
The Challenge of Change – M&A

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May 2019

'Weight of Capital' Story Continues Unabated

Increasingly impacting global
real estate markets



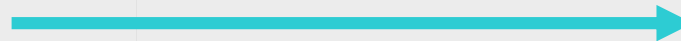
2008

2018

Sovereigns
Pensions
Insurers



Equity funds
Investment managers

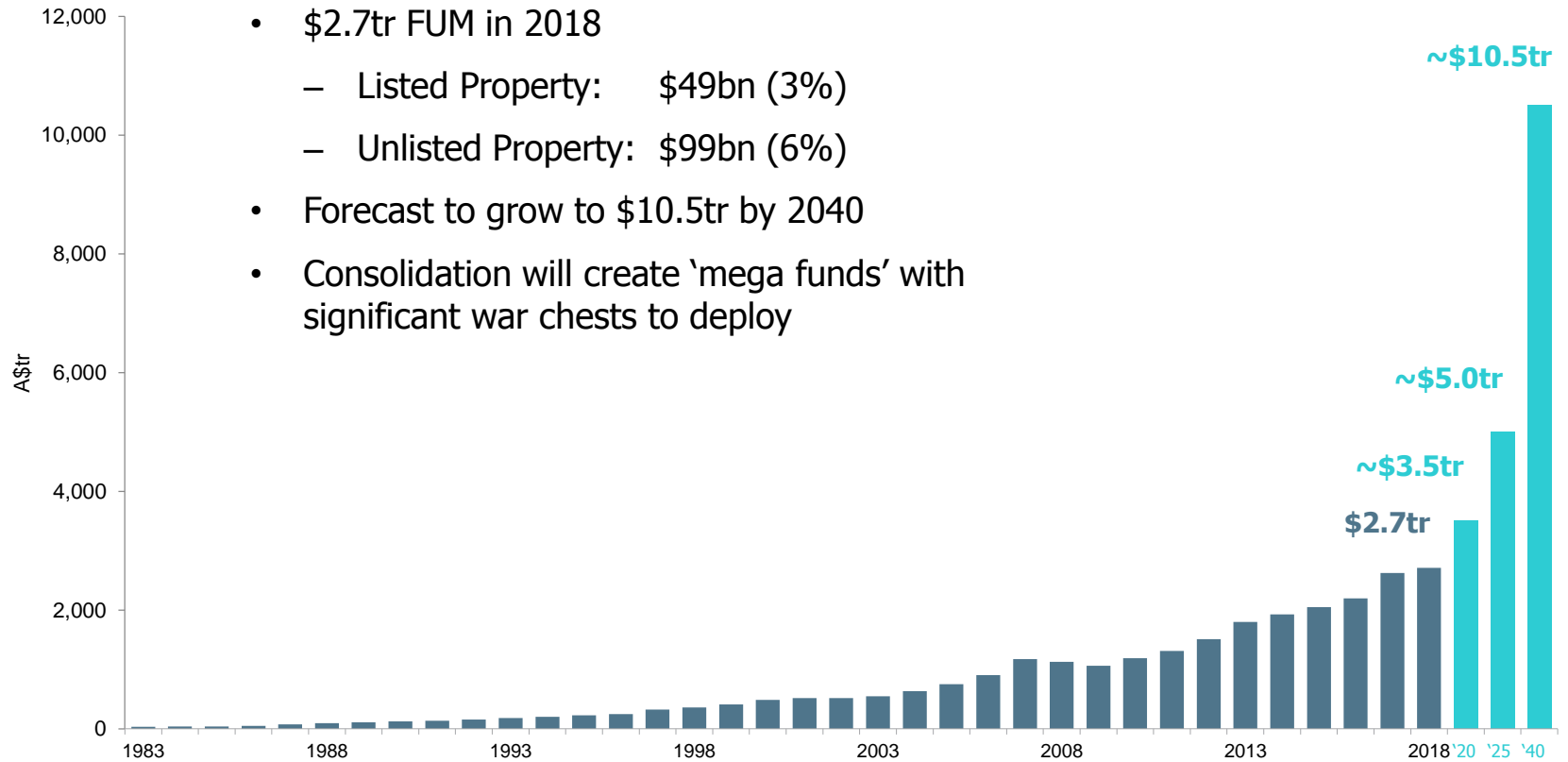


Banks
Other non-bank financial



Australian Superannuation Funds

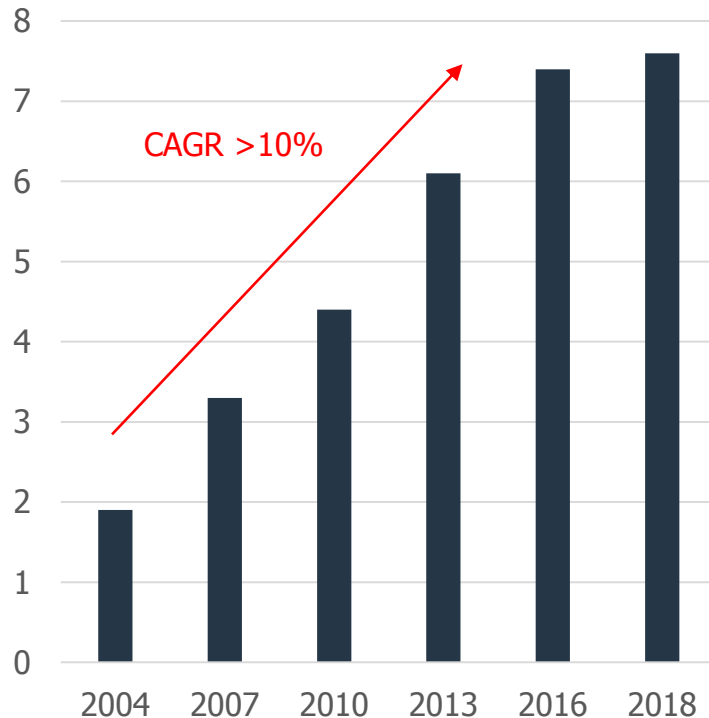
Experiencing strong organic growth with \$34bn net inflows in FY18¹



Sovereign Wealth Funds (SWFs)

SWFs have been growing in number and AUM, whilst increasing their allocations to real estate¹

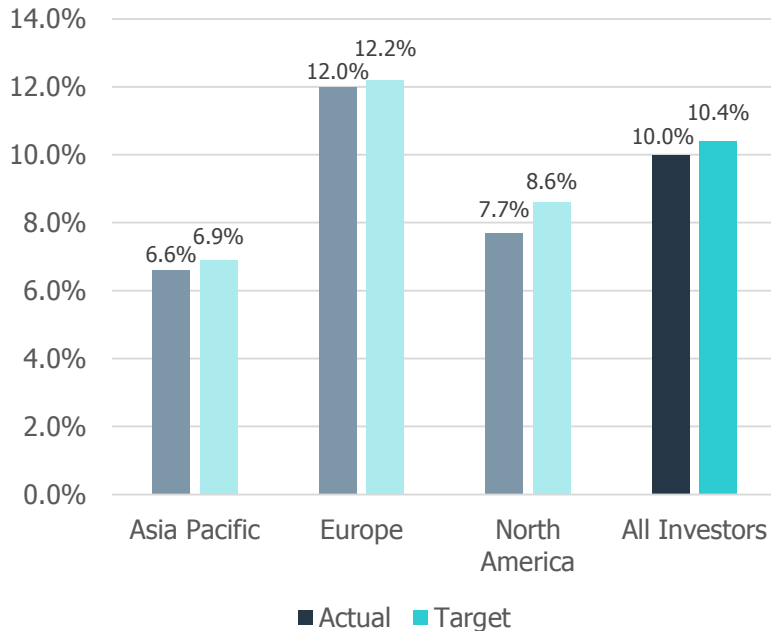
SWF Total AUM (USD tr)



