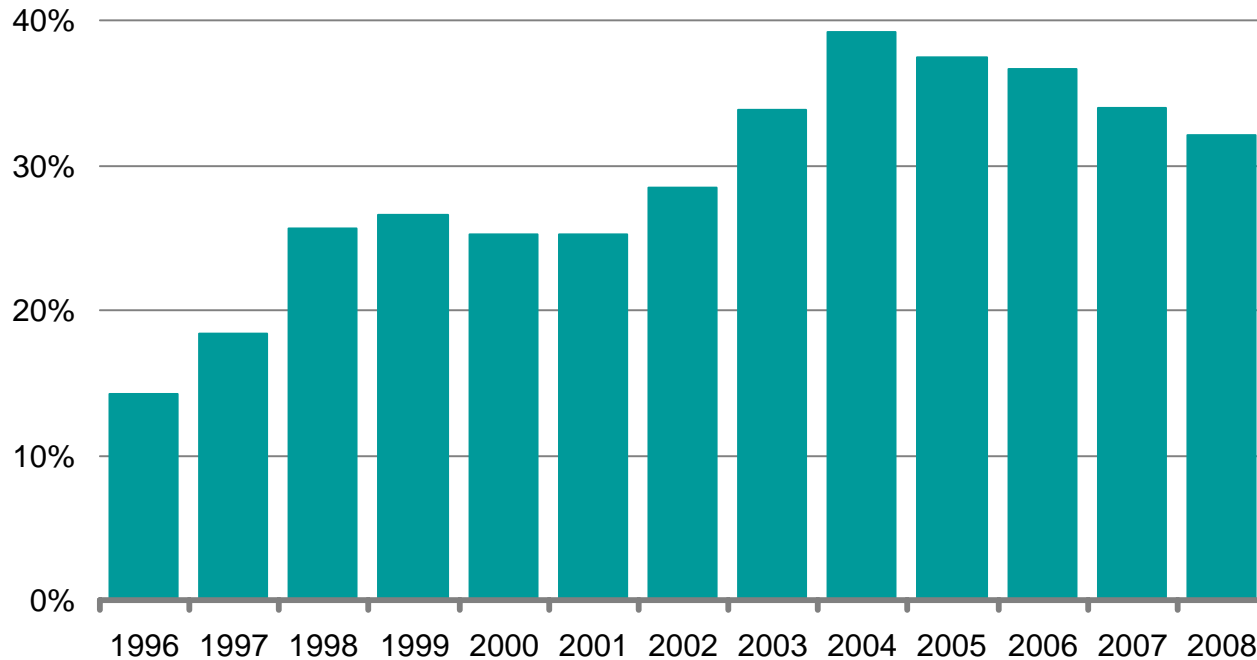
Per cent of market capitalisation classified as stapled



