VALAD

23 June 2008

VALAD ANNOUNCES DISTRIBUTION AND BUSINESS UPDATE

- **Expected FY08 EPS and DPS to be 11.1 cps in line with FY07**
- **Moving to distribution of cash earnings in future years**
- **Profits, capital recycling and debt reduction from Gold Fields, Digital Campus, Noosa and Kennards deals totalling ~A$420m**
- **A$57m Italian office sale in Crownstone portfolio above book**

SYDNEY: Valad Property Group today updated earnings and distribution guidance.

Uncertainty across all financial markets, particularly global property markets, has resulted in a decline in activity during the 2008 financial year. The lower level of activity has slowed growth in both Valad's funds management and development and trading businesses.

In light of current market conditions, Valad has chosen not to deploy all of the $1.2 billion of capital recently raised within its managed funds based on the expectation that buying opportunities will improve throughout the course of this year and next, resulting in greater returns for fund investors and Valad's security holders. This stance is supported by Valad's fund investors. New base management and transaction fees have therefore not been earned during the second half as expected.

Similarly, while strong profits have been realised from Valad's development and trading business in the second half, the activity level has been below that which was previously expected and Valad has elected not to sell off quality assets at the expense of future profits and growth opportunities.

Notwithstanding these conditions, a highlight of the second half is the creation of an investor club deal for Gold Fields House. The transfer of 40% of the asset to a global investor will be at an uplifted value and will provide Valad with ongoing management fees and profit share.

Estimated Distribution for the Half Year to 30 June 2008 and Distribution Policy

Valad's underlying earnings for the 2008 financial year are expected to be 11.1 cents per security subject to advanced transactions (as detailed later) completing by 30 June 2008. As with previous years, Valad's distribution for the 2008 financial year will be in line with underlying earnings, resulting in an estimated total distribution of 11.1 cps.

Accordingly, the expected distribution for the half year ending 30 June 2008 and details in respect to the payment date are set out below:

Estimated distribution	4.85 cents per stapled security
Record date	30 June 2008
Securities trade ex entitlement	24 June 2008
Payment date	29 August 2008

Going forward, Valad believes it is prudent to adjust its distribution policy to ensure that distributions more closely match cash earnings, as opposed to underlying earnings which have been the benchmark to date. These changes will improve capital management and allow for greater flexibility with regard to maintenance capex and working capital. Further details regarding timing of implementation, likely payout ratio and definitions will be provided in the full year results announcement.

Valad will also provide colour on the financial year 2009 earnings outlook with its 2008 full year results which will be announced on 26th August 2008.

Capital Management

Gearing on balance sheet is expected to remain at approximately 32% as at 30 June 2008, which is at the low end of the 30-40% policy range. In financial year 2009 there are only three debt facilities expiring and Valad is currently in discussions with the banks to extend these facilities. The facilities are only drawn to A$120 million which can be repaid out of available cash in the event that they are not extended.

Importantly Valad:

- remains within all covenants;
- has no market capitalisation covenants;
- has no cross collateralisation between the Group and/or its funds; and
- has no recourse debt within funds or JVs.

In the period since 31 December 2007, Valad has secured and locked in new debt arrangements and refinanced several debt facilities at both the corporate and fund level. At the Group level, three lines totaling A$160 million were procured. At the funds and JV level, facilities totaling A$1.2 billion were procured and refinanced.

Valad's capital management plan includes keeping the Distribution Reinvestment Plan on for the upcoming distribution given the prudent desire for strong balance sheet capitalisation. The DRP discount will be 1.5%, in line with previous periods.

BUSINESS UPDATE

Funds Management

Valad currently has approximately A$10.5 billion in assets under management in 17 funds (14 wholesale) with minimal redemption rights (2% in 2 of 17 funds). Valad has raised A$1.3 billion of equity and debt across four funds and the Gold Fields vehicle so far in calendar year 2008. As noted earlier, much of the capital raised is yet to be deployed with the expectation of more compelling acquisition opportunities ahead. This has resulted in lower than forecast acquisition fees and aggregate base management fees, but provides further certainty to financial year 2009 earnings as those funds are deployed.