- SWF AUM equated to USD7.6tr in 2018
- Doubling from 5% of institutional investors globally to over 10% over the last 15 years
- Allocation to alternatives has increased from 19% to 23% over the last decade, akin to pension fund allocations - why:
 - The search for yield
 - Diversification benefits
 - Enhanced risk adjusted returns
 - An inflation hedge
- Growth towards alternatives (including real estate), anticipated to continue in the future
- Are themselves large, requiring investments of scale

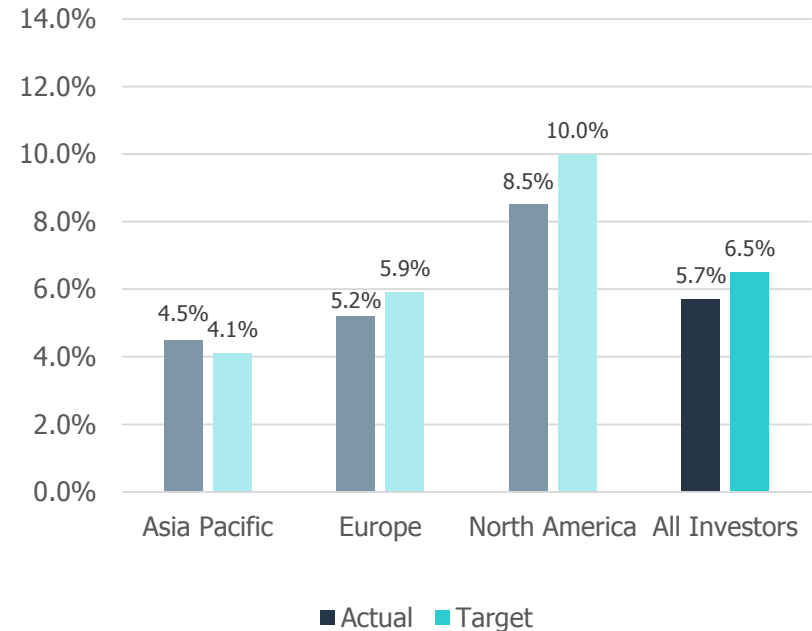
Institutional Investor Trends

Real estate allocations by domicile (average)¹



- Average allocation to real estate for institutional investors is 10%
- Up significantly from last year at 8.9%
- Slightly underweight target (40bps)

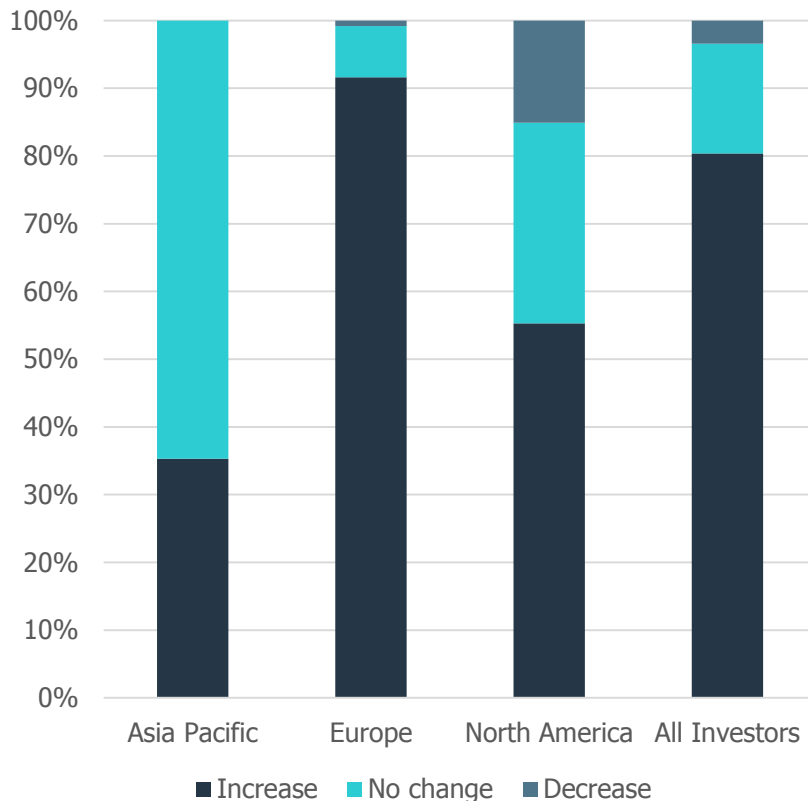
Real estate allocations by domicile (AUM)¹



- Lower allocations by AUM suggest larger investors have lower allocations
- Larger investors more underweight (80bps)
- Larger North American investors most underweight (150bps)

Institutional Investor Trends (continued)

Expected change in real estate allocations over the next two years by domicile (AUM)¹



- 80% of investors expect their real estate allocations to increase over the next 2 years (based on AUM)
- Compares to 50% on an 'average' basis, suggesting the larger real estate investors are expecting an increase
- Only 3% of investors expect a decrease (based on AUM)
- Asia Pacific is destined for nearly 20% of planned capital investment in 2019
- Sydney and Melbourne preferred locations
- Availability of suitable product in the Asia Pacific continues to be a major obstacle

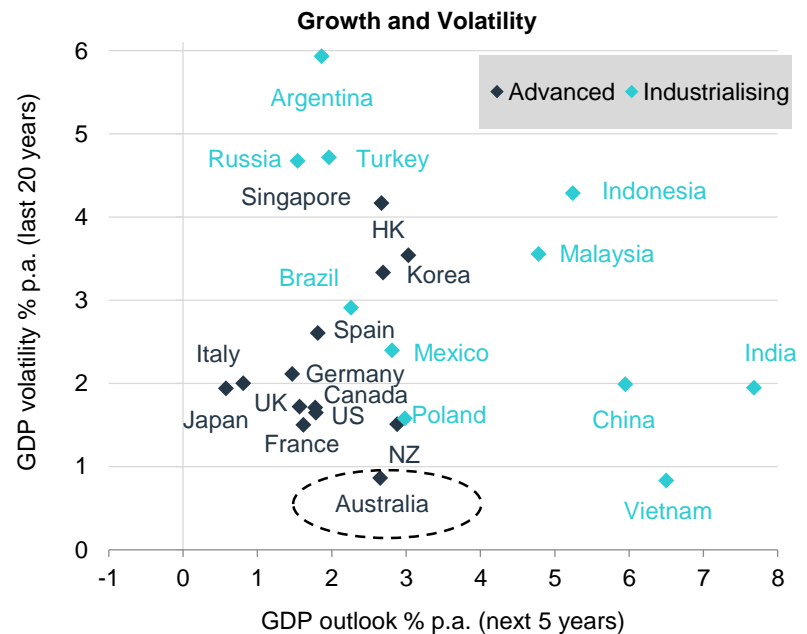
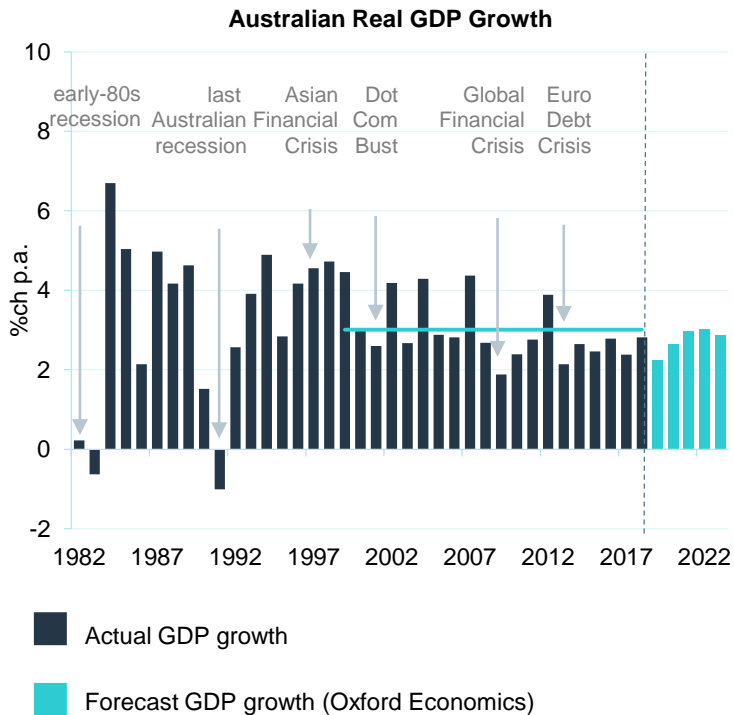
Global Capital Attraction to Australia - Why?

