

# RECREATING CORE ASSETS

How to Respond to Critical Change

---

*Campbell Hanan,  
Head of Office & Industrial, Mirvac*

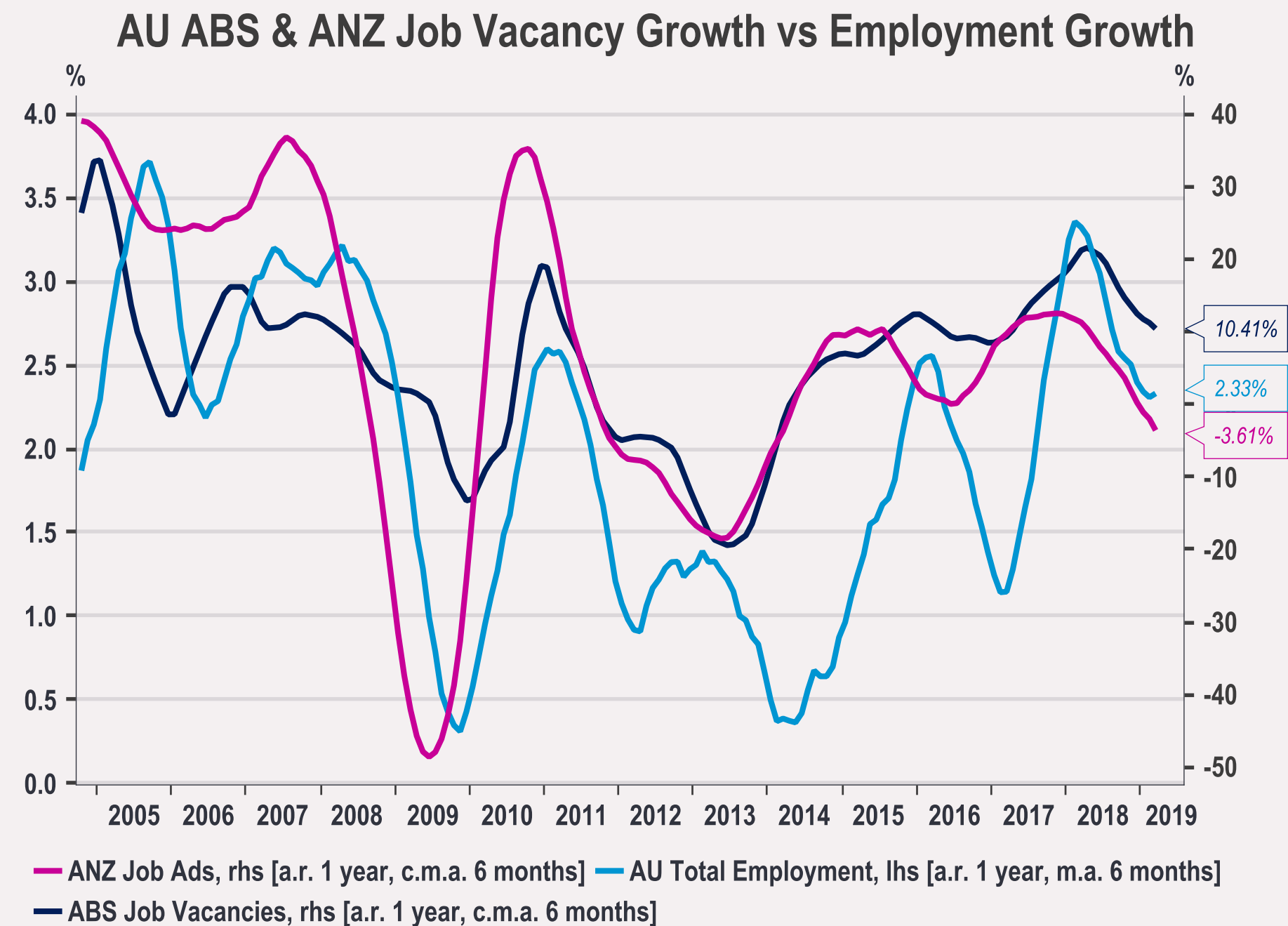
**WORK**  
REIMAGINED



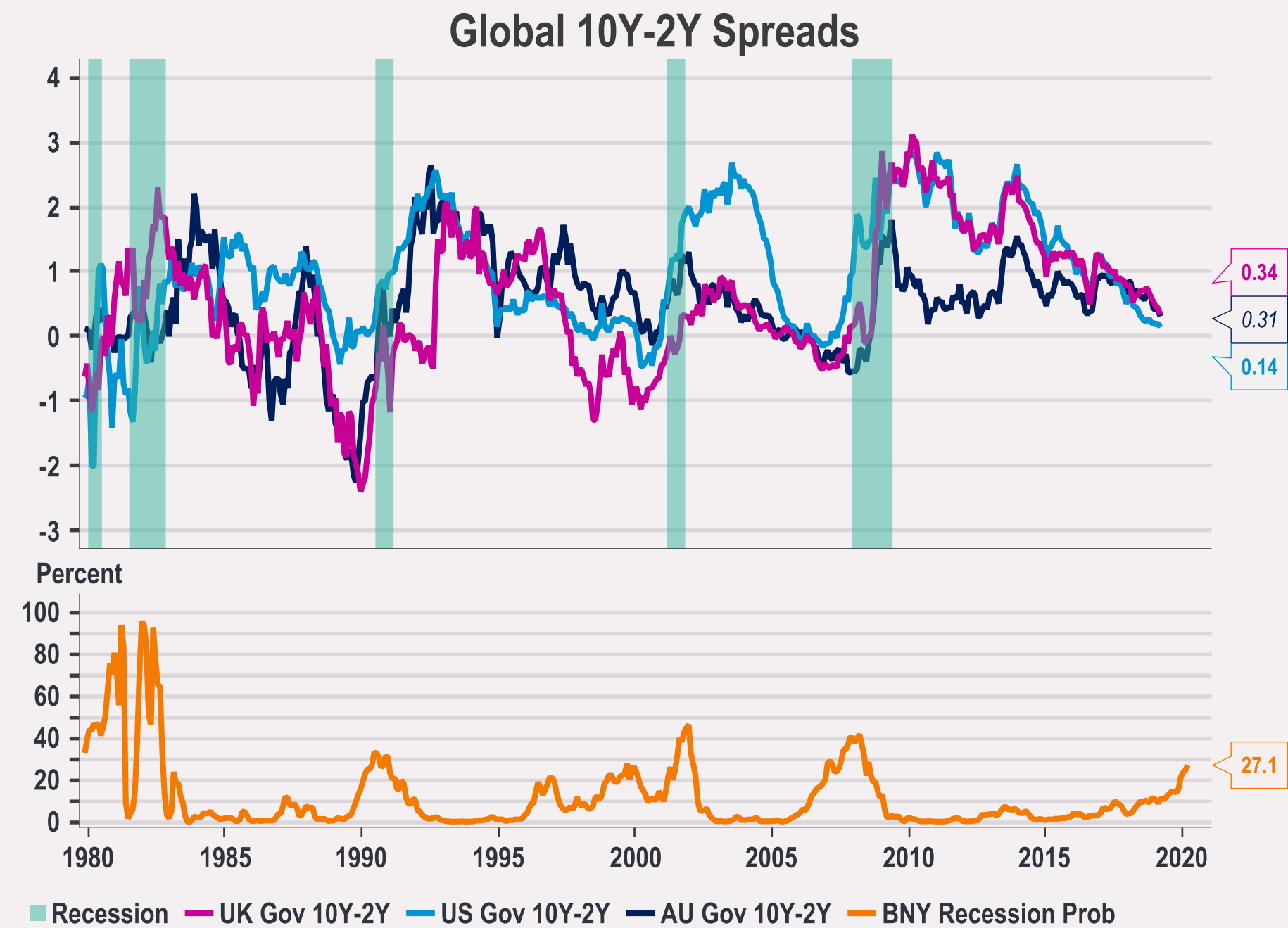
# MACRO PATTERNS

# MACRO

- Macroeconomic risks have been building through late 2018/early 2019 (Brexit, China trade, Australian Housing)
- Some domestic leading indicators have turned suggesting that economic growth may be subdued (labour market, flattening curve, sentiment)



