

# ASX release

7 November 2011

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## MERRILL LYNCH 2011 AUSTRALIAN REIT CONFERENCE PRESENTATION MATERIALS

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Attached are the investor presentation materials to be presented by BWP Management Limited, the responsible entity for BWP Trust, at the Merrill Lynch 2011 Australian REIT Conference taking place in Sydney over 8 and 9 November 2011.

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# Australian REIT Conference

Sydney

8-9 November 2011





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# Information outline

## Grant Gernhoefer

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## Andrew Ross

Portfolio Manager

BWP Management Limited

- > BWP profile
- > Portfolio overview
- > Strategy
- > Domain Central
- > Outlook

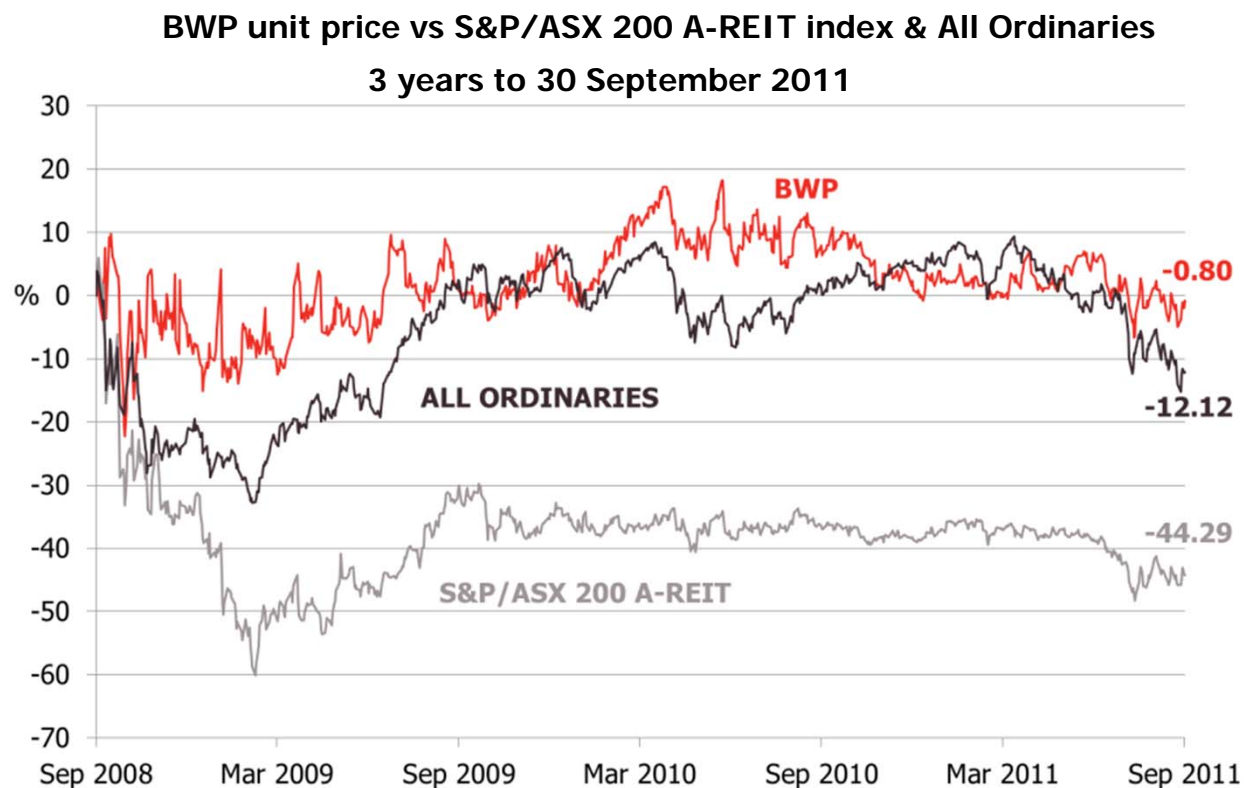


## BWP profile – snapshot

- > Traditional real estate investment trust (exposed to direct property only, limited development risk, no funds management activity, externally managed)
- > Domestic focus, with predominantly warehouse retailing properties, particularly Bunnings Warehouse home improvement big box stores
- > Listed in 1998 as Bunnings Warehouse Property Trust with 20 Bunnings Warehouse properties valued at \$170 million
- > Name change to BWP Trust in April 2011 to reflect the operational and legal independence of the Trust from Bunnings, the main tenant, and to recognise the Trust's own credentials
- > 70 investment properties valued at \$1,225 million including 62 of 174 operating Bunnings Warehouses in Australia (36%)<sup>1</sup>
- > Annualised rental income of approximately \$92.6 million<sup>1</sup>
- > Weighted average lease expiry of 8.4 years<sup>2</sup>
- > 100% occupancy
- > Gearing 17%<sup>1</sup> (debt to total assets)

