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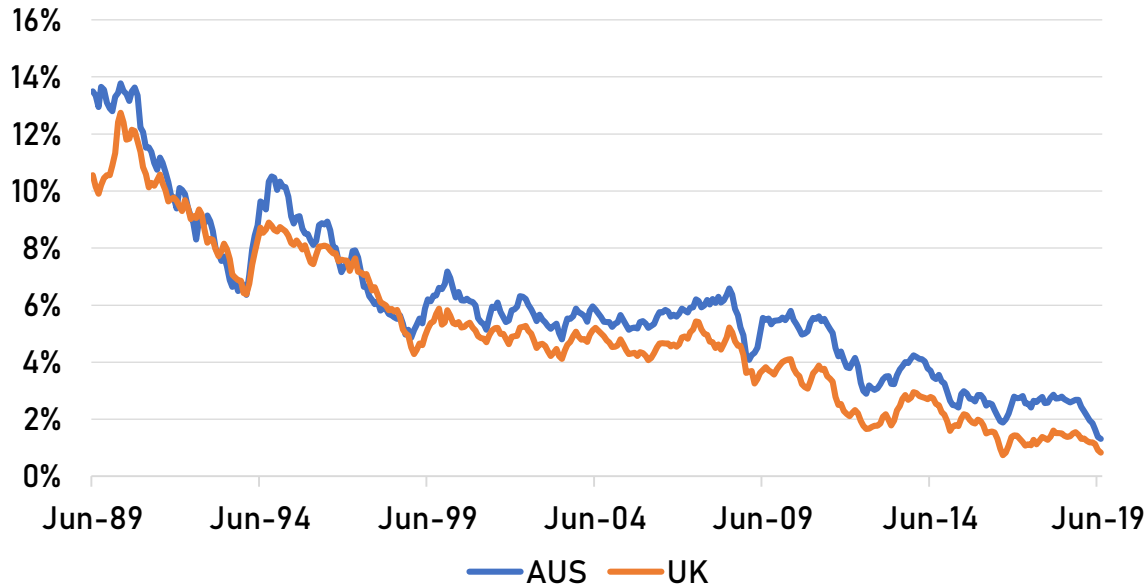
Investment Case for Pan-European Real Estate

Presentation Outline

- Bond Yields
- Convergence of Total Return
- Comparing Yields
- Incentives
- Yield Hierarchy Disrupted
- Growth Outlook
- Total Return Forecasts
- Conclusions

10-year Bond Yield

Australia and UK

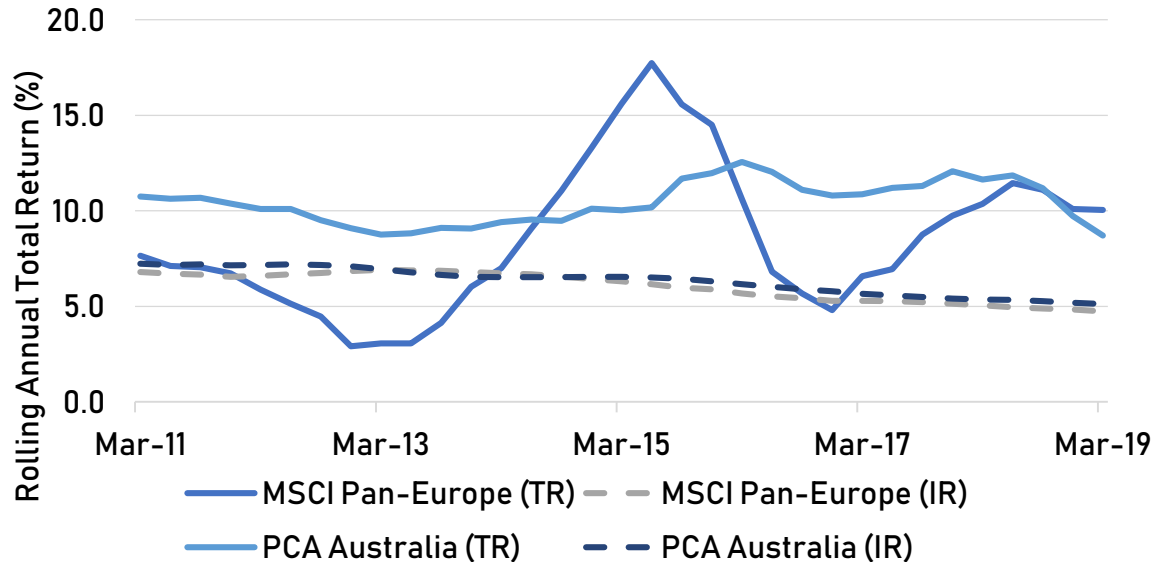


Source: OECD, IPFM.

