AON

M&A Risk Solutions for Real Estate

1 How can Aon support you in this market?

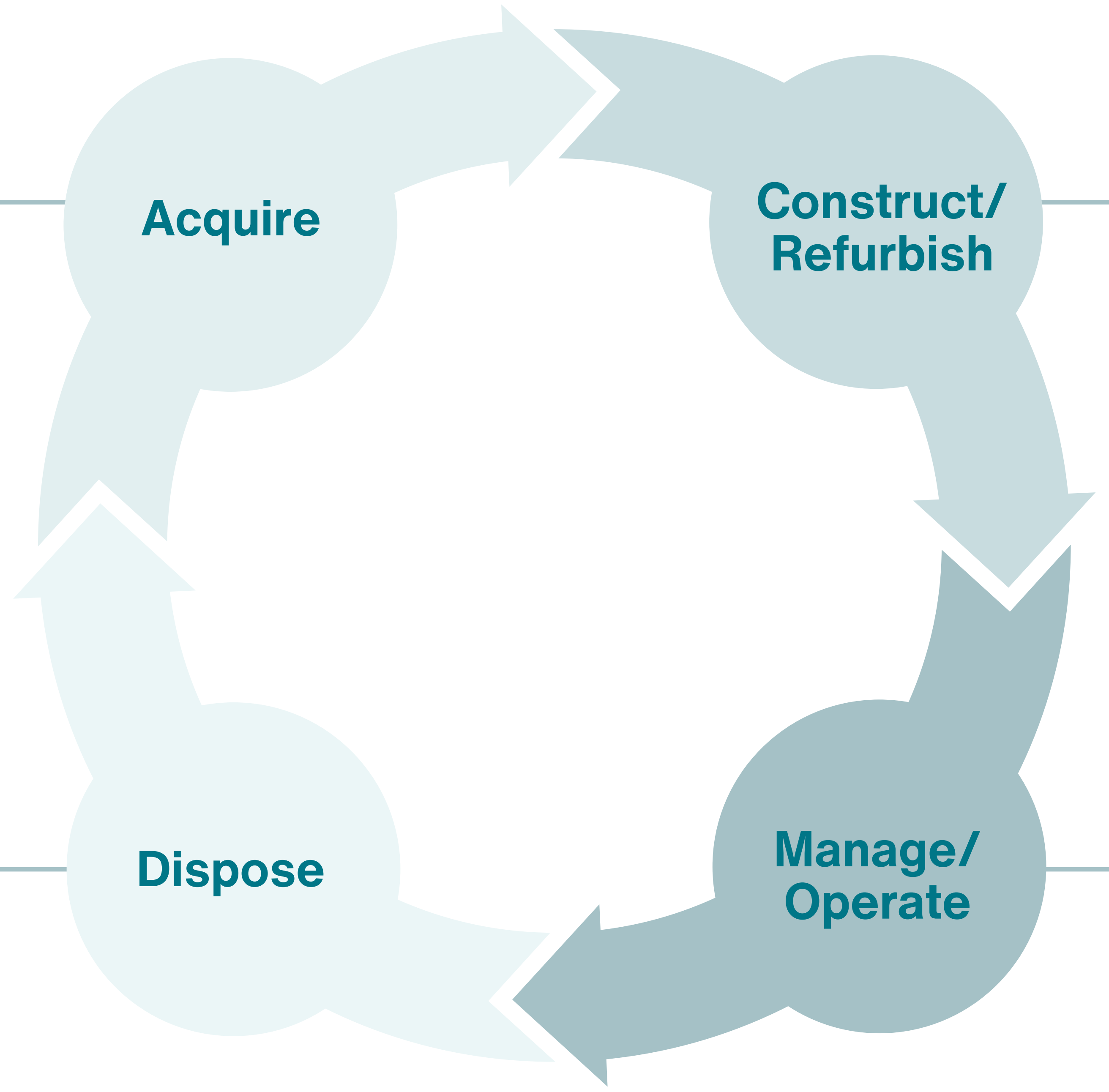
> "We help clients take the appropriate actions to secure investments and enhance returns across their portfolio."

Partnering with a risk advisor who has a deep understanding of your business and your industry is critical, especially in an increasingly challenged insurance market.

Aon has specialist experience in structuring and placing insurance programs for all sectors of the real estate industry. We have access to a large database of insurance data, enabling us to share insights with our clients on risk management best practice across the real estate sector.

Aon offers bespoke insurance and risk management solutions to support you throughout the life cycle of real estate ownership.

- Due diligence
- Warranty & Indemnity
- Title
- Contingent risk
- Tax
- Legal indemnities
- Credit solutions
- ESG



- Construction
- Environmental
- Legal indemnities

- Due diligence
- Warranty & Indemnity
- Title
- Contingent risk
- Tax

- Property damage
- Business interruption
- Public liability
- Engineering
- Terrorism
- Professional Indemnity/ Directors & Officers

2 M&A and Transaction Solutions

Aon M&A and Transaction Solutions is a market leading M&A service provider to entities buying, selling or merging interests and assets including:

- Real Estate Investment Trusts (REITs)
- Private real estate owners and managers
- Private equity real estate funds
- Pension funds and their investment managers and advisors
- Commercial real estate service companies and brokers
- Financial institutions with real estate portfolios
- Developers
- Governments involved in public infrastructure and services delivery to the private sector through PPP/PFI initiatives.

We have extensive experience developing tailored risk advisory solutions and insurance products for/on an M&A transaction including due diligence and procuring warranty and indemnity (W&I) insurance and title and tax risk solutions on real estate transactions (both operational and non-operational) across a range of real estate sub-sectors.

Aon has placed

AU$2.9 billion

of insurance for real estate

Our global real estate practice represents

30%

of the largest owners, managers and developers

Over 400

dedicated professionals managing more than 2,000 real estate clients globally

11 of top 25

global real estate organisations are insured by Aon

Complex M&A transactions demand skilled, experienced and dedicated advisors who can identify risks and develop and implement solutions in “deal time”. Aon’s full-service, holistic offering, provides insurance due diligence services and risk transfer solutions for transactional liability, tax, litigation and contingent liability risks.

3 Aon's Real Estate Solution

Aon’s Real Estate Solution (ARES) is a market-leading W&I solution based on an understanding that risks in real estate transactions are distinct from other transactions and require a fundamentally different approach.