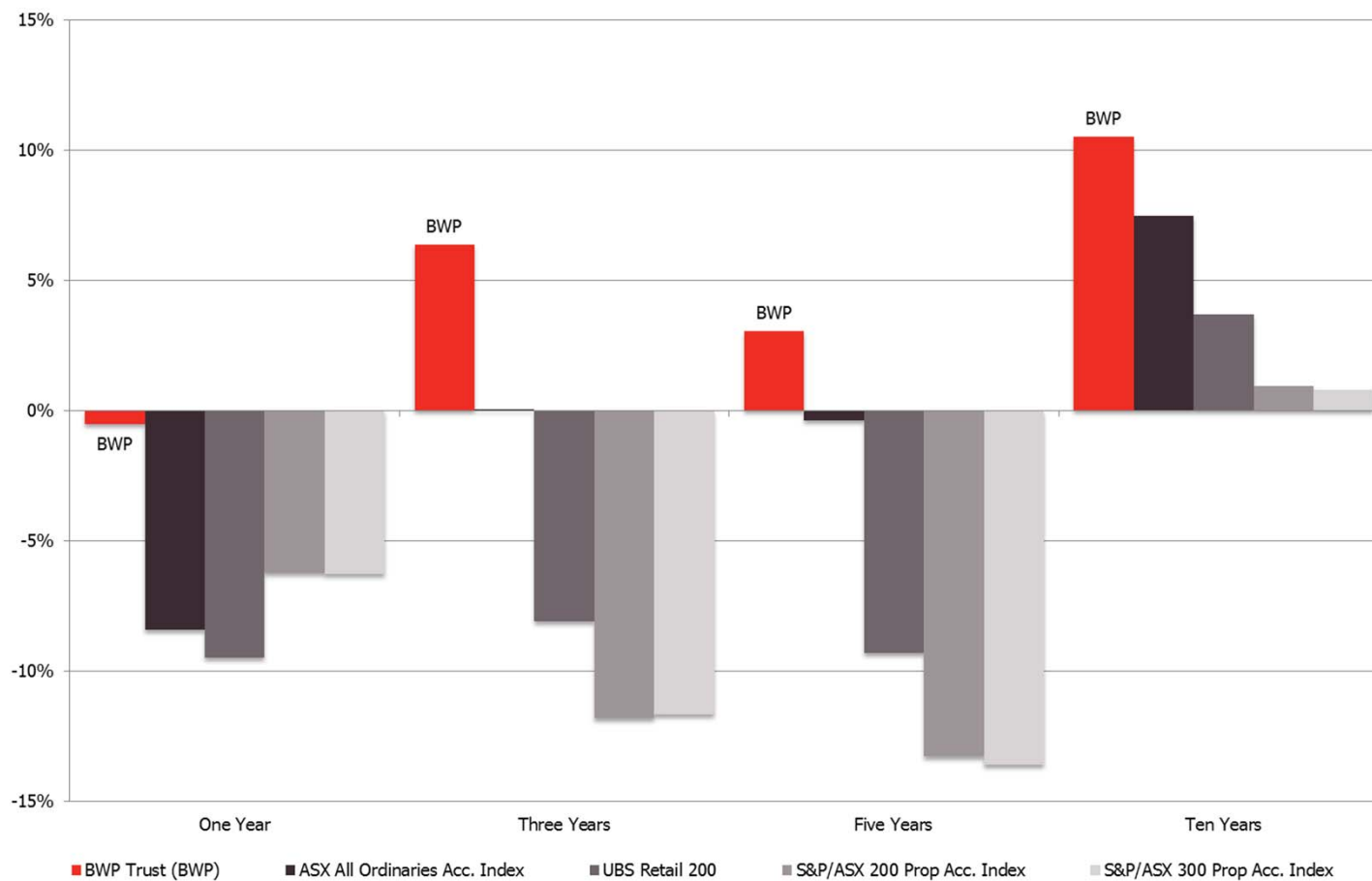
# BWP profile – market performance

> BWP unit price has outperformed during exceptionally difficult market conditions



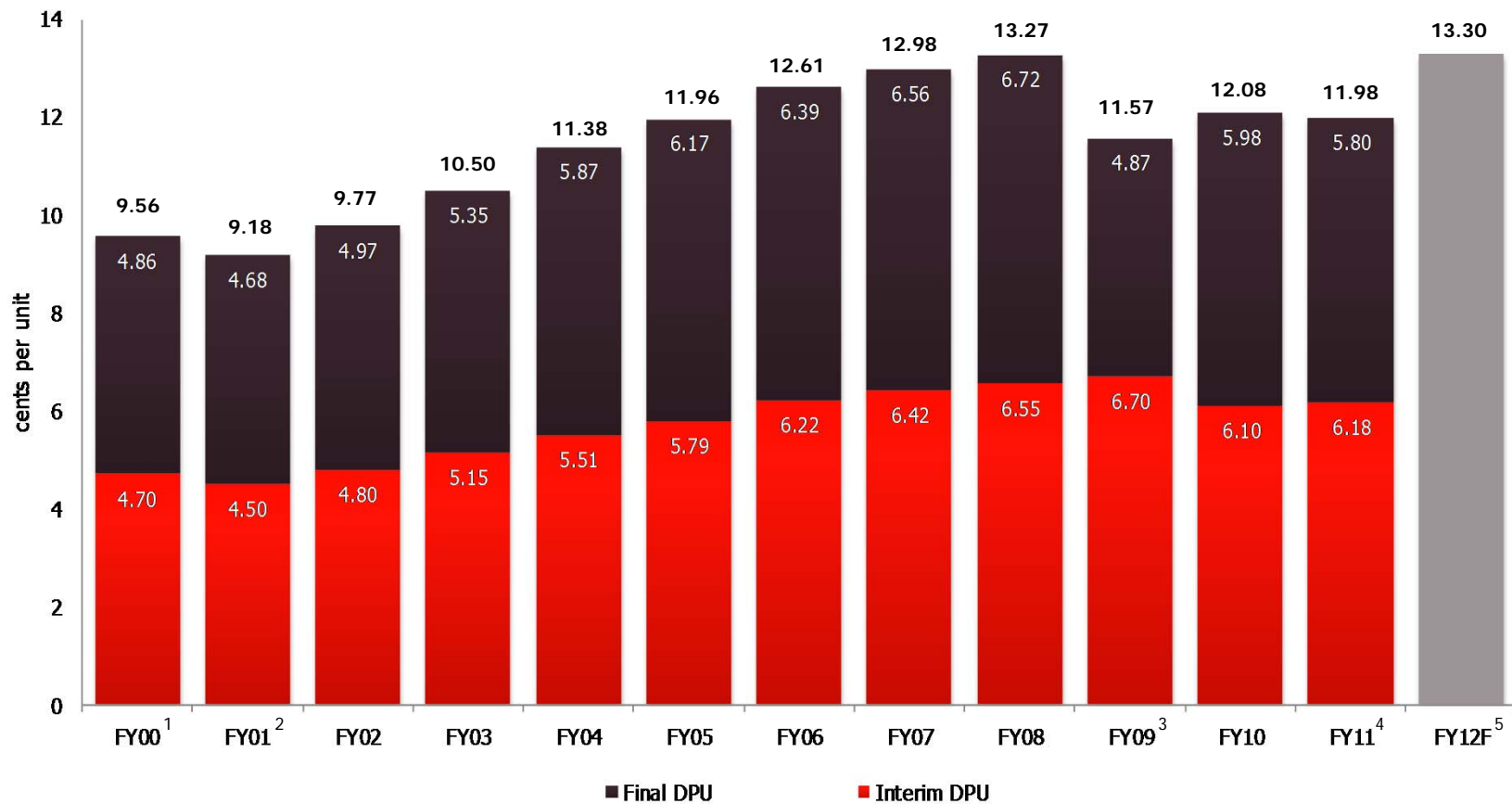
# BWP profile – total returns

> BWP total returns compared to market – periods ended 30 September 2011



Total returns include distributions and movement in price (assumes distributions are reinvested). Source: UBS

# BWP profile – distributions



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

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

<sup>3</sup> final distribution FY09 – impacted by additional units issued from \$150 million capital raising and one-off termination costs of interest rate derivatives closed out to pay down debt from capital raising