Sustained Economic Growth Outlook	<ul style="list-style-type: none">• Relative strength and resilience of the Australian economy and underlying real estate fundamentals• Proximity/linkage to Asian growth

Attractive Australian Economy

Australian economy has been resilient through many cycles. Medium term outlook at around 2.75%-3% p.a.

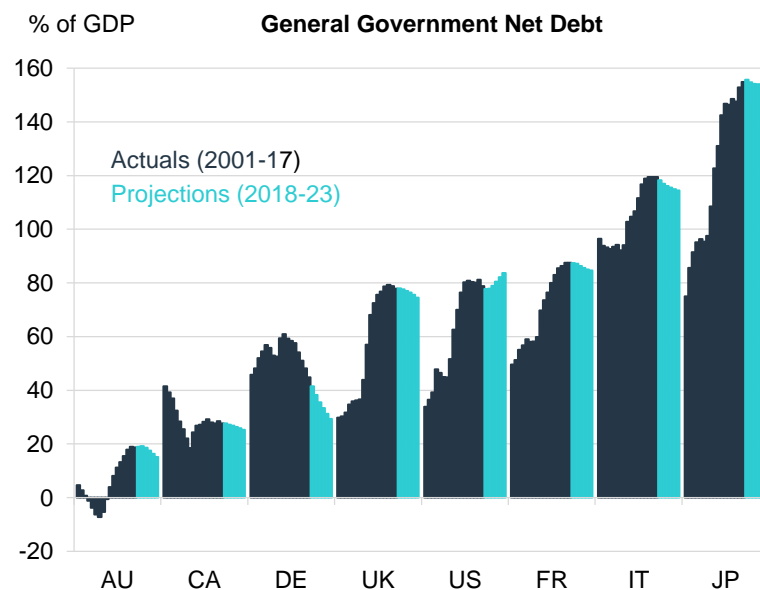
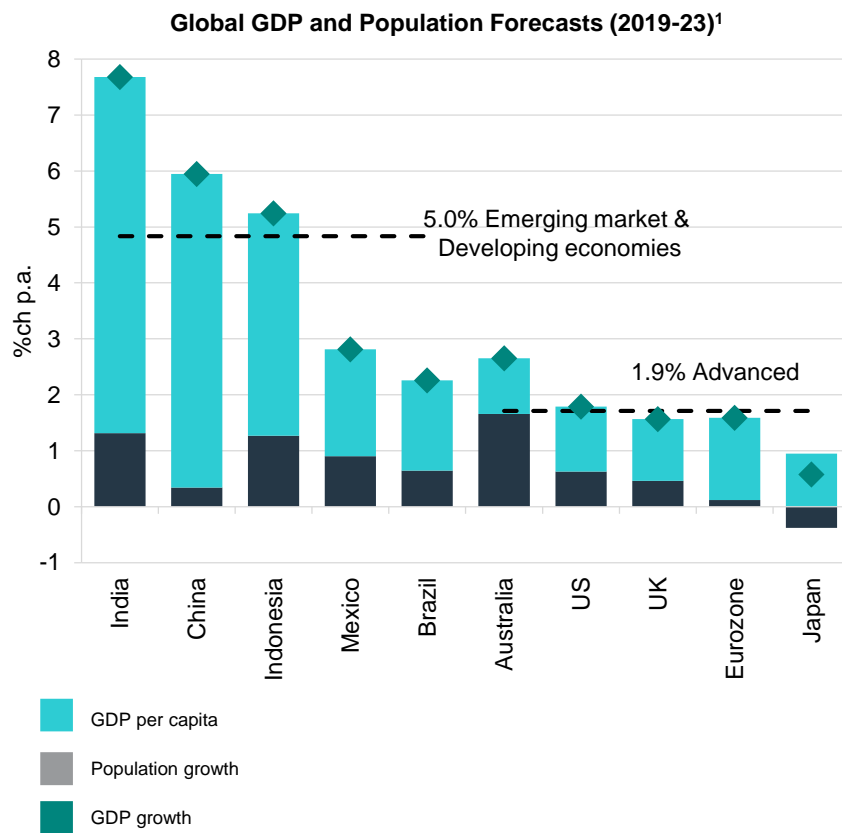
Australia has achieved relatively high GDP growth without the volatility seen in other developed markets



Attractive Australian Economy continued

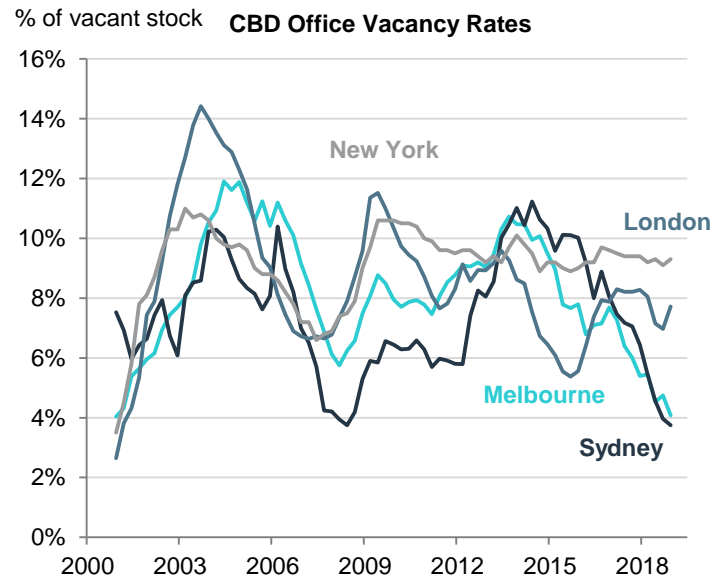
Australia's forecast 1.7% p.a. population growth underpins a high GDP growth outlook relative to other developed markets

Australia's low gov debt ensures policymakers have the resources to potentially support growth, although both parties are likely to resist without a major shock

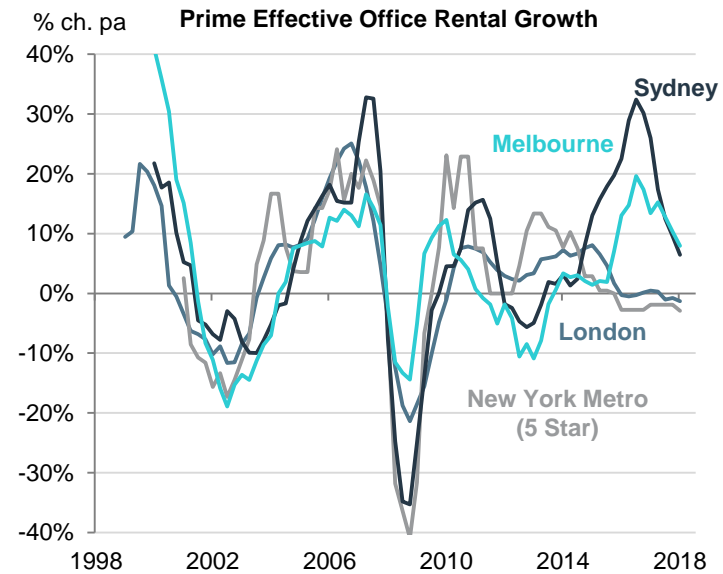


Attractive Real Estate Fundamentals

Sydney & Melbourne vacancy rates have tightened to ~4% compared to +7% in New York and London



