Lend Lease
CORPORATION

DAVID HIGGINS AGM – THURSDAY 1 NOVEMBER 2001

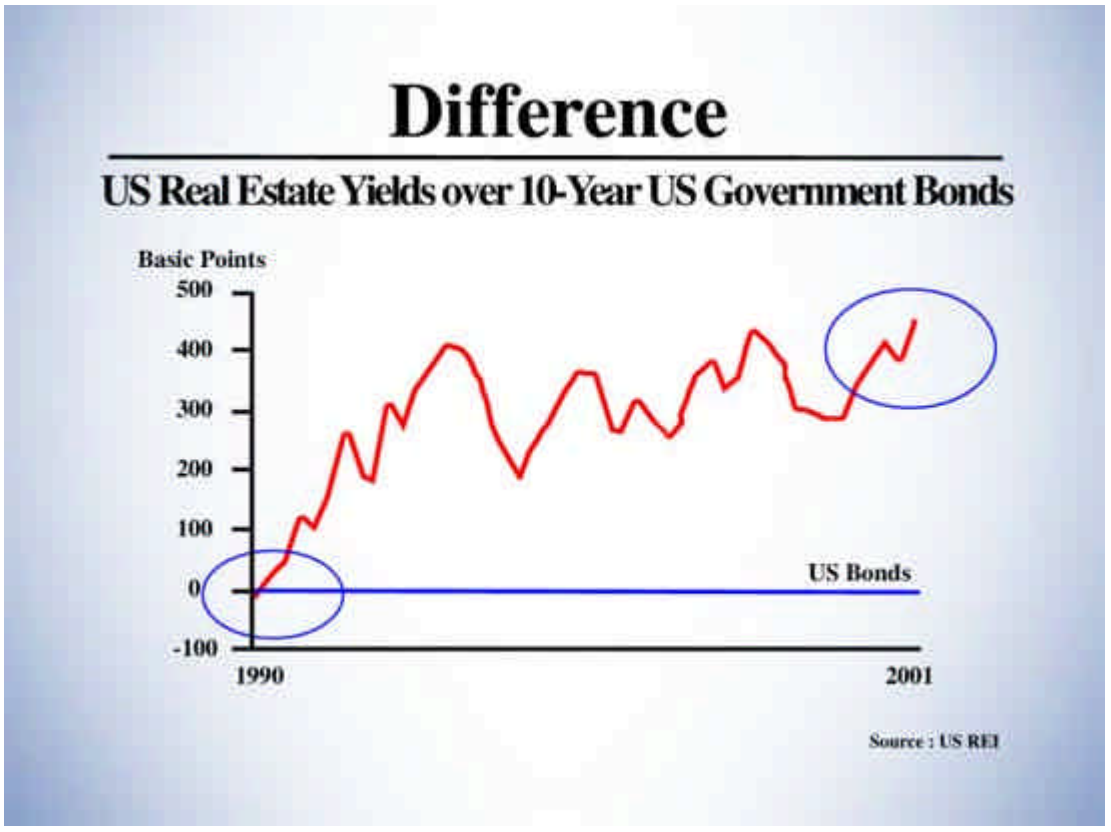
Introduction:

- Thanks Jill, and good evening everyone.
- We come to this AGM in a very challenging business environment. This will continue for the next 12 months for the corporate world at large.
- In these uncertain times, the importance of real estate as an asset class has become even clearer, with its stable capital values and secure income streams. For Lend Lease, this underpins the relevance of our global real estate strategy.
- So tonight I will cover 4 topics with you:
  - The opportunity in global real estate,
  - Our strategy to secure that opportunity,
  - A summary of our 2 core real estate businesses – and you'll hear from the global CEOs of those businesses, and finally
  - I will update you on our progress over the past year.

Real Estate Fundamentals:

- From the outset it is important to understand why our global real estate strategy will ultimately replace the earnings growth we relied on in the past from MLC.
- Around the world, from the end of this decade, there will be a dramatic increase in the number of people in retirement compared to the work force. This will increase the need for income based investment products.

- Real estate offers high-income returns and lower volatility than other equity investments.



