

URB INVESTMENTS LIMITED

ABN: 89 615 320 262

QUARTERLY REPORT

THE SUCCESS OF PURT5:PRESTONS

In February 2019, URB settled on the sale of PURT5:Prestons, generating an Equity Internal Rate of Return (IRR) of 21% – a very pleasing result.

This report provides a case study into the process undertaken by URB and its partners to demonstrate how we were able to *Provide Access and Create Value* through the application of our Direct Property Strategy.

JUNE 2019



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Welcome to the seventh issue of the URB Investments Limited (URB or "the Company") Quarterly Report, prepared by Contact Asset Management. These reports provide us with an opportunity to communicate with URB shareholders on 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.

Earlier in the year, URB settled on the sale of PURT5:Prestons, resulting in an Equity Internal Rate of Return (IRR) of 21%.

This was the first asset in the Direct Property Portfolio that URB has taken through major development and provides a useful case study into the process undertaken by URB and its partners.

The sale of PURT5:Prestons was an important step in proving up the concept of the URB Investments Direct Property strategy. URB was able to acquire the asset well, proactively add value to that asset, and then realise value when the opportunity arose, albeit earlier than originally anticipated. This transaction highlights how URB is able to benefit from urban renewal and regeneration through active asset and property management to generate superior outcomes for our shareholders.

BACKGROUND

When URB listed on the ASX in April 2017, the Company came to market with three seed assets: PURT3 Kingsgrove, PURT4:Penrith and PURT5:Prestons. At the time of listing, URB had a 49.9% interest in the Direct Property seed assets, which had a total value of approximately \$59 million.

The location of the three seed Direct Property assets, all in Sydney, is shown in the following graphic. The assets were well located in terms of infrastructure access, population growth, housing growth and access to new employment.



At the time of listing, we had exchanged but not yet settled on PURT5:Prestons. Our April 2017 NTA report noted that: "Prestons is due to settle on 1 June 2017 and has recently entered into a conditional agreement for lease in respect of this asset. The lease will commence on completion of the development of the logistics warehouse and

distribution centre in 2018 and expires in May 2029 with a tenant option to renew for four further terms of three years. Development of the logistics warehouse and distribution centre is conditional upon obtaining development approval. We have noted the significant strength in transactions for neighbouring properties at Prestons and are excited at the potential for our own investment in this developing precinct."

Once settled, PURT5:Prestons became the biggest asset in the URB Portfolio.

HOW DID PURT5:PRESTONS FIT INTO URB'S DIRECT PROPERTY STRATEGY?

URB targets Direct Property Assets that are set to benefit from changes in use, such as rezoning, gentrification and the maximisation of available floor space in order to enhance returns. Targeted properties include undervalued assets which:

- Require a short term repositioning for income; or
- Require capital for restructuring; or
- Have an underlying opportunity for capital revaluation through changes in use.

At PURT5:Prestons, we saw an opportunity for a change in use. At the time of the initial roadshow, URB Chairman Warwick Negus noted that with PURT5:Prestons, we were "turning a field into a logistics centre".

The construction of the URB Direct Property Portfolio is a focused approach using the following three key investment and management principles: Asset Selection, Portfolio Construction and Maximise Asset Performance. Below we discuss each of these principles and how they pertain to PURT5:Prestons.

1. ASSET SELECTION

URB seeks to identify under-valued, under-developed and under-utilised property assets exposed to the urban renewal and regeneration thematic. URB also seeks to acquire these assets at attractive prices. Urban renewal enables the use and development of an area to better align with the current and future needs of a growing society.

PURT5:Prestons was a 69,422m² undeveloped hobby farm that had been zoned for industrial use. Through asset development, it presented potential for both capital revaluation and a sustainable income via a lease of the site. The site was purchased off-market in 2017 at a price of \$20 million, equivalent to \$291/m². URB invested alongside Soul Pattinson, with URB retaining 49.9% ownership interest. The site was one of the final blocks available in the Prestons Industrial area and was acquired well. By comparison, the neighbouring site, undeveloped, was sold earlier this year for over \$600/m².

PUT5:Prestons was identified as an attractive logistics, warehouse and distribution location by virtue of its close proximity to crucial existing and future infrastructure including the junction of the M5 and M7 motorways and the new Western Sydney Airport, located 5kms west of Prestons and expected to open in 2026.



Surrounded by existing and planned medium density residential communities the site was also set to benefit from population growth. At the time, our research uncovered that Sydney's population was expected to grow by 1.6 million people by 2031. Importantly, 70% of this growth will be in Western Sydney. As such, a hobby farm did not align with the current or future needs of the area. There was a higher and better use.

2. PORTFOLIO CONSTRUCTION

The URB Portfolio is diversified across Equities, Direct Property and cash. URB has a flexible mandate across various industries and asset classes. Within the Direct Property assets, URB seeks to invest in assets that provide diversification and sustainable returns across the entire property cycle.

PUT5:Prestons provided exposure to Western Sydney, a location that is experiencing unprecedented investment from both the public and private sector. In addition, the asset provided access to the industrial property sector, which is expected to benefit from strong demand coupled with diminishing supply. The rise of e-commerce is a positive tailwind.

