

# Mirvac PFA Diversified Property Trust

## Current Status & Future Direction

April 2008



# Agenda

- > Economic conditions
- > Property market overview
- > Impact of credit shock
- > Strategic review
- > Capital management
- > Earnings forecast
- > Recommendations
- > Short term targets
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- > Unit price
- > Mirvac and management
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# Economic conditions

## > Global economy

- Moderating world economy primarily caused by poor US lending practices
- Sharp fall in equity markets and deterioration in investor sentiment in all developed countries
- Turmoil in global debt markets including increased credit spreads (difference between Government and non-Government security yields)

## > Australian economy

- Well insulated, but not isolated from the recent events
- Supported by commodity boom, low levels of debt and well capitalised banking sector
- Large falls in ASX All Ordinaries and LPT200 index
- Strong underlying property fundamentals: low vacancies, rising rent
- Outlook: compared to the rest of the world the future for Australia remains relatively positive

# Property Market Overview

- > Global property markets have been swiftly and severely impacted:
  - LPT/REIT price collapses
  - Freezing of redemptions on unlisted funds
  
- > Impacts will extend to Australia in the following ways:
  - Downward correction in property values, particularly poorly managed secondary grade assets
  - Deterioration in investor sentiment
  
- > Outlook for Australia:
  - Continued growth in rents across the office, retail, shopping centre and industrial sectors throughout 2008
  - Forecast end to yield compression i.e. downward pressure on valuations
  - Moderate investment performance

*"This is a time of dividing between the good and the bad...inferior real estate will see a decrease in value..."*  
Senior Listed Fund Manager, on the adjustment of values to second tier properties

*"All financial markets are now applying greater discrimination in valuations between prime and secondary grade assets."*  
David Rees, Mirvac Director of Research

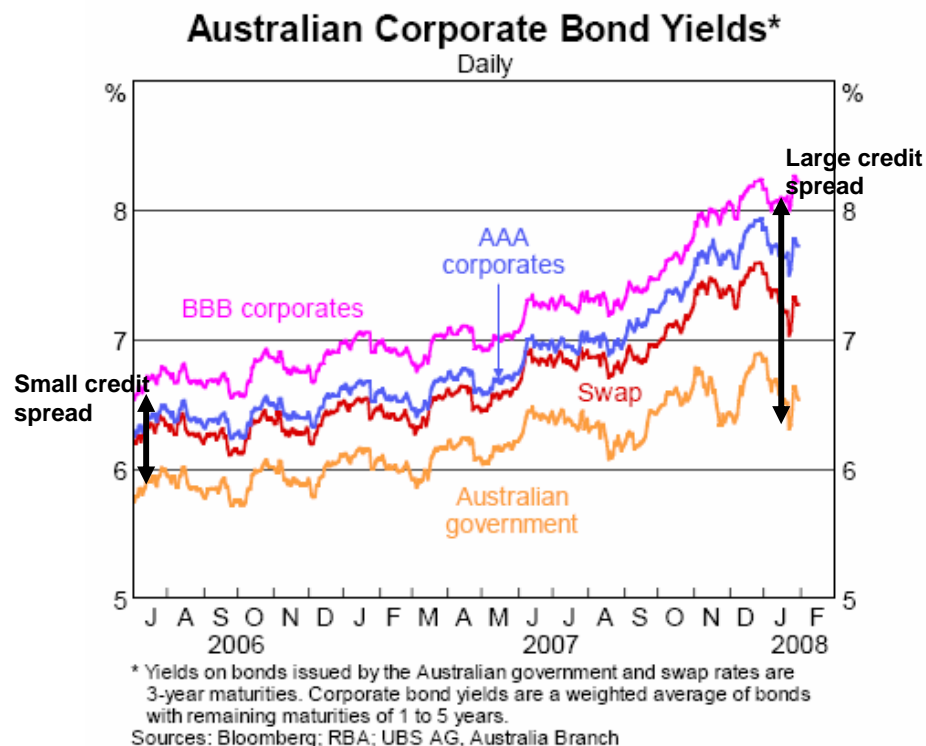
# Impact of credit shock

## > Non-residential real estate

- Widening credit spreads in debt markets equal higher cost of debt
- Re-pricing of risk across all asset markets
- Difficulty rolling over debt
- Increased likelihood of asset sales to service debt

*"The global credit shock will inevitably have an impact on all asset markets around Australia, including real estate."*

