

# development by mirvac

17 may 2011

ERA PACIFIC PLACE,  
CHATSWOOD, NSW

Introduction

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Development Strategy Presentation

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Residential Market Update

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## **NSW residential asset tour**

- › 71 Macquarie Street, CBD
- › ERA, Pacific Place, Chatswood
- › Harold Park, Glebe
- › Green Square Town Centre, Green Square

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## 1 MIRVAC'S DEVELOPMENT BUSINESS

- › Residential
- › Commercial

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## 2 IMPAIRED INVENTORY UPDATE

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## 3 DRIVERS TO 2014

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# MIRVAC'S DEVELOPMENT BUSINESS

# MIRVAC'S DEVELOPMENT BUSINESS



## AN INTEGRATED DEVELOPMENT PLATFORM WITH A 39 YEAR HISTORY

### RESIDENTIAL DEVELOPMENT

HIGH DENSITY = APARTMENTS  
LOW DENSITY = HOUSES AND LAND

80%<sup>1</sup>

### COMMERCIAL DEVELOPMENT

OFFICE, INDUSTRIAL, RETAIL

20%<sup>1</sup>

**MIRVAC'S DEVELOPMENT BUSINESS IS FOCUSSED ON DRIVING RETURNS TO SUSTAINABLE LEVELS WHILST MANAGING RISK**

1) Target EBIT through cycle.

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# STRENGTHS OF MIRVAC'S RESIDENTIAL AND COMMERCIAL DEVELOPMENT BUSINESS

# MIRVAC'S DEVELOPMENT BUSINESS



## ENHANCED RETURNS FROM INTEGRATED PLATFORM



- › Intellectual property retained internally
- › Full process control allows adaptability and accurate costing
- › Standardisation to lower costs
- › Speed to market – Chatswood 9 weeks<sup>1</sup>

**COSTS AND TIME SAVINGS FLOW STRAIGHT TO MIRVAC'S GROSS MARGIN**



## STRONG RELATIONSHIPS

### KEY STAKEHOLDERS

- › Acquisitions
- › Planning managed
- › Confidence in planning outcomes
- › Ability to access major infill sites

### SUPPLIERS

- › Lower costs
- › National procurement
- › Subcontract tender cover
- › Innovation with materials
- › Economies of scale

### INSTITUTIONAL INVESTORS

- › Partnerships
- › Drives ROA improvement
- › Fee income
- › De-risk large land holdings

<sup>1</sup>) State Government approval for development to release to market.

## VARIETY OF CAPITAL EFFICIENT STRUCTURES:

### WHOLESALE PARTNERSHIPS

|            |                                                                                                                                                       |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Definition | Capital partnership with small number of investors for development, with development delivery by Mirvac provided for fees and share in equity profits |
| Benefits   | Improved ROA, fees                                                                                                                                    |
| Example    | MWRDP                                                                                                                                                 |

### STRUCTURED LAND PAYMENTS

|            |                                                                                      |
|------------|--------------------------------------------------------------------------------------|
| Definition | Time efficient method of staged terms for acquisition of land for development assets |
| Benefits   | Improved IRR, Improved ROA                                                           |
| Example    | Eastern Golf Course, VIC                                                             |

### PDA

|            |                                                                                                                                         |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Definition | Provision of development services by Mirvac for a return without the transfer of title from the owner, who retains a long term interest |
| Benefits   | Improved IRR, access to strategic sites, Fees                                                                                           |
| Example    | Elizabeth Hills, NSW                                                                                                                    |

### JOINT VENTURE

|            |                                                                       |
|------------|-----------------------------------------------------------------------|
| Definition | Undertaking a development in a defined partnership with a co-investor |
| Benefits   | Improved ROA, fees                                                    |
| Example    | Burswood, WA                                                          |

