

# HALF-YEAR RESULTS 2009

2009  
FEBRUARY



**Bunnings Property  
Management Limited**

## **Grant Gernhoefer**

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Bunnings Property Management Limited

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Portfolio Manager  
Bunnings Property Management Limited

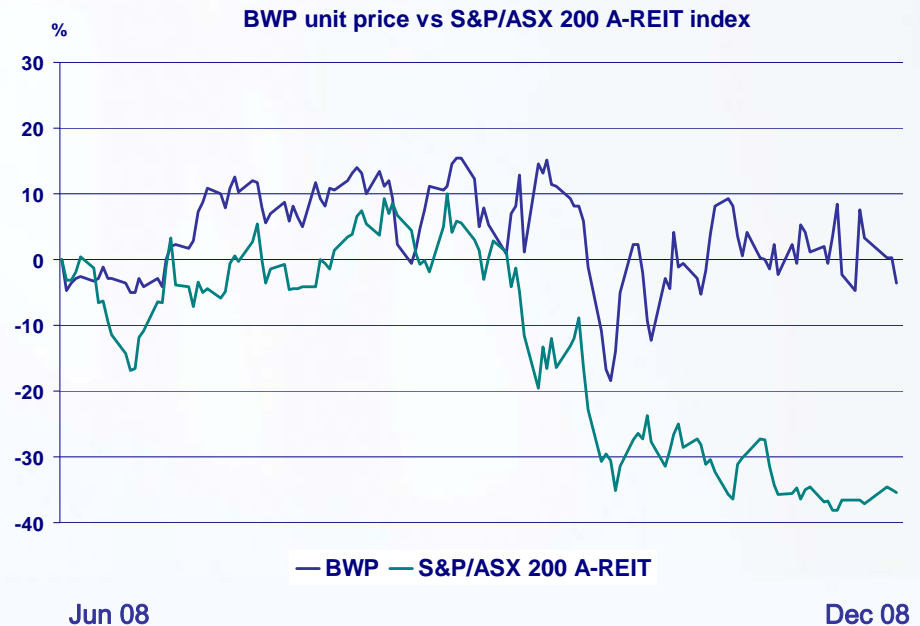
- **Overview**
- **Results**
- **Portfolio**
- **Capital management**
- **Structure**
- **Outlook**

## Solid earnings and strong balance sheet to navigate through tough market conditions

Defensive characteristics - well placed to face further volatile market conditions







### Underlying strengths of the Trust

- Traditional property trust
- 100% domestic
- 100% leased
- Conservatively geared
- Geographic diversification
- Strong lease covenant
- 6.8 year weighted average lease expiry (based on rental income)