David Rees, Mirvac Director of Research



# Strategic review process

- > Mirvac acquired 100% ownership of the fund manager in November 2007
- > Established new Investment Committee with independent member Dennis Wildenburg
- > Market conditions dictated the urgent need for a strategic review incorporating:
  - PFA's property portfolio
  - capital management (including debt and equity);
  - financial and investment metrics
  - distribution policy
  - administrative systems
  - compliance and governance
  - market environment





# Outcome of review

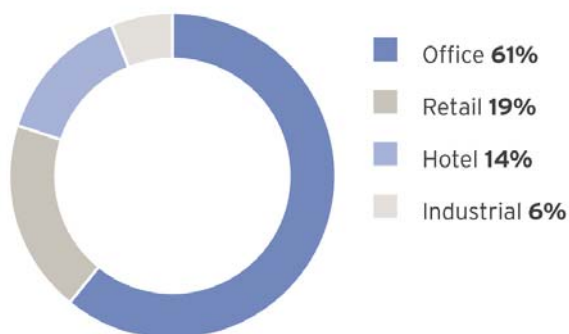
- > Strong occupancy levels of 97.5%, some re-letting risk in FY09
- > Weighted Average Lease Expiry (WALE) of 6.12 years as at 31 March 08
- > NTA of \$1.46, with downward revaluation pressure at 30 June 08
- > Good diversification by asset and sector
- > 100% of portfolio domiciled in Australia
- > Debt expiry in November 08 will result in greater interest cost
- > No demand for new equity, higher than preferred gearing level
- > Capital expenditure programme requires new funding
- > Distribution policy needs to reflect cash earnings



# Quality portfolio

Diversification by book value at 31 Mar 08

## Sector



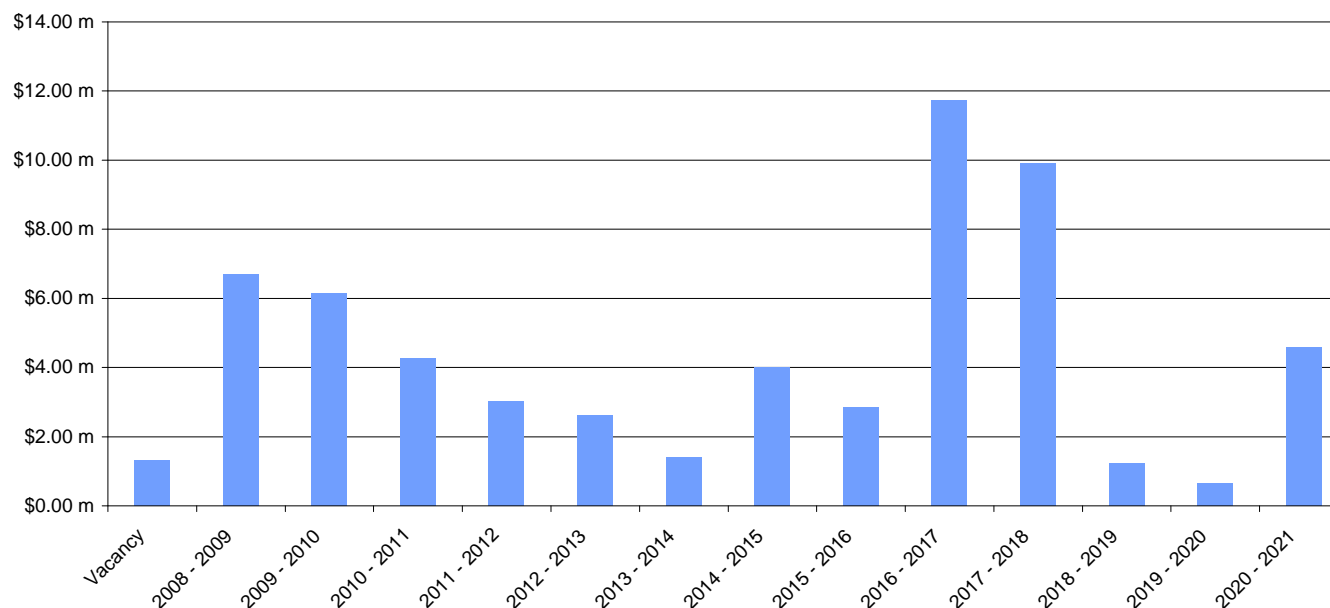
## Geographic





# Quality portfolio (continued)

## Lease expiry profile by income at 31 Mar 08



# Quality portfolio (continued)

## Top 10 tenants as at 31 Mar 08

Top 10	Tenant Name	% of Portfolio Income
1	Government Tenants	25.43%
2	Citigate Perth Limited	7.69%
3	PBL	7.02%
4	Citigate Melbourne Limited	4.85%
5	IAG	4.44%
6	Foxtel Management	3.49%
7	Atlabs	2.72%
8	Energex Retail/State of Qld	2.59%
9	AAPT Limited	2.25%
10	Country Road	2.14%

