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Macquarie DDR Trust

Chairman and Chief Executive Officer Unitholder Briefing Address

Mr Richard Sheppard, Chairman

Good afternoon ladies and gentlemen and welcome to the 2009 unitholder briefing for Macquarie DDR Trust.

My name is Richard Sheppard and I am the chairman of Macquarie DDR Management Limited, Manager of the Macquarie DDR Trust.

First, I would like to introduce my fellow directors here today - starting immediately to my left is David Oakes, Chief Investment Officer of our joint venture partner Developers Diversified Realty (DDR).

Next to David are independent directors Bob Joss and David Spruell followed by the Macquarie appointed directors Stephen Girdis, Simon Jones and alternative director and company secretary John Wright.

Unfortunately, our other US based directors Scott Wolstein, Dan Hurwitz and independent director Steve Guttman are unable to join us today.

Also present today are the Chief Executive Officer of the Trust, Luke Petherbridge; company secretary and legal counsel Natalie Allen; and representatives from the auditor; PWC.

To commence, I will briefly comment on current market conditions and how the Trust has attempted to address these.

Luke will then review the Trust's results to 30 June, our debt negotiations and discuss the portfolio in more detail. David Oakes, will then provide an update on what is happening on the ground in the United States.

Before I proceed I would like to advise that today's briefing will be webcast and will be available for review on our website tomorrow.

Macquarie DDR Trust was established and listed in November 2003 with the objective of providing access to the United States value and convenience retail sector through the community shopping centres it owns. During the life of the Trust we have focused solely on US assets.

As at 30 June 2009, the Trust owns a majority interest in 84 centres, in which our share was valued at US$1.4 billion.

The past year has been characterised by extremely challenging and difficult financial conditions, with dislocation in the debt and real estate markets leading to a softening of asset prices.

This softening in asset prices has increased our gearing levels to over 70% and decreased our NTA to approximately A$0.36 which still remains a significant premium to our stocks trading price.

Despite this, the Trust has maintained relatively sufficient cash flows from its portfolio of assets, which are supported by long-term leases to nationally recognised retailers.

As I'm sure all our investors are aware, the past 12-18 months has been particularly challenging.

At our briefing last year, we talked about the uncertainty surrounding the world financial market and the implications for the real estate sector. We also talked about the specific challenges the Trust faced.

The dislocation in global equity and debt markets saw fundamentals deteriorate around the globe. In particular, the virtual freeze in US debt markets saw real estate markets for the majority of the financial year imposed extraordinary challenges for property focused businesses such as Macquarie DDR Trust.

Macquarie DDR has not been immune to the slowing of global growth and in particular the recessionary pressures faced in the US with our unit price trading at disappointing levels reflecting concerns over our ability to continue to operate.

Since 30 June, we have started to experience improved sentiment illustrated by our recent leasing success and evidenced by the two year extension we secured on our matured CMBS loan.

Although conditions have improved from the difficulties experienced in early 2009, the US economy remains fragile and, in particular, real estate markets remain challenging.

The Trust was established as a geared investment vehicle focused on community shopping centres located in the US which provided relatively stable cash flows.

Our assets continue to perform reasonably well in the difficult market conditions.

Our capital structure requires the continued support of our lenders and although there is still work to be done, we have made progress over the past 12 months on:

- maximising cash flows through re-leasing space and controlling capital expenditures;

- selling assets to reduce the Trust's debt levels;

- refinancing and extending debt facilities to enhance our funding maturities; and

- working with our lenders to restructure our existing facilities with covenants.

Through regular market updates and our recently issued annual report, unitholders have been updated on the progress we have been making and the challenges we face.

Although there remains work to be done, the various initiatives have undertaken throughout the year have sought to enhance the Trust's position in the current climate and to increase unitholder value.

As we announced at this forum 12 months ago, we undertook a strategic review to address our capital structure, which included marketing assets for sale and strategies to reduce debt balances.

We have had some success with asset sales during the year as I will outline shortly. However, some of the pricing we received to sell assets was opportunistic and proceeding with some of these sales was not in the best interest of our unitholders and our lenders.

