

## OPERATIONAL UPDATE

# 1Q16

**Mirvac released its FY16 first quarter operational update today, with strong metrics maintained across the Group's office, retail and industrial portfolios and a continued strong performance in its residential business.**

Commenting on the update, Mirvac's CEO & Managing Director, Susan Lloyd-Hurwitz, said, "The progress we have made during the first quarter positions us well to deliver on our objectives for the 2016 financial year.

"We have maintained positive metrics across our office, retail and industrial portfolios, and we remain focused on extracting value from our existing assets and managing our lease expiry profile.

"We are generally seeing improved conditions across our investment grade sectors, which when combined with

expected further cap rate compression, should deliver strong valuation uplifts across our portfolios.

"Within our residential business, we achieved a record level of pre-sales at the end of the quarter, which means we now have 79 per cent of our expected Development EBIT<sup>1</sup> secured for FY16, and 66 per cent for FY17.

"We remain focused on the delivery of our committed residential development pipeline, with approximately \$1 billion of major projects expected to settle in the second half of the 2016 financial year.

"Our proven ability to deliver well-located, quality residential product, targeted at a diverse buyer profile means we remain comfortable with our settlement risk. This is demonstrated by a long-term average default rate of approximately one per cent."

The Group expects to achieve its target Development ROIC of 12 per cent by FY17.

Further, the Group's balance sheet remains strong, with gearing within the target range of between 20 and 30 per cent.

Mirvac reaffirms its FY16 operating earnings guidance of 12.7 to 13.0 cents per stapled security ("cps"), and its FY16 distribution guidance of 9.7cps to 9.9cps.



## Sustainability and Innovation

Mirvac released its 2015 Sustainability Report during the quarter. Some of the key highlights included:

- a 5.1 Star NABERS average energy rating, without buying Green Power, and a 3.8 Star NABERS average water rating across the office portfolio;
- a 19 per cent reduction in carbon output and a 17 per cent reduction in water output since 2013;
- approximately 95 per cent of construction waste recycled;
- almost 179,000 people educated on sustainability, either directly or indirectly; and
- 6,900 hours donated to the community.

In addition to this, Mirvac held its second National Community Day, with around 790 Mirvac employees assisting 35 charities across the country.

Mirvac ranked third in BRW's 50 Most Innovative Companies list for 2015 and was awarded the Best Innovation Program.

Mirvac was recognised for its use of CSR Velocity Panels, which deliver significant benefits in housing construction. These include increased quality control, a safety risk reduction, certainty on project timing, sustainability improvements and an approximate 40 per cent reduction in the overall construction time.

Mirvac is trialling the innovation with two prototypes currently being occupied by tenants, and intends to build up to 600 homes over the next three years using the CSR Velocity Panels.

### NATIONAL COMMUNITY DAY



1) Development EBIT before overheads and sales and marketing.



# Office

Strong business conditions, a lower AUD and low interest rates have contributed to improved tenant demand in both Sydney and Melbourne, driven largely by financial services and technology companies, while conditions in Brisbane and Perth remain challenging.

Mirvac's strategic overweight to Sydney and Melbourne, at approximately 80 per cent, means it is well-positioned in this environment.

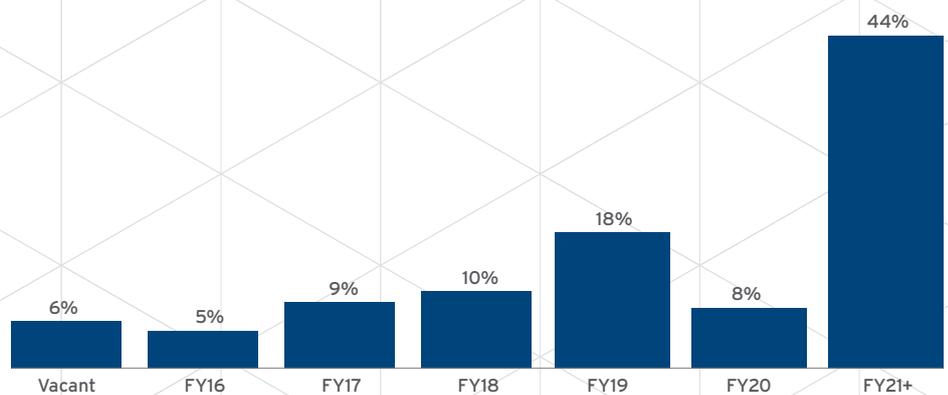
### Office Highlights:

- > occupancy of 93.7 per cent<sup>1</sup> with a strong portfolio WALE of 6.3 years<sup>2</sup>, driven by the execution of over 86,000 square metres of heads of agreement held at 30 June 2015;
- > executed 40 leasing deals, representing approximately 105,400 square metres, including:
  - **Norwest Business Park, 1 Woolworths Way, Bella Vista:** extended lease to major tenant, Woolworths Limited, for over 44,000 square metres until 2031;
  - **367 Collins Street, Melbourne:** renewed major tenant, Optus, for approximately 8,900 square metres of office space for a seven-year lease term and increased Sportsbet's office requirement by approximately 4,300 square metres over an additional four levels;

- **40 Miller Street, North Sydney:** renewed UGL Limited for approximately 7,700 square metres for a five-year term;
  - **55 Coonara Avenue, Sydney:** signed new lease deals for a combined area of approximately 21,500 square metres; and
  - **60 Margaret Street, Sydney:** signed new lease deals for a combined area of 1,860 square metres over five years;
- > held over 97,000 square metres of office space under heads of agreement, including approximately 58,400 square metres at 275 Kent Street, Sydney and 11,000 square metres at 60 Margaret Street, Sydney;

- > achieved practical completion at Treasury Building in Perth, with the tower fully leased to the WA State Government for a 25-year lease term;
- > completed the 37th and final level of 200 George Street, Sydney with the development on track for practical completion in mid-2016. Major tenants, EY and Mirvac, are due to relocate their headquarters to this prime grade asset. The asset is 81 per cent pre-leased;
- > progressed with construction at 2 Riverside Quay, Melbourne, with works tracking ahead of schedule. Major tenant, PwC, who has pre-committed to 91 per cent of office net lettable area, has opted for an integrated fit-out solution to be undertaken by Mirvac.

### OFFICE LEASE EXPIRY PROFILE<sup>2</sup>



**“We have converted a significant number of heads of agreements during the first quarter, which has extended our office weighted average lease expiry by two years to 6.3 years, further underpinning the Group’s distributions.**

**Our office developments are progressing to schedule and we remain focused on securing tenant pre-commitments for our proposed developments at 55 Pitt Street in Sydney, and 664 Collins Street and 477 Collins Street in Melbourne.”**

Susan Lloyd-Hurwitz, CEO & Managing Director

### TREASURY BUILDING



Development end value <sup>3</sup>	\$330 million
Net lettable area	30,800 square metres
WALE on completion	25 years
Ownership	50% Mirvac; 50% Keppel-REIT
Occupancy	99 per cent
Major tenant	WA Government
Yield on cost	8.4%
Total development return <sup>4</sup>	~\$52 million
Sustainability	Achieved a 5 Star Green Star Design rating and targeting a 4.5 Star NABERS rating

1) - By area.

2) - By income.

3) - Based on capitalisation rate of 7.15 per cent, determined at time of 50 per cent sell down to Keppel REIT in 2012. The asset is expected to be revalued in 2Q16.

4) - Excludes revaluation gains on MGR's ownership. The asset is expected to be revalued in 2Q16.



# Retail

New South Wales continues to record solid retail sales on an annual basis, supported by higher wages and low unemployment in Sydney. Strong activity in housing construction in major capital cities and low interest rates continue to support retail sales growth, despite a lower wage growth environment. Mirvac continues to favour urban and metropolitan locations, with the majority of its portfolio located in these markets.