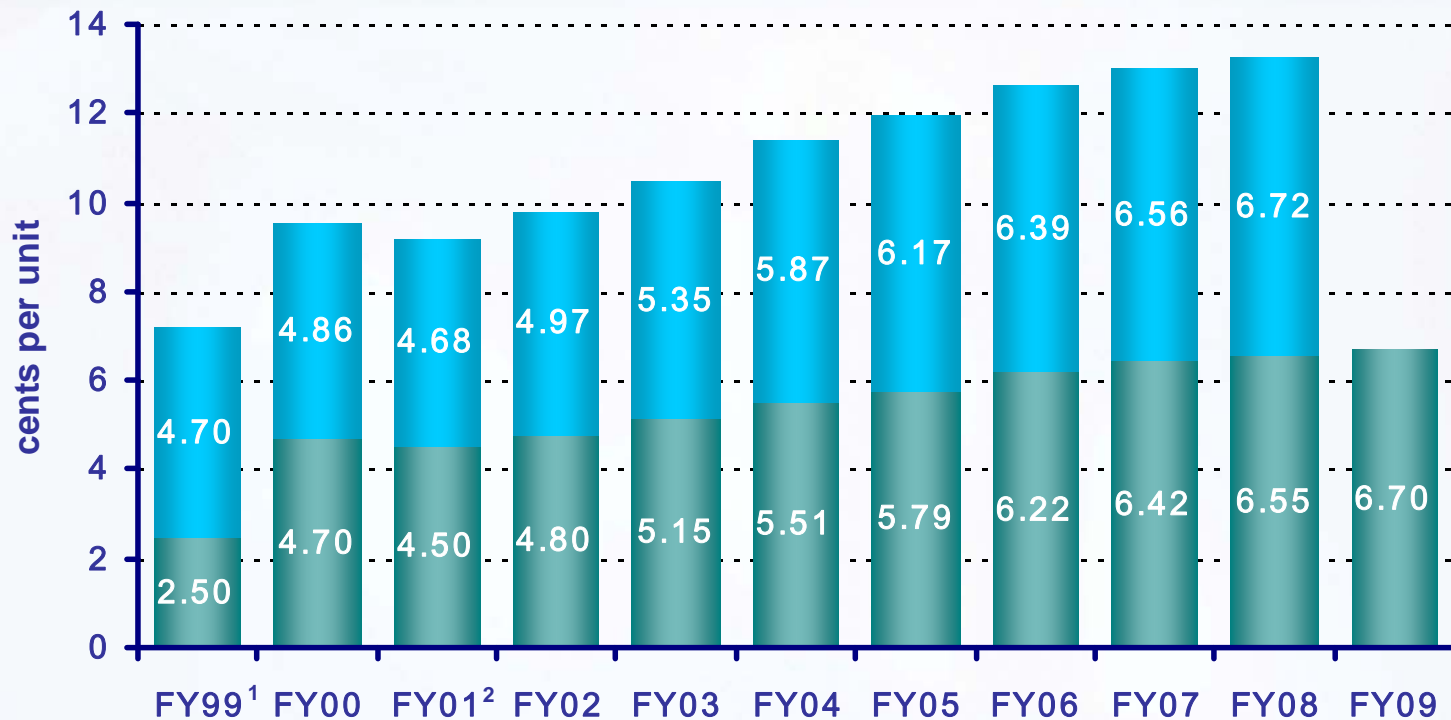


# Results - performance

2009  
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|  |                  |  |
|--|------------------|--|
| Revenue                                      | \$35.1 million   |  10.0% on pcp   |
| Net (loss)/profit including revaluations     | (\$23.4 million) | \$33.9 million pcp   |
| Distributable profit (excludes revaluations) | \$20.5 million   |  3.6% on pcp    |
| Half-year distribution                       | 6.70 cpu         |  2.3% on pcp    |
| Total assets                                 | \$968.3 million  |  2.5% on pcp    |
| Borrowings                                   | \$344.2 million  |  27.5% on pcp   |
| Net tangible assets                          | \$1.88 per unit  |  \$0.42 on pcp |
| Weighted average cap rate                    | 7.57%            | 6.58% pcp  |
| Gearing (debt to total assets)               | 35.5%            | 27.2% pcp  |

## 2009 Interim distribution per unit – 2.3% increase on pcp



<sup>1</sup> Trust commenced trading in Sep 98

<sup>2</sup> end of concessional management fee

■ Interim DPU ■ Final DPU

## Valuation process

- entire portfolio revalued every 6 months
- independent valuations on a 3 year cycle for each property (13 for period)
- balance of portfolio – directors' valuation using recognised valuation methodology
- directors' valuations methodology reviewed by an independent valuer and have regard to the independent valuations completed at the time

**Net revaluation loss of \$43.9 million, after rental income growth of 3.0%**



## Valuations

| Independent valuations               | 31 Dec 07              | 30 June 08             | 31 Dec 08              | 30 Jun 09              |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|
| VIC                                  | 3                      | 1                      | 4                      | 1                      |
| WA                                   | 2                      | 1                      | 2                      | 3                      |
| QLD                                  | -                      | 3                      | 3                      | 4                      |
| NSW/ACT                              | -                      | 2                      | 4                      | 1                      |
| SA                                   | -                      | 2                      | -                      | -                      |
| <b>Proportion of portfolio value</b> | <b>11%<sup>1</sup></b> | <b>13%<sup>2</sup></b> | <b>27%<sup>3</sup></b> | <b>16%<sup>3</sup></b> |

