LEND LEASE
STRATEGY DAY

27 MAY 2010

MR PAUL WALSH: Thank you David. I'm Paul Walsh. I'm the CEO of Lend Lease Primelife. Last year I was the CFO. Lend Lease Primelife became 100% subsidiary of Lend Lease in December 2009 when Lend Lease acquired all the shares.

You only need to read the press to understand that the senior living sector is a growth area. Australia's population is growing strongly over the next 15 years, but the over 65 population is expected to grow by approximately 69% over that period which is far in excess of the 20% odd that you expect in the whole population.

Addressing this sectors plays to Lend Lease's core property skills and allows for multiple fee streams. We get development management profits from developing new villages, deferred management fees for managing and owning existing villages and asset management fees for redeveloping and refurbishing existing product to keep it regenerated.

Lend Lease's investment in the senior living sector is congruent with the Group's growth platforms which Steve talked about earlier.

The strongest growth is in the over 65 population, but the 75 year plus sector is growing even stronger and correlates with the average age of Lend Lease Primelife's residents which is in the order of 80 years old.

The growth rate of the over 65s is expected to increase in excess of 69% over the next 15 years, but when you look at the over 75 age group, that's something like a 77% increase.

Its importance is, if you look at the graph on the right, that shows that Australia has as little as 5% of its population in retirement living. If you compare this to New Zealand with 7% and the US with 12% penetration, you see that we're way under. The reasons for this will be many and varied and relate to requirements for people to want to own their product, but scope exists to increase penetration rates significantly.

If you look at Citigroup's latest release, they show that 200,000 new retirement living dwellings will need to be constructed over the next 15 years to meet both the projected demand made up of population growth and then that increase in penetration to just 7.5% from the roughly 5% that we've got now. This would equate to something like $60 billion new construction over the next 15 years so this is a growth sector no doubt.

Lend Lease is the number one player in retirement sector with an unparalleled retirement village network and aged care network. The retirement village market is very fragmented and the 10 largest for profit operators only account for 15% of the market. As the industry moves from cottage industry, which is where it was a few years ago, the larger players are emerging with strong branding, strong operating platforms and access to the skills required to lift the industry to an institutional product.

The sector has good dynamics with that aging population we talked about before. A growing market penetration and that'll be fuelled by things like increasing personal wealth and the desire for value added services in the villages which can only be, in many instances, delivered in a village situation. You can't do that in the general community.

As an operating business earnings are generated over the lifecycle of a village from inception to ongoing management and regeneration. We get property development profits for new villages and new product we develop, deferred management fees for running the existing villages, management fees for managing third party capital in the sector, value added fees for extra services such as care services and fees for redeveloping the villages and units.

Achieving scale is important to secure viable business that has the ability to do growth and most importantly reliable cash earnings.

So retirement is about building and operating communities and Lend Lease is a leader in building communities.

So have a look at the retirement value chain. So development, we have the opportunity to use Delfin sites or some of the Vivas sites or lands that we select otherwise. It's a core Lend Lease capability developing product.

Deferred management fees; we receive this for the provision of the community centre and other services such as parking provided to the residents. Typically a DMF is structured as 3% of the outgoing sale price and typically -- and I say typically because they do vary -- capped at 10 years. We have the potential to modify the fee accrual period to enhance value.

Village management; this is for managing villages for third party capital. This typically charges a percentage of the DMF collected so you're aligned to who's providing the capital. We currently do this for the Lend Lease Core Plus Fund and Prime Retirement and Aged Care Trust. There's also resale commissions that we get as the turnover happens.

The value enhancement is the redevelopment of the individual living units and serviced apartments and that produces development management fees and/or profits depending how we structure it. Repositioning a village by reinvesting in the place is an asset management activity and generates asset management fees or we end up with a revaluation of the DMF stream. There is the ability to provide value enhanced services and these are typically outside the normal service fee that a resident will pay.

There's a potential for funds management activity. Typical funds management fees, as you'd know, are made up of base performance and acquisition fees. This is a relatively new product offering to investors in this space and provides exposure to a growth sector that hasn't yet been widely taken up in the wholesale funds management space.

All of these activities that you see on the screen are a part of Lend Lease's core competencies and it fits well in Lend Lease's integrated platform.

So what does the DMF look like, the deferred management fee? Typically a Lend Lease

Primelife contract is 3% of the outgoing sale value capped at 30%, so it's 3% per annum capped at 30% or essentially at 10 years with 3% per annum. Another way of looking at it is that it's 3% of the ingoing price plus 30% of the capital gain as you can see from the graph.