As such, other initiatives were also undertaken to allow a more progressive approach to enhance and realise value from our portfolio.

One of the actions was to simplify the ownership structure which would assist with the sale of assets and repayment of debt.

In October 2009, unitholders voted to approve the redemption of DDR's equity interest in one of our joint ventures which has simplified our structure and increased our flexibility to undertake various actions.

The Trust has focused on selling assets to reduce our debt levels, and over this 18 month period we have successfully sold over US$200 million with all proceeds used to retire debt.

We continue to work on this strategy and expect some further smaller sales to complete in early 2010. These sales are designed to reduce near-term debt while we focus on holding the majority of our portfolio seeking to lease up existing vacancies and improve its value.

Before I hand over to Luke and David, I would like to note that in framing today's presentation, we have taken particular care to address the specific questions that were nominated by you as part of the invitation process. In addition, at the conclusion of the briefing there will be a chance to ask questions.

I would now like to hand over to Luke Petherbridge to provide a more detailed review and update of the Trust's performance and our current debt negotiations.

Mr Luke Petherbridge, Chief Executive Officer

Thank you Richard and good morning, I would also like to welcome our investors here today.

I would like to start by elaborating on Richard's comments about the past 12 to 18 months.

As you would all be aware, real estate is a capital intensive asset class and debt has been a fundamental component of the activities of all real estate companies, including Macquarie DDR.

Macquarie DDR Trust was established as a leveraged investment into US retail community centres, leased to major tenants on long term leases providing stable cash flows.

One key aspect of real estate ownership is its reliance on normal availability of debt. In late 2008 and into 2009 the amount of debt available reduced dramatically.

There have been two historical sources of debt available to property companies, the first being banks, who have been significantly reducing their lending so they can repair their balance sheets; and secondly, the capital markets, or CMBS, which have been effectively closed for over 18 months.

The lack of available debt, even to the largest corporations, meant that real estate prices, particularly in the US, were significantly impacted.

To put this in perspective, Macquarie DDR's asset values have fallen approximately 37% since their peak in 2007. This has put significant pressure on our balance sheet and, combined with the lack of debt, has made refinancing our near-term debt facilities very difficult.

We have attempted to weather these conditions through various actions; including marketing the portfolio and selectively selling assets where appropriate bids are received; and working with our lenders to allow greater time to re-tenant our portfolio and seek to maximise the value for you, our unitholders.

This task has taken significant time and today I will provide an update on the progress we have made and what we still need to do.

In addition to successfully simplifying our ownership structure as Richard noted, our key goal in the near-term is to address our capital structure while enhancing asset performance.

This will be done through four key aspects:

<u>Reduce debt</u>
We have made a start through the sale of US$209 million of assets (Macquarie DDR's share is US$166 million) and retaining cash flow both to reduce debt. We will continue this strategy of selectively selling assets during financial year 2010.

Debt maturities
In September 2008 we successfully refinanced US$316 million of debt and last week we announced the successful completion of the extension to our US$109 million CMBS loan to June 2011.

I want to make a point that this is a significant achievement, as the extension provides the Trust time to re-tenant the assets while also seeking to either refinance or sell to realise the equity in the assets.

Although progress has been made, we continue to have a significant portion of debt which will need to be addressed through both asset sales and negotiations with lenders during the first half of 2010.

However, we continue to have our strongest assets secured by our longest debt.

Financial covenants
As a result of the declining asset values, the Trust has breached loan to value covenants.

We are continuing to work with our lenders to restructure these facilities to be more appropriate in the current climate.

Specifically we are focused on restructuring the head trust loan and senior non-recourse facility to extend the maturity and allow an orderly asset realisation or refinancing program to be undertaken.

I will provide an update on this progress later.

Property performance
Clearly our underlying business model is essential to the ongoing viability of the Trust and we have, and will, continue to work on leasing vacant space and retaining tenants.

Significant challenges remain, but if we are successful with the various aspects of our strategy it will allow the potential realisation of the underlying asset portfolio in the medium-term which is ultimately in the best interest of unitholders, as opposed to selling assets at the current distressed and opportunistic prices.