MACROBOND



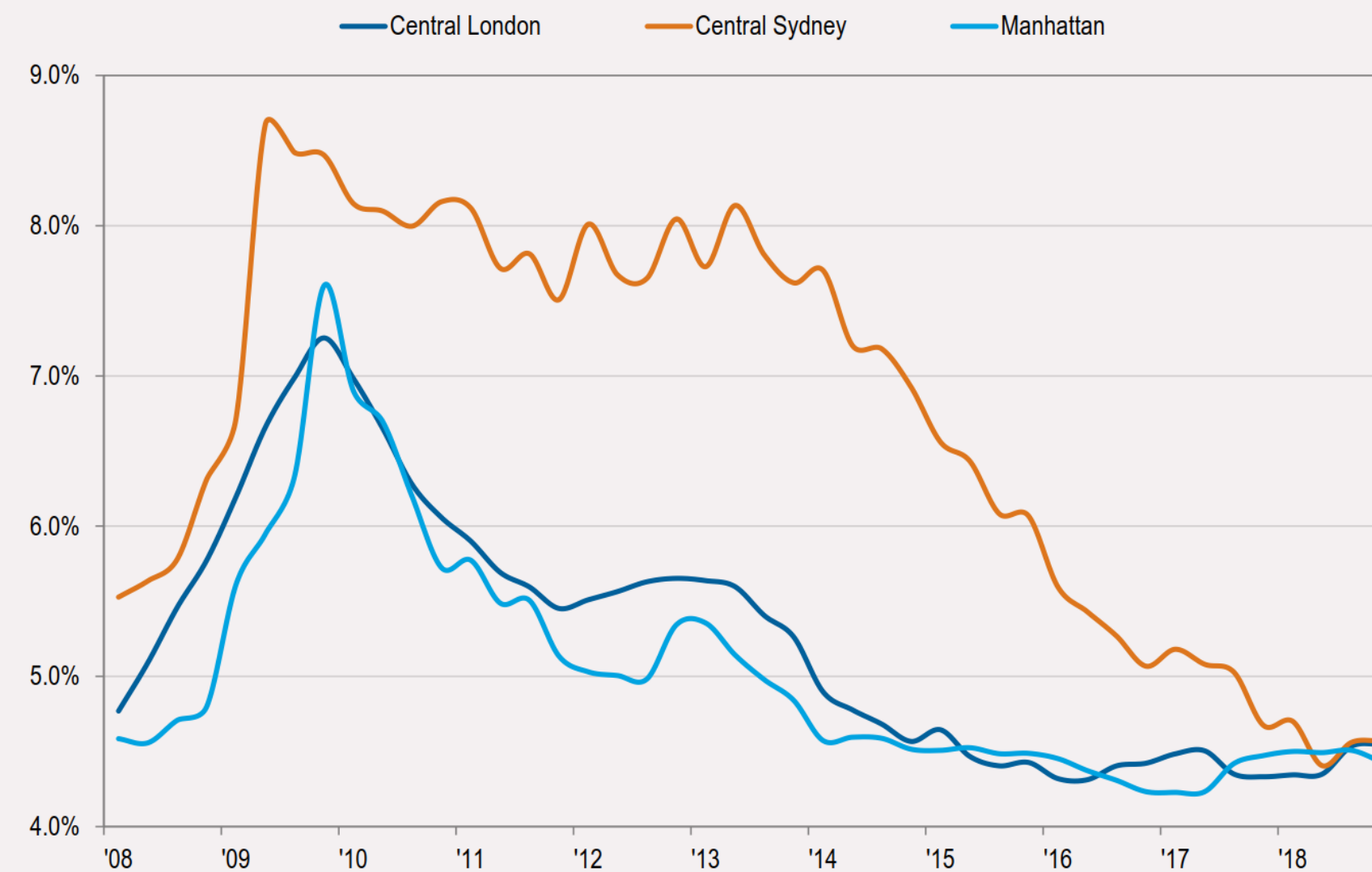
MACROBOND

# MACRO

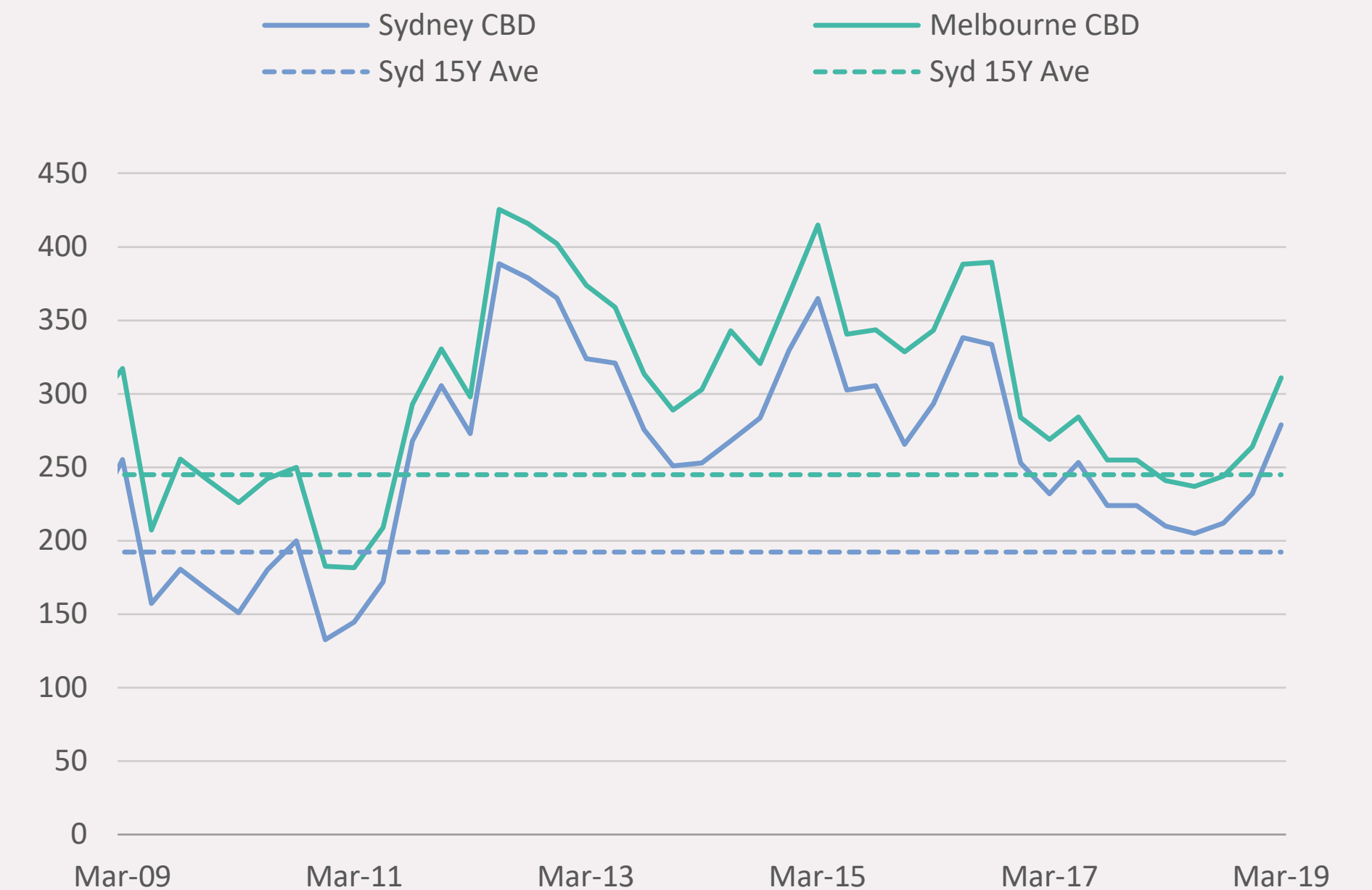
- However, a lower for longer environment is expected to prolong the property cycle
- Domestic gateway cities such as Sydney are no longer “cheap” by global standards, but better value than previously

## SYDNEY: A TRUE GLOBAL GATEWAY MARKET

Average Office Transaction Yield; Q4 2018

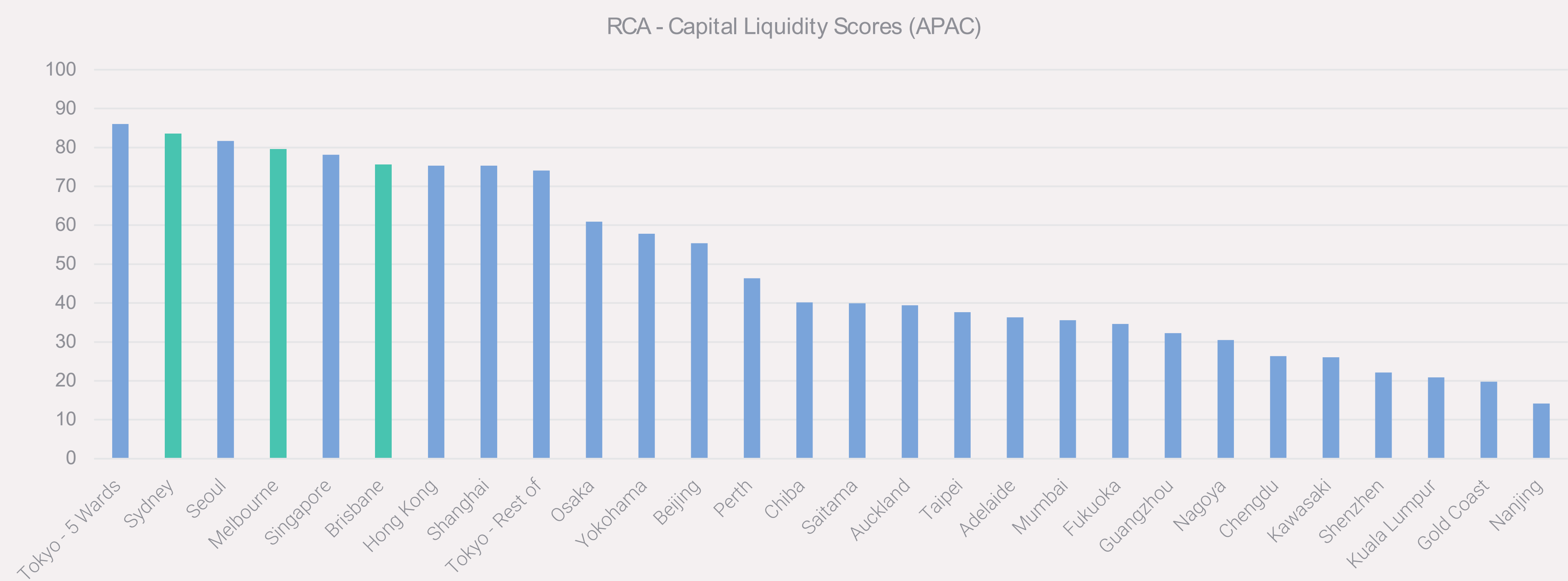


Prime Office Yields spread to Nominal 10Y Bonds (bps)



# MACRO

- Global capital will continue to chase deep, liquid asset classes with a preference for yield, and a preference for non-retail
- On the ground deep specialisation (development / leasing / management risk) will be highly sought after



# MACRO

## Call to action:

### ENSURE PORTFOLIO IS POSITIONED DEFENSIVELY:

- High quality portfolio (80% developed by Mirvac)
- Young, low capex portfolio (< 15-year average)
- Long WALE (> 6-years)
- Diversified tenant base (no single tenant > 10%, no single sector > 20%)
- Maximise floor space ratio and asset efficiency (tenant briefs now requiring 8:1 building occupation densities.
- Asset creation capability uniquely valued by investors.

