

**LEND LEASE STRATEGY DAY**

**HELD ON**  
**WEDNESDAY 13 MAY, 2009**

**AT THE OBSERVATORY HOTEL, SYDNEY**

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**ROD LEAVER**  
**INTEGRATED SOLUTIONS MODEL PRESENTATION**

ROD LEAVER: Good afternoon. My name is Rod Leaver, and I'm the CEO of Lend Lease Asia-Pacific, and also the global head of investment management. You heard earlier from Steve about some of our earlier announcements in relation to investment management and retail and communities businesses, now combined under a single CEO in each region. And that has been done to ensure direct accountability, to align the businesses and create stronger collaborative links for our integrated model, and to drive our investors focus, our development focus, so as to provide strong alignment to our investors.

As part of this structure we have analysed the way that we do things, how we undertake our business and the processes involved to ensure operational excellence and with a key focus, as you heard earlier, on execution.

One major change has been the establishment of the integrated solutions, which brings together as a service provider to the rest of the businesses, the functions relating to matching equity to our pipeline of opportunities, and ensuring that Lend Lease and its shareholders directly benefits from our value creation capabilities.

So today I'd like to focus on our integrated solutions model and the disciplines it encompasses. I'd like to look at our sources of capital and their current investment strategies, demonstrate our diverse product range and offering across the risk return spectrum to match those investors' requirements, and show why Lend Lease has a strong competitive edge in being a preferred partner and fund manager, and finally highlight some of our key growth initiatives.

As you heard this morning the group's strategic plan has been formulated to put us in the strongest possible position to face the current market realities and challenges, while at the same time building a business platform, ensuring that we can generate strong future growth. The vision and objectives behind this plan are to be a world class property solutions provider, a trusted investment manager, to create and deliver the best property outcomes,

maximise the flywheel benefits to Lend Lease and be consistent and strategic in our approach to executing transactions and dealing with our capital providers.

In order to deliver on this strategic plan we need to raise third party equity alongside our own to match our product platform. Our integrated solutions function will understand in detail the global equity investors' needs, then match it to the group's pipeline of opportunities. It will be strongly research driven in developing innovative products or clubs to match the markets' requirements, leverage our strong banking relationships to secure debt where others may not be able to. Ensure the quality of our products and developments globally, and finally, drive best practice management of origination and transactions across all business units. The direct outcome of this disciplined approach to capital and pipeline origination, will be to drive high risk adjusted returns for shareholders and investors alike.

Looking at our sources of capital, the group has a track record in delivering complex high value property solutions, and it makes us a partner for choice for governments around the world, corporations and investors, including superannuation, pension and sovereign funds around the world. Our strategic model is based on partnering, and this enables Lend Lease to make a much more diverse project pipeline to underpin long term earnings potential. As you know, Lend Lease is an integrated company, and while this does add some level of complexity to this business, it is for our co-investors seen very much as a positive. Our deep understanding of property fundamentals, fully integrated capabilities and global reach has been built over half a century of property cycles, and this makes Lend Lease very, very appealing and valuable to investors around the globe, who at present are reducing the number of partners and managers they employ or joint venture with. They are seeking out global companies with sector specific and core competencies that have a strong understanding of property and value creation, and not just be a manager of money. And that's a very important point for us at the moment, because we're seeing a lot of investors around the world who have great concerns about the managers of their money not having that core property understanding.

So our deep market knowledge across the entire property value chain, provides us with a strong understanding of risk, how to mitigate it and thus provide them with higher risk adjusted returns, and this is seen as one of our core competencies.

I guess to demonstrate that example, in January this year Steve, Mark Menhinnitt and myself went to Kuwait as a team and saw the Kuwaiti Investment House for the first time. And it was tremendous to see after we presented our credentials of Lend Lease around the globe, presented the track record of 50 years of building amazing buildings and managing money on behalf of over 130 wholesale professional investors, that for them who had been investing around the world at great risk and putting money with other

partners, joint venturers, that they saw the opportunity to invest alongside Lend Lease and have us look after their investments with our deep understanding of knowledge. And that was, I think, a really pertinent point for me that said that there are many, many large investors around the world who are seeking companies such as Lend Lease, who can deliver an end to end value creation.