<sup>1</sup> percentage based on fair value as at 31 December 2007

<sup>2</sup> percentage based on fair value as at 30 June 2008

<sup>3</sup> percentage based on fair value as at 31 December 2008

## Valuations – capitalisation rate impact on gearing

- gearing levels comfortably within Loan to Value Ratio covenant limit

|                 | Dec 07 | Jun 08 | Dec 08 |
|-----------------|--------|--------|--------|
| <b>Cap rate</b> | 6.58%  | 7.08%  | 7.57%  |
| <b>Gearing</b>  | 27.7%  | 31.5%  | 35.5%  |

- sensitivity analysis undertaken by management shows that for gearing to reach 40%, cap rates would need to expand by at least 200 bps over 18 months, assuming 3.0% to 3.5% CPI increases and historical 33% DRP take up
- while our preferred gearing range is 20% to 40%, the limit under Loan to Value banking covenants is 45%



## Acquisition of Bunnings Warehouse

**Mt Gravatt, QLD (\$11.2m + \$0.7m acq. costs) – Dec 08**

- 10km south of Brisbane CBD
- 2.7ha site; 10,432 m<sup>2</sup> total retail area
- 7 years + 5 x 5 year options
- annual rent \$0.97m
- 8.0% capitalisation rate on net income
- annual 3% escalation
- market review on options (cap/collar +/-10%)

Mt Gravatt, QLD



## Development

### Cannon Hill, QLD (\$1.2m) – Dec 08

- amalgamation of Trust owned Bunnings Warehouse with adjoining Distribution Centre into a Bunnings Warehouse with a retail trading area of 16,446m<sup>2</sup>
- incremental rent \$0.2m pa (\$0.1m represents 8.0% return on capital outlay + \$0.1m from market rent reviews brought forward)
- new 10 year lease + 5 year option
- annual CPI increases with market rent review every 5 years
- all other terms of the existing lease remain the same

Cannon Hill, QLD



## New multi-level format Bunnings Warehouse completed

### Hawthorn, VIC (site acquired in Apr 07)

- new multi-level format 7,462m<sup>2</sup> Bunnings Warehouse on 0.84ha site opened in Dec 08
- final development payment of \$24.1m by Trust
- 12 years + 4 x 5 year options
- annual CPI escalation
- market review in year 6 (ratchet clause) and on each option (cap/collar +/-10%)
- commencing annual rent \$2.7m

### Minimal other capital expenditure in half

- roof repairs and miscellaneous works totalling \$0.7m

Hawthorn, VIC





## Market rent reviews

### Typical Bunnings Warehouse market rent review clause

- assumes free and open market with vacant possession
- has regard to the rent paid by Bunnings at other Bunnings Warehouses
- has regard to the rental value of other properties of a similar size and similar standard of construction and used for similar purposes
- no regard to store turnover (i.e. no turnover or percentage rent)