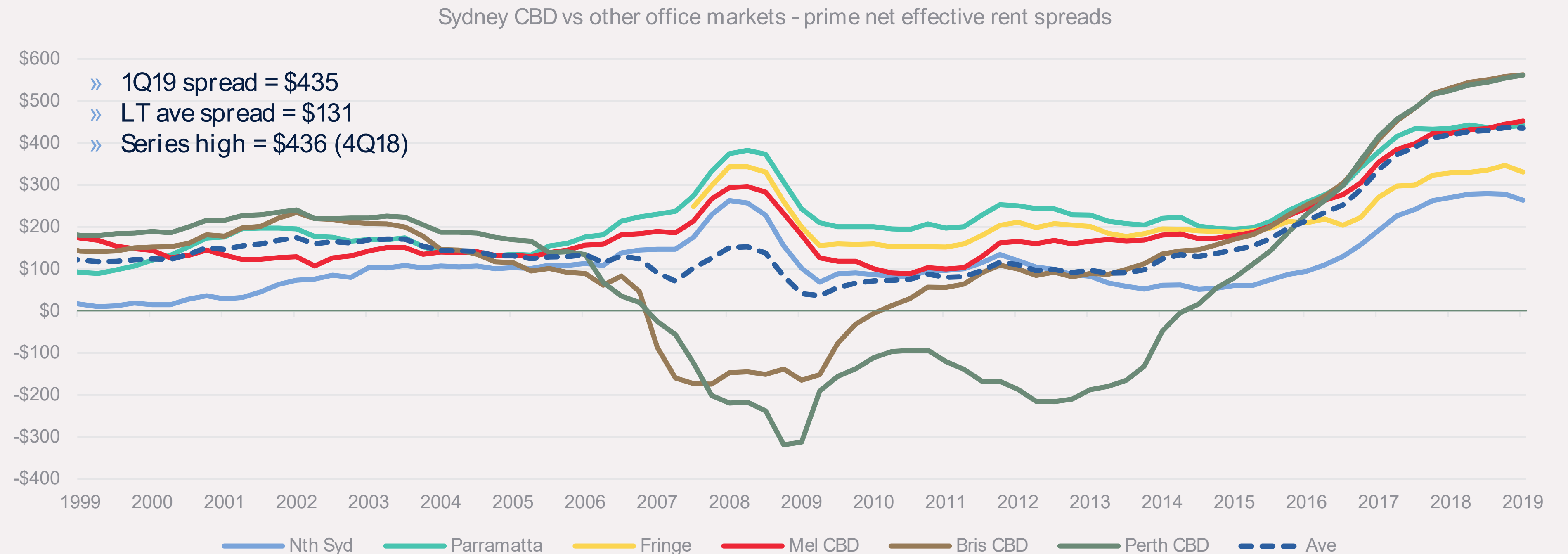
CBD office yield - standard deviation 1980-2019 (bps)



# GEOGRAPHIC PATTERNS

# GEOGRAPHIC PATTERNS

- The appeal of some fringe office markets is increasing due to a affordability...
- Melbourne CBD looking comparatively cheap
- Existing stock in the fringe is not designed for current workplace trends

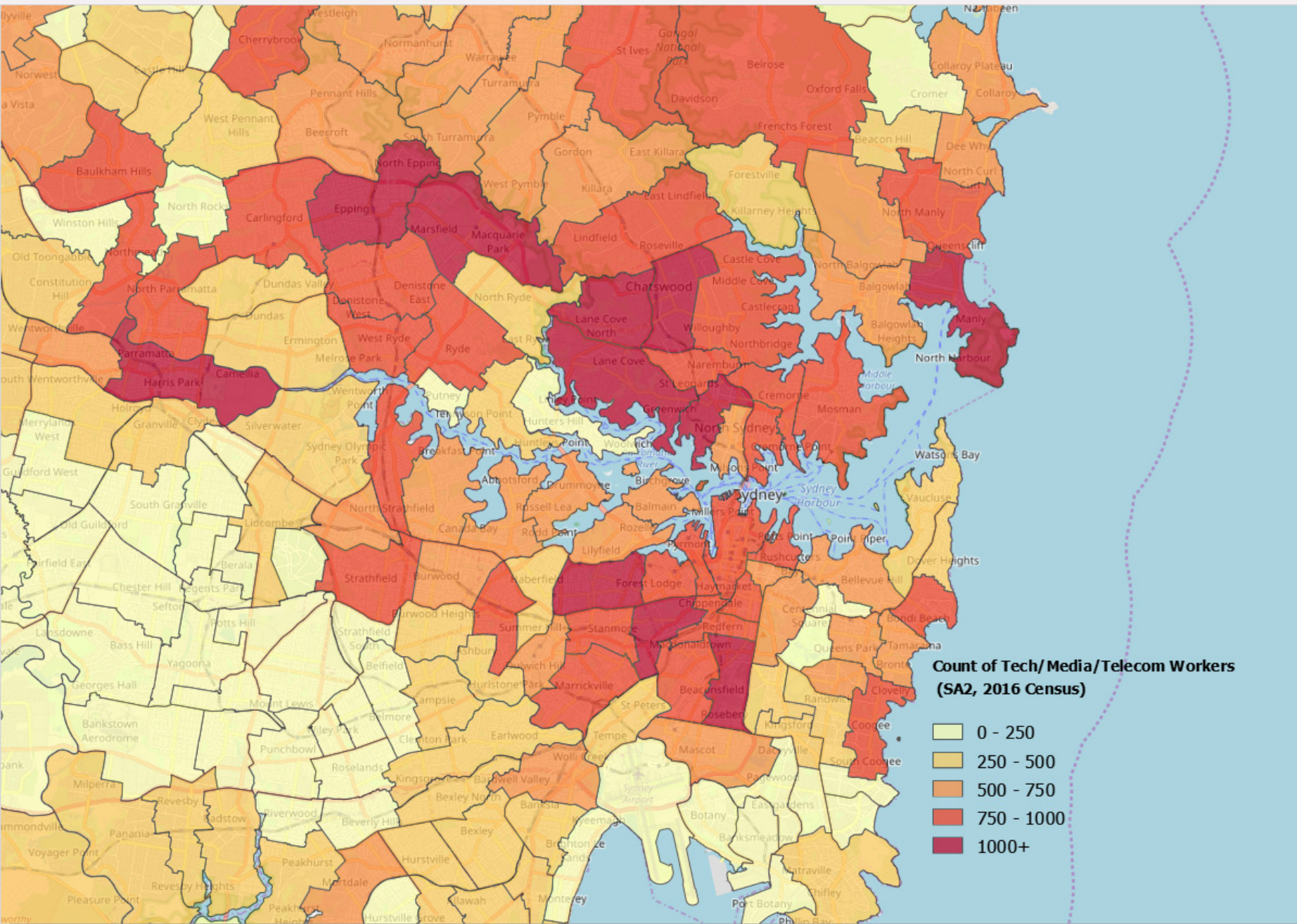




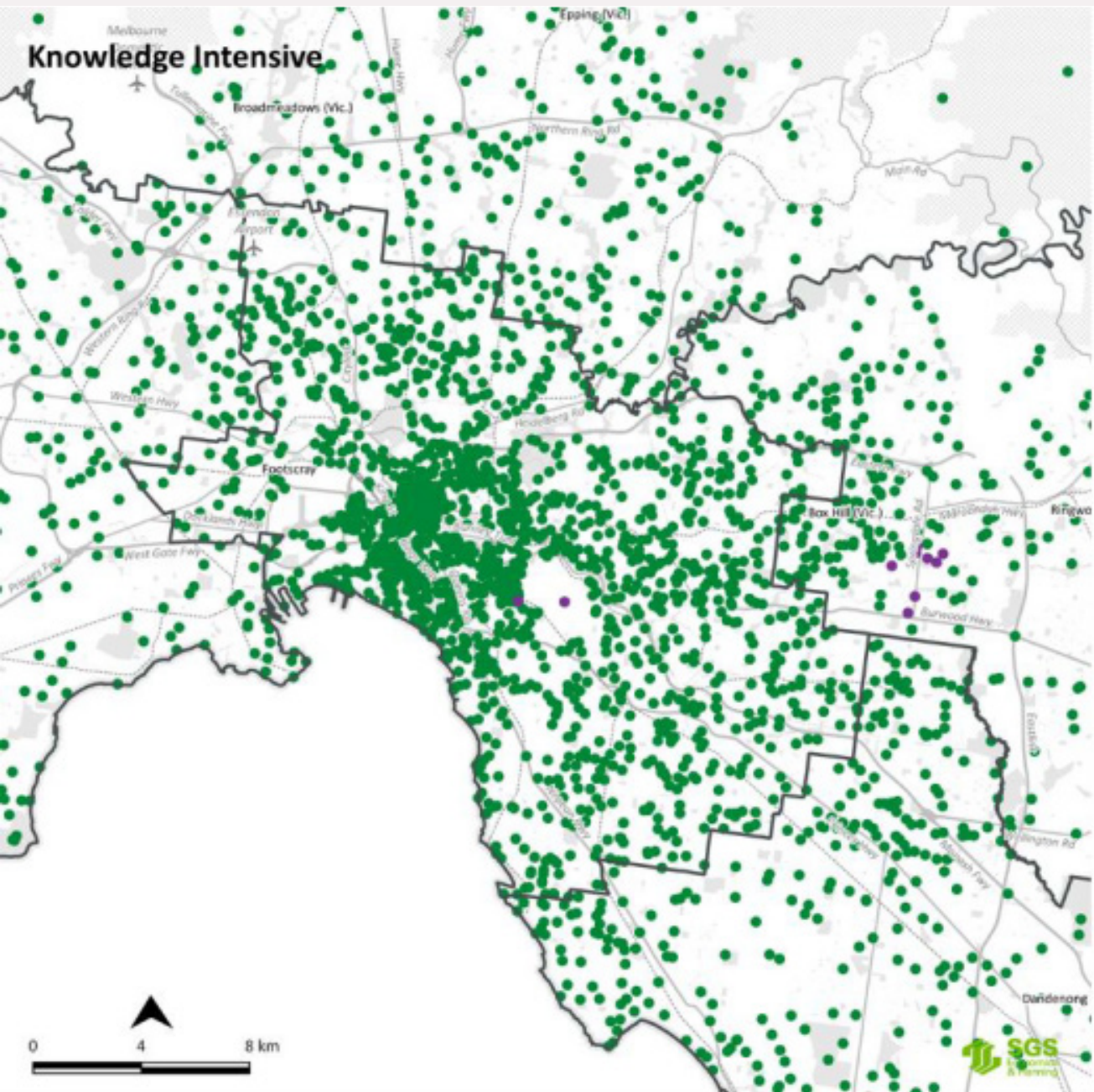
# GEOGRAPHIC PATTERNS

- ...together with proximity to talent pools and transport amenity

Count of tech/media/telco workers  
(2016 census)



Knowledge intensive business  
growth (2009-2017)





# GEOGRAPHIC PATTERNS

- Governments also play a significant role in the appeal and success of fringe market locations.
- They must reconcile the current variance between the location of jobs growths vs location of population growth (infrastructure)

