



building
shock resistant
portfolios



resolution**CAPITAL**
real estate securities solutions



**Resolution Capital
Property – Back on the Defence**

August 2010



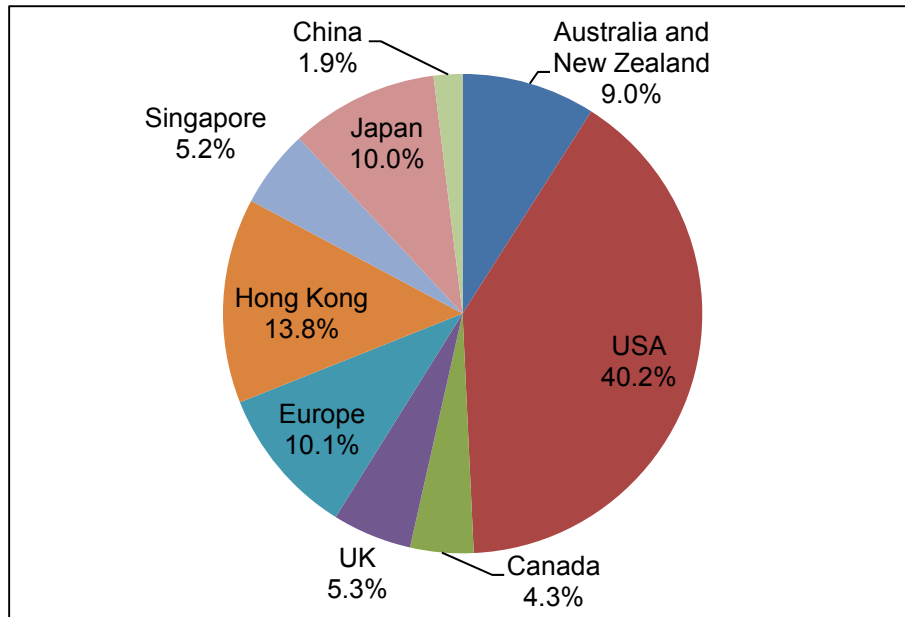
Agenda

- The REIT Market Overview
- Real Estate Operating Conditions
 - Supply
 - Demand
 - Vacancy
 - The Environment
- Issues Facing REITs
- Valuation and Risks
- Showcase World's Best
- Outlook
- RCL Performance

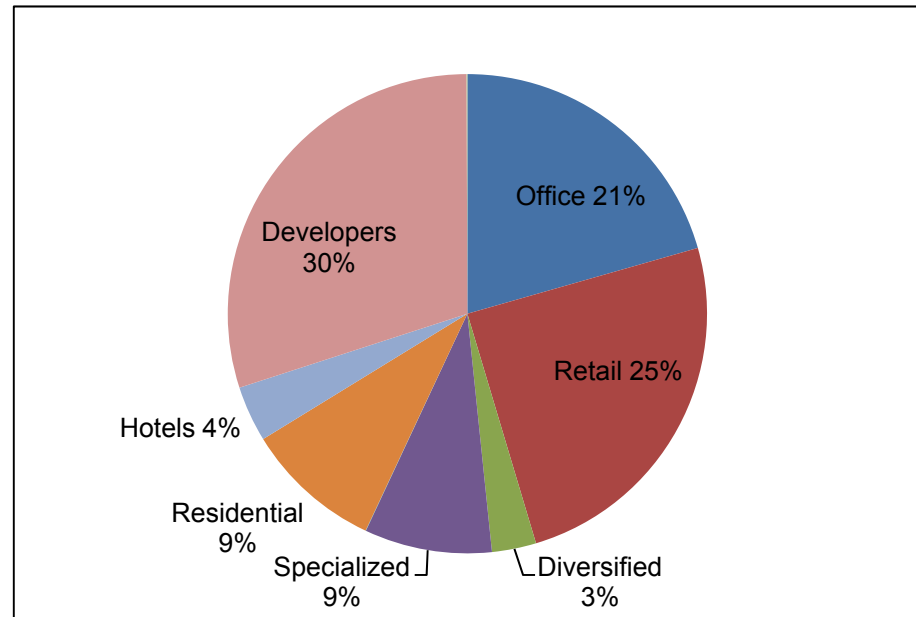
Market Overview – Major Benchmark

EPRA NAREIT Developed Index Aug 2010

Geographic Breakdown



Sector Breakdown



Equity Market Cap: \$750bn

A-REIT Index Concentration

AREIT Index

Jun-95		Jun-02		Aug-10	
WFT	20.4%	WFT	15.4%	WDC	39.5%
GPT	13.0%	GPT	12.0%	SGP	14.0%
SGP	8.6%	WFA	11.8%	GPT	7.5%
SCH	5.5%	SGP	8.2%	MGR	6.6%
GAN	5.5%	MGR	5.8%	GMG	6.0%
Largest 5	53.0%	Largest 5	53.2%	Largest 5	73.7%
Largest 10	71.4%	Largest 10	69.5%	Largest 10	92.5%

➔ Is there a quality argument?