### Process

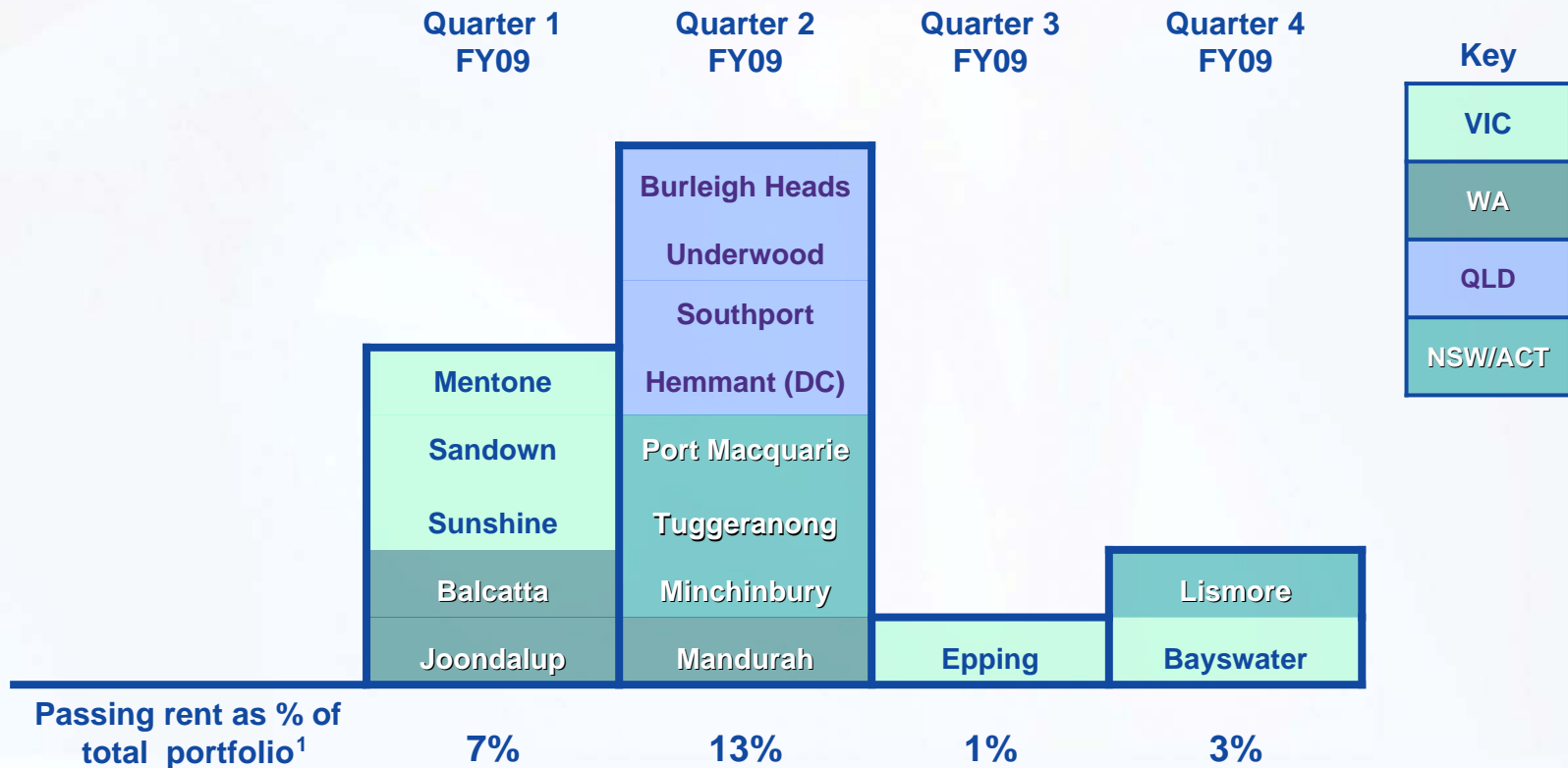
- Trust's asking rent based on advice from an independent valuer
- negotiation period with Bunnings
- if not agreed with Bunnings then referred to determination
- determination by independent valuer jointly agreed or nominated by the President of the Australian Property Institute
- results binding

## Market rent reviews completed

| Market Rent Reviews     | Passing rent (\$'000) | Determined/ negotiated rent (\$'000) | Uplift %  | Effective date |
|-------------------------|-----------------------|--------------------------------------|-----------|----------------|
| Altona, VIC             | 965                   | 994*                                 | +3        | 24 Sep 08      |
| Broadmeadows, VIC       | 957                   | 1,060                                | +11       | 24 Sep 08      |
| Rocklea, QLD            | 1,412                 | 1,412*                               | +0        | 13 Oct 08      |
| Scoresby, VIC           | 1,115                 | 1,173                                | +5        | 24 Sep 08      |
| <b>Weighted average</b> |                       |                                      | <b>+4</b> |                |