ARES has been tailored to address risks presented in the acquisition and disposal of real estate, with key policy features designed specifically for real estate transactions to achieve both clean exits for sellers, as well as protection for buyers.

Key Features

- Lower deductibles and nil deductibles for certain types of claims
- Comprehensive coverage, including bespoke cover for identified exposures
- Hybrid W&I and environmental coverage
- Lower premiums
- Coverage up to full purchase price for title and capacity / fundamental warranties at market competitive premiums
- Stapled W&I to support competitive auctions and portfolio asset sales
- Speed of execution through streamlined underwriting process

3 Aon's Real Estate Solution

Coverage

ARES is a bespoke W&I policy which covers warranties given by the seller (including warranties as to tax matters) as well as a tax indemnity and general indemnity for breach of warranty, with the intent the W&I policy will mirror, as closely as possible, the terms of the sale agreement.

Lower premiums

Whilst premiums for operational M&A deals range between 1-2% of the amount of insurance procured, premium rates for the ARES policy are less than 1% of the amount of insurance procured.

Our insurer partners have been able to reduce their underwriting costs in this sector with less reliance on the advice of outside counsel, resulting in a saving passed on to insureds, as well as increased underwriting efficiency. This is a one-off premium payable on closing of the transaction.

Longer duration of coverage

The typical warranty period for real estate transactions is approximately 12 months. In keeping with recent trends for longer warranty periods under insured transactions, ARES can provide a warranty period of 7 years from closing for title and capacity/fundamental warranties and 3 years from closing for all other warranties, for minimal additional cost.

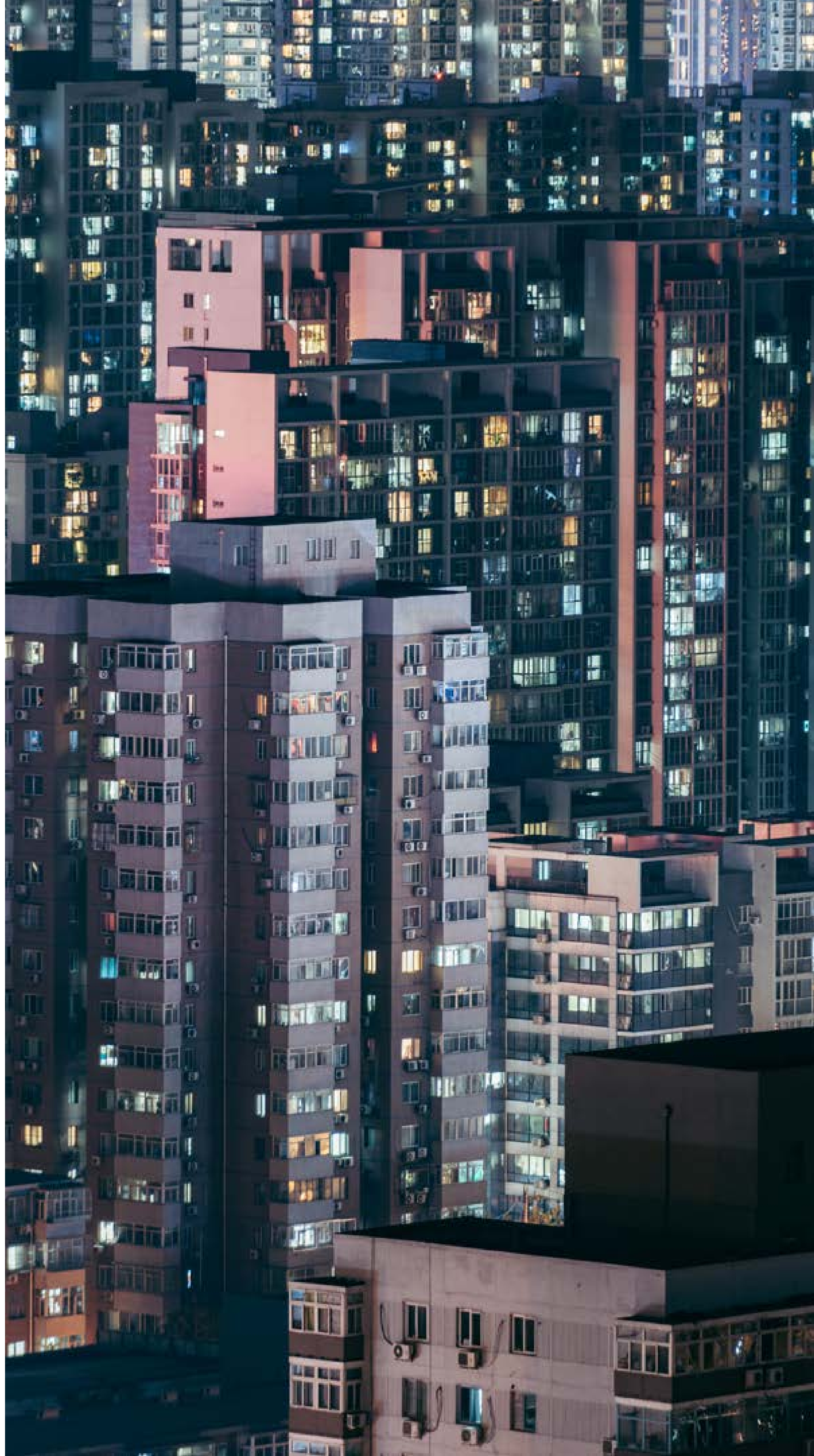
Lower deductibles/de minimis

Insureds benefit from lower aggregate claims thresholds (deductibles) and lower per claims thresholds (de minimis) under an ARES policy. The deductible or de minimis are set at approximately 70% lower than standard W&I deductibles/de minimis. There is also no deductible or de minimis for title and capacity/fundamental warranties.

Aon can also arrange other more aggressive deductible structures on a bespoke basis for an additional premium and subject to underwriting and comfort around due diligence.

Limit of liability that mirrors seller liability cap

In Aon's experience, buyers of real estate assets typically seek recourse on the warranties and indemnities of between 5-20% of the deal value, subject to full recourse for breaches of title and capacity/fundamental warranties.



