



APREA OPENING NEW DOORS FOR INVESTMENTS IN APAC

Investing in Australia

Legal & Commercial
Overview

29th June 2021

AGENDA

- Preliminary Considerations
- Structure
- FIRB
- Investment Objectives & Strategy
- Capital Partner & Joint Venture Considerations
- Fund Throughs and Forward Sales
- Q&A

PRELIMINARY CONSIDERATIONS



Structuring

- Income Tax
- MIT – Withholding Tax
- Duty



Objectives/ Strategy

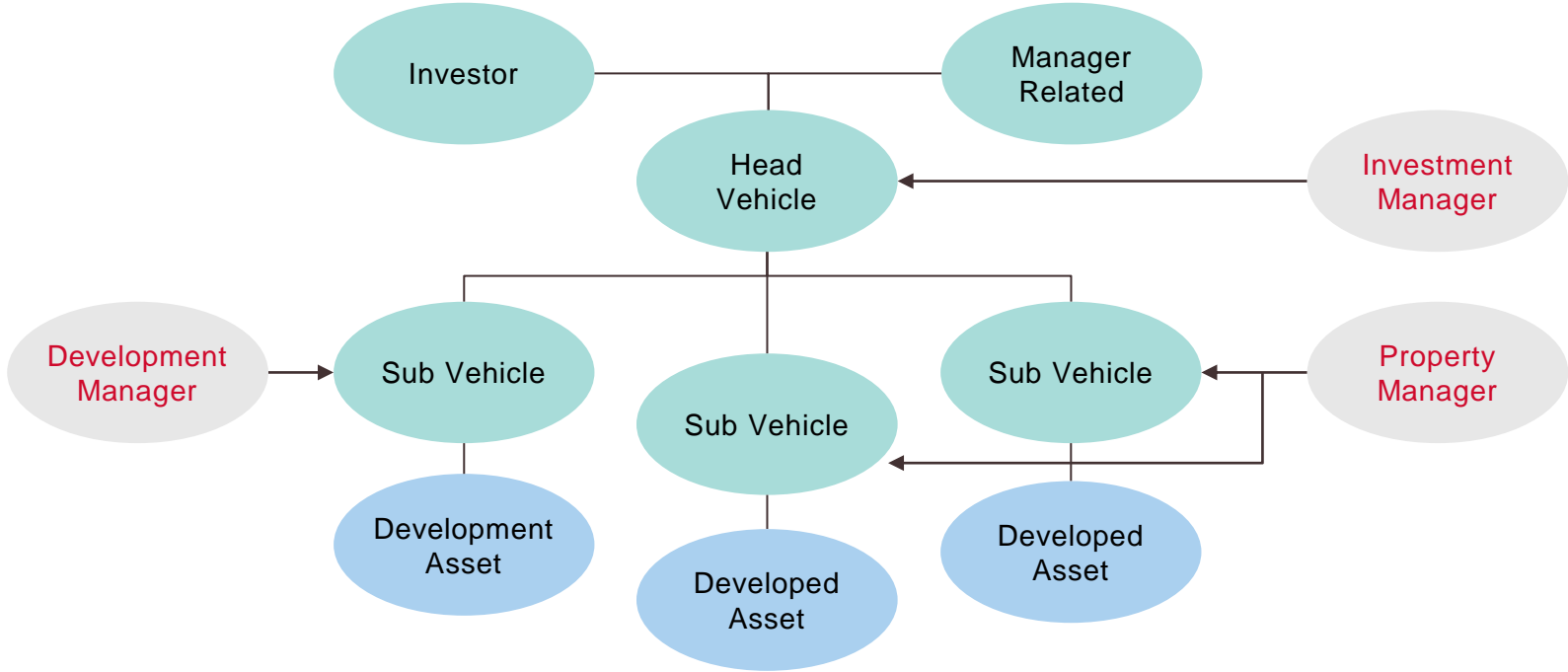
- Economic objectives
- Strategy / Mandate
- Debt / Equity Structure
- Roles



