Investments Limited

URB INVESTMENTS LIMITED

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QUARTERLY REPORT

THE INFRASTRUCTURE BOOM DRIVING OUR CITIES

This Quarterly Report sets out the unprecedented increase in infrastructure spending both in Australia and overseas and the fundamentals driving this change. We explain how URB intends to capitalise on this boom and the advantages to shareholders of participating in the long term benefits of heightened infrastructure spend and the resulting urban renewal and regeneration.

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CONTACT ASSET MANAGEMENT

URB is managed by Contact Asset Management AFSL 494045

THE INFRASTRUCTURE BOOM DRIVING OUR CITIES

Welcome to the first issue of the URB Investments Limited (URB) Quarterly Report, prepared by Contact Asset Management. We intend to use these reports as an opportunity to communicate with URB shareholders on high-level topics of interest.

The reports will be available on the website at www.urbinvest.com.au. We also encourage you to subscribe to the URB mailing list.

This Quarterly Report sets out the unprecedented increase in infrastructure spending both in Australia and overseas and the fundamentals driving this change. Our report then goes on to explain how URB intends to capitalise on this boom and the advantages to shareholders of participating in the long term benefits of heightened infrastructure spend and the resulting urban renewal and regeneration.

URB was created to provide access to the rapidly evolving urban renewal and regeneration thematic. As we defined in the URB Prospectus, "urban renewal and regeneration" is the transformation of existing urban areas to accommodate much denser and mixed-use environments. The transformation creates areas that meet contemporary living, working or community needs.

Urban renewal generates significant benefits:

- Better utilisation of existing and proposed infrastructure;
- Increased city production from the co-location of more intensive jobs and housing;
- Attracting visitors and additional expenditure;
- New employment opportunities.

Urban renewal and infrastructure investment complement each other if done effectively. Urban renewal causes significant changes in land economics, driving land values and development outcomes to much higher levels. However, surrounding infrastructure is critical to the success of the renewal.

The good news for Australia is that we are on the cusp on an infrastructure spending boom. This is a global trend, fuelled by unprecedented population growth and urbanisation. This report will delve into two key drivers of successful urban renewal – population growth and infrastructure investment. We will highlight the significant tailwinds driving the thematic and illustrate why we believe this is a value-creating theme that is multi-generational. It is this thematic that URB intends to exploit by investing in Equities and Direct Properties.

THE GLOBAL PHENOMENON

McKinsey and Co released a report in July 2015 that stated:

From now until 2030, the world will need to spend at least US$57 trillion[1] to build the ports, power plants, rails, roads, telecommunications, water systems and other infrastructure that the world needs. For advanced economies, the priority is to renew ageing and dilapidated infrastructure; for emerging ones, it is to build the structures required to support growth.

We are in the midst of massive urbanisation globally. 55% of the world's population lives in cities and this is likely to reach 70% to 75% in the next 30 - 35 years[2]. New and better infrastructure will be needed everywhere, not because it is an end unto itself, but because it provides the means for people to enjoy radically improved lifestyles.

This surge in spending is necessary because the long-term economic well-being of both emerging and developed economies is threatened by the infrastructure gap caused by years of under-investment. According to the *Futures Project on Transcontinental Infrastructure* from the Organization of Economic Cooperation and Development (OECD), between 2015 and 2030:

- Airline traffic to grow by 4.7%pa.
- Airfreight to increase by around 5.9%pa.
- Maritime container traffic to grow 6%pa.
- Railroad passenger traffic to increase 2%pa.
- Railroad freight traffic to grow 3%pa.

As a result, air passenger traffic could double in just 15 years, airfreight could triple in 20 years, and port handling of maritime containers worldwide could quadruple by 2030.

The issue at hand is that current infrastructure won't be able to handle even a 50 percent increase. There is a risk that global growth will be stymied by this looming infrastructure bottleneck.

