

URB INVESTMENTS LIMITED

ABN: 89 615 320 262

QUARTERLY REPORT

TAKING ADVANTAGE OF TRENDS IN THE INDUSTRIAL SECTOR

This Quarterly Report focuses on themes positively impacting Australia's industrial sector including our delayed ecommerce boom, population growth, significant infrastructure spend, the supply/demand gap and import/export activity. URB has been a beneficiary of these themes through the sale of PURT 5 Prestons which is expected to result in an uplift to pre-tax NTA of approximately 5.5 cents per share.

SEPTEMBER 2018



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Welcome to the fifth issue of the URB Investments Limited (URB) Quarterly Report, prepared by Contact Asset Management. These reports provide us with an opportunity to communicate with URB shareholders on high-level topics of interest. The reports are available on the website at www.urbinvest.com.au. We also encourage you to subscribe to the URB mailing list.

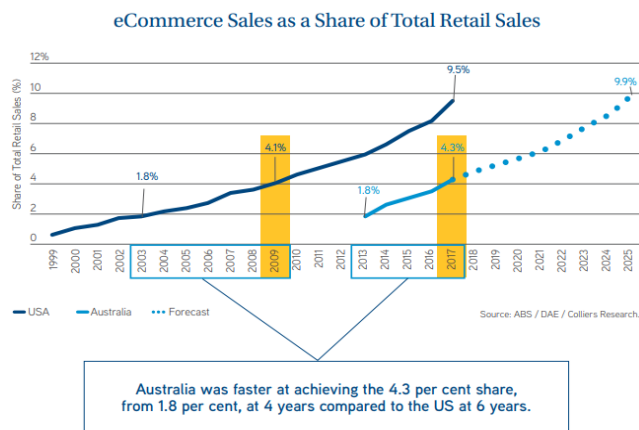
THE BACKGROUND

In September 2018 URB announced the sale of PURT5 Prestons which is expected to result in a pre-tax NTA uplift of 5.5 cents. This sale is testament to URB's urban renewal and regeneration strategy supported by long term tailwinds. In this edition, we focus on Australia's industrial sector and how it is benefiting from ecommerce, population growth, significant infrastructure spend, the supply/demand gap and growth in import/export activity.

FASHIONABLY LATE

Given the usual US-Australia lag in trends, the ecommerce boom that occurred in the US is projected to be replicated in Australia... a decade later. Between 2014 and 2018 Australian online retail sales grew on average 29% per annum. According to the Australian Bureau of Statistics (ABS), online retail sales have the potential to increase almost three-fold to \$38 billion by 2025 from circa \$13 billion¹. Elsewhere, Australia Post is forecasting that one in ten items will be bought online by the year 2020².

Given our growing population, Australia's ecommerce is growing at a faster rate than the US was a decade ago. Between 2002 and 2009 the US experienced average annual population growth of 0.8% compared to Australia's population growth of 1.6% between 2013 and 2017¹.

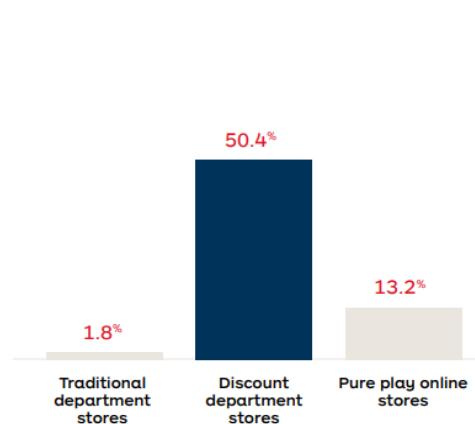


Source: Colliers International

Amazon's arrival in Australia has heightened competition, through technology, in the retail sector. This has increased pressure on traditional retailers to embrace omni-channel retailing. Online improvements have been well received by consumers with discount

department stores online sales increasing 50% in 2017². As more retailers move to an omni-channel approach, demand for well-located logistics and distribution centres will increase.

2017 sub-category growth



Source: Australia Post

CLOSER TO THE CONSUMER

Logistics and distribution centres are evolving from cost centres to strategic opportunities. According to Haines Consulting Group, a heavily delayed delivery time will impact future sales, with 59% of consumers stating they would not shop with a retailer again if their delivery was not on time³. Location is therefore a competitive advantage and, as delivery times become crucial, proximity to a consumer base will be vital to minimise costs and commit to delivery timelines.