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

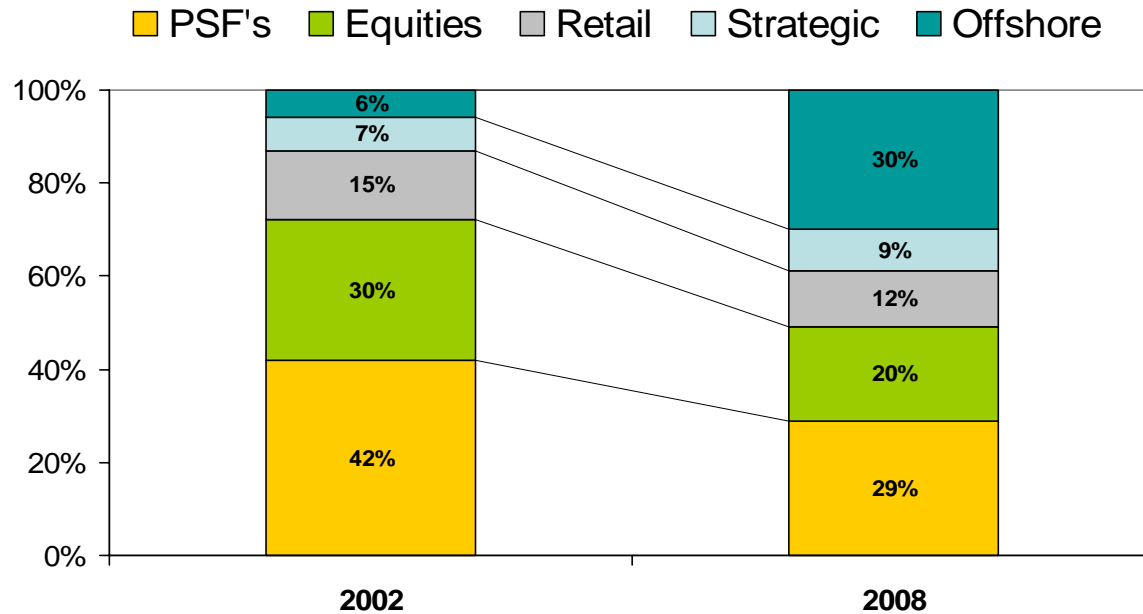
## Global REIT beta



Source: UBS Research

# Investor base changing

## Investors in A-REITs



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

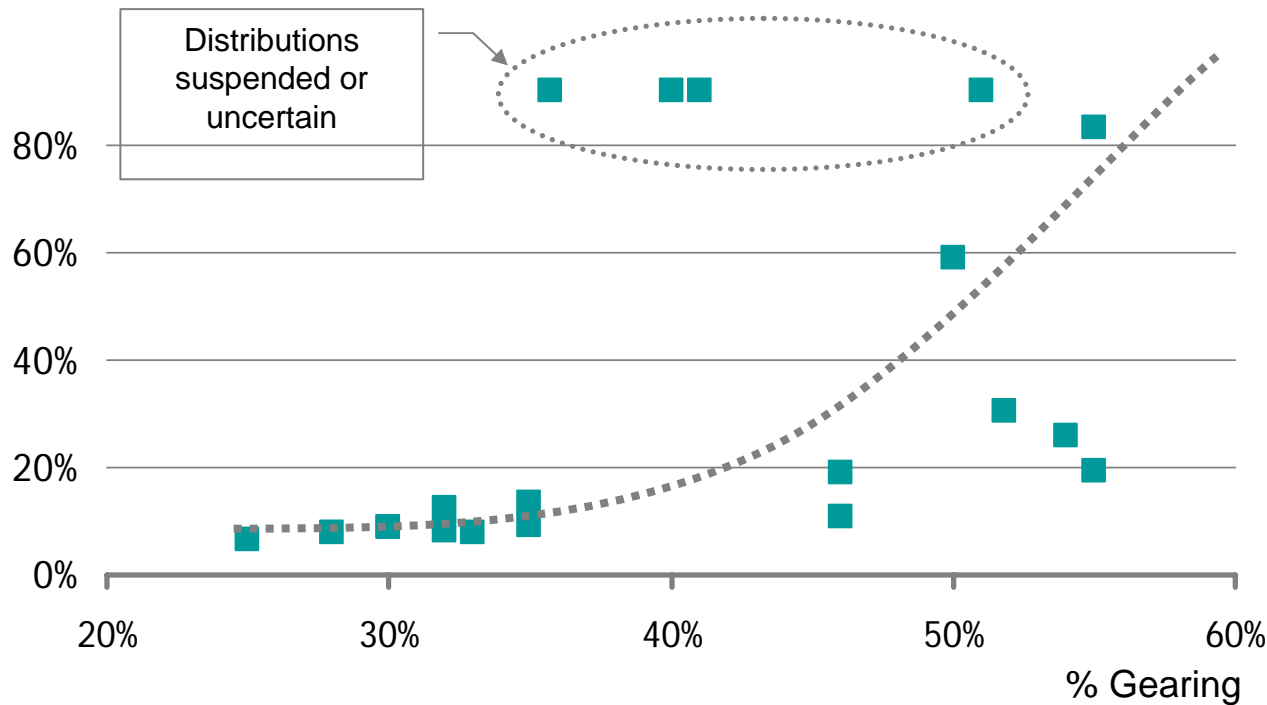
# Rapid evolution - short term

- 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



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