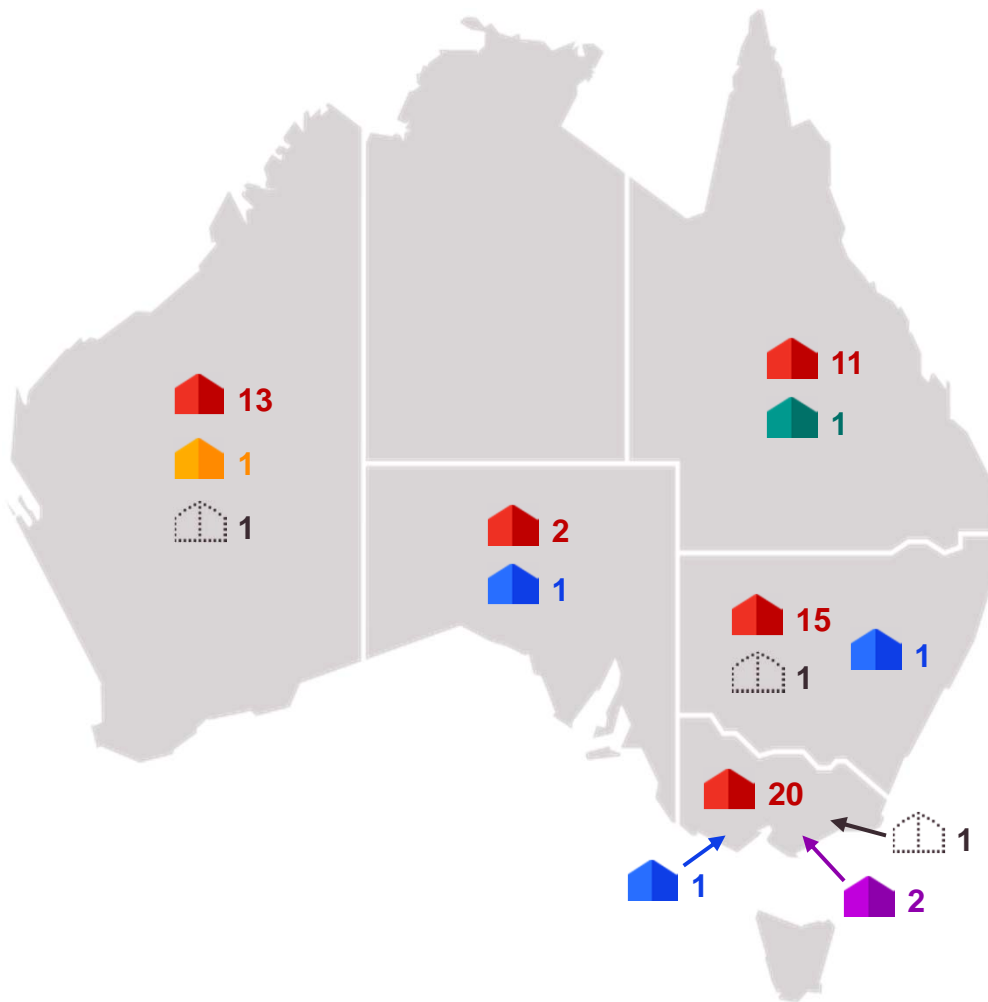
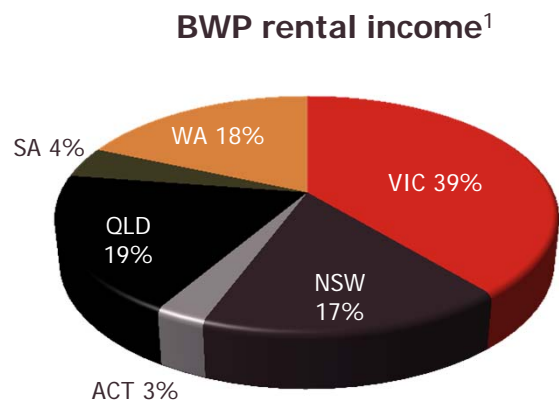
<sup>4</sup> includes \$0.4m (0.09cpu) capital profit on sale of Canning Vale

<sup>5</sup> as per BWP guidance at 17 February 2011



# Portfolio – geographic spread<sup>1</sup>

-  60 Bunnings Warehouses
-  2 Bunnings Warehouse and showrooms
-  3 Bunnings Warehouse development sites
-  1 Bunnings distribution centre
-  1 Bulky goods showrooms
-  3 Industrial properties



# Portfolio – lease expiry

> 8.4 year weighted average lease expiry (by rental income) at 30 September 2011



## Portfolio – rental income

- > Typical Bunnings Warehouse leases feature:
  - Minimum 10 year initial term (plus 5 year tenant options)
  - Annual CPI or 3% escalation with periodic market reviews
  - Generally, 5 yearly market rent reviews (majority uncapped)
  - Wesfarmers covenant (A- (stable) credit rating)
- > Non-Bunnings rental income represents 4.3% of portfolio rental income at 30 June 2011
- > Average like-for-like annual rental growth over the 5 years to 30 June 2011 is 4.2%

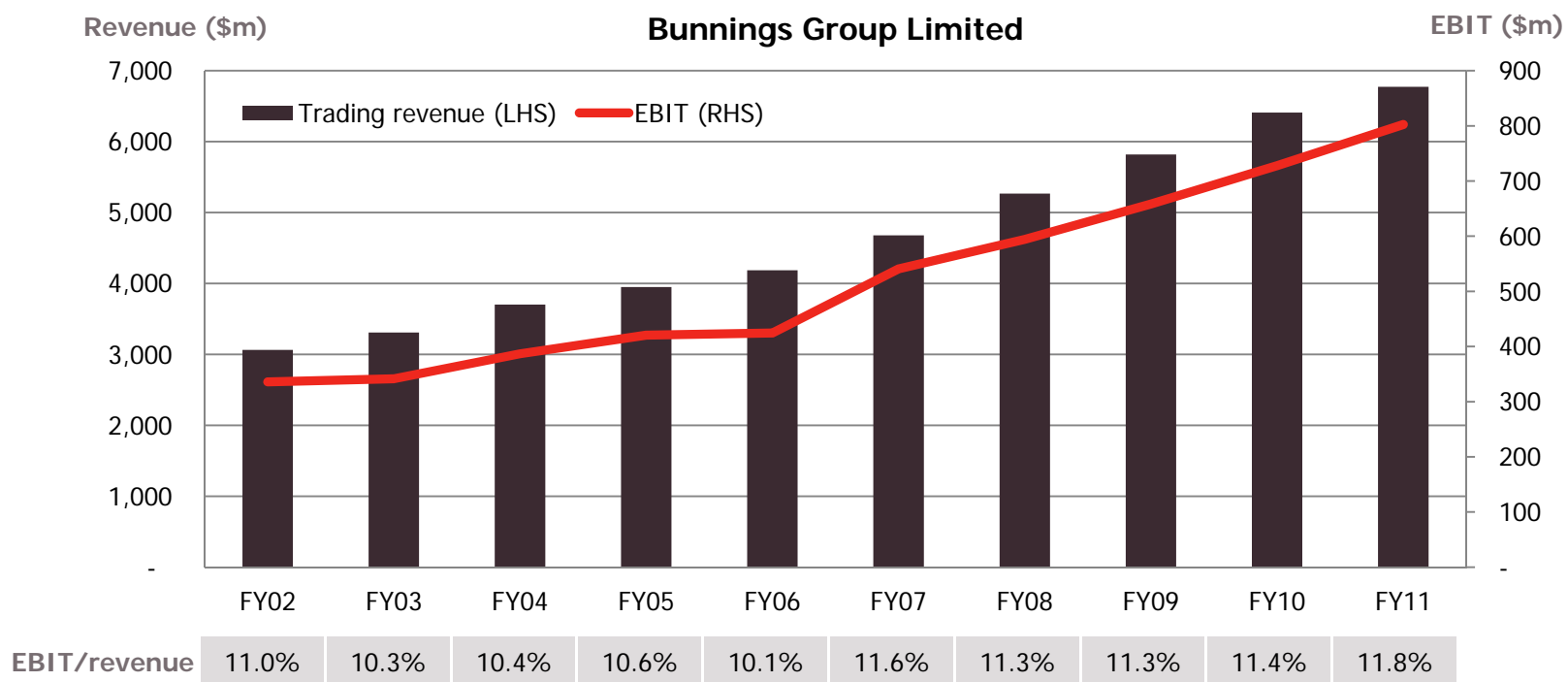
### Like-for-like rental growth

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
BWP	8.2%	4.1%	3.0%	4.4%	2.8%	7.1%	3.4%	3.4%

Note: Like-for-like rental growth compares the passing rent at the end of the period to the previous corresponding period

