

LEND LEASE STRATEGY DAY

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DAVID HUTTON: Thanks very much Rod. My apologies firstly that I'm not able to be there in person. I think Steve mentioned earlier RNA in Brisbane announced today that Lend Lease is their preferred partner, and I was with the chairman of the RNA and the CEO of the RNA at that announcement this morning. Steve, I'm not sure how much detail you went into but I'm happy to touch on that if that's appropriate, just in terms of the scale of that development.

What I wanted to run in through in respect of – perhaps I'll come back to that. What I wanted to run through now picking up from the points Rod made, obviously now Lend Lease R&C or our development business is working a lot closer with our investment business. I'm now working very close with Rod in terms of how we match development opportunities in the market to the appropriate sources of capital, in ensuring Lend Lease if you like can apply its full array of services. In respect of our development business, we have deliberately moved to a sector focus and that is actually different to a number of our competitors where they've tended to focus on general development. It's our view within Lend Lease that sector focus in terms of development is required if you want to be a market leader in individual sectors, and if you generally want to create the scale and the expertise.

And when I talk a little bit about sector focus, I really mean about having an understanding of a particular market, whether that be a geographic market or a particular sector being apartments, master plan communities, retail and so on. Traditionally Lend Lease has had a strong focus obviously through its Delfin business and through its retail business, but it was only recently we have established our apartment focus. And the reason for that was really ensuring we had seasoned personnel, we had experience, we had systems and methodology, we started to build a customer base in terms of being able to secure pre-sale. And what we are aiming to do with our Vivas brand is move it to the stage where I guess in some respects it fills the space that Mirvac traditionally achieved in the apartment sector.

Another reason for the sector focus is to really ensure we build the business

infrastructure. Whether that's the IT system, the IP in respect of sustainability and so forth. I mentioned scale. Consumer brand, our Delfin business has established a strong consumer brand over a number of years. We're now seeking to achieve that as I mentioned with our Vivas apartment business, as we are in the retirement sector with Lend Lease Primelife. Importantly ensuring we have the right capital model is also obviously very important. Traditionally Lend Lease either used its own balance sheet or used its funds. As Rod mentioned, we're now working towards being more flexible in terms of the capital model, working with a broader range of investors in really ensuring for each of those asset classes we have the most efficient form of capital.

Just moving on to the next slide, over to the R&C portfolio. I won't run through retirement today, the retirement sector, because Rod Fehring will speak after myself. But what I wanted this slide really to demonstrate is the quantum of diversity we have. This works for us in a number of ways. It works for us in terms of relationships with state government and authorities. It works with us in respect of the various markets as they move through their cycles. If I touch a little bit on Delfin to start with. Obviously Delfin is a very large player in its market. If you include the backlog, we're actually larger than Stockland. As I mentioned it's got a very strong brand. It focuses on – and its point of difference is really around community building as opposed to house building. The Delfin team do produce a small number of built form product, but it's aimed at specific niches in the market. Our real core skill in Delfin is our ability to add value to land via the creation of communities.

The Delfin business has a very strong partnering culture. Our model is really based around land management, and the changes in respect of the economic conditions in Australia actually suit us now, that we're finding – or we found over the last couple of years it was very difficult or becoming more difficult to enter into land management agreements, when some of our competitors were prepared to pay very large figures for land. Given that market's now changed, we're finding more opportunities coming to us on a pure land management model, and that has been the basis for Delfin and will continue to be the basis for us. So we see a significant opportunity to continue to grow our positions in a number of projects, whilst the market is in the more difficult status it is now. The business is very well diversified. The team are shortlisted on a project in Western Australia at the moment, and we will look to move into Western Australia. We've been studying that market for quite some time, but the market was largely overheated and we didn't see value, and we believe that is now starting to change and we will look to get a presence in WA.