**35%** OF TOTAL DEVELOPMENT CAPITAL



# MIRVAC'S DEVELOPMENT BUSINESS



## RIGOROUS ACQUISITION PROCESS REDUCES RISK:

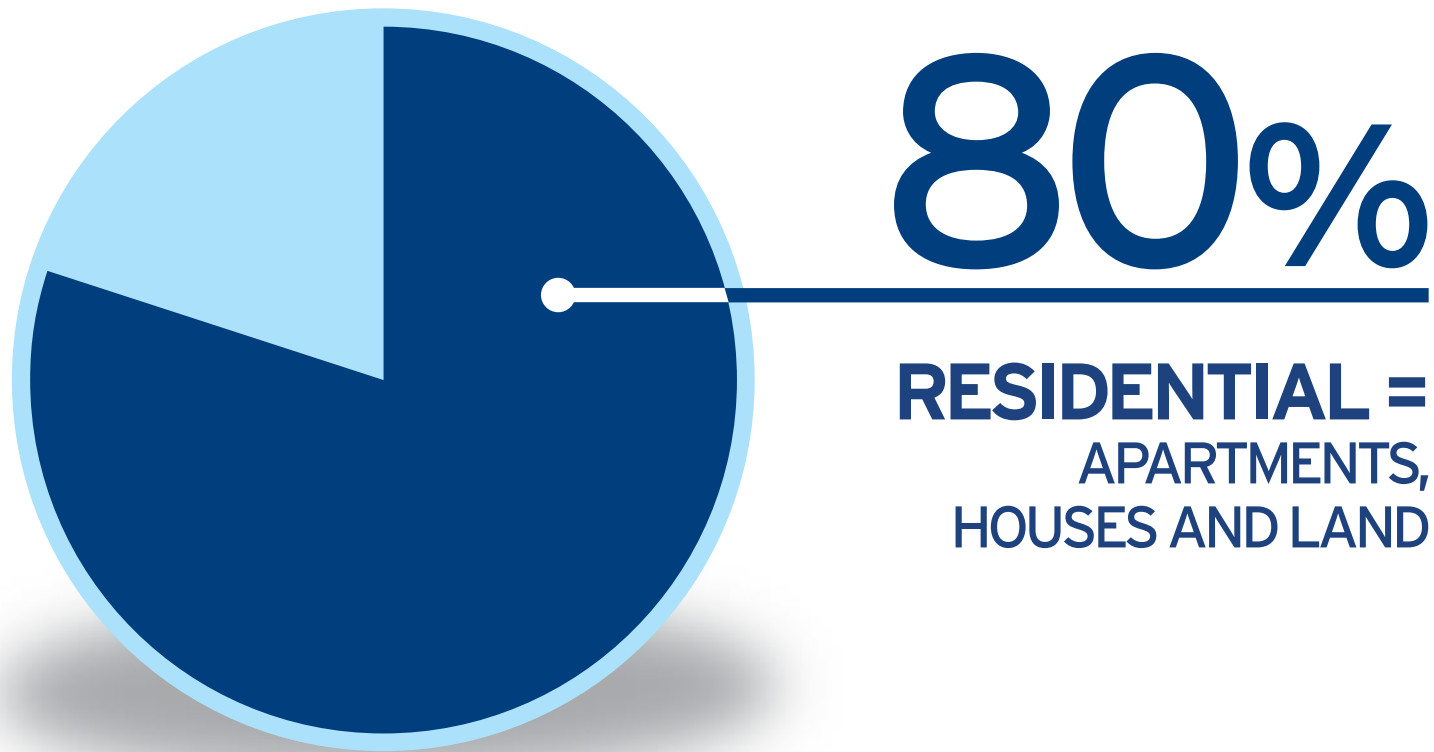


- > Multi stage review process
- > Feasibility studies not reliant on price escalation
- > Top down & bottom up research
- > Return hurdles of average 18% IRR
- > Projects targeted with confidence in planning outcomes
- > Optimised capital allocation

## ACQUISITIONS ILLUSTRATE RIGOROUS PROCESS:

| Project                  | Location | Type         | Lots                | Settlements from | Why is this a good acquisition for development?                                                                                                                                                                                                                                                     |
|--------------------------|----------|--------------|---------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Harold Park              | NSW      | Apartment    | 1,250               | FY14             | <ul style="list-style-type: none"> <li>&gt; Unique major infill development opportunity</li> <li>&gt; Iconic inner city site</li> <li>&gt; FY14 settlements</li> </ul>                                                                                                                              |
| New Brighton             | NSW      | Land/Housing | 257                 | FY14             | <ul style="list-style-type: none"> <li>&gt; Capital efficient PDA structure</li> <li>&gt; Increased exposure to NSW market</li> <li>&gt; FY14 settlements</li> </ul>                                                                                                                                |
| 71 Macquarie Street      | NSW      | Apartment    | Approx 100          | TBA              | <ul style="list-style-type: none"> <li>&gt; Return to one of Mirvac's key brand strengths – delivering premium apartments on iconic inner city site</li> <li>&gt; Build on success of Quay Grand apartment project</li> <li>&gt; Allows the hotels business to leverage off developments</li> </ul> |
| Green Square Town Centre | NSW      | Apartment    | 1,500               | FY17             | <ul style="list-style-type: none"> <li>&gt; Capital efficient PDA structure</li> <li>&gt; Unique location – town centre for the southern Sydney corridor</li> <li>&gt; Multi generational project</li> </ul>                                                                                        |
| Hamilton                 | QLD      | Apartment    | 582                 | FY14             | <ul style="list-style-type: none"> <li>&gt; Increased exposure to the affordable market</li> <li>&gt; ULDA jurisdiction (ability to fast track approvals)</li> <li>&gt; FY14 settlements</li> </ul>                                                                                                 |
| Eastern Golf Course      | VIC      | Land/Housing | 621                 | FY15             | <ul style="list-style-type: none"> <li>&gt; Unique major infill development opportunity</li> <li>&gt; Iconic Melbourne's Eastern suburbs site</li> <li>&gt; Favourable terms and returns</li> </ul>                                                                                                 |
| Old Treasury Building    | WA       | Commercial   | N/A                 | FY15             | <ul style="list-style-type: none"> <li>&gt; Increased commercial exposure to Perth CBD</li> <li>&gt; Delivering 50% of a premium asset to MPT</li> <li>&gt; Secure 25 year lease with the WA government</li> </ul>                                                                                  |
| <b>Total</b>             |          |              | <b>Approx 4,310</b> |                  |                                                                                                                                                                                                                                                                                                     |