\*negotiated outcome

## 16 market rent reviews remaining in FY09



<sup>1</sup> percentage based on rental as at 31 December 2008

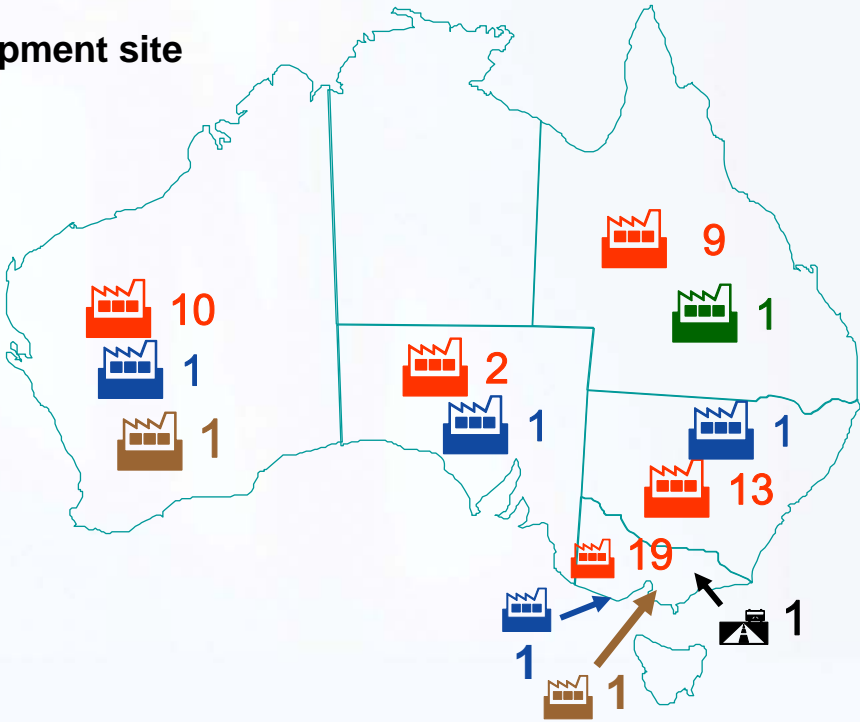


# Portfolio

## 60 properties – good geographic spread

-  **53 Bunnings Warehouses**
-  **1 Bunnings distribution centre**
-  **1 Bunnings Warehouse development site**
-  **4 Industrial properties**
-  **2 Bulky goods showrooms\***

|              | Dec 08    |
|--------------|-----------|
| VIC          | *21       |
| NSW/ACT      | 14        |
| QLD          | 10        |
| WA           | 12        |
| SA           | 3         |
| <b>TOTAL</b> | <b>60</b> |