Sydney & Melbourne rents have jumped sharply in recent years in absolute terms and relative to international peers



Why Australia? (continued)

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Secure Investment Region	<ul style="list-style-type: none">• Relative ease of access (high degree of institutionalisation of the market)• Stability of governance, regulatory and legal system

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Established Real Estate Investment Regime	<ul style="list-style-type: none">• Transparency of Australian real estate sector• Manager quality and governance• Deep stock of institutional real estate and pricing track record• The tax system encourages flexible investment structures supported by rigorous disclosures

Why Australia? (continued)

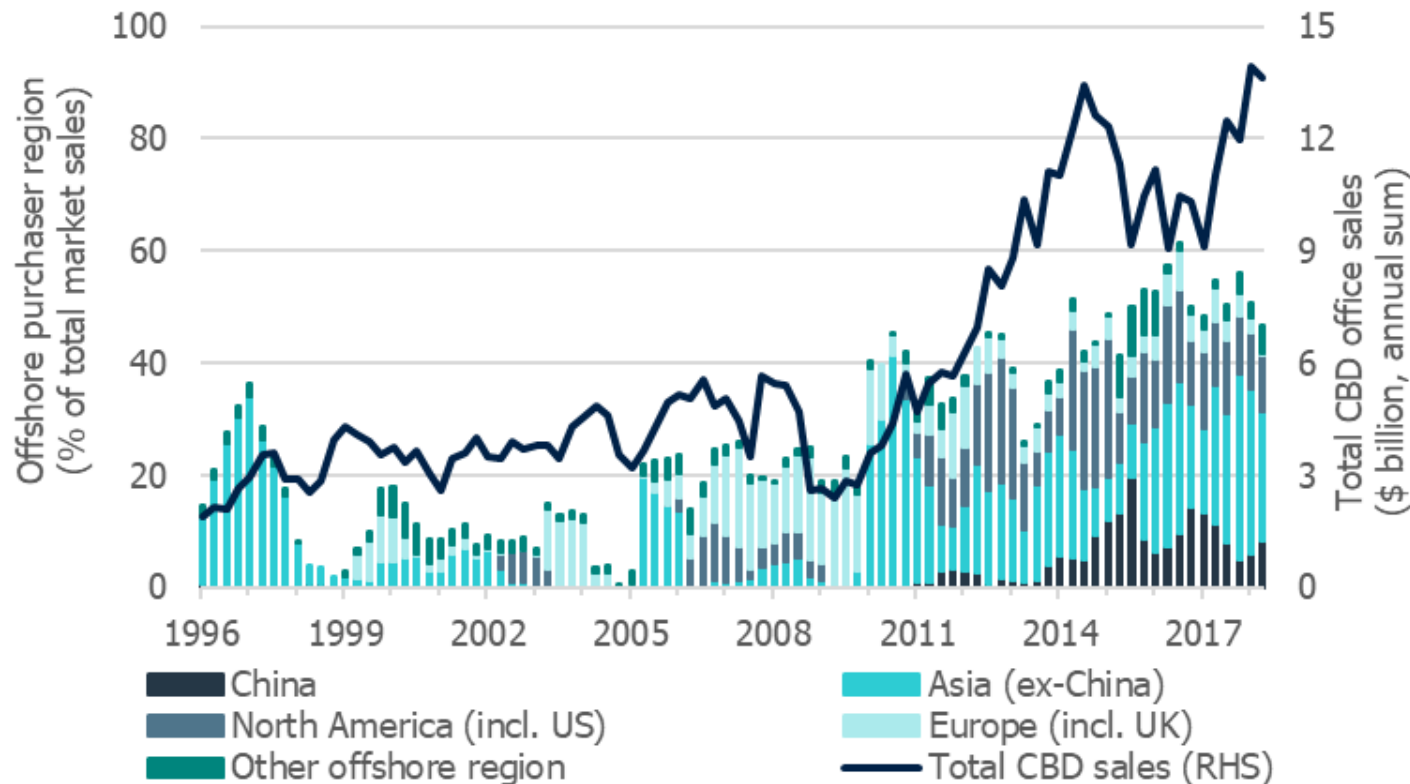
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Supportive Demand	<ul style="list-style-type: none">• One of the most urbanised populations in the world (c.90% live in urban areas)• Positive population growth and strong net migration

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Diversification Benefits	<ul style="list-style-type: none">• Particularly for offshore investors given the lower correlations between the Australian direct real estate market and other developed direct real estate markets around the world

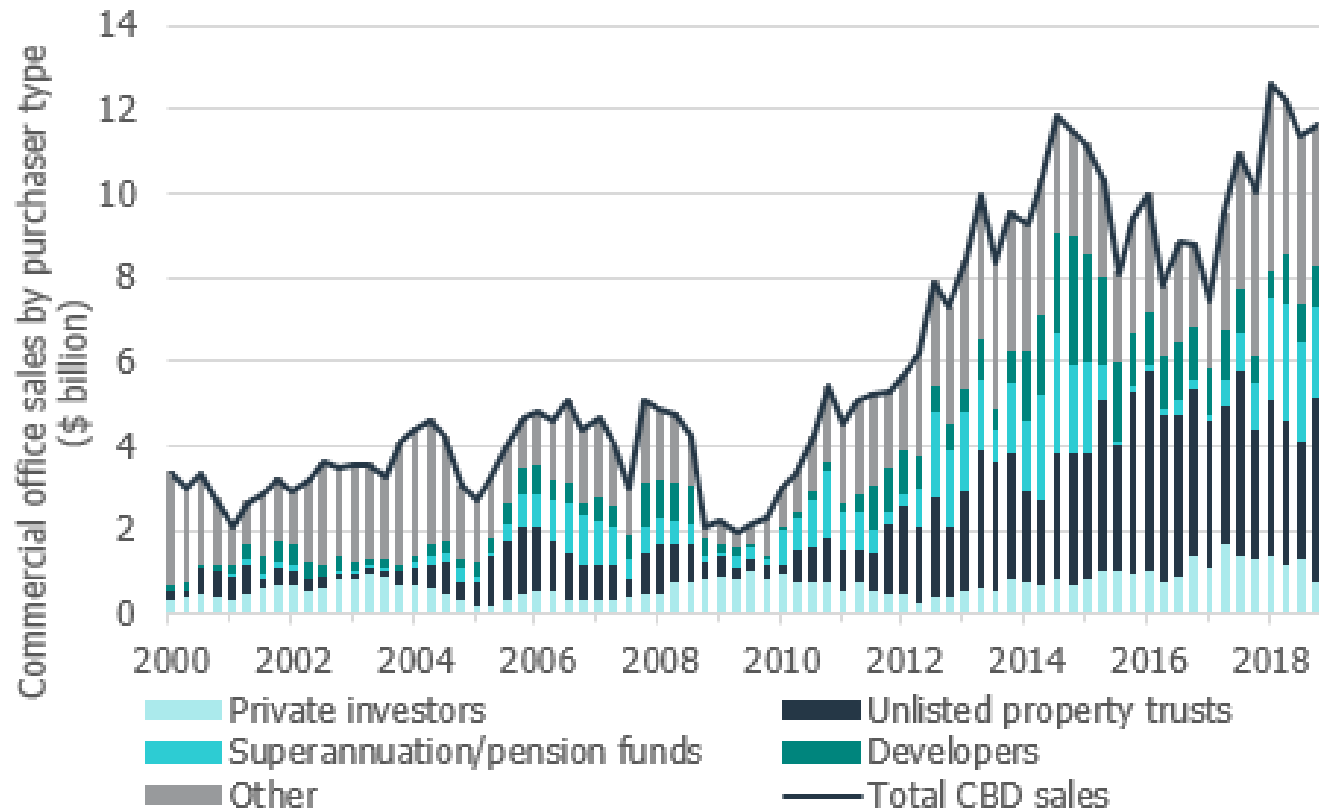
Globalisation of Australian Real Estate Markets

