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ASX Announcement

16 March 2016

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

Hotel Property Investments (ASX Code: HPI)
Retail Brokers Update

Investors are referred to the attached Retail Broker Company Update.

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HOTEL PROPERTY INVESTMENTS

Company Update 16 March 2016

Large Scale Venues leased to Coles & ALH

- 44 Pubs
- $580 m portfolio
- 359,000 m^2 land
- 125,000 m^2 bldgs.
- Avg Rent nearly $1m per pub
- 3.9% p.a average Rent increase
- WALE 7.4 yrs
- YIELDING CIRCA 7%

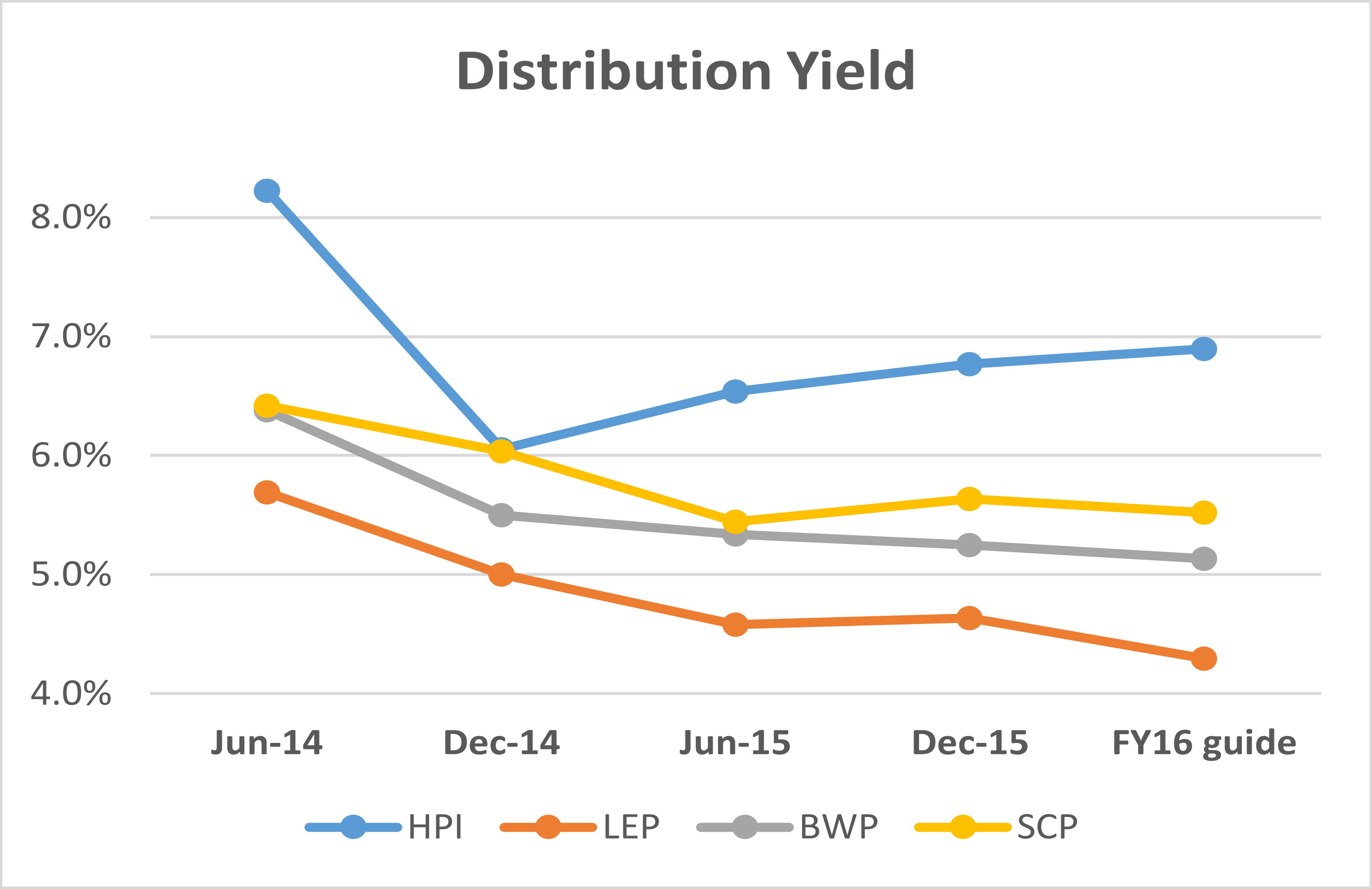
Investment Proposition

1. **Owner of large scale Gaming venues leased to Coles and Woolworths JV**
   - Premium assets whose underlying value grows with gaming
   - Premium operators
2. **Distribution yield circa 7% [1]**
   - FY16 Distribution guidance up 11.6% year on year
3. **Annual Distribution Growth circa 6.0% p.a [2]**
   - Annual growth on top of an already attractive yield
   - Driven by contracted rental increases for the next 30 years [3] (most leases fixed 4% ↑ p.a)
4. **Attractive Return profile for a Wesfarmers bond-like security (A- rating)**
   - Annualised TSR since listing of 17.8% [4]
   - Significant premium to bank deposit rates

Where do you find a Total Return profile like this with a defensive stock such as HPI?