Spreads between Real Estate Yields & 10 Year Treasuries

- In the last ten years, yields on real estate in the US have become very attractive. Immediate cash yields have gone from less than US government bonds in 1990 to exceeding US government bonds by an enduring 300-400 basis point spread.

- At the same time, real estate markets are becoming more sophisticated and disciplined. Suppliers of capital are more rigorous in their approach so the wide swings of the past are dampened.
- Recent investment flows to listed property trusts both here in Australia and the US, support our view on the good fundamentals of real estate. Our Global Fund, which has raised 600 million US in equity capital, is another example. We continue to expect increased investment allocation to real estate over time.

Strategy

- When you think about it, Real Estate - unlike equities - is an asset class where we can add value to the underlying assets, thereby adding to returns for investors.

- Unlike other real estate investment managers, we have this ability to enhance the physical asset through our project management, construction and development capabilities.

- There are no global real estate players like Lend Lease. We operate across a range of real estate sectors in all three project management, development and investment management businesses.

- This is a key point of differentiation for Lend Lease in the global real estate market.
- We only started with this strategy in a serious way in 1997.

- And we are already the largest manager of real estate equity in the world. We have a good head start on our competitors. And that is the opportunity we are now pursuing.

Results:

While the long term strategy is compelling - it has been a tough year for our company and for our shareholders.

- A profit of $151M was clearly an unsatisfactory result.
- The result included significant one-off provisions, but most of them related to our former Development and Investments strategy, which we have moved away from.
- The result also included some significant one-off profit items - for example $60M profit from the sale of a 10% stake in Bluewater.
- Excluding all these one-off items, the underlying core profit for 2001 was about $210 million.
- As Jill explained to you, when you compare this result with where we were in 1999 – when we still had MLC and before our real estate acquisitions - you can see growth in our underlying real estate businesses.

- We are budgeting for an increase in after tax profit this year from this level of $210M. This could be impacted by fall-out from the terrorist attack of 11 September.
- However, we have completed an initial review of our businesses, and as we stand here today, we are still on track to achieve this target. We will continue to monitor this very closely. At the same time we have accelerated our cost reduction program that was already underway prior to September 11.

Share Price:

- During this time of transition lower earnings have impacted the share price. Many of you have expressed concern at the diminution of the value of your portfolios. We understand your concern. I can speak for all employees and directors in saying it has impacted us as well. Employees are the largest shareholders in this company.
- The best thing we can do for the share price is successfully execute on our strategy and increase earnings.

Where Are We Going:

- The transition process has seen our businesses streamlined so that we are now a specialist real estate company with two core businesses to implement our strategy:

- Firstly,
  * Real Estate Solutions, which services clients who want to create physical assets and who wish to outsource the development, design, construction or financing of these facilities;
    And secondly,

- Secondly
  - Investment Management which services clients who invest in real estate equity or debt.
  - Both businesses are focused on being world class in their own right, as well as working together to provide integrated real estate solutions to some clients.

Management:

- We need to continually drive global thinking and integrate our business planning.
- Key to that are the management changes we recently announced.

- Ross Taylor, who heads Bovis Lend Lease worldwide, has been appointed Global Chief Executive, Real Estate Solutions. Ross will continue to be based in London reporting to me. His role includes accountability for our Development businesses.

- David Ross, who heads Lend Lease Asia Pacific region, has been appointed Global Chief Executive, Real Estate Investment Management. David will be responsible for co-ordinating our global clients and fund raising strategies. He also reports to me.
- In addition, David will be responsible for the operations of our Investment Management businesses in Asia Pacific and Europe, while Fred Pratt will continue to run this business in the Americas. Both David and Fred will report to me in this respect.
- To describe the Real Estate Solutions business – here is Ross Taylor.
- *The Real Estate Solutions business is underpinned by Bovis Lend Lease... which is a world-class global project management and construction business.*
- *The business also includes a global development capability that is focused on generating solutions for clients.*
- *It's clear that to be focussed as a construction manager... facilities manager... or project manager alone - is not enough.*
- *We understand the interplay between capital requirements... technical and design excellence... revenue... and on-going property life cycle issues... in order to optimise the facilities we deliver to clients.*
- *Our point of difference is our ability to do this across multiple industry sectors involving all key stakeholders and to deliver on the outcome - such as the privatised health projects we do in the UK...the work we do with BP around the world...and more recently -the position we secured in Victoria on the Docklands project.*