Foreign investor transactions have stabilised at 45-55% of total CBD office sales



Diversity of Investors Chasing Australian Product

Broad based appetite for quality office assets

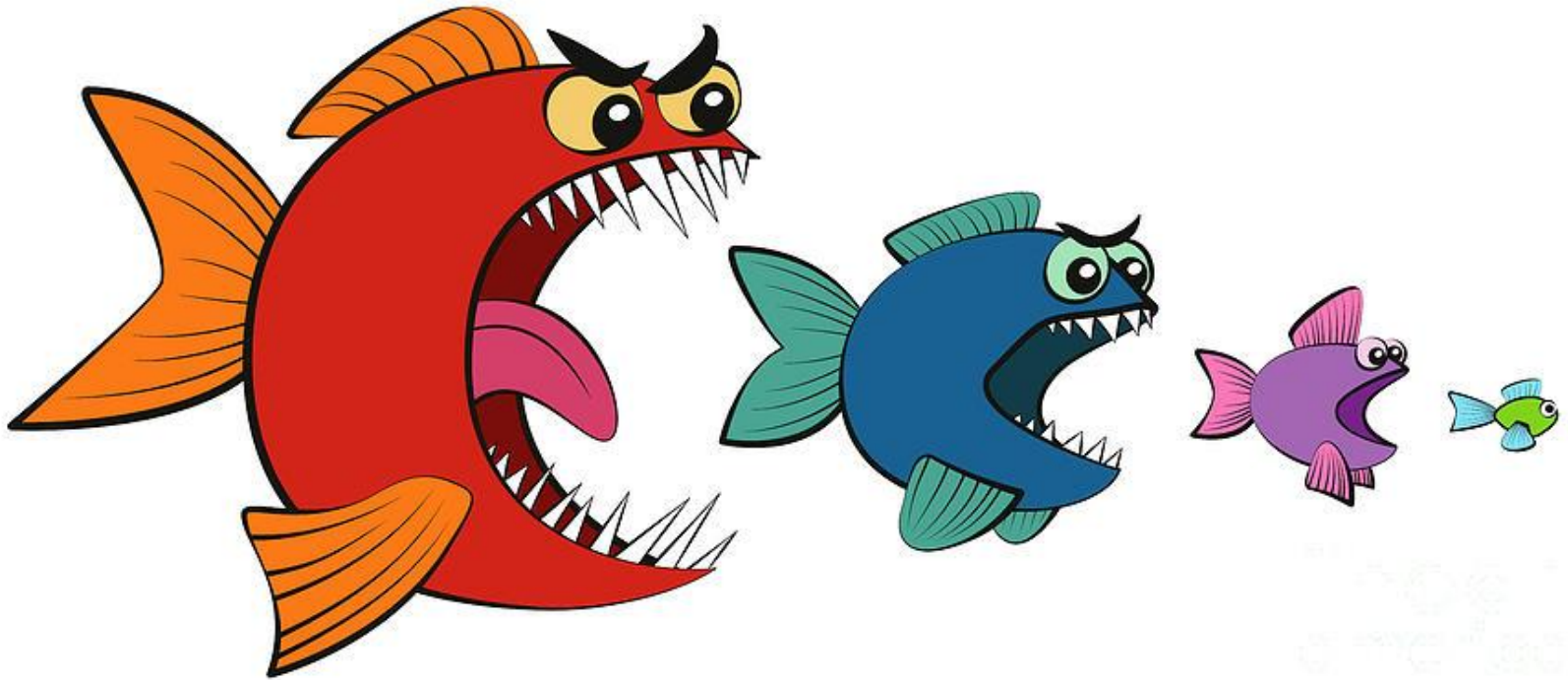


Where does that leave us?

Australia's real estate investment universe is highly securitised in the hands of long term investors

- >70% of the Australian Property Investment Market is in the hands of long term institutional investors
- Australian markets are less cyclical in terms of 'trading activity'
- Scarcity of quality product of scale
- Large institutional investors want core exposure of scale for the correlation benefits and attractive risk adjusted return metrics compared to like investments in other core development markets

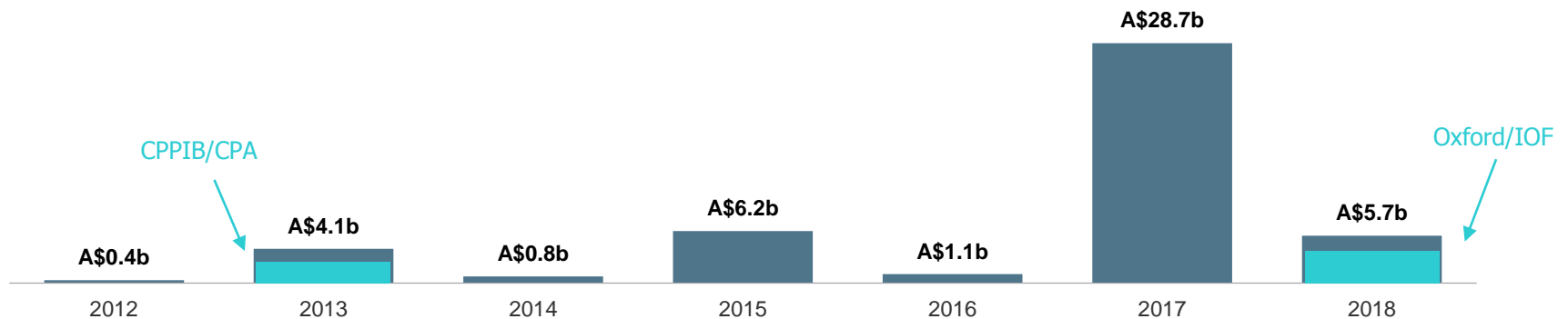
Inevitable Consolidation



Australian M&A AREIT Activity

- Inbound activity has accelerated
- Private equity managers have actively competed for listed opportunities to deploy significant levels of dry powder – Blackstone, Brookfield and Starwood
- Super/pension funds are leveraging listed shareholdings and opportunities to access assets – CPPIB/CPA & Oxford/IOF more recently

AREIT Transactions >A\$200m



Attractiveness of AREITs

AREITs are highly desirable for large private capital investors

- Immediate investment of scale
- High quality product
- Managed to a high standard
- Transparent information available
- Limited stamp duty imposts
- Potential to access management platforms
- Pricing can be attractive

Investa Office Fund (IOF)

\$4.4bn across 19 assets



Perth

Number of properties	2
Book value (\$m)	\$156.3
% of IOF portfolio value	3.6%
Occupancy ¹	79.5%

Melbourne

Number of properties	2
Book value (\$m)	\$656.7
% of IOF portfolio value	15.1%
Occupancy ¹	99.4%

Brisbane

Number of properties	5
Book value (\$m)	\$592.7
% of IOF portfolio value	13.6%
Occupancy ¹	94.4%

Sydney / North Sydney

Number of properties	10
Book value (\$m)	\$2,846.4
% of IOF portfolio value	65.3%
Occupancy ¹	98.4%

Canberra

Number of properties	1
Book value (\$m)	\$104.3
% of IOF portfolio value	2.4%
Occupancy ¹	100.0%