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Aon's Real Estate Solution

Streamlined underwriting, cost and process efficiency

W&I insurers are able to perform streamlined underwriting in-house with more focused queries and shorter underwriting calls than in a traditional transaction. This truncated process results in both time and cost savings, as well as a shorter lead time to get insurance in place.

Stapled W&I insurance

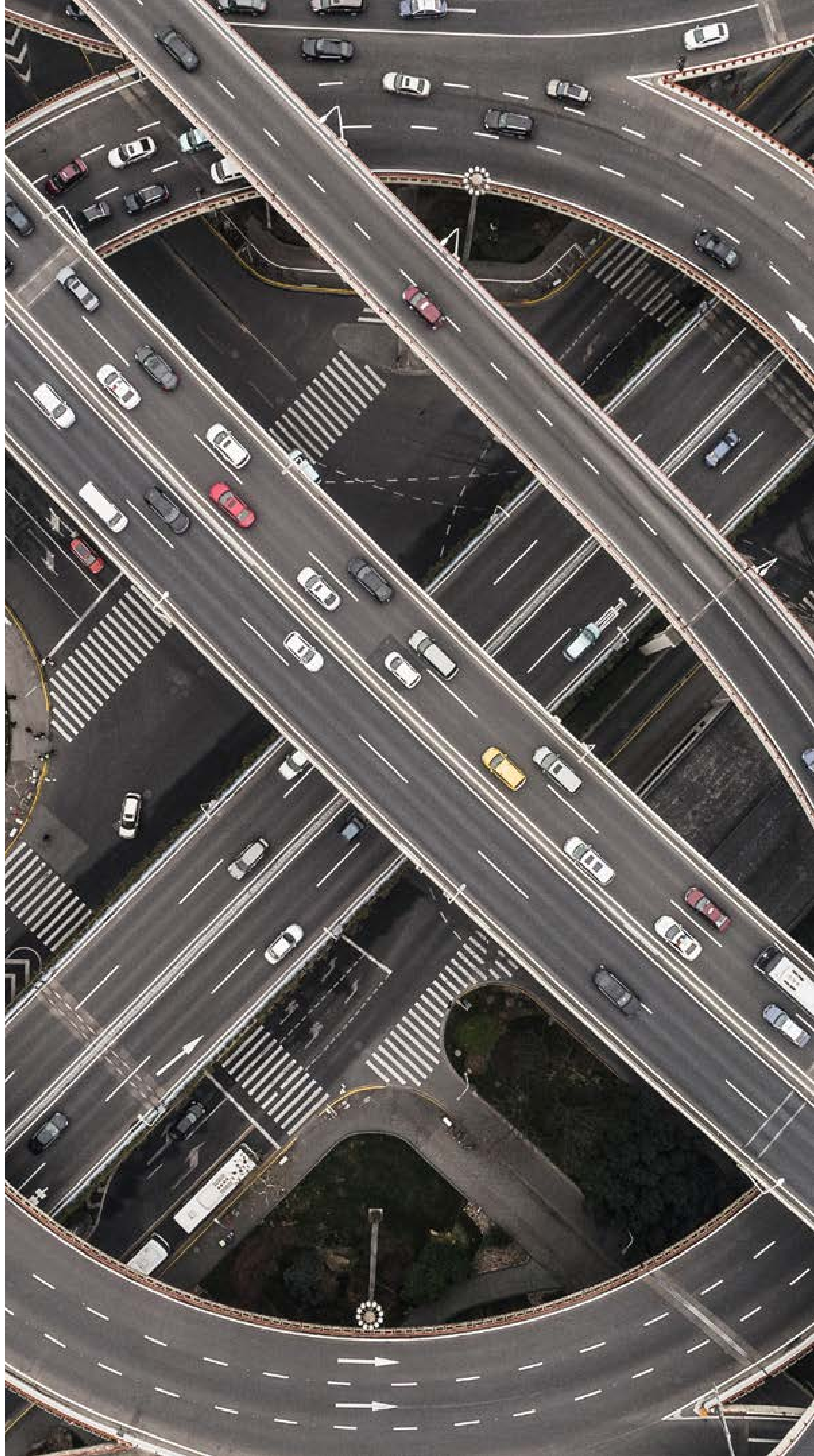
W&I insurance can be used to help facilitate robust competitive auction processes where sellers seek maximum value for the assets through a 'stapled on' W&I insurance package which is presented to bidders. ARES' features support competitive bids, whilst at the same time enabling a clean exit for sellers.

Portfolio efficiencies

When the sale of a portfolio of real estate is contemplated, Aon can leverage cost efficiencies to structure a W&I insurance program with one insurer for the entire portfolio. This approach generates premium and process efficiencies, particularly where minimum premiums would apply for the sale of a single asset.

Hybrid W&I insurance and environmental coverage

Where a separate environmental insurance solution is required to address potential contamination exposures, Aon ensures a seamless approach across both the W&I insurance and environmental insurance to replicate the underlying sale agreement. The solution is structured so that one 'single' deductible sits across both the W&I policy and the environmental policy. Claims under either/both the policies would erode the one shared deductible and once reached, covered claims under either policy in excess of this deductible will be paid.



4 Title Insurance Policy

Title insurance policies are frequently used in conjunction with specific real estate transactions (usually in addition to a W&I policy). Title insurance policies provide cover for title and capacity matters in a transaction and can be used to cover breaches of title and capacity/fundamental warranties in conjunction or in excess of a W&I policy.

It is critical to achieve the appropriate policy structuring and to deploy the right level of cover.

Aon can structure:

- a W&I policy with a top-up title policy to the full purchase price for title and capacity/fundamental warranties; and/or
- a W&I policy plus standalone title policy (including cover for known title risks).

It is typical to insure 5-20 per cent of the deal value through a W&I policy in real estate deals. This leaves a potential exposure of 80-95 per cent of the deal value in the event there is a total loss. The likelihood of total loss is generally perceived to be low, however it could be caused by:

- a seller not owning/having capacity to transfer the shares in the target; and
- a target not holding legal and beneficial title to the property asset.

Increasingly sellers are looking to cap their liability at $1, even in relation to such title and capacity / fundamental warranties. As a result, some investors look to cover off this risk by obtaining 100% cover for title and capacity / fundamental warranties (which may or may not be funded by the seller). When structuring coverage under the policies, careful consideration needs to be given to the difference between W&I and title policies – particularly around covered events, timing of inception, policy triggers, claims and cover period. It is possible to cover title to shares and title to real estate independently, but typically standalone title policies are obtained covering both title elements.