The Trust delivered core earnings of A$68.8 million or 7.3 cents per unit for the year to 30 June 2009.

Our gearing as at 30 June 2009 increased to 76% due to asset devaluations.

Importantly, Macquarie DDR continues to maintain sufficient cash flow with an interest cover ratio of over two times at 30 June. However, going forward, we expect this will reduce with increased vacancy in the portfolio and increased in funding costs.

We have a shopping centre leased rate of 89.1% and continue to focus on re-leasing vacant space which has increased since this time last year.

Since January 2009, we have successfully leased 387,495 square feet, or 3.3% of the shopping centre portfolio, to new tenants reducing vacancy and improving value.

The Trust's net tangible asset backing has been impacted since 2008, by the fall in asset values combined with our gearing.
This was partially offset with cash profit for the year and the reduction of our tax deferred liability.

The NTA per unit at 30 June 2009 was $0.38.

Since June 2009, two key things have changed which has impacted the Trust's NTA. Firstly, the US dollar has depreciated by over 10% against the Australian dollar, thereby reducing our NTA per unit by approximately 4 cents per unit.

Secondly, the DDR redemption transaction was accretive to NTA and has increased our NTA by 2 cents.

Currently our NTA is approximately A$0.36.

Macquarie DDR's debt profile includes 11 senior secured facilities and one corporate loan, which over the past year has been reduced to US$50 million.

Over 95% of the Trust's debt is asset level in discrete pools.

Our focus continues to remain on reducing our near-term debt maturities. As illustrated we have extended the CMBS loan to June 2011, improving our current position.

In the first half of 2010 we have various facilities maturing and we are in discussions with these lenders to extend the maturities.

As previously announced, we have two debt facilities which mature in early 2010 which have breached their loan to value covenants.

The revolver property facility is a senior facility secured to 10 assets with an interest cover ratio over the past 12 months in excess of 3.5 times, reflecting the strength of the portfolio and its ability to service its debt costs.

We are in discussions with the lender to restructure the covenants and to obtain a possible extension of the maturity date. Discussions are ongoing and are constructive.

The head trust loan and derivative contracts are all unsecured and involve six counterparties with an interest cover ratio of 2.1 times

We are in discussions with the lenders to restructure the covenants and maturity dates of the facilities; however, any outcome requires all the banks to agree to the position collectively.

The number of banks involved and complexity of the situation means that obtaining an acceptable agreement is taking a significant amount of time.

As these facilities involve borrowings by the head trust, if we are unable to reach agreement with the lenders and they decide to demand immediate repayment, it will have a significant negative impact to operations, so lender support is critical.

Although we haven't agreed the terms, we have demonstrated to these lenders our willingness to improve their position through using earnings and asset sale proceeds to reduce debt balances.
The Macquarie DDR portfolio consists of 81 properties leased to strong national tenants.

The quality of the portfolio and the strength of its cash flows are essential elements while we work to enhance unitholder value.

The portfolio can be broken down into two distinct types, specifically:

- 52 shopping centres located in 20 states which has reduced to 49 shopping centres since the redemption of DDR in October; and
- 32 single retail boxes located primarily on the West Coast which we are currently focused on either leasing or selling, however, restoring equity value in this portfolio remains difficult.

Macquarie DDR's assets appeal to tenants who provide attractive pricing points for consumers.

Approximately 60% of shopping centre rents are from anchor tenants.

These tenants are generally national retailers and together with the junior anchors account for over 80% of our shopping centre annual base rent.

Only 19% of overall rent is from specialty tenants, which are generally smaller locally operated businesses.

One of the key points to note on this slide is that anchor tenants have weighted average lease expiries of 5.7 years compared to junior anchors with 4.1 years.

What this means is that there's a larger percent of our rent locked away for the longest time.

Despite the 3.5 million square feet of space returned to the Trust following several tenant bankruptcies, the portfolio continued to perform relatively well during the year to 30 June 2009 with 1.2 million square feet leased. Around 700,000 square feet of this was leased during the second half, our strongest half since inception.