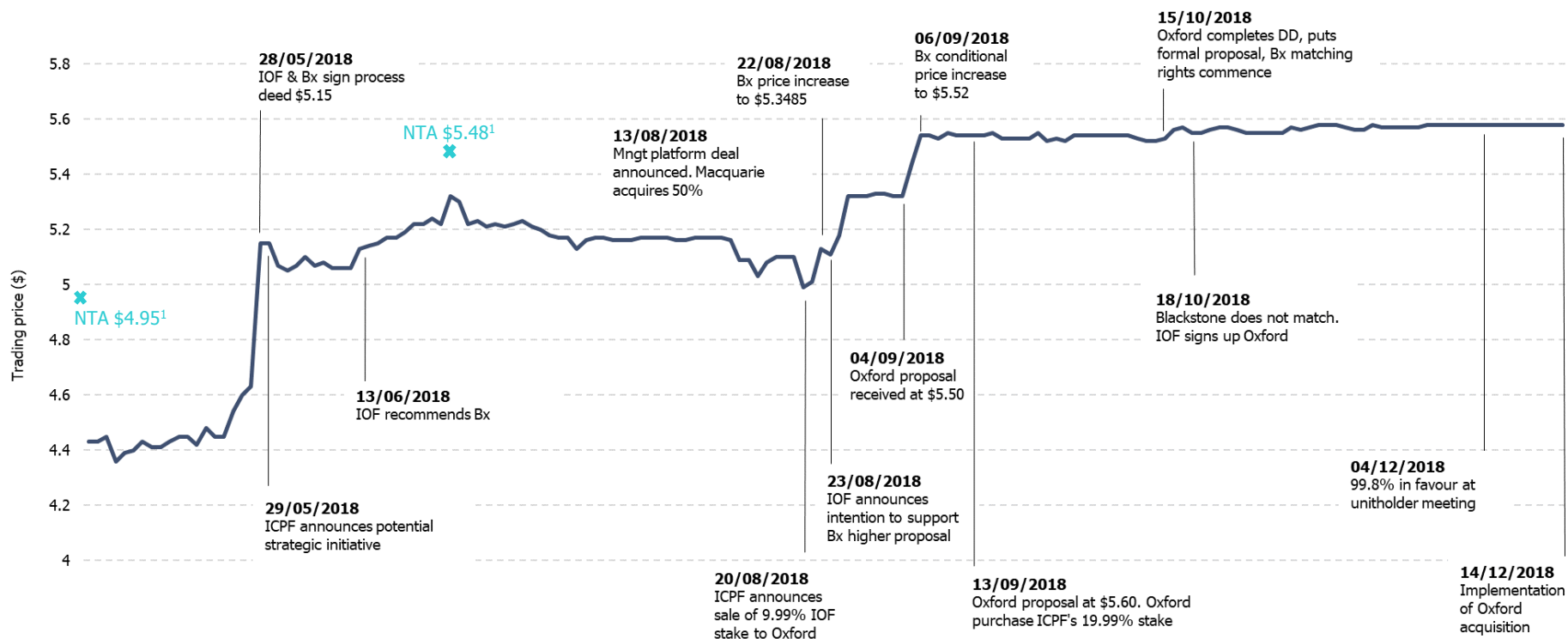


1. Weighted by income
NB: As at 30 June 2018

Investa Office Fund (IOF)

- Externally managed AREIT managed by Investa
- Investa management platform owned by ICPF (sister wholesale fund)
- ICPF owned a 19.99% stake in IOF
- IOF corporate activity in prior years – DEXUS, Cromwell
- Independent Responsible Entity Board

Investa Office Fund (IOF) Privatisation

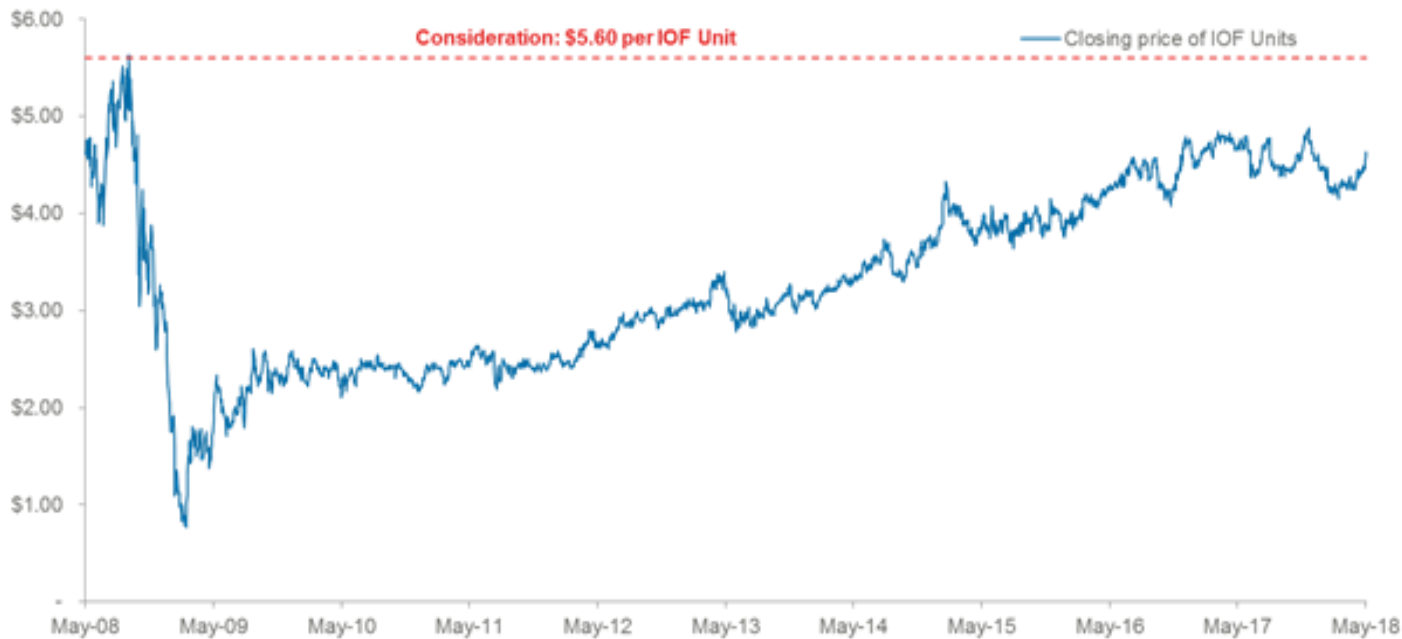


1. NTA adjusted for distributions to be on a like-for-like basis

Investa Office Fund (IOF) – Oxford Proposal

Directors recommended Unitholders vote in favour in the absence of a superior proposal

