+61 3 9038 1774
enquiries@hpitrust.com.au
www.hpitrust.com.au

312 St Kilda Road
Melbourne VIC 3004

ASX Announcement

5 September 2014

The Manager
Australian Securities Exchange Limited
Corporate Announcement Office
Level 4, 20 Bridge St
Sydney NSW 2000

Hotel Property Investments (ASX Code: HPI)
Investor Briefing Update

Investors are referred to the attached presentation.

Contact:
David Charles
Fund Manager and Company Secretary
Hotel Property Investments Limited
03 9038 1774
Website: www.hpitrust.com.au

Hotel Property Investments comprises Hotel Property Investments Trust and Hotel Property Investments Limited, the investment manager for the Trust. The Trust Company (RE Services) Limited is the responsible entity for the Trust.

*(*Hotel Property Investments Trust ARSN 166 484 377, Hotel Property Investments Limited ACN 010 330 515)

HOTEL PROPERTY INVESTMENTS

POST RESULTS BRIEFING – SEPTEMBER 2014

HOTEL PROPERTY INVESTMENTS

In November 2013 the investment highlights were…

High quality Portfolio predominantly leased to Coles - comprising 41 pubs and 7 detached bottle shops

Longstanding relationship with Coles based on the strategic value of the liquor and gaming licences

Stable income stream underpinned by long term leases

Strong organic income growth

Attractive risk-return profile with significant total return opportunity

Experienced Board and Management

In September 2014 the key messages are…

- Strong contracted income growth and expenses tightly managed
- Growth in asset values due to contracted 4% rent increases
- Distribution declared and ahead of PDS forecast
- Strong relationship with Coles
- Hedging implemented for the term of loans
- Coles MoU capex program progressing; no capex surprises
- Successfully acquired a new asset and further opportunities exist

Year to date total securityholder return of 23.6%[1] vs ASX 300 REIT index 20.2%

[1] Total returns measured from 1 January 2014 to 4 September 2014

FY14 Results

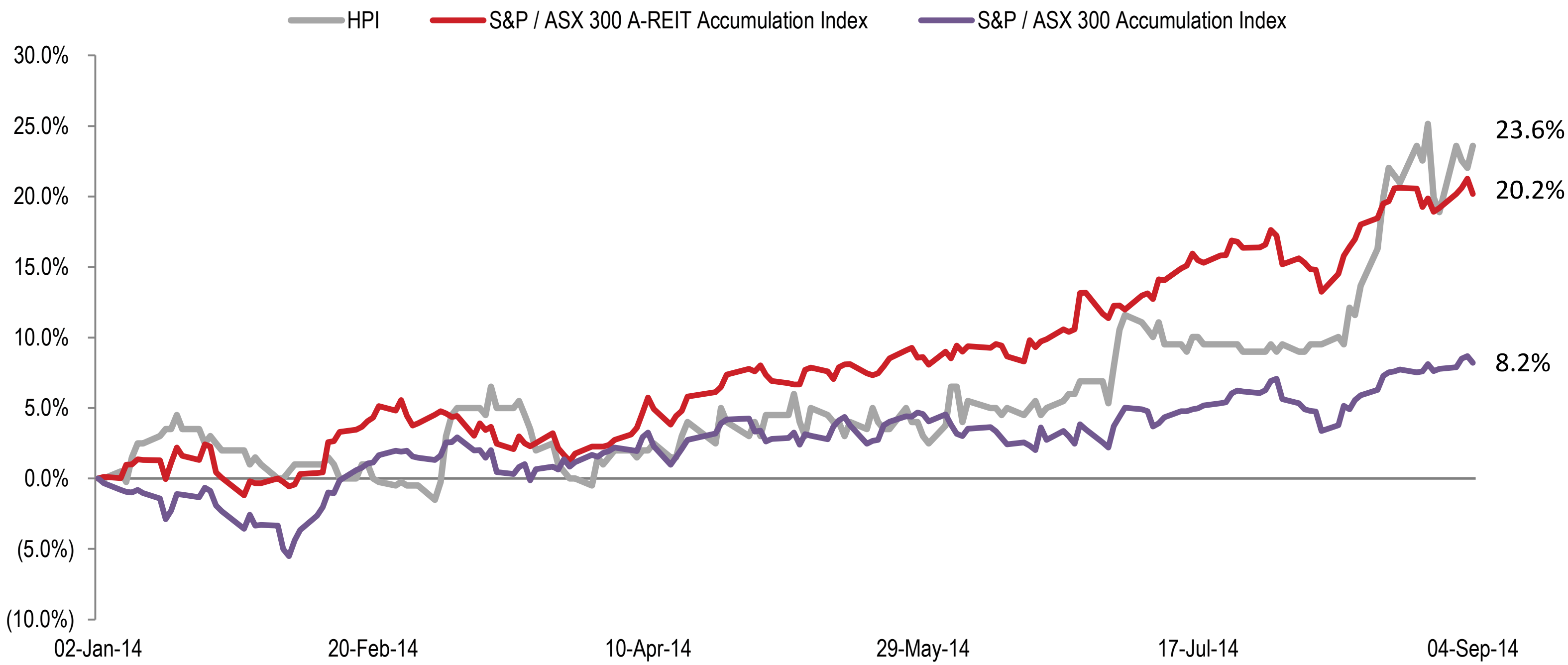
(NB, focus is on the period following allotment of securities on 9 December 2013)