➔ Global diversification a more effective solution

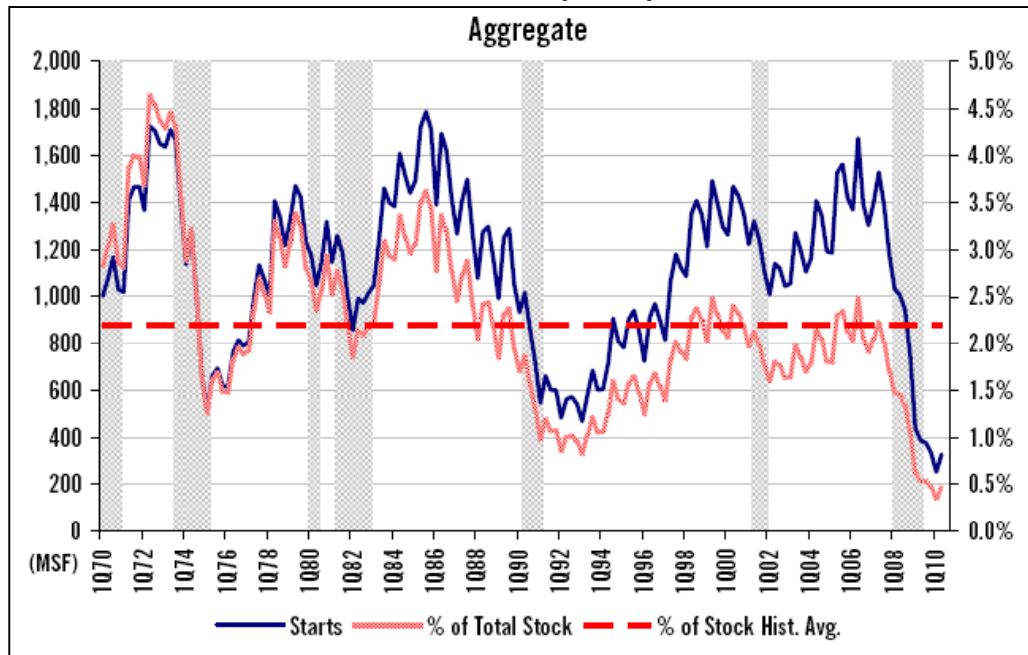


Real Estate Operating Conditions

- Tenant demand patchy
- Tenants focused on best (most profitable) locations
- Incentives inflated – Credit Crunch escalates landlords role as financiers (fit-out, rent free, marketing contributions)
- Western consumer stretched, particularly the US
 - Post spending binge, savings rate restored
 - House prices – no longer an ATM / third source of household income
 - High U/E, low job security
 - Weak US\$
- Financial sector reform, bonus tax encourages shift to HK, Singapore

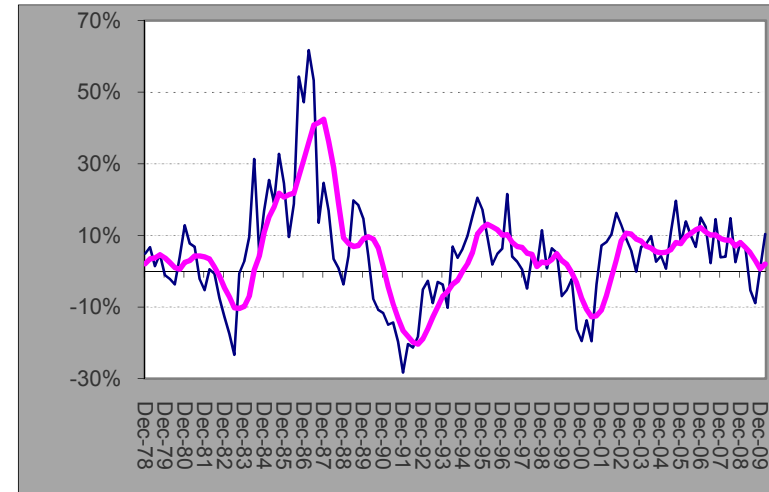
Operating Conditions: Low Supply

Aggregate Quarterly Construction Starts Since 1970 (NSA)

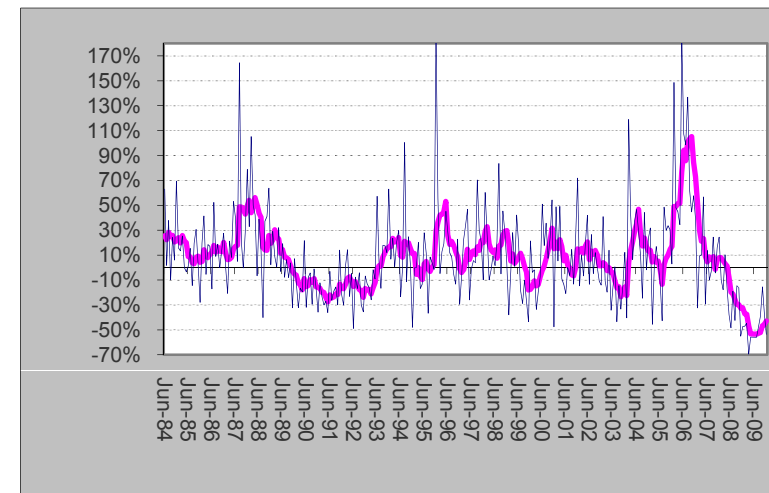


Source: Citi

Aus Total Non Residential Construction Work Done



UK Total Office Construction Orders



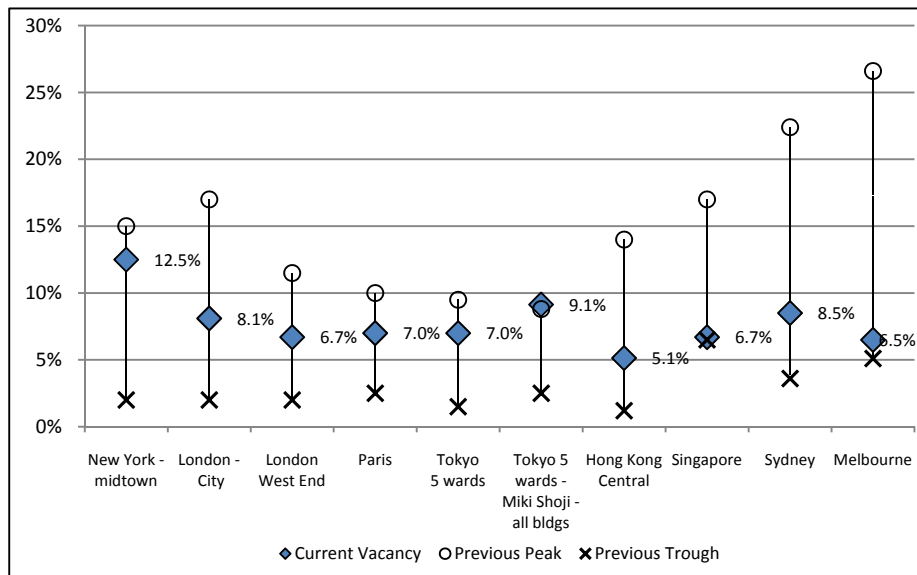
Source: Bloomberg

- Aus building focused on schools program
- US construction activity at 40 year lows
- Lack of supply is the major differentiating factor compared with past downturns