Title policies can usually cover up to AU$1.5 billion per transaction. Pricing is between 0.15-0.3% of the insurance procured, with premium rates being less for title policies in comparison to W&I policies. It is a single premium payable at closing of the transaction and policies are typically in perpetuity. Coverage is generally also included for successors in title, mortgagees and tenants.

Known Matters

Title policies can also be used to cover 'known' title matters. When a title defect is discovered during due diligence, the known defect falls into the bucket of risks that need to be allocated between the buyer and seller (or insurer). The title policy can also protect against a broad scope of third-party claims arising from a known legal defect or a challenge to the ownership, use or development of an asset – this may be known to the parties pre-transaction or discovered during the due diligence process. Some of the types of risks insured include missing documents/deeds, restrictive covenants, title conditions, possessory title and undischarged mortgages. Aon can review property diligence at an early stage to identify title risks that may be insurable, factoring them into a tailored insurance package for the transaction.

Title policies can usually cover up to

AU$1.5 billion

per transaction and the losses include defence costs.

5 Tax Insurance Policy

To cover known tax matters, tax insurance policies are frequently used. Tax liability insurance policies cover losses arising from the failure to achieve the expected tax treatment and are generally used where the treatment from a historic or proposed transaction is not black and white, or on risks which are low probability but high quantum. It is useful when used in concert with a W&I policy to achieve a better overall coverage position, but can also be used as a standalone policy.

Tax policies can cover up to AU$1.5 billion per transaction and the losses covered include tax, contest costs, interest, penalties and tax gross-ups. Pricing is between 2.5-4 per cent of the limit of liability purchased (dependent on the risk exposure).

Some of the types of risks insured include:

- Withholding tax
- Characterisation of investment vehicle as a Management Investment Trust
- Stamp duty
- Transfer pricing risks

A single premium is payable at closing of the transaction, and policies are typically linked to the statutory limitation. The benefit of the policy can be assigned to a buyer's finance parties.

Tax policies can be obtained independent of a transaction. In an M&A context such policies are a particularly useful tool when a tax risk is discovered during the due diligence process. Aon can review tax diligence at an early stage in order to identify tax risks that may be insurable, factoring them into a tailored insurance package for the transaction. It is important to consider the profile of the tax risks and whether it is more appropriate to house in a standalone tailored tax policy.

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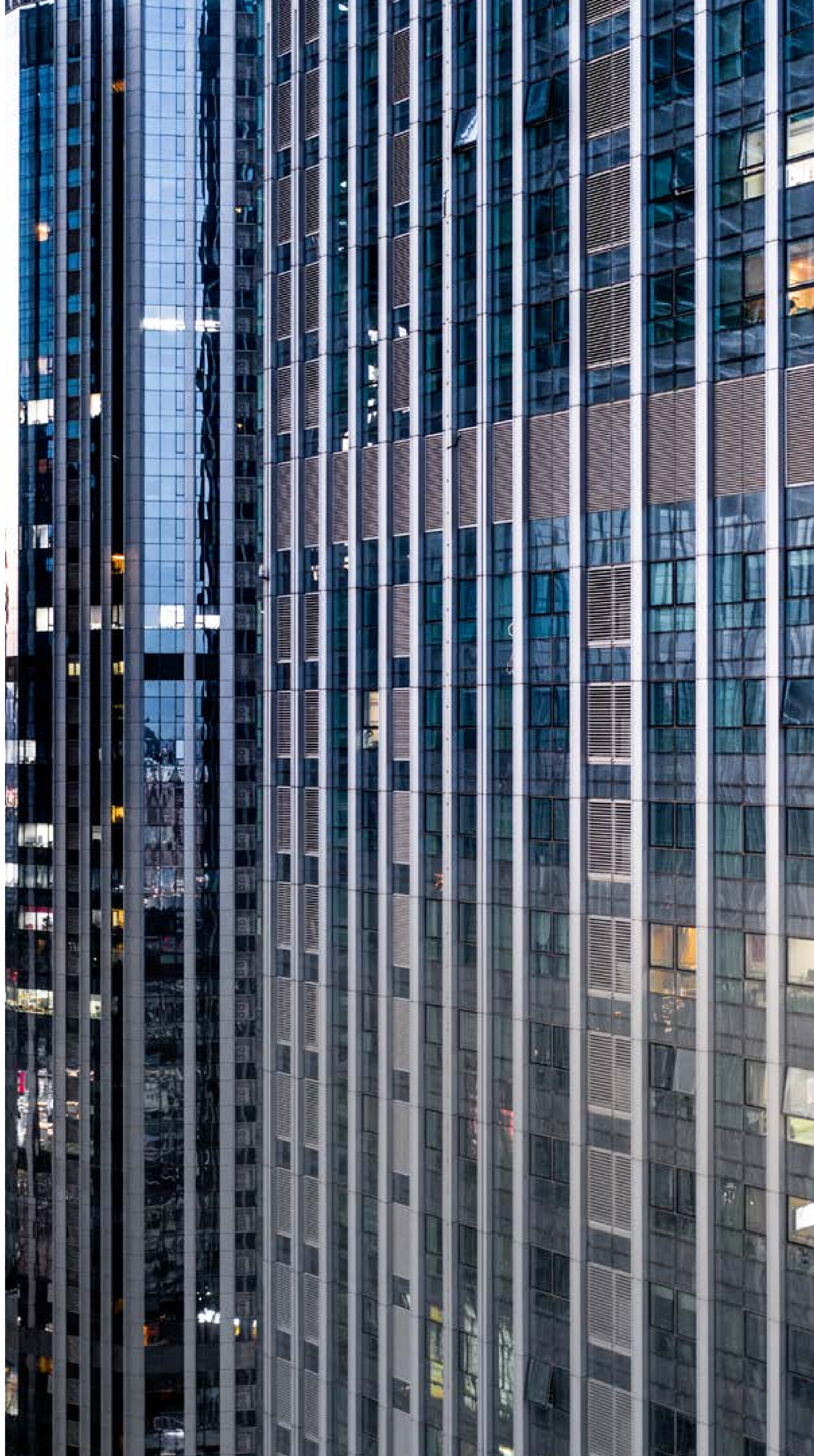


6 Environmental Liability Insurance

Environmental liability insurance policies are frequently used in conjunction with specific real estate transactions (usually in addition to a W&I policy). Sellers and buyers have increasingly become aware that environmental issues such as legacy contamination can affect the ease of a transaction. These risks are extremely difficult to identify and quantify accurately and have the potential to create material financial impacts on both the buy-side and sell-side of a transaction. Legislation can also be unclear on where environmental liabilities sit, with innocent companies potentially taking on the liabilities of polluters. Collectively, these factors create financial uncertainty, which in turn can translate into risks for both the buyer and the seller.