Congestion is another major issue crimping growth. As any city dweller will know, traffic is bad, and getting worse. In London, a trip that took 20 minutes in 2012 takes almost 30 minutes now, while the average resident of Los Angeles spends the equivalent of more than two full work weeks in traffic every year.

Congestion is not just annoying; it is expensive[3]. According to a report written in 2015 by the Bureau of Infrastructure, Transport and Regional Economics (BITRE), base case projections on future traffic delays and congestion in Sydney alone will see the social costs

[1] $57 trillion: $57,000,000,000,000
[2] Shannon Bouton et al, *How to make a city great*
[3] McKinsey & Co.com

of metropolitan congestion rising to $12.6 billion by 2030.

Improving these conditions will be challenging. By 2030, a billion more people will live in cities globally. Spending on infrastructure, on the other hand, is not keeping pace. To cope, individuals and businesses are going to have to make more efficient use of roads and other assets better and be ready to adopt new technologies.

A LONG-TERM VIEW REQUIRED

It is important to remember that infrastructure is a long-term investment, which can lead to complications when it clashes with the political cycle, which is often much shorter. It is not uncommon for a Government to plan a project, and then run into numerous problems. The next Government will go through a lot of pain to actually build the planned project and face the bad press for any overruns. Then the third Government cuts the ribbon and takes the praise. None of the three is accountable from end to end.

Unfortunately there is little incentive for Governments to plan and engineer projects properly right from the start[4]. Australia's problematic NBN project is a prime example of this.

Public desire for a greater political focus on infrastructure spending was evident in the 2016 US Election campaign. The now-President Donald Trump focused much of his "Make America Great Again" campaign on a US$1 trillion spending promise to update America's infrastructure.

One example is the Trump campaign website, which promised capital of US$550 billion for highways, bridges, tunnels, rails, airports and the like. This spend is expected to boost US GDP by about US$750 billion - directly and through additional spending by Americans who work on these projects. It is estimated that over eight years, this infrastructure investment would add more than 500,000 jobs, and raise private-sector productivity, international competitiveness and employment by moving goods and people around the country more quickly and at much less cost.

INFRASTRUCTURE SPENDING IN AUSTRALIA

Infrastructure spending requirements are now becoming front of mind for Australian Governments as well. And none too soon. Infrastructure Australia CEO, Philip Davies, recently noted that current levels of infrastructure spending in Australia will be insufficient to support our growing population.

Infrastructure Australia identified that Australia's population will grow to more than 30 million people by 2031, with the population of Sydney, Melbourne, Brisbane and Perth projected to grow by close to 50 per cent. Investment is required; otherwise Australia could face a future of congestion and constraint. It is estimated that road congestion alone could cost the Australian economy A$53 billion each year by 2031.

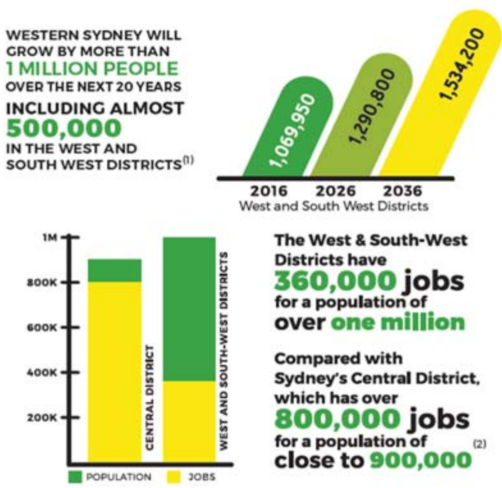
The message is gaining traction at a Federal Government level. Initiatives such as the October 2016 announced "City Deals" are important in driving a cohesive solution to urban congestion and national connectivity issues. The Western Sydney City Deal released by the Federal Government states:

"The Australian and NSW governments have announced that they will work together with local governments towards an agreement for Western Sydney that will unlock public and private investment in key infrastructure, support jobs and economic growth, and help improve the liveability of Sydney's outer west.