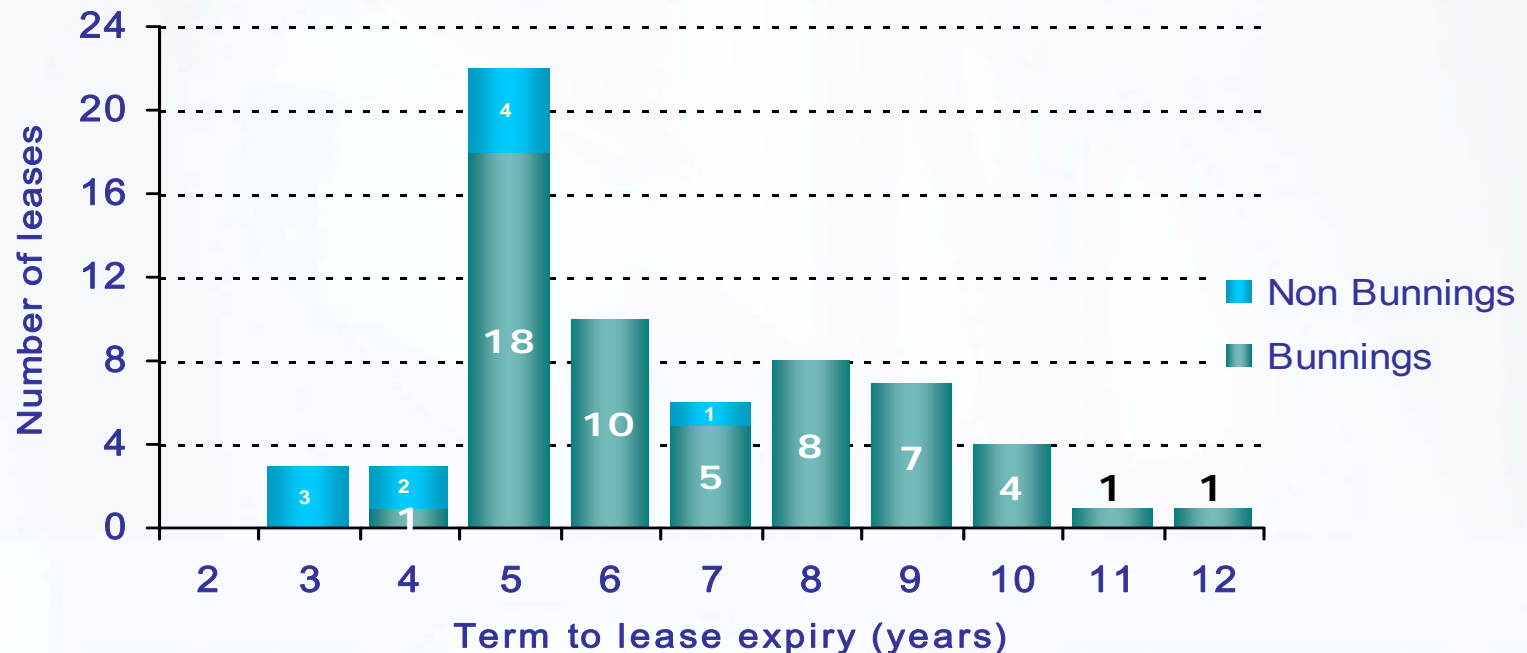


\* Showrooms at Bayswater are on the same site as the Bayswater BWH

## 6.8 year weighted average lease expiry (by rental income)

### Typical Bunnings Warehouse lease features

- 15 years (plus 2 x 5 year options)
- 5 yearly market rent reviews (majority uncapped)
- annual CPI escalation
- Wesfarmers covenant



## Future Bunnings Warehouse revaluations and market rent reviews

|                     | FY09 | FY10 | FY11 | FY12 | FY13 |
|---------------------|------|------|------|------|------|
| <b>Rent reviews</b> | 21   | 11   | 4    | 7    | 7    |
| <b>Revaluations</b> | 22   | 20   | 19   | 22   | 20   |

## Debt facilities

| As at 31 Dec 08 | Limit (\$m) | Drawn (\$m)              | Expiry                   |
|-----------------|-------------|--------------------------|--------------------------|
| ANZ             | 100         | 98.2                     | 31 Jul 2010              |
| NAB             | 100         | 89.3                     | Evergreen <sup>2</sup>   |
| CBA             | 100         | 100                      | 14 Jan 2010 <sup>3</sup> |
| WBC             | 80          | 57.9                     | 1 July 2010              |
|                 | <b>380</b>  | <b>345.4<sup>1</sup></b> |                          |

1 Amount drawn includes accrued interest of \$1.175 million as at 31 December 2008

2 To be reviewed in March 2009 for pricing to apply from 1 April 2010 to 31 March 2011. Facility is extended annually provided there has been no event of default or potential default