1. Distribution guidance 18.2c for FY16 and share price $2.60
2. Annual growth on assumption of constant costs and contracted rental growth over the WALE term
3. Assuming options are exercised
4. Source JP Morgan

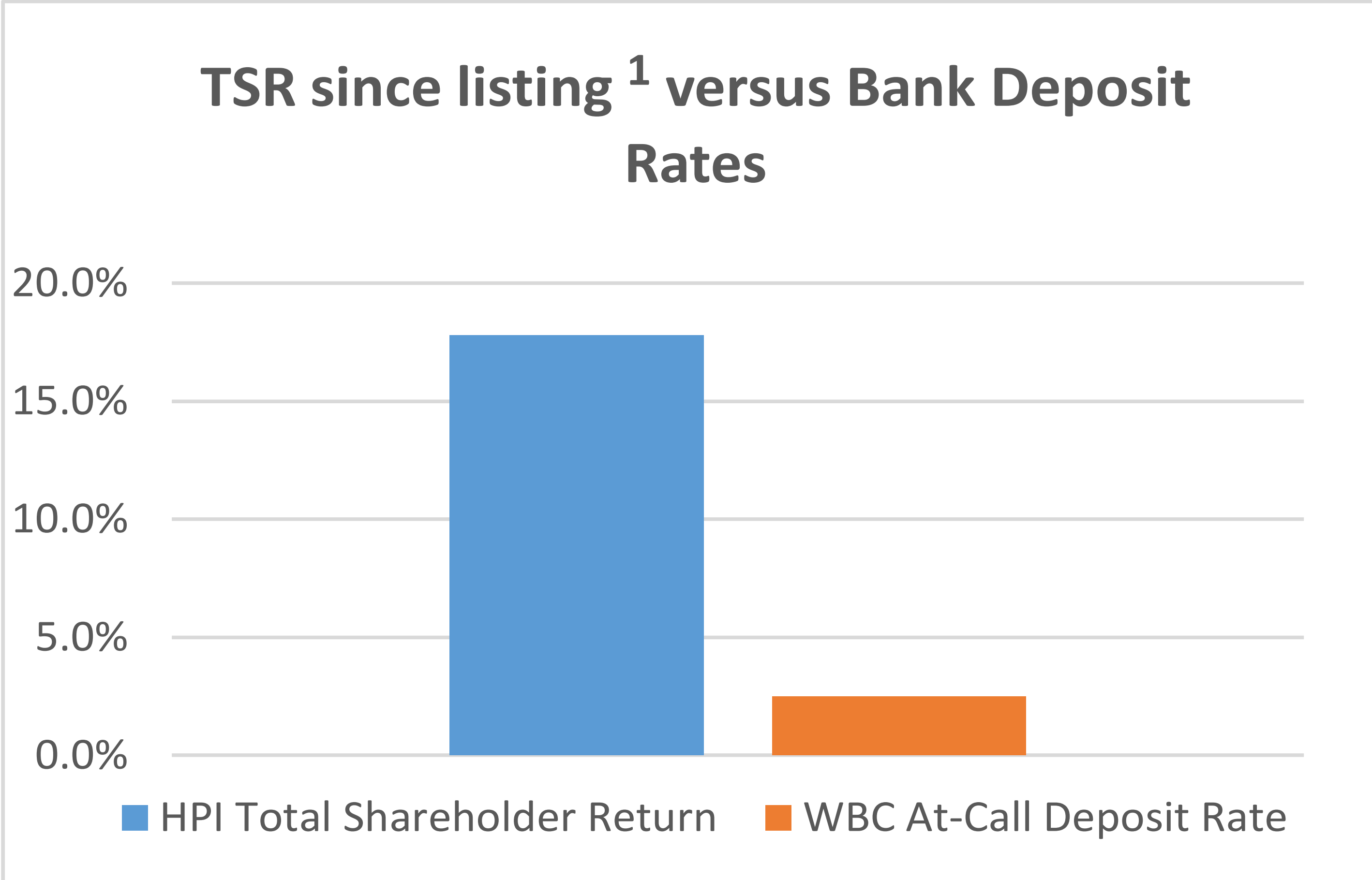
Distribution Yield circa 7%



Compares favourably with other A-REITS with Wesfarmers or Woolworths tenants

Yields based on FY16 distribution guidance and share price at 7 Mar 16. LEP Dec15 and FY16 guidance excludes estimated capital return

