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# Macquarie Goodman Group

Japanese Alliance: J-REP



17 May 2007



# Executive summary

- Macquarie Goodman Asia (**MGA**)<sup>1</sup> has agreed to enter a strategic alliance and acquire a circa 53% interest in Japan Representative (**J-REP**)
- J-REP is a Japan logistics specialist providing a range of property services / brokerage, asset management and development services to its customers and investors (a “Japanese MGM”)
- MGA to inject ¥30 billion (A\$304 million) into J-REP via an issue of new securities – proceeds utilised by J-REP to accelerate its growth plan
  - Issue price of ¥400,000 per security represents a 3.5% discount to the 1 month average closing price and a trailing EV / FY07 EBITDA multiple of 10.9x<sup>2</sup>
- Provides MGA with the people and capacity to expand the Customer Service Model in Japan – 90+ experienced professionals
- Macquarie Goodman Group (**Macquarie Goodman**) to fund its A\$162 million share<sup>3</sup> of the acquisition via existing debt facilities (gearing increases to 45%)
- Transaction expected to be neutral to Macquarie Goodman's earnings in FY08 and contribute positively thereafter

1. MGA is a 50/50 JV between Macquarie Goodman Group and Macquarie Bank. MGA will be subscribing for J-REP shares via Macquarie Goodman Japan Pte Ltd, a company 50/50 owned by Macquarie Goodman Group and Macquarie Bank

2. Year ended 20 March 2007

Exchange rate of 100.0 ¥ / \$A used through presentation

3. Including costs



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# 1. The Japanese opportunity

# The Japanese opportunity

## Overview

- Macquarie Goodman has identified Japan as a key expansion opportunity for the group
  - Commenced operations in April 2006
  - Language and cultural differences mean a local platform is crucial to success

<b>1. Large and growing economy</b>	<ul style="list-style-type: none"> <li>— 2<sup>nd</sup> largest economy in the world</li> <li>— Attractive growth outlook following 15 years of deflation</li> </ul>
<b>2. Undersupply of quality logistics property</b>	<ul style="list-style-type: none"> <li>— Japan is rapidly moving towards outsourcing logistics operations and real estate</li> <li>— Limited proportion of existing logistics space is suitable for modern supply chains</li> <li>— Annual construction activity in Japan comparable with Australia despite Japan having 6 times the population</li> </ul>
<b>3. Significant investment demand</b>	<ul style="list-style-type: none"> <li>— 1% of J-REIT's A\$60bn market cap is industrial, providing latent investment demand</li> <li>— Large portion of high quality modern real estate controlled by developers</li> <li>— Real estate continues to trade at high spread relative to Japanese debt</li> </ul>
<b>4. Customer service model</b>	<ul style="list-style-type: none"> <li>— Macquarie Goodman has 100 Japanese customers globally – Japanese platform enhances relationship</li> <li>— Global customers have approached Macquarie Goodman to assist with Japanese space requirements</li> <li>— Global competitors provide Japanese solutions to their customers</li> </ul>

# The Japanese opportunity

## Economic background

- Japan is a substantial market with 128 million people
  - GDP of A\$5.3 trillion is approximately 6 times Australia
- The Japanese economy is recovering from a 15 year deflationary environment
  - Low interest rate environment spurring economic growth
  - Corporate profitability fuelling wage growth - leading to increased consumer spending and rental growth
- Japan is attractively positioned relative to other major economies of the world

## GDP comparison

	GDP (A\$ trillion)	Population (million)	GDP per cap. (A\$)
<b>US</b>	15.2	297	51,167
<b>EU ex UK</b>	13.7	402	34,189
<b>Asia ex Japan</b>	6.8	3,001	2,270
<b>Japan</b>	5.3	128	41,678
<b>UK</b>	2.7	60	45,136
<b>Australia</b>	0.9	21	42,320

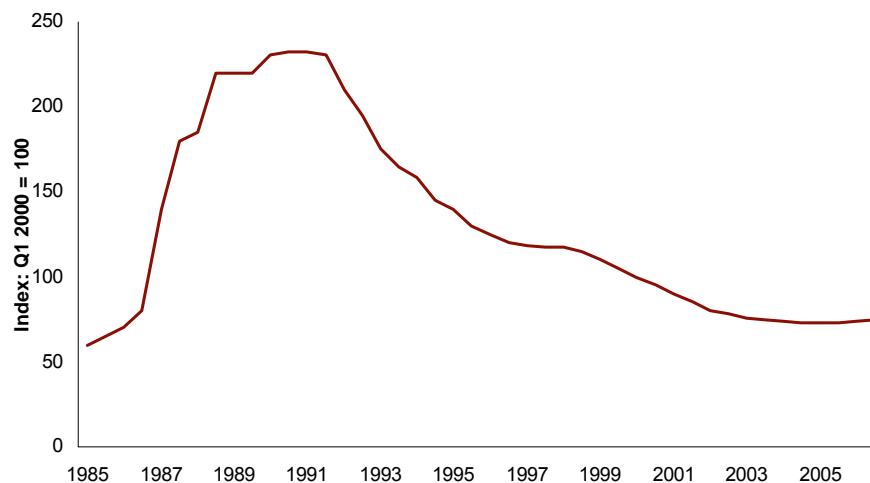
Source: Australian Department of Foreign Affairs 2005 data, IMF