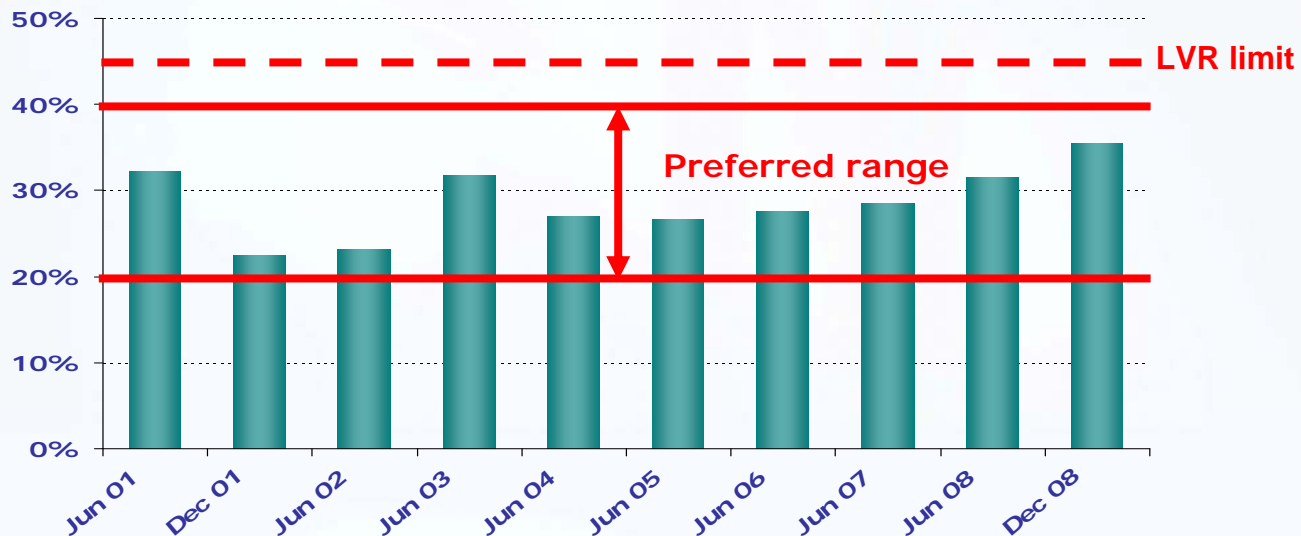
3 During the half-year negotiations commenced regarding the terms for extending the facility with Commonwealth Bank of Australia to 14 January 2011 and are ongoing

**Interest cover ratio: 2.92 (2007: 3.30)**

## Gearing at 35.5%

### Drivers

- cap rate movement
- solid rental base with growth from CPI and programmed rent reviews
- capex – low level of committed capex
- Distribution Reinvestment Plan ( $\approx$  \$6.5m per half)



## Interest rate management

- \$255.0 m hedged (74%)
- 6.76% weighted average interest rate for all debt during the half-year after hedging and including margins and fees (2007: 6.39%)
- 3.15 years weighted average maturity, including delayed starts (2007: 2.5 years)

| Hedge book overview           | Balance date |        |        |        |        |        |
|-------------------------------|--------------|--------|--------|--------|--------|--------|
|                               | Jun 06       | Dec 06 | Jun 07 | Dec 07 | Jun 08 | Dec 08 |
| % debt hedged <sup>1</sup>    | 88           | 81     | 82     | 82     | 77     | 74     |
| <b>Swap rates (%)</b>         |              |        |        |        |        |        |
| Maximum                       | 6.62         | 6.30   | 6.67   | 6.87   | 7.88   | 7.88   |
| Minimum                       | 4.97         | 5.09   | 5.09   | 5.09   | 5.09   | 5.09   |
| Weighted average <sup>2</sup> | 5.72         | 5.74   | 5.99   | 5.99   | 6.21   | 6.28   |

<sup>1</sup> interest bearing debt

<sup>2</sup> balance date (excluding margins)



## Manager: Bunnings Property Management Limited

Subsidiary of Wesfarmers Limited *but*...independent board

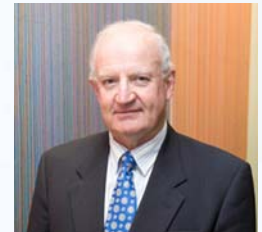
- **John Austin** (Chairman); Leighton Properties (Chairman), MREEF, Ringmer Pacific, ex Jones Lang LaSalle
- **Peter Mansell**; ThinkSmart (Chairman), OZ Minerals, Great Southern
- **Peter Johnston**; Kresta
- **Rick Higgins** (joined Dec 07); ex Colliers

## Major Tenant: Bunnings Group Limited

- subsidiary of Wesfarmers Limited

## Register

- Wesfarmers 23%
- “institutions” approximately 29%
- retail, other approximately 48%



## The Trust remains well placed to weather current market volatility

- reliable, CPI indexed income stream
- conservative gearing with Loan to Value Ratio headroom
- active Distribution Reinvestment Plan
- no exposure to currency risk impact to earnings or valuations
- low capital commitments
- interest rate hedging for short term – opportunities to extend hedging duration