Population growth by distance to Melbourne CBD



# GEOGRAPHIC PATTERNS

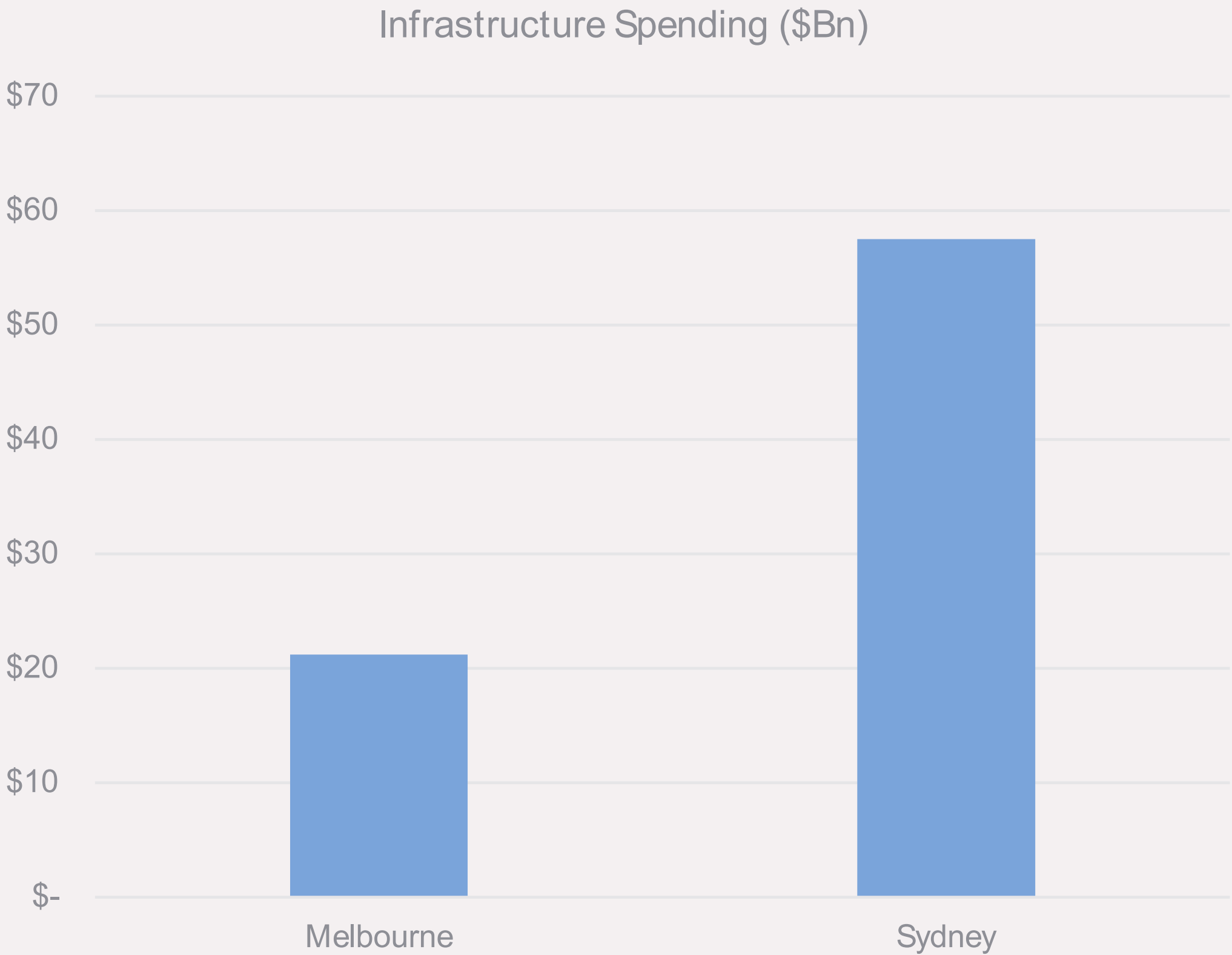
- Infrastructure spend required to reconcile the variance between population and jobs growth
- \$78.7bn of infrastructure development likely within Sydney and Melbourne

**SYDNEY:**

- WestConnex
- NorthConnex
- Sydney Metro
- Sydney Light Rail
- Pacific Highway upgrade
- Western Sydney Airport

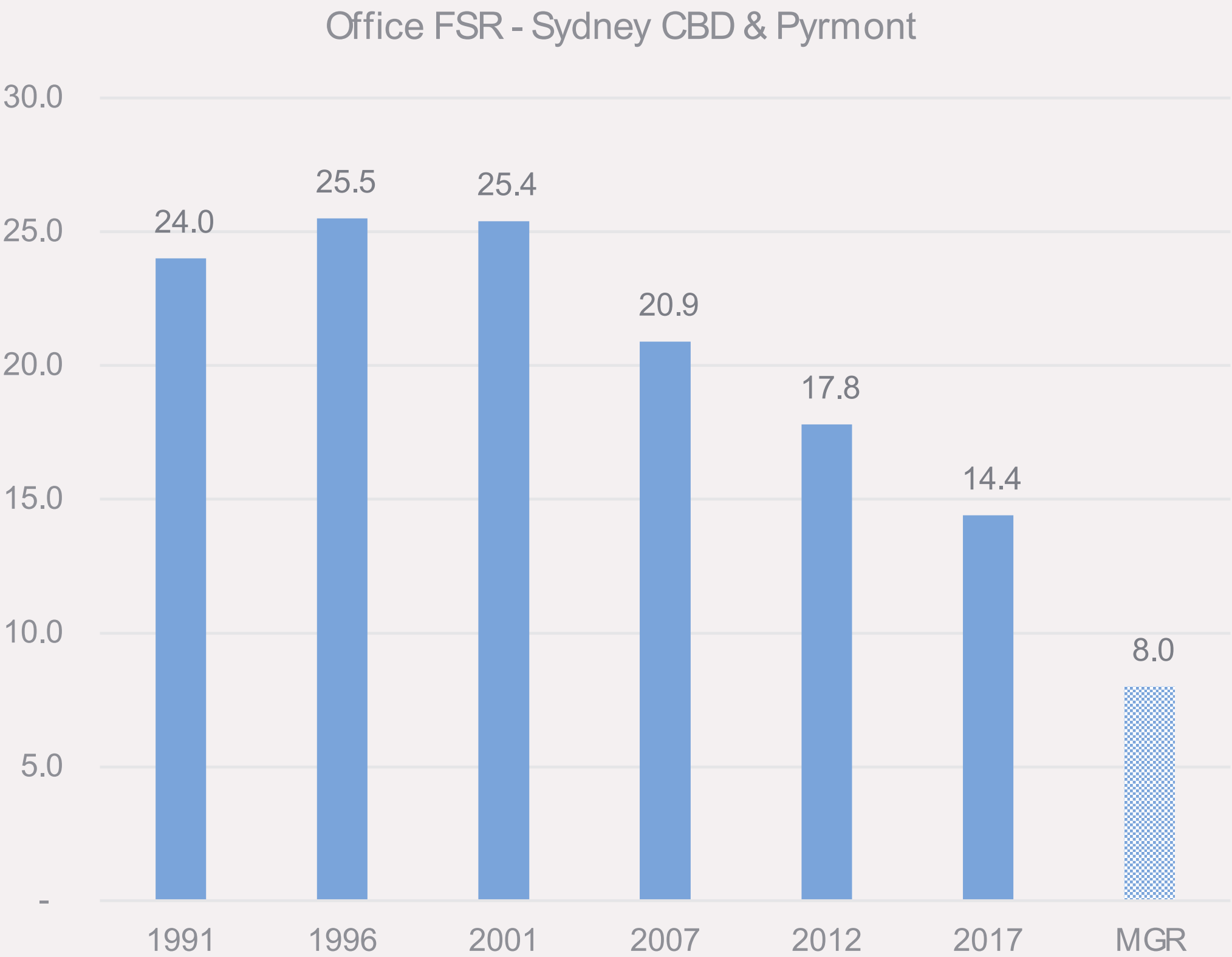
**MELBOURNE:**

- Melbourne Metro
- Airport Rail Link
- North East Link
- Westgate Tunnel
- M80 Ring Road



# DENSITY SHIFT

- Tenant fitout > 20 years ago were designed to accommodate FSR's of 1:26
- Today, Mirvac is designing and constructing assets that facilitate FSR's of 1:8
- Tightening tenant density is becoming the norm
- Should these two asset types be achieving the same rent?





# GEOGRAPHIC PATTERNS

---

Call to action:

---

## **SEEK DEVELOPMENTS WITHIN PRECINCTS:**

- Sense of local community or local culture
- Retail presence with night time trade for activation
- A sense of history blending old and new
- Strong transport links with a focus on rail
- Proximity to universities and hospitals
- Curated space with definitive strategies proposed by government.
  - NEICs (National Employment and Innovation Clusters)