# The Japanese opportunity

## Land constrained market

- Industrial land prices are significantly lower than the 'boom' period of the early 1990's
- However price of industrial land remains high – construction of multi-storey facilities is common
- Planning rules create scarcity – understanding of process key for development
- Greater Tokyo is the largest market

## Industrial land prices in the Tokyo wards



Source: Japan Real Estate Research Institute

## Major logistics centres

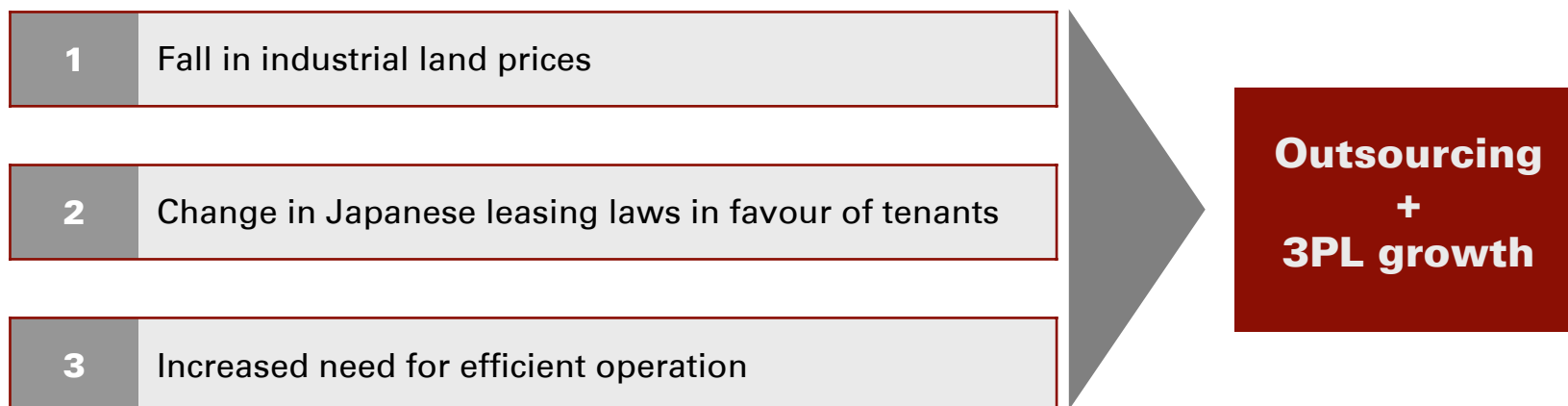


# The Japanese opportunity

## Outsourcing trend

- Japanese companies are changing the way they view the occupancy of logistic property – outsourcing trend since 2000
- Trend has been accelerated by many Japanese companies outsourcing their entire logistics function to 3PLs