Financial results for the period from allotment to 30 June 2014 slightly ahead of PDS forecast

- Earnings for the period
  - Operating Profit of $17.2m is $0.6m higher than PDS forecast
  - Net Profit of $21.6m is $10.8m higher than PDS forecast due mainly to fair value gain on investment property
- Distributions for the period
  - Distributable Earnings of $11.7m are $0.8m higher than PDS forecast
  - Distribution per security of 8.8 cents is 0.6 cents per security higher than PDS forecast
- Investment Property valuation is $496.7m compared to $481.5m at allotment, an increase of $15.2m
- Net Assets per security $1.96 compared to $1.91 at allotment
- Gearing 44.3% compared to 47.5% at allotment

Total securityholder returns

Year to date total securityholder returns



Total returns measured from 1 January 2014 to 4 September 2014
Source: Bloomberg

Portfolio Update - 48 quality freehold pubs and DBSs

	Pubs	Detached bottle shops	Specialty tenants	TOTAL PORTFOLIO
				
No. of Properties/tenancies	41	7	22 tenancies in 7 of the Properties	48 Properties
Directors Valuation[1]	$492.3m	$4.4m	N/A	$496.7m
Weighted average capitalisation rate	7.42%	7.00%	N/A	7.42%
Location	QLD, SA	QLD	QLD, SA	QLD, SA
Area (sqm) • Land • Building	 • 343,357 • 110,682	 • 1,201 • 841	 • N/A • 5,043	 • 344,558 • 116,566
Tenant(s)	Coles	Coles	Various[2]	
Forecast Rental income • FY15	 • $36.2m	 • $0.3m	 • $2.1m	 • $38.6m
WALE (by income)	8.7 years	7.0 years	3.4 years	8.5 years
Rent reviews (Forecast Period by rental income) • Lower of 2x average 5 yr historical CPI and 4% p.a. • Fixed 4% (%) p.a. • Fixed 3% (%) p.a. • Other[3]	 • 85% • 8% • 7% • 0%	 • 0% • 100% • 0% • 0%	 • 0% • 12% • 2% • 86%	 • 80% • 9% • 7% • 4%

95% of income

[1] Directors valuation as at 30 June 2014 having held cap rates constant at Independent Valuers cap rates current at December 2013

[2] Includes (among others): Franchisors and franchisees of 7-Eleven, Nightowl, Nando's, Subway, Blockbuster, Noodle Box, The Good Guys, TattsBet

[3] Other includes rent review types under the leases relating to certain On-site Specialty Stores. These include fixed at 5%, greater of 4% and CPI, CPI and alternative of CPI or 5%

Hotel HQ – Acquired August 2014

- HQ Constructed 2006
- Rent $1.3m p.a and Outgoings recovered except Land Tax
- Rent increases fixed 4% (2.5 x CPI or 4%)
- Initial lease term 13 years + and 30 years of options
- Gaming Authorities revert to landlord
- Top 20 Gaming venue in Qld
- Other potential acquisition opportunities include the circa 50 Coles leasehold pubs HPI does not own, ALH freeholds that come to market or potentially other freehold pubs leased to experienced tenants with sound financial capacity