The capital model I've mentioned. Our preference is clearly land management. Where we are required to make payments for land if we enter into a contract that requires such, we look to joint venture. We recently secured a project in the ACT with one of the Macquarie Group Funds in JV. So where we do believe a project warrants a form of fixed payment or investment up front, that is the model that we will follow. We measure Delfin in a couple of ways. We look at it in respect of a development manager and

how efficient it is when it charges development management fees. We obviously also look at the underlying returns in respect of the return on the capital we put into infrastructure and land payments. So we measure the business in both ways.

Just touching on first home buyers, and I think David Keir is in the audience today, so we're happy to take – David Keir is the CEO of Delfin – happy to take some more questions on that later. I guess it's our view in respect of first home buyers that the government stimulus package, it brought forward a significant proportion of that market. Delfin traditionally achieved around 15% of its sales to first home buyers. In recent months that's increased up to around 25%. It is our view that the quality or – largely the quality of those buyers will start to decline, in that ultimately even with subsidies you still require buyers who are capable of making repayments moving forward. And what we're starting to see is the quality of some of those first home buyer applications start to fall back.

Obviously with the government now deciding to extend that to December, that will keep an element of momentum but it is our view that first home buyer stimulus packages aren't a stimulus that lasts generally beyond six or twelve months.

If I move over now to Vivas, I made a couple of comments before in respect of our apartment business. The Vivas business is focused on Brisbane, Sydney and Melbourne for middle to higher quality apartments. This was the sector that Lend Lease historically had done a number of projects on, but hadn't really positioned itself as a leader in the apartment space. Having the benefit of the Jackson's Landing project at Pyrmont plus the large backlog of apartments down at Victoria Harbour, we have built a team specifically focused on quality apartments. We have focused on building a database. We are now looking as the market starts to recover also to be able to sell into the Asian market, and have a number of agents in Asia working for us in terms of selling our product up there. We've actually found some good initial response to that in marketing Jackson's Landing off-shore, and we see that as a strength moving forward.

The capital model in that business, we are focused again at joint venture, at joint venture bases. Over at Jackson's Landing that's currently in a joint venture, and down at Victoria Harbour as we package individual buildings up. Rod mentioned V5 previously. We are in joint venture with one of our investment managers, key investors on that project, so we will look to joint venture. We will look to use effective debt into those projects. We won't look to fully equity fund any of our apartment projects moving forward.

Currently we have a backlog in the apartment space of just under 2,500 and with the announcement of the RNA project in Brisbane today, that will increase our backlog by a further 1,800 and really gives us a major apartment presence here in Brisbane. And what we will then look to do is secure smaller

projects, and we're currently looking at two smaller projects in Melbourne, two in Sydney and now we've secured the RNA in Brisbane we'll look at surrounding apartment projects that can build off the market presence we develop.

Moving over into Lend Lease development, our Lend Lease development business is really focused in two areas. It's focused on the origination of opportunities and it's focused on the delivery of A Grade office. We actually have a significant backlog of A Grade office now. Rod mentioned the completion of ANZ later this year down in Melbourne, which is a very large building, six star green star building. We are also completing the Myer headquarters, which is a further 20,000 metres five star green star building down at Victoria Harbour, and we're currently planning a small strata office building for Victoria Harbour as well.

In Sydney we're working with the funds team and Bovis on the delivery of 420 George Street, and obviously the CBA headquarters down at Darling Walk, and now again with securing the RNA site in Brisbane we see an opportunity over coming years. The outlining approval for the RNA site includes around 140,000 square metres of GFA of office space, and we see an opportunity to relocate Lend Lease's office in Brisbane to the RNA site and then start to develop an edge of city office precinct in Brisbane as well.

Obviously our capital model in respect of office is all about packaging. We don't do office development on balance sheets or as we've done Darling Walk, we bring investors together, we bring tenants together. We secure the opportunity and we package it up and for that – but providing the services of development management, securing the opportunity, overseeing the leasing on the pre-let process, we take development fees out of that process. And obviously very focused on providing the flow or benefits onto Bovis Lend Lease and back to our investment management business.