## Factors driving the move to leasing logistic facilities



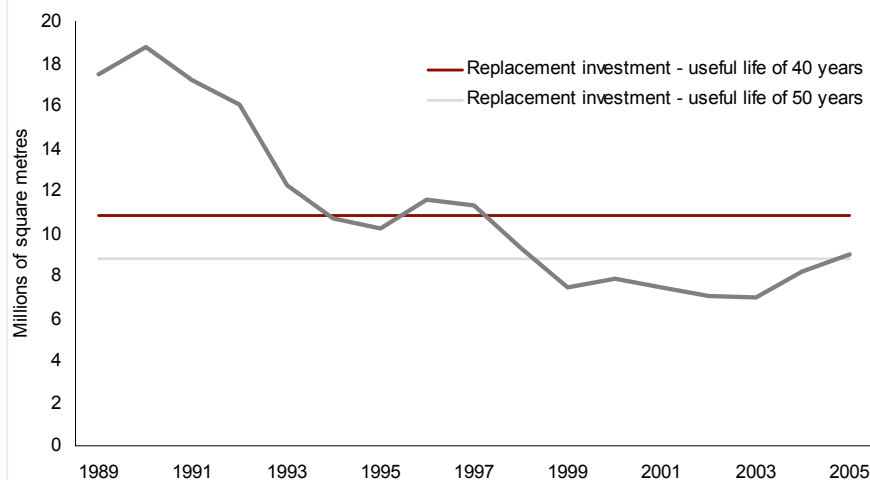


# The Japanese opportunity

## New construction trends

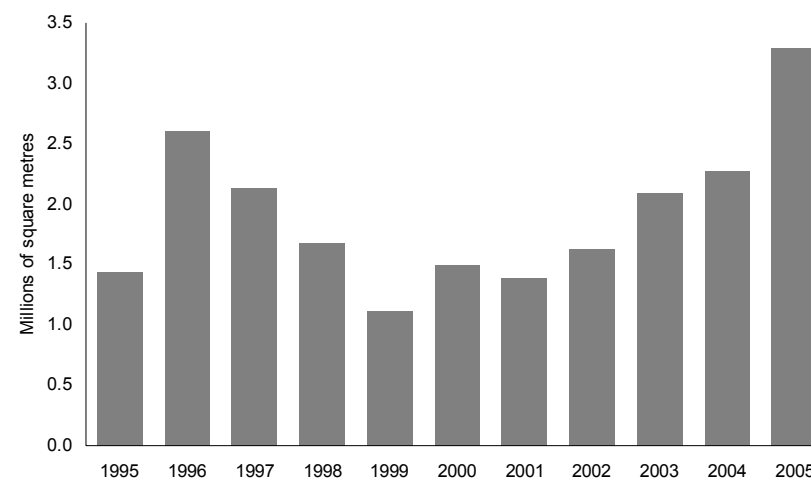
- Supply has lately failed to even replace the 2% – 3% of facilities that outlive their useful lives each year
- The majority of logistics facilities in Japan are cramped and tired spaces
- Expectation for continued increase in the volume of new construction, driven by:
  - Improving market conditions in the Japanese economy
  - Increased demand for high quality modern space
  - Low base of 3.5m sqm per annum (comparable to Australia yet Japanese economy 6 times larger)

## Logistics construction starts vs replacement investment (total)



Source: Japan Ministry of Land, Infrastructure and Transportation and KK Ikoma Data Service System

## Logistics construction starts in Japan (projects >10,000 sqm)



Source: Japan Ministry of Land, Infrastructure and Transportation



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## 2. J-REP overview



# J-REP overview

- Since its foundation in 1980, J-REP has specialised in the provision of property services / brokerage in the logistics sector
- In 2005 J-REP used its knowledge of the Japanese logistics market (through property services) to expand its operations to include the provision of asset management and development services
  - Listed on Tokyo Stock Exchange (Mothers Board) with a current market cap of ¥27.0bn (A\$270m)<sup>1</sup>
  - Total FUM of A\$860m including A\$370m currently under development
  - Dedicated team of 98 professionals with offices in Tokyo, Osaka and Nagoya



1. Prior to MGA allotment, at price of ¥400,000 per share

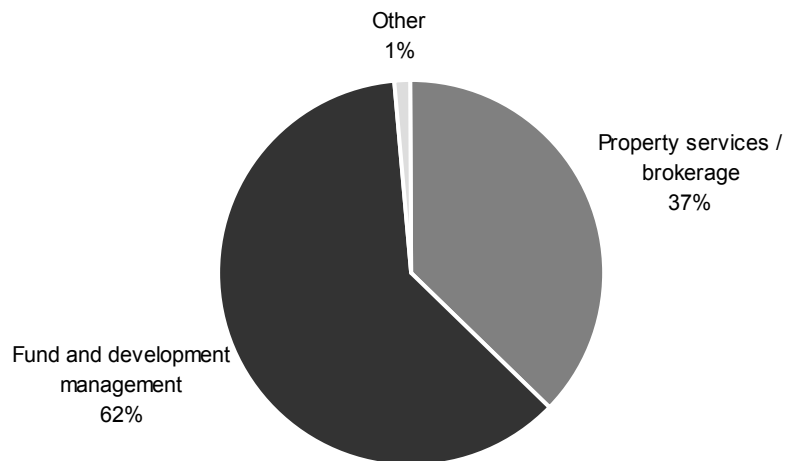


# J-REP overview

## Services provided

- J-REP provides a full suite of services to customers and investors
- Generate revenue from funds management, development management, property services / brokerage and development management
- J-REP fees are levied on a broadly similar basis to Macquarie Goodman
- Customer-led approach – similar operating philosophy to Macquarie Goodman

## 2007 operating revenue by service provided



Source: J-REP 2007 Annual Report (year ending 20 March 2007)

# J-REP overview

## Sample completed projects



Property Name	J-REP LogiStation Osaka Nanko
Completion	March 2007
Gross floor area	64,399 sqm



Property Name	J-REP LogiStation Ashikaga
Completion	March 2007
Gross floor area	30,865 sqm

## Sample development projects



Property Name	Matsudo Logistics Centre (Tentative name)
Est. Completion	November 2007
Gross floor area	54,861 sqm



Property Name	J-REP LogiStation Kobe
Est. Completion	February 2008
Gross floor area	75,603 sqm