Regulatory

- FIRB
- Registration of MIS
- AFSL Licence

STRUCTURE



REGULATORY - FIRB APPROVAL

Type of transaction	Thresholds	
	Foreign government investors	Private foreign persons
National security land (new)	\$0	\$0
Agricultural land	\$0	\$15 million (cumulative)
Commercial land (non-sensitive)	\$0	\$281 million
Commercial land (sensitive) – broader than you think	\$0	\$61 million
Mining and production tenements	\$0 (also extends to exploration tenements)	\$0
Vacant land (anything without a substantive permanent building that can be lawfully occupied)	\$0	\$0
New and existing dwellings	\$0	\$0

OBJECTIVES AND STRATEGY

Criteria to consider real estate sector:



Development or
stabilised asset



Location
of asset



Pre-commitment
levels



Funding
commitments



Ratings
(sustainability ratings)



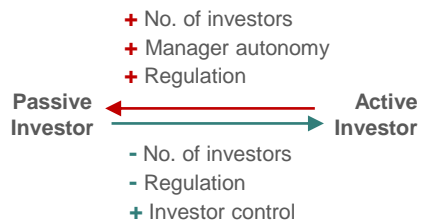
Cap rates and
target IRR

CAPITAL PARTNER / JOINT VENTURE CONSIDERATIONS

To set the right objectives and achieve investment goals, consider:

Governance Models

- Decision making body
- Approval thresholds
- Key reserve matters



Distribution Regimes

- Income distribution policy vs cash distribution policy
- Waterfall (development scenario)
 - Senior debt
 - Other creditors and liabilities
 - Preference Equity
 - Ordinary Equity

Funding Regimes

- Fund-through sale structures:
- Capital partner and Developer roles
- Increase depreciation costs through the acquisition of new product and associated plant and equipment
- Stamp duty savings
- Leasing

Exit Strategy

- ROFR
- Lock In Period
- Tag Along
- Term & exit strategy
- Forced exit
 - Drag Along
 - Default

FUND THROUGH & FORWARD SALES

Overview

Fund-through sale structures are a practical and effective way for new developments to take place with investors able to purchase assets ahead of the completion. This type of structure can benefit both developers and investors by;

1. Providing security of capital to a developer, and
2. Giving the investor access to high-quality brand-new product, generally offering secure and long WALEs.

Who does what?

The Capital Partner/Investor;

1. Provides **construction finance to a developer** for the construction of a building in exchange for the transfer of the land and,
2. **A development agreement** is entered into with the developer for the delivery of the completed building

The Developer;

1. Continues to **take on the development risk**, with mitigation measures in place for the investor and,
2. **Pays a regular coupon payment** on all monies drawn-down throughout construction including the land purchase price.

FUND THROUGH & FORWARD SALES

What are the Advantages?

There are two key considerations which provide enhanced returns for investors;

1. The ability to **increase depreciation costs** through the acquisition of new product and associated plant and equipment and,
2. Significant **stamp duty savings** by acquiring the development based on the current land value prior to completion and the subsequent improved land value.

Leasing Considerations

Most fund through transactions have the full rental income agreed upfront at the time of purchase. For new investor/owners into the Australian market it is important to understand key leasing considerations such as;

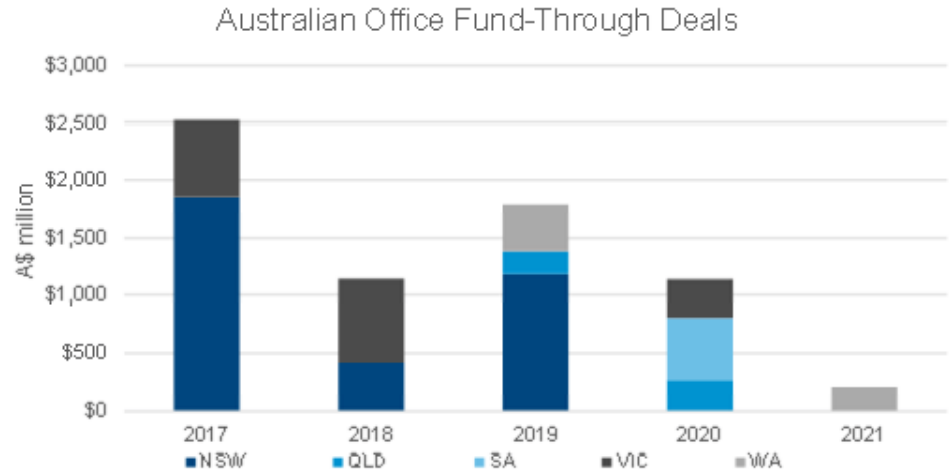
1. **Rental guarantees** provided by the developers for unlet space post completion (btn 2 to 5 years)
2. Market standard **agreement for lease (AFL)** and **general lease (Lease)** terms and conditions such as incentives (fit-out \$ contribution, initial rent free period, lease tails), make good, lease term and rent reviews.
3. **Bank guarantee** provisions (zero to 12mths) and tenant covenant strength