The West and South-West Districts of Sydney are set to grow by almost 500,000 people by 2036. The City Deal will bring together the three levels of government in a collaborative partnership to set the right conditions for growth.

The Western Sydney City Deal will be the single largest planning, investment and delivery partnership in the history of the nation, maximising the advantages of the region to support the emerging Western Sydney city.

The City Deal will build on the Australian Government's commitment to deliver a Western Sydney Airport and leverage our other key infrastructure investments to catalyse jobs growth and better transport links."



Source: Australian Government, *Western Sydney City Deal Factsheet*, October 2016

[4] McKinsey & Company: *The infrastructure conundrum: Improving productivity*, Niclas Garemo et al. (July 2015).

Infrastructure investments are often multi-decade in nature and execution is complex - the funding task extends beyond the substantial capital investments associated with new infrastructure to include the costs of operation, maintenance, renewal and disposal. It is critical to have a cohesive approach.

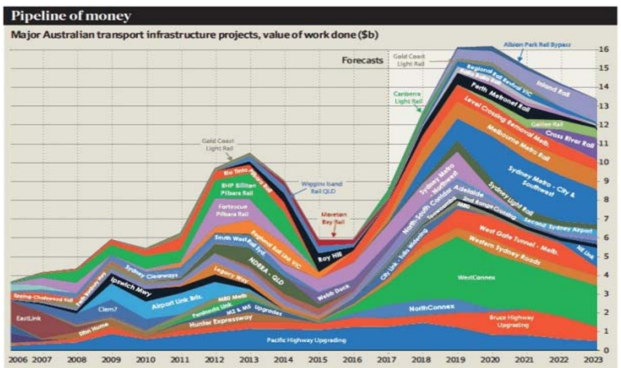
In October 2016, Michael Pascoe penned an article for The Sydney Morning Herald, where he lamented the amount of taxpayer dollars going into defence when it could be going into Infrastructure. He wrote:

Instead of increasing its spend on a virtuous national cycle of infrastructure investment, the federal government instead is giving priority to defence equipment . . . the government undertook in its defence white paper this year to boost the current annual defence budget of $32 billion to $59 billion in 2025-26 and to invest more than $450 billion in defence over the next decade.

So that's what the government thinks Australia really needs – serious global power projection capabilities – when we have an infrastructure backlog variously estimated at between $455 and $770 billion[5].

A year on and the feeling is quite different. Reserve Bank of Australia Governor Philip Lowe gave a speech in Perth on 21 September 2017 titled The Next Chapter. One chart noted that Public Infrastructure Work yet to be done was approaching 6% of nominal GDP – a 25 year high.

As additional grist to the mill, the following chart, which we used in the recent URB Result Presentation, promotes a cause for optimism. We are witnessing a transport infrastructure investment boom in Australia that will continue to ramp up for the next four years and stay high. As The Australian Financial Review Economics correspondent Jacob Greber noted in a recent article *"new infrastructure spending is likely to be comparable or larger than what was invested during the resources boom of the past 15 years. It is a huge amount, one and a half times the size of the mining boom."*

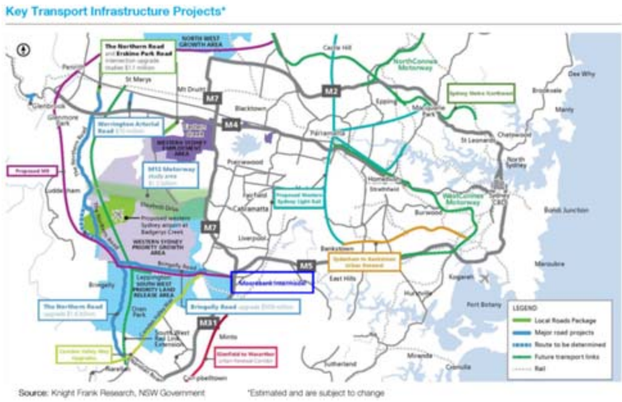


[5] Michael Pascoe, *NSW grabbing the infrastructure boom the nation is missing*, The Sydney Morning Herald, June 24, 2016

At a State Government level, the New South Wales Government is leading the charge on Infrastructure investment with $73 billion planned over the next four years. This has been a primary reason for URB acquiring its first three Direct Property Assets in Sydney.

