



# ING Real Estate Entertainment Fund Annual Unitholder Meeting

**2008**

Sydney – 8 December 2008  
[www.ingrealestate.com.au](http://www.ingrealestate.com.au)

**REAL ESTATE**

**ING** 

# Impacts of global credit crisis

---

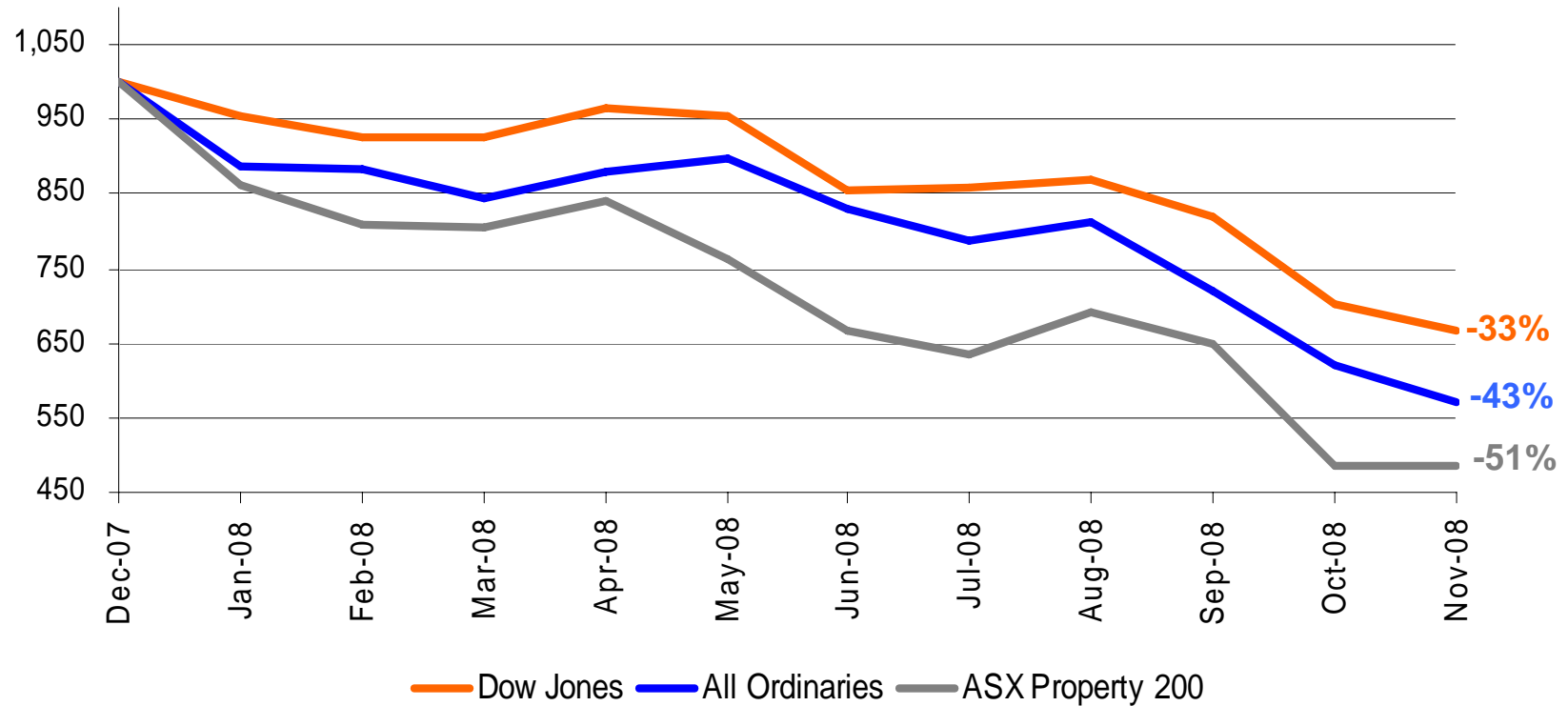
- Global credit crisis has deepened
- Many banks being recapitalised/nationalised
- Governments guaranteeing bank deposits and inter bank lending
- Economic growth slowing globally
- Negative impacts across all sectors and asset classes
- Equity markets pricing in global economic slowdown/recession