Bond-like return underpinned by A- rated tenant



Excellent annual return for a Wesfarmers bond-like security (A- rating)

1. Source JP Morgan. NB, Annualised TSR

Summary

1. Contracted rent increases drive excellent Distribution growth on top of an already attractive yield

2. Bond-like Risk / Reward profile… with rent largely guaranteed by A- rated tenant

3. Significant incentive for the tenant to exercise its options due to the reversionary value of the businesses

4. Gaming growth ahead of Rent increases supports the lease terms

Appendices

Value Drivers

1. **Average 3.9% p.a Rent increase drives Distribution growth**
   - 40 properties with fixed 4% p.a rental increase
   - 1 fixed 3.25%, 2 fixed 3.0%, 1 CPI rental increase

2. **WALE 7.4 years plus average 24 years options**

3. **Coles tenants majority of which are guaranteed by Wesfarmers … (A- rating)**

4. **Entrenched Qld licensing laws - hotel licence required to sell Retail liquor**
   - 127 retail outlets operated from our hotel licenses
   - 9 large format, 29 on-site, 89 detached bottle shops (Liquorland and BWS)

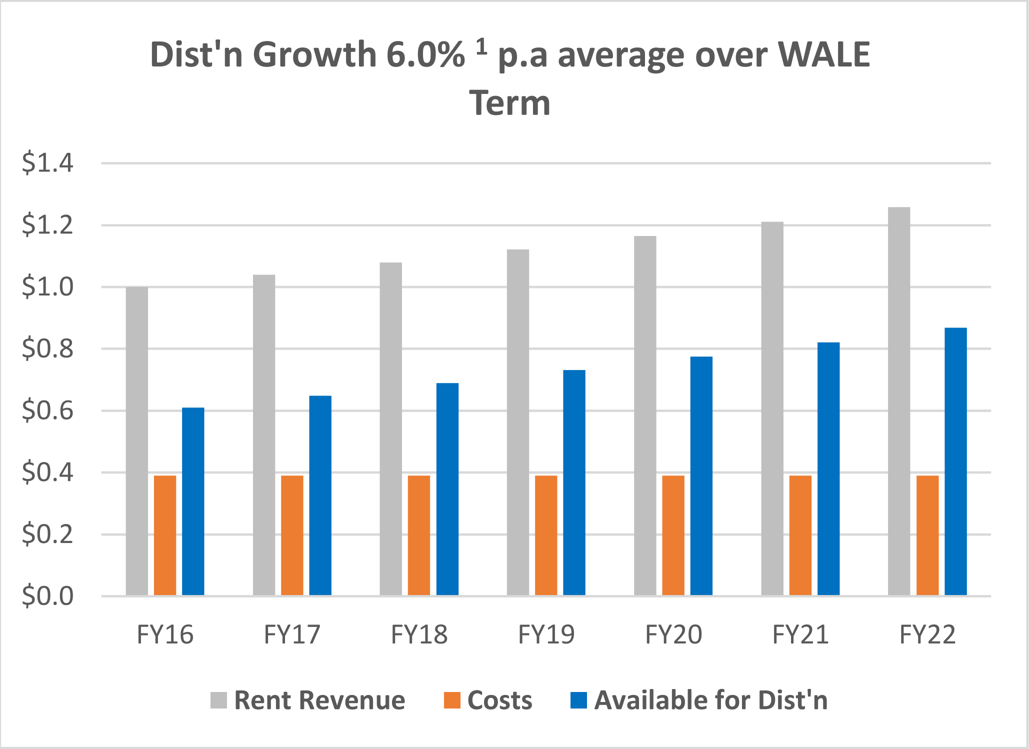
5. **Landlord recovers substantially all outgoings (except Qld land tax) and is only responsible for structural repairs**

6. **The tenant's business is a Contingent Asset which reverts to the landlord at the end of the lease; Why?**
   - All except 1 Liquor and Gaming Licenses are owned by HPI
   - 1,356 of 1,699 gaming authorities are owned by HPI (and the others must be offered to HPI at 75% of market value)
   - At lease-end HPI owns viable businesses to re-lease to others, or operate itself

Distribution Growth

- Strong annual distribution growth driven by the majority of leases with contracted fixed rental increases of 4% p.a

- Average annual rent increase 3.9%



1. Annual growth of a marginal $1 on assumption of constant costs and contracted rental growth

Additional Distribution growth opportunity

1. **Selectively acquire new properties**
    - 4 successful acquisitions so far totalling $55 million
    - Discipline maintained around investment criteria and IRR’s
2. **Selective Development opportunity exists**
    - Buildings occupy 35% of the portfolio land area
    - Several parcels of surplus land adjacent to hotels
    - Tenant-driven development opportunities identified
3. **HPI seeking further cost reductions**
    - Applied for and received a draft AFSL, creating the opportunity to reduce costs and add flexibility

