

Quarterly Review

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A quarterly review of the residential property market and the Australian economy

Released November 2010

Report Summary

The September quarter has seen some fundamental shifts in the residential property market and Australian economic conditions. Capital gains in the housing market have ceased after 17 months of consistent capital gains between January 2009 and June 2010. Housing finance volumes have recorded a slight rebound whilst official interest rates have increased by 25 basis points and building approvals continue to weaken. With the shift in market performance we anticipate that property value growth will continue to be at best flat and there may be further falls in home values if interest rates continue to rise during the second half of 2010.

There has been significant variations in the performance of residential property markets from city to city, which should serve as a reminder that housing markets perform differently from region to region. Although nationally property values have increased by 8.0 percent over the year to September 2010, within individual cities value growth has been recorded at as much as 12.7 percent (Melbourne) and has recorded falls of as much as -0.4 percent (Perth). Additionally we are witnessing a shift in the performance of different market sectors based on price and buyer types.

Newly advertised residential property listings entering the market are now at levels well above average and trending higher. The total number of residential properties advertised for sale is also well above average highlighting the fact that selling conditions are tough and active buyers are gaining leverage in negotiations.

From an economic perspective, Australia has continued to surprise on the upside with unemployment peaking much earlier and lower than expected. Consumer confidence is still quite well positioned although there has been some softening and volatility in recent months and as mentioned there has been a modest improvement in housing finance volumes. On the negative side, building approvals continue to trend lower which is likely to translate into fewer commencements. This comes at a time when the Government estimates our dwelling undersupply at more than 175,000 homes across the nation. Despite the low rate of unemployment consumer prices remain in reasonable check and we are yet to see any real wages pressure. That's good news for the interest rate environment, with financial markets currently predicting only one further cash rate rise in 2011.

Overall, the third quarter of 2010 has been characterised by softening conditions within the residential property market whilst Australia's economic conditions are the envy of many other developed countries. For the remainder of the year we are forecasting minimal property value growth as the market continues to transition from a growth period to consolidation and from a market favouring the vendor to one where buyers have more leverage.

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Property Market Overview

Capital growth flat-lines over the quarter

- The Australian residential property market has weathered the Global Financial Crisis (GFC) extremely well to-date with national home values falling by just -3.8 percent from peak to trough.
- Since values bottomed in December 2008 national home values have increased by 17.9 percent and 13.4 percent beyond the pre-GFC peak recorded in February 2008.
- Despite the fact that property values saw minimal affect from the GFC and values surged since the end of 2008, there is now clear evidence that the most recent growth phase in Australian property values is over.
- Property values have increased by 8.0 percent during the year to September 2010 however, values have been flat during the last quarter.
- Over the last month the market has levelled somewhat with values increasing by 0.4 percent.

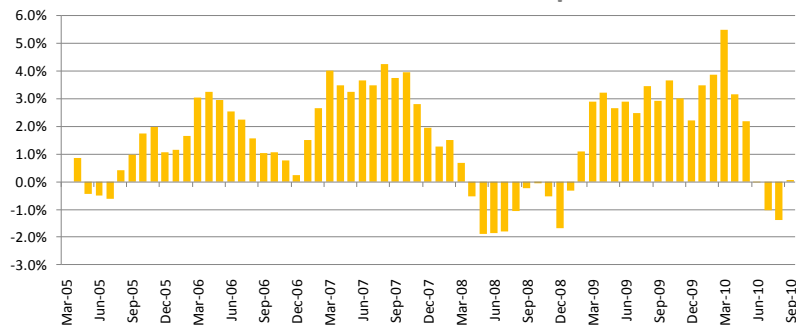
Capital city growth slowing across the nation and Perth values have fallen over the year

- The heat is well and truly coming out of the residential property market with Sydney, Melbourne and Canberra the only capital cities to record value growth during the September quarter.
- The capital city market's performance has been extremely diverse ranging from a 12.7 percent increase in Melbourne over the 12 months to September 2010 to a fall of -0.4 percent in Perth.
- Melbourne (12.7 percent), Canberra (11.2 percent) and Sydney (9.4 percent) have been the top performing capital city housing markets over the last year. Perth (-0.4 percent), Hobart (1.4 percent) and Brisbane (2.1 percent) have significantly underperformed.
- During the last quarter, the best performing cities have been: Canberra (2.3 percent), Sydney (1.3 percent) and Melbourne (1.1 percent). On the other hand: Perth (-5.6 percent), Hobart (-1.8 percent) and Brisbane (-1.2 percent) have all shown considerable weakness over the period.