FUND THROUGH & FORWARD SALES

Summary

As at April 2021 fund-through deals have facilitated A\$6.8 billion of office sales in Australia since 2017, supporting the construction of nearly 20 new buildings and adding circa 564,000 sqm of prime grade office space. This trend is set to continue as it becomes harder to purchase new product in an increasingly competitive market.

For new entrants into the Australian market a fund through or forward sale is an attractive and effective way to secure an asset in a highly competitive environment.



Source: Colliers

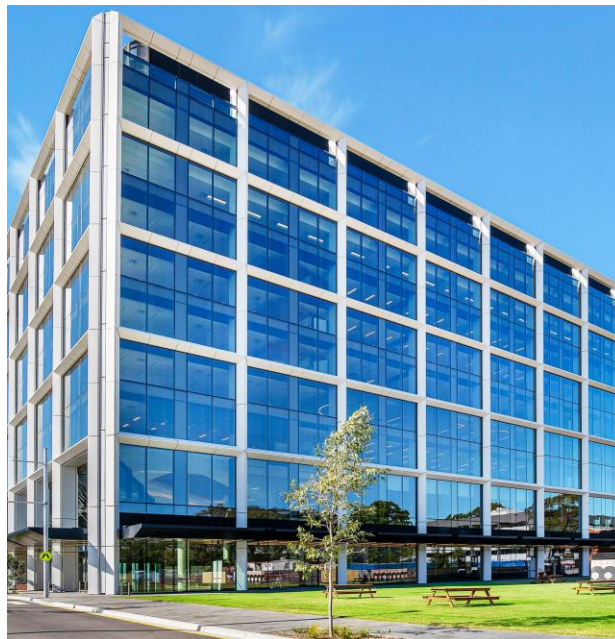
RECENT EXAMPLES

* All Information on this slide is publicly available



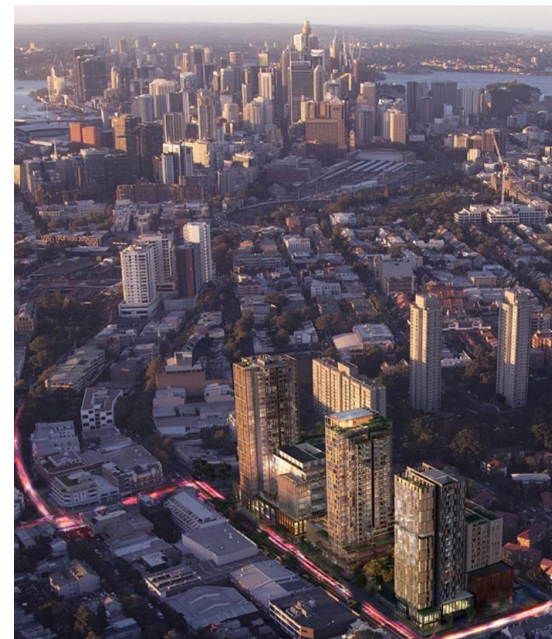
275 George St, Sydney

- Forward through sale to Nuveen & Daibiru for \$240m at a 4.5% cap (c\$33k p/sqm NLA)
- 6,400sqm of commercial NLA + retail
- Completed Dec 2020



Macquarie Square, Sydney

- The Glasshouse was forward sold for \$331m to Charter Hall at a 5% cap (c\$10k p/sqm NLA)
- Completed March 2021



Waterloo Metro Quarter, Sydney

- Forward sale of student housing component to Iglu (GIC) for \$165m
- Completion 2024

QUESTIONS?

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