# Portfolio – major tenant

> Majority of BWP income underpinned by the highly successful Bunnings business



Source: Wesfarmers Limited ASX Announcements

Notes:

- > Trading revenue excludes property rental income and non-trade items
- > EBIT is earnings before interest and taxes

## Portfolio – pipeline

> Capital committed to Bunnings Warehouse acquisitions & developments<sup>1</sup>

	Property	\$m	
<b>Acquisitions</b>	Craigieburn <sup>2</sup>	18.42	
	Wallsend <sup>3</sup>	2.50	<b>20.92</b>
<b>Developments</b>	Greenacre	16.75	
	Fyshwick	15.00	
	Rocklea	3.83	
	Scoresby	6.26	
	Wallsend <sup>3</sup>	18.79	<b>60.63</b>
<b>Total</b>			<b>81.55</b>

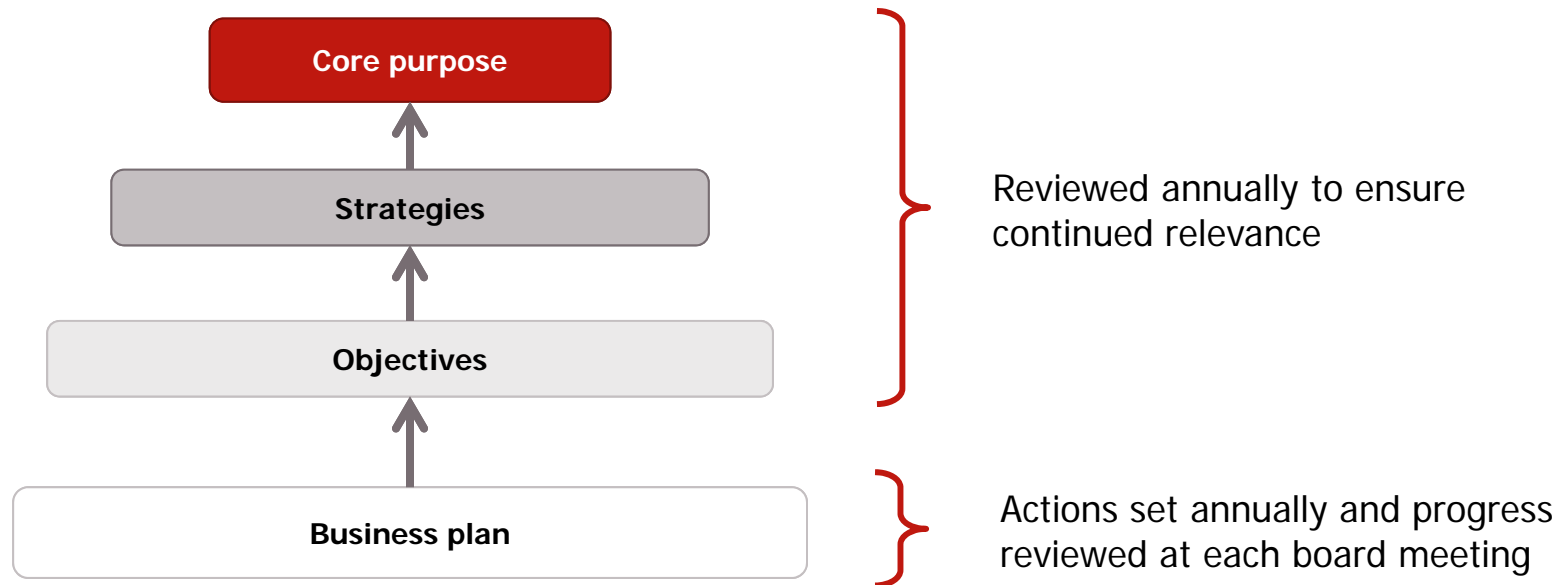
<sup>1</sup> As at 30 September 2011 - not including acquisition costs

<sup>2</sup> Subject to subdivision

<sup>3</sup> Subject to exercise of Bunnings' option to purchase from third-party owner

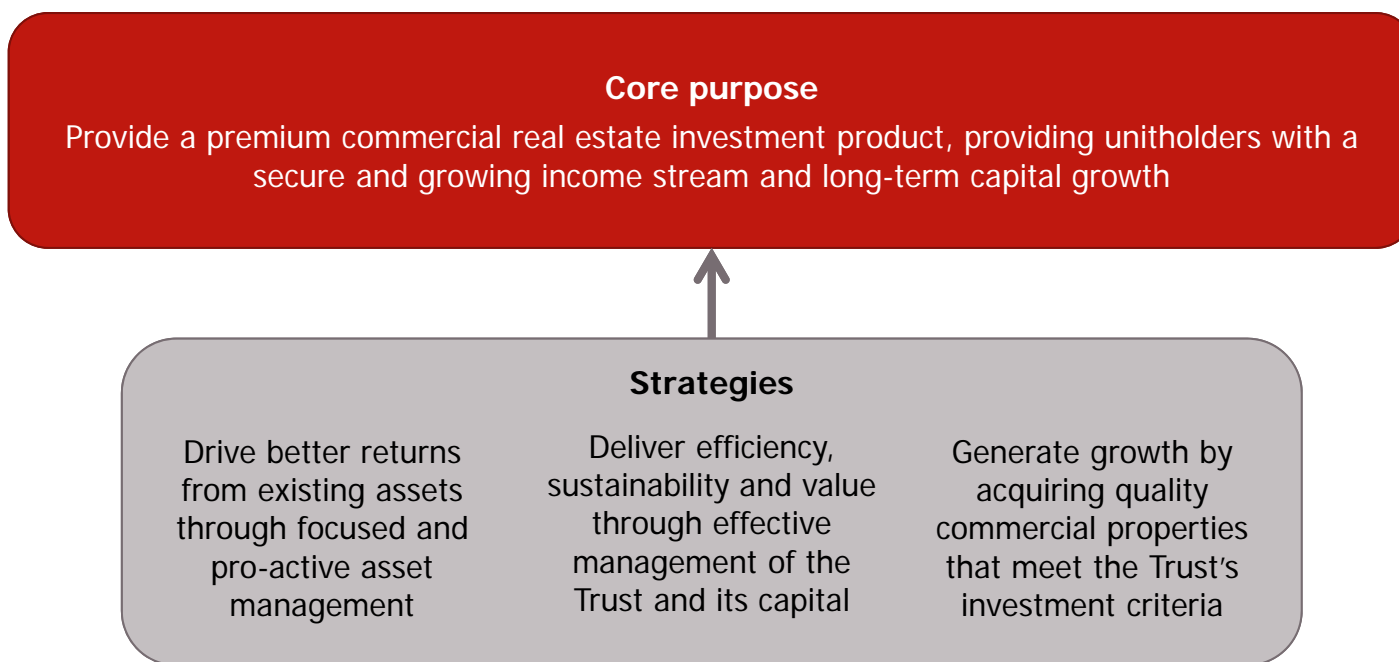
# Strategy – planning process

- > Annual review of strategic direction and on-going monitoring of business plans