## RESTOCKING FOR FUTURE EARNINGS



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# STRENGTHS OF MIRVAC'S RESIDENTIAL DEVELOPMENT BUSINESS

# RESIDENTIAL DEVELOPMENT



## SUPERIOR BRAND LEVERAGED



HIGHER PRE-SALES



PRICE PREMIUM ACHIEVED



REPEAT CUSTOMERS

## ABILITY TO DRIVE RETURNS IN A FLAT MACRO MARKET

- > Better access to capital
- > National procurement
- > Brand drives pre-sales and price premium
- > Increased market share
- > Conservative assumptions via acquisition process

## PRODUCT DIVERSITY LOWERS RISK<sup>1</sup>

**60%**  
APARTMENTS

**23%**  
LAND

**17%**  
HOUSES

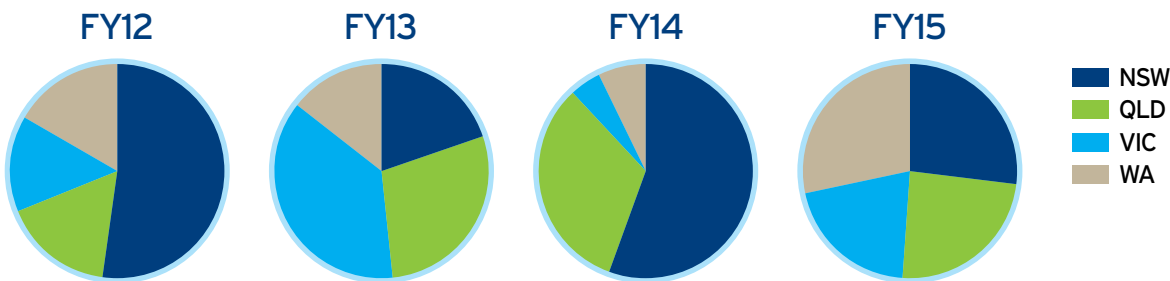
<sup>1</sup>) Mirvac's share of revenue as at 31 December 2010.

# RESIDENTIAL DEVELOPMENT



## GEOGRAPHIC DIVERSITY<sup>1</sup>

Short term skew to NSW



## SETTLEMENT MANAGEMENT

- › Robust sales contracts from 39 years of experience
- › Default rates average 3% medium term
- › Contracts “full recourse” and unconditional
- › Sales and marketing team employed and trained in-house

1) Forecast EBIT.

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# HIGH DENSITY = APARTMENTS

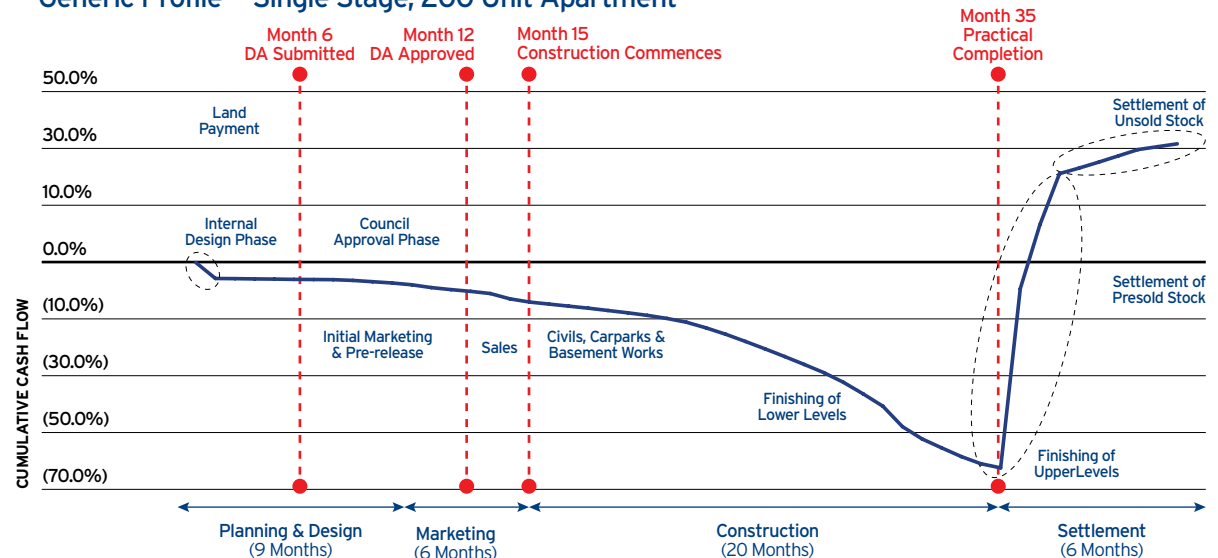
# RESIDENTIAL DEVELOPMENT

## HIGH DENSITY = APARTMENTS

### PROFILE OF HIGH DENSITY

- › High barriers to entry
- › Acceptable risk return profile
- › Larger quantum of return
- › More capital intensive
- › Longer cash conversion cycle – Approximately 2-3 years
- › Complex skill set
- › Pre-sale for de risking