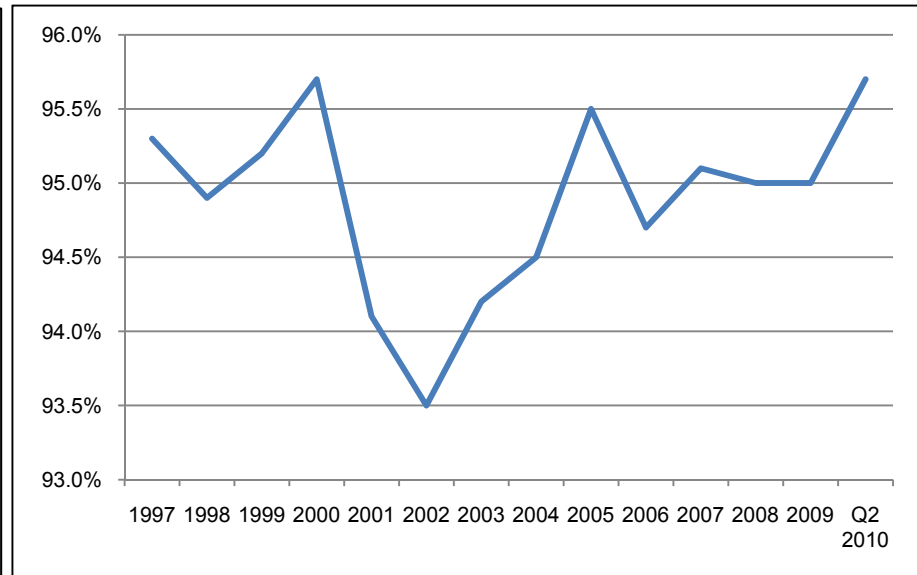
Operating Conditions: Vacancy Rate

- Despite GFC and recession, vacancy rates are not at historic peaks
- Moderate vacancy rates thanks to low supply
- Early stages of next development cycle evident in some markets with low vacancy and as prices approach replacement cost e.g. London office, Australia
- Shopping centres remain relatively resilient due to planning controls

Office Vacancy Rates – current & historic range Leading US Multifamily REITs Occupancy Rate



Source: CBRE, Savills, DTZ, SLG, CCT, PCA



Source: US multifamily REITs



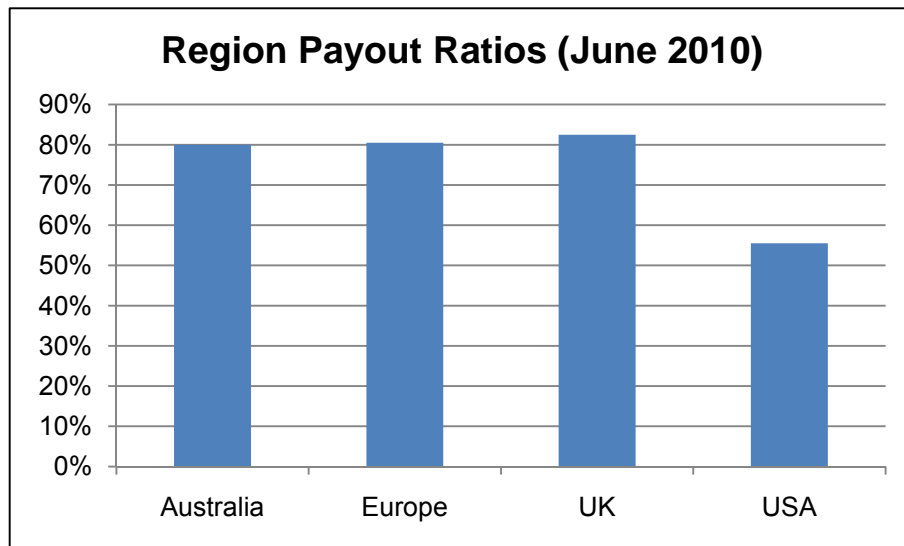
Environmental issues gaining momentum

- Energy cost saving initiatives
 - Green building ratings
 - Tenant awareness
 - Impact of carbon tax?
 - Most sellers or lessors of office buildings over 2,000m² in Australia will be required to obtain and disclose an up-to-date energy efficiency rating
- ➔ Obsolescence for those that don't reinvest / upgrade buildings