Outlook

- Seek further asset acquisition opportunities… but we will be selective.
  - Properties in good condition
  - In key metropolitan or regional locations
  - With potential for long term growth
  - Leased to experienced operators with sound financial capacity
  - On favourable lease terms
  - Improving overall portfolio quality and WALE
  - **Provide value and benefit to securityholders**
- Portfolio Management
  - Asset recycling… ie, divest non strategic assets, those more suited to different types of investors and reinvestment in our preferred assets
- Pursue cost reduction measures where possible
- Deliver at least the PDS distribution per unit forecast for FY15

Appendix 1 – Financials and Capital Management

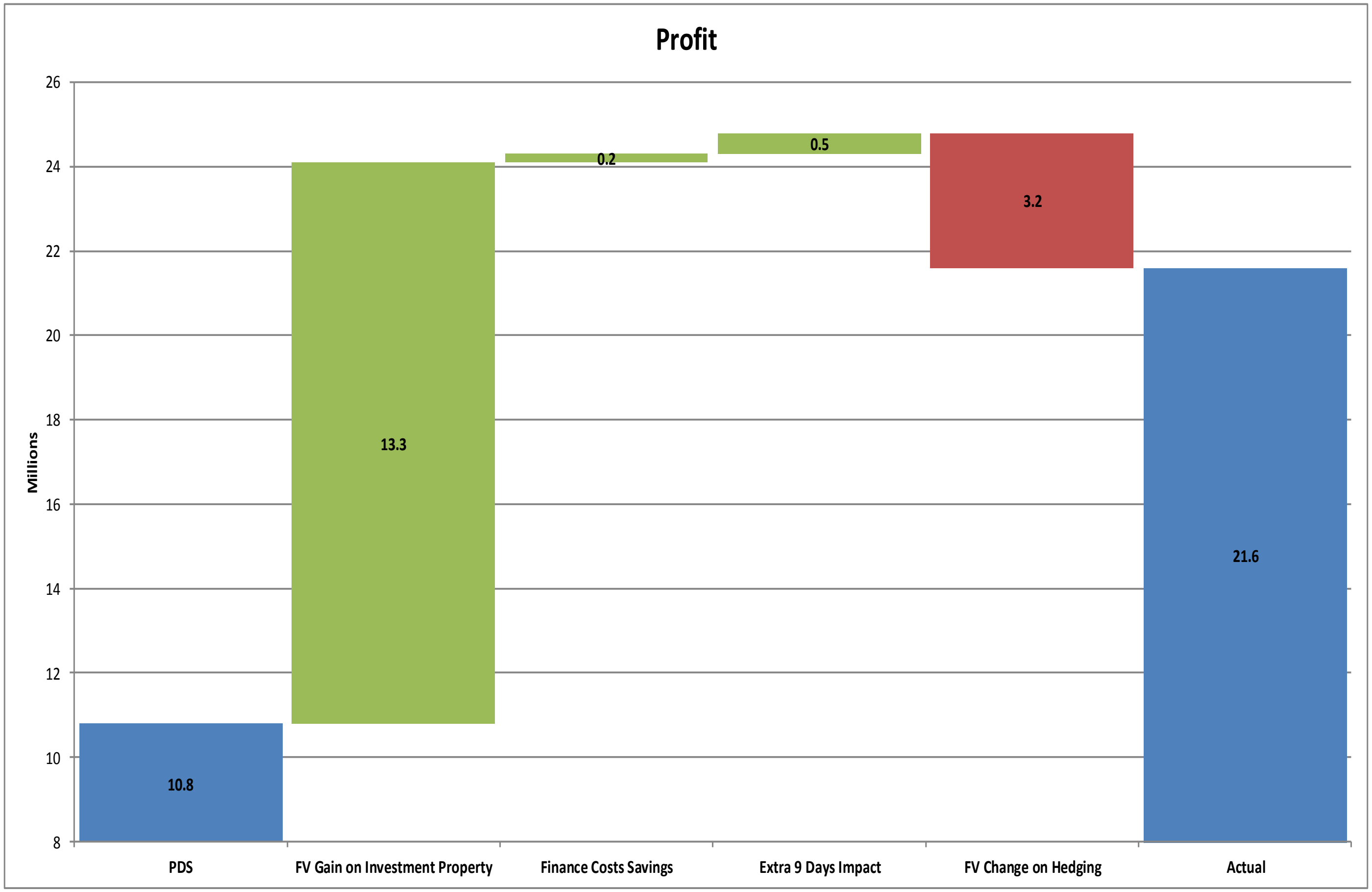
Net Profit since IPO

Consolidated Income Statements *(NB, allotment of securities occurred on 9 December 2013)*