# Effects on Australian Real Estate Investment Trust (A-REIT) market

---

- Limited and expensive availability of credit
- Increased number of sellers and growing list of assets for sale in all sectors
- Transactions have slowed significantly and no value clarity
- Underlying property markets are in a relatively healthy position
- Currently a financial issue (balance sheet/debt) not an supply/demand issue
- A-REITS trading at major discounts to net asset value

# Global equity markets



- Global equity markets have been hit hard

Source: IRESS



# 2008 results summary



# Financial performance FY08

	<b>2008</b>	2007	<b>Change</b>
Distributable income (\$m)	<b>15.8</b>	11.4	38.6% ▲
Distributable income per unit (cents)	<b>10.1</b>	9.8	3.1% ▲
Distribution per unit (cents)	<b>10.05</b>	9.70	3.6% ▲
Debt to total assets (%)			
– Secured debt	<b>53.4</b>	50.7	2.7% ▲
– Total including CLS	<b>57.1</b>	56.7	0.4% ▲
NAV per unit (\$)	<b>1.16</b>	1.33	-12.8% ▼

- Delivered 10.05 cents per unit distribution consistent with FY08 guidance
- Net asset value fell due to reduction in property values
- 96% of Fund earnings sourced from property rents

# Review of Fund performance

---

- Performance was underpinned by lease income
- Portfolio quality continues to improve as demonstrated by recent industry awards:
  - Brisbane Hotel, Perth won “**Australian Hotel of the Year**” – Australian Bar Awards
  - 3 Weeds, Rozelle won “**Gastronomic Hotel of the Year**” (NSW) - Australian Hotel Association
  - Terrey Hills Tavern, Terrey Hills won “**Hotel Redevelopment of the Year**” (NSW) - Australian Hotel Association
- Achieved \$41 million on asset sales during the year at an average yield of 6.7%
- Realistic investment approach has mitigated impact of cap rates increasing
  - Current portfolio yield 8.2% with room to increase to ~9% if circumstances deteriorate further

# Debt profile

Debt profile <sup>1</sup>	Facility \$m	Drawn \$m	Expiry
Facility 1	204.3	204.3	Feb 2010
Facility 2	57.2	56.6	Sept 2010

Finance covenant analysis <sup>2</sup>	Portfolio Forecast
Loan to valuation ratio (LVR)	55.9%
LVR Covenant (weighed average)	60.9%
Interest Cover Ratio (covenant 1.5:1.0)	1.9
Cap rate - portfolio	8.2%
Cap rate tolerance	~9.0%

<sup>1</sup> Debt facilities stated in \$A equivalent using applicable exchange rate as at 30 November 2008

<sup>2</sup> Forecast includes all contracted sales and valuation adjustment for refurbishments completed since 30 June 2008

# Portfolio overview



# Key portfolio characteristics

---

- Diversified portfolio with investments in NSW, Qld, WA and New Zealand
- Carrying yield of 8.2% with long term potential for upside through asset improvement and structured rental reviews within leases
- Annual fixed rent escalation of ~3.0% (or CPI if greater than 3%) on majority of leases
- Rental income derived from long term leases with weighted average lease expiry of 12.3 years
- Partnerships with 18 experienced operators, who have a significant investment in the venues through their initial acquisitions of the operating business