From a diversification perspective, PUT5:Prestons was initially a land and development strategy. This complemented the other two assets, which were industrial (as the Kingsgrove property originally was) and commercial (the asset at Penrith).

We sought to de-risk the asset as quickly as possible. Importantly and shortly after the land was purchased, Pitt Street Real Estate (PSRE) negotiated an Agreement for Lease with global logistics provider Mainfreight, commencing the process of designing and constructing a 36,000m² logistics and distribution facility. The 10-year lease provided the Trust with a stable income stream throughout the property cycle.

3. MAXIMISE ASSET PERFORMANCE

URB undertakes active asset management to generate superior income outcomes and engages with stakeholders to maximise future use and realise value. This also involves seeking to optimise value realisation to drive returns. The details of the development process undertaken by URB is displayed on the final page of this report.

Over 18 months following the purchase of the land, URB and PSRE engaged with various stakeholders including Liverpool Council and contractors to develop the asset. The stable income provided by a long-term lease coupled with strong demand for allocation to industrial assets increased the attractiveness of the asset. This provided optionality for URB.

In September 2018, URB announced the exchange of contracts for the conditional sale of the asset at a headline sale price of \$71.6 million. The asset sale to Charter Hall Direct Industrial No.4 Fund settled in February 2019 with the funds distributed to unitholders of the PUT5:Prestons Trust in March. URB received a cash distribution of \$17.8m, including \$4.6m paid out as a special dividend. Over 18 months the project generated an Equity Internal Rate of Return (IRR) of 21%, net of all expenses and fees.

The sale was an important consideration in the decision by the Board to pay a fully franked special dividend in March 2019. In addition, the transaction generated significant cash, which will be used to pursue new opportunities, in line with the Direct Property Strategy.

Our focus on urban renewal and regeneration at PUT5 has generated significant value for URB shareholders. At the same time, the sale of PUT5:Prestons has provided the capital to pursue new investment opportunities that will be beneficiaries of urban renewal and regeneration and our portfolio structure provides us with asset allocation flexibility and ability to be patient.

PROOF OF CONCEPT

PUT5:Prestons is an excellent example of URB's Direct Property strategy's success. The site was initially identified as an undervalued, under-developed and under-utilised property asset exposed to the urban renewal and regeneration thematic. By utilising URB's flexible mandate and the specialist property expertise of Pitt Street Real Estate, the asset was transformed from a hobby farm to a 36,000m² logistics facility.

Importantly, URB and its partners were able to acquire the asset well, proactively add value to that asset, and then realise value when the opportunity arose,

At URB, we take a long-term view and as such our strategy is influenced by long dated trends. These include urbanisation, population growth, infrastructure investment and an ageing population.

When investing, we consider these long-term trends and how we can utilise our expertise and Direct Property strategy to generate superior returns for our shareholders.

Now that URB has successfully exited two Direct Property assets (PUR3:Kingsgrove finalised its asset sales in June 2019), the Company is well positioned to find new investment opportunities. Our early success gives us confidence that our strategy is working and is repeatable.

The Direct Property Portfolio is complemented by an Equity Portfolio which provides yield and capital growth through an actively managed portfolio. In the absence of property investments in the short term, the cash generated from asset sales such as PUR5:Prestons can be deployed into the Equity Portfolio, which is also exposed to the multiple and growing themes of Urban Renewal and Regeneration.

At the time of sale of the PUR5:Prestons asset, URB's cash and cash equivalents accounted for over 30% of the

total portfolio. A portion of the cash generated from the sale of the asset was deployed into the Equity Portfolio with new positions established in Reece Limited, Coles Group, Cleanaway Waste Management, CIMIC Group and REA Group. We also added to several existing positions. Since then, the URB Equity Portfolio has contributed to a solid increase in the URB NTA.

The portfolio structure of URB allows us to be patient and opportunistic when seeking new Direct Property investments and generate returns and income through our Equity Portfolio while we wait. Our success with PUR5:Prestons has generated strong returns for our shareholders and has provided us with the capital to continue our strategy, utilise our expertise to unlock value and continue generating long term value for our shareholders.

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APPENDIX: THE DEVELOPMENT PROCESS

APRIL 2017

URB listed on the ASX with three seed assets including PURT5 purchased for \$20 million and Agreement of Lease signed with Mainfreight.



FEB 2018

Stage 2 DA (Construction Certificate) received and civil works commenced.



APRIL 2018

Construction commenced and progressing well



SEPT 2018

Exchanged contracts for sale of PURT5 with headline price of \$71.6m



MARCH 2019

Asset sale settled and funds distributed to unitholders. URB achieves an IRR of 21%, net of all expenses and fees.



JAN 2018

Stage 1 Development Application (DA) – Commencement of Works received, civil engineer and earthworks contractor appointed



MARCH 2018

Third and final DA (Signage and Use) has been received. Good progress being made on the civil works program



JUL 2018

Construction is 44% complete



DEC 2018

Reached practical completion and rent commenced