The transitioning market is resulting in changing dynamics across each sector of the market

- For a number of consecutive periods the premium residential market was the strongest in terms of capital growth however, it is now underperforming other sectors of the market.
- During the 12 months to September 2010 the broad 'middle market' has been the strongest performer with values increasing by 9.1 percent. In comparison, the premium residential market has recorded value growth of 7.7 percent and the most affordable suburbs have recorded growth of 4.7 percent.
- We reported last quarter that the fundamentals were beginning to shift and this trend has continued over the September quarter. Over the three months ending September 2010 the 'middle market' has been the best performer with values up 0.3 percent whilst the most affordable suburbs have recorded value falls of -0.9 percent as have the most expensive suburbs.
- The most expensive and most affordable markets are likely being weighed down by growing affordability issues however, over the most recent month only the most affordable suburbs have recorded

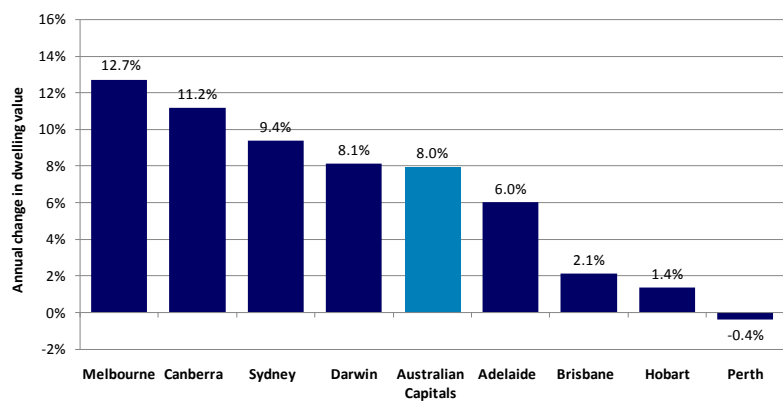
Rolling quarterly change in RP Data-Rismark Hedonic Home Value Index – combined capital cities



Source: RPData.com - Rismark

Capital City Performance

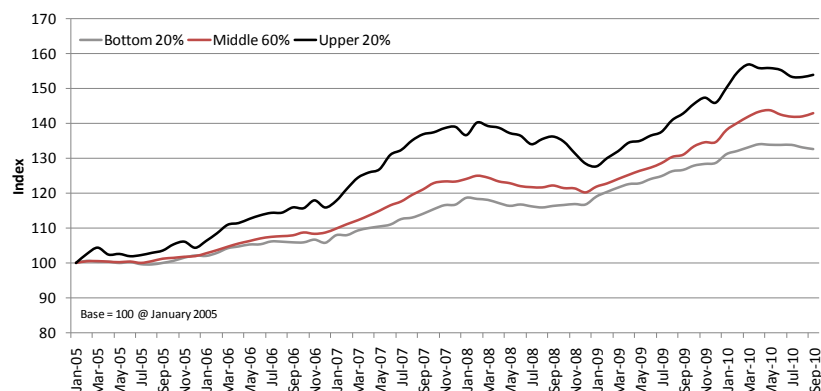
Annual change in dwelling values – yr ending September '10



Source: RPData.com - Rismark

Most affordable 20% v Middle 60% v Most expensive 20%

RP Data-Rismark Stratified Hedonic Home Value Index, All Dwellings, combined cap cities

