

26 October 2018

2018 Annual General Meeting (AGM)
Resolution 4 – Approval of proposed equity grant to CEO and Managing Director
Further information on the Vicinity Centres Long Term Incentive Plan's (LTI Plan) Total Return hurdle

The Board of Vicinity Centres views the LTI Plan Total Return hurdle as both challenging and appropriate at this time.

For Vicinity Centres to achieve compound annual Total Return of 9.5% (full vesting) it requires strong operating performance, as well as significant value creation from development. In recent times, some leakage to online retail and low wages growth (which is highly correlated to retail spending growth) have driven a subdued retail property environment. This has meant that the operating performance required to achieve these hurdles is very challenging. On a risk adjusted basis, considering the current retail property environment, we believe that the Total Return hurdle is appropriate and challenging when benchmarked to retail property industry peers and other property asset classes.

Vicinity has achieved a Total Return ranging between 10.6% and 15.5% each year since FY14, including 11.1% in FY18. These historical Total Returns were achieved due to a combination of:

- strong operating performance
- achievement of merger synergies
- successful delivery of development projects, and
- capitalisation rate compression, due both to development project completions and firming in market capitalisation rates.

The achievement of the LTI Plan Total Return hurdle in FY18 has largely been due to these reasons. In particular, extremely successful developments at Chadstone, Vicinity's largest asset, mean that the centre continues to deliver outcomes well above the next best shopping centre in Australia, based on sales, and is one of the top shopping centres globally.

As you are aware, past performance is not an indication of future performance. The **strong result over recent years also means that the achievement of performance hurdles over the next three years is becoming increasingly challenging.** While a contributing factor to the Total Return significantly exceeding the hurdle previously is that capitalisation rates have firmed due to successful redevelopments and market capitalisation rates, market capitalisation rates are not expected to firm over the next three years, making the hurdles challenging over this period.

Furthermore, the issues facing the retail property environment are expected to continue over the next performance period, with online sales continuing to grow strongly and anticipated ongoing low wages growth. In a lower inflation environment, it is also fair to say that Total Return expectations across a range of competing asset classes (both property and outside of property) are lower going forward and yet our



Total Return hurdle has not changed. These factors will also make achievement of the Total Return hurdles difficult in future years.

At the same time, the Board has confidence in the management team to deliver for Securityholders, despite the factors outlined above.

Accordingly, the Board believes the Total Return hurdles are challenging and appropriate for the FY19 LTI Plan grant.

The Board recommends that Securityholders vote FOR Resolution 4, being the approval of proposed equity grant to CEO and Managing Director, at the 2018 AGM.

Vicinity is always open to engaging with its securityholders. Should you have any questions or concerns in relation to Resolution 4, or any other voting items on ballot at the 2018 AGM, please do not hesitate to contact us directly. Please respond by email to Penny Berger (penny.berger@vicinity.com.au) should you like to arrange this.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Peter Hay".

Peter Hay
Chairman
Vicinity Centres

A handwritten signature in black ink, appearing to read "Peter Kahan".

Peter Kahan
Chairman - Remuneration and Human Resources Committee
Vicinity Centres