### Retail Highlights:

> achieved strong retail sales over the quarter with growth of 7 per cent, resulting in comparable MAT growth of 5.2 per cent. This was driven by the continued strength of supermarkets, mini-majors and specialty retailers, as well as an improved performance in discount department stores within the portfolio;

- > comparable specialty sales productivity increased to \$8,869 per square metre from 30 June 2015, while occupancy costs reduced slightly to 15.9 per cent;
- > high occupancy maintained at 99.2 per cent<sup>1</sup>;
- > executed 80 leasing deals, representing approximately 9,900 square metres with leasing spreads remaining positive;
- > completed upgrade works to the marina at the Birkenhead Point Outlet Centre precinct, which saw significant enhancements to facilities and amenities, including a 45 metre fuel dock and 14 new berths;
- > progressed with retail developments across the portfolio, which are expected to deliver an average yield on cost of approximately 7 per cent:
  - **Orion Springfield Central, QLD:** Stage 2 on track for completion in late FY16, with the first phase expected to open in December 2015.

The project was 81 per cent pre-leased as at 30 September 2015;

- **Tramsheds, Harold Park, NSW:** on track for completion in late FY16, with 82 per cent pre-leased as at 30 September 2015. Key boutique food operators secured include Bodega, A Tavola, Gelato Messina, Fish & Co. and Butcher and the Farmer;
- **Greenwood Plaza, NSW:** commenced development works on the expansion and upgrade to the casual dining precinct, with completion expected in late FY16; and
- **Broadway Shopping Centre, NSW:** commenced development works on the Level 2 expansion, which will deliver a new casual dining precinct and an enhanced fashion offering, anchored by a leading international mini-major. Completion is expected in early FY17.

**“The retail portfolio is in great shape, underpinned by high occupancy, positive leasing spreads, continued growth in retail sales and solid leasing progress on our active development pipeline. We remain focused on key urban and metropolitan markets where we can extract greater growth through our asset management platform.”** Susan Lloyd-Hurwitz, CEO & Managing Director

### TRAMSHEDS, HAROLD PARK, NSW



### TOTAL SALES BY CATEGORY

Category	1Q16 total MAT	1Q16 comparable MAT Growth	FY15 comparable MAT Growth
Supermarkets	\$808.9m	6.8%	7.3%
Discount department stores	\$189.9m	3.6%	2.8%
Mini-majors	\$376.8m	8.1%	4.1%
Specialties	\$905.4m	4.2%	3.8%
Other retail	\$181.7m	(0.7%)	1.4%
<b>Total</b>	<b>\$2,462.7m</b>	<b>5.2%</b>	<b>4.7%</b>



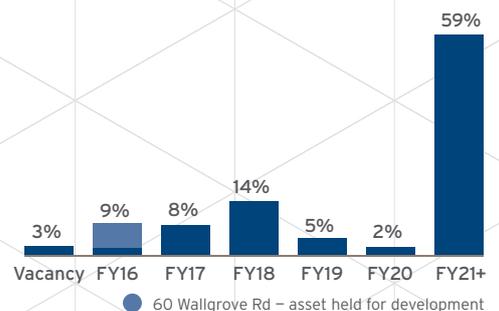
# Industrial

Demand for quality industrial space in Sydney remains supported by increasing business investment across New South Wales, strong housing activity and a growing population. With 90 per cent of its industrial portfolio weighted to Sydney, Mirvac continues to be well-placed to benefit from these conditions.

### Industrial Highlights:

- > occupancy increased to 99.2 per cent<sup>1</sup> since 30 June 2015 with a strong WALE maintained at 7.4 years<sup>2</sup>;
- > achieved approximately 16,000 square metres of leasing activity; and
- > progressed with plans at Calibre (60 Wallgrove Road), Eastern Creek, following master plan concept approval.

### INDUSTRIAL LEASE EXPIRY PROFILE<sup>2</sup>



**“With the industrial portfolio almost fully occupied and supported by a long WALE, our focus in the industrial sector is to continue to identify opportunities where we can utilise our asset creation capabilities and further enhance the value of the portfolio.”** Susan Lloyd-Hurwitz, CEO & Managing Director

1) By area.  
2) By income.



Demand for residential product remained solid during the quarter, particularly in Sydney and Melbourne. While strong price growth in Sydney appears to be moderating, demand continues to be supported by low interest rates, population growth and a high level of investment in infrastructure. Further, the supply and demand imbalance in Sydney is expected to remain a feature for some time.

