

BABCOCK & BROWN RESIDENTIAL LAND PARTNERS



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as responsible entity of the Babcock & Brown Residential Land Partners Trust · ARSN 119 613 848
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ASX Release

1 March 2007

AMENDMENT TO PERFORMANCE FEE STRUCTURE TO BENEFIT BLP SECURITYHOLDERS

Babcock & Brown Residential Land Partners (ASX: BLP) today announced that it has reached an agreement with its Manager, Babcock & Brown Australian Real Estate Management Pty Limited (the Manager), to amend, subject to securityholder approval, the current management performance fee structure. Under the proposed fee structure, any cumulative relative underperformance against the S&P/ASX 300 Accumulation Real Estate Industry Group Index over the preceding period (being the lesser of three prior years or since the last time a performance fee was accrued) will need to be recovered before a performance fee is accrued for a given financial year. This amendment will replace the current six month absolute return hurdle for accrual of a performance fee.

This will benefit BLP securityholders by reducing the impact of short term fluctuations in the BLP security price on the calculation of the performance fee. Mr Michael Maxwell, Chairman of BLP, said "The proposed amendment more closely aligns the interests of BLP securityholders and the Manager and further demonstrates the commitment of Babcock & Brown to BLP."

Securityholders will be invited to vote on the proposed amendment at the next general meeting. Any other required approvals will also be sought in relation to the proposed amendments to the performance fee structure. If approved, the changes will be effective from the date of BLP's listing on the ASX, namely 30 June 2006.

By way of summary, the key attributes of the proposed performance fee are:

- A performance fee will be calculated annually at 30 June (currently the performance fee is calculated bi-annually at 31 December and 30 June);
- It is a relative outperformance measure and a performance fee will only accrue if the adjusted BLP stapled security return is greater than the benchmark index return for that financial year;
- There will be a carry forward of the value of any accumulated deficit (based on relative underperformance) since a performance fee last accrued, but limited to three prior years;
- The performance fee will be calculated using the value of outperformance based on the number of BLP stapled securities on issue at the end of the relevant measurement period; and

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- The performance fee will continue to represent 20% of any outperformance relative to the benchmark index.

Mr Michael Balkin, Managing Director of BLP, said “We are very pleased that Babcock & Brown, as the Manager of BLP, has agreed to this performance fee amendment as we believe it represents a good outcome for securityholders. The revised fee structure should result in a closer alignment between the medium term performance of BLP and the accrual of performance fees.”

The new formula, which will be submitted to securityholders at the next general meeting, is detailed in Appendix 1 attached to this release, along with worked examples in Appendix 2.

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About Babcock & Brown Residential Land Partners

Babcock & Brown Residential Land Partners (BLP) is a listed vehicle managed by Babcock & Brown which invests in a diversified portfolio of quality residential land projects which are developed by a range of Australia’s leading private developers.

BLP offers securityholders liquidity, geographic, project and product diversity, access to quality private developers, long term potential for growth and, importantly, the benefit of access to Babcock & Brown’s considerable investment and structuring experience in the real estate sector.

For further details please see our website: www.bbresidentiallandpartners.com

Appendix 1

Proposed Management Performance Fee

Under the proposal, the Manager will earn a Management Performance Fee at the end of each Measurement Period (being initially the period from 30 June 2006 to 30 June 2007, and thereafter each 12 months ending 30 June), calculated by reference to the value of any out-performance of the BLP stapled security return (inclusive of all Distributions) over the relevant benchmark return for that Measurement Period, after deducting the value (if any) of cumulative relative under-performance carried forward from the previous Measurement Periods since a Management Performance Fee was last incurred (but limited to no more than 3 such periods). A Management Performance Fee for a particular Measurement Period may only be payable where the BLP stapled security return is greater than the benchmark return for that Measurement Period. All Management Performance Fees will be paid by Babcock & Brown Residential Land Partners Limited.