- *In Australia we also have a very successful residential and land management business... which is focused on the building of communities. This business was enhanced by the recent acquisition of Delfin.*

- *Over the last 30 years... Delfin has carved itself a unique niche in Australia's urban development market place ...and is unquestionably a premium consumer brand.*
- *This new combined urban community business is now the largest in Australia.*
- *This positions us well for further growth here ...and we have the ability to leverage these skills internationally.*

- *The focus on communities was a key determinant in the securing of the Fort Hood military housing project in the US... so you can start to see some of the linkages.*
- *By more closely aligning our project management and development businesses... it both strengthens our competitive position in the market place ...and enhances our ability to more quickly achieve a global leadership position.*
- *We'll now be able to far better prioritise our skills, capital and effort.*

- *Our key strategies going forward will alter little.*
- *They will remain focused around growing our annuity profits ..and continuing to reinforce our points of difference to our competition. We'll keep our base business and workload healthy - as this is our platform to work from... ..and then focus on growing our annuity profits from 2 areas- our key client base, and our integrated long-term projects.*

- *Looking forward...we are in an economic climate that is obviously toughening... however our Real Estate solutions business is very well positioned.*
- *We have a strong committed profit backlog...a large land management pipeline...and a project and client list - second to none in our industry.*
- *With this foundation in place...we have both the time to streamline the organisation ahead of a weakening global economy ..... as well as continue implementing the strategies that will provide us with our future growth.*

David Higgins

- Our Real Estate Investment Management business has around A$87 Billion in Assets Under Management.
- Recently in the US we were again rated the industry leader in Real Estate Equity, and we are also a strong participant in the Real Estate Debt market.
- In Australia we have a very strong business, which is well placed to support our growth in Asia.
- The final pieces of our global platform and also the areas of the greatest potential growth opportunities are in Asia and Europe. To describe this business, here is David Ross.

David Ross

- We are in the business of managing real estate for clients to provide them with superior risk-adjusted returns. The potential for our business is huge.

- It's estimated that the value of all investment grade real estate in the world exceeds $8.5 trillion. To put that into some perspective, we estimate that Australia has around $120 billion, so the world market is around 70 times larger than Australia.

- Lend Lease is the largest manager of real estate in the world, and we manage $87 billion.

- So while we are the largest player, our share of the world market is under 1 per cent. So we have a lot off room for growth.
- Our business is scalable, meaning that we can increase our assets under management without always having to add a lot of cost. As our assets under management grows, so does our profit
.
- I'd like to share with you what's key to our success.
- There are three key drivers :

- firstly, client relationships - fundamental to our business and most businesses;