Mirvac's residential pipeline of well-located projects in core markets is well-placed against this backdrop. A record level of pre-sales, diversified across product type, location and buyer profile, provides strong visibility over the next few years.

In addition to this, Mirvac carefully monitors its settlement risk with a range of risk mitigation strategies in place. As well as the requirement of a 10 per cent deposit from purchasers, Mirvac has a structured communication and engagement programme with its customers and lenders, and undertakes a thorough risk assessment of its exposure to foreign investment. Mirvac's proven track record of managing its settlement risk is demonstrated by a history of low defaults, with a long-term average of less than one per cent (and a peak of just three per cent in 2009 and 2011).

## Residential Highlights:

- > expect to exceed previous FY16 lot settlement target of 2,800 lots to over 2,900 lots, with a material skew towards the second half of the financial year. All projects remain on track:
  - 78 per cent of target lot settlements secured (up from 65 per cent at 30 June 2015) with 151 lots settled in first quarter;
  - over \$990 million of secured pre-sales expected to settle in 2H16;
  - higher volumes and better than expected margins on a number of projects to largely offset the contribution from the Green Square super lot sale, which is no longer expected to complete in FY16;
- > secured a record \$2.3 billion of residential pre-sales<sup>1</sup>, up from \$1.2 billion on the prior corresponding period:
  - 43 per cent expected to settle in FY16;
  - 35 per cent expected to settle in FY17;
  - 22 per cent expected to settle in FY18;
- > continued to take advantage of positive residential conditions, fast-tracking further releases at existing projects. Strong sales success was achieved, particularly in Sydney and Melbourne, including:
  - Harcrest, VIC: 100 per cent and 87 per cent of Stage 7 and Stage 9 pre-sold respectively;
  - Rockbank, VIC: 94 per cent of Stage 6 pre-sold, 98 per cent of Stage 7 pre-sold and 62 per cent of Stage 8 pre-sold;
  - Alex Avenue, NSW: 89 per cent of Precinct 3 pre-sold; and
  - Harold Park, NSW: released the final stage of the last precinct which is now 70 per cent pre-sold;
- > secured approximately 1,300 new residential lots on capital efficient terms:
  - entered into a project delivery agreement with Brisbane Racing Club to develop the estimated \$850 million residential precinct in Eagle Farm, Brisbane. Mirvac intends to deliver over 1,000 apartments and will work closely with Brisbane Racing Club to deliver an exciting retail village;
  - entered into a project delivery agreement with Marrickville Council in October to redevelop the old Marrickville Hospital in Sydney's inner-west. Mirvac intends to deliver around 220 apartments, a library and community hub as well as 1,200 square metres of open space; and
- > on track to release over 3,700 lots in FY16, including new project launches at:
  - St Leonards, NSW (500 lots)
  - Sydney Olympic Park, NSW (405 lots)
  - Dallas Brooks Hall, VIC (259 lots)
  - Waterloo, NSW (225 lots)
  - Gledswood Hills, NSW (200 lots)
  - Brighton Lakes, NSW (155 lots)

## MAJOR 2H16 EXPECTED SETTLEMENTS

Project	Type	Pre-sales secured (lots)	Revenue secured <sup>2</sup>	Ownership
Harold Park, NSW	Apartments	580	\$576m	100%
Harcrest, VIC	MPC	214	\$100m	20%
Cheltenham, VIC	MPC	66	\$47m	100%
Alex Avenue, NSW	MPC	97	\$46m	100%
Rockbank, VIC	MPC	228	\$42m	50%
Tullamore, VIC	MPC	62	\$41m	100%
Waterfront, Unison S1, QLD	Apartments	54	\$39m	100%
Brighton Lakes, NSW	MPC	41	\$31m	PDA
Googong, NSW	MPC	106	\$28m	50%
Enclave, VIC	MPC	33	\$21m	50%
Everton Park, QLD	MPC	37	\$20m	100%
<b>Total</b>			<b>~\$992m</b>	

**“During the quarter, activity was up 50 per cent on the prior corresponding period, driven by projects in Sydney and Melbourne, and we expect to release over 3,700 lots by the end of the year, with a strategic weighting towards these markets.**

**“Further, our solid residential development pipeline provides us with the potential to release over 14,000 lots over the next five years, which means we are extremely selective around securing future residential projects.”**

Susan Lloyd-Hurwitz, CEO & Managing Director

1) Adjusted for Mirvac's share of JVA and Mirvac managed funds.  
2) Represents 100 per cent of revenue.