The strategy to create further long term funds management revenues from the transfer of part of Valad's 61% stake in Gold Fields House has been well flagged. Valad acquired Gold Fields House for A$274 million in June 2006. The transfer of 40% of the asset to one of Valad's global institutional investors will be effected at an equivalent price of $340 million for the whole asset. This transaction will be structured as a club deal where investors will have a quasi-direct stake in the asset and its long term re-development and Valad will enjoy funds management and development management fee income together with the opportunity of a significant promote over the seven–year life of the project. The transaction is subject to FIRB approval and documentation completion by 30 June 2008. The transaction will return approximately A$54 million of capital and reduce balance sheet gearing by approximately 1%.

Valad has several assets in its pipeline and on balance sheet that can be structured into 'club' deals similar to the Gold Fields House transaction which provides a profit uplift on transfer, fund and development management fee income as well as performance fees for the duration of the project.

Property Ownership

Valad owns properties on balance sheet, within joint ventures and via fund co-investments which together represent A$2.3 billion of value and which generate solid recurring earnings. Asset values are relatively stable given the conservative position adopted at the December 2007 balance date together with Valad's active asset management strategies which have offset broader market trends.

Many of Valad's on balance sheet properties are in the process of being revalued, with preliminary feedback indicating that while capitalisation rates are trending upwards, values have been protected by rental increases that have been achieved via Valad's active management strategies. Overall, the impact of weakening cap rates is expected to outweigh the value-add related uplifts for the year ending 30 June 2008 and a writedown of $65-85 million is expected, representing 3-4% of total investment and trading assets including JVs and co-investments.

In February, Valad stated that it would aim to strengthen its capital position by reducing debt via the sale of non-core assets. A review of the portfolio has been conducted and in light of the lack of investor appetite for yield-based funds, it has been determined that Valad will divest its interest in the A$380 million self storage portfolio which it owns in a 50/50 JV with the Kennard family. Consequently, an agreement has been reached to progressively sell all of Valad's interest in the portfolio to the Kennard family over the next 18 months. The transaction is expected to complete by 30 June 2008. This will return A$69 million of capital to redeploy to core business and reduce on balance sheet gearing by approximately 1%.

Development & Trading

First half development and trading earnings were derived entirely from Valad's UK operations, and as forecast in our half year results the second half earnings, although slightly lower than anticipated, will be largely skewed towards profits from Australian projects.

Valad will book second half profits from the selldown to a third party of a 50% stake in its Sheraton Noosa Resort complex on Queensland's Sunshine Coast prior to its settlement late this year. The transaction capitalised on strong hotel market conditions and realises significant early value for Valad while retaining upside potential from its continued involvement in the Hastings Street project through the equal joint venture.

In all, Valad has three transactions (Gold Fields, Digital Campus (UK) and Kennards) that are due to be finalised prior to 30 June 2008 and which combined represent 3.0 cps of earnings.

Valad Capital Services (VCS)

The VCS portfolio (comprising approximately A$760 million in commitments and A$550 million in drawn amounts) is currently funded on balance sheet. Valad's investments into VCS projects are equity funded. Taking current and future positions off balance sheet will free up corporate capacity, generate fee income and expand Valad's product suite.

Valad's balance sheet exposure to VCS will flatten and reduce over time due to three key factors:

- Increased realisations as projects mature. Paradise Point was sold in the first half of the 2008 financial year, achieving an IRR in excess of 50% and releasing $20 million of equity;
- Continued recycling of capital. Two positions were transferred into VOF12 totalling $8.7 million in equity this financial year. Further recycling opportunities are being explored with regard to Valad's opportunity and development fund series; and
- The introduction of third party capital. Valad has successfully proven up the VCS business model and is well progressed with its plans to introduce third party equity to the existing VCS book with potential investors currently conducting due diligence on the portfolio.