Transportation accounts for at least 50% of total supply chain costs, whilst occupancy accounts for approximately 5%, highlighting the need to be closer to the consumer and key infrastructure. CBRE has identified that there is a substantial rental premium for occupiers close to motorways. Improved accessibility helps occupiers through cost saving brought on by improved access to residential populations and less time spent by trucks on smaller roads³.

AUSTRALIA'S NEW FASHION CAPITAL – SOUTH WEST SYDNEY

Population growth and the creation of medium density residential estates are creating demand in dense population catchments that did not exist previously. According to Australia Post, the top online buying locations in 2017 were dominated by suburbs which have seen an influx of young families and are experiencing above average population growth. Point Cook in Victoria topped the list with population growth of 54% between 2011 and 2016 (ABS).

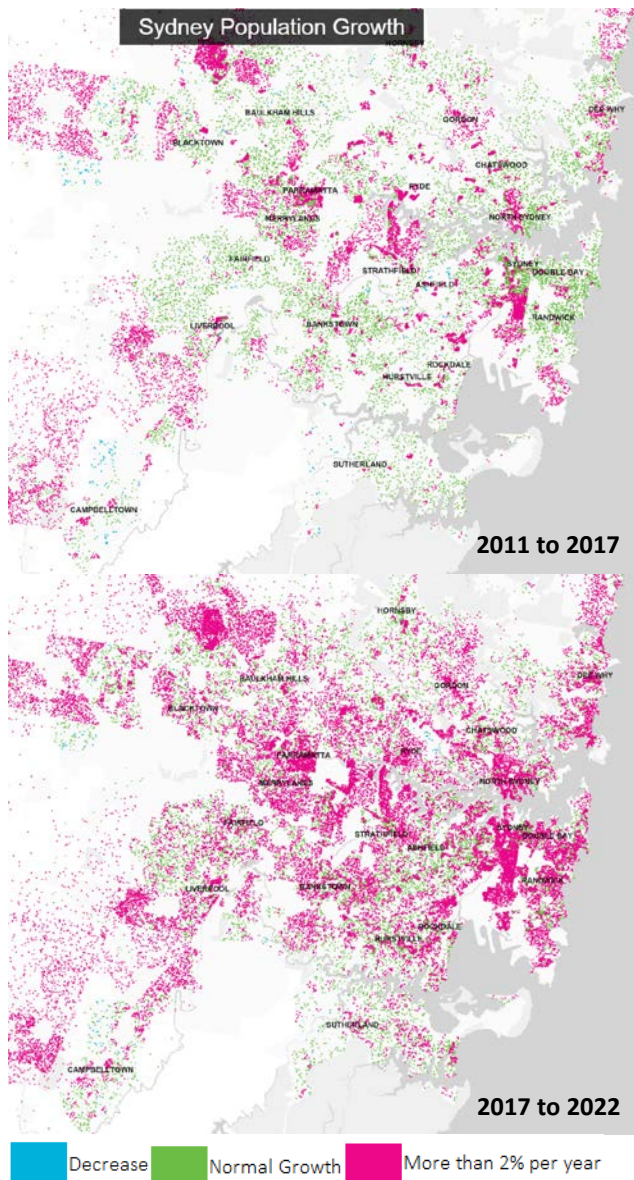
The list of top ten buying locations included two suburbs in South West Sydney. Liverpool ranked third and Campbelltown ranked eighth, both with a median

¹ Industrial Capital Markets Investment Review 2017/18, Colliers International

² Inside Australian Online Shopping, Australia Post, 2018

³ Australia's Omni-channel revolution, CBRE, 2018

age of 34 compared to a national median age average of 38 (2016 census)². Liverpool, located less than 10kms from PURT5 Prestons, has experienced population growth of 13% over a five year period to 2017 (ABS); and Campbelltown, less than 20kms from Prestons, has experienced population growth of 21% over the same period.



Source: CBRE

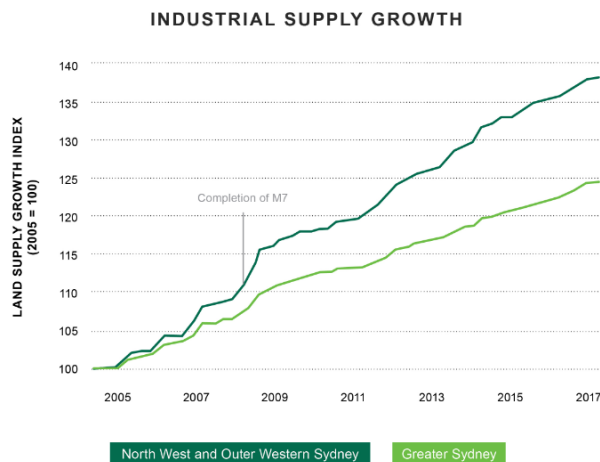
INFRASTRUCTURE OPPORTUNITIES IN SOUTH WEST SYDNEY

South West Sydney is experiencing major infrastructure investment. Of 30 priority precincts identified by NSW Department of Planning being targeted for logistics/distribution, five are within the South Western region of Sydney. In August 2018, Seven Group Holdings opened a WesTrac heavy machinery facility in Casula, a suburb adjacent to Prestons, with CEO Ryan Stokes describing the new location as “in the middle of major infrastructure developments”⁴. These developments include Badgerys Creek Airport, the

