

A View on the WA Property Market

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Economic Outlook

- **Business Confidence and Conditions Stabilising**
 - Significant “Lead Indicator” of Economic Activity
 - Five months of Improved Confidence then down slightly in Sept.
 - Conditions also Improved in Recent Months but down slightly in Sept.
 - Availability of Finance Improved Significantly in September
- **Forecast GDP Growth Improving**
 - GDP Grew 1% in FY 08/09 defying predictions of recession
 - Second Half of 09 Relatively Flat before Growth Resumes in 2010
 - Forecast growth of 1.25% FY 09/10 and 3% FY 10/11 (back to long term avg.)
- **Unemployment Forecasts Wound Back**
 - Nationally Unemployment Fell by 0.1% to 5.7% in Sept.
 - Unemployment in WA increased from 5.4% to 5.8% in Sept.
 - Unemployment now Forecast to Peak at 6.7% in late 2010 (was 8%)
- **Interest Rates Still Low – but Tightening Accelerating**
 - Cash Rate still near 40 Year Low - Despite 25 pt Increase in Oct.
 - Four Consecutive 25 pt Increases Expected - Cash Rate at 4.25% by March
 - One 50 pt Increase in this mix before Christmas NOT Out of the Question!
 - 50 pt More Expected Late Next Year – Cash Rate at 4.75% by End 2010

WA Property Market Outlook – Residential

➤ **Key Drivers of Demand Remain Strong**

- WA Population Growth (3.1% in 09 – Fastest of Any State) to Continue
- Interest Rates Remain Relatively Low – Despite 25 pts & Forecast Increases
- Reduction in Values, FHB Grant and Lower Debt Costs Improve Affordability

➤ **Supply Constraints Continue**

- Availability and Release of Land
- Elongated Approvals Process (min. 6 Years from Englobo Site Identification)
- Drop in Sale Values make Project Economics Less Compelling
- Protection of Valuable Lots given Drop in Sales at Higher End
- Reduced Availability of Funding (Debt and Equity)

➤ **Leading to an Inevitable Undersupply of Housing in WA**

- Net Shortfall of 6,000 Dwellings in 08/09 Compound Existing Shortage
- Vacancy Rates in Metro Perth up from 1.1% to 1.8% but still Very Tight
- Long Lead Times and Population Growth will see this Compound
- Substantial Risk of Rapid Price Inflation and a Housing Bubble

**Medium Term Outlook for Residential Very Strong
Demand Could Pull Through as Early as Q3 2010**

WA Property Market Outlook – Commercial

- **Demand Has Softened – Some Mixed Signs of Recovery?**
 - Perth CBD Office Vacancy Rate Has Climbed from 0% to Over 8%
 - Pre-commitments In Place for 75% of Space Under Construction
 - Unemployment still Rising and Sub Letting Vacated Space is Difficult BUT
 - With New Resources Projects JUST Starting Up - Some Early Signs of Life
- **Supply Outstripping Demand – But Not Like the 90's**
 - There was 1.362m sqm of Office Space in Perth CBD in July 2009
 - Currently 235k sqm (18% of Total) Under Construction - Completed by 2012
 - In 1993 the New Supply was 28% of the Existing Market
 - Start of 90's Cycle Vacancy Rate was 10% - Start of This Cycle it was 0%
 - Increased Costs, Labour Shortage and Lack of Funding Limited Oversupply
- **Leading to Falls in Rents, Values and Yields**
 - Values have Fallen from their Highs By 18%
 - Some Pessimistic Forecasts Suggest a Further 30% Drop in 09/10
 - Rents Have Fallen 10% and Forecast to Fall Another 30%
 - Vacancy Rates Unlikely to Get Back Below 5% Anytime Soon

Commercial Subdued In Near Term – But Some Signs of Life

Banks' Perspective

- **Still Open For Business – Despite the Myths!!!**
 - But NOT on the Same Parameters as 15 months ago – Nor Should They Be
 - NAB Business and Corporate Lending In WA Market Grew By 12.5% in 09
- **Regulatory Pressure Is A Significant Factor In Property Lending**
- **Capital Markets Slowly Opening Up But Still Constrained**
 - Inter-bank Debt More Freely Available to Higher Rated Institutions
 - But Still Expensive Compared to 15 months ago
 - Average Funding Cost Still Increasing for Banks
 - Equity Markets Began to Free up in June BUT Only at Significant Discounts
- **Risk Parameters Have Changed**
 - Lower LVRs
 - Shorter Fixed Term Facilities
 - Interest Cover Requirements (Virtually No Capitalisation on Englobo)
 - Development Project Track Record Important
 - Comfortable Project Economics and IRRs
- **Very Strong Preference to Hold and Workout Rather Than Sell**

Open For Business – But The World Has Changed!

Formula For Success

No Rocket Science – Back to Basics

- **Quality Assets at Reasonable Prices**
- **Minimise Re-Zoning, DA and Project Risk**
- **Moderate Gearing Levels**
- **Diversity of Product Mix (Lot Values)**
- **Manageable Number of Projects (Don't Spread Too Thin)**
- **Speed to Market**
- **Reduce Gearing to Keep Acquisition Options Open**

Take On Fewer, Higher Quality Projects, More Conservatively Geared and With Robust IRRs

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