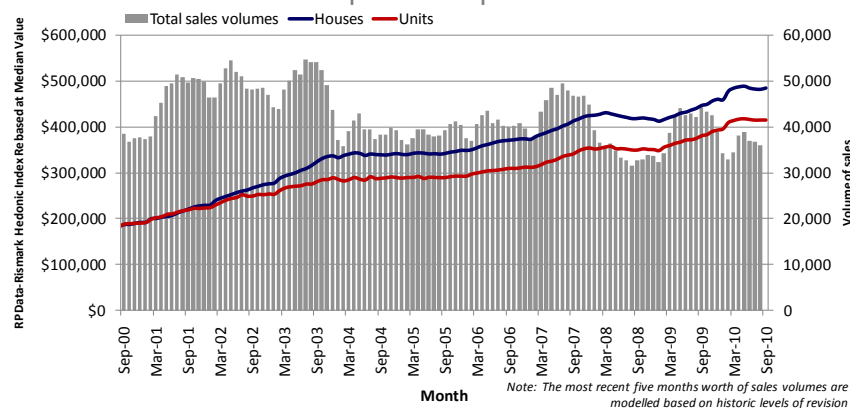


Source: RPData.com - Rismark

Property Market Overview

Volumes and home values over time

Sep-00 to Sep-10



Source: RPData.com - Rismark

Houses have begun to outperform units

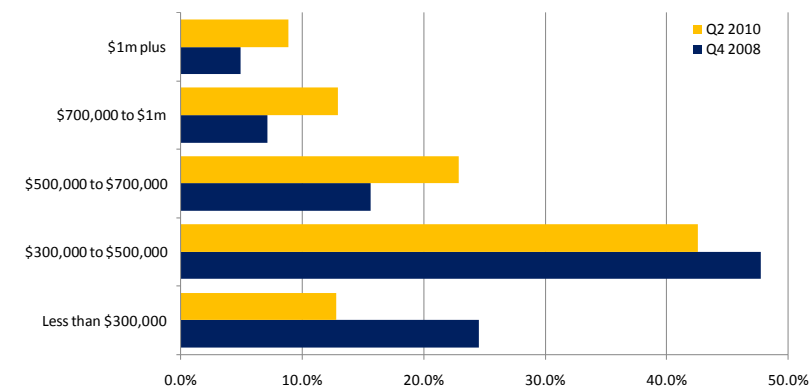
- Over the last 12 months, units have outperformed houses with value growth of 8.3 percent and 7.9 percent respectively.
- Over the last quarter unit values have fallen by -0.3 percent whilst house values have increased by 0.1 percent.
- Based on median prices for the three months to September 2010 capital city houses (\$485,000) are \$70,000 more expensive than units which have a median price of \$415,000.
- Sales volumes are starting to ease which should come as no surprise given recent increases in listings, time on market and vendor discounting as well as the softening of auction clearance rates.
- Over the ten years highlighted, sales volumes have been recorded at an average of 42,076/month. Current modelled sales volumes are recorded at 36,305 for August, indicating that sales volumes are approximately -13.7 percent below the 10 year average.
- With the residential property market continuing to slow and interest rates having been increased during November, it is anticipated that sales volumes will further weaken.

A greater volume of sales at higher price points

- The final quarter of 2008 was the most recent low point in Australian capital city property values.
- During the second quarter of 2010, 55.3 percent of capital city dwelling sales were at prices below \$500,000. In comparison, during the final quarter of 2008, 72.3 percent of all sales were at prices below \$500,000.
- Capital city dwelling sales below \$300,000 (12.8 percent) accounted for a lower proportion of total sales than all other price points detailed except for properties in excess of \$1 million (8.9 percent).
- Whilst the two most affordable price points have recorded a decline in their proportion of sales, the three price points in excess of \$500,000 have each recorded an increase in the sales proportion.
- The increase in the percentage of higher priced sales can partly be explained by 'bracket creep', but also highlights the fact that there are fewer first time buyers in the market and more upgraders. This dynamic is showing up in the price point analysis.