- Past 30 years has seen declining bond yields
- Today, long-term interest rates are at all-time lows
- Returns have and continue to decline across all asset classes

TOTAL RETURN

Australia and Pan-Europe



- After many years of strong and stable performance, Australian property returns are moderating – and quickly
- Further risks to downside – particularly retail
- Pan-European real estate performance recovered strongly in recent years

COMPARING YIELDS



Acquisition Costs



Incentives

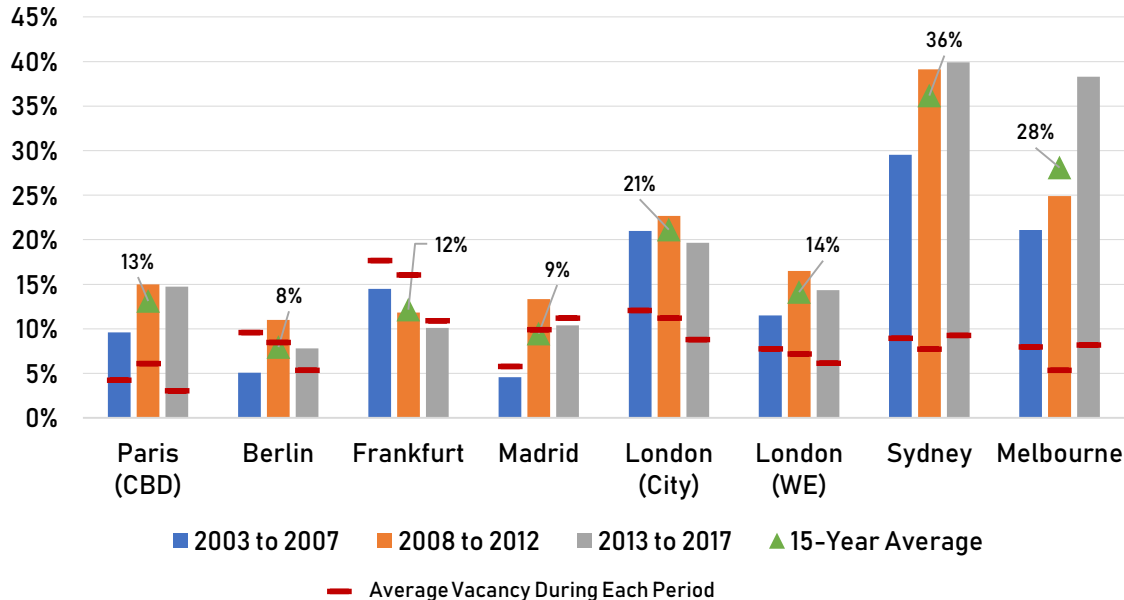


Passing vs. Equated Market

- European yields quoted on gross purchase price (i.e. including acquisition costs) – converting to net yield typically adds back +20 to +25 bps
- Embedded level of incentives materially higher in Australia - domestic yields heavily faced-up
- In Europe, yields express passing income only. Yields understated on properties rented below market and/or with vacancy. This is quite common given low rent reviews

INCENTIVES

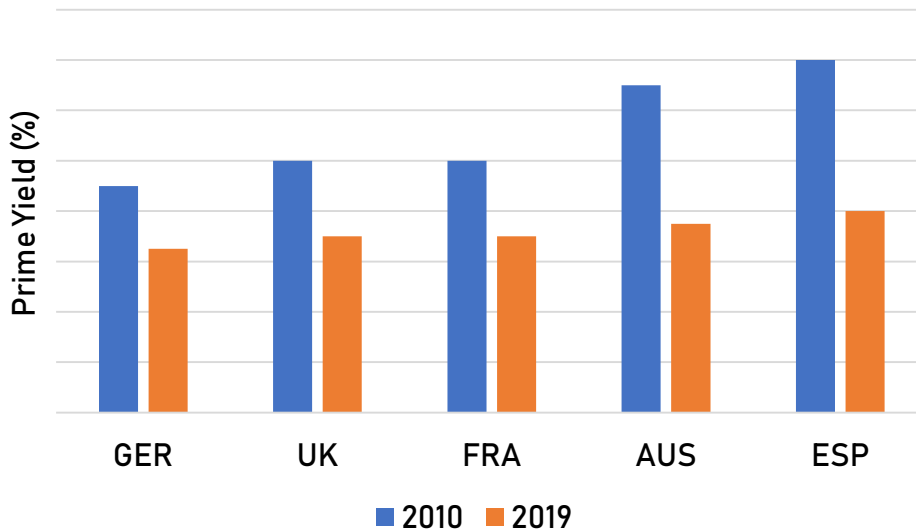
Australia and Pan-Europe



- Incentives inherently lower throughout Pan-Europe – used tactically to bridge shortfall in demand
- In Australia, incentives over-used and arguably to prop-up capital values – heavily distorts quoted yields