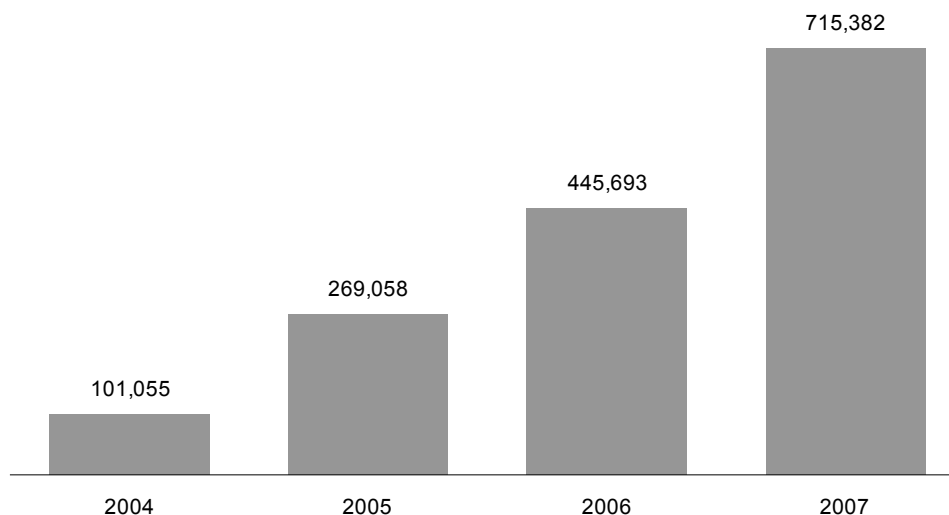


# J-REP overview

## Property services / brokerage

- J-REP senior management have circa 30 years experience in Japanese property services / brokerage
  - Experience enables J-REP to understand the needs of end customers
  - Ability to develop efficient facilities in accordance with these needs
- Strong brand presence in Japan + relationship with over 400 customers a key point of difference
- Provides extremely strong foundation for asset management and development activities
  - c70% of FY07 property services / brokerage revenue derived from J-REP managed funds

## Floor space tenanted (sqm)



Source: J-REP 2007 Annual Report

# J-REP overview

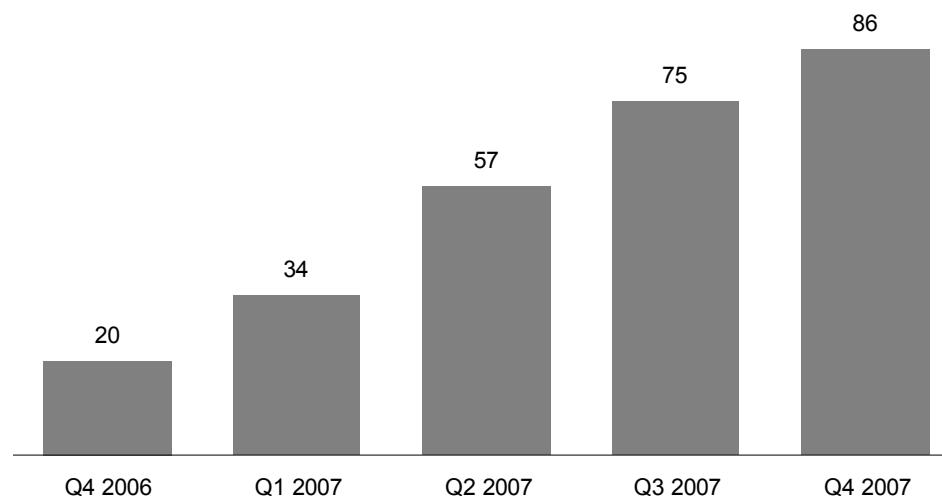
## Fund management

- J-REP has rapidly expanded its asset management platform over the last 2 years
  - Currently 27 assets under management with a value of ¥86 billion (A\$860 million)
  - Funds include both stabilised income producing assets and development projects
  - 53% (by value) of the portfolio is located in the key Kanto market (greater Tokyo)
  - ¥200 billion+ (A\$2 billion) of acquisition opportunities under consideration

## Portfolio location (no. of buildings)



## Growth in AUM (¥bn)



Source: Company information



# J-REP overview

## Portfolio snapshot

### Metropolitan area



### Osaka, Nagoya area



### Others







# J-REP overview

## Development capability

- J-REP has completed / is currently undertaking ¥62 billion (A\$618 million) of development projects for its managed funds
  - 12 projects with an average size of 35,000 sq m
- Development capability provides a key point of difference for managed funds given limited quality investment opportunities

## J-REP development projects

Project name	Location	GLA (sqm)	Value (¥ bn)	Expected completion
<b>Completed projects</b>				
Osaka Nanko	Osaka	76,681		Mar 2007
Naruohama	Hyogo	28,702		May 2006
Ashikaga	Ashikaga	33,925		Mar 2007
Iruma	Saitama	23,822		Mar 2007
Sakado	Saitama	23,733		Aug 2006
Aichi Mitsuyoshi	Aichi	6,723		Mar 2007
<b>Total completed</b>		<b>205,671</b>	<b>24.8</b>	
<b>Under development</b>				
Kobe Fukaehama	Hyogo	75,261		Feb 2008
Higashi-Ogijima	Kanagawa	44,802		May 2008
Matsudo	Chiba	56,560		Nov 2007
Yokohama Kohoku	Kanagawa	12,085		May 2009
Fukuoka	Fukuoka	27,213		Mar 2008
Settsu Torikai	Osaka	12,711		Apr 2008
<b>Total under development</b>		<b>216,547</b>	<b>37.0</b>	
<b>Total development projects</b>		<b>422,218</b>	<b>61.8</b>	



# J-REP overview

## Key management



**Kiyohiro Wamoto (Representative Director, President, CEO)**

Wamoto-san has over 25 years experience in tenant leasing and relationships with >400 clients.



**Kazuhiko Mizoguchi (Director, General Manager of Administration Division, Manager of Finance Department)**

Mizoguchi-san joined J-REP in February 2005 having previously working at Auve and Global Insurance.



**Tadato Kataji (Representative Director, Executive Vice President, COO, General Manager of Asset Management Division)**

Kataji-san joined J-REP in 2005 bringing extensive knowledge of corporate investments and an investor network.