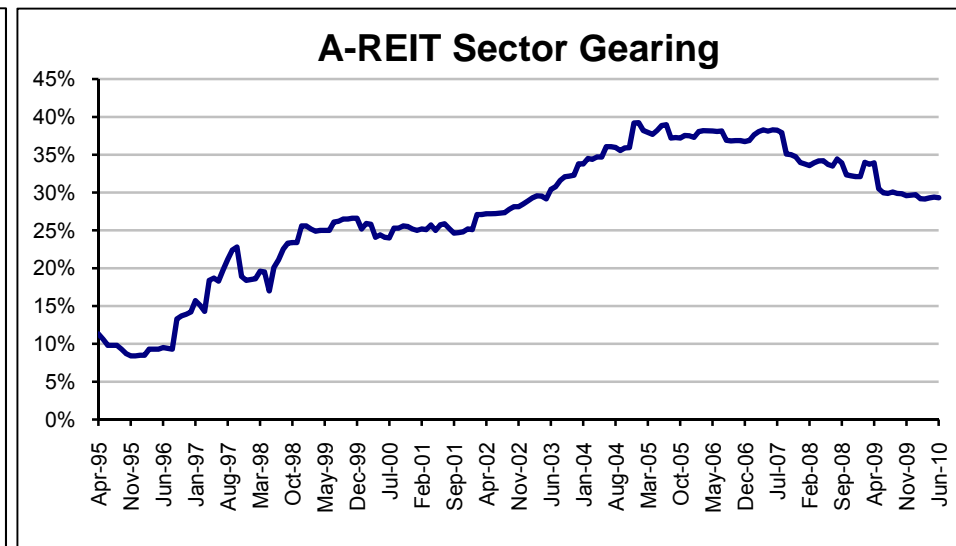
REIT Reporting Season

- Most REITs matched/exceeded earnings guidance
 - Occupancy stabilising, tenant default low
 - US REITs, with good credit, benefiting from low interest rates
 - 10 year finance at <5% (vs Aust 3 yr @ >7%)
 - Reduced overhead/managed costs
 - A-REIT
 - Repositioning portfolios (selling offshore)
 - Higher interest rates impacting earnings growth
 - Residential development (Stockland, Australand, Lend Lease, GEO) performing strongly
 - Property valuations stabilising
 - Property values stabilising/increasing in UK and Australia