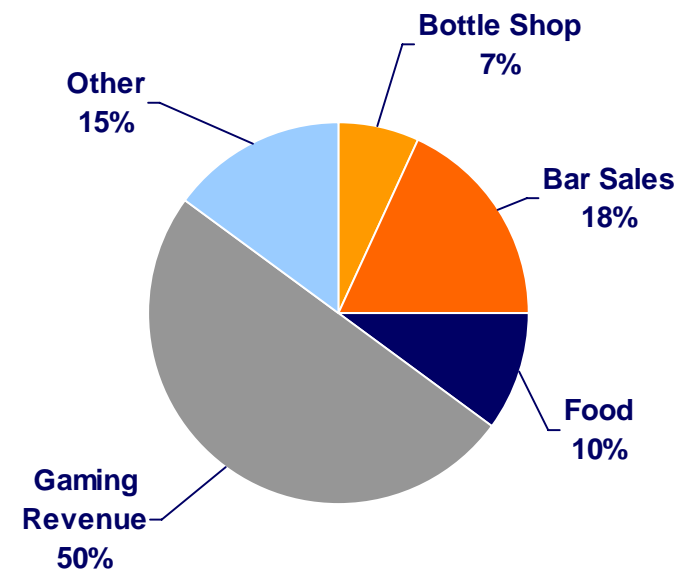
# Key portfolio characteristics

## Summary for Fund's largest four operators

Operational summary <sup>1</sup>	Proportion of Fund Income
Icon	31%
Panthers	21%
Equity Partners Hotel Group	8%
Feros Group	5%
<b>Total</b>	<b>65%</b>

Consolidated trading summary	30 June 08 \$m	30 Sept 08 \$m
Income	229	234
Gross profit	155	156
Expenses	115	117
Operating profit	40	39
Rent	21	21
EBITDA	19	18
Rent/Operating profit	52%	53%

## Gross profit contributors



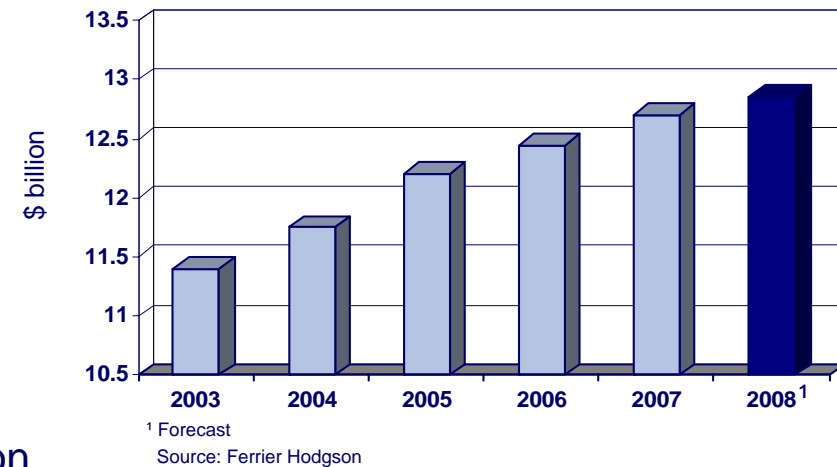
<sup>1</sup> All figures are based on management trading accounts which have been provided by operators and are not audited

# Pub sector overview

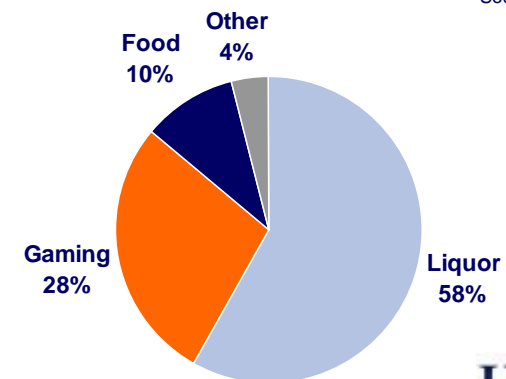
## Pubs remain an integral component of Australian social fabric

- Consistent performance:
  - Industry revenue \$12.7b in 2007
  - Consistent growth over last five years
- Operational quality continues to improve
- Broad revenue base with balanced contribution from all business segments
- Growing importance of food as a key driver for pubs: studies of retail habits show a steady increase in dining out at licensed premises