# Residential Pre-Sales and Risk Analysis

## \$2.3bn

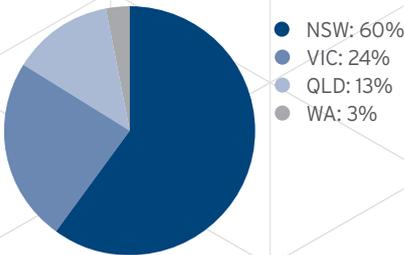
### RESIDENTIAL PRE-SALES DETAIL <sup>1</sup>

#### Record level of residential pre-sales

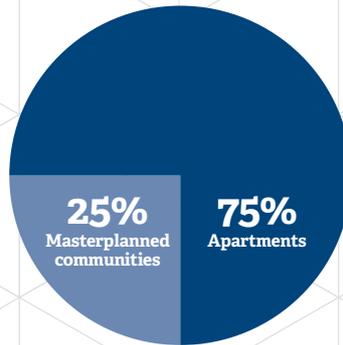
- > Diversified across 24 projects by product type, location and buyer profile
- > MPC 25% of total pre-sales
- > Weighted to deepest markets Sydney and Melbourne
  - ~32% and 20% market price growth in Sydney and Melbourne respectively over last two years



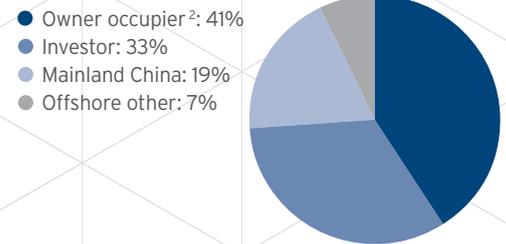
#### By geography



#### By type



#### By buyer profile



## \$0.6bn

### MASTERPLANNED COMMUNITIES

- > 10% purchaser deposit
- > Low average price point<sup>3</sup>
  - Land: \$345k average price
  - House and land: \$720k average price
- > High level of owner occupiers
- > Low offshore exposure – 4% mainland China
- > Negligible historic defaults, no defaults in 1Q16

#### By buyer profile

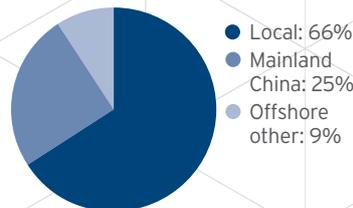


## \$1.7bn

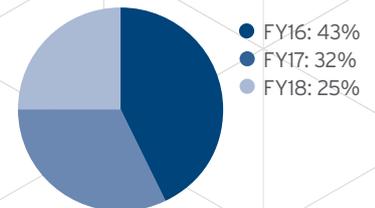
### APARTMENTS

- > 10% purchaser deposit
- > High level of repeat buyers
- > Customer engagement programme underway
- > 43% of current FIRB pre-sales roll off in FY16
  - AUD:USD depreciated ~20% over the past 18 months
  - No historical FIRB defaults
- > 1% long term average default rate, 3% default rate during GFC

#### By buyer profile



#### Expected FIRB roll off



**“Our proven ability to deliver well-located, quality residential product, targeted at a diverse buyer profile means we remain comfortable with our settlement risk. This is demonstrated by a long-term average default rate of approximately one per cent.”**

Susan Lloyd-Hurwitz, CEO & Managing Director

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1) - By revenue, adjusted for Mirvac's share of JVA and Mirvac managed funds.  
2) Includes first home buyers.  
3) Represents 100% of revenue.  
Note: Buyer profile information approximate only and based on customer surveys.