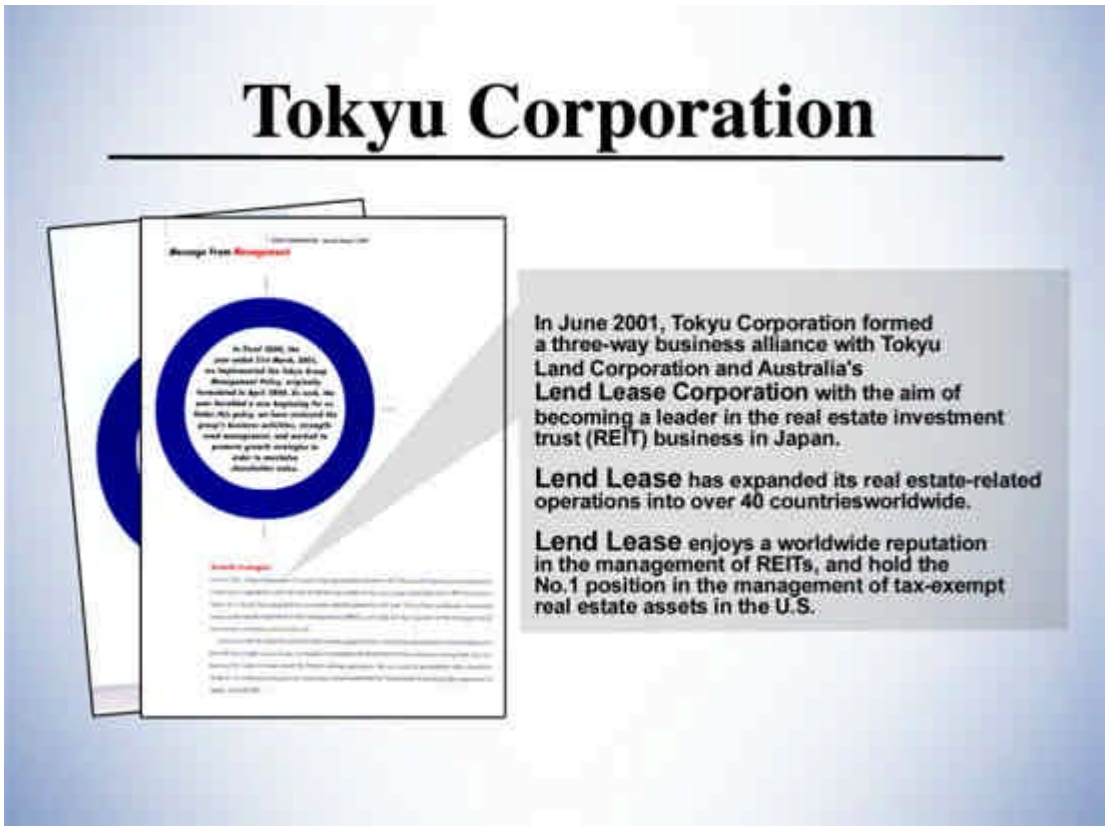
- secondly, we must have a value proposition - in other words, how we create better value than anyone else can;

- and, thirdly, we must deliver performance - that is, investment performance and all those elements that go towards servicing the client.
- Let's look firstly at clients:
- Our regional businesses around the world have a good level of client focus, but we can and will need to do better to achieve excellence.
- We are also in the process of setting up a system to manage clients who invest globally.
- This will become increasingly important to our future, because while many investors invest funds globally in equities and fixed income, to date this has not spread to real estate. It will grow in time as experience and confidence spreads, and we need to be well prepared for this growth. Listening to clients and finding innovative ways to respond to their needs will set us apart.

Value Proposition

- This brings me to our Value Proposition, or how we create better value for our clients than anyone else.
- Here in Australia we have a strong value proposition, with GPT and Australian Prime Property Fund having good market share and both generating strong investment returns for clients. Both have been able to attract new investors, and the business as a whole has grown by 10 per cent over the last year.

- In Asia we are developing our business. We now have acquisition and asset management skills in Singapore, Hong Kong, Japan and Korea. This has been developed off the back of demand from our clients in APIC – Asia Pacific Investment Company, and the Global fund.
- Japan is the world's second largest economy and it has adopted Australian style REIT – introducing property trust- legislation to securitise real estate. We have the skills and experience with 30 years managing GPT to participate in the formation of the Japanese real estate investment market.



- We have announced that we are developing a Real Estate Investment Management joint venture with Tokyu in Japan.
- With our joint venture partner, Tokyu, we are committed to establishing a broad based investment management business that is focused on the investor, and we expect to launch our first listed REIT next year.