## Annual growth in pub revenue



## Revenue mix



Source: Ferrier Hodgson



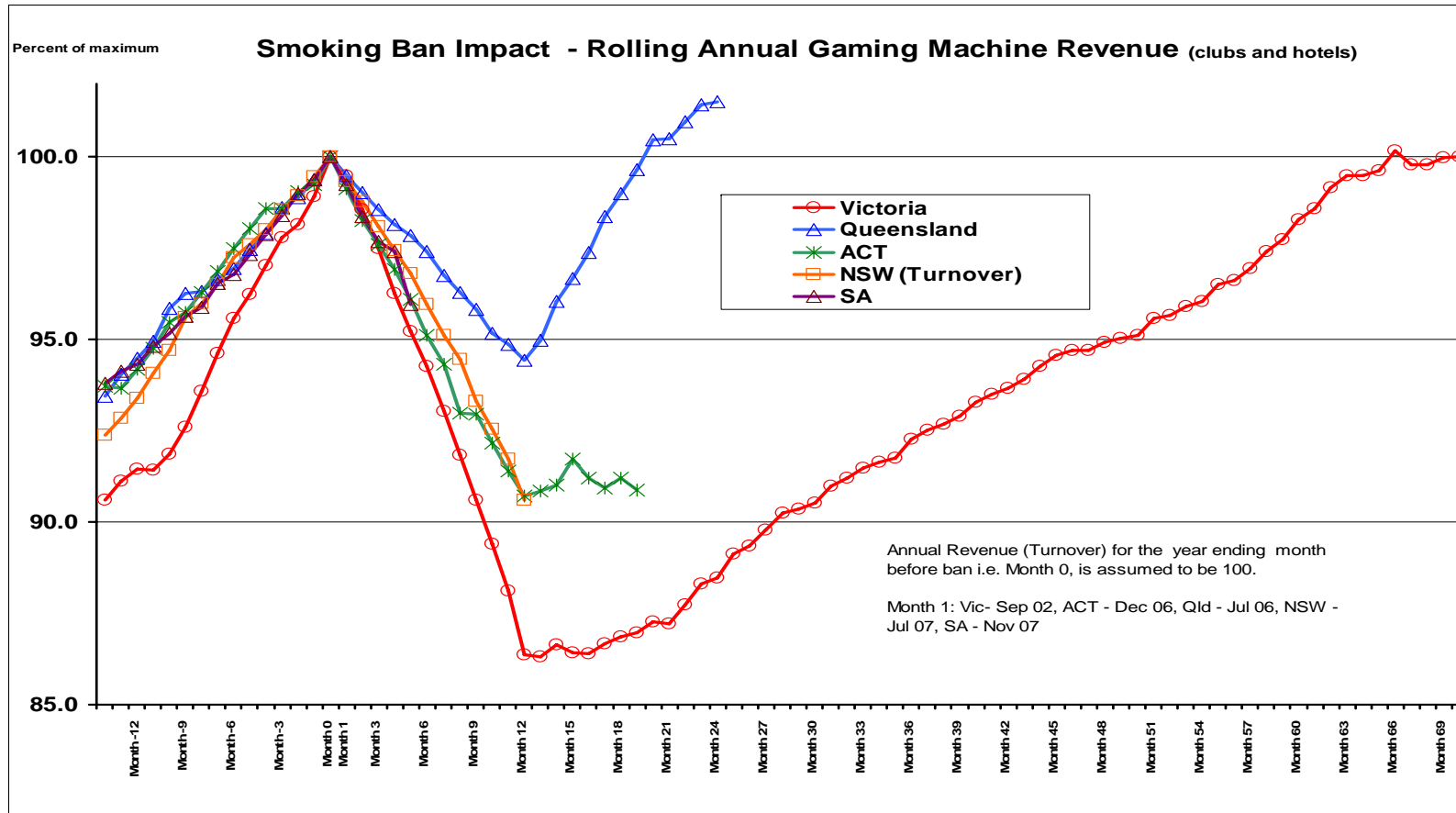
# Pub sector challenges

---

- Capitalisation rates have increased:
  - IEF weighted average capitalisation rate moved from 7.5% to 8.1% at 30 June 2008 revaluations, has now expanded to 8.2% as a current carrying yield
  - Recent reduction in interest rates combined with the expansion noted above, should result in stabilisation of capitalisation rates
- Operational challenges, stemming from:
  - Ongoing deterioration of economic conditions
  - Smoking restrictions, particularly in gaming rooms, although **signs of recovery are evident**
  - Shifts in government policy concerning social impacts surrounding liquor and gaming
- Understanding operational and ownership risks is critical to sustainable performance