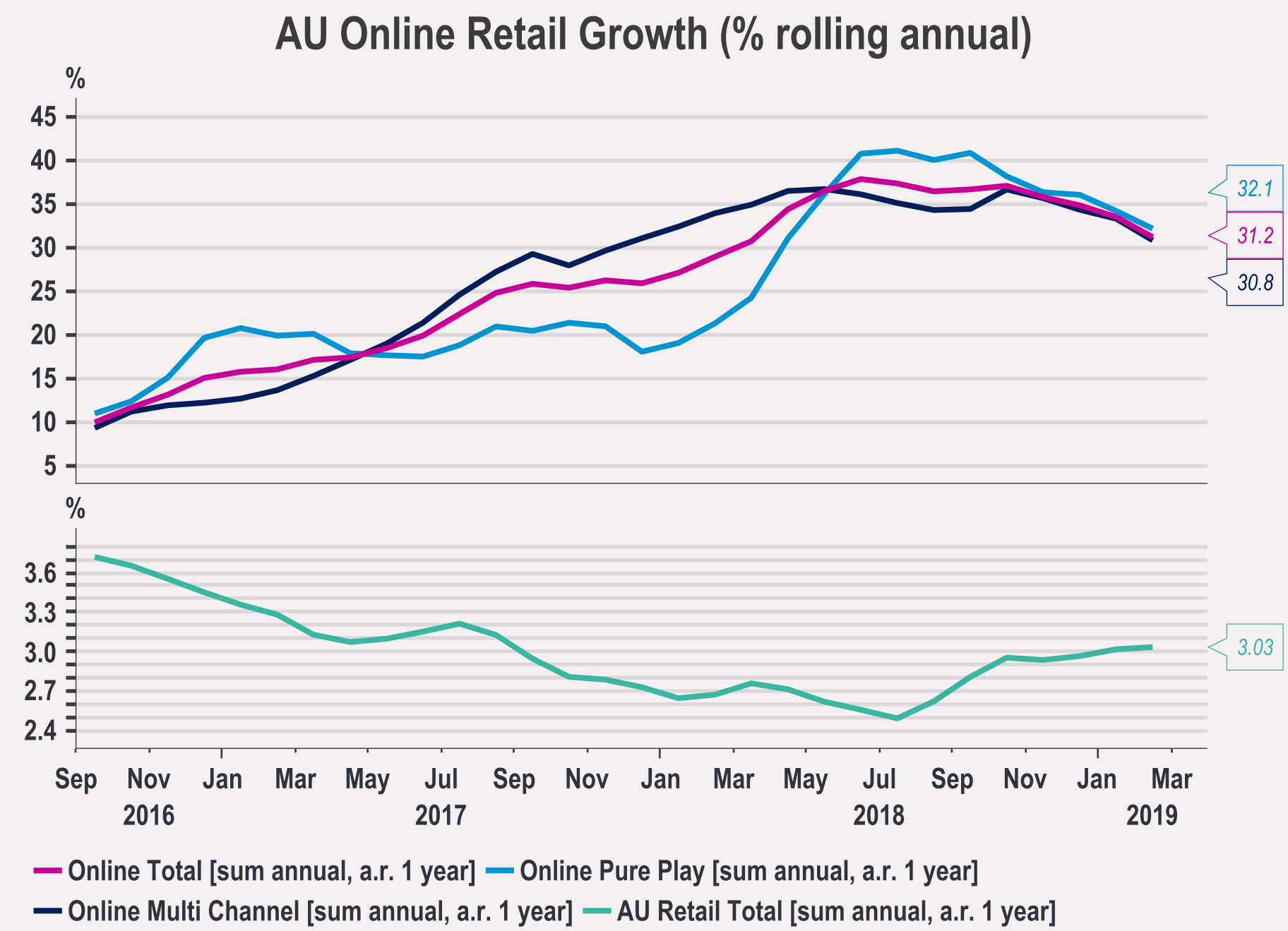


# E-COMMERCE PATTERN

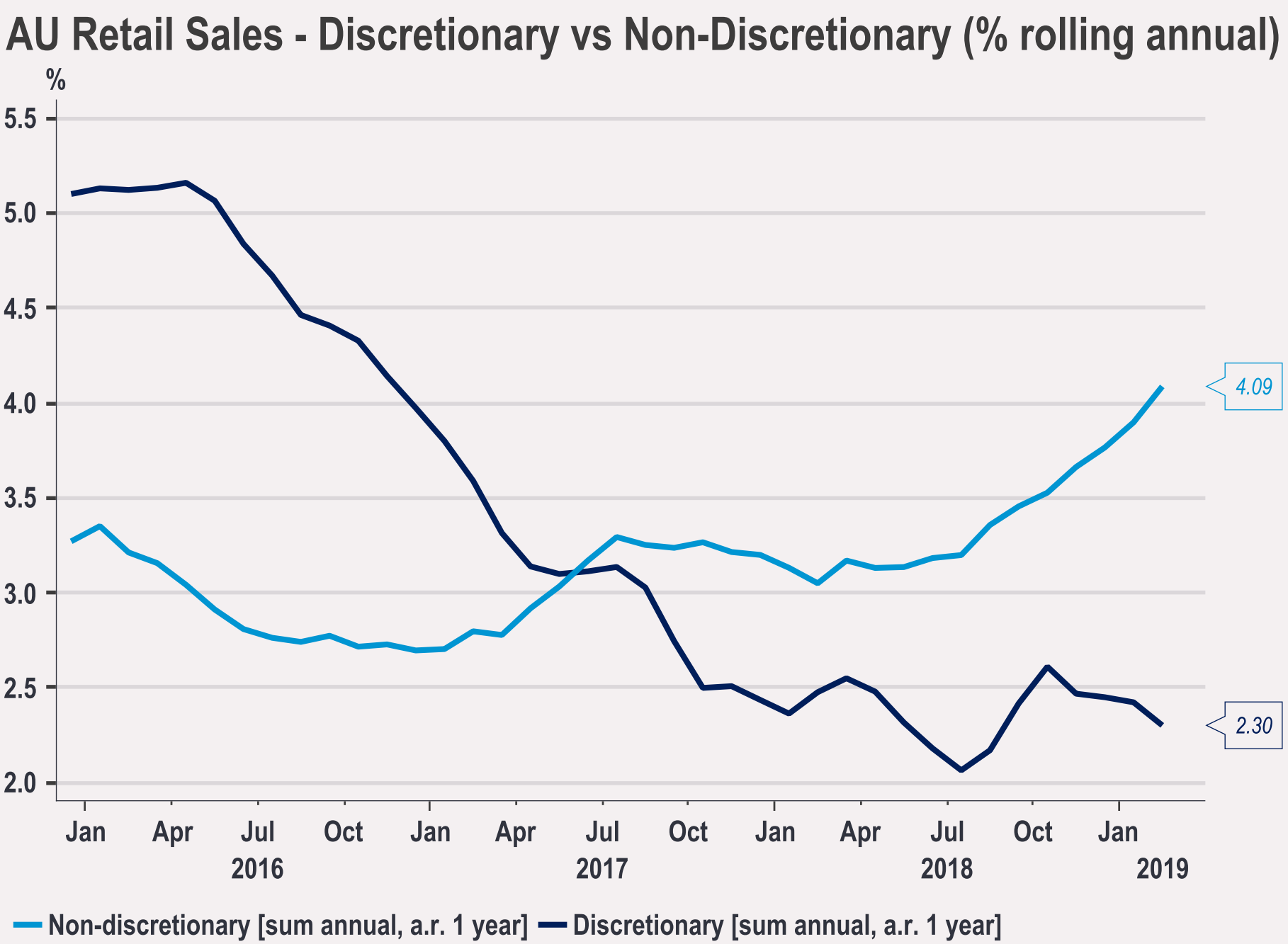


# E-COMMERCE

- Connected consumers are placing more emphasis on convenience, causing a rotation in sales growth from offline to online.
- Non-discretionary sectors have been more resilient.