Moving onto retirement, onto the next slide, our retirement by design business, which originally Lend Lease acquired when we acquired the Delfin business, we've been working on retirement over the last couple of years in terms of how we can bring that business to scale. Obviously that resulted in the transaction late last year with Babcock and Brown communities and the creation of Lend Lease Primelife, and Rod will address that shortly. But in respect of the retirement by design business, a number of our senior team have now moved from RBD into Lend Lease Primelife. RBD still has a number of development sites and is still managing a small number of villages for our Core Plus Fund.

It is planned over time that those development opportunities will move over into Lend Lease Primelife and that our retirement by design business will move to the stage where it focuses on asset management and development management services. So leveraging Lend Lease's core expertise of property and providing that to the Lend Lease Primelife business, and Lend Lease

Primelife will internally manage their village operation.

Moving over to the next slide, Lend Lease Retail. Retail as I mentioned before has been a core competence of Lend Lease for a long time. Obviously with the departure of GPT a number of years ago, the scale of the portfolio reduced. We've now rebuilt that to 11 assets in Australia and three in Singapore. We have a significant development pipeline in that business, albeit with the current outlook our focus now is on achieving planning consents rather than moving into construction. What we want to ensure is that those assets are ready to move into physical delivery of their expansion, once the market starts to improve and there's more certainty around ongoing cap rates and valuation.

Rod touched on our Somerset project up in Singapore. As he mentioned the leasing is very well progressed. We are targeting and opening on 23 November. That project's travelling very well and despite softening cap rates in Singapore, we're still very confident of a positive result on that project. I think as usually happens when markets go into a downturn, retailers and tenants tend to move towards quality projects only and what we're seeing in terms of new tenants in Singapore, they are only moving into the quality projects. And our Somerset project is certainly benefiting from that, while some of the poorer quality projects are really struggling now in terms of pre-lets and letting.

Just on retail, the MAT – our retail portfolio, which is really demonstrated through the performance of APPF retail fund, it continues to perform. We are still getting sales growth, albeit it's slowed to around 1.5% moving annual turnover. Our vacancies are about .8 of a percent at the moment, and whilst we've seen – we have seen an increase in occupancy costs, we are quite confident that the retail sales upturn that we've actually seen over the last four or five weeks, we do believe retail wise we will still continue to get minor retail rental growth, and that our vacancy will remain under 1% for the balance of the year.

Just in respect of case studies, Rod touched on the Darling Walk project. That is the CBA headquarters being built in Sydney now. For those of you who have been to that part of Sydney recently, the project is just starting to come out of the ground now. Bovis Lend Lease are on site. That is the largest – I think it's one of the largest ever pre-lets in the Sydney CBD. And I think what's important about that project in addition to the fact that it's fully pre-let and the fact that it's a six star building and quite a unique campus style building really blending CBD and campus together. It also has a significant civic element, and will include a children's theatre and a number of restaurants and so forth opening onto Tumbalong Park behind. So it's very much – we've been very much working closely with SHFA in respect of further improvements and rejuvenation of the whole Darling Harbour area.

Just in respect of key market trends, moving over to the next slide.

Residential wise the apartment business we saw sales slow significantly in the first quarter. Over the last couple of weeks, in fact this month, we've actually seen a little bit of renewed interest in that. It looks like to date we've done 15 sales this month, and understanding most of our apartment product is in excess of a million dollars. It averages around \$1.5 million. That is a significant volume in dollar terms. Down in Victoria Harbour, we have fully sold our affordable housing project. The topping out of that project was celebrated by the Minister for Housing in Victoria a fortnight ago. He stated it was the first of its kind. It's really a project where we've worked closely with VicUrban and the state government and affordable housing provider, on the basis that the government and the affordable housing operator pre-commit to taking circa half the building, and we pre-sold the balance of the building to private investors and owner occupied.

So we are now – we're now entering into agreement with Housing Choices Australia in terms of replicating that model, both in Victoria and New South Wales, and we're currently working on three new sites in terms of that product.