Dividends Sustainable/Balance Sheets Restored



Source: RCL

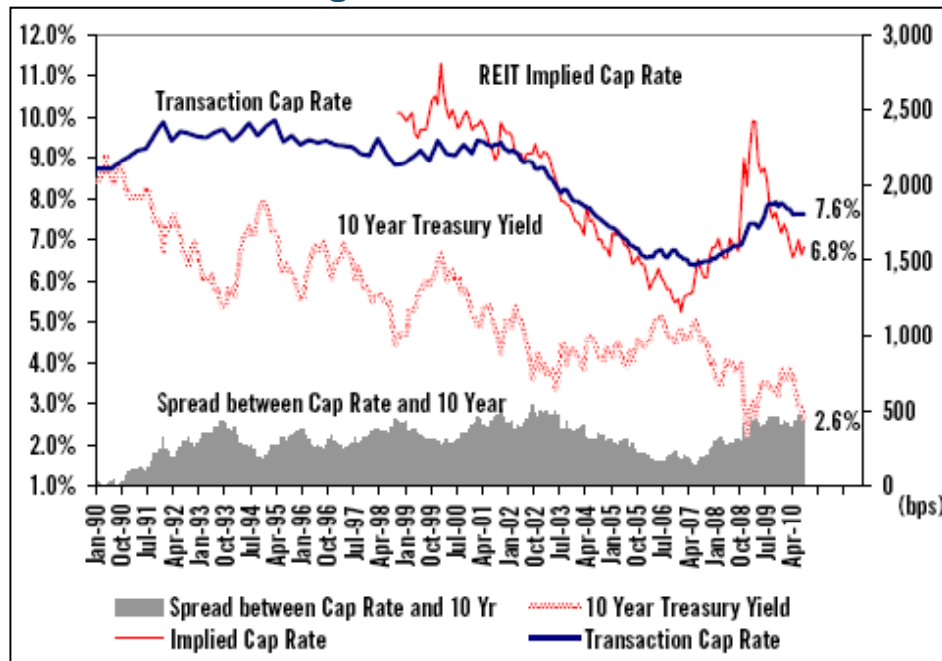


Source: UBS

- REIT platforms high quality – M&A potential

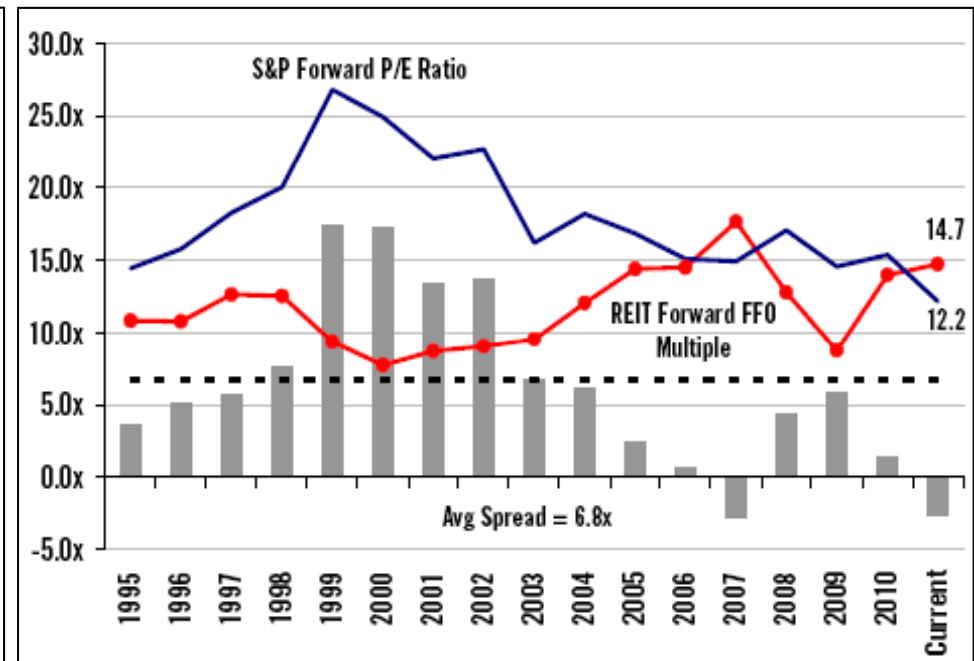
US REITs Trade at a Premium

Implied Cap Rates Have Contracted 375 bps Since Peaking at 10% in March 2009



Source: Real Capital Analytics & Citi Investment Research and Analysis

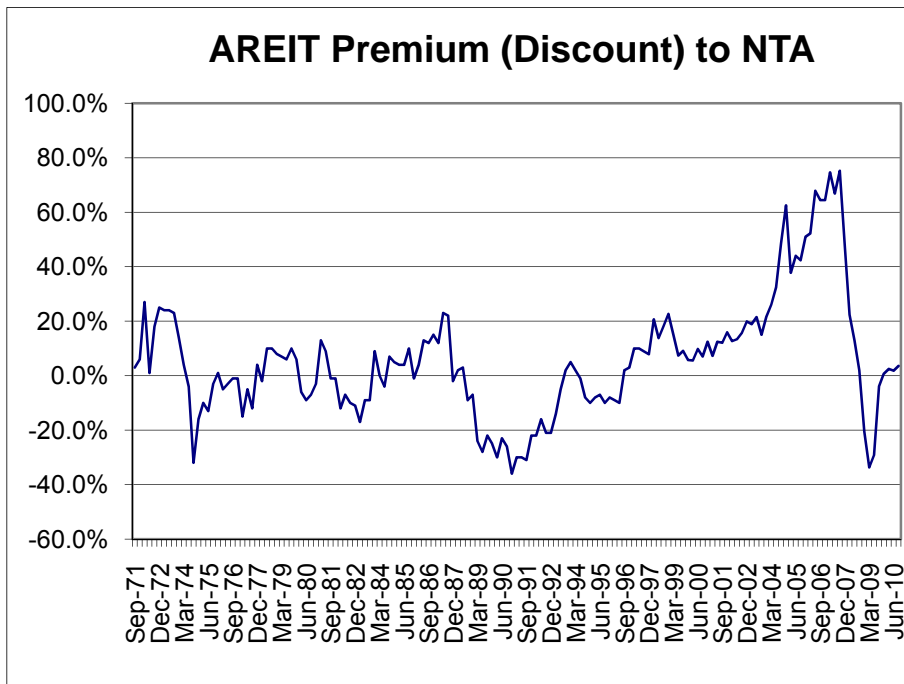
The REIT Forward FFO Multiple is Above the S&P 500 P/E Multiple



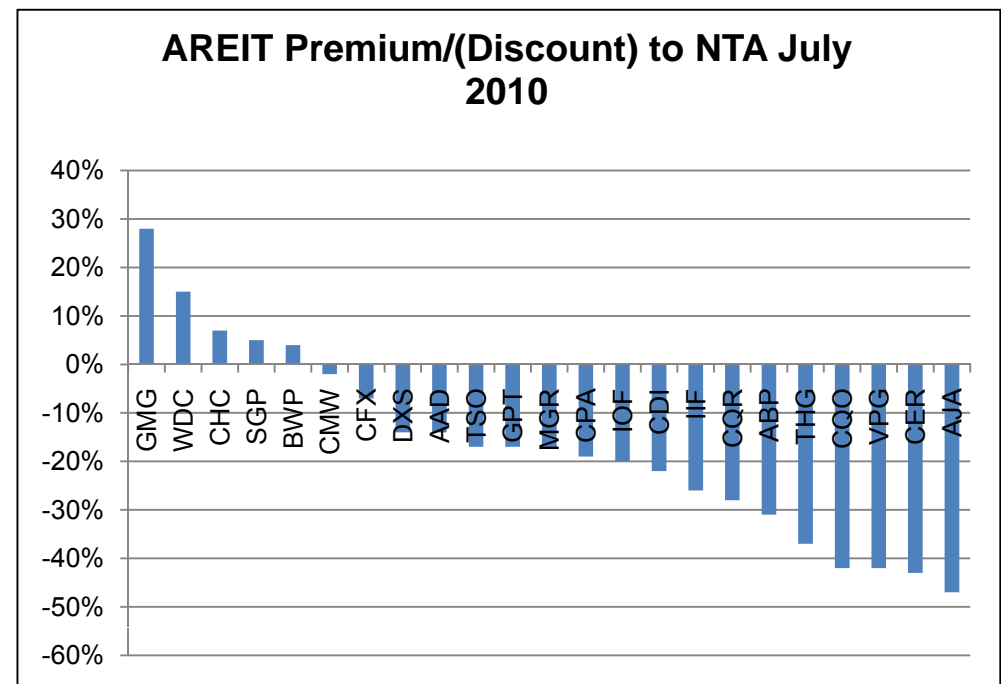
Source: Company Reports, FactSet, Reuters & Citi Investment Research & Analysis

- Lower interest rates has limited impact on value UNLESS improved economic growth drives change in tenant demand (e.g. Japan)
- Long term leases provide income security in a low growth/low interest rate environment

Meanwhile... A-REIT Discounts to NTA



Source: UBS



Source: Company Reports
Prices at 30 June 2010

➔ But lessons from history...