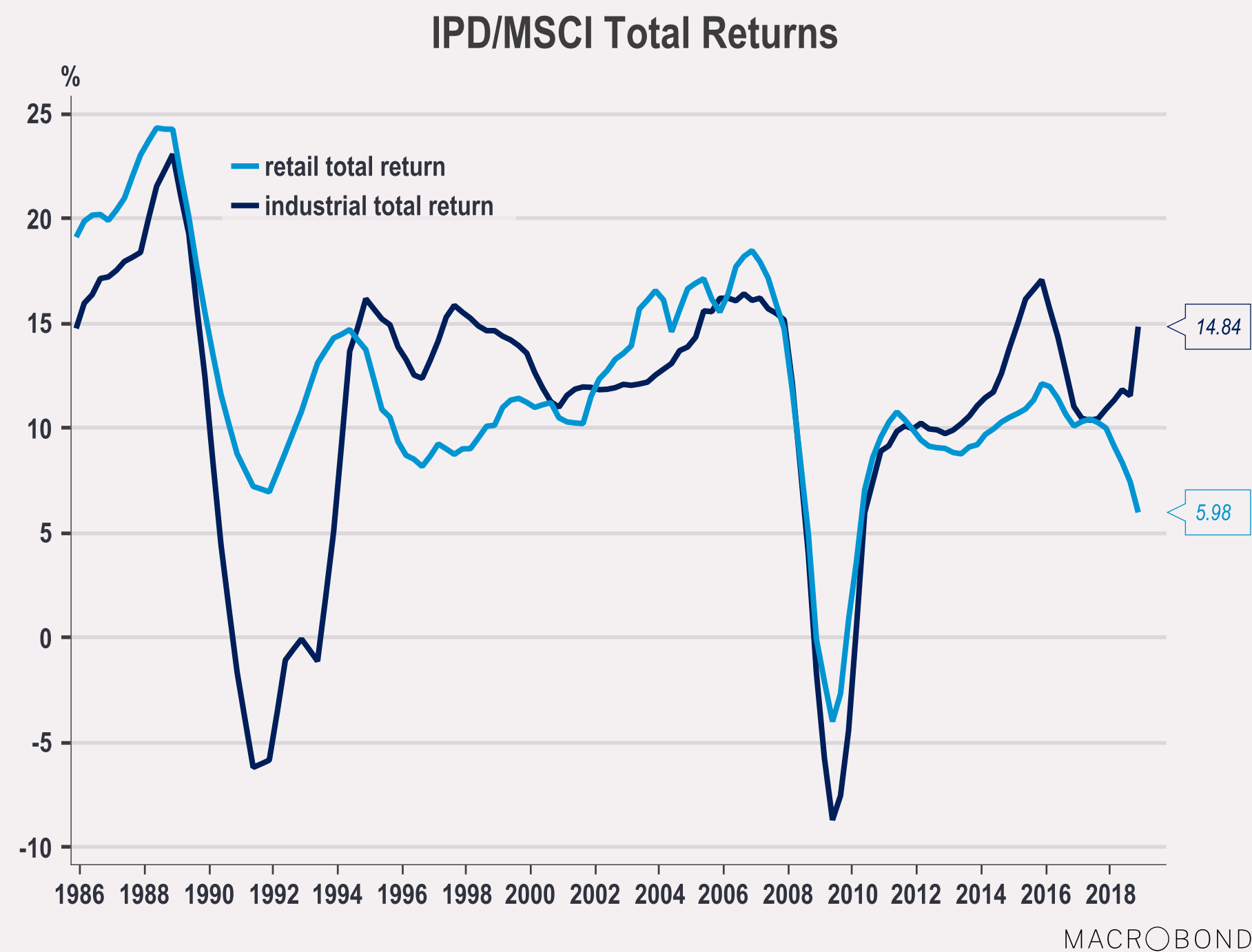
MACROBOND



MACROBOND

# E-COMMERCE

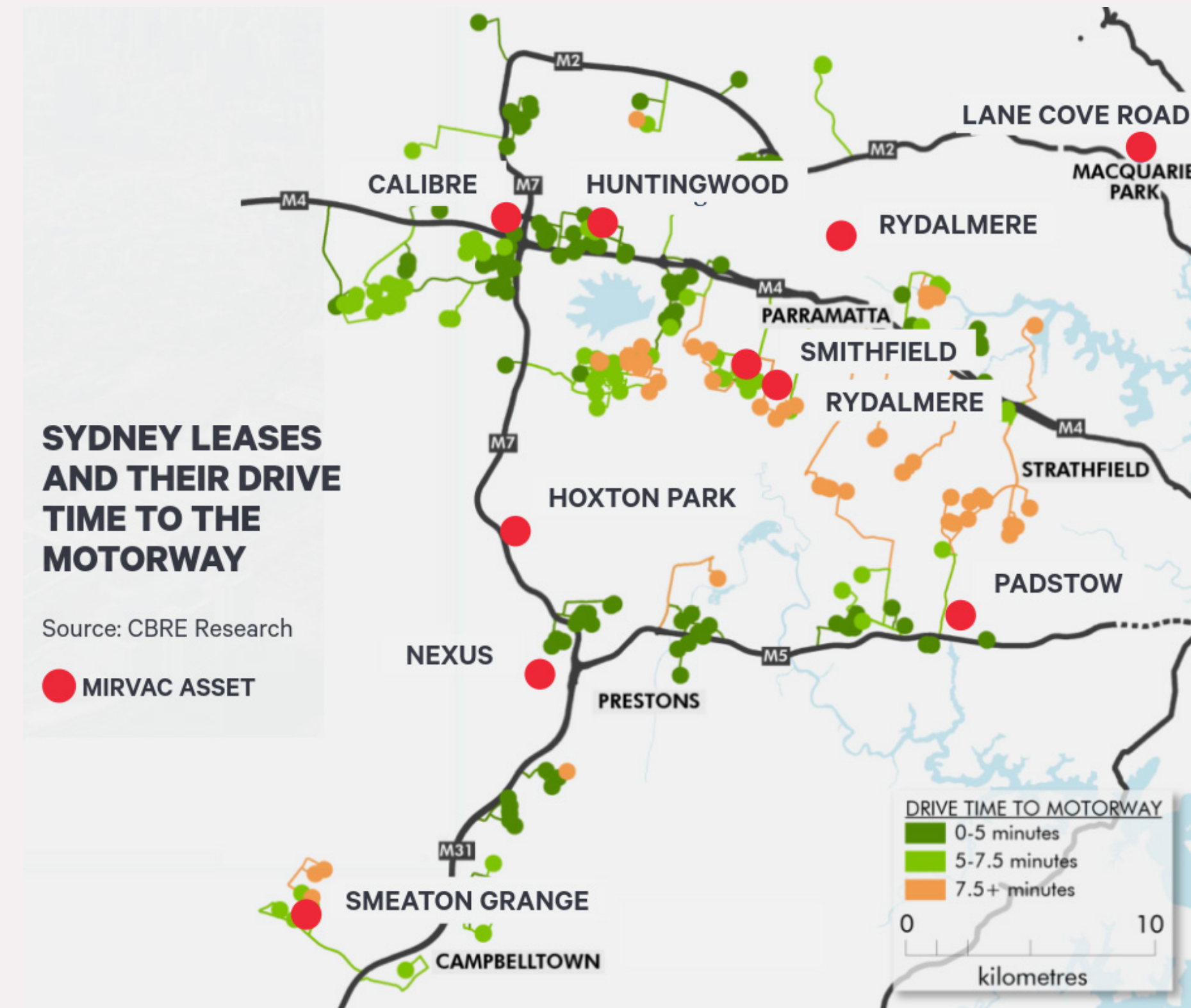
- This structural change is being facilitated through technology and logistics, to the detriment of existing retail assets.
- E-commerce penetration levels are still low compared to global levels.
- Globally, Australia is at the beginning of the ecommerce transition





# E-COMMERCE

- Industrial assets are the beneficiary however not all assets are created equal
- Proximity to transport infrastructure or end consumer is crucial
- Transport cost 50% of occupier cost vs rental at 5%
- 1% drop in transport cost = 10% rental saving
- 2.1% or (\$3/sqm) reduction in rent for each additional minute drive to motorway

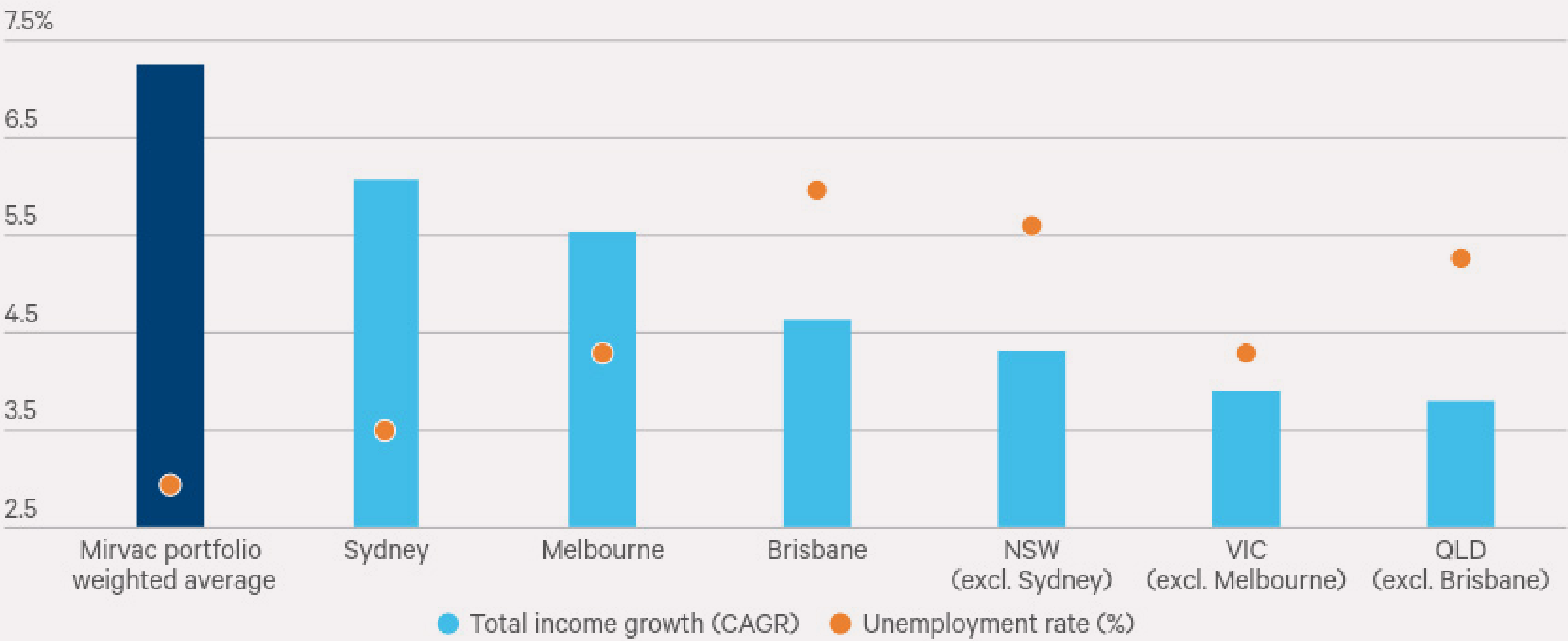


# E-COMMERCE

## Call to action:

- Expanding industrial platform with a focus on proximity to major transport infrastructure hubs
- Exploring last mile opportunities
- Selective with industrial rezoning risk based on lack of available employment lands in Sydney
- Retail exposure concentrated to catchments with low unemployment and stronger income growth
- Retail exposure to focus on experience retail “the third living room”
- Retail exposure to focus on bespoke speciality stores suited to catchment
- Retail: Big is no longer best

## Mirvac Retail Portfolio Catchments have lower unemployment and stronger total income growth

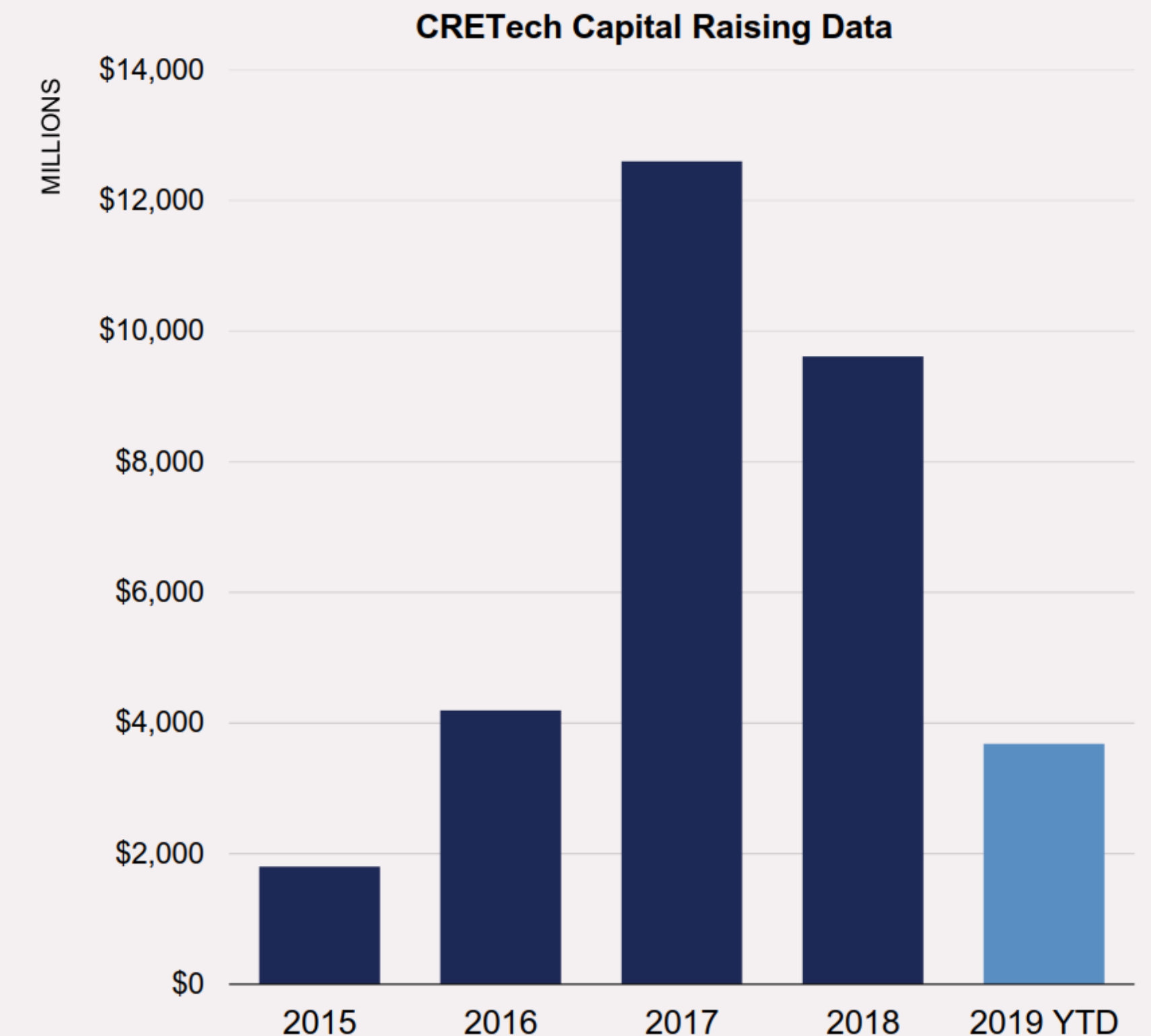


# DATA / DIGITAL TRANSFORMATION

# DATA / DIGITAL TRANSFORMATION

- Technology has led to an explosion in the quantity and quality of data available
- Sophisticated analytics platforms are delivering better insights at faster rates to businesses
- Timelines for new business opportunities may compress significantly
- Higher expectations from clients and business partners to capture and deliver data insights
- Governments will expect developers to integrate with Smart City strategies