⁴ Seven Group opens \$40m facility to tap into Sydney’s building boom, The Sydney Morning Herald, 2018

proposed M12 motorway and the \$509m upgrade to Bringelly Road.

The positive impact of infrastructure investment is evident through the construction of the M7 Motorway where there has been a substantial and sustained increase in industrial supply in the area, with precincts such as Eastern Creek and Erskine Park now the premier destination for large scale industrial and logistics occupiers.

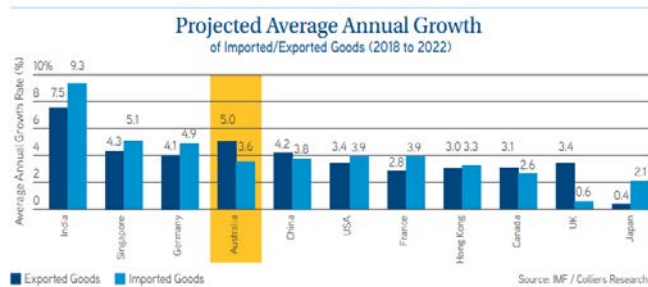


Source: CBRE

With an infrastructure pipeline close to \$75 billion, and the experience of the M7 as a guide, these and future projects create opportunities to develop strategically located logistics hubs close to major rail, road, and at a later date, airports surrounded by a growing consumer base, for many years to come.

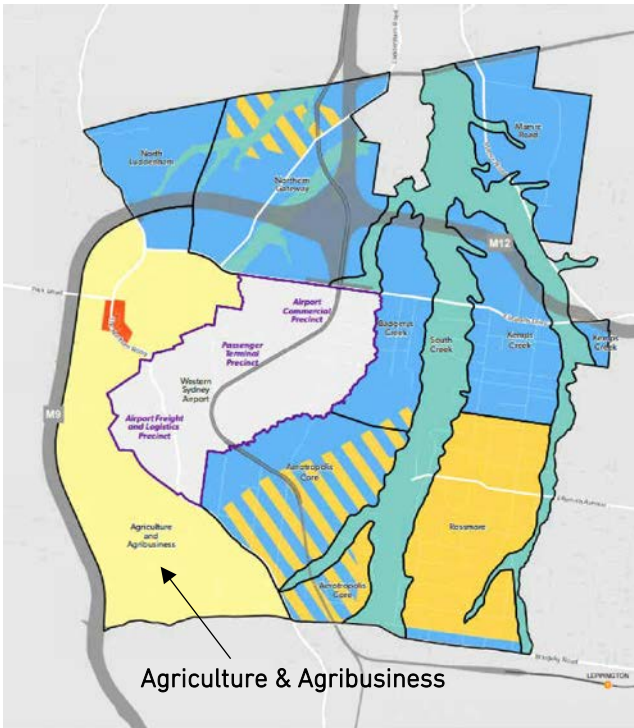
IMPORT AND EXPORT ACTIVITY GROWTH POTENTIAL

The global ecommerce goods market was worth US \$1.57 trillion in 2017 and is forecast to increase by almost 40% to \$2.16 trillion in 2019². Demand for aviation in Greater Sydney is forecast to double in the next 20 years. Western Sydney’s new 24 hour airport at Badgerys Creek, set to open in 2026, provides a competitive advantage to service international and domestic markets with freight demands estimated to grow to around 255,600 tonnes in 2031, nearly 1 million tonnes in 2052 and 1.8 million tonnes in 2064⁵.



⁵ Western Sydney Aerotropolis Investor Guide, NSW Government

The planned food and agribusiness precincts in the Aerotropolis will enable the delivery of fresh produce and pre-prepared food anywhere in the world within 36 hours from production to consumption.