**Kaname Wakabayashi (Director, Deputy General Manager of Asset Management Division)**

Wakabayashi-san was appointed to the J-REP board in January 2005 and undertook his current position of Deputy General Manager of Asset Management Division in August 2006.



**Tadao Wamoto (Managing Director, Senior Vice President, General Manager of Brokerage Division)**

Established J-REP with Kiyohiro Wamoto and heads up the group's Brokerage division.



**Masahiro Suyama (Proposed election to board at next AGM)**

Suyama-san has been the internal auditor for J-REP since June 2006. He has previously held positions as both Managing Director and President of LTCB Trust and Banking (now called Shinsei Trust and Banking).



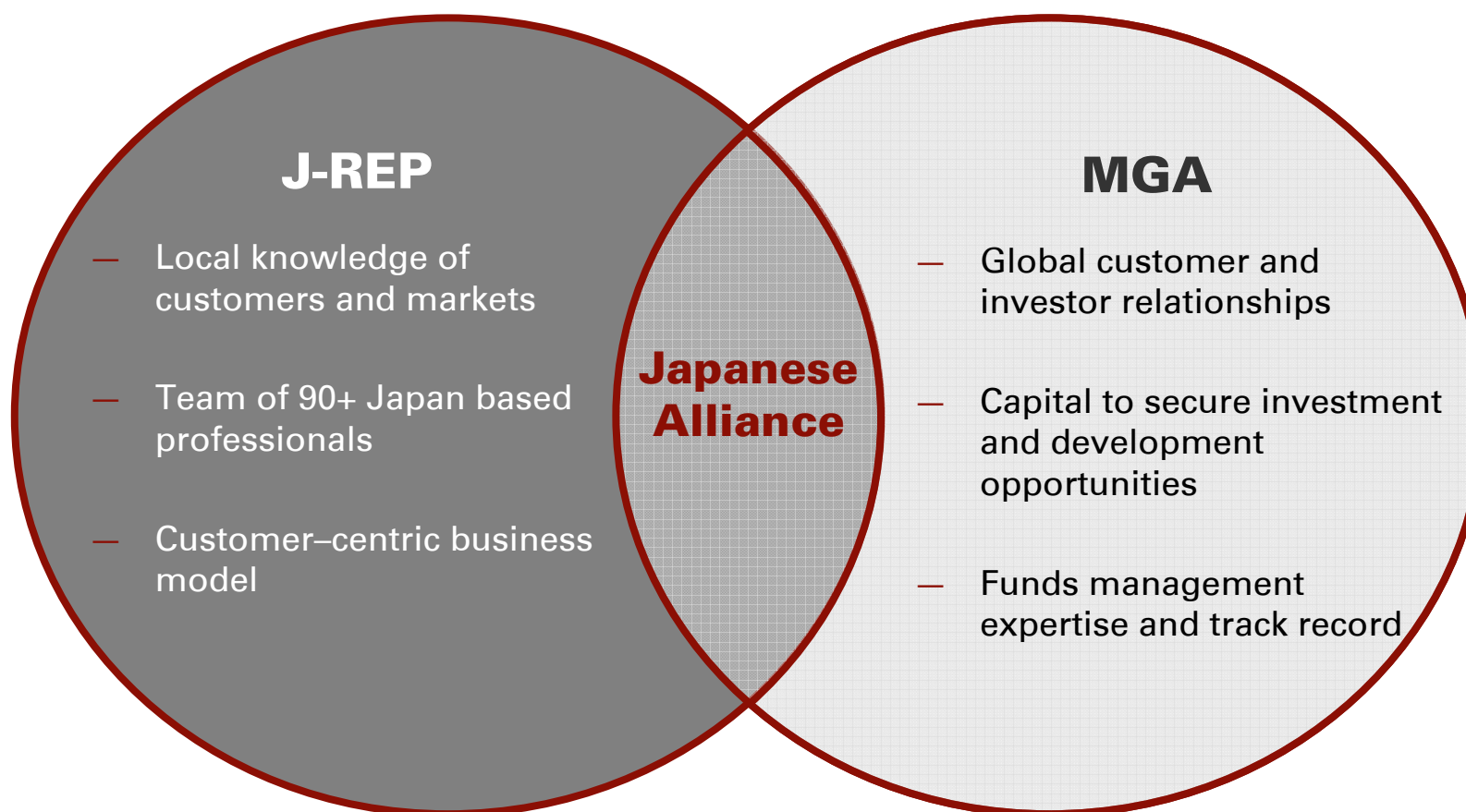
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## 3. Alliance summary

# Alliance summary

→ Combining the established J-REP platform with Macquarie Goodman's global relationships and expertise creates the opportunity to be the Japanese leader in logistics





# Alliance summary

## Alliance opportunities

- Ability to accelerate logistics FUM growth with Macquarie Goodman global customer relationships and development expertise
- Opportunity to introduce Macquarie Goodman investors to J-REP managed funds and vice versa
  - Large global investors have significant demand for Asian real estate
- Opportunity to launch a J-REP managed Fund to acquire completed development product
- Ability to capitalise on Japanese logistics market opportunities utilising J-REP's local knowledge
  - Re-positioning of older warehouse space
  - Development of modern logistics properties
  - Outsourcing trend from Japanese companies
- Opportunity to deliver enhanced global solutions to customers in Australia, Asia, the UK and continental Europe and crystallise revenue opportunities