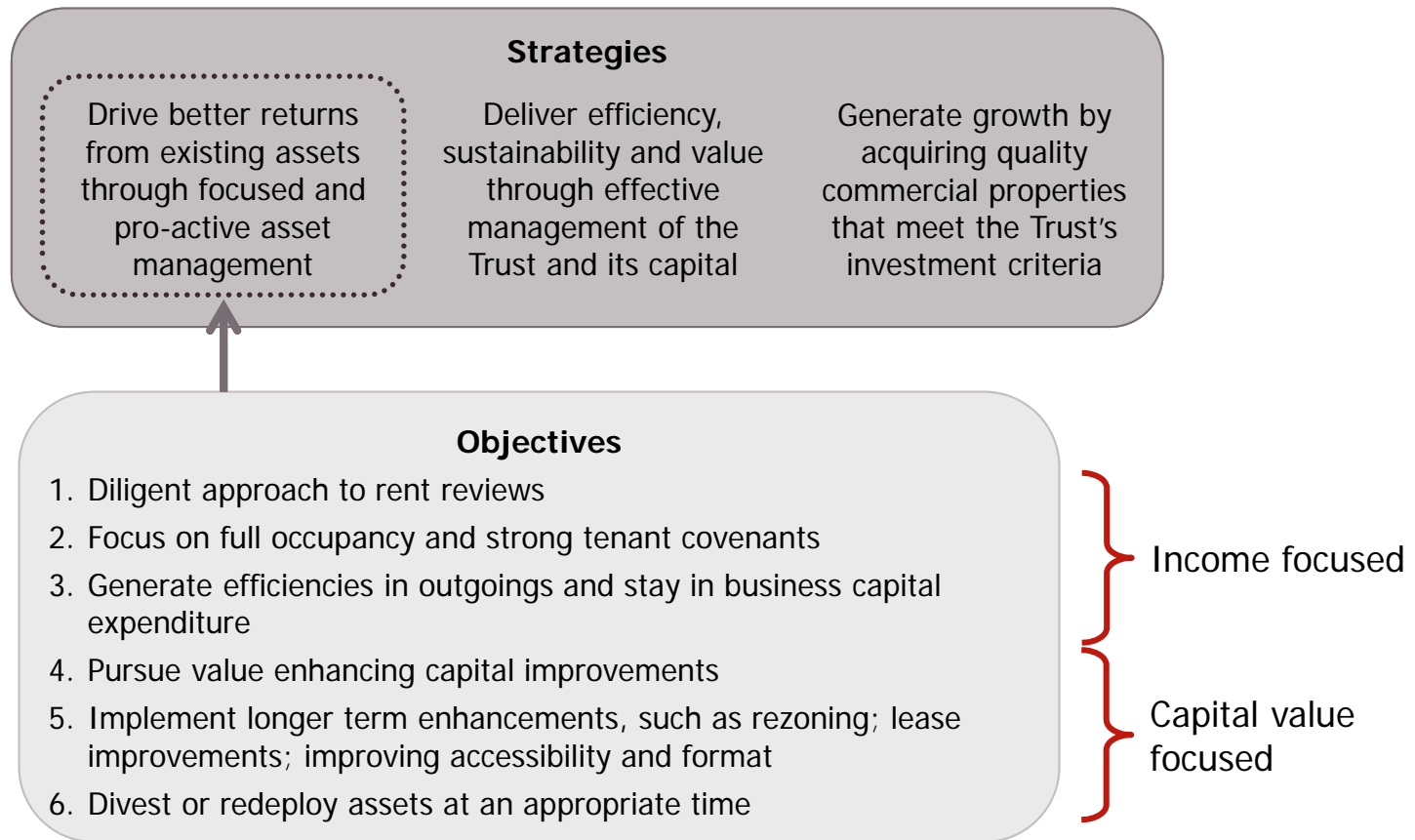
# Strategy – strategic direction

- > 3 main strategies directed towards BWP's core purpose



# Strategy – asset management

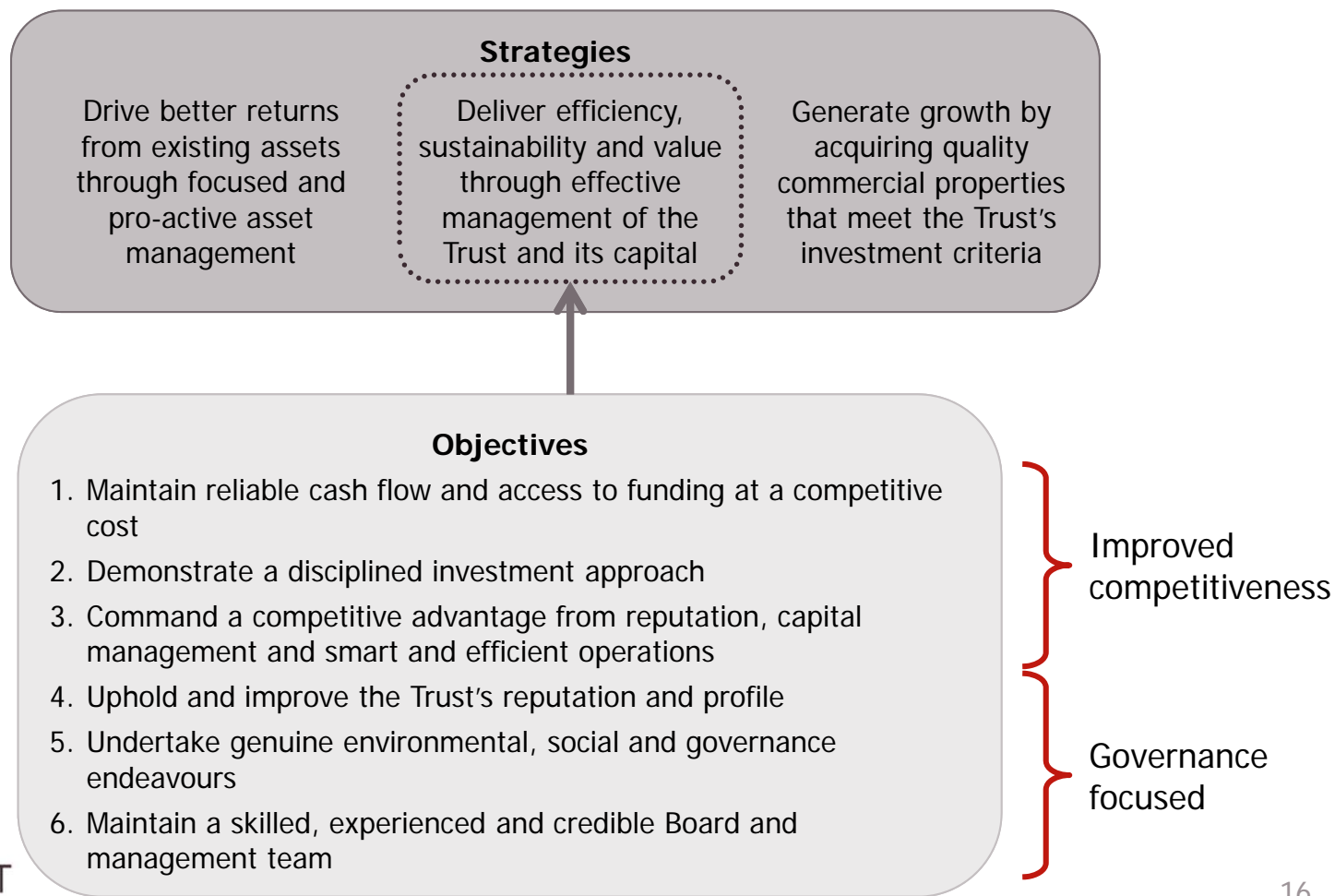
> Extract more from existing assets





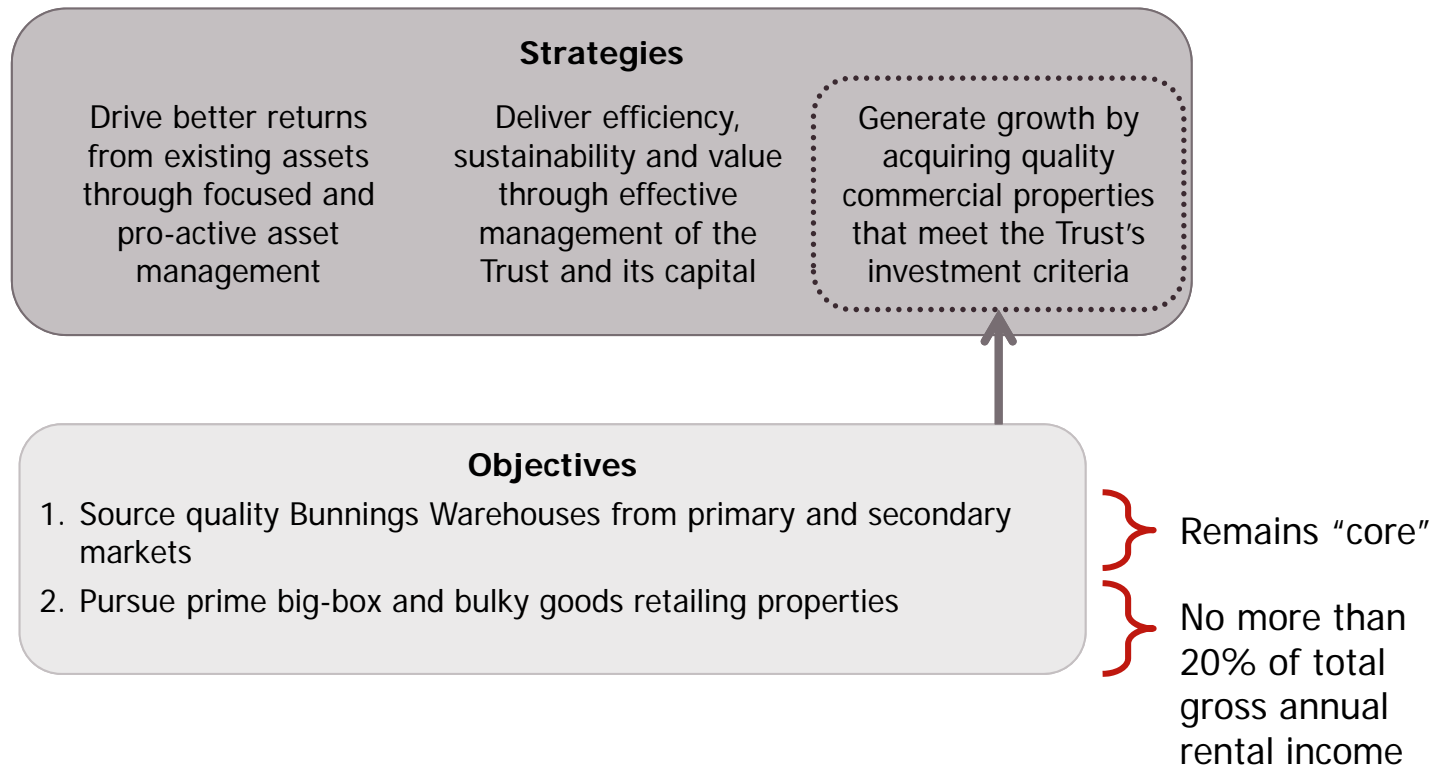
# Strategy – stewardship

> Operate effectively for competitive advantage



# Strategy – acquisitions

> Build the portfolio selectively





# Strategy – current priorities

## **Asset management**

- > Upgrades of existing properties (to increase income, improve building format, and extend lease expiry)
- > Redeploy or divest properties that have reached optimal value for BWP (crystallise capital growth for unitholders, recycle capital, refine portfolio quality)
- > Diligent approach to market rent reviews

## **Stewardship**

- > Improve the efficiency, diversity and duration of debt funding
- > Genuine and relevant sustainability endeavours – improve measurement and reporting, increase understanding and implement practical improvements

## **Acquisitions**

- > Consider quality properties providing earnings accretion
- > Bunnings Warehouses remain main focus
- > Over-riding consideration: secure and growing income stream and long-term capital growth



## Strategy – acquisition diversification

- > Bunnings Warehouses provide a successful and high profile tenant and attractive property characteristics (strong covenant, long-term leases, low on-going capital and management requirement, moderate purchase price)
- > Consequently, buying opportunities can be limited:
  - Finite market dependent on expansion of Bunnings' network
  - Strong competition for acquisition by private and institutional investors
  - Third-party owned Bunnings Warehouses tightly held
  - Not all Bunnings Warehouses suit BWP's focus on quality locations and lease terms likely to deliver the required income and capital growth
- > Access to non-Bunnings properties broadens scope for BWP to continue to deliver income and long-term capital growth
- > Prime bulky goods (refer to next page) and other stand-alone big box retailing properties similar to Bunnings Warehouses offer the best fit for BWP, with similar property and investment fundamentals
- > 20% non-Bunnings property income is a limit not an aspiration (not a target, but a ceiling should appropriate non-Bunnings properties become available)



## Domain Central – acquisition rationale

### **Super homemaker centres – emerging format for growth**

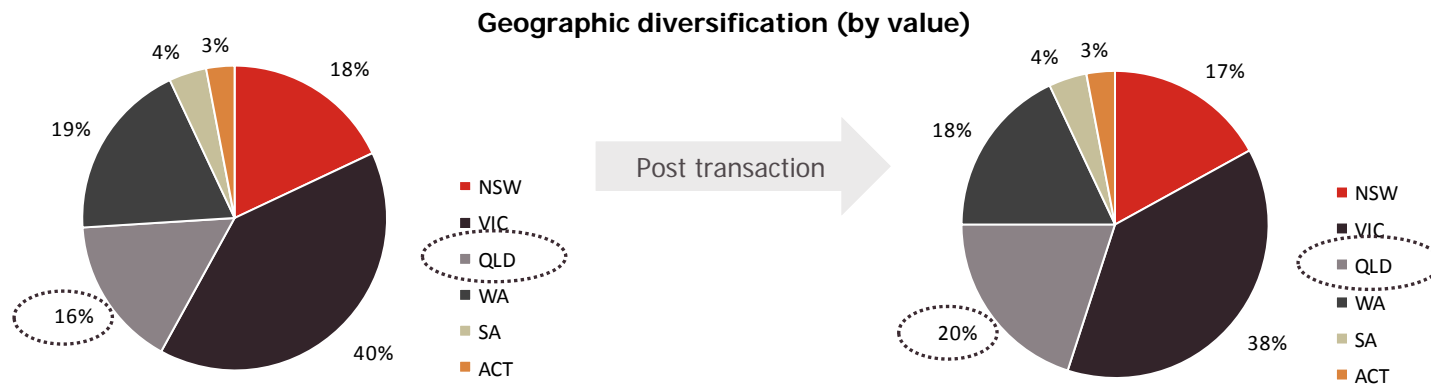
- > Large scale prime homemaker centres, anchored by a range of national and chain retailers offer a refinement on conventional bulky goods concept
- > Predominance of national and chain retailers provides drawing power for other tenants creating single-destination comparative shopping for customers
- > Critical mass to help maintain and potentially increase dominance of their catchment
- > Lower occupancy cost base and larger floor space for retailers than traditional shopping centres
- > More flexibility structurally to adapt to changes in retailing and consumer trends