So if I turn now to some of that investor appetite, we've built those deep relationships over a period of 30 years with over 130 superannuation pension and sovereign funds from around the world. We meet with them regularly, and understand their investment strategies and needs. And while many investors have significant cash reserves at the moment, they're sitting on the sidelines waiting until the market stabilises. They are selectively and cautiously seeking out compelling opportunities in core real estate space, while waiting for that valuation environment to stabilise. They are opportunistic also in their approach, and are seeking to buy well at the bottom of the market. The Australian superannuation funds currently remain overweight to real estate. They're generally overweight to unlisted assets, and although the increase in equity markets since March has started to de-stress their allocations, there remain a small number of domestic investors who are starting to look at this as an opportunity now to get into funds at discounts to NAV, that have previously been closed.

The European pension funds generally have limited appetite to invest, but they have significant reserves of cash, and they have allocations and are targeting unique and distressed opportunities around the world. The US pension funds to date have invested primarily in private equity funds. These private equity structures have focused on opportunity and value add assets, and they are currently focused on their own backyard and tidying up some of the issues they have in the US market. They're generally not looking internationally at the moment. However, interestingly in a recent investor survey that was done in December 2008. In a survey of global investors 84% of those investors said they will be making new investments in private equity real estate this year. However, we believe that caution will reign and emphasis will be on quality of the manager and their track record.

The sovereign wealth funds have become increasingly capacity constrained, particularly those reliant on resources and oil. They are extremely cautious in relation to future interests and timing, and any focuses on distressed and re-capitalisations and unlisted real estate companies. The fund of funds finally remain a source of capital, seeking to gain access to best in class managers and seeking distressed opportunities in mature markets. The investors at this stage of the cycle are in general seeking to get a greater level of control over their investments, and the decisions relating to those. They're seeking a shorter fund life and also a shorter time in which – for the manager to invest those funds. Use it or lose it.

Australia continues to be increasingly on the radar of these foreign investors, having an appeal of seemingly less volatile market on a global basis, but with the prospect – and I would add and highlight the fact it's a prospect – to acquire quality core low risk trophy assets at distressed prices. The difficulty of this strategy as we see it is that even with the expectation of further declines in property values, due to Australia's reasonably sound underlying property and economic fundamentals, it's unlikely that these major trophy assets will be purchased at distressed prices. That does, of course, rely on the banks continuing to support owners of properties who may be in breach of their covenant and not pulling the rug from under them. I think Centro is a good example of that to date where that has occurred. For regional shopping centres for example, due to the restrictive planning hierarchy in Australia it means that these trophy assets are always keenly sought after. And while they may sell at a price lower than last year they're unlikely to sell at distressed prices, unless of course the vendor is distressed and can't find alternate means of raising equity.

Not only is Lend Lease as a group diversified by both sector and geography, so too are our funds. We provide our investors a diverse offering of choice with the opportunity to invest either into our co-mingled funds, clubs or in joint venture. The group's rigorous and disciplined approach to product creation and capital allocation provides us flexibility to target the best opportunities in the market at each stage of the property cycle. And our partnership model enables us to leverage the group's balance sheet so as to maintain a diverse project pipeline underpinning the group's long term earnings potential. And the key to successful product creation is listening to the investor's needs. Understanding where the opportunities in the property markets lie and then apply our core competencies to create a compelling reason to invest. Our Australian Opportunistic Club, which we are market sounding at the moment and which I'll speak about shortly, is a good example of this.

So we understand the investors' needs, we have the ability to access pipeline and to create the right compelling product to meet those needs. However, even with the compelling product there is no question that we're in an extremely competitive market, too little equity and too many managers seeking it, and so now I would like to address why Lend Lease is regardless in a very strong position to do that.

Again, it is our fully integrated property skill base that continues to be the key differentiator as investors focus on managing risk. However, investors also recognise financial strength, track record and commitment to responsible investing as critical factors. Market recognition was recently showcased through an investment stewardship award for Lend Lease by the Melbourne Financial Services Symposium, recognising best practice covenants, long term performance and commitment to sustainability. And this award recognised our key funds top quartile performance and our leadership and innovation and sustainable solutions to optimise value over the long term.