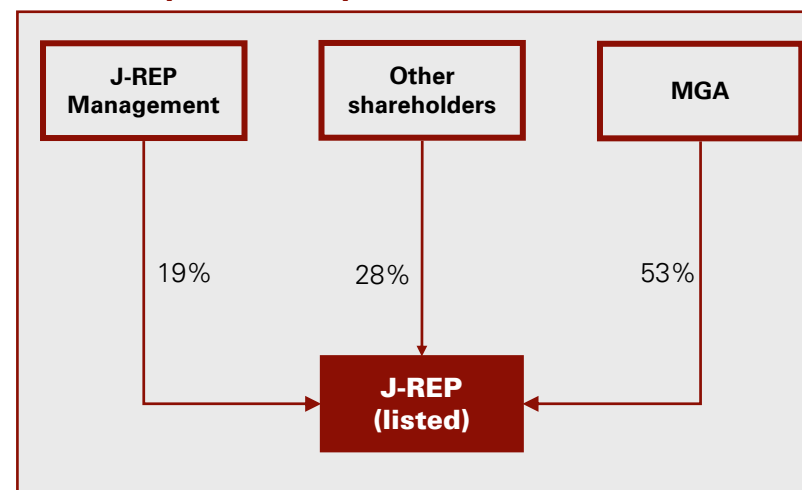
# Alliance summary

## Alliance structure

- MGA has agreed to subscribe for 75,950 shares in J-REP via a 3rd party allotment of new shares
  - ¥30 billion (A\$304 million) equity injection
  - MGA ownership post of c53% (50.1% on a fully diluted basis)
  - MGA to retain new JV shares for at least 3 years
- MGA entity owned 50/50 by Macquarie Goodman and Macquarie Bank
- J-REP market capitalisation will increase to c¥57 billion (A\$574 million)<sup>1</sup>
- Proposal does not require a vote of J-REP shareholders and is expected to be completed on 8 June 2007

1. At allotment price of ¥400,000 per share

## Ownership structure post<sup>1</sup>



1. Pre exercise of employee options – MGA holds 50.1% on fully diluted basis



# Alliance summary

## Alliance business plan

- Alliance business plan has been agreed between J-REP and MGA
- Business plan designed to transition the J-REP business by expanding the asset management platform and increasing development capability

<b>Phase 1</b>	<ul style="list-style-type: none"><li>– Utilise MGA capital injection to secure investment and development assets for managed fund platform</li><li>– Increase on balance sheet investment in development projects</li></ul>
<b>Phase 2</b>	<ul style="list-style-type: none"><li>– Launch J-REIT in early 2008 with seed portfolio from current funds and assets secured with MGA capital injection</li><li>– Recycle capital into further development projects</li></ul>
<b>Phase 3</b>	<ul style="list-style-type: none"><li>– Continue to recycle capital into development and repositioning opportunities</li><li>– Increase exposure to recurring fund management income as AUM increases</li></ul>



# Alliance summary

## Integration and alignment

- J-REP's management team will continue in their current roles
  - Kiyohiro Wamoto to remain as CEO
  - Tadato Kataji to remain as COO
- Macquarie Goodman's Japan based staff will be integrated into the J-REP platform
- 3 MGA representatives nominated to the J-REP Board (for approval at 12 June AGM)
  - Greg Goodman, James Hodgkinson and Stephen Hawkins
- In addition, MGA to have representation on J-REP's operating committee
  - Allows J-REP to benefit from MGA's experience and maximise the potential synergies from the alliance
- Post alliance, J-REP's senior management will hold c19% of expanded equity base
  - 80% of key senior management shares to be retained for at least 3 years
  - MGA has first right of refusal on all key senior management shares
- 59 J-REP executives hold J-REP options and it is anticipated that J-REP will issue additional options to staff going forward

	% held post <sup>1</sup>	Value at ¥400,000	Retention	MGA rights
<b>Kiyohiro Wamoto</b>	10.0%	A\$58m	80% over 3 years	MGA first right of refusal
<b>Tadato Kataji</b>	7.2%	A\$41m		
<b>Tadao Wamoto</b>	1.5%	A\$9m	-	

1. Pre exercise of employee options





# Alliance summary

## Acquisition due diligence process

- MGA conducted detailed due diligence of the J-REP business over a 6 week period
  - Senior MGA representatives have spent time with J-REP management in Japan and Sydney
- In addition, third party advisers were engaged to assist with the due diligence process
- The due diligence process did not highlight any material concerns

<b>Accounting</b>	<ul style="list-style-type: none"><li>— Detailed review of last 3 years' financial accounts</li><li>— Review of accounting policies and procedures including management interviews</li></ul>
<b>Legal</b>	<ul style="list-style-type: none"><li>— Detailed review of corporate structure, fund contracts and property ownership</li><li>— Acquisition to be via a third party allotment approved by J-REP Board</li></ul>
<b>Human Resources</b>	<ul style="list-style-type: none"><li>— Integration of existing Macquarie Goodman employees in Japan into J-REP platform</li><li>— MGA representation on operating committee and J-REP Board</li></ul>
<b>Tax</b>	<ul style="list-style-type: none"><li>— Detailed reviews of tax function and tax position</li><li>— Tax structuring for MGA acquisition</li></ul>
<b>Projects</b>	<ul style="list-style-type: none"><li>— Current workbook inspected by senior MGA personnel</li><li>— Review of outstanding proposals and financial parameters</li></ul>