National capital city dwelling sales by price point

Q4 2008 vs. Q2 2010



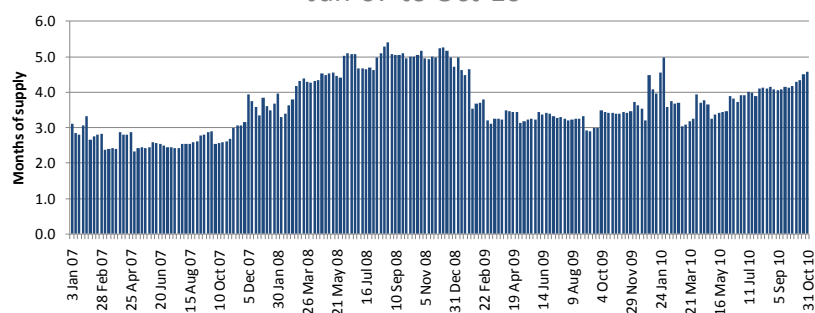
Source: RPData.com

Effective housing supply

- The effective supply of housing is simply the difference between the number of unique properties listed for sale and the volume of sales expressed in months i.e. At the current rate of sale, how long would it take to absorb all the listings in the market.
- Across Australia, the effective supply of housing is increasing as sales volumes fall and the number of properties advertised for sale increases.
- Nationally, the capital city effective housing supply is recorded at 5.1 months of supply, highlighting why the rate of property value growth is now slowing.
- Across the capital cities the effective supply varies greatly, those cities which have recorded strongest value growth over the last year have the lowest effective supply: Melbourne (3.1 months), Canberra (3.6 months) and Sydney (3.9 months).
- On the other hand, the largest effective supply is typically found within the poorest performing markets: Perth (8.7 months), Darwin (6.9 months) and Brisbane (6.2 months).
- At its lowest level since the beginning of 2007, effective supply across the combined capital cities was recorded at 2.3 months in mid 2007 and has been as high as 5.4 months (August 2008).

Australian capital city effective housing supply*

Jan-07 to Oct-10



Source: RPData.com

*excludes Hobart

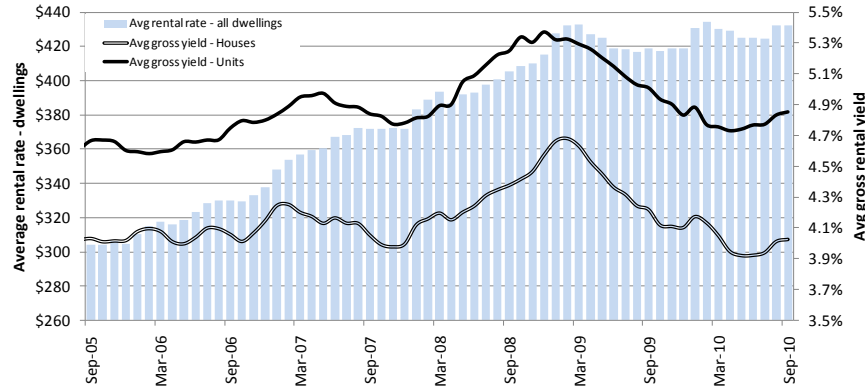
Property Market Overview

Rental growth and yields showing signs of a revival

- Between mid 2005 and the beginning of 2009 there were fairly consistent increases in rental rates across the country.
- Over the past five years median weekly rents have increased by a total of \$125/week for houses and \$139/week for units, or an average annual rate of 7.0 percent for houses and 8.1 percent for units.
- Over the last 12 months, median weekly rents have recorded growth of just 2.9 percent for houses and 4.9 percent for units, well below the five year average levels.
- Since the end of 2008, rental rates have increased by just \$14/week for houses and \$31/week for units, highlighting that rental growth has been sluggish whilst property value growth has been strong.
- Rental rates are currently recorded at \$434/week for houses and \$429/week for units.
- Rental yields are also starting to improve as rental growth returns and capital growth flat-lines, gross rental yields are recorded at 4.0 percent for houses and 4.9 percent for units.