Generic Profile – Single Stage, 200 Unit Apartment



### Profit & Loss Impact

#### 100% Project

|                    |                            |
|--------------------|----------------------------|
| Marketing Expensed | Sales Commissions Expensed |
|--------------------|----------------------------|

100% of profit recognised on settlement

#### PDA

MGR share of equity accounted sales and marketing expenses

MGR share of equity profits recognised on settlement

#### Fee Stream

Cost based fees - billed for design, marketing and construction costs

Revenue based fees

#### 50% Joint Venture

50% of equity accounted sales and marketing expenses

50% of equity profits recognised on settlement

#### Fee Stream

Cost based fees - billed for design, marketing and construction costs

Revenue based fees

#### Wholesale Partnership

MGR share of equity accounted sales and marketing expenses

MGR share of equity profits recognised on settlement

#### Fee Stream

Cost based fees - billed for design, marketing and construction costs

Revenue based fees



# RESIDENTIAL DEVELOPMENT

## HIGH DENSITY = APARTMENTS



### STRICT LOCATION CRITERIA

Capital city focus

### GENERATIONAL PROJECTS

Multi stage - product adaptation and overhead savings

### PLANNING

Planning visibility sought pre acquisition

### SPECIALISED SKILL SET

Strong track record and integrated model

### SKEW TO MID MARKET

- > Less cyclical
- > Deeper market
- > Government requires supply from urban high density
- > Generational preference shift to high density

# RESIDENTIAL DEVELOPMENT

## HIGH DENSITY = APARTMENTS



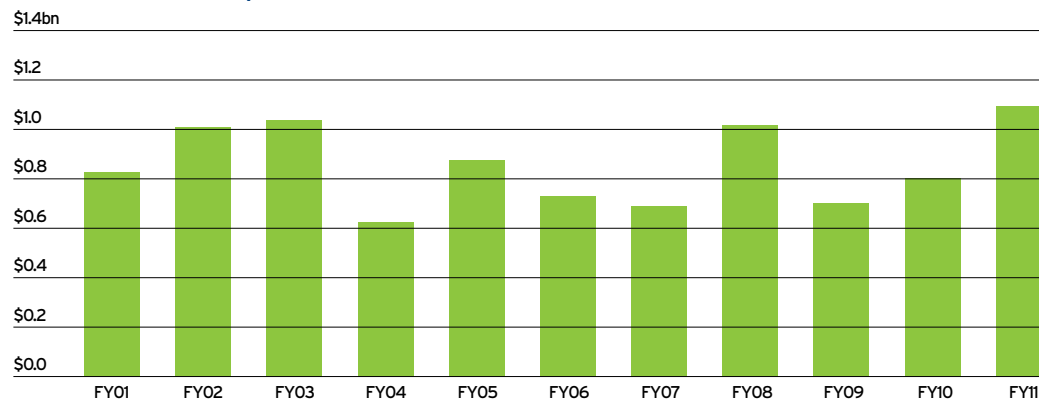
### LESS COMPETITION

Exit of peers

### PRE-SALES

- > Brand – 39 year track record
- > Construction subject to internal pre-sales limits
- > Strong customer network – VIP Database

Presales – Historic 10yr Profile



### RECENT ACQUISITIONS

Harold Park, NSW  
Green Square, NSW  
Hamilton, QLD

1) As at 12 May 2011.

# CASE STUDY – HIGH DENSITY

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## ERA, PACIFIC PLACE, CHATSWOOD, NSW

### Project detail:

#### Site acquired

- > December 2000

#### Delivered

- > 42 story building containing 295 apartments,  
4,900sqm of office space

#### Timing

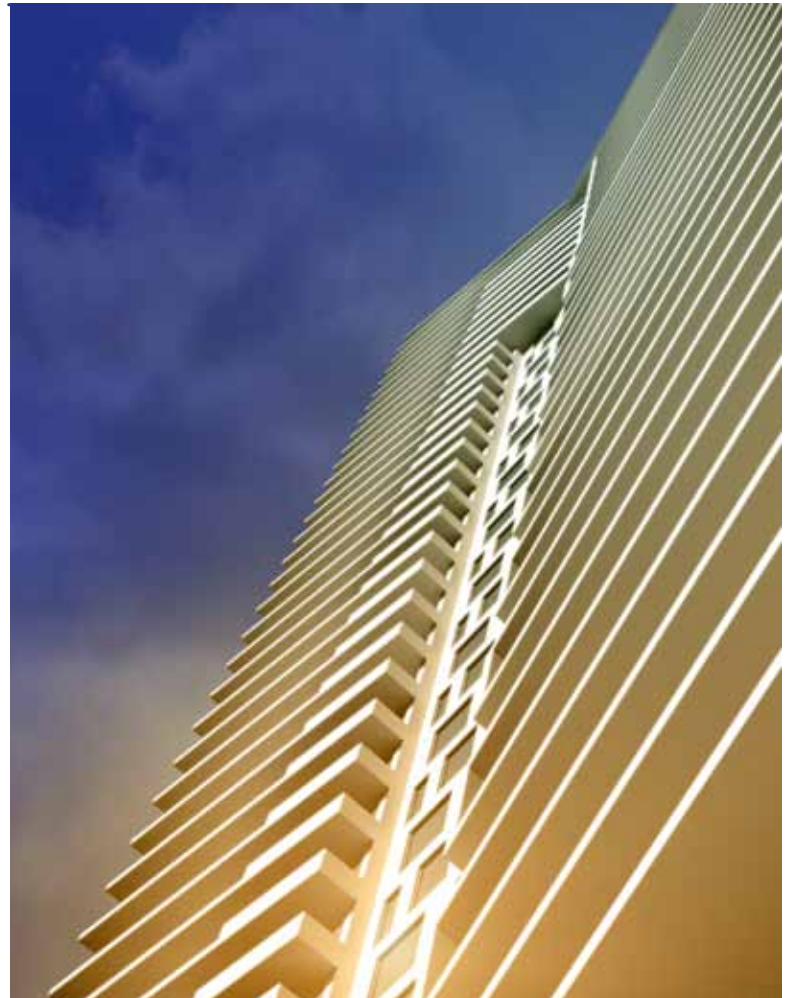
- > Construction period of three years beginning in July 2011