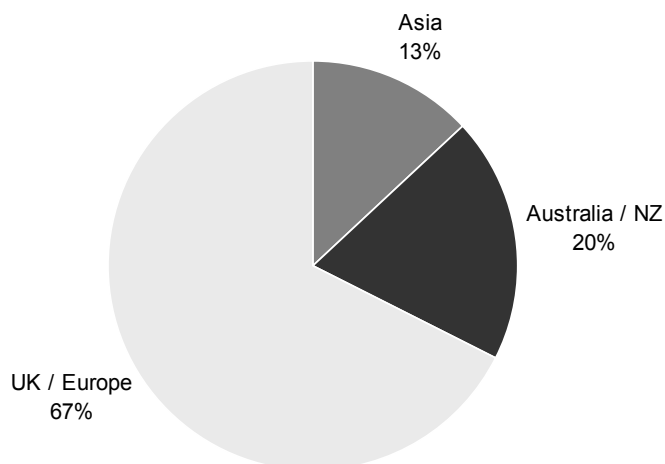


# Alliance summary

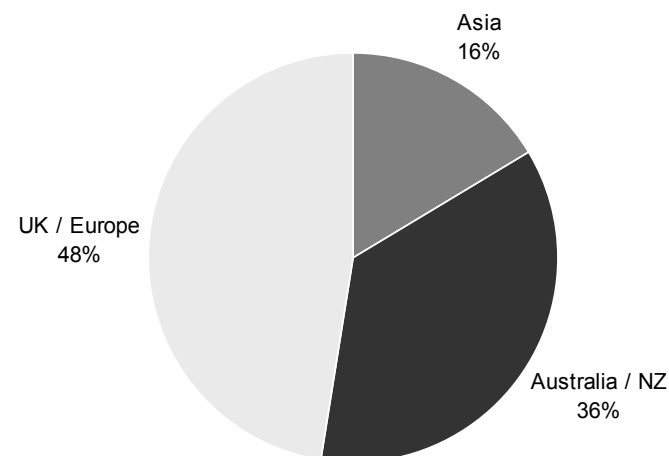
## Global funds management and development capability

- Addition of Japan platform heightens ability to provide global fund management and development solutions to international customers and investors
- Post Alliance, Macquarie Goodman global FUM +2% to A\$35.7 billion
- Development workbook rebalanced with higher weighting in Asia

## Macquarie Goodman AUM diversity



## Macquarie Goodman development workbook diversity<sup>1</sup>



1. Current work in progress, by end value, on a look-through basis for investment in J-REP



# Alliance summary

## Acquisition pricing

- Agreed acquisition price of ¥400,000 per J-REP share reflects a 3.5% discount to the 1 month average closing price
- Acquisition price represents a trailing FY07 EV / EBITDA of circa 10.9x

## Macquarie Goodman capital management

- Acquisition price and costs shared 50:50 with Macquarie Bank – total Macquarie Goodman contribution of A\$162 million<sup>1</sup>
- Transaction to be funded via existing debt facilities in Japanese Yen denominated debt
- Macquarie Goodman pro forma gearing to increase to 45% in the short term

## Macquarie Goodman financial impact

- Transaction expected to be neutral to Macquarie Goodman's FY08 EPS and expected to contribute positively to EPS from FY09 onwards
- Transaction not expected to have a material impact on Macquarie Goodman's earnings mix

1. Total MGA transaction and Japanese platform establishment costs of A\$20 million



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## 4. Recap



# Recap

- MGA has agreed to enter a strategic alliance and acquire a c53% interest in J-REP
- J-REP is a Japan logistics specialist providing a range of property services / brokerage, asset management and development services to its customers and investors (a "Japanese MGM")
- Provides MGA with the people and capacity to expand the Customer Service Model in Japan – 90+ experienced professionals
- Transaction expected to be neutral to Macquarie Goodman's earnings in FY08 and contribute positively thereafter