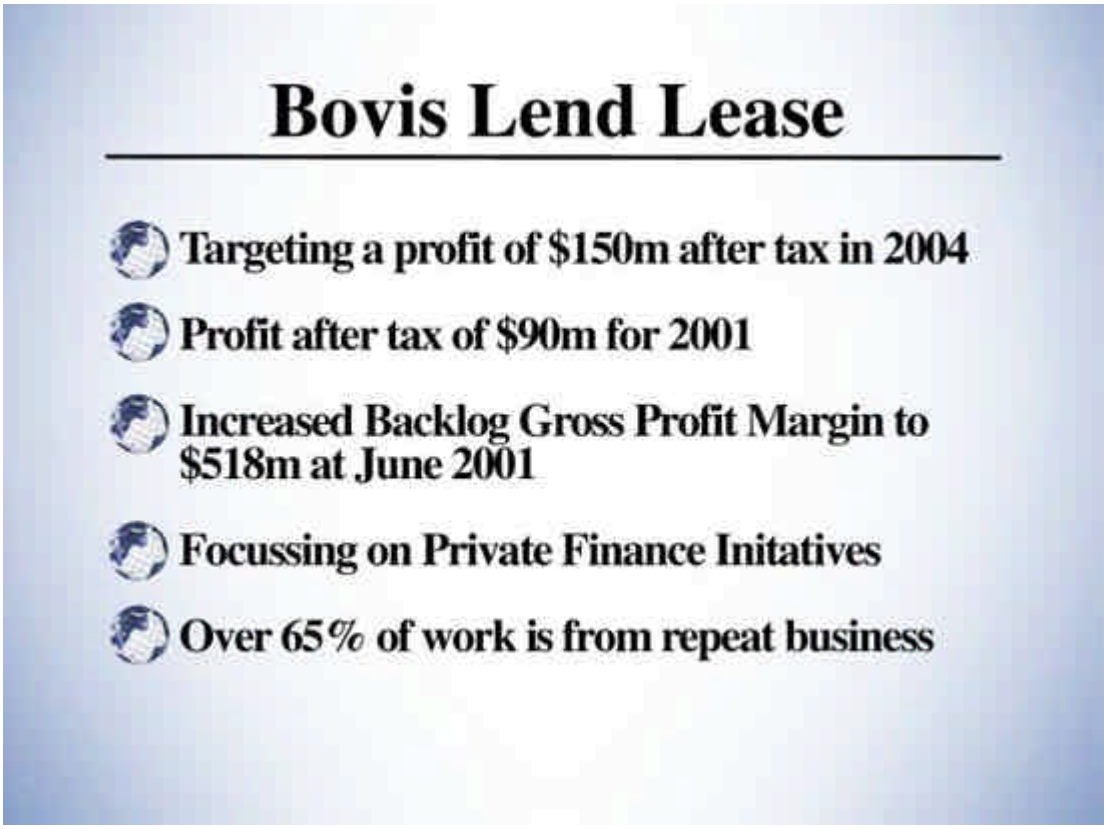
- We have just received Tokyu Corporation's annual report, and our joint venture is the first initiative mentioned as a primary growth opportunity for them. So that gives an indication of their commitment to our joint venture.
- Our commitment is equally strong as Japan represents an exciting longer term opportunity for us.

- In Europe, like Asia, we have a small business, largely based upon the retail partnership, which owns a part of Bluewater and has around 20 UK investors. As with Tokyu in Japan, our reputation and value proposition was compelling to Generali, one of the largest insurance groups in Europe. This joint venture aims to create funds for investors in Europe and to raise capital from European investors for investment in other regions. We plan to build on our established platform to provide new products to meet our clients' needs.

- We are also developing a strong value proposition across regions. Examples include:
  - the Global Fund, where investor capital was sourced from the US, Asia and the Middle East, and is being invested in Europe and Asia;
  - the Lend Lease US Office Trust, which is an Australian listed vehicle investing in US commercial office buildings;
  - and the International Distressed Debt Fund, where investors in the US, Asia and the Middle East have provided capital to be invested in Asian non-performing commercial real estate backed loans.
  - My final comment on our value proposition is the skill we bring to our investment portfolios from our Real Estate Solutions business, where we can add value to the creation of the physical assets for our funds and our clients. No competitor can do this as broadly as Lend Lease.
  - Finally, having good client relationships and a value proposition is only enough if we then deliver investment performance.
  - Our unique capabilities across all aspects of the real estate asset class gives us excellent opportunities to deliver good investment performance for our clients. And that investment performance we deliver to our clients is crucial for us in growing Assets under Management.
  - We have listed all our managed funds in our 2001 Annual Report. Of the 23 funds mentioned, 17 are beating their benchmark return since inception.
  - This is obviously our key purpose, but performance needs to be more than this. It also needs to respond to the other needs of clients, which includes good communication as a minimum. That way we will have richer relationships.
  - To summarise, we have good client relationships, a strong value proposition, and we are delivering good investment performance for our clients.
  - . There's $8.5 trillion in investment grade real estate in the world – we are already the biggest manager with just under 1% of that market
  - As David said earlier, the real attraction for us is the size of the untapped opportunity before us.
  - Thank you.