# Capital Management

	Mar 08
Total debt	\$342m
Weighted average debt maturity	0.66 yrs
Hedged	76%
Weighted average hedged rate	5.97%
Weighted average hedge maturity	2.14 yrs
Gearing	50%

- > Debt maturity – November 2008 (CBA & ING)
- > Discussions underway for a new term facility
- > Expect to conclude refinancing terms by June 2008
- > Upward pressure on margins
- > Pressure on Loan to Value Ratio (LVR) and Interest Coverage Ratio (ICR)

# Earnings forecast

		PDS No. 5 Forecast FY08	Updated FY08 Forecast
Distributable earnings	\$m	17.79	16.03
	CPU	8.60	7.38
Distribution	\$m	20.27	21.68
	CPU	9.80	9.80

## Material impacts to June 2007 PDS No. 5 forecasts:

- > Last public offer over-subscribed
  - Value of acquisitions \$50m larger than forecast\*
  - Higher debt level than forecast
  - Increased interest expense  
(variable debt cost increase of 1.3%)

\* \$90m actual acquisitions vs \$40m forecast acquisitions

# Recommendations

## Way forward

- > The way forward includes:
  - New Trust Manager working with existing PFA team
  - Portfolio rationalisation – identify assets for disposal and execute disposals
  - Lower gearing levels
  - Review hedging strategy
  - Reduce investor distributions in July 08 to core earnings (from 9.8 cents to 6.9 cents)
  - Reduce FY09 management fee from 0.6% to 0.4% of FUM\*

\* management fee to increase in line with distribution increases, capped at 0.6%



# Short term targets

	Current	Short term targets
Gearing	50%	<50%
Hedging	77%	80–90%
Distribution (CPU)	9.8	6.9
Management fee	0.6%	0.4%
Trust interest cover	1.75 x	>1.75 x



# Scenarios

## Scenario 1 – Current

Financial Year	30-Jun-08	30-Jun-09	30-Jun-10
Year	Year 0	Year 1	Year 2
<b>Units on Issue</b>	<b>221.27<sup>a</sup></b>	<b>225.67</b>	<b>225.67</b>
Proposed Distribution (cpu)	0.0980	0.0980	0.0980
Distributable Cash per Unit	0.0730	0.0628	0.0596
(Shortfall)/Excess (cpu)	(0.0250)	(0.0352)	(0.0384)
<b>Total Cash (Shortfall)/Retention</b>	<b>(5.53)</b>	<b>(7.95)</b>	<b>(8.66)</b>
<b>Debt Summary</b>			
Gearing	50%	51%	51%
Debt Balance	341.88	374.14	387.62
ICR		1.52	1.44

## Scenario 2 - 30% reduction in distributions and management fee

Financial Year	30-Jun-09	30-Jun-10
Year	Year 1	Year 2
<b>Units on Issue</b>	<b>225.67</b>	<b>225.67</b>
Proposed Distribution (cpu)	0.0690	0.0690
Distributable Cash per Unit	0.0702	0.0710
(Shortfall)/Excess (cpu)	0.0012	0.0020
<b>Total Cash (Shortfall)/Retention</b>	<b>0.28</b>	<b>0.46</b>
<b>Debt Summary</b>		
Gearing	50%	49%
Debt Balance	367.57	372.98
ICR	1.58	1.53

