

Airport Property News

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FEBRUARY 2011

Happy New Year to clients and associates of Gateway Project Partners. January has been an amazingly challenging month for many of us, and we wish our clients and associates all the very best for the year ahead.

GREEN SHOOTS IN 2011?

The Australian property sector has endured a long and painful correction since late 2007. The challenges have been numerous and have resulted in a major deleveraging effort and the reshaping of the industry in many ways. Institutional and private investors and developers have re-engineered their businesses and are preparing for new opportunities in 2011.

The airport property sector is continuing to face many challenges from within and externally. 2008-10 has been a period of reflection and restructuring, as property departments have sought management support for their plans and have responded to company-wide reviews and re-prioritisations.

The key question for many in 2011 is – where to from here? What is the market doing and where will my property asset fit within a newly shaped market?

Market Overview

We are seeing the likelihood of new activity and optimism begin to enter the market.

Debt appears to be becoming more available, albeit on more stringent terms. New lending is being expected of property bankers and we believe that the absence of debt is no longer the #1 issue that it has been in recent years.

Late 2010 brought new office leasing activity to the CBD and fringe markets, with rents stabilising due to a lack of new supply.

Industrial office leasing demand is also picking up early in 2011, with increased business activity.

Retail property remains most under pressure. Turnover rents are still challenged and consumer sentiment remains poor.

Airport Property Market

Despite its tenure challenges, the airport property sector is well-positioned for the new market in many cases. Whilst leasehold tenure remains poorly received by the investor and funding market, those airports that have invested through the downturn will be best-placed to compete with the external market in 2011. Of course the support of, and clarity of direction from, management and stakeholders remains a pressing issue for many.



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The Airport Property Specialists

PROPERTY INVESTMENTS IN 2011

HANDY RESEARCH TOOLS

The Australian property market has been highlighted by a clear divergence of the geographical markets and the fundamental re-shaping of the property landscape. Sustainability and 'green' buildings are a given, and the form and function of property investment vehicles is changed.

Recent research reports have shown ongoing strength in the southern capital markets and patchy performance in the mining-dominated markets of Perth and Brisbane. Much of this research is widely available (see side column).

What you may not read however, is the fundamental re-shaping of the investment market. Longheld beliefs and investment brand names have adopted a different focus and management style – a return to fundamentals - and continue to seek to divest themselves of assets acquired at the market peak. Much of this has been via equity raisings and occasional divestment, however many of the A-REITs, despite their awareness of the opportunities appearing in the market, remain somewhat equity constrained.

Unlisted funds have confronted the changed market more directly due to shallower equity sources, but even they will be coming to the end of a restructuring phase in mid-late 2011.

We are also seeing a freeing of the commercial property debt markets, with all four majors having confirmed mandates for new lending in 2011.

What does all this mean for property owners, and in particular for airport property owners?

We are expecting the beginnings of an upswing in the direct property market, as well as a recovery for the A-REITs. We don't expect a rapid upswing, but more of a focus on longer positions and cashflow assets, combined with developers taking long settlement positions on strategically-located development sites.

Westpac Bank

www.westpac.com.au/corporate-banking/research/property-market

Private Equity Real Estate

www.perenews.com

Global Airport Cities

www.globalairportcities.com

QUT Airport Metropolis

www.airportmetropolis.qut.edu.au

Aerotropolis

www.aerotropolis.com



CASE STUDY: PNG AIRPORTS

AIRPORT PROPERTY AS A 'WHOLE OF BUSINESS' CONTRIBUTOR

GPP undertook a strategic property review for National Airports Commission (PNG) ('NAC') in 2010 to provide a review and direction on the Airport's property business. Our findings showed that the Airport property division can be a major contributor to the Airport's overall income and is a key part of the Airport's ability to attract and grow external capital.

Port Moresby International Airport ('PMIA') is the major airport gateway for Papua New Guinea. PMIA is an important national infrastructure asset, with 1.1 million passengers per annum, made up of 750,000 domestic passengers linked to the more than 20 regional airports managed by NAC, and the balance international business and tourist passengers. PMIA also has significant cargo throughput of more than 200,000 tonnes per annum, given its role as PNG's primary infrastructure hub. Located immediately at the top of Australia's Cape York, PNG has a population of 6 million, with more than 400,000 living in the capital of Port Moresby.