#### Forecast project IRR

- > Greater than 18%

#### Integrated model at work

- > The Development Division received State Government approval for the project in early March 2011, and in nine weeks Mirvac Development, Mirvac Construction, Mirvac Design and Mirvac Sales and Marketing released and sold 94%<sup>1</sup> of the 295 lot apartment tower



1) As at 11 May 2011.

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# LOW DENSITY = HOUSES AND LAND

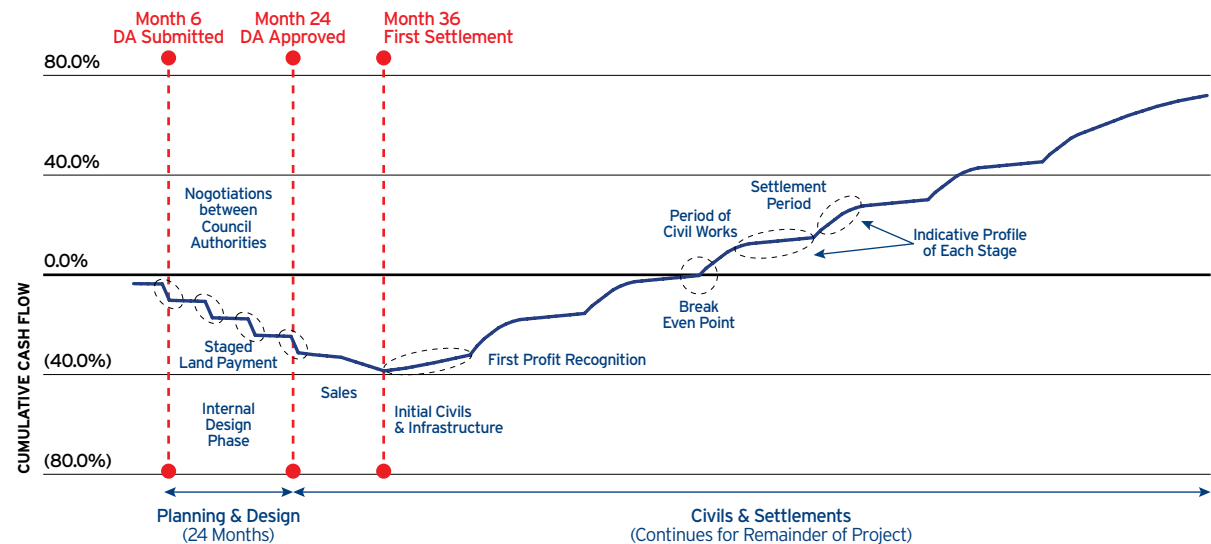
# RESIDENTIAL DEVELOPMENT

## LOW DENSITY = HOUSES AND LAND

### PROFILE OF LOW DENSITY

- › Lower capital commitment
- › Smoother earnings
- › Delivery less complicated
- › Flexibility of stock and staging
- › Shorter cash conversion cycle – Approximately 6-12 months
- › Risk in planning at acquisition

Generic Profile - Multi Stage, 1,000 Lot Masterplanned Community



### Profit & Loss Impact

|                              |                 |                    |                                                      |
|------------------------------|-----------------|--------------------|------------------------------------------------------|
| <b>100% Project</b>          |                 | Marketing Expenses | 100% of profit recognised on settlement              |
| <b>PDA</b>                   |                 | Marketing Expenses | MGR share of equity profits recognised on settlement |
| Fee Stream                   | Cost based fees |                    | Revenue & Cost based fees                            |
| <b>50% Joint Venture</b>     |                 | Marketing Expenses | 50% of equity profits recognised on settlement       |
| Fee Stream                   | Cost based fees |                    | Revenue & Cost based fees                            |
| <b>Wholesale Partnership</b> |                 | Marketing Expenses | MGR share of equity profits recognised on settlement |
| Fee Stream                   | Cost based fees |                    | Revenue & Cost based fees                            |

# RESIDENTIAL DEVELOPMENT

## LOW DENSITY = HOUSES AND LAND



### KEY STAKEHOLDER RELATIONSHIPS

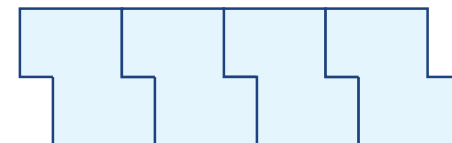
Acquisitions and planning

### PLANNING EXPERIENCE

In-house through Mirvac Design

### HOUSE DESIGN CAPABILITY

- > Smaller lots rely on House and Land packaged solution
- > Greater yield per site - Zipper lots
- > Design excellence = flexibility



### RECENT ACQUISITIONS

Eastern Golf Course, VIC  
Newbrighton Golf Course, NSW  
Rockbank, VIC<sup>1</sup>

1) Joint venture.