"The scaling down of Valad's on balance sheet exposure to VCS coincides with the resignation of Paul Notaras, Group Head of VCS, and Alastair Wright, Asia Pacific Head of VCS, to form their own private property business. Paul and Alastair have made a tremendous contribution to Valad in their 4 years with the Group which included the continued growth of the wholesale funds platform and the establishment of the VCS business. We will continue to have a strong relationship with Paul and Alastair and we wish them well in their new endeavour. As evidence of our ongoing relationship, Paul will remain on the VPlus and ICADF boards and he and Alastair will provide consultancy services for the existing VCS book," said Mr Day.

"Paul and Alastair have built a terrific team which leaves Valad well placed to manage the existing book and source additional opportunities. Gareth Price has been promoted to lead the team in the Asia Pacific region and he will report directly to Jeff Locke, Valad's Asia Pacific CEO. Both Gareth and Jeff have strong experience in property and JV partnerships and we expect the VCS business to continue to prosper under their stewardship."

"Our UK & European VCS business will continue to be led by Stephen McBride. Stephen continues to oversee the Group's largest VCS exposure, our investment in the Crownstone fund," said Mr Day.

Crownstone

Valad is pleased to announce that Crownstone European Properties Limited ("Crownstone") has reached an agreement to sell the Milanofiori office building in Milan, Italy, for €34.8 million, which represents a net yield of 6.1%.

The sale by the pan-European office fund follows the successful lease-up of vacant space and significant lease renewals. The Milanofiori asset had a 78% occupancy rate at the time of Valad's initial investment in the Fund, but now is 95% leased. The sale is consistent with Crownstone's strategy of maximising internal rates of return by selling assets at the completion of the value-adding phase.

"This sale price represents a 20% uplift on our effective entry cost and is a tribute to the diligent effort of the Crownstone team and its ability to reposition assets and secure value uplift during challenging times in global property markets," said Valad's Executive Chairman – Europe, Peter Hurley.

As outlined in Valad's profit statement in February, Crownstone's 15 assets at the end of December 2007 had a gross value of €846.9 million. Since balance date, more than €100 million has been realised via five asset sales with four Dutch properties sold for a total of €66.8 million and now Milanofiori contracted for sale at €34.8 million. All of these sales have been transacted at or above book value.

Following the Milanofiori sale, which is set for completion by 30 June 2008, another three Crownstone assets are at various stages of marketing.

Outlook

Valad's Executive Chairman, Stephen Day, said "It is clear that the subprime crisis has proved challenging for both financial and property markets this year. These market conditions have impacted our 2008 financial year earnings with the combination of our decision to be careful with the deployment of available capital in our funds and the lower activity in the markets. Despite these conditions Valad has successfully grown its funds management business during the financial year, having raised capital in six different funds or vehicles and extended the life of one fund by seven years, thus continuing to grow our recurring earnings base. With low group gearing of approximately 32% and around $800 million of purchasing power available in funds, Valad is now well positioned to take advantage of the opportunities created by the dislocation within markets."

Valad currently anticipates earnings per security growing in the 2009 financial year from the 11.1 cents per stapled security in financial year 2008, with guidance to be provided on 26 August 2008.

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About Valad

Valad is a value adding property group that encompasses funds management, investment, development and property investment banking. Valad is a Top 150 ASX-listed company with offices throughout Asia Pacific and Europe with approximately A$20 billion of assets under management.

Valad's revenue is well diversified by business line, property sector and geography. Valad's capital sources are also diversified and include pension funds, wholesale investors, retail investors, banks and financial partners. Valad aims to foster long-term relationships with all of its investors and partners.

Valad has been providing investors with innovative products and delivering superior returns since 1995. Valad's funds management business draws on the reputation and expertise of its talented team of property and finance professionals. Valad's name is derived from the words "value add" and this philosophy is reflected in the total return focus of the Group's managed funds.

Valad will continue to seek opportunities to "value add" in existing and new markets to further grow and diversify its earnings while meeting the aspirations of shareholders, investors and staff.

Our Vision

Valad strives to be recognised as a market leader in the regions within which the Group operates by implementing a 'value-add' philosophy across each of its diversified business lines: property ownership, development, funds management and capital services. www.valad.com.au