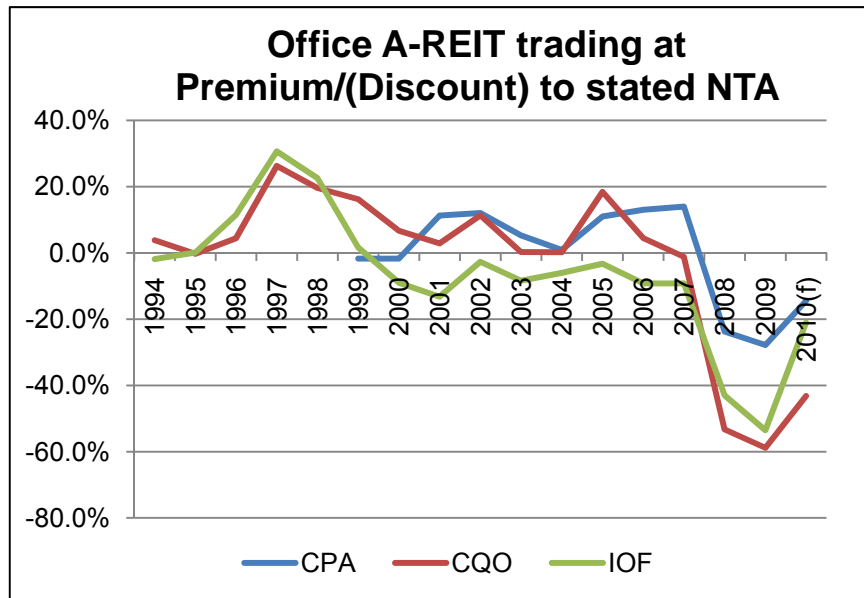
Case Study – Damaged Goods

Australian Office REITs

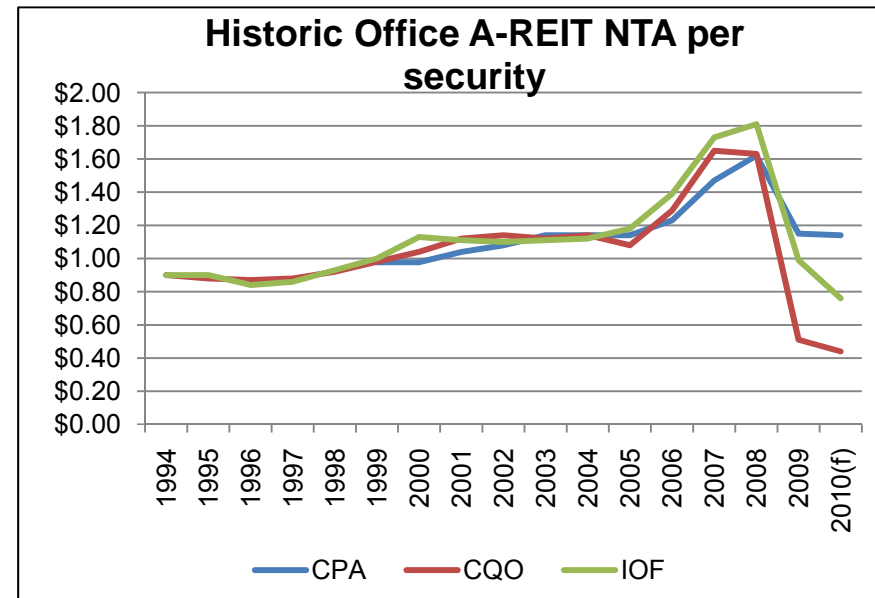
	Listing Date	IPO Price	30/06/10 Price	IPO DPU	Peak DPU	Current DPU
CQO (MOF/LUO)	1993	\$1.00	\$0.25	10.0c	11.2c	3.0c
IOF (Prime/AJO)	1994	\$1.00	\$0.58	10.5c	10.8c	3.9c
CPA	1999	\$1.00	\$0.93	7.8c	9.7c	5.3c
Record Realty	2002	\$1.00	Bust	3.4c	11c	N/A
TSO	2004	\$2.00	\$0.38	18.6c	18.6c	0.0c
RNY	2005	\$1.00	\$0.12	7.9c	7.9c	0.0c
WOT*	2003	\$0.50	\$0.825	6.7	6.7c	6.7c
Rubicon America	2004	\$1.00	Bust	13.0c	13.0c	N/A
Rubicon Europe	2005	\$1.00	Bust	9.8c	9.8c	N/A
Rubicon Japan	2006	\$1.00	Bust	8.5c	8.5c	N/A
Multiplex Europe	2007	\$1.00	\$0.135	8.6c	8.6c	0.3c
Multiplex Prime#	2006	\$600	\$1.04	\$46.50	\$46.50	\$0.00

#IPO price and DPU adjusted for the 1000:1 share consolidation completed in June 2010
Source: Resolution Capital

A-REIT Office Vehicles Value/Trading History



Source: Company Reports



Source: Company Reports

- NTA is a guide NOT a value determinant
- There is a reason why some A-REITs are trading at a discount
 - Independent valuations incorrect
 - Poor corporate governance/capital management/strategy
- Good real estate + good management is critical

Investor favour sees quality Unlisted trading at a premium to listed

Listed v Unlisted Pricing Comparison

	CFX (listed)	APPF Retail (unlisted)
Independent Valuation Cap Rate	6.57%	6.59%
Current NTA per unit	\$2.02	\$1,634
Unit Price 30 June 2010	\$1.89	\$1,634
Price to NTA	-6.4%	0%

Source: Company Reports

- The substantial gap of 2008/09 has narrowed but listed REITs continue to trade at a discount

➔ If being listed is so bad, DELIST!

Risks



Government, Monetary Authority policy uncertainty

- Stimulus for building industry
 - Taxes – land and infrastructure tax, depreciation
 - Cooling measures
 - Carbon tax
- Interest rates and government stimulus distorting value judgement

Debt maturity

- Low interest rates have deferred distressed sales (“extend and pretend”) e.g. Centro
 - US CMBS in special servicing >US\$100bn by Dec 10
- Opportunity for REITs



Showcasing the World's Best

- Investor apprehension on Global REITs is partly due to a lack of familiarity
- REITs generally own better quality real estate
- Several REITs manage risk for a wide range of expected and unexpected economic and financial conditions
- It is important to be selective
 - Invest in real estate, not an index

Link REIT (Hong Kong)

- 8% of Hong Kong retail space
- Defensive characteristics – principally non discretionary spending with majority of centres built on or near MRT and bus interchange
- Internally managed REIT (unique in Asia)
- Under managed until IPO privatisation – HKHA leasing restrictions
- Significant value add opportunities through remixing and cost cutting
- >20% returns on recent developments
- Strong balance sheet (22% LTV, 3.6x debt/ebitda)
- Dividend Yield: 5.2% (90% payout ratio)
- Compound DPS growth: >5% pa
- Listed Nov 05: \$10.50
- Current Price: \$21.00



Stanley Plaza, Stanley Bay, HK



Exemplifies density of housing around centre

Shaftesbury (UK)

- London West End real estate focus: retail, restaurants and residential
- Clusters of building or villages in key high volume pedestrian districts e.g.
 - Carnaby Street
 - Covent Gardens
 - Chinatown
- Strategy to differentiate by encouraging new retailer concepts
- Lease expiry: >7 years
- Ave debt maturity: 7 years
- LTV: 31%
- 5 year total return: 9% pa (A-REITs : -7% pa)



Unibail-Rodamco (Europe)