P&L in $ millions	Actual	PDS	Var
Income			
Net rental income	**20.8**	**20.0**	**0.8**
Operating expenses			
Non-recoverable property operating expenses	-1.7	-1.5	-0.2
Management fees	-0.9	-0.9	0.0
Trust expenses	-1.0	-1.0	0.0
Total expenses	**-3.6**	**-3.4**	**-0.2**
Operating Profit	**17.2**	**16.6**	**0.6**
Fair value adj on Hedging	-3.2	0.0	-3.2
Fair value gain on HPI portfolio of properties	13.2	0.0	13.2
EBIT	**27.2**	**16.6**	**10.6**
Net interest expense	-5.6	-5.8	0.2
Net Profit	**21.6**	**10.8**	**10.8**

- Income stable and increasing at substantially fixed 4% p.a in accordance with leases
- Slightly higher rental income and costs due to allotment of securities occurring 9 days ahead of PDS estimates
- Trust Costs, Management Costs and Net Interest Expense otherwise at or under PDS estimates
- Fair Value improvement in investment Property values at approximately 3% due to contracted rent increases

Net Profit since IPO



Distributable Income since IPO

Consolidated Distribution Statements *(NB, allotment of securities occurred on 9 December 2013)*

DISTRIBUTIONS in $ millions	Actual	PDS	Var
Statutory NPAT for the period	21.6	10.8	10.8
Amortisation of capitalised borrowing costs	0.1	0.1	0.0
Fair Value Adjustments	-10.0	0.0	-10.0
Distributable earnings	**11.7**	**10.9**	**0.8**
Maintenance capex	-2.0	-2.4	0.4
AFFO (Adj Funds From Ops)	9.7	8.5	1.2
Return of capital	2.0	2.4	-0.4
Total Distribution	**11.7**	**10.9**	**0.8**
Distribution per stapled security (cents)	**8.8**	**8.2**	**0.6**
Annualised Distribution yield % on Issue Price $2.10	7.5%	7.3%	0.2%

- Total Distribution $0.8m higher than PDS forecast (0.6 cents per security)
- Tax Deferred component of Distribution = 17.5% marginally ahead of PDS
- Payout Ratio is 100% of Distributable Earnings in FY14 as forecast in the PDS
- Payout Ratio will revert to 100% of AFFO in FY15 as forecast in the PDS
- Maintenance Capex $0.4m under PDS forecast largely due to
    - Some expenditure classified as Repairs (P&L) rather than Capex in FY14 ($0.2m)
    - Some expenditure delayed into FY15 ($0.2m)

Balance sheet at 30 June 14

Consolidated Balance Sheet

BALANCE SHEET in $ millions		
	Jun-14	Allotment
Cash	3.3	2.5
Other current assets	1.4	1.9
Total Current Assets	4.7	4.4
Investment property	496.7	481.5
Other non current assets	0.2	0.2
Total Non Current Assets	496.9	481.7
Total Assets	501.6	486.1
Liabilities		
Current liabilities	14.3	2.0
Total Current Liabilities	14.3	2.0
Borrowings	223.2	231.0
Other non current liabilities	3.1	0.0
Total Non Current Liabilities	226.3	231.0
Total Liabilities	240.6	233.0
Net Assets	261.0	253.1
Gearing (Drawn Borrowings[1] - Cash) / (Total Assets – Cash)	44.3%	47.5%
Net Assets Per Security	1.96	1.91

- Cash application against drawn loans sees Gearing at 30 June reduced from time of IPO
- Investment Property increment due to substantially fixed 4% annual Rent increases with Cap rates held constant at their December 2013 level
- Increase in Other Current Liabilities reflects the $11.7m Distribution payable in September 2014
- Other Non Current Liabilities is the MTM value of hedging instruments

[1] Borrowings shown on balance sheet are drawn borrowings less $0.95 million of capitalised debt establishment fees