Buy-side risks

- Aborted transactions: negotiations with the seller stall or fall through because both sides cannot agree on the cost or allocation of environmental risk.
- Inherited environmental liabilities: investments are found to have been over-priced when hidden environmental liabilities materialise and/or the costs of known issues escalate after the transaction has closed.
- Impaired exit strategy: timely distribution of all the transaction proceeds from an onward sale is not possible because buyers insist on environmental warranties and indemnities, price reduction or funds deposited in escrow.

Sell-side risks

- Aborted transactions: negotiations with the buyer stall or fall through because both sides cannot agree on the cost or allocation of environmental risk.
- Retained environmental risk/liabilities: environmental risk is retained due to conceding warranties and indemnities in the sale agreement or carving out environmentally problematic parts of the business from the sale.

6

Environmental Liability Insurance

Addressing Environmental Risks and Liabilities

A W&I insurance policy will not provide a mechanism to clean-up contamination and deal with natural resource damages, third-party claims for injury, and property damage because of contamination/pollution. If there are known, and potentially unknown, pre-existing/legacy contamination issues associated with the target site(s), a contamination exclusion will apply within any W&I insurance policy associated with a transaction.

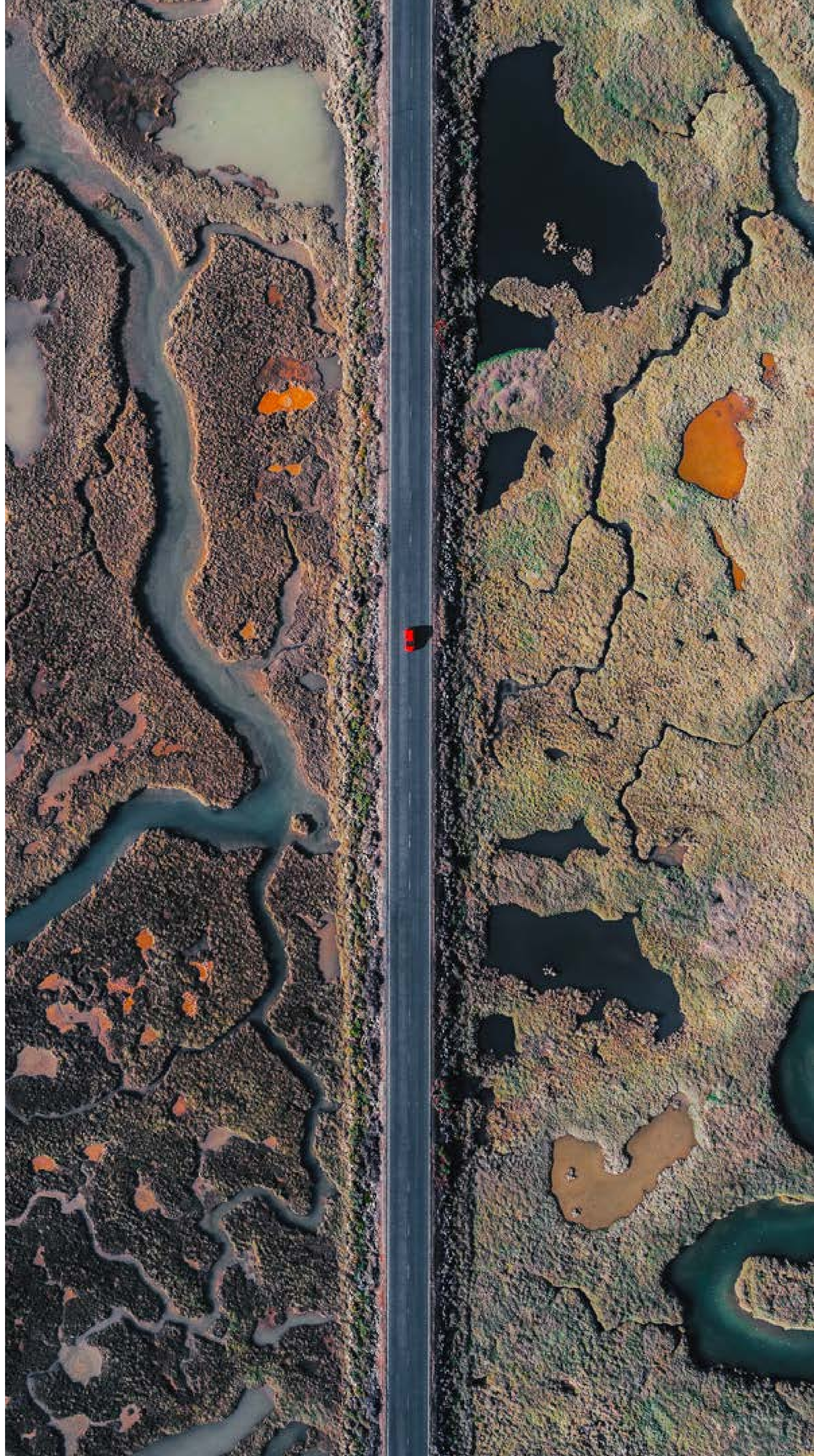
Environmental insurance for M&A transactions is designed primarily to protect sellers and/or buyers against the financial impact of unknown pollution that pre-dates the transaction i.e., pre-existing or legacy pollution. Cover is normally linked to pollution at defined locations (Fixed Site Pollution Liability policy), which are scheduled on to the policy, and can apply to strict or fault-based statutory or civil pollution liabilities, including contractual liabilities. Cover can also be linked to pollution resulting from defined and scheduled covered operations undertaken at third-party sites (Contractors Pollution Liability policy).

Environmental insurance programs for M&A transactions are regularly customised to the characteristics of a transaction and the specific needs of clients.