Source: Western Sydney Aerotropolis

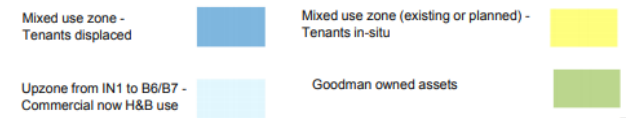
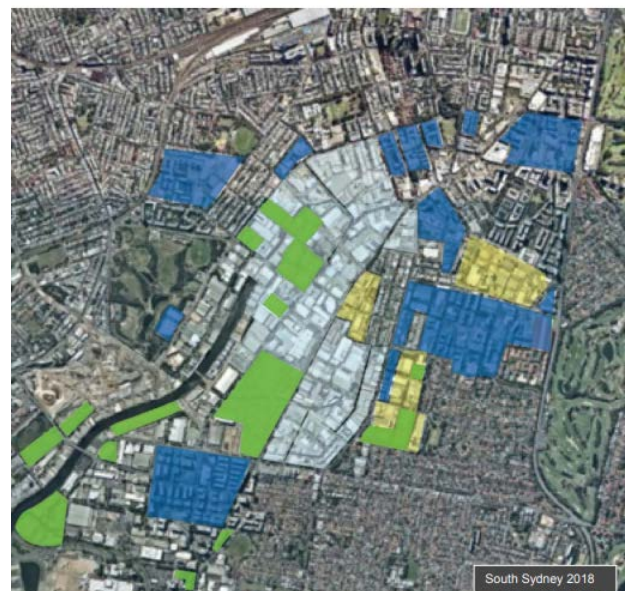
Chinese consumers rated Australia 2nd out of 20 countries with regards to the quality of agriculture products used in food production⁶ and the leading product trends of Australian products being bought by India and China are supplements and vitamins. The ecommerce market of these countries is over \$20 billion and \$499 billion respectively².

South East Asia's growing middle class population and desire to buy overseas goods, and our reputation for producing quality brands and products, provide enormous opportunities. Western Sydney Airport is well located for transporting goods throughout NSW, and rapid delivery by air to markets will grow further food and beverage exports compared to competitor nations who do not have the same 'speed to market' advantage⁵. As a result logistics hubs and infrastructure are needed to support the growing freight network.

INDUSTRIAL SUPPLY DEMAND GAP

There has been a persistent shortfall of industrial stock available relative to demand as evidenced by the increase in land prices, lower investment volumes and

tighter yields. A lower availability of investable stock in 2017 resulted in the first decline of annual investment volumes in nine years⁷. This has been partly driven by the conversion of industrial areas to mixed use. South Sydney inventory converted to mixed use since 2008



Source: Goodman Group Investor Day Presentation, 2018

JLL is projecting that Australia's industrial investable universe will grow by more than 40% to reach \$77.1 billion in value by 2028 or 44.1 million square metres in total gross lettable area⁸. With strong population growth and ecommerce activity growing rapidly, new industrial developments will be needed to service the fast growing demand.

⁶ Think big, think fresh, KPMG, 2017

⁷ Industry 4.0 – the implications on Australia's industrial and logistics real estate sector, JLL, 2018

⁸ Australian Industrial Investment Review & Outlook 2018, JLL, 2018

URB'S SUCCESS IN SOUTH WEST SYDNEY

In September 2018 URB announced the sale of PURT5 Prestons, which is expected to generate an increase in pre-tax NTA of approximately 5.5 cents per share. With the development now over 80% complete, the Directors included a partial uplift in fair value based on this estimated completion status, contributed to the 3% uplift to the September NTA.

PURT5 was initially identified as a beneficiary of population growth, the demand supply gap and infrastructure development. The site is surrounded by existing and future medium density residential developments including Leppington North, where the population is expected to grow from 1,323 in 2018 to 26,301 in 2036 (.idcommunity, 2017), and infrastructure such as the M5 and M7 interchange. Liverpool, located less than 10kms from PURT5 Prestons, was ranked by Australia Post as Australia's third top buying location in Australia by volume with 21% growth in 2017. This is partly due to its sizable population of over 105,000 people, an increase of 11% between the last two censuses, and younger demographic with median ages below the national average.

PURT5 Prestons is an excellent example of URB's Direct Property investment strategy. The asset was transformed from undeveloped farm land into a logistics and distribution centre with a secured tenant and within close proximity to existing and proposed infrastructure. The value was realised when the opportunity arose, albeit earlier than originally anticipated, resulting in a significant uplift in value for URB shareholders. The transaction will now enable URB to redeploy capital into other urban renewal opportunities.



PURT5:Prestons Site - August 2017



PURT5:Prestons Site - March 2018



PURT5:Prestons Site - September 2018

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