We provided an operational update in October which demonstrated that the strong leasing activity has continued from the first half through the September quarter. We were able to lease a further 300,000 square feet and most importantly have seen the shopping centre leased rate increase slightly.

Rental growth has been reducing over the past 12 months reflecting the fundamentals of the market. This is expected to continue, with rental growth for the September quarter being negative primarily due to the new lease rents being lower than historical rental rates. Occupancy remains a key driver to maximise and enhance value.

We continue to focus on leasing space to value and convenience retailers particularly those that have a national presence.

These retailers have continued to show resilience despite weakening consumer expenditure.

For example, TJX Companies, Petsmart and Walmart continue to achieve positive same store sales growth while most retailers are facing deficits.

Our portfolio, over the past year, has been impacted by tenant bankruptcies which meant we recaptured a significant amount of space in early 2009.

However, these challenges create opportunities to capture upside from leasing activity.

It also provides the opportunity to re-tenant space to stronger retailers and increase the security of our income.

The lack of new development in the US will increase the demand for quality space, and some retailers are indicating they are growing store counts in 2009 and 2010, particularly those with a discount focus.

New rents have reduced but with that so has capital expenditure required to lease space.

We have made significant progress with our re-leasing initiatives, which highlight the strength of the underlying assets.

Over the past seven months we have recaptured 56 stores covering 3.5 million square feet.

We have made real progress and the pipeline illustrates that over the coming months we should continue that trend.

We have sold or leased approximately 39% of these stores with a further 34% in the pipeline with leases under letter of intent (LOI) currently signed and negotiations are underway to move to an executed lease.

Although we are signing leases today, they will not be occupying space and paying rent until mid 2010 so the financial impact won’t be evident until financial year 2011.

These activities are important and will, in the medium-term, enhance the value of our portfolio and offset any further cap rate expansions.

Finally to the outlook, our portfolio continues to demonstrate relative resilience with sufficient cash flows, despite difficult trading conditions.

We will continue to work on improving our position through the initiatives outlined; however, the Trust faces considerable risks with covenant breaches on loans which require the continued support of our lenders.

Earnings for 2010 will be impacted by the full year effect of tenant vacancies, increased funding costs, projected asset sales and the appreciation of the Australian dollar against the US dollar.

Due to our financial position, we must focus on reducing our debt levels and apply all operating cash flow to stabilise our balance sheet. As such, there will be no distribution for the period ending December 2009.

Although this is a difficult decision, we believe this approach will ultimately put us in the best position to attempt to restore unitholder value.

Although the Trust has some near-term challenges, we are working with our tenants, lenders and other counterparties to restructure our business to enhance and maximise our property values and ultimately, restore value for our unitholders.

Mr Richard Sheppard, Chairman

Thank you Luke.

The Trust's portfolio remains tenanted to strong national retailers who provide relative stability in our cash flows and we are starting to see an improvement in leasing conditions, particularly over our vacant spaces.

The US economy remains challenging although we are beginning to see some positive signs emerging.

Our current focus is to stabilise our balance sheet and enhance our funding position with existing lenders. If this is achieved it will allow the Trust to realise asset values over the medium to longer term which is expected to result in a significantly better outcome for unitholders.

However, as Luke has said, these discussions are complex and there is no guarantee we will reach an agreement with our lenders. If we are unable to reach an agreement, it may have a significant negative impact to our operations.

The Board appreciates the importance of cash distributions to our investors and the impact this has had on you personally. As such, any decision to change the Trust's distribution policy is not undertaken lightly. Due to our current financial position and the challenging debt and real estate markets, the Board is required to make decisions which are in the best interest of all unitholders over the medium term.

As Luke mentioned earlier, there will be no distribution for the period ending December 2009 while we continue to reduce debt to stabilise our balance sheet and negotiate with our lenders in respect of near-term debt liabilities. We believe this approach will ultimately put us in the best position to attempt to restore unitholder value.

Prior to opening the floor to questions, the board, management team and I would like to thank you for you attendance this morning and for your ongoing support during a very difficult period.

For more information on recent announcements of Macquarie DDR Trust go to www.macquarie.com.au/mdt

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