- Dominant mall owner in Paris and other major European cities
- Actively recycles capital – particularly office
- Significant retail development pipeline and superior asset management track record
- Controls Paris convention centre market
- Moderate leverage (32% LTV)
- Special Dividend of €20 per share Oct 2010
- 5 year compound total return: 9% pa (A-REITs: -7% pa)



Donauzentrum, Vienna, Austria



Lyon-Confluence, France

Home Properties (USA)

- Owner/Manager of apartment buildings
- 38,000 apartments established in 1967, listed 1994
- East Coast USA high barrier markets
- 13 consecutive years of dividend increases
- Equivalent net rental yield: >6%
- ICR: 2.2x
- Dividend Yield: 4.7% (payout ratio 80%)
- 5 year compound total return: 10% pa (A-REITs: -7% pa)



Liberty Commons Apartments, South Portland, ME



The Apartments at Wellington Trace, Frederick, MD

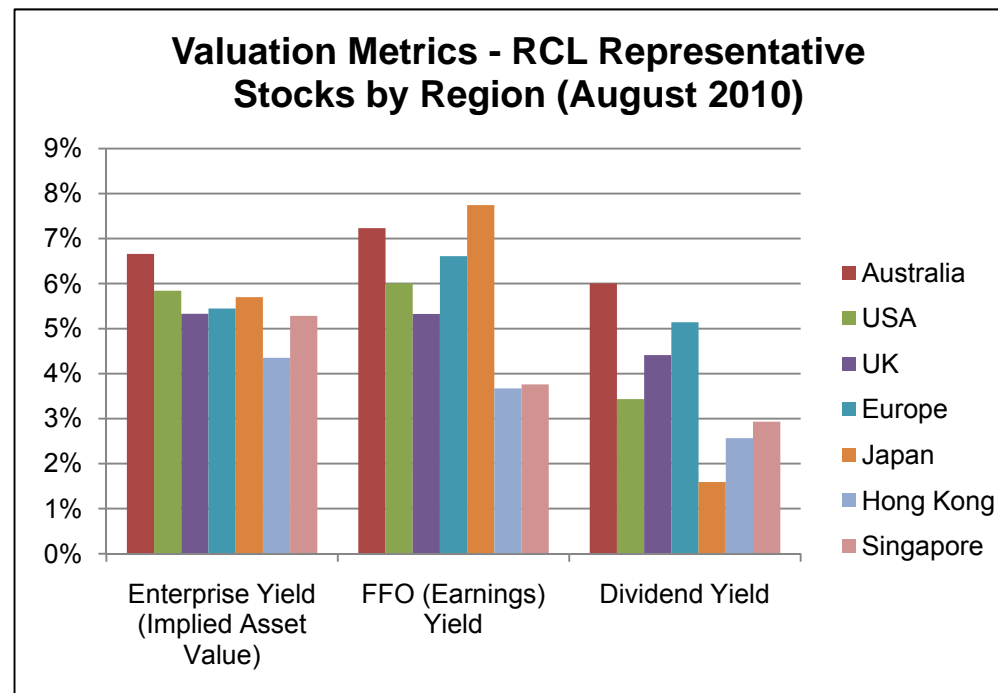
Why (select) REITS

- ✓ Liquid (Cooper Review)
- ✓ Divisible
- ✓ Cost effective
- ✓ Diverse
- ✓ Quality property
- ✓ Quality management
- ✓ Transparent
- ✓ Legislated high dividend pay-out underpins income yield
- ✓ Long term contracted income

Quality real estate and competent management deliver superior returns

Outlook

- Low interest rates/Government stimulus packages distorting value judgement
- Western economic growth subdued → expect real estate / equities compression
- Property values stabilising
- Balance sheets recapitalised, dividends recalibrated – sustainable
- Non-rental income streams (e.g. development/trading, fund management) curbed
- REIT strategies refined/refocused
- Investors remain cautious/sceptical
- Low building supply