### **Complementary to BWP portfolio**

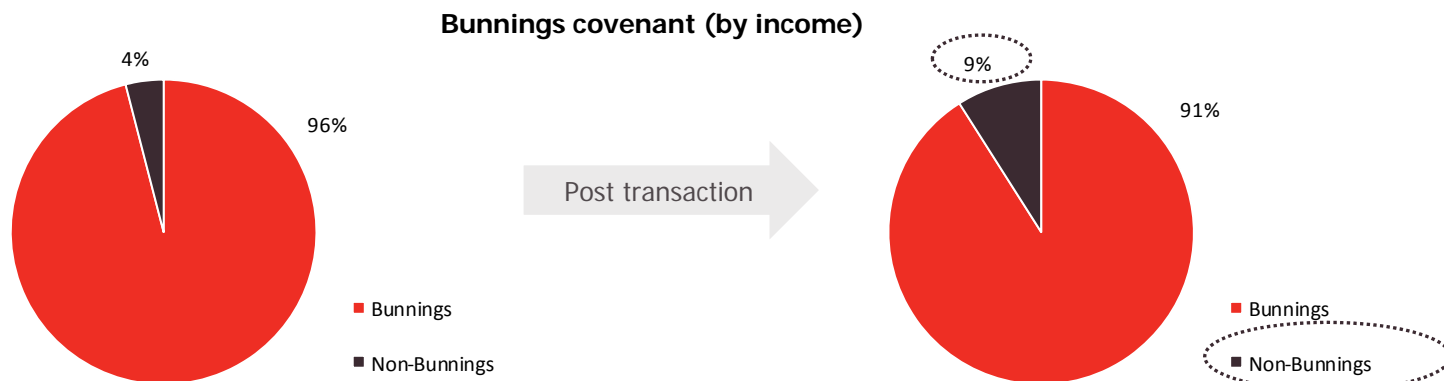
- > Strong property fundamentals with additional diversification benefits
- > Scale, dominance and competitive occupancy costs of prime centres underpin the security and growth of income and long term capital growth required by BWP
- > Bulky goods increasingly co-located with Bunnings Warehouses

# Domain Central – impact on BWP portfolio

> Increased portfolio exposure to Queensland



> Acquisition diversifies BWP portfolio tenant base by 5% (by income)





## Domain Central – transaction summary

- > Agreement to acquire a 50% interest in Domain Central Homemaker Centre
- > Subject to conditions precedent relating to refinancing by the vendor (outcome likely to be determined late 2011)
- > Vendor retains 50% ownership and will manage the property
- > Vendor/manager has extensive experience in owning and managing bulky goods/retail (owns/manages Home Hub Hills homemaker centre in Sydney and Armadale Plaza Shopping Centre in regional NSW, formerly managed Terrace Tower portfolio)
- > Acquisition to be fully funded from existing and new BWP finance facilities
- > Forecast to be accretive to earnings and distributions from settlement
- > Strong regional economy underpinned by a diverse industry base including mining, manufacturing, defence, construction, government and tourism
- > Trade area population forecast to grow by 2.5% p.a. to 2016<sup>1</sup>

## Domain Central – property overview

- > Property located 6km south-west of Townsville CBD
- > Domain Central forms part of an integrated homemaker precinct (Appendix A)
- > The precinct incorporates a freestanding Bunnings Warehouse, Harvey Norman, Spotlight and Anaconda complex—not included in the acquisition

Purchase price <sup>1</sup>	\$61.5m
Independent valuation <sup>1</sup>	\$61.5m
Cap rate	9.0%
Site area	12.3ha
Gross lettable area	48,721m <sup>2</sup>
Number of tenancies	65
Car bays	1,600
Vacancy rate <sup>2</sup>	0.4%
Weighted average lease expiry <sup>2</sup>	3.9yrs
Retailer occupancy costs	9.4%

<sup>1</sup> Relates to 50% interest only

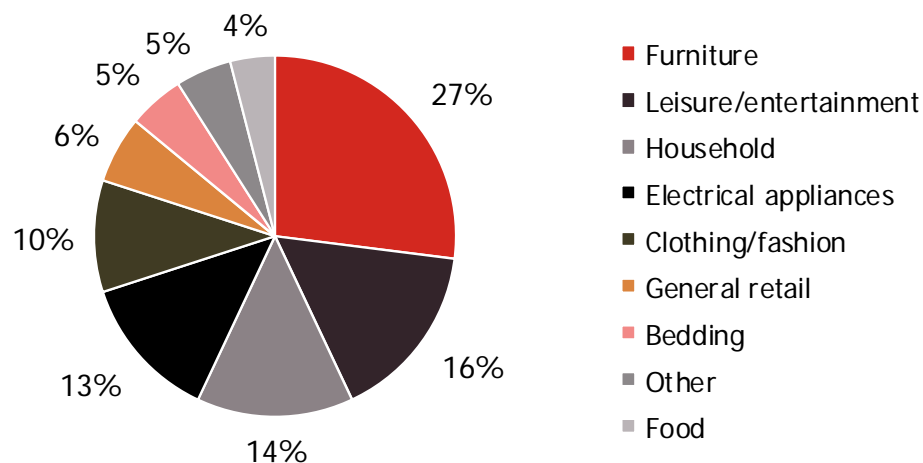
<sup>2</sup> As at 1 October 2011 by rental income



# Domain Central – tenancy profile

- > Broad tenancy mix: national/chain retailers comprise 88% of gross lettable area
- > 90% of national/chain retailers are company operated stores
- > Top 10 tenants (by rent) account for 37% of rental income and 43% of area
- > No rental arrears at 30 June for the last three years
- > MAT<sup>1</sup> of +5.1% (like-for-like) as at 30 September 2011