National rental rates and gross yields

Sep-05 to Sep-10

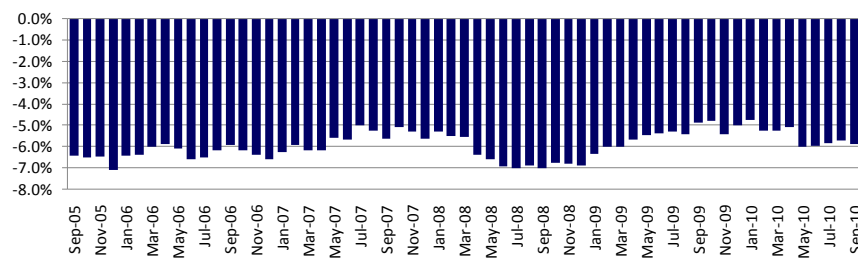


Source: RPData.com - Rismark

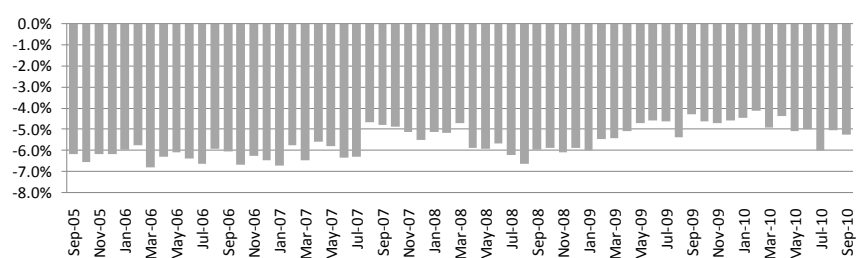
Average vendor discount – combined capital cities

Sep-05 to Sep-10

Houses



Units

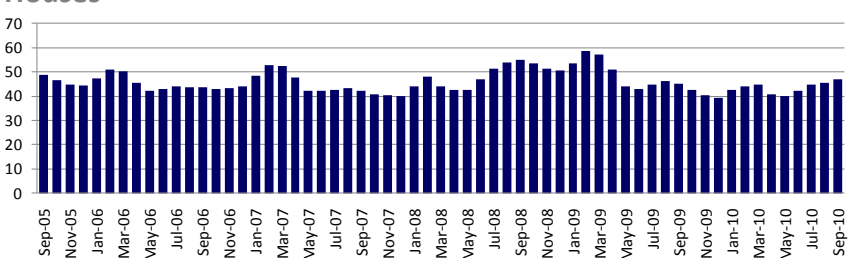


Source: RPData.com - Rismark

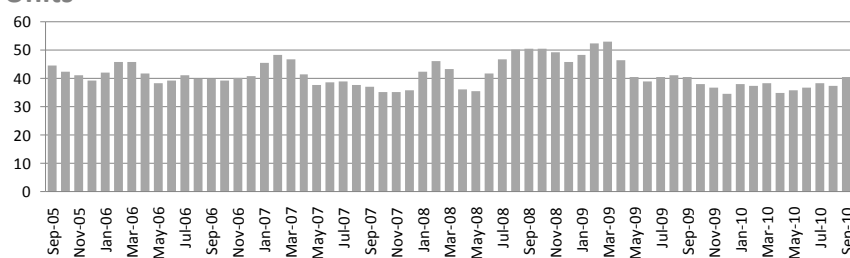
Average time on market – combined capital cities

Sep-05 to Sep-10

Houses



Units



Source: RPData.com - Rismark

Vendor discounting

- Vendor discounting measures the average amount vendors have to discount their properties from the initial list price in order to sell.
- Across the capitals, vendor discounting is recorded at -5.9 percent for houses and -5.3 percent for units.
- At the same time last year, vendor discounting was recorded at -4.9 percent for houses and -4.3 percent for units, well below the current levels however, property values were growing robustly 12 months ago.
- Over the past five years the average vendor discount has been recorded at -5.9 percent for houses and -5.6 percent for units which indicates that despite the increasing discount levels, they remain at average levels.
- Over recent months vendors have had to become more flexible in their price expectations.
- With the market transitioning out of its growth phase, listings at levels well above average and interest rates at higher levels, it is anticipated that vendor discounting will increase further in coming months.