Specifically, the Management Performance Fee (PF) for the relevant Measurement Period (t) will be calculated using the following variables and inputs:

- N_t is the closing number of BLP stapled securities that are officially quoted by the ASX on the last trading day of the relevant Measurement Period;
- S_{t-1} is the volume weighted average price for BLP stapled securities over the last 20 days of trading of BLP stapled securities on the ASX in the immediately prior Measurement Period, excluding special crossings, crossings outside of normal trading hours and option related transactions (or, for the Measurement Period commencing 30 June 2006, such price is \$1) (and adjusted for any stapled security splits, stapled security consolidations, bonuses, rights issues, etc. since that prior Measurement Period);
- A_t is the average of the closing value of the Benchmark Index over the last 20 days of ASX trading in the relevant Measurement Period;
- A_{t-1} is the average of the closing value of the Benchmark Index over the last 20 days of ASX trading in the immediately prior Measurement Period (or, for the Measurement Period commencing 30 June 2006, the last 20 days of ASX trading immediately prior to that date);

- R_t is the volume weighted average of the BLP Stapled Security Accumulation Index over the last 20 days of trading of BLP stapled securities in the relevant Measurement Period;
- R_{t-1} is the volume weighted average of the BLP Stapled Security Accumulation Index over the last 20 days of trading of BLP stapled securities in the immediately prior Measurement Period (or, for the Measurement Period commencing 30 June 2006, is the initial value assigned to such index based on the stapled security issue price of \$1);
- the Benchmark Index is the S&P/ASX300 Accumulation Real Estate Industry Group Index as reported by Bloomberg L.P. under the ticker AA52REAL (Index) or, if this index ceases to be published or is materially altered, another similar benchmark index selected by the Manager; and
- the BLP Stapled Security Accumulation Index is an index formulated by the Manager to measure the accumulated ASX-traded value of BLP stapled securities, assuming that any BLP Distributions are reinvested in BLP stapled securities at the last closing price of BLP stapled securities on the ASX on the ex-dividend date of such Distributions (and adjusted for any stapled security splits, stapled security consolidations, bonuses, rights issues, etc.). “Distributions” means all dividends and distributions per BLP stapled security, including of a capital nature, paid to stapled security holders during the relevant Measurement Period,

as follows:

- the value of the out-performance (V_t) for the relevant Measurement Period is:

$$V_t = N_t \times S_{t-1} \times \left(\frac{R_t}{R_{t-1}} - \frac{A_t}{A_{t-1}} \right)$$

- the carried forward deficit (D_{t-1}) is:

$$D_{t-1} = \sum_{1 \leq i \leq k} -V_{t-i} \quad \text{if the result is positive, and otherwise } D_{t-1} = 0$$

where k is the lesser of 3 and the number of Measurement Periods since a Management Performance Fee was last incurred (or since the first day of BLP trading on the ASX, namely 30 June 2006), as counted from the commencement of the relevant Measurement Period (e.g. $k = 0$ if

a Management Performance Fee was incurred in the immediately prior Measurement Period ($t - 1$), $k = 1$ if a Management Performance Fee was incurred in the Measurement Period before that ($t - 2$), etc.);

- the adjusted value of the out-performance (Q_t) for the relevant Measurement Period after deducting any carried forward deficit (D_{t-1}) is:

$$Q_t = V_t - D_{t-1} \quad \text{if the result is positive, and otherwise } Q_t = 0; \text{ and}$$

- the Management Performance Fee (PF) for the relevant Measurement Period is:

$$PF = 20\% \times Q_t.$$

Note: currently, under the Management Performance Fee arrangements described in the BLP prospectus and product disclosure statement dated 6 June 2006, no Management Performance Fee would be payable where the BLP stapled security price is lower than the stapled security price at the end of the immediately preceding calculation period. This restriction would no longer apply.