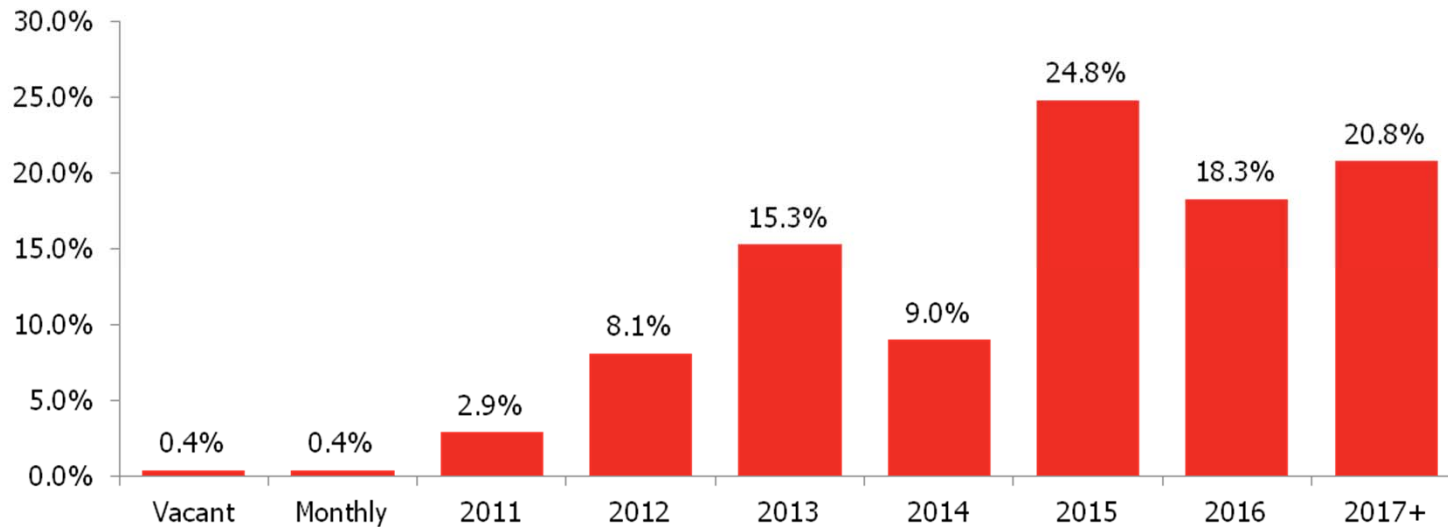
**Retailer category as a proportion of total GLA**



# Domain Central – lease expiry profile

- > Leases are generally 5–10 years with annual fixed or consumer price index reviews and periodic market rent reviews
- > Staggered lease expiry profile of Domain Central reduces re-leasing risk

Lease expiry profile (by area)





## Outlook

- > Rental income strengthened as a result of the acquisitions of Bunnings Warehouse properties, upgrades of existing properties and rent reviews during 2011
- > Proposed acquisition of Domain Central and committed upgrades and developments of Bunnings Warehouses will bolster earnings in 2012
- > Further tenant-driven upgrades will be considered to improve earnings and value
- > Assessing options for accessing debt capital markets to further improve the efficiency, diversity and duration of financing and to increase capacity for appropriate acquisitions and capital expenditure
- > Gearing post Domain Central acquisition and committed capital expenditure anticipated to remain below 25% (debt to total assets)
- > Entry of Masters into hardware and home improvement market will be monitored (refer to next page)



# Outlook – impact of Masters

## **Preliminary assessment**

- > Too early to assess impact on hardware industry and property market. Preliminary view is that there is sufficient differentiation in offer and relative pricing to support two major players

## **Potential impacts for BWP**

- > Reinforces the success of the big-box hardware format
- > Creates competitive market for properties – land values and market rents
- > Potential alternative source for BWP of warehouse retailing properties with similar characteristics as Bunnings Warehouses
- > May generate increased demand for upgrades of BWP's existing Bunnings Warehouses for some properties and redeployment of others should Bunnings relocate

## **Sustainability of big-box hardware market**

- > Well established and popular concept
- > Part of a large and generally fragmented hardware and home improvement market
- > Relatively low market penetration compared with overseas
- > Potential for category and product line expansion



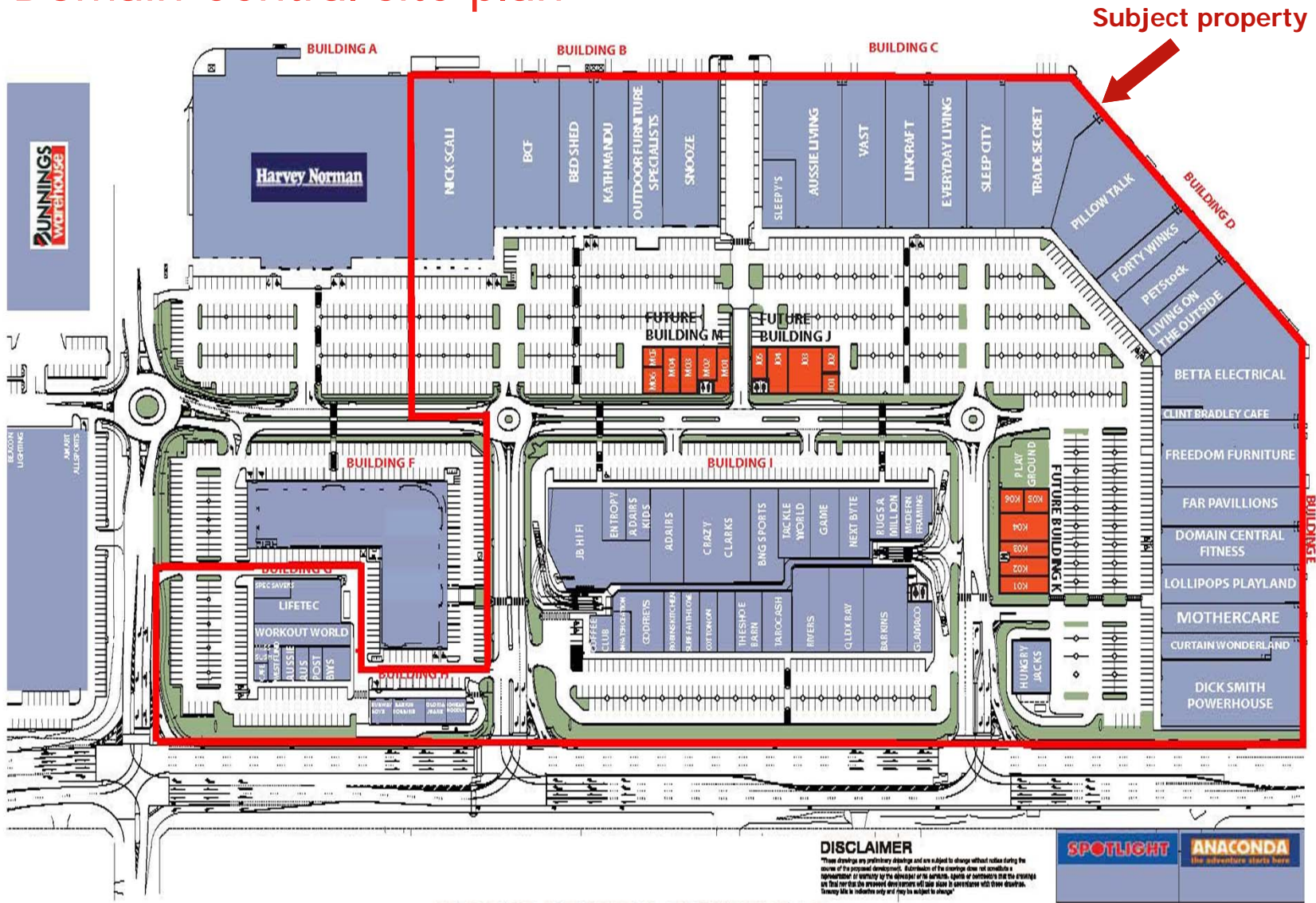
## Further information

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# Appendix A

## Domain Central site plan



**DISCLAIMER**  
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DOMAIN CENTRAL TOWNVILLE