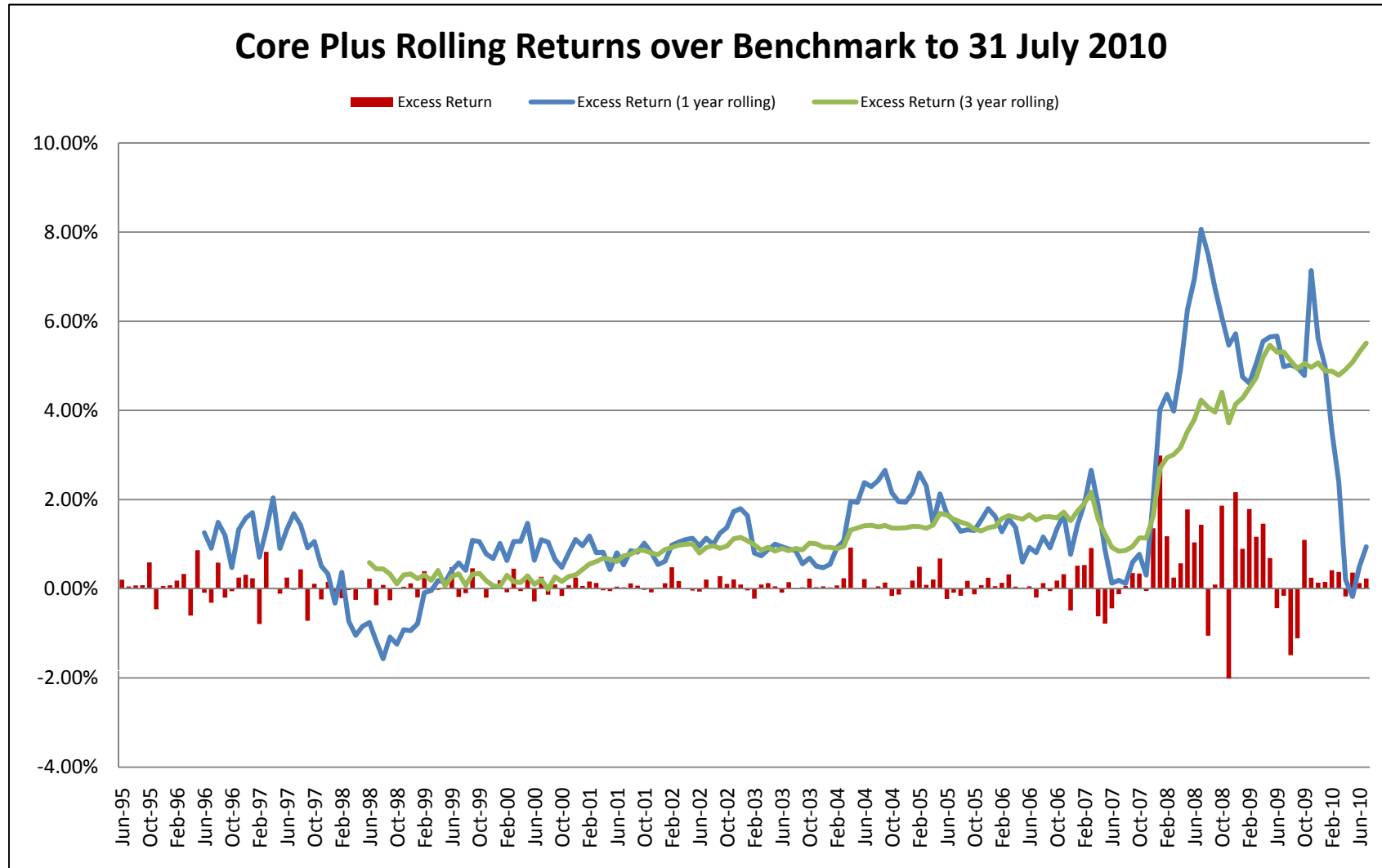


Source: RCL

Resolution Capital

- Specialists
 - Focused on Global Real Estate Investment Trusts (REITs)
 - Proprietary research underpins informed, experienced judgement
- Experienced
 - Managed Real Estate Equities portfolios for >15 years
 - Long term investment management heritage
 - 3 year Global track record
- Stable
 - PMs/staff own majority of the business
 - Multi-PM approach (reduced key person risk)
- Differentiated
 - Centralised team
 - Multi-portfolio manager
 - Sectoral research
- Aligned
 - Co-investment by PMs/Investment staff in funds
 - Performance fees dependent on positive returns
 - Investment performance drives bonuses
- Concentrated portfolio
 - Focused on real estate quality, risk and investment value
- Objective
 - Index (UBS Investor) + 300bps p.a. over rolling 3 year periods
- ➔ Superior, sustainable long term investment performance

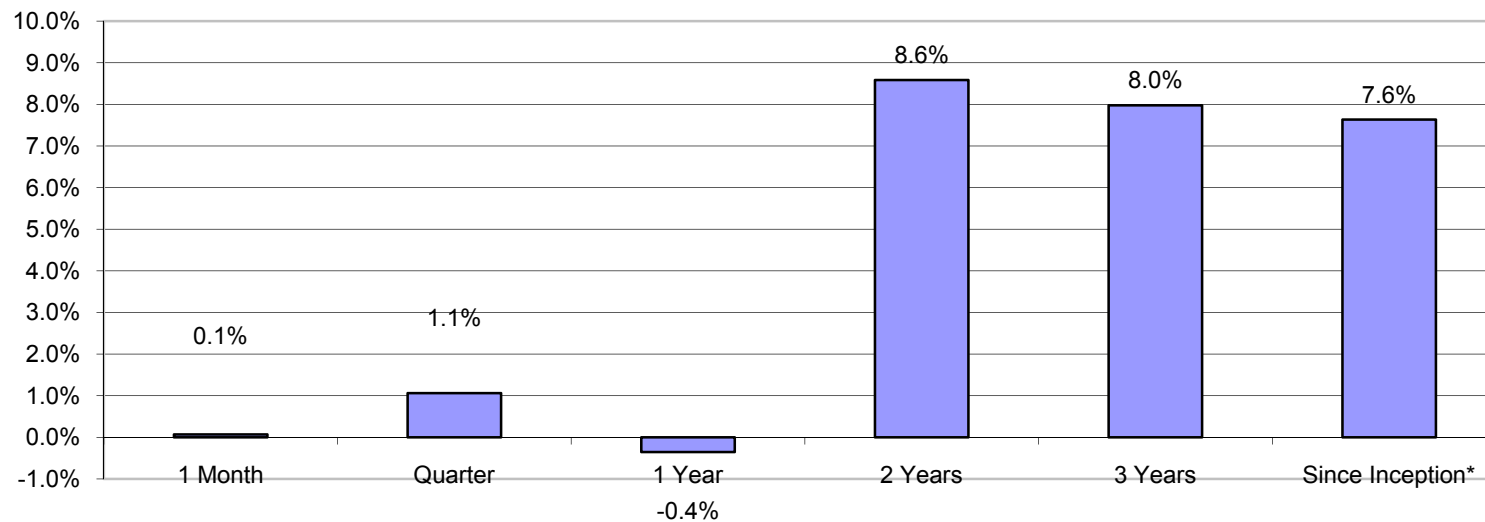
Core Plus Portfolio Performance



- 15 year track record

Global Performance

RCLs Excess Returns over the UBS Global Investor Property Index (Unhedged) as at 31 July 2010



*Inception: December 2006

- Track record approaching 4 years

Why Resolution Capital?

- **Proven experience focused exclusively on securitised real estate**
 - Successful long term investment management track record through cycles and the evolving REIT sector
 - Investment heritage provided exposure to best-of-breed practices
- **Global investment process and insight**
 - Sustainable, consistent long term investment process
 - Focused on the investments, not the benchmark
 - Centralised, focussed team structure complements concentrated high-conviction approach & global perspective
 - Multi-portfolio manager
- **Alignment of interest**
 - Majority owned by key executives – industry leading staff retention
 - Prohibition on REIT investment outside RCL funds
 - PMs and analyst have significant investment in Global Fund
 - Bonus largely determined by fund performance and idea generation



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