## MIDDLETON GRANGE, NSW

### Project detail:

#### Site acquired

- › PDA agreed with Landcom in September 2007
- › Site purchased outright from Landcom in December 2010

#### Delivered

- › Approximately 474 lots in 6 Stages – Land, House and land packages and speculative product

#### Timing

- › Due for completion in mid-late 2013

#### Forecast project IRR

- › Greater than 18%

#### Integrated model at work

- › Mirvac Design created the masterplan and delivered design, approval and construction documents for housing
- › Mirvac Constructions co-ordinated infrastructure and house build
- › Mirvac Sales and Marketing sold the product
- › Mirvac Development managed the development process
- › This allows Mirvac to respond to market trends such as small lots and speed of project delivery to market



# COMBINING HIGH + LOW DENSITY PROJECTS



## DIVERSIFICATION

- > Different demand drivers across products
  - High Density: Government requires supply from urban high density urban supply to meet population growth
  - Low Density: First home buyers and upgraders

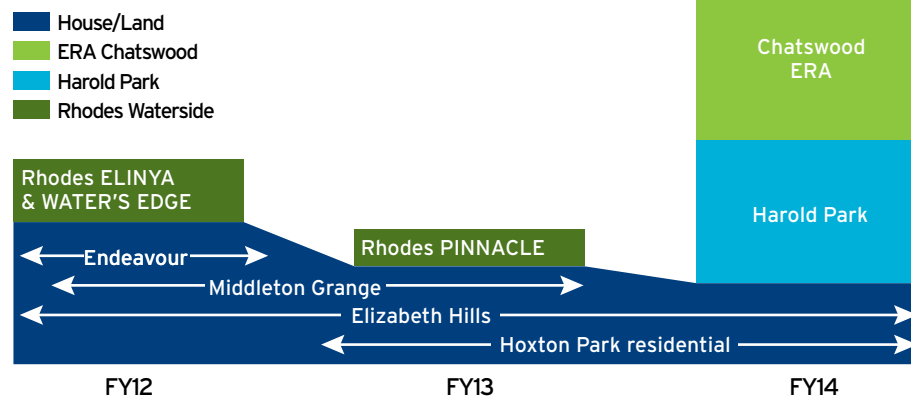
## BALANCE CASH FLOWS

Long lead times of high density balanced with faster delivery from low density

## REDUCES VOLATILITY OF EARNINGS

Large contributions offset by smaller stable volume

### NSW Projects Profile<sup>1</sup>

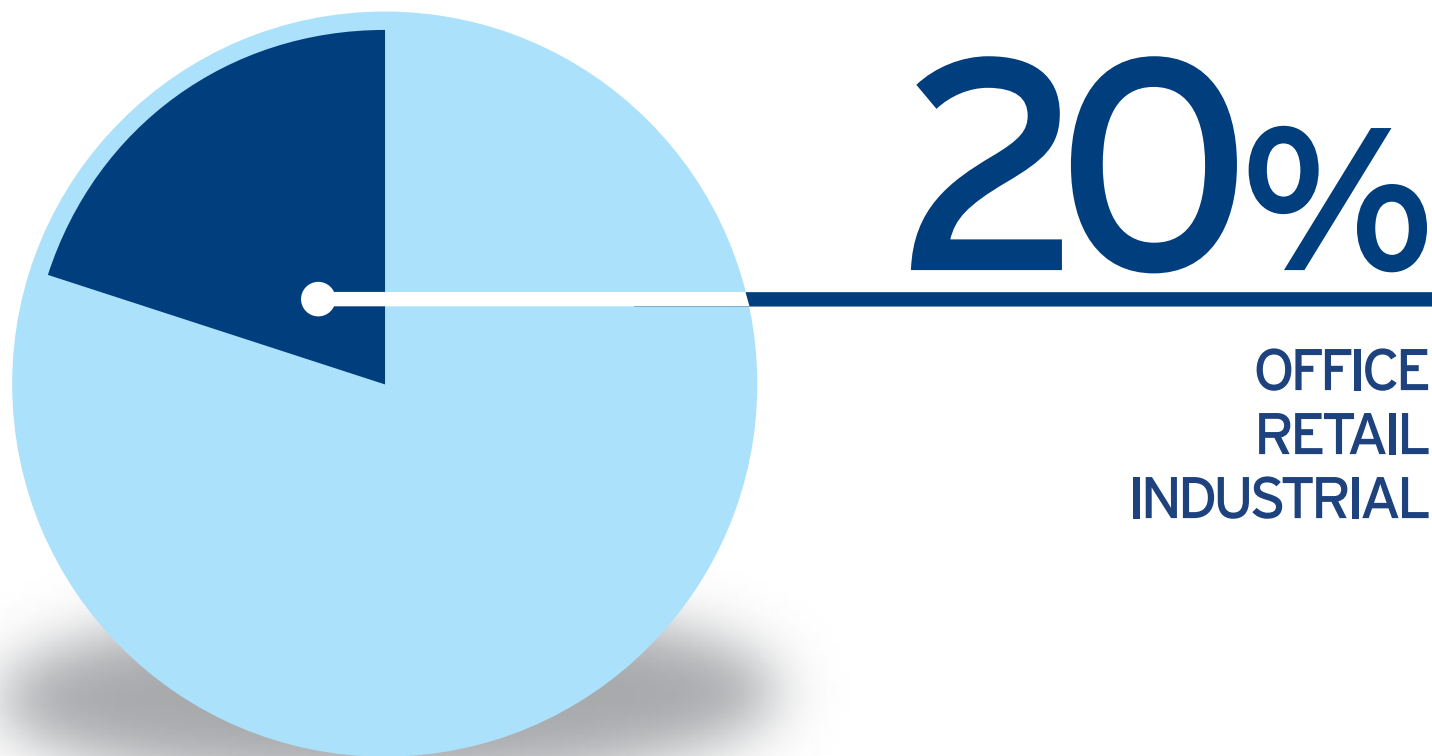


## STAFF

Multi skilled workforce

1) Mirvac's share of forecast revenue.





## PROFILE OF COMMERCIAL DEVELOPMENT

### OFFICE

- > Mid to high rise, predominantly CBD locations
- > Complex skill set
- > Longer time to delivery
- > Capital intensive
- > Pre-sale/lease to de-risk

Example: 8 Chifley Square, NSW; Old Treasury Building, WA

### RETAIL

- > Opportunities from residential inventory
- > Complex skill set
- > Medium time to delivery
- > Capital intensive
- > Pre-sale/lease to de-risk

Example: Stanhope Gardens, NSW; Orion Springfield Town Centre, QLD

### INDUSTRIAL

- > Leverage relationships for selected opportunities
- > Shorter time to deliver
- > Less capital intensive
- > Pre-sale/lease to de-risk

Example: Hoxton Park, NSW; Nexus Industrial Park, NSW

- › Commercial developments delivered at cost to MPT
- › Part share asset sell down provides earnings to Development Division