One example of significant change in Sydney is the $17 billion roads project WestConnex. A recent article on the project stated that "It will generate up to $20 billion in economic benefits in NSW, create up to 10,000 jobs, bypass up to 52 sets of traffic lights and save motorists up to 40 minutes on a typical journey from Parramatta to Sydney Airport."

The chart below from Knight Frank provides an interesting insight into the vast number of projects underway in Sydney alone. The pipeline is significant with the rate of work yet to be done up 38% on the prior year (at December 2016).



HOW DOES URB INTEND TO CAPITALISE ON THIS INFRASTRUCTURE BOOM?

URB's investment in PURT5: Prestons will capture industrial demand, as well as the demand for more efficient logistics and distribution centres. The Prestons property is a 68,790m^2 undeveloped, vacant block of land, zoned for industrial use located near a significant amount of infrastructure including the M7 and M5 Mortorways, Leppington Railway Station, Badgerys Creek Airport and the Moorebank Intermodal Freight Precinct.

URB's investment in PURT4: Penrith is also well positioned to capitalise on the infrastructure boom. URB believes that Penrith is set to undergo a shift in land use by virtue of infrastructure projects over the next 5 years. The previously mentioned 'City Deals' agreement which aims to focus investment and development in regional city centres like Penrith by collaborating to unlock government owned land or relocate government businesses from the Sydney CBD and surrounds into the regional city centres. Penrith local council is progressing changes to the planning controls within the city centre to accommodate 'City Shaping' projects (large-scale developments).

The PURT4: Penrith site is also well located to other infrastructure namely; Penrith Train Station, M4 Motorway and the Northern Road upgrade the new Badgery's Creek Airport.

A second order effect is likely to see opportunities for higher and better uses for warehouse space in the inner suburbs of Sydney. Our investment in PURT3: Kingsgrove, should capitalise on the displacement of warehouses and the industrial sector from the inner south-west of Sydney thanks to significant construction of residential apartment buildings in Mascot, Alexandria and Zetland.

URB's Kingsgrove property will also benefit from being in close proximity to major infrastructure networks; Sydney Airport, Port Botany, the Westconnex Tunnel, the Moorebank Intermodal Terminal and the M5 Motorway. This development in particular highlights why we are optimistic on the complementary nature of infrastructure and urban renewal.

Another exciting project for Sydney is the Moorebank Intermodal Terminal, which URB has exposure to through its investment in ASX listed QUBE.

With freight movements set to double by 2030, the Moorebank facility will be an important factor in reducing congestion along key arterial roads. Infrastructure Australia has estimated the cost of developing the terminal at $1.7 billion, yet the benefits to be derived are $2.9 billion. The benefits include private industry benefits such as operating cost savings, but more significant are public benefits such as travel time savings for general passengers and freight and accident cost savings.

This kind of development gives rise to industrial demand in South West Sydney as businesses will want to be located near the Moorebank intermodal terminal.

Beyond QUBE we also believe the current Equity Portfolio is well positioned. The benefits of this spending will be captured by companies who have made long term infrastructure investments in industries including; Freight Road and Rail Networks, Logistics, Communications Networks and Exchanges, Airports, Hospitals and Age Care Facilities.

We will always seek to complement more mainstream equity portfolios, as URB does not hold banking or resource stocks.

We believe that opportunities for further investment into the urban renewal and regeneration theme will emerge in FY2018. URB has a strong cash balance and is in a good position to take advantage of these opportunities as and when they arise.

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