David Higgins - Business Unit Update

- Thanks David.
- The market wants us to show evidence of success in the execution of our strategy.
- So for each of our businesses I propose to go through a quick Progress Report, what we said we would do, and what the outcome has been.
- Our core business unit profitability before restructure costs, has shown improvement over last year. We expect further improvement in 2002.
- Let me first cover the Real Estate Solutions business unit.



Progress Report On Bovis Lend Lease

- The Progress Report for Bovis Lend Lease shows that we are meeting all our objectives, targeting a profit of $150M after tax in 2004. The attainment of this target will depend to some extent on global economic conditions and acquisitions.

- Our profit of $90 million after tax for 2001, indicates that we are on track to achieve this target.

- We increased the Backlog Gross Profit Margin to $518 million at June 2001. This is the profit before tax and overheads that remains to be brought to account on committed contracts at balance date.

- We are focussing on Private Finance Initiatives in the UK and military housing markets in the US. These are long term contracts, which ensure that future profits are more secure.

- Repeat business is also a key factor in future profits. Over 65% of Bovis Lend Lease's work is from repeat clients.
- The slowing global economy will impact Bovis Lend Lease. However, our strategy is to focus on repeat clients, anticipated government expenditure and a broad spread of sectors. This gives us the confidence that our business remains on track.
- Let's now turn to Development.

Progress Report On Development

- We are transitioning this business from a more volatile, capital intensive model, to one where we partner with third party capital for investment in development.

- A good example of this, is Docklands in Melbourne, where we have a leasing commitment from the National Bank for their new office complex at Victoria Harbour. The investor is GPT.

Victoria Harbour

- This is a terrific win, and it's a great example of all parts of our organisation working together.

- We have recently completed the acquisition of Delfin, which has added significantly to our urban community business.

- In the UK, despite dealing with a retail market with soft patches, we have met the leasing commitments for the sale of Overgate and Solihull. This significantly reduces the risks in our UK Retail portfolio.

- Let me now turn to Real Estate Investment Management.

Progress Report On Investment Management

- We grew Assets Under Management by almost 9% if you exclude foreign currency fluctuations, to A$87 Billion dollars in 2001, in what was a tough capital raising environment.

- Our Australian Investment Management business has shown good growth. David Ross has also mentioned our progress on joint ventures in Japan and in Europe.

- In our US Investment Management business, we were targeting 6% growth in Assets Under Management, but only achieved 4.3%.
- This was lower than we would have liked.
- Capital is being held back from real estate investment in the US market because of the over-allocation to the sector caused by its good, relative performance.
- Investors are also wanting to assess the extent of the US downturn and the fallout from September 11 before committing further capital.
- This has impacted our ability to raise capital. How long this will last and what the ultimate impact will be is uncertain at this stage.

- We expect the first half after tax earnings from US Real Estate Investments to be lower than the same period last year – primarily due to congressional delays in settling the tax credit program for the HCI business. This is expected to skew revenues into the second half of the year.
- Lower interest rates have also reduced earnings on the cash float in the CapMark loan servicing business. However this should again be partially offset in the second half by the recently won new business which has increased total loans under servicing.
- As a result, we are expecting the full year after tax operating result for US Real Estate Investments to be higher overall than last year. But it remains an uncertain market, which we are monitoring closely.
- In the meantime we are absolutely focussed on completing the restructure of this business and reducing operating costs.
- In March this year, I decided and the Board agreed that we needed Fred Pratt as CEO for our US Real Estate Investments business.
- This came at a significant cost to the organisation, but I knew this when I made the decision.
- Fred has focussed the business on its markets while managing costs in this challenging environment. He and his team are working hard to deliver the results we are targeting.
- Let's hear from Fred.