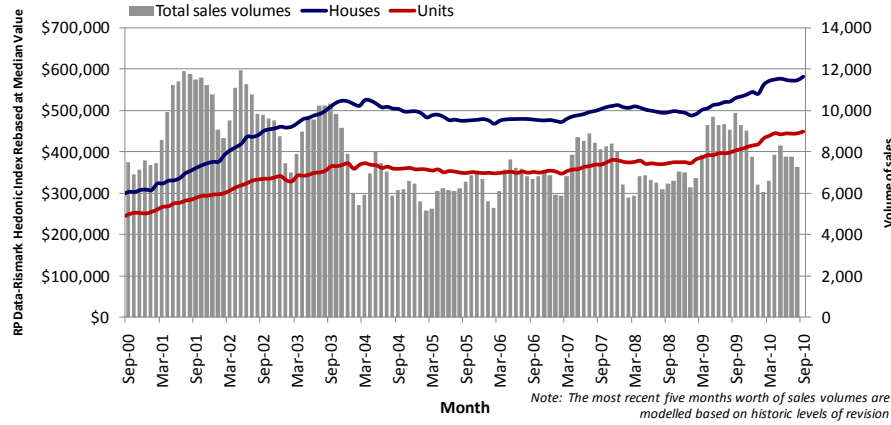
Time on market

- The average time on market is simply the time it takes from when a property is initially advertised for sale to when it ultimately sells.
- On a national basis houses are currently taking an average of 47 days to sell a house and 41 days to sell a unit.
- During September 2009 it took an average of 45 days to sell a house and 41 days for units. Whilst the results show little change over the year, the average time on market has been increasing over recent months.
- On average, houses have taken 46 days and units 41 days during the last five years highlighting that both are at around average levels currently.
- There have been some increases in average time on market over recent months and with the rate of property value growth slowing and listings well above average levels we would expect that there will likely be further increases to the average selling time.

Sydney values and volumes

- Sydney's median house price is recorded at \$582,000 and the median unit price sits at \$450,000.
- Over the last 10 years house values have increased by an average annual rate of 6.7 percent and unit values have grown at 5.7 percent annually, which is the lowest long term rate of growth of any capital city.
- Property values recorded a peak in early 2004 following exceptional growth from 2001. Post 2004 until 2009 the city saw virtually no growth in property values and many areas actually recorded declines.
- Over the last 10 years, sales volumes have sat at an average of 7,894/month.
- Sales volumes fell significantly during 2008 as the economy slowed and the Global Financial Crisis hit, since that time volumes have rebounded to levels well above average during 2009.
- Sales volumes have eased during 2010 and currently sit -11 percent below 10 year average levels.

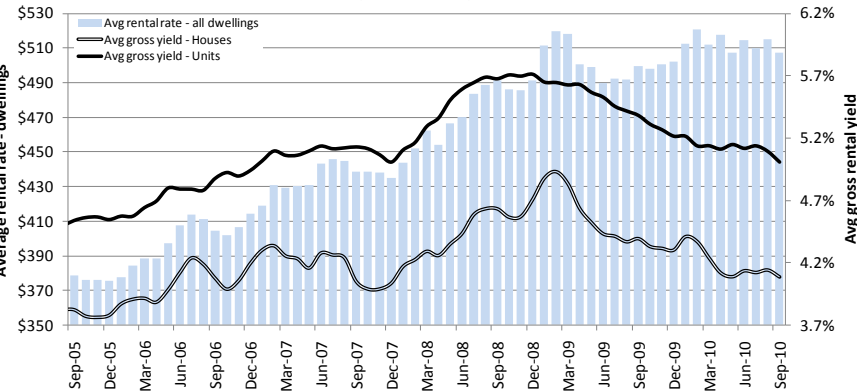
Sydney sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Sydney

Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for a Sydney house is recorded at \$520/week and the median unit rent is at \$487/week.
- During the five years to September 2010 Sydney rental rates have increased by a total of 30.3 percent for houses and 41.1 percent for units.
- Since the end of 2008 there has been virtually no growth in rental rates however, over recent months there have been signs of a revival in rental growth.
- Over the past year, rental rates have increased by 1.3 percent for houses and 2.7 percent for units.
- House rents peaked at \$541/week in February 2010, currently rents are \$21/week below the peak whilst unit rents are at their highest ever levels.
- Gross rental yields have been easing during recent times and are currently recorded at 4.1 percent for houses and 5.0 percent for units.
- Tight vacancy rates and a lack of new housing supply is likely to result in increase in rents and yields over the short-term.