Other apartment buildings just down quickly in Victoria Harbour, it's pleasing to see the level of quality that's starting to come through. Largely I think it's the basis to having a sector focused team. Our recent building that's just completed down in Victoria Harbour averaged one defect per apartment, which from a customer end user perspective, is a terrific result. But what we are looking for in Victoria Harbour now is we still have the affordable housing building to complete, and we're currently marking our next luxury apartment building, which we are aiming to achieve around \$100 million of pre-sales by year end. We launched the project earlier this year and we're sitting at around \$35 million at the moment.

Over in Jackson's Landing likewise we are just completing the Stonecutter's building, and that is circa 85% pre-sold and we have launched our second building, which is about 50% pre-sold and we've just started construction now. So key trends for us. We are budgeting for our Delfin business to turnover around 200-220 sales per month over the next couple of months. And then we believe given the fact we've got a number of new projects starting, rather than a major turnaround in the market, we'll see that increase slightly for the balance of the year. Our apartment business as I've already mentioned, we will focus on a number of affordable projects in that business, but we have a very strong pre-sale discipline in that business. In our commercial office we have about another 12 months of delivery in respect of Victoria Harbour and the projects in Sydney. And then we will be then looking at obviously with the RNA early planning for how we start to plan to grow the commercial business again in Brisbane, albeit we're really sticking respective – we don't see any significant recovery in the office market in the short to medium term.

I guess just in summary, plan for growth and outlook, the last slide, very much across the business and I think would have come out in the theme today. In

our development area we are managing for downside, a strong discipline on capital, a strong discipline on pre-let, a strong focus on land management type arrangements rather than traditional land purchase. But what we do want to do is use this cycle to position each of those development areas for growth, as the market starts to recover. So we'll be looking to buy into positions where we can then realise the benefit of that, as the market starts to turn, securing those predominantly on a land management business as with the RNA up in Brisbane. And it's been as I mentioned Delfin's core business historically.

"Capital lite" solutions, we've spoken about the integrated solutions approach, very much either land management or joint venture. That is the basis which we're moving forward. Where Lend Lease has got significant equity tied up in a number of traditional development projects, such as St Mary's in Western Sydney. As the Western Sydney market starts to we will look to unlock that capital and redeploy it more efficiently. So there's a little in New South Wales especially, there's an element of workout where we have had capital employed that hasn't been meeting our return hurdles. But what we will look to do over the next 12-18 months is start to unlock that capital, and make sure we redeploy it more efficiently.

So that's probably all I'd really like to say. I think now I'm handing over to Rod Fehring, to talk about Primelife before coming back to Q&A. Thank you.

STEVE MCCANN: David, just before you hand over to Rod, all I have mentioned on RNA is the scale of the project overall being \$2.5 billion, and that we're working towards a project development agreement over the next six months. So I don't know if there's anything of more substance you'd like to add.

DAVID HUTTON: Probably just a couple of points Steve. In respect of the project, the RNA has a 22 hectare site in Brisbane. We will develop private buildings or commercial development around five hectares of that. The arrangements that we'll now look to put in place over the next couple of months anticipate Bovis Lend Lease will be responsible to design and construct all the RNA's new facilities, in addition to the development we undertake. We envisage around 1,800 apartments, 140,000 metres of commercial space and around 25,000 of retail and auxiliary uses. The site has outlined planning consent for 340,000 square metres, so it's by far the largest development site in Brisbane. And the basis of the arrangement with the RNA will see us enter into a master development agreement over the next 15 years. It will be our intention as we are at Victoria Harbour to package components of that up into individual buildings, so as we get planning consent for example for an apartment building, to bring in a joint venture capital partner and complete that building. For the office we'll be looking at pre-lets and pre-packaging, so very much the Victoria Harbour "capital lite" model.

So for us, why is that important? It really gives us a base in Brisbane for all the businesses including Bovis. As I mentioned it will be the largest

development project in Brisbane, and really underpins our collective platform including investment opportunities for the next 10-15 years. So it's a little bit like having a Victoria Harbour in Brisbane, so we see it as significant for the business.

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