NAC is critically aware of the need for the redevelopment of PMIA, from terminal and basic services upgrades through to financing strategies, business planning and development of the 'landside' airport property asset. NAC has made strong progress on all of these areas and a concerted push is being pursued to further progress / complete much of the preparatory work and to generate tangible outcomes for the company and the travelling public.

NAC was only very recently corporatised and is facing the challenges typical of rapidly growing airports that find themselves under a new scheme of management / ownership. The new requirement to justify the granting of traditional funding lines as well as sourcing new funding lines, cultural change, and the shifting of long-standing relationships to a more commercial setting are all common challenges.

The sourcing of new funding lines requires an institutional quality economic 'story'. This must be based on an economic context as well as the airport's financial (including passenger and cargo) forecasts. These components provide external and

Government funders with a hopefully reliable income stream which underpins the overall funding package that is provided. In a more challenging funding market, a greater equity component is required and this equity is becoming more expensive. It is an early trend that equity investors are seeking a further upside beyond the more reliable aviation-based activities, and hence investors / lenders are looking at the returns that can be generated from non-aviation sources. According to our findings, one of the best sources for NAC is the development of the 'landside' property asset.

NAC is therefore quite aware that, amongst other components, the development of an airport property masterplan and matching business plan is a fundamental step in the communication of its vision to potential funding partners, and hence in the realization of its broader corporate ambitions.

The PMIA property asset comprises approximately 100 hectares of prime development land. PMIA is situated some 9 kilometres from the Port Moresby CBD and Seaport, being connected by the city's two main roads. The area between includes several business activity nodes and the Government precinct. Given the focus on resources activity and the poor state of PNG's road system, the interconnectivity of the Seaport and Airport is vital. Imported equipment and goods are typically transported from the Seaport to the Airport and then dispersed

via air cargo to regional areas. This is a classic airport city construct and it is not surprising that the city's development zones have now extended beyond the airport. PMIA is now situated within the city zone and offers a particularly compelling property masterplanning and development proposition.

GPP's work has identified that the PMIA property asset can be divisible into distinct 'precincts' of business, retail and hotel activity. The key development constraints are topographical, and the condition of existing infrastructure services. GPP has recommended that the key features of the development approach should focus on establishing a clear and consistent rapid approval process, create a 'best in market' security zone around the perimeter of the development areas, and create development guidelines and themes that establish a minimum quality standard from the outset.

From a business angle, GPP has recommended the establishment of a standalone corporate subsidiary that will undertake the property masterplanning and development activity. This is designed to ensure that the required management and funding focus is achieved, particularly in PMIA's newly corporatised business environment. The purpose of the entity is also to isolate property development risk, and to generate non-aviation income and profit returns back to the main corporate entity.



RECENT GPP APPOINTMENTS

We are pleased to announce some exciting new appointments for Gateway Project Partners in Q4 2010.

Gladstone Airport, Queensland

Appointed to undertake masterplanning, land use planning, market overview, consider development options for financing and external partnerships

Considering the interrelationship of the prime commercial development opportunity with the recently expanded airport terminal and other infrastructure.

Assist in the rezoning process to ensure an appropriate planning framework for future development.

Gladstone is an exciting city undergoing massive LNG-driven economic growth.

Ballina Airport, NSW

Appointed to undertake land use planning, generate Design and Development Guidelines, market overview, consider development options for financing and external partnerships.

Of critical importance is redesigning the interrelationship of the airport with the city via shared access and urban design. The Council-owned adjoining industrial estate is of particular relevance.

Assist in the rezoning process to ensure an appropriate planning framework for future development.

Ballina is a far-north NSW coastal town and regional centre.

UPCOMING EVENTS

QUT Colloquium February 9-10, Brisbane, Queensland, Australia

Global Airport Cities 2011, April 10-13, Memphis, Tennessee, USA

INTERESTING FACTS

The 2010 ACI Economics Survey found that real estate development was the fastest growing source of non-aeronautical revenue in 2009.

While non-aeronautical revenues declined by 1.5% overall, real estate grew by 10%.

As ACI pointed out non-aeronautical revenues critically determine the viability of airports, as they tend to operate at higher profit margins than aeronautical businesses.

About Us

Gateway Project Partners is a full service commercial development consulting firm specialising in masterplanning and development of airport commercial property. We have been active in the airport property sector since 2004, working in a consultancy and joint venture capacity with metropolitan and regional airports in Australia and internationally.

We undertake land use planning, financial analysis and structuring, development management and principal or joint venture development. Our overriding principle is to provide advice that can be practically implemented.

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