## MIRVAC'S STRENGTHS

### INTEGRATED MODEL BENEFITS

- › Rapid and efficient response to opportunities and market demands
- › Full process control allows adaptability and accurate costing

### TRANSFERABLE SKILL SET

Multi skilled workforce can shift across project types (e.g. apartments)

### DELIVERY OF PRODUCT TO MPT

Quality, time and cost benefits – better than market yields

### RELATIONSHIPS

Value creation through part share sell down to partners – Common goal driving profit maximisation

# CASE STUDY – COMMERCIAL DEVELOPMENT

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## HOXTON DISTRIBUTION CENTRE, NSW

### Project detail

#### Site acquired

- › Acquired former Hoxton Park Airport in July 2010

#### Deliverables

- › Circa 140,000 sqm of industrial space and houses two major distribution centres
- › 100 per cent pre-leased to Woolworths Limited

#### Timing

- › Completion of the Dick Smith distribution facility anticipated August 2011 – 5 months ahead of program, completion of the BIG W distribution facility in December 2011 – 3 months ahead of program

#### Forecast project IRR

- › Greater than 18%

#### Integrated model at work

- › Project involved resources from all departments within Mirvac; Development, Design, Investment and Corporate Services teams, working together to maximise this opportunity for Mirvac



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# IMPAIRED INVENTORY UPDATE

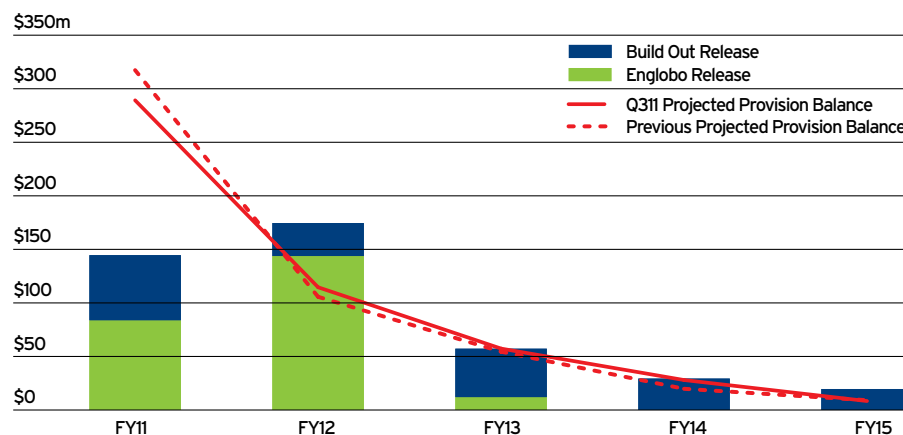
# IMPAIRED INVENTORY UPDATE



## PROGRESS OF ENGLOBO SALES AHEAD OF SCHEDULE:

| Project                 | Target sales dates | Update                                                    |
|-------------------------|--------------------|-----------------------------------------------------------|
| Dianella, WA            | June 2011          | On track – terms agreed, sales date in line with forecast |
| Magenta Shores, NSW     | September 2011     | On track – terms agreed, sales date in line with forecast |
| Brendale, QLD           | December 2011      | On track – marketing underway                             |
| The Royal, Stage 2, NSW | January 2012       | On track – marketing underway                             |
| Bridgewater, WA         | November 2012      | On track – marketing campaign to be undertaken in FY12    |