Turning to our key funds top quartile performance. By way of example, our \$3.2 billion APPF retail fund has gearing of just 7.1%. And even with this low gearing, over the last five years through a rising market the fund has, through the application of our value adding initiatives, still managed to outperform the Mercers Index. And today is the best performing wholesale fund in Australia, providing a total return up until the end of March of 8.6 against the Mercers Index of negative 4.9.

I guess that highlights a little bit about Lend Lease's approach to business. We are as some believe a complicated company, but we're not an overly financially engineered company. It is quite simple in its approach, and when I started out with co-founding Paladin with Greg Paramor in the early '90s, the ASX Listed Property Trust Index was about \$6 billion and had gearing of sub-10%. And as we saw over a very short space of time with low interest rates, we saw more and more financial engineering to push returns up. But in a property sector it's not rocket science. If you're getting a 9% IRR you can't continue to get 30% returns through financial engineering, and expect that it won't come to an end.

So where we are at with Lend Lease in its wholesale funds, which have been around since really the mid-'80s, we've had very low gearing. It's a very stable environment for an investor in which to invest, and we have demonstrated that through our deep understanding of property we can maintain returns through the upmarket. But through our conservative approach to not taking on financial engineering, we can actually still outperform the market on a relative basis.

So we understand the equity. We have the pipeline of products and the competitive advantage to win business. But what I'd like to talk to you now about is the importance to the group of the flywheels, and the impact on our ROE. As you heard this morning our fully integrated capabilities across the property value chain, enable us to access multiple earnings and opportunities for flywheels, maximising the returns on equity for our shareholders and partners alike. This chart demonstrates how our integrated model adds value to shareholders across the project development and operational phases. The integrated model provides a significant multiplier effect on the base profits and return on equity of co-investing in a project. The first example there is Somerset Shopping Centre in Singapore, for example, utilised Bovis, Lend Lease development retail leasing and management and investment management. Lend Lease Corporation provided 32.5% of the equity through a direct and indirect investment, but over the course of the development phase we were to receive a multiplier effect on the base profits of 1.4, and during the operational stage a multiplier effect of 1.3.

By way of another example, Darling Walk is the new 61,000 square metre CBA headquarters in Darling Harbour. It's joint investors are a mandate from a sovereign wealth fund, which we manage, and our own APPF commercial fund. Lend Lease through its investment in APPF has only exposed its

balance sheet to circa 4% of the development risk, but will benefit from significant flywheel profits across the whole development and operational phases.

So in closing, I'd just like to touch on five current growth initiatives for the business. As I mentioned previously, we're currently in market sounding with investors for an Australian Opportunistic Club. Bringing together a small number of aligned investors targeting distressed owners of quality sub-regional and A Grade commercial assets, which are the assets that we believe will be able to be shaken loose from distressed owners.

The fund has the ability to deliver significant funds management and performance fees, retail management fees and potentially development and construction fees. We're also raising convertible preference equity to strengthen APPF capital management position as it delivers a development pipeline of Darling Walk, the Myer headquarters in Melbourne and 420 George Street, and all of these will provide significant flywheel benefits to the group as a whole.

Our Somerset Shopping Centre development on Orchard Road in Singapore is on time for completion at the end of November, and is expected to be within budget. As the Singapore economy continues to deteriorate its platinum sustainability rating differentiates it from its competitors, and the quality of design is being recognised by potential tenants. In a difficult leasing market we now have leased over 40 shops this year and out of a total of 174 shops we have in the order of about 40 odd left to go. We're currently undertaking product development of the UK infrastructure investment vehicle, which Mark mentioned earlier, and that's to match the equity demand for the group's emerging social infrastructure pipeline. This product will allow us to recycle assets while maintaining control of them and producing additional fee income. And we continue to make strong relationships with many sovereign funds and covert investors, covert investors being those that do not want any publicity, who are keen to partner with somebody like Lend Lease because they can deal with one partner who can look after them from end to end. And also many large and sophisticated investors with appetite for direct acquisitions, and all providing us with the opportunity for ongoing management fees. And examples of just mandates are our V5 residential development in Victoria Harbour, and also Darling Walk, which I've already explained, and which I'm now going to hand over to David Hutton and ask him to come up to the stage. Okay, so I'm going to hand over to David, and he's going to talk about the R&C business in Asia.

**END OF TRANSCRIPT**