Opportunity exists to further enhance HPI’s strong expected distribution growth

Previous Acquisitions

Hotel HQ Sep 14
Brisbane, Qld
$18.1 million
7.23% Yield

4% p.a rent increase
Lease to Mar 2058 incl. options
Leased to Coles

Magnums Tavern Dec 14
Airlie Beach, Qld
$17.5 million
8% Yield

3.25% pa. rent increase
Lease to Dec 2056 incl. options
Leased to ALH

Beenleigh Tavern Oct 14
Brisbane, Qld
$9.9 million
7.9% Yield

CPI rent increase
Lease to Dec 2046 incl Options
Leased to Coles

Wallaby Hotel Dec 14
Gold Coast, Qld
$9.5 million
7.85% Yield

3% p.a rent increase
Lease to July 2031 incl options
Leased to Coles

Intrinsic value uplift if tenant vacates

The example pub below assumes earnings before rent (EBITDAR) of $1,500,000 **from which** $600,000 Rent is paid to the landlord, leaving the tenant an EBITDA of $900,000.

Earnings before rent (EBITDAR)	$1,500,000
Owner-Operator Cap Rate [1]	12.0%
Value if Owner-Operator	$12,500,000
Rent to Landlord (40% of EBITDAR)	$600,000
Freehold Cap Rate	7.50%
Freehold Value	$8,000,000
Earnings after Rent (EBITDA)	$900,000
Reversionary Value	$4,500,000

1. Whilst the Freehold value is $8 million, **the value of the entire pub is $12.5 million**
2. At the end of the lease, the business reverts to the landlord and the landlord's value reverts to $12.5 million
3. The uplift in the landlord's value is effectively the value of the tenants earnings of $900,000 p.a

A "contingent asset" exists which materialises at end of the lease or if tenant vacates

1. Source: Urbis.

Are the properties fairly rented?

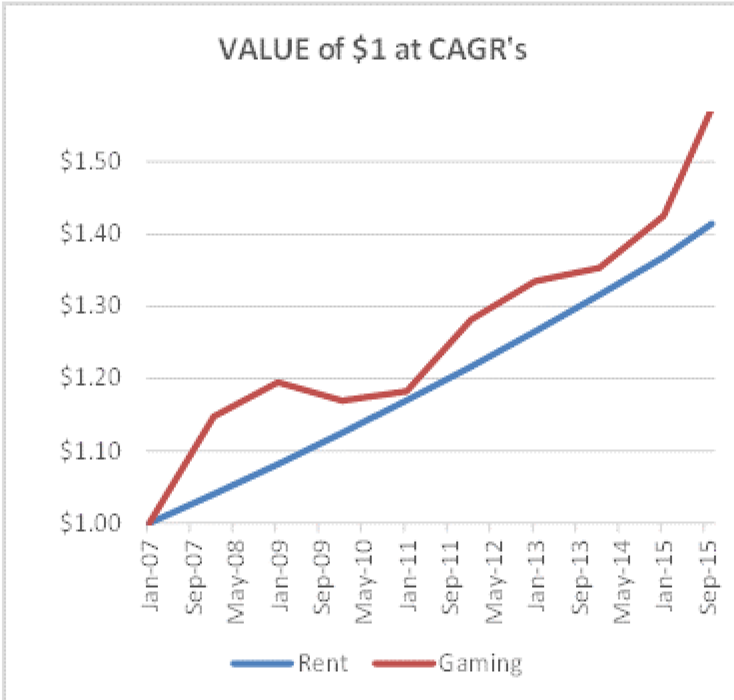


Chart maps $1 Rent and $1 Gaming at the CAGR of each since lease inception

- Gaming is the primary driver of EBITDAR growth… and it has grown faster than rents
- Significant industry-wide Gaming acceleration in the last 12 months at + 10% [1]
- Coles and ALH are the hotel market's leading large-scale operators
- *The best operators outperform the market average*

Takeaway:

1. Rents commenced circa 37.5 – 40% of Hotel and all associated Retail store earnings
2. Tenant continually reinvesting in their venues and improve the businesses
3. *We conclude therefore that the Rent percentage of leasehold earnings is falling*

1. Gaming data source – Max Gaming

Portfolio and Assets – December 2015

Investment properties	• 44 in total • Leased to Coles = 43 • Leased to ALH = 1
Portfolio Location	• 40 in Queensland • 4 in South Australia
Portfolio Value	$580 million
Occupancy	100%
Average Cap Rate	7.28%
Average Rent Increase p.a	3.9%
WALE	7.4 years
Average Option period	24 years
Land Area	359,000 m^2
Building Area	125,000 m^2 (35%)

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