Key benefits include:

- Coverage for up to 10 years for a one-off Fixed Site Pollution Liability program covering historical liabilities;
- Full retroactive coverage available;
- Personal coverage for directors and officers;
- Coverage for losses arising from future changes in environmental legislation; and
- Clauses enabling insureds to assign the policy to a future purchaser.

In addition to insuring legacy pollution risks under a Fixed Site Pollution Liability policy, companies have the option to purchase cover for ongoing operational risks resulting from pollution that commences on or after the date of the transaction i.e., new pollution. This extension is useful for buyers with ongoing pollution exposures.



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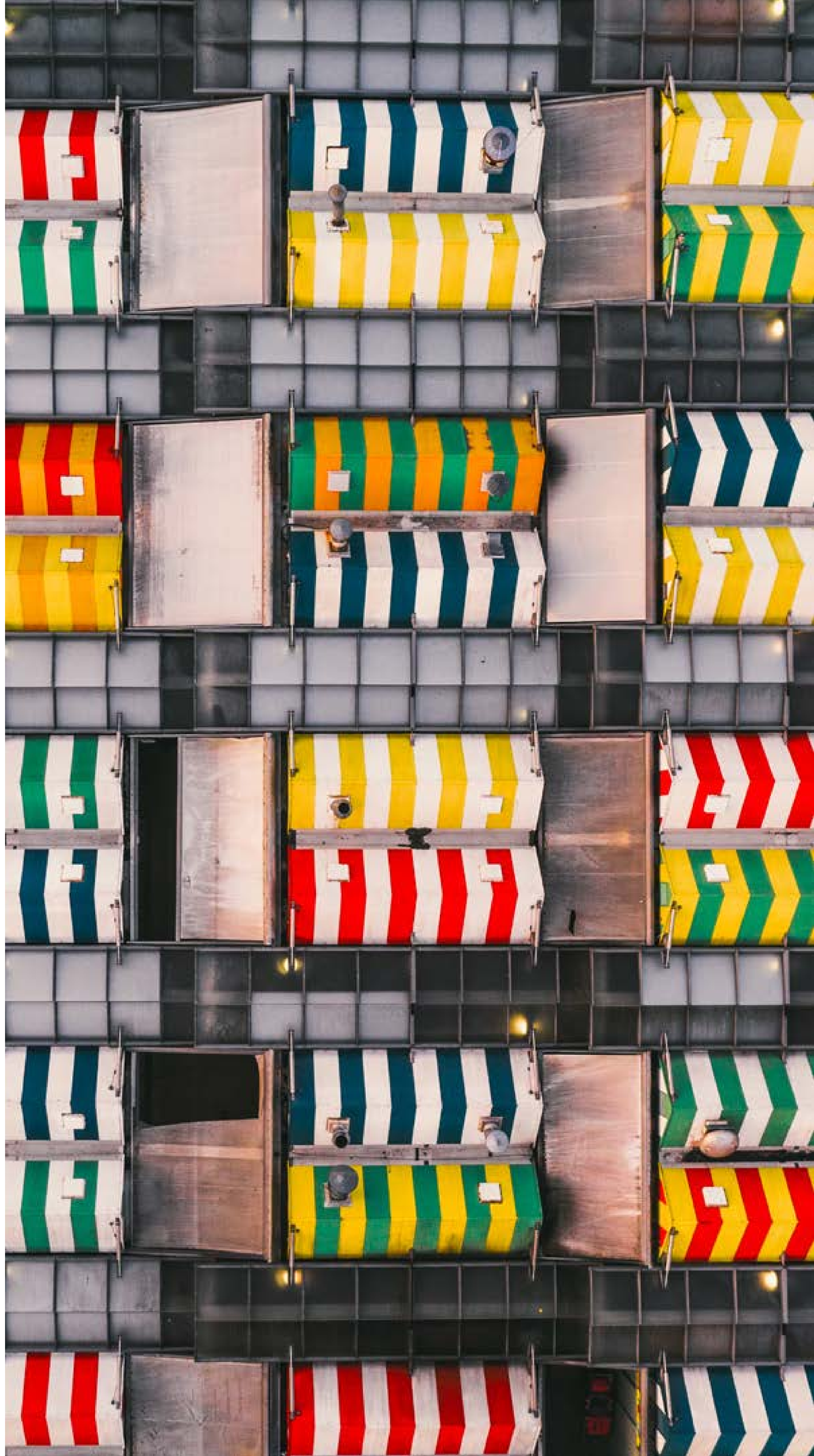
Environmental Liability Insurance



Coverage

Coverage available under an environmental policy includes the following, subject to appropriate underwriting information:

- Claims for third party bodily injury and property damage
- Clean-up costs on-site and off-site (including statutory clean-up notices)
- Costs associated with site investigation and assessments
- Asbestos
- Natural resource damage costs
- Legal defence costs
- Emergency response and crisis management costs

Typically, a transactional Fixed Site Environmental Liability insurance policy is structured on a multi-year policy period, ranging up to 10 years cover for pre-existing/historical contamination, and 3-5 years for new pollution conditions, where the policy limits are stretched over the entire policy, not reinstated annually.

Policy terms and conditions are determined at inception, allowing claims to be made during the policy period, responding to any potential changes in environmental laws/regulations and surrounding land use. Clauses can also be included within the policy to enable insureds to assign the policy to a future purchaser if required.

Risk and Insurance Due Diligence

Aon's dedicated risk and insurance due diligence practice has been providing bespoke advice to clients for the past 20 years in Australia. It has a proven track record in delivering risk and insurance advice to clients during the due diligence phase of M&A transactions. Advice includes risk identification, support in the drafting of sale documentation, developing insurance transfer solutions, as well as developing and executing transition plans to manage the implementation of go forward run-off insurance programs on time and budget prior to financial close.