APPENDIX 2: WORKED EXAMPLES

Inputs*	Year 1	Year 2	Year 3	Year 4
N_t Number of BLP stapled securities, end of current period	175,000,000	175,000,000	175,000,000	175,000,000
S_{t-1} Adjusted BLP stapled security price, end of prior period (\$)	1.00	0.96	1.10	1.20
S_t Adjusted BLP stapled security price, end of current period (\$)	0.96	1.10	1.20	1.35
A_{t-1} Adjusted closing value of the Benchmark Index, prior period	4,650	5,900	6,372	6,882
A_t Adjusted closing value of the Benchmark Index, current period	5,900	6,372	6,882	7,432
R_{t-1} Adjusted BLP Stapled Security Accumulation Index, prior period**	100	103.5	125.8	144.8
R_t Adjusted BLP Stapled Security Accumulation Index, current period**	103.5	125.8	144.8	169.5
k The lesser of 3 and the number of years since a Performance Fee was last incurred (or since the first day of BLP trading on the ASX, namely 30 June 2006)	0	1	2	3

Calculations

Step 1: Calculate the performance of BLP versus the Benchmark Index

V_t Value of the out-performance for the current period, calculated by:

$$V_t = N_t \times S_{t-1} \times (R_t / R_{t-1} - A_t / A_{t-1})$$

Note: If this number is negative, there is no Performance Fee payable

	-\$40,918,011	\$22,675,942	\$13,685,487	\$19,106,736
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Step 2: Calculate any carried forward deficit

D_{t-1} Carried forward deficit (assumed to be zero in Year 1), calculated by:

$$D_{t-1} = \sum_{1 \leq i \leq k} -V_{t-i} \text{ if this is positive, and otherwise is zero}$$

	\$0	-\$40,918,011	-\$18,242,069	-\$4,556,582
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Step 3: Adjust BLP's outperformance for any carried forward deficit

	-40,918,011 (V_t) - 0 (D_{t-1}) = -40,918,011	22,675,942 (V_t) - 40,918,011 (D_{t-1}) = -18,242,069	13,685,487 (V_t) - 18,242,069 (D_{t-1}) = -4,556,582	19,106,736 (V_t) - 4,556,582 (D_{t-1}) = 14,550,154
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Q_t Adjusted value of the out-performance for the current period after deducting any carried forward deficit. Calculated by:

$$Q_t = V_t - D_{t-1} \text{ if this is positive, and otherwise is zero}$$

Note: If the outperformance is less than the carried forward deficit, there is no Performance Fee payable

	Therefore $Q_t = \$0$	Therefore $Q_t = \$0$	Therefore $Q_t = \$0$	Therefore $Q_t = \$14,550,154$
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Step 4: Calculate the Performance Fee payable

PF The Performance Fee payable is calculated by:

$$PF = 20\% \times Q_t$$

	\$0	\$0	\$0	\$2,910,031
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Notes:

* Complete definitions of inputs are contained within Appendix 1.

** The BLP Stapled Security Accumulation Index includes Distributions as well as the movement in the price of BLP stapled securities over the period.

No Performance Fee is payable because BLP's performance relative to the benchmark index (V_t), determined in Step 1, is less than 0 (i.e. BLP underperformed relative to the benchmark index).

No Performance Fee is payable as the value of the outperformance is reduced by the deficit carried forward (D_{t-1}) to arrive at the adjusted outperformance amount (Q_t) which is less than zero.

No Performance Fee is payable as the value of the outperformance is reduced by the deficit carried forward (D_{t-1}) to arrive at the adjusted outperformance amount (Q_t) which is less than zero.

The value of the outperformance (V_t) is reduced by the deficit carried forward (D_{t-1}) to arrive at the adjusted outperformance amount (Q_t), on which the Performance Fee is based.

Important Note: The hypothetical examples set out above are provided for illustrative purposes only and do not purport to represent the likely Performance Fees (if any) payable by BLP to the Manager or the likely performance of BLP stapled securities or relevant indices. Please note the above numbers have been rounded.