PropTech / CRETech capital raisings are off to a strong start in 2019 with US\$3.7BN raised globally YTD



# DATA / DIGITAL TRANSFORMATION

---

## Call to action:

---

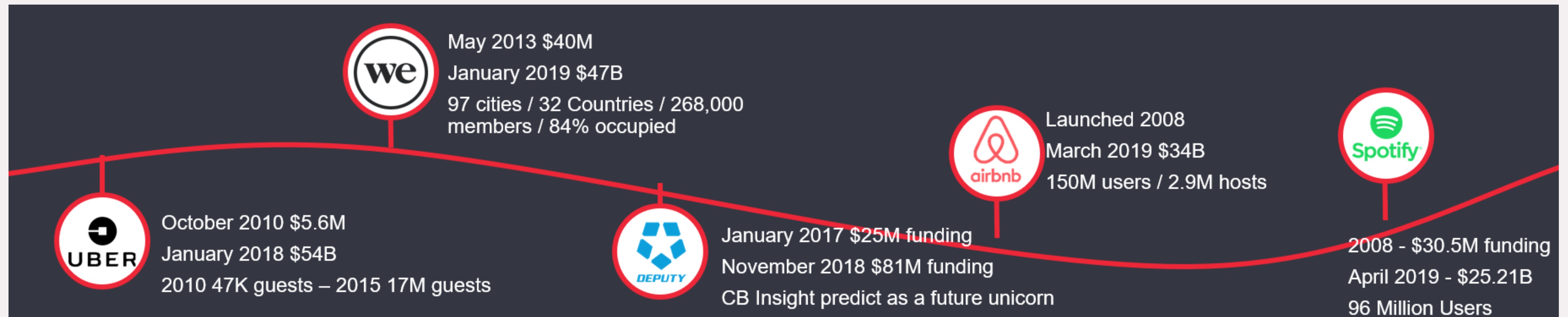
- All assets must have smart technologies
- Invest in platforms and talent to source, manage, interpret and deliver data insights
- Expand smart portfolio strategy to enable the generation and storage of asset data
- Explore new asset class opportunities (data centres)
- Understand initiatives being adopted by government to capture development opportunities
  - Aerotropolis
  - Central to Eveleigh
  - NEICs (National Employment and Innovation Clusters)
- All tenants in the future will demand data
- Collecting data will require smart technology integration

# ACCESS ECONOMY PATTERN



# ACCESS ECONOMY

- Access to goods and services preferred over actual ownership
- Changing workplace needs driven by millennials
- Users obtain benefits of ownership at fractionalised pricing or sharing



# ACCESS ECONOMY

## Call to action:

- Users now view space as a service
- More emphasis placed on flexibility
- Future portfolio will need to provide customers with;
  - A choice of locations
  - Scalable space options
  - Curated environments
  - Engaging environments
  - Modular fit outs

### Restructuring Tenant Portfolios

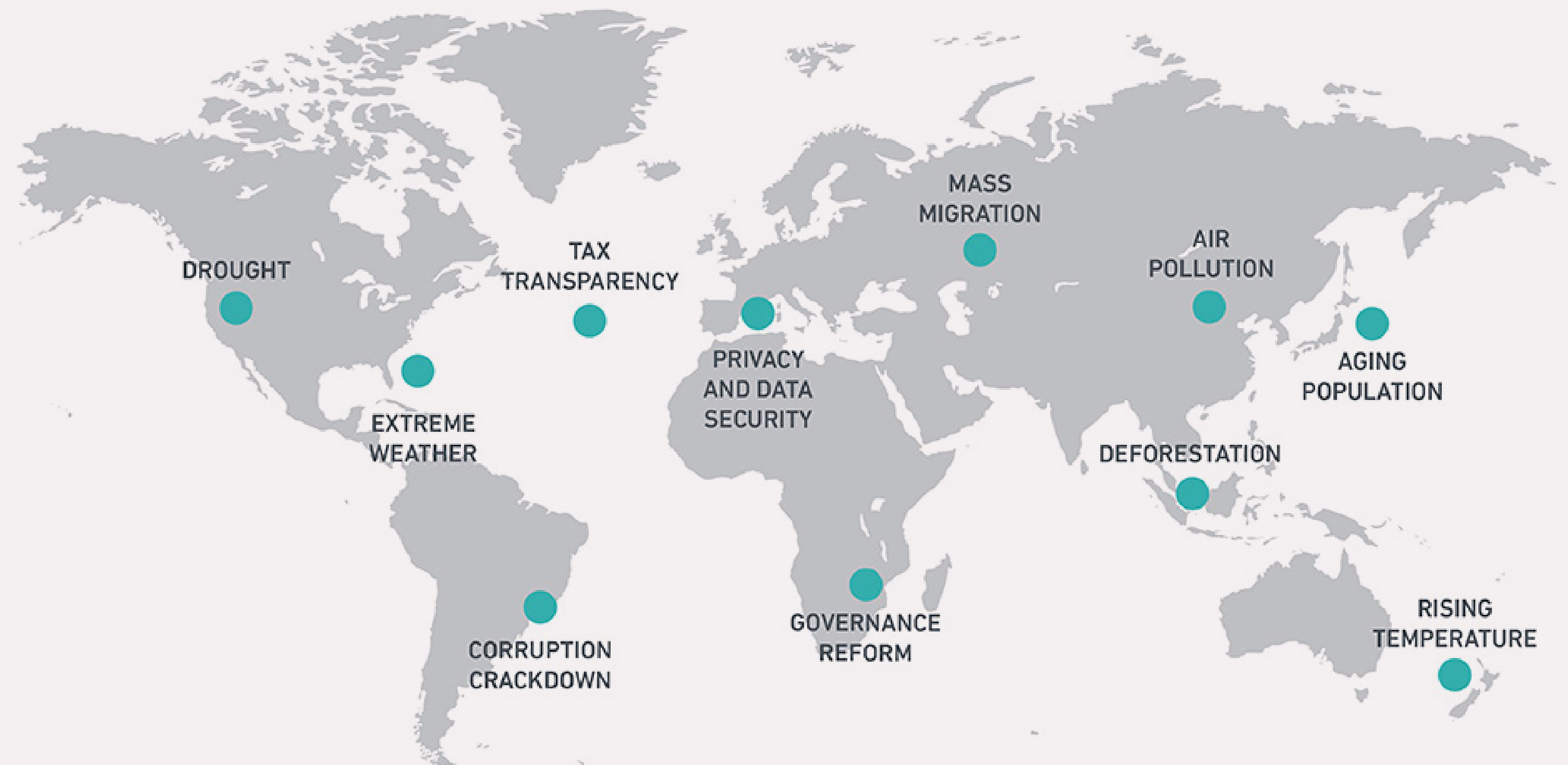




# ESG PATTERN

# ESG INVESTING

- Flood risk, sea level rise, privacy and data security, demographic shifts and regulatory pressures are introducing new risk factors for investors
- Watch for changes in insurance cover
- Over the next 2-3 decades there will be a mass transfer of wealth to millennials who place significant weighting on ESG investment criteria
- US\$15-20 trillion could flow into US domiciled ESG investments which would roughly double the size of the US equity market