Largest M&A practice in Australia

250+ risk and insurance due diligence projects delivered in Australia over past 5 years

300+ colleagues across 22 offices dedicated to M&A

6000+ risk and insurance due diligence projects delivered globally in past 5 years

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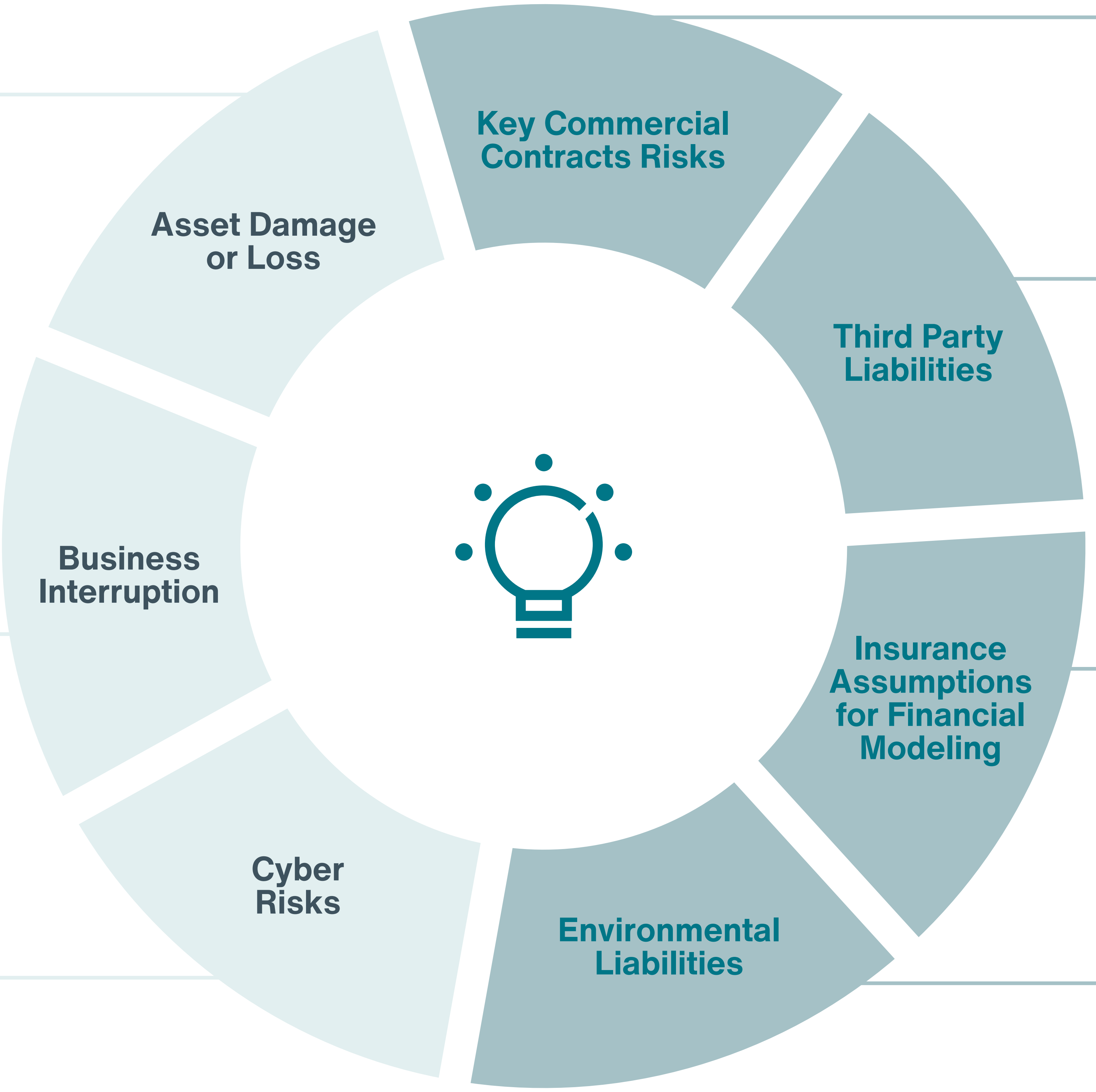
Risk and Insurance Due Diligence

We provide risk advisory services to the real estate sector including on development projects, financing, ownership and during M&A transactions. We act for buyers, sellers, financiers and due diligence advisors and provide insurance advisory services combining both due diligence and insurance broking services to implement risk and insurance solutions. Outlined below are key risks that are considered during due diligence.

- Natural hazard which includes bushfires, flood and cyclones
- Fire and security protection associated with the property e.g. EPS and/or cladding
- Triggers for and adequacy of the insurance cover
- Specific risks associated with key tenants that could impact insurance arrangements
- Asset and insurance risk valuations

- Adequacy of business interruption calculations and debt covenants
- Consideration of supply chain delay in reinstatement following an insured loss
- Claims experience

- Impacts from cyber crime, e.g. from infiltration of the operational and control systems



- Understanding the owner’s risk and insurance obligations, financing agreements, D&C and/or principal arranged construction, and leases

- Exposures stemming from duty of care towards the public, third party contractors and employees
- Professional advice including valuations
- Treatment of past liability exposure in event of M&A

- Adequacy of insurance premium assumptions
- Assessing for future insurance cost increases, e.g. from market trends, increase in insurance

- Review sale agreement with respect to environmental exposures
- Review current insurance arrangements and claims experience to identify whether the risk is adequately covered and whether new enhanced cover is required

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Case Study: ARES and Title Insurance

Transaction: AU$3.8 billion commercial and industrial real estate deal.

M&A Risk: The Seller was a property fund that was not willing to stand behind any warranties post close.

Solution: Buyer-side W&I insurance and title insurance of AU$300 million for a property consortium.

Structure: Aon structured title insurance to protect the Buyer from the risk associated with the Seller's inability to deal in the units in the trust being purchased.

W&I insurance was used to cover a market set of warranties the Buyer needed under the sale agreement in accordance with the Buyer's investment governance requirements.

Benefits:

- The Seller obtained a clean exit while protecting the purchase price, which enabled expedited returns to the Seller.
- The Buyer procured the protection it required to proceed with the transaction.
- The Seller and Buyer were able to negotiate warranties in the sale agreement at “arms' length”.
- The transaction was expedited by easing the negotiations between the parties around the scope of warranties and indemnities and related thresholds and caps.

Case Study: Tax Insurance

Transaction:	AU$200 million deal where a global property fund was acquiring an Australian Unit Trust.
M&A Risk:	Separate to the buy-side W&I policy, the Buyer wanted comfort that the acquiring trust was not a "Public Trading Trust" but timeframes did not allow sufficient time to request a private binding ruling.
Solution:	Tax liability insurance.
Structure:	Specific tax liability insurance was structured to protect against a determination by the Australian Taxation Office that the trust was a "Public Trading Trust".
Benefits:	Tax liability insurance was sourced to ensure the transaction timeframes could be met and for the Buyer to secure the asset in the competitive auction process.