# Signs of recovery from smoking bans

## Impact of smoking bans – state trend comparisons (70 months post ban)



Source: CMP Lawler/Clubs NSW



# Outlook



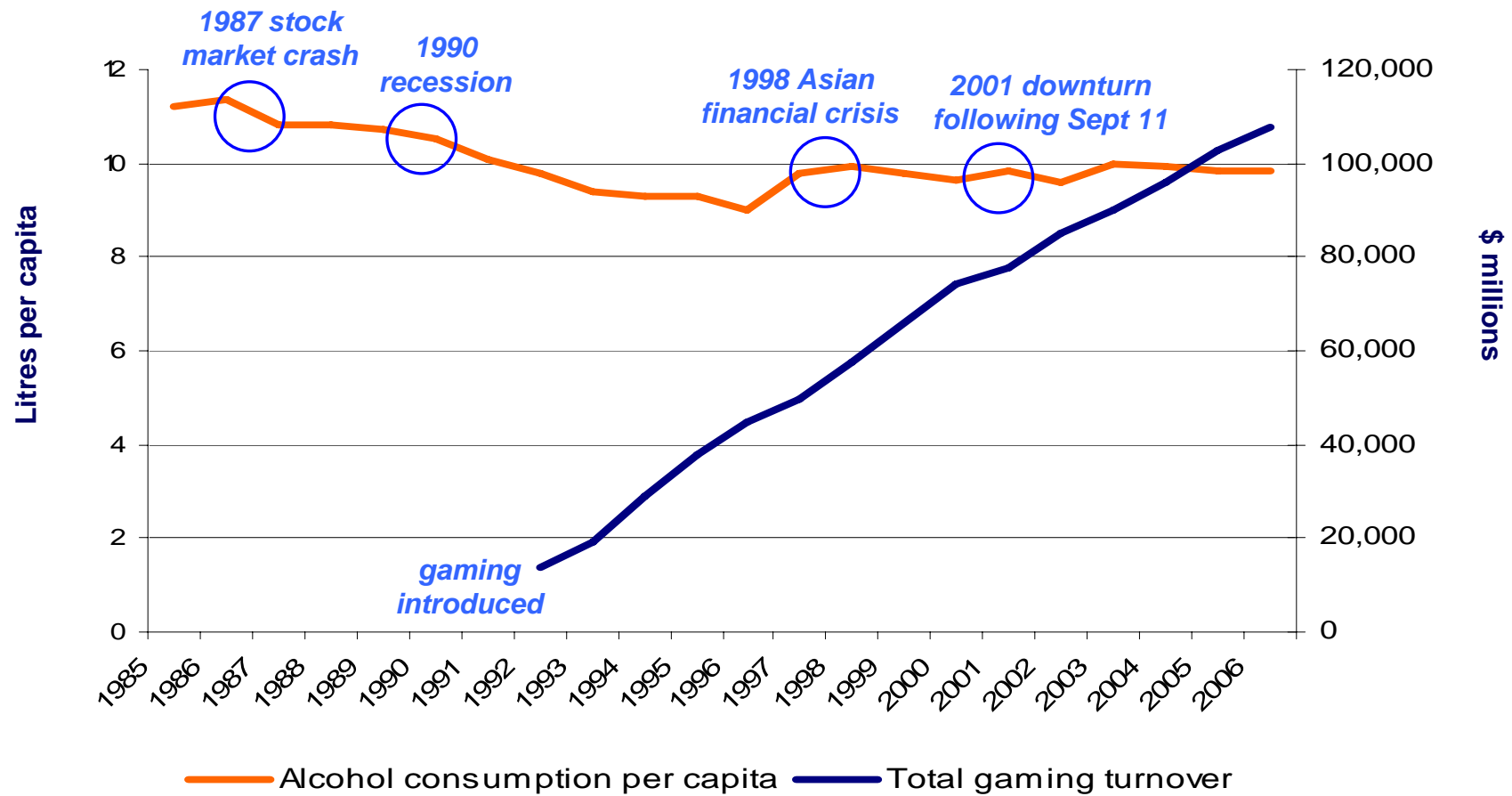
# Outlook

---

- Credit crisis will continue to impact across all sectors and market is likely to remain volatile
- Current A-REIT pricing is assuming a very bearish scenario for property values with pressure on A-REITs to maintain strong balance sheets
- Value forecast remains positive in the long term:
  - Continuing consolidation as groups seek growth
  - Asset class remains favourable to private investors/owner operators
- Operating fundamentals remain unchanged and fiscal stimulus provides direct benefits to customer base:
  - Lower petrol prices
  - Lower mortgage repayments
  - Higher residual household income
- Smoking ban impacts diminishing, with consumers adapting to the changes
- Historical alcohol consumption remains consistent