Capital Management

As at 30 June 2014

CAPITAL MANAGEMENT	30-Jun-14
Drawn Debt	$224.1 m
Net Debt (Drawn Debt less Cash)	$220.8 m
Loan Facility Limit	$260.0 m
Debt Term to Maturity	4.4 yrs
Gearing (Drawn Borrowings[1] - Cash) / (Total Assets – Cash)	44.3%
% Hedging average over loan term	58.2%
Interest Cover Ratio	3.1 x
LVR	45.1%

- Gearing within Board’s target range of 40% - 50%
- Hedging in place for period of loan facility – average “hedged” % on basis of drawn debt at 30 June 2014 is 58.2%
- Interest Cover 3.1 x comfortably within lending covenant
- LVR 45.1% comfortably within lending covenant

Appendix 2 - HPI’s Investment Proposition

Portfolio has strategic value

	QLD regulatory environment	Implications
Liquor licences	• Any party wanting to sell retail liquor in QLD needs to operate pubs • Each licencee may also: – Operate a Large Format Liquor / Drive Thru store on site – Operate up to 3 additional DBSs within a 10km radius	• HPI's portfolio provides up to 144 retail liquor points of sale • Large Format Liquor stores are only allowed on or adjacent to hotel premises in QLD
Gaming licences	• QLD pubs may hold up to 45 EGMs • In most cases HPI owns the original EGM authorities • If the tenant does not renew the lease the original EGM authorities revert to the Landlord at no cost	• EGMs are a dominant source of revenue and profitability for hotels in QLD • The reversionary value of the EGM licences underpin the value of HPI's portfolio

Coles overview

Coles' Australian hotel footprint

- Coles is the second largest Australian operator of liquor outlets with 904 across Australia as at 30 September 2013
- HPI's Portfolio represents (by number)
  - 45% of all the hotels Coles operates in Australia
  - 47% of all the hotels Coles operates in QLD
  - 71% of all the hotels Coles operates in SA
- Coles is investing in its pubs having carried out leasehold refurbishment works at several HPI properties since December 2013
- Quality management and operational team

Retail liquor distribution premises

Coles Group	
1st Choice	96
Vintage Cellars	79
Liquorland	637
Hotels	92
Total	**904**