8 Case Study: ARES and Environmental Liability Insurance

Transaction: AU$119 million industrial real estate transaction with AU$119 million of W&I and environmental liability insurance placed for the Buyer.

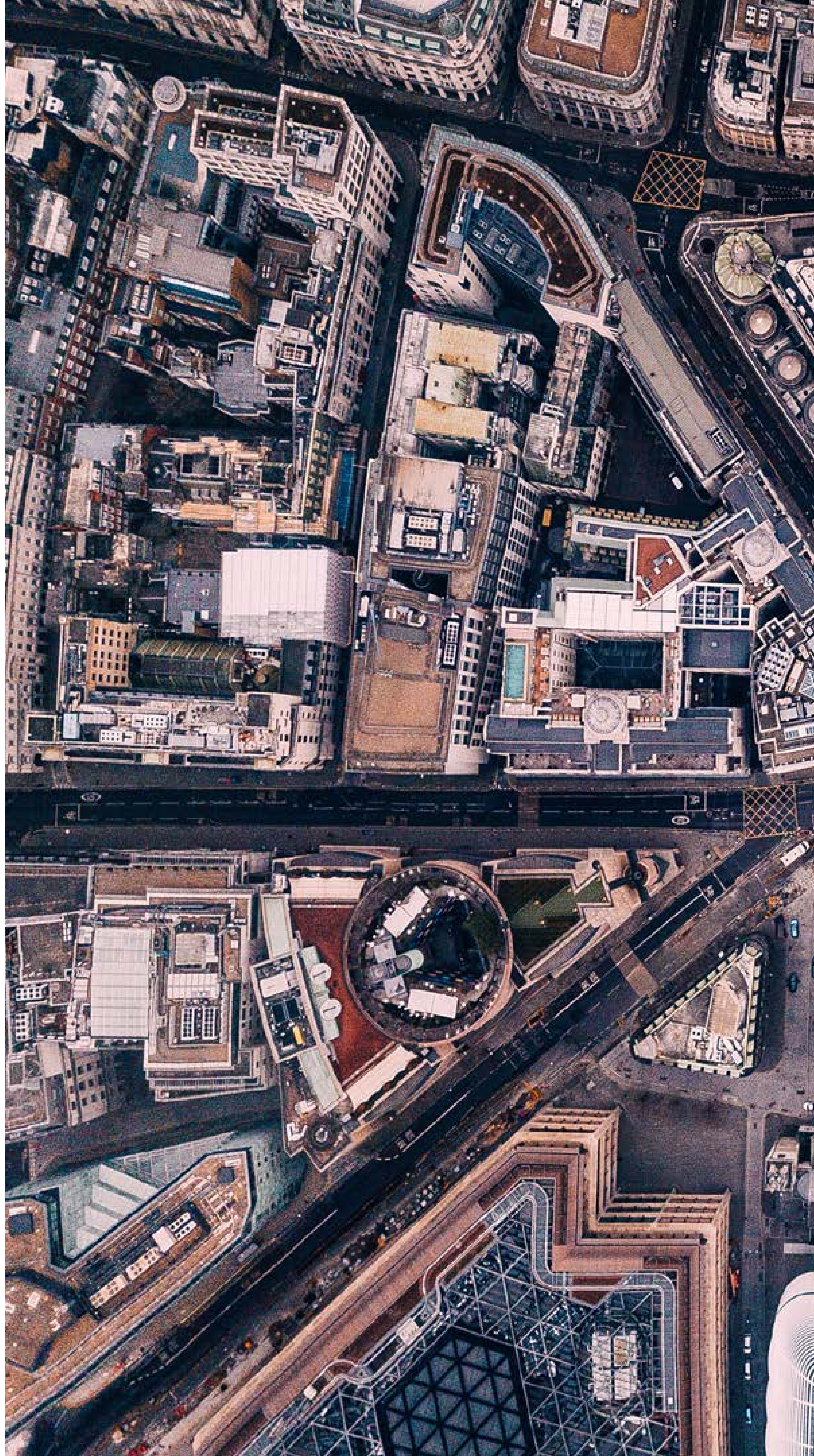
M&A Risk: Buyer wanted to facilitate the efficient completion of the deal and offer the Seller a clean exit to distinguish their bid offer.

Solution: Buyer-side warranty & indemnity insurance.

Structure: The buyer-side W&I policy facilitated a clean exit for the Sellers and allowed the Buyer to obtain the amount and period of protection it was looking for. An environmental liability policy was structured with the same insurer to address concerns around potential environmental liabilities of the industrial site and to sit side by side with the W&I insurance where there was one deductible/ retention applied across both policies.

Benefits:

- The Buyer was able to obtain more enhanced claims thresholds under the buyer-side W&I policy which were not provided by the Sellers under the sale agreement.
- The Buyer was able to procure cover for known and unknown environmental matters under the environmental liability policy.
- The transaction was expedited by easing the negotiations between the parties around the scope of environmental warranties and a specific environmental indemnity and related thresholds and caps with respect to environmental matters.



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Case Study: Risk and Insurance Due Diligence

Transaction: Buyer-side due diligence with respect to the proposed acquisition of manufacturing sites across Australia.

M&A Risk: It was identified that the sites had a high exposure to EPS panelling and basic fire and security protection in place.

From a property perspective the risk was seen as high by insurers which meant high insurance costs and deductibles in place.

Solution: Identification of risk to buyer and a risk management plan incorporated into the financial model including capex to improve fire protection.

Established a plan to reduce insurance costs and increased fire protection.

Benefits: Future loss mitigated by the introduction of a risk management plan that was costed and a plan to reduce future insurance costs.

Transaction Solutions

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About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries and sovereignties with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

Aon M&A and Transaction Solutions is a leading provider of specialist due diligence services to the private equity, real estate, and M&A industries. Our global capabilities extend across a broad suite of services from risk and insurance, human capital, cyber security and intellectual property. Our clients benefit from our specialised experience as the largest broker for transaction insurance instruments in Australia and New Zealand including W&I, tax, litigation, credit and surety solutions.