### Provision release roll off<sup>1</sup>



- > Mirvac remain confident that there are no current outstanding provisions to carrying value
- > The exception remains Tennyson Reach (Carrying value \$80.8m), was adversely affected by the Queensland floods. As soon as Mirvac has a reasonable basis to forecast the impact of these events, the Group will inform the market if the impact is assessed to be material

1) Based on forecast revenue, market conditions, expenditure, and interest cover over project life.

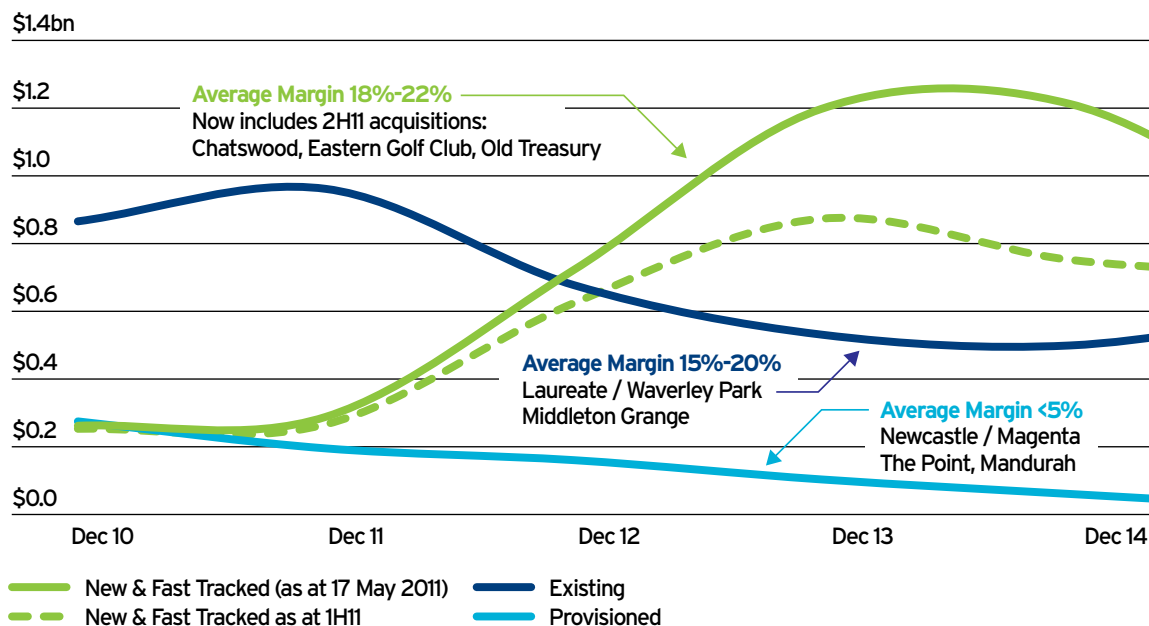
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# DRIVERS TO 2014

## IMPACT OF RECENT ACQUISITIONS:

➤ New acquisitions will provide material incremental impact on FY14 returns

### 5 Year Net Inventory Profile



1) Gross margin = (Revenue - cost of goods sold)/Revenue.



# DRIVERS TO 2014



## 2008 - 2010

### PROCESS IMPROVEMENT

- › \$40m overhead cost savings
- › Centralise Mirvac Design
- › Further improve acquisitions process

## 2011 - 2012

### TRANSITION

- › Acquisitions recommence
- › Englobo sales + build out
- › Capital recycling
- › Re-activate commercial development
- › Build up pre-sales

## 2013 →

### DELIVER SUSTAINABLE EARNINGS GROWTH

- › Significant apartment completions: Chatswood, NSW, Harold Park, NSW, Hamilton, QLD
- › Diversify capital and geography
- › Commercial development providing meaningful EBIT contributions

### PRE-SALES IS A KEY COMPETITIVE ADVANTAGE FOR MIRVAC

- › \$285m of pre-sold revenue at May 2011 represents approximately 25% of FY14 forecast development revenue
- › Potential to supplement this via Harold Park and Hamilton releases expected by calendar year end 2011

- › Integrated platform allows flexibility and adaptability
- › Superior brand delivers pre-sales
- › Diversified across geography, product and capital structure

**= RIGHT MODEL**

- › Very strong pre-sales – \$1.1bn
- › Acquisitions and portfolio profile deliver for FY14
- › Transition on track for provision projects and englobo sales

**= SUSTAINABLE RETURNS**

## ON TRACK FOR FY14

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questions