<sup>a</sup> = calculated as the weighted average units for the year to 30/06/08

# Scenarios (continued)

## Scenario 3 – 30% reduction in distributions and management fee + asset disposals of ~ \$125m

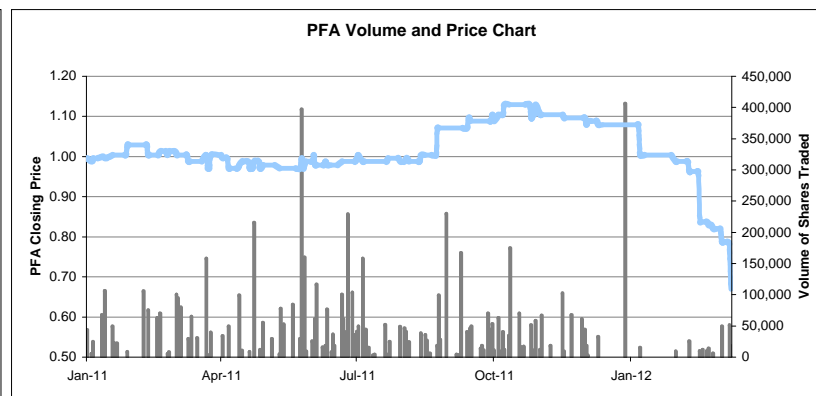
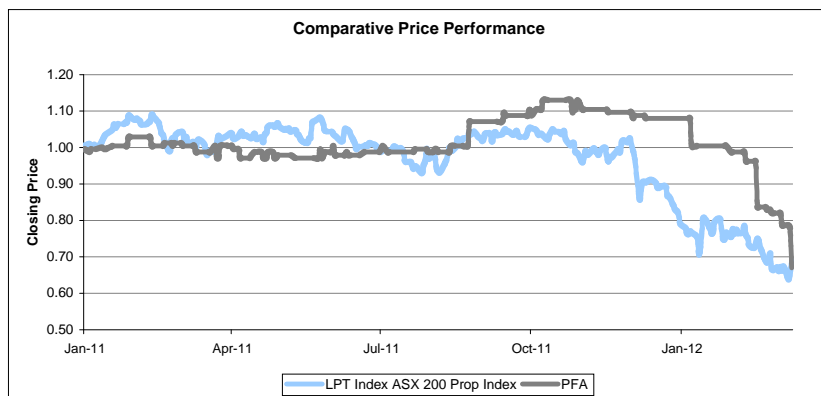
Financial Year	30-Jun-09	30-Jun-10
Year	Year 1	Year 2
<b>Units on Issue</b>	<b>225.67</b>	<b>225.67</b>
Proposed Distribution (cpu)	0.0690	0.0690
Distributable Cash per Unit	0.0777	0.0771
Shortfall (cpu)	0.0087	0.0081
<b>Cash (Shortfall)/Retention</b>	<b>1.96</b>	<b>1.82</b>
<b>Debt Summary</b>		
Gearing	48%	46%
Debt Balance	278.91	282.66
ICR	1.67	1.60

## Scenario 4 – 30% reduction in distributions and management fee + asset disposals of ~ \$33m

Financial Year	30-Jun-09	30-Jun-10
Year	Year 1	Year 2
<b>Units on Issue</b>	<b>225.67</b>	<b>225.67</b>
Proposed Distribution (cpu)	0.0690	0.0690
Distributable Cash per Unit	0.0737	0.0753
Shortfall (cpu)	0.0047	0.0063
<b>Cash (Shortfall)/Retention</b>	<b>1.06</b>	<b>1.42</b>
<b>Debt Summary</b>		
Gearing	49%	47%
Debt Balance	335.83	340.68
ICR	1.68	1.63

# Unit Price

- > Unit price fall on BSX has mirrored LPT falls on ASX
- > Effective “buyer’s strike” has dried up liquidity
- > Sellers wanting to exit must do so at a large discount to NTA
- > Management reiterates that falling unit prices reflect limited liquidity environment and not underlying property fundamentals



# Strong Mirvac backing

## > Mirvac Group:

- One of Australia's leading integrated real estate investment groups
- Over 30 years experience in the property industry through all cycles
- \$28 billion of activities under control
- Third largest diversified property vehicle on ASX
- Unmatched reputation for delivering quality products

## > Mirvac Funds Management is a division of Mirvac with:

- 10 years experience providing real estate management services
- Manages \$9.3 billion on behalf of 36,000 investors
- Experienced executive management
  - Greg Paramor – over 30 years of property funds management experience
  - Nicholas Collishaw – over 20 years of property funds management experience
  - Grant Hodgetts – over 25 years of property funds management experience
  - Ben Hindmarsh – over 11 years of property funds management experience

# Trust Management

## Board

- > Paul Barker (Chairman) \*
- > Grant Hodgetts \*
- > Nick Collishaw \*
- > Rick Turner \*
- > Ross Strang \*

## Investment Committee

- > Dennis Wildenburg (independent) \*
- > Nick Collishaw \*
- > David Sharp
- > Garry Wilcox
- > Ben Hindmarsh

\* existing

## Management Team

- > Ben Hindmarsh – Trust Manager
- > Paul Pitcher – Asset Manager \*
- > Brad Macaulay – General Manager, Distribution \*
- > Mary Goodwin – Investor Relations \*
- > Juan Rodriguez – Joint Company Secretary
- > Michael Smith – Joint Company Secretary
- > Katherine Dziaman – Financial Controller

# Contact Details



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