# Pub sector trends

## Alcohol consumption and gaming turnover in Australia 1985-2006



Source: CMP Lawler/ABS/Australian Gambling Statistics Qld Treasury OESR



# Outlook for earnings

---

- The earnings forecast for IEF has been revised to between 8 and 9 cents per unit adjusted to account for:
  - Anticipated increase in financing costs
  - Greater than expected down time in two pubs caught up in the Pubboy liquidation
  - Costs associated with the extension of the Fund's Convertible Loan Securities
  - Allowance for Distribution Reinvestment Plan participation
- Distribution forecast revised to 5.5cpu for FY09
- Management is of firm opinion that reducing the Fund's distributions is a prudent measure during the current economic climate and is in the best interests of unitholders

# Outlook

---

## How will these measures benefit IEF?

- Provides significant cashflow benefit to the Fund which will be applied to reduce debt
- NAV per unit is preserved (no dilution of existing unitholders)
- In addition, various capital management initiatives are being pursued to strengthen IEF's balance sheet:
  - disposal of selected assets
  - deferral of all non-essential capital expenditure

## Outlook

- Good demand for assets continues, however the sale process is extremely protracted and cannot be relied upon to provide quick and effective results
- Reducing distributions underpins cashflow, and along with other capital management measures, assists IEF in facing the uncertain economic climate

# Summary

---

## Robust, long term basics:



### QUALITY PORTFOLIO

- Diversified portfolio of high quality assets in good domestic locations
- Consistent improvement of asset quality



### SIMPLE STRUCTURE

- Traditional REIT structure with secure income derived from rent
  - Long term leases
  - Qualified operators with investment in the business
  - Rent model – the Fund bears no direct operating risk



### EXPERIENCED OPERATORS

- Successful partnerships with a wide variety of operators, who invest alongside the Fund



### DISCIPLINED STRATEGY

- Track record of considered investments, with a weighted average acquisition yield of 8.5% for the portfolio
- Recent sales achieved at an average yield of 6.7%

# Questions



# Thank you

---

**A copy of this presentation will be made available on**

**[www.ingrealestate.com.au](http://www.ingrealestate.com.au)**

## **Disclaimer**

This presentation was prepared by ING Management Limited (ABN 15 006 065 032) (the "Responsible Entity") in respect of ING Real Estate Entertainment Fund (ARSN 108 982 627) ("IEF"). Information contained in this presentation is current as at 26 August 2008. This presentation is provided for information purposes only and has been prepared without taking account of any particular reader's financial situation, objectives or needs. Nothing contained in this presentation constitutes investment, legal, tax or other advice. Accordingly, readers should, before acting on any information in this presentation, consider its appropriateness, having regard to their objectives, financial situation and needs, and seek the assistance of their financial or other licensed professional adviser before making any investment decision. This presentation does not constitute an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any security, nor does it form the basis of any contract or commitment.

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information, opinions and conclusions, or as to the reasonableness of any assumption, contained in this presentation. By reading this presentation and to the extent permitted by law, the reader releases the Responsible Entity and its affiliates, and any of their respective directors, officers, employees, representatives or advisers from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or loss or damage arising by negligence) arising in relation to any reader relying on anything contained in or omitted from this presentation.

The forward looking statements included in this presentation involve subjective judgment and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, the Responsible Entity. In particular, they speak only as of the date of these materials, they assume the success of IEF's business strategies, any they are subject to significant regulatory, business, competitive and economic uncertainties and risks. Actual future events may vary materially from forward looking statements and the assumptions on which those statements are based. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements.

The Responsible Entity, or persons associated with it, may have an interest in the securities mentioned in this presentation, and may earn fees as a result of transactions described in this presentation or transactions in securities in IEF.



---

# ING

## REAL ESTATE