Fred Pratt On Video

- *David, thank you. I'd like to begin by thanking our friends in Australia for their support, their prayers and their good wishes in the wake of September 11. Your support is very appreciated here. All of us in the United States thank you for your concern. We may be separated by thousands of miles, but we feel very much united with you in our commitment to overcome this terrorism.*

- *If there were questions that the US economy was entering a recession before September 11th, there is no doubt now. We believe the after effects of the terrorist attacks only amplified trends that were well under way, and obviously the real estate markets here will be impacted.*

- *The key questions today for our business are how long will the economic downturn last, and how deep will it be. The answers are unclear, clouded by uncertainty over our national security.*

- *The good news is that the real estate markets entering this recession are extremely well positioned to withstand the downturn. David mentioned the low interest rate environment and the healthy cushion between real estate yields and treasury bond yields. Most owners are also well capitalised today. They've been able to re-finance and most properties have been well leased. A key difference between now and ten years ago when we entered our last recession – the property markets here are not massively over-built today.*

- *Any market decline will be largely demand driven. In 1991 markets were badly over supplied when recession cut into demand, creating a double whammy. That won't happen this time, and we expect to see at least a modest recovery take hold by the second half of next year. Markets indeed are softening, we expect the apartment and industrial sectors to hold up best.*

- *Office markets will show declines of record rental spikes from 1999 and 2000. Vacancies are climbing into the teens, but the market decline should offer some good buying opportunities next year.*

- *On the other hand, office buildings with little current turnover and credit tenants will see little effects of a recession if it is reasonably short. Hotels obviously will be impacted over the short term by reduced travel and diminished consumer spending will likely make Christmas a slower season in Malls.*

- *Until investors are more certain about where the market bottom is, transaction activity and new investment activity will be slowed. As David just pointed out, there is quite a bit of "wait and see" going on from investors. But it's still too early to say how our results will be impacted.*

- *Our capital raising focuses on our Value Enhancement Fund, and REIT funds. We have raised 168 million US from clients in VEF V so far over the summer, and secured 2 major REIT mandates, totally 230 million US. We have also formed a new group to market higher yielding investments to financial institutions and other capital sources we haven't traditionally targeted.*

- *Our housing and community investing tax credit business has maintained good momentum, and is positioned to take advantage of the US Federal Government's increase in available tax credits for affordable housing. We should see improvement here in the first half of calendar year 2002.*

- *CapMark, our commercial loan servicing business, has about 12 billion US in new out sourced loan servicing from life insurers in recent months. It's a testament to its market leadership position.*

- *Lend Lease Mortgage Capital is off to a good start, and we anticipate a good year here. Also Holliday Fenoglio and Fowler – HFF – is finding the debt markets active, with opportunities for them.*

- *Over the past six months, I have re-focussed each of our businesses to concentrate on creating investment solutions that meet an individual client's objectives for success. And then we're focussed on executing those programs to deliver that success.*

- *Our performance continues to be competitive, and this is essential for growing the business further. We believe overall real estate performance will hold up in this recessionary downturn relative to stocks and bonds. And we believe that pension funds and high net worth individuals will step up their investing in real estate in this economic recovery that's coming, increasing their real estate allocation targets. If they do, we'll be very well positioned to take advantage.*

- *Also, the benefits of Lend Lease's global platform are becoming evident. Our ability in the United States to support the US Office Trust is a tremendous plus for Australian investors. Right now we are also working on acquisition opportunities for European and Middle Eastern investors.*

- *David, all of us here in the US look forward to working with you and David Ross to build on the Real Estate Investment foundation that Lend Lease has been established.*

David Higgins

Conclusion

- So, as you can see Fred and his team are working to maximise the value of this business despite the challenging conditions in the US real estate marketplace. As we develop our global equity investment management business, it is clear that our US platform has a strong competitive advantage for acquisitions and asset management in regard to global capital flows into the US. This will be beneficial to growing our Australian business and also, in time, our Generali and Japanese joint ventures.
- In conclusion, while we continue to assess the outcome following last month's events in the US, and the general downturn of the global economy, we have accelerated our cost reduction program.
- We are entering this period with a strong balance sheet and good cash reserves. Our assets are on the books at conservative values.
- While it has been tougher than we expected, we are on track with the transition of our core operating businesses.
- I am often asked what is Lend Lease's key competitive advantage. It is our culture – our people - their energy, commitment and conviction.
- We have nearly 12,000 employees globally, most of them shareholders. We have a lot of management depth in this organisation.
- We are all very focused on meeting our objectives.

- Lend Lease will take its place in the global market as a company you are happy to continue to support.
- As I said earlier, we continue to expect growth in after tax operating profit over a base of 210 million for the year 2002.