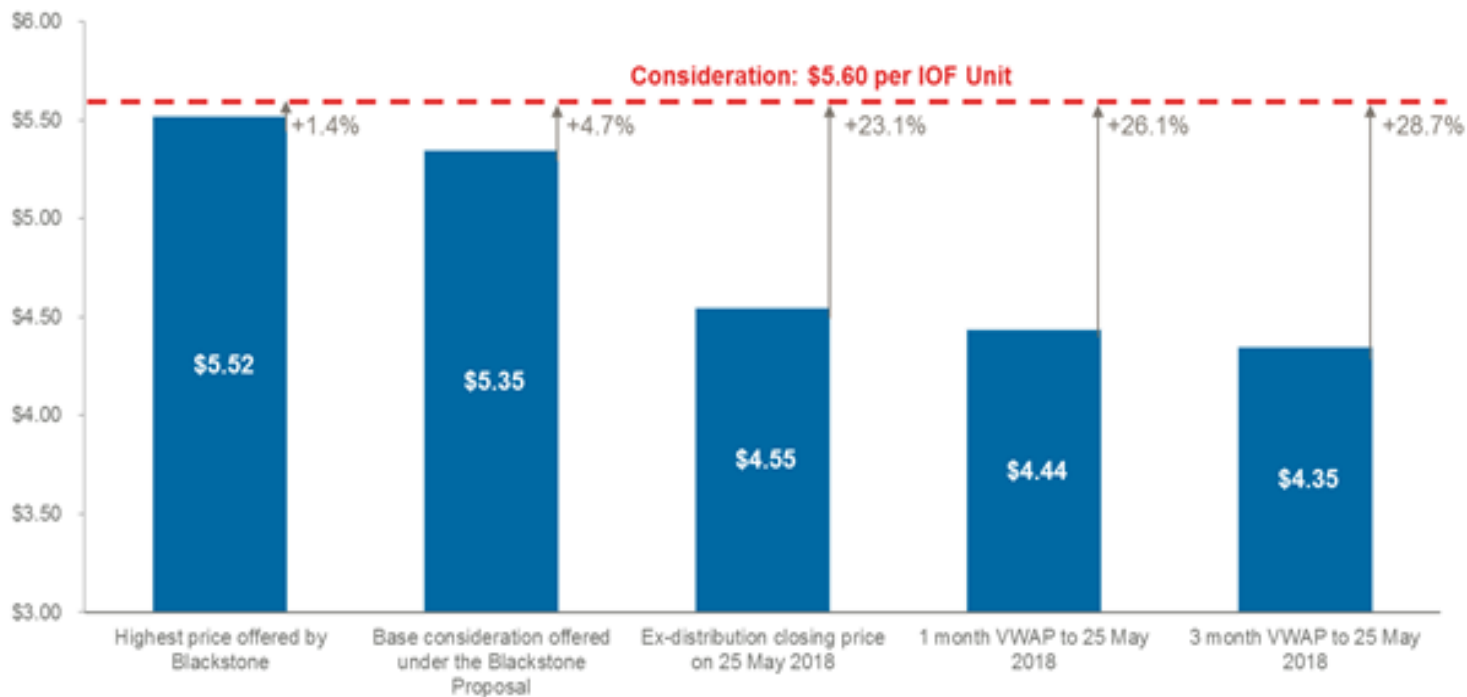
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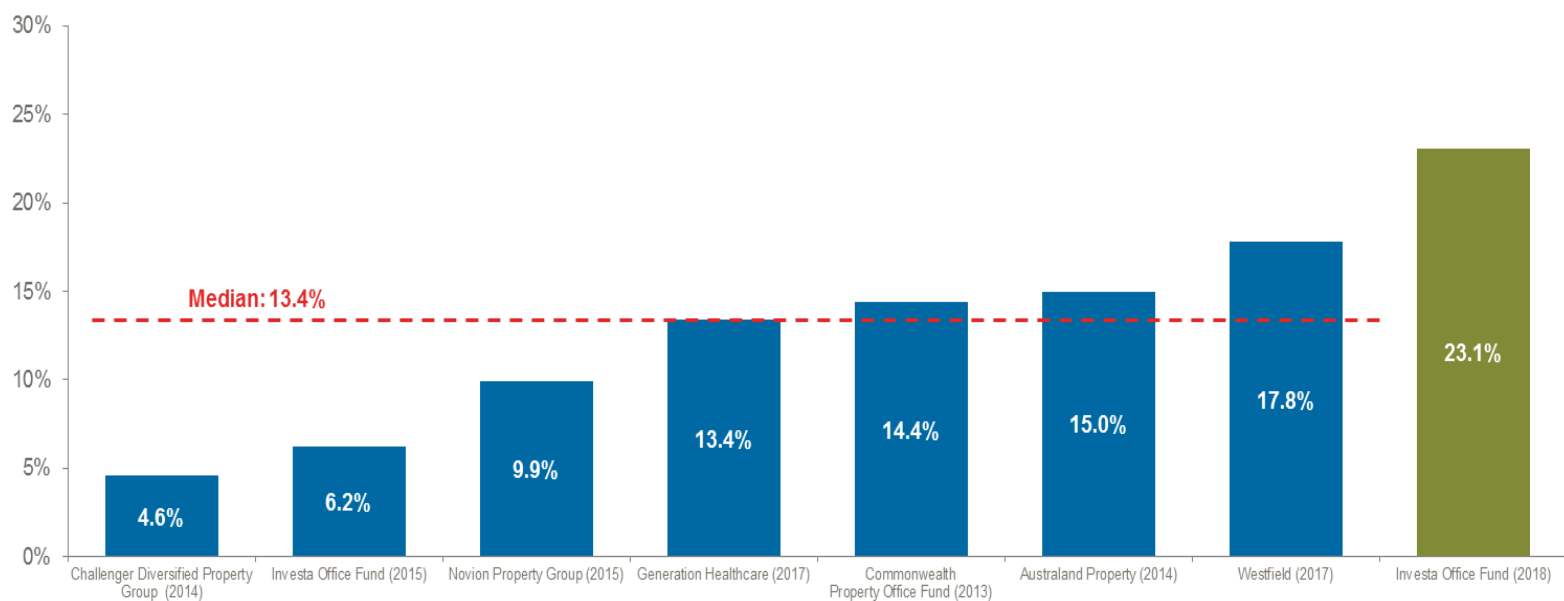
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2. The offer reflected a premium to key metrics



Investa Office Fund (IOF) – Oxford Proposal

Precedent AREIT transaction premiums to last unaffected closing price



Note: Transactions occurring in the last five years with an implied market capitalisation greater than \$500 million;
Based on quoted premiums in the relevant target's statement or scheme booklet;
Where scrip consideration involved, premium calculated based on acquirers scrip price last close prior to proposal announcement;
Invest Office Fund (2015) proposal was not approved by unitholders.

Investa Office Fund (IOF) – Oxford Proposal

Directors recommended Unitholders vote in favour in the absence of a superior proposal

1. IOF's unit price had not traded above the final offer price for over 10 years
2. The final offer price reflected:
 - 23.1% premium to the last undisturbed trading price¹
 - 28.7% premium to the 3 month VWAP²
 - 2.2% premium to Pro Forma NTA³
3. Overall, the process was reflective of a competitive process:
 - Blackstone improved their offer three times
 - Oxford improved their initial offer once
 - Resulted in an offer 13.2% higher than Blackstone's initial offer

¹ The day before IOF first announced a proposed offer from Blackstone

² Ending on the day before IOF first announced a proposed offer from Blackstone

³ Includes updated valuations of all properties and a further updated valuation of the Barrack Place development which was reaching practical completion

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3. Was reflective of a competitive process:
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4. Cash nature of the offer provided certainty

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5. The offer reflected a high multiple of forecast FFO and distributions

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Investa Office Fund (IOF) – Oxford Proposal

Independent Expert also concluded it was in the best interests of IOF Unitholders¹