Source: Wesfarmers filings as at 30 September 2013

Attractive lease terms

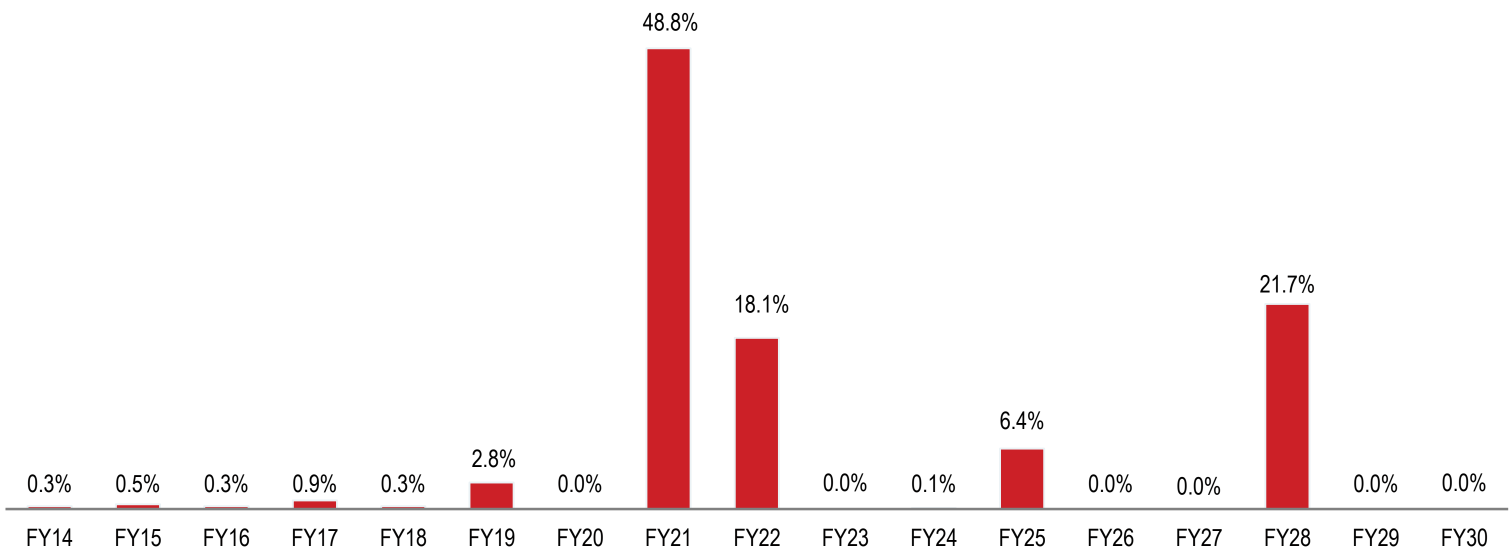
Summary of a typical Coles Tenant lease

Lease term	15/20 years initial term with options to extend totalling 20-30 years – remaining WALE of 9 years
Rent reviews	(i) Fixed 4%, (ii) Lower of 2 x average 5 year historical CPI or 4%, (iii) Fixed 3%
Outgoings	All outgoings recoverable from Coles including rates, landlord's special risk insurance and maintenance of common areas with the exception of QLD land tax
Structural Repairs	• Coles' obligation: Responsible for maintenance and keeping the property in good repair – Examples: floor coverings, internal painting, regular maintenance of air-conditioning, fire prevention and refrigeration equipment • HPI's obligation: All structural repairs and maintenance where repair is not economical or practicable – Example: roof repairs, car park structural repairs, mechanical services of major parts or entire plant where repair not economical or practical
Licences	• HPI retains the rights over the liquor licences • In the majority of cases, the original gaming licences associated with the Pubs will revert to HPI at the end of the lease term. In addition, HPI has the option to purchase any additional gaming licences used in respect of the Pubs
Redevelopment Proposal over Premises	• Redevelopment may occur, subject to HPI and Coles Tenant agreeing to a concept plan which sets out details of the proposed works • HPI is responsible for any redevelopment works
First and last right of refusal	The Coles Tenant has a first and last right of refusal at market value

One of the longest WALEs in the A-REIT sector

Lease expiry profile (by income, excluding options to extend)

Portfolio WALE: 8.5 years



100% occupied with no major expiries until 2021

Calculated from Forecast Commencement Date . Includes Coles Tenants and specialty leases

Disciplined approach to growth

Development

- Will be undertaken in partnership with tenants
- Potential for collaborative low-risk development opportunities in response to tenant needs
- Land significantly under utilised

Acquisitions

- Potential to participate in industry consolidation

Investment criteria

- Must be in good condition, and located in a key regional or metropolitan location with potential for long term growth
- Must be leased to experienced tenants – who are preferably multiple site operators – with sound financial capacity
- The lease terms should ensure that the tenant is responsible for all outgoings, property maintenance and preferably for structural repairs

HOTEL PROPERTY INVESTMENTS

Summary

1 **High quality Portfolio predominantly leased to Coles**
- 48 assets comprising 41 pubs and 7 detached bottle shops and other On-site Speciality Stores
- Coles provide 95% of HPI's rental income
- Coles is a wholly owned subsidiary of Wesfarmers Limited (A- credit rating)
- Portfolio has 100% occupancy
- Located in Queensland (90% by value) and South Australia (10% by value)

2 **Longstanding relationship with Coles based on the strategic value of liquor and gaming licences**
- Packaged liquor cannot be sold in Queensland without a Commercial Hotel Licence
- Each Commercial Hotel Licence in Queensland includes ability to sell liquor at multiple points of sale on-site as well as a licence to operate 3 detached bottle shops within a 10km radius of the hotel

3 **Stable income stream generated by long term leases**
- 8.5 year WALE with further options for Coles to extend
- Attractive lease terms – lessor only responsible for QLD land tax and structural capex

4 **Strong organic income growth**
- Coles leases have contracted rental increases at predominantly (i) fixed 4% or (ii) the lower of 2x average 5 year historical CPI and 4%

5 **Attractive total-return profile**
- Forecast FY15 distribution 15.9 cents
- Opportunity for asset value growth

6 **Experienced Fund Manager and Board**
- Board with extensive corporate and industry experience

HOTEL PROPERTY INVESTMENTS

POST RESULTS BRIEFING – SEPTEMBER 2014