YIELD HIERARCHY DISRUPTED

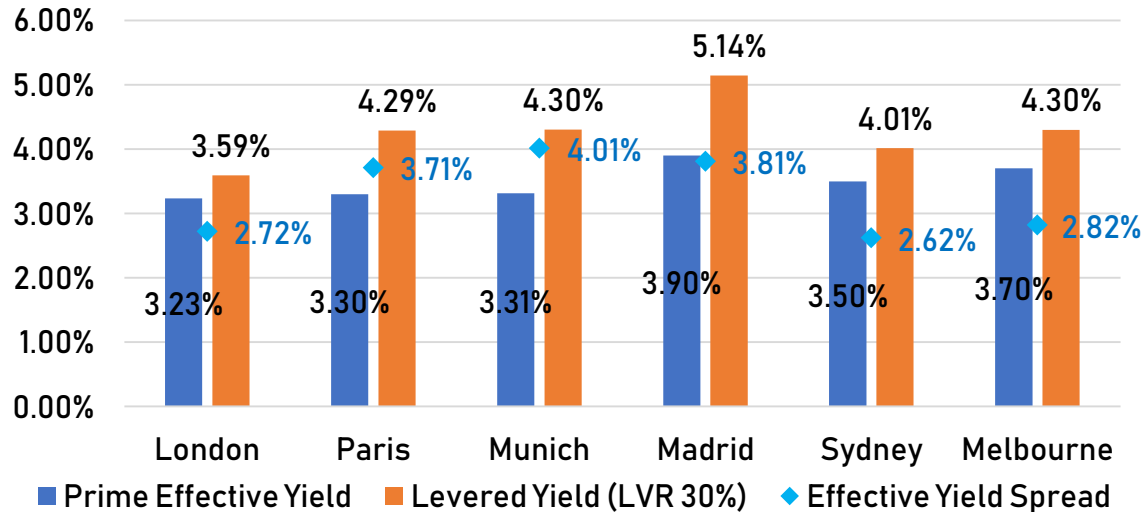
Conceptual Yield Hierarchy



- Global weight of capital has compressed yields across all institutional markets
- Traditional yield (risk) premium available in Australia relative to Europe no longer applies (see overleaf)

EFFECTIVE YIELDS COMPARED

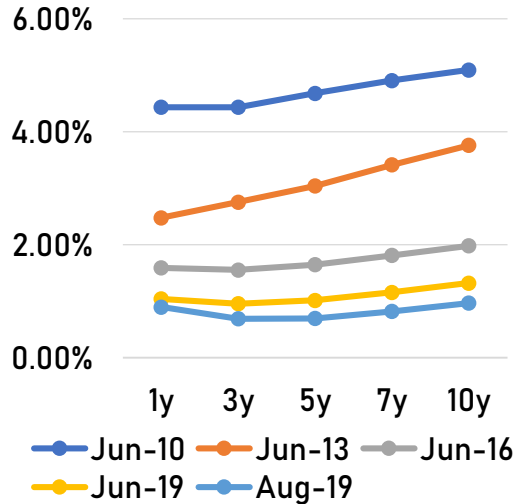
Australia and Pan-Europe (Prime Transaction Benchmarks)



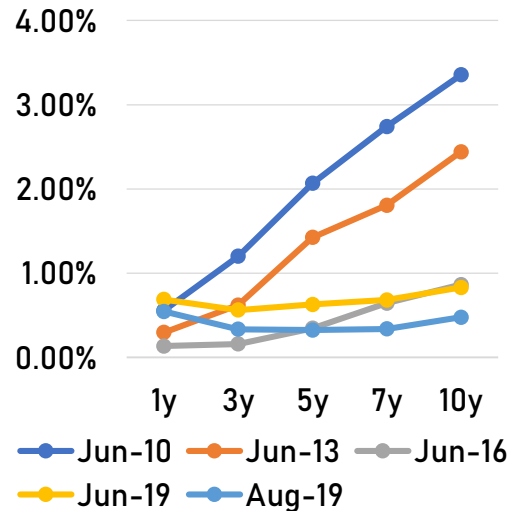
- Like-for-like effective yields similar across Australia and Pan-Europe
- Reflecting very low cost of debt, cash-on-cash yields higher in Pan-Europe
- More of the total return sourced from cash (Europe), rather than relying on rental growth (Australia)

YIELD CURVE INDICATIONS

Australia



UK



- Yield curve shifted down and flattened
- Australian economic prospects downgraded significantly – domestic yield curve now inverted
- Australian 10-year yield only 0.97%
- How likely is domestic rental growth to materialise? Will this support valuer IRRs?




TOTAL RETURN FORECAST (5 years)

IPFM Forecast	Unit	London	Paris	Munich	Madrid	Sydney	Melbourne
Effective Yield (Current)	% net	3.23%	3.30%	3.31%	3.90%	3.50%	3.70%
Net Effective Rental Growth (Market Average)	% p.a.	2.50%	2.70%	3.75%	3.25%	3.00%	3.00%
Total Return – Property Level (Market Average)	5-year IRR	5.50%	5.25%	5.50%	6.75%	5.70%	5.70%
Total Return – Levered @ 30% (Market Average)	5-year IRR	6.50%	6.90%	7.00%	7.75%	6.80%	6.90%

Source: IPFM

Note: calculation of total return includes assumption on 5-year exit yield. Levered return reflects local base rate and prime grade credit margin for each location.

KEY CONCLUSIONS

-  Domestic outlook deteriorating, retail adjustments yet to be priced in.
-  Historical Australian yield premium no longer exists.
-  Pan-European real estate an attractive diversifier – cash is king!

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