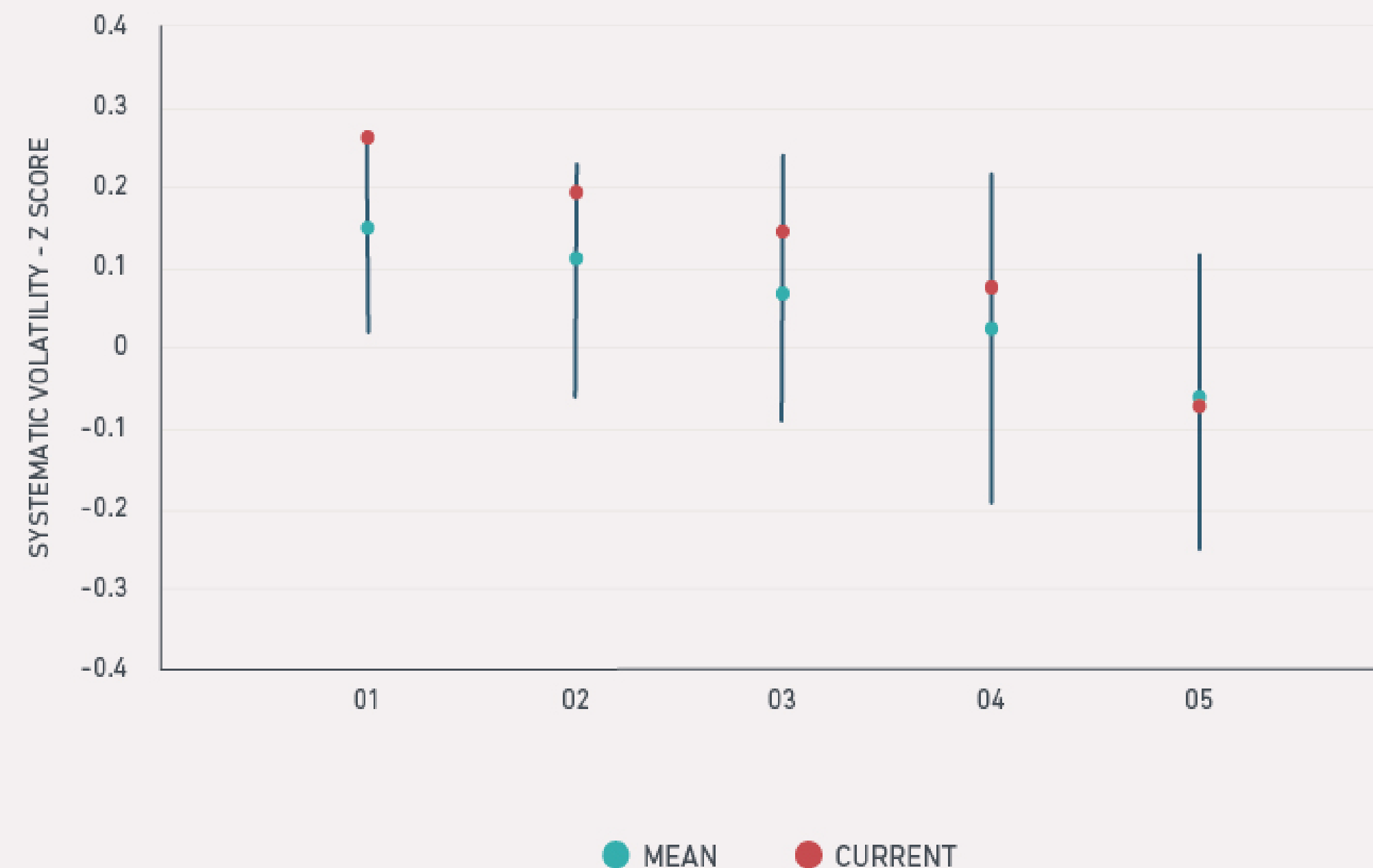


# ESG INVESTING

## Highly rated ESG companies:

- Can be more competitive and generate abnormal returns often leading to higher profitability and dividend payments
- Experience a lower frequency of risk incidents
- Show lower systemic risk exposure, evidenced by less volatile earnings and less systemic volatility
- Experience lower betas and lower cost of capital

SYSTEMATIC VOLATILITY OF ESG QUINTILES



# ESG INVESTING

## MIRVAC CLIMATE CHANGE TARGET

- Net positive carbon by 2030

## MIRVAC NATURAL RESOURCES TARGET

- Net positive (water) by 2030
- Zero waste to landfill by 2030

## MIRVAC COMMUNITY TARGET

- Tripling community investment by 2022

## MIRVAC SOCIAL INCLUSION TARGET

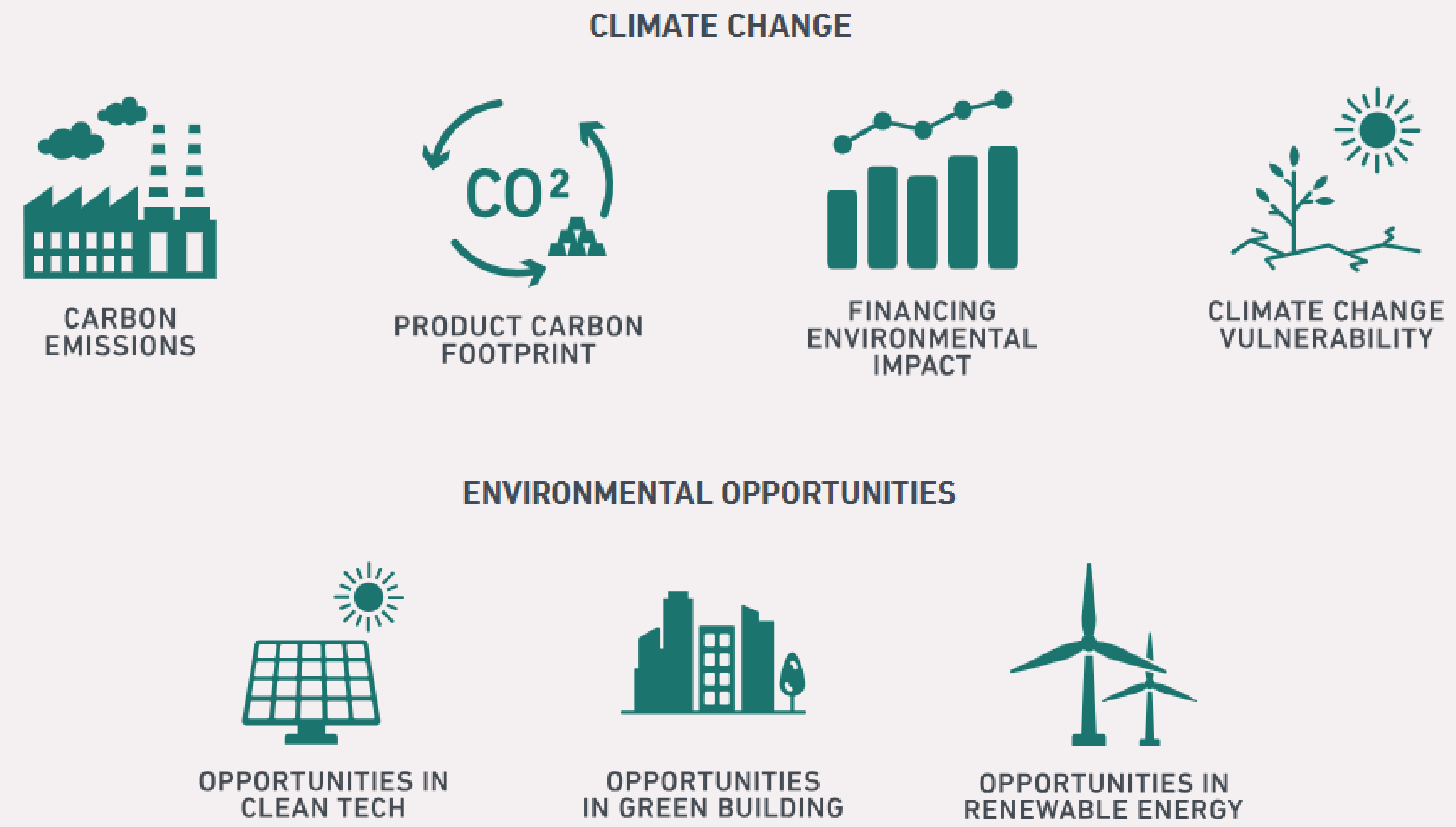
- \$100m social sector investment by 2030

## MIRVAC GOVERNANCE / HR TARGET

- 20% improvement in health and wellbeing by 2020
- 40:40:20 women in senior management by 2022

## MIRVAC GOVERNANCE / TRUSTED PARTNER TARGET

- AAA rating with MSCI – ESG disclosure



# THANK YOU

# IMPORTANT NOTICE

---

Mirvac Group comprises Mirvac Limited (ABN 92 003 280 699) and Mirvac Property Trust (ARSN 086 780 645). This presentation (“Presentation”) has been prepared by Mirvac Limited and Mirvac Funds Limited (ABN 70 002 561 640, AFSL number 233121) as the responsible entity of Mirvac Property Trust (collectively “Mirvac” or “the Group”). Mirvac Limited is the issuer of Mirvac Limited ordinary shares and Mirvac Funds Limited is the issuer of Mirvac Property Trust ordinary units, which are stapled together as Mirvac Group stapled securities. All dollar values are in Australian dollars (A\$).

The information contained in this Presentation has been obtained from or based on sources believed by Mirvac to be reliable. To the maximum extent permitted by law, Mirvac, its affiliates, officers, employees, agents and advisers do not make any warranty, express or implied, as to the currency, accuracy, reliability or completeness of the information in this Presentation or that the information is suitable for your intended use and disclaim all responsibility and liability for the information (including, without limitation, liability for negligence).

This Presentation is not financial advice or a recommendation to acquire Mirvac stapled securities and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision prospective investors should consider the appropriateness of the information in this Presentation and the Group’s other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange having regard to their own objectives, financial situation and needs and seek such legal, financial and/or taxation advice as they deem necessary or appropriate to their jurisdiction.

To the extent that any general financial product advice in respect of the acquisition of Mirvac Property Trust units as a component of Mirvac stapled securities is provided in this Presentation, it is provided by Mirvac Funds Limited. Mirvac Funds Limited and its related bodies corporate, and their associates, will not receive any remuneration or benefits in connection with that advice. Directors and employees of Mirvac Funds Limited do not receive specific payments of commissions for the authorised services provided under its Australian Financial Services License. They do receive salaries and may also be entitled to receive bonuses, depending upon performance. Mirvac Funds Limited is a wholly owned subsidiary of Mirvac Limited.

An investment in Mirvac stapled securities is subject to investment and other known and unknown risks, some of which are beyond the control of Mirvac, including possible delays in repayment and loss of income and principal invested. Mirvac does not guarantee any particular rate of return or the performance of Mirvac nor do they guarantee the repayment of capital from Mirvac or any particular tax treatment.

This Presentation contains certain “forward looking statements. The words “expected”, “forecast”, “estimates”, “consider” and other similar expressions are intended to identify forward looking statements. Forward looking statements, opinions and estimates provided in this Presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, indications or guidance on future earnings or financial position and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. There can be no assurance that actual outcomes will not differ materially from these statements. To the full extent permitted by law, Mirvac Group and its directors, officers, employees, advisers, agents and intermediaries disclaim any obligation or undertaking to release any updates or revisions to the information to reflect any change in expectations or assumptions. Past performance information given in this Presentation is given for illustrative purposes only and should not be relied upon as (and is not an indication of future performance. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current year amounts and other disclosures.

This Presentation also includes certain non-IFRS measures including operating profit after tax. Operating profit after tax is profit before specific non-cash items and significant items. It is used internally by management to assess the performance of its business and has been extracted or derived from Mirvac’s financial statements ended 31 December 2018, which has been subject to review by its external auditors.

This Presentation is not an offer or an invitation to acquire Mirvac stapled securities or any other financial products and is not a prospectus, product disclosure statement or other offering document under Australian law or any other law. It is for information purposes only.

The information contained in this presentation is current as at 31 December 2018, unless otherwise noted.