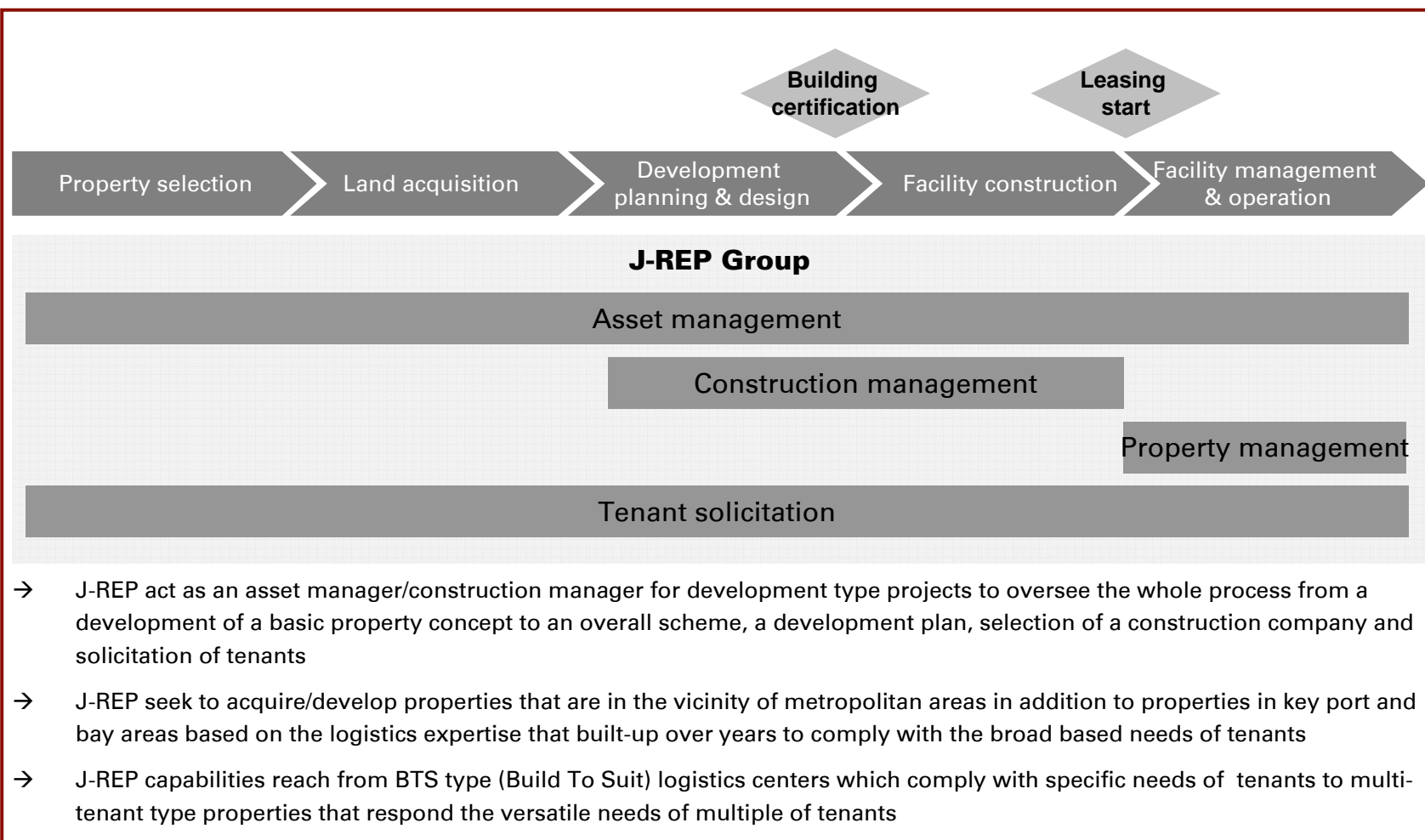


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# Appendices

# A. J-REP development fund overview



## B. J-REP development case studies

### J-REP LogiStation Osaka Nanko

The largest development project in the J-REP portfolio

- LogiStation Osaka Nanko is the largest facility among the 26 logistics centres to be acquired /developed by J-REP by floor area, and the 3rd completed development property
- Completed in March 2007
- Jointly developed with Simplex Investment Advisors Inc
- Located in close proximity to the interchange of the Gulf Line of the Hanshin Expressway Osaka, providing excellent access to the Osaka urban area. Also located close to the foreign-trade container berth
- Key features
  - Steel-framed 4-storey building
  - Site area – 35,883 sqm
  - Gross floor area – 76,681 sqm
  - Tenant – Kokuyo Logitem
- J-REP's role
  - Leasing
  - Construction management
  - Fund raising
  - Asset management



#### Property information

Location	Nanko, Osaka
Site area (sqm)	35,883
Gross floor area (sqm)	76,681
Tenants	Kokuvo Logitem

#### Returns

NOI cap rate	6.8%
ROC	27.7%



## B. J-REP development case studies

### J-REP LogiStation Iruma, Saitama

**BTS property close to the highway IC that will open in the future**

- Completed in March 2007
- Located close to Oome IC of Metropolitan Inner City Expressway ("Ken-O-Do Expressway")
- Infrastructure upgrades are planned, making long-haul transport to Hokuriku area via Ken-O-Do Expressway and Kanetsu Expressway possible and providing increased logistics potential through improved access to near-by urban areas
- Key features
  - Steel-framed 2-storey building
  - Site area – 28,530 sqm
  - Gross floor area – 25,634 sqm
  - Tenant – Logicom (listed on Hercules, Osaka Securities Exchange)
  - Wide spaced one-sided berths with parking space for 43 heavy articulated trucks
- J-REP's role
  - Leasing
  - Construction management
  - Fund raising
  - Asset management



#### Property information

Location	Mokurenji, Iruma, Saitama
Site area (sqm)	28,530
Gross floor area (sqm)	25,634
Tenants	Logicom

#### Returns

NOI cap rate	6.9%
ROC	10.3%



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# Thank you

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