Now contracts do vary and the 3% per annum capped at 30% is only one type. What we vary is the amount per annum and the maximum. We're also very focused on the drivers of value; what makes the cash increase? Resident entry age and turnover, so we try and see to the right age of person. The contract type and as I said this varies from village to village and we may offer different contracts to reflect the different occupancy durations we see in certain types of product. So in a lifestyle village we see people a lot younger and then in a mature village we have an older style of resident.

Serviced apartments; the residents there tend to arrive later and stay for shorter durations so a different contract is required; a shorter accrual period.

Property price movements obviously are something that affects our return. This is enhanced by our management and affected by the levels of service fees that we charge in the villages so it's important to make sure we've got our service fees at an efficient level and what level of asset management we've done to the village.

It's important to remember that the cashflows are long dated, so once a resident comes in, on average we only collect every 11 years. Some stay longer, some stay shorter.

So what does our retirement village portfolio look like? Well it's 70 villages and you can see them there. They're in all states but ACT and the Northern Territory and also New Zealand. This is our owned and managed portfolio and it's unparalleled in size and scale and diversity. This size, scale and diversity reduces the volatility in the cashflows. It's a high quality portfolio ranging from lifestyle villages for slightly younger residents to urban villages that have been well developed and also some in regional areas. There's a good dispersion of age of our villages; we've got some that are down to two years old, say at Parkland, Ellenbrook in Western Australia and up to 25 years old at Parkland Woodlands in WA. Our average age of villages is 16 years.

New Zealand villages are a great portfolio and performing extremely well and they're well placed in the north shore of Auckland or four of them are.

The average age of our residents is almost 80 years, with a recent average exit age of just over 81 years.

The villages are well rewarded. Elliot Gardens in South Australia won a UDIA Award for Excellence in the Senior Living category. Our manager from Parkland Villages Mandurah won the Manager of the Year from the RVA in 2008. Brentwood Village in New South Wales won an award for Excellence in Customer Service. Nelsons Grove in New South Wales won a Sustainability Award from Holroyd City Council and 41 of the villages have been accredited by the RVA.

So the development pipeline; we've got in excess of 1500 units in our backlog. These range from villages nearing the end of their development cycle to some that have just started, with the majority being in Victoria and New South Wales. We plan to increase the backlog, to increase the number of units delivered each year. Under previous ownership with capital being constrained, the development process was slowed down and the business has now been refocused on development and we intend to increase the volume of developed product that we bring to market.

In developing retirement product you've got to remember we get the two income streams; one is the development margins just like any other development product as we sell the product and we also earn a DMF.

It's important to remember that unlike the residential based product that typically Lend Lease sells, in this sector we continued to manage the village and so developing a sense of place and a service culture in the village is a very important part of the development process. For most of our residents it's not just about the real estate.

Our aged care portfolio; the aged care portfolio is primarily focused on New South Wales and Victoria with a couple of facilities in Queensland and one in South Australia. In Melbourne it's mainly suburban and in New South Wales suburban and Central Coast primarily.

Over the last year we've been consolidating the ownership positions and this puts our aged care business in a great position for the future. We have a good mix of low care high care beds and we've got two facilities that provide extra services to the residents. We cater for aging in place in the majority of our facilities which means that as someone progresses through the stage of life they don't need to move.

We have focused on increasing the efficiency of this business whilst always ensuring that the needs of our residents are catered for.

We have the three pillars: simplification, value creation and service culture and we're applying these through this business also.

In the last year 18 of our facilities were awarded accreditation by the Aged Care Accreditation Agency which is the governing body which is essentially the Government, for three years, so we've done a large percentage of our portfolio.

It's important to remember that the revenue stream in aged care is primarily derived from government sources, so our revenue streams are accommodation bonds on low care beds and we get an accommodation charge which is the government stream; daily care fees and these are subject to means testing. If we don't get a daily care fee then we have a higher accommodation charge so we don't lose out, it's just a play between the resident and the Government and then extra service charges on the extra service facilities.

So last year we put this at our investor presentations our strategic objectives, what we call the three pillars: simplification, value creation and the service culture. They're essentially unchanged from last year.

The simplification is about driving operational efficiency as a key objective. We want a single operating platform because we have RBD and Lend Lease Primelife and in the last three years there's been significant acquisitions by Lend Lease Primelife in its former lives of villages and they need to be integrated.

Value creation: the object is to grow the development pipeline and leverage the Lend Lease integrated model and we also want to consolidate our brand. By doing the simplification we also will produce value.

Service culture: our residents are our best market resources that we have and they use word of mouth to promote our villages to their friends and families in our aged care and also the retirement villages and the focus on service and customer focus ensures that they will continue to recommend our villages and aged care facilities and so we'll continue to have record occupancy.

To achieve these strategic objectives we've dedicated a team to re-engineering the various aspects of the business and to bring together the Lend Lease Primelife and RBD businesses.

Thank you.

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