Sydney Key Statistics September 2010

	Houses	Units
Median price	\$582,000	\$450,000
12 month value growth	8.9%	10.4%
5yr average annual growth	4.1%	5.0%
10yr average annual growth	6.7%	5.9%
Average time on market	42	34
Average discount	-6.5%	-5.3%
Rental rate	\$520	\$487
Gross rental yield	4.1%	5.0%
Average hold period	9.3	7.5
Estimated population June 2009	4,504,469	
Population change 2008 to 2009	1.9%	
Household projections 2009	1,645,358	

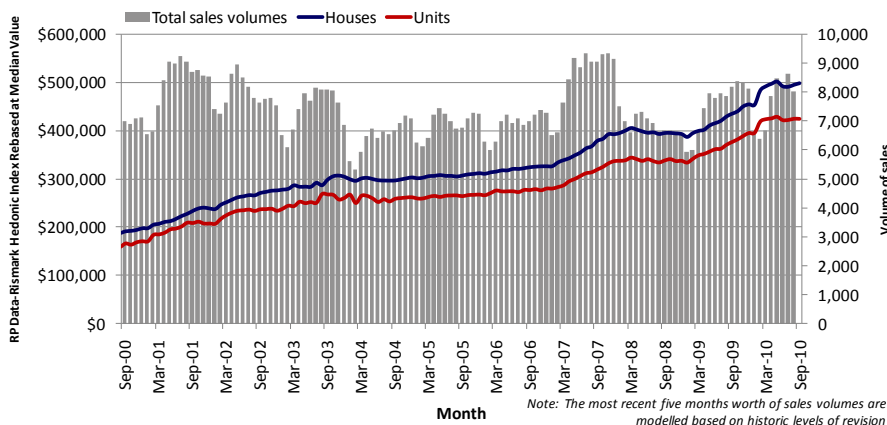
Key Statistics

- In comparison to the last year and the last decade, property value growth has been minimal over the last five years in Sydney.
- Average vendor discount levels currently sit at -6.5 percent for houses and -5.3 percent for units and at the same time in 2009 discount levels were recorded at -5.5 percent for houses and -5.2 percent for units.
- Sydney properties are selling quicker during September of this year than they were at the same time last year. Houses are currently taking 42 days to sell compared to 44 days last year and units took 38 days to sell last year and currently sell after an average of 34 days.
- Across properties sold during the last year, vendors had owned houses for an average of 9.3 years and unit vendors had owned the properties for 7.5 years.
- Sydney's population sits just shy of 5 million persons and has grown at 1.9 percent over the last year or an estimated 89,394 persons.
- Based on the estimated population and household projections, Sydney dwellings currently house an average of 2.7 persons.

Melbourne values and volumes

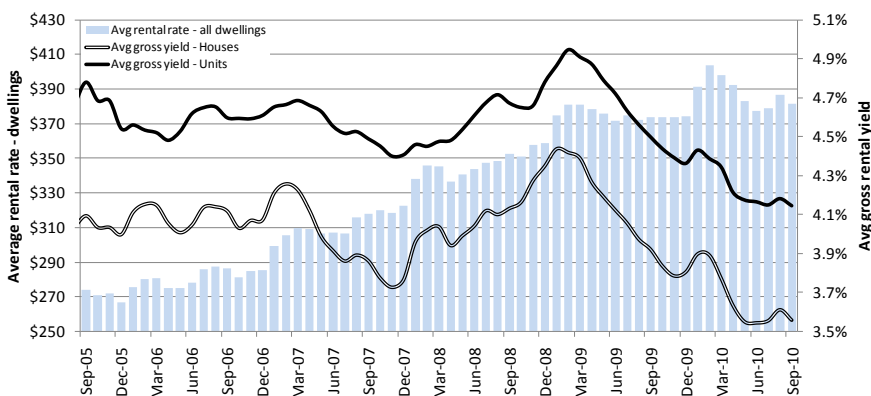
- Melbourne's median house price is recorded at \$499,000 and the median unit price sits at \$425,000.
- Over the last 10 years house and unit values have increased by an average annual rate of 10.0 percent, which is the second lowest long-term annual rate of growth amongst the capital cities for houses and third lowest for units.
- Property values in Melbourne have been through several distinct cycles over the decade having recorded strong growth between 2001 and 2004, a consolidation period between 2004 and 2006, further strong growth in 2007, value falls in 2008 and a rebound during 2009 and early 2010.
- Over the last 10 years, sales volumes have been recorded at an average of 7,440/month.
- Sales volumes fell significantly during 2008 as the economy slowed and the GFC hit and 2009 saw a rebound in sales activity however.
- Current sales volumes are recorded at -2 percent below the ten year average level of sales activity.