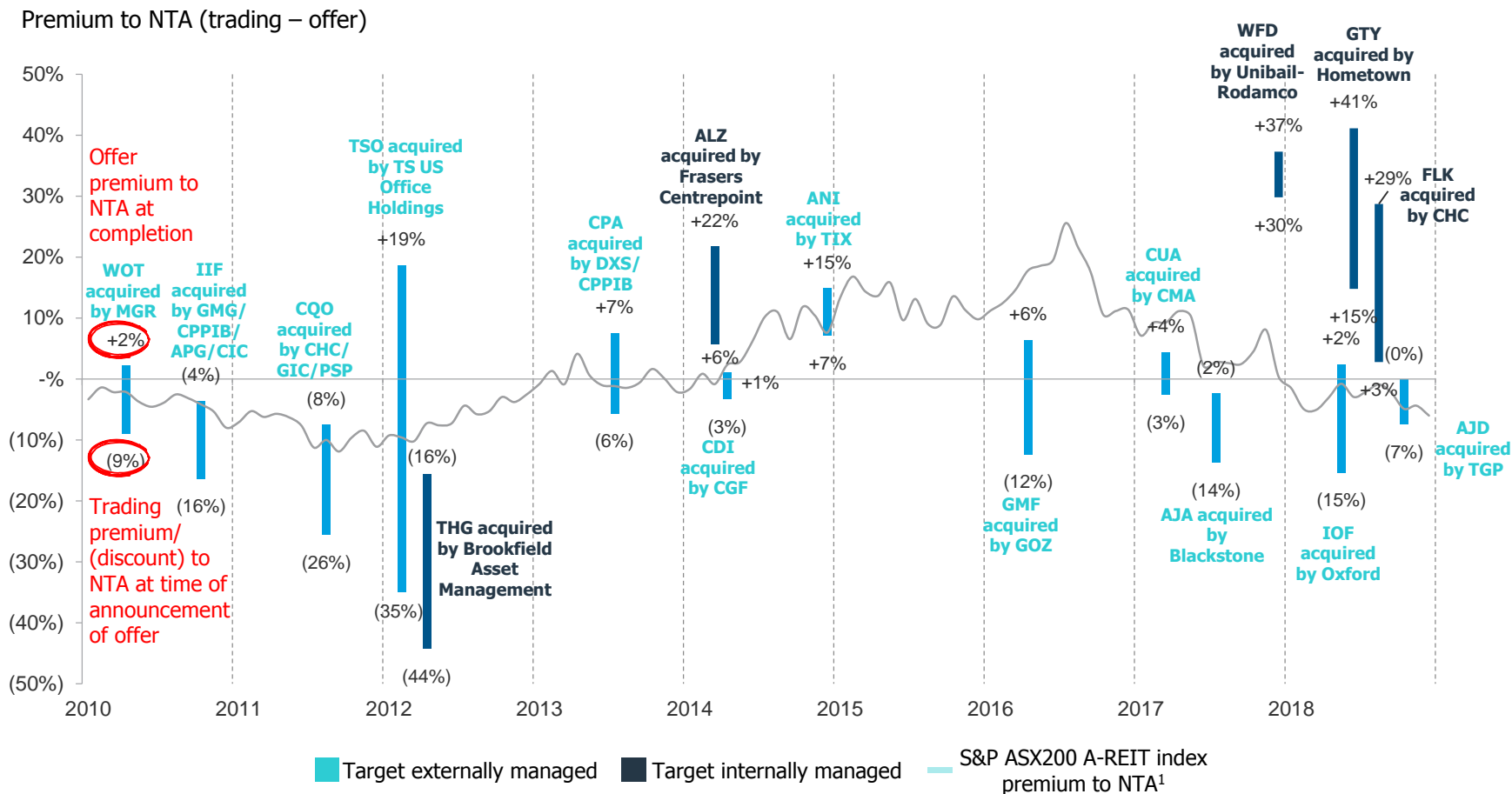
- Fair and reasonable proposal that exceeded their assessed value range
- Premium to NTA
- Substantial premium to IOF previous trading prices
- All cash offer
- Ability to immediately realise value at a price that includes a premium for control
- In the absence of the offer, or a superior offer, the price was likely to fall
- No superior offer had emerged
- Blackstone advised they would not provide a matching or superior offer
- Elapse of time would suggest the reduced likelihood of a superior offer emerging

Investa Office Fund (IOF) – Key Takeouts

100% Unitholder Focus

- Strong information barriers
- Independent advice
- Focus on due process
- Market accepted deal terms
- Strong stakeholder engagement
- Do what you say you are going to do
- Optimise returns
- Best interests of all investors

AREIT Sector - Transaction Premia

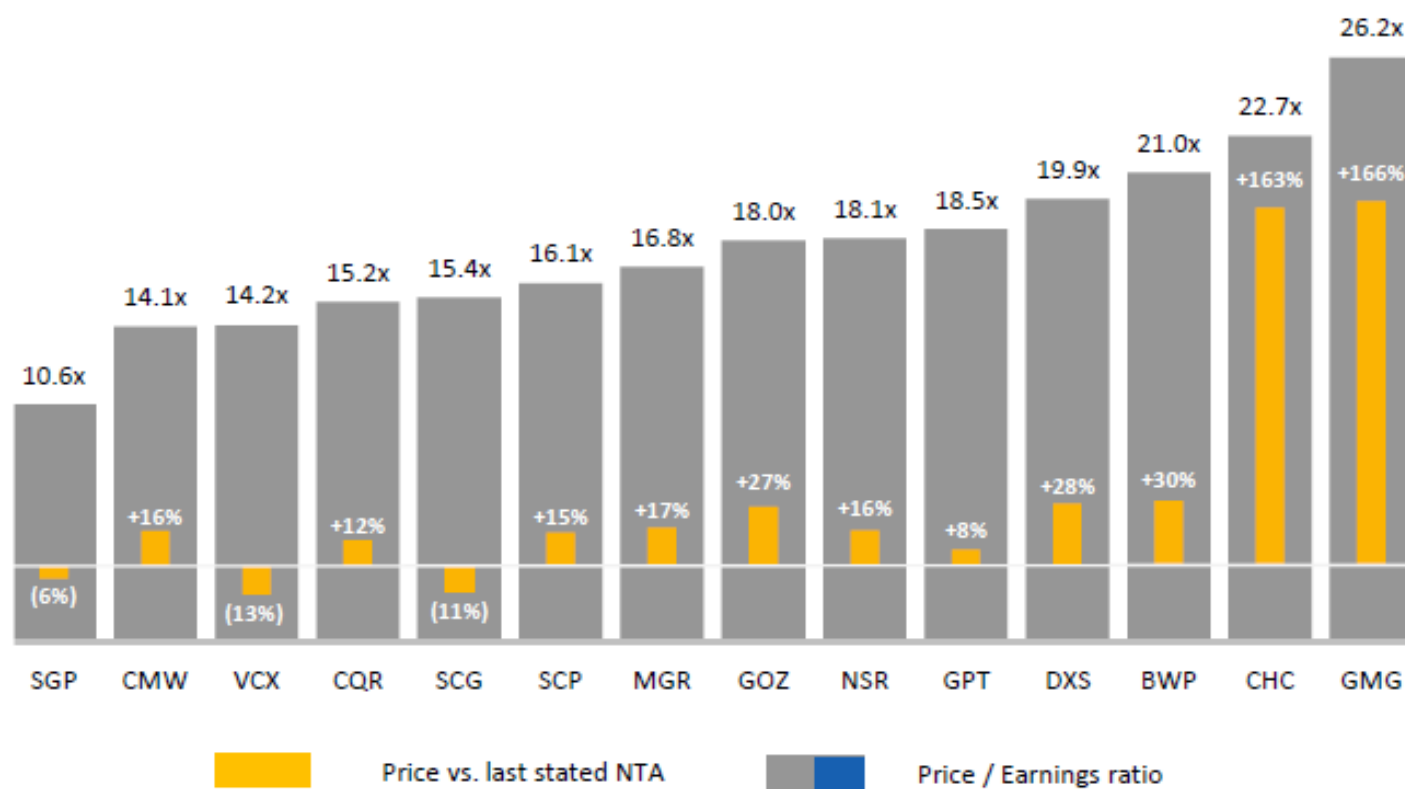


Source: IRESS, company disclosures, Macquarie Research

Notes: Announced and completed deals only, shown at announcement. 1. Basket of stocks consisting of ABP, VCX, CHC, CMW, CPA, CQO, CQR, DXS, GMG, GPT, IOF, MGR, SGP, WFD, SCG.

S&P/ASX 200 A-REIT Index

FY19 Trading P/Es & Prices versus NTA



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