Melbourne sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Melbourne Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for a Melbourne house is recorded at \$391/week and for units it sits at \$359/week.
- During the five years to September 2010, rental rates have increased by a total of 40.0 percent for houses and 38.1 percent for units.
- Since the end of 2008 there has been fairly limited growth in rental rates at a time when there has been particularly strong growth in property values.
- Over the last 12 months, rental rates have increased by 2.7 percent for houses and 2.4 percent for units.
- During the last quarter there has been some improvement in rental rates with, median rents increasing by 1.7 percent and unit rents have increased by 0.1 percent.
- Despite the growth in rents during recent times, house rents remain below their peak of \$415/week and unit rents are below their \$376/week peak.
- Gross rental yields have been softening during recent times however, they appear to have stabilised and we expect some improvements during the coming months. They are currently recorded at 3.6 percent for houses and 4.1 percent for units.

Melbourne Key Statistics September 2010

	Houses	Units
Median price	\$499,000	\$425,000
12 month value growth	13.2%	11.1%
5yr average annual growth	10.0%	9.7%
10yr average annual growth	10.0%	10.0%
Average time on market	44	39
Average discount	-6.5%	-5.1%
Rental rate	\$399	\$363
Gross rental yield	3.6%	4.2%
Average hold period	9.8	8.1
Estimated population June 2009	3,995,537	
Population change 2008 to 2009	2.4%	
Household projections 2009	1,475,207	

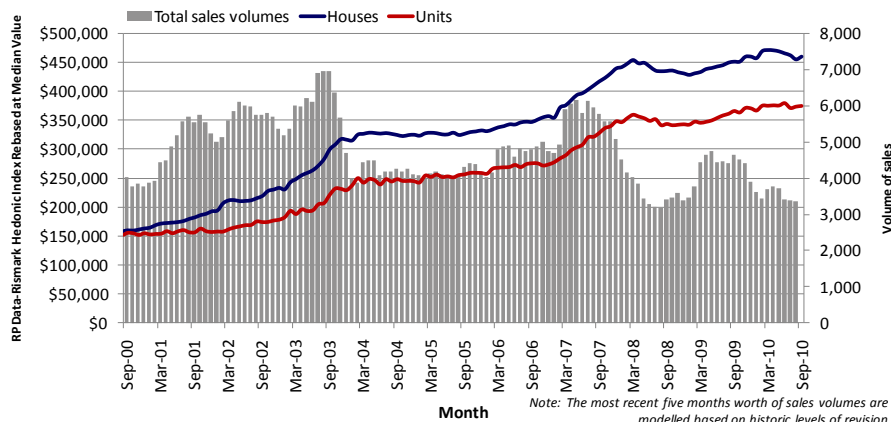
Key Statistics

- Capital gains over the past 12 months have been significantly greater than five and ten year average levels.
- Average discount levels currently sit at -6.5 percent for houses and -5.1 percent for units, a year ago discount levels were recorded at a lower -5.2 percent for houses and -4.7 percent for units.
- Comparatively, Melbourne properties are selling at a fast rate with houses selling on average in 35 days and units selling after an average of 31 days. Despite the fact they are selling quite quickly at the same time last year the average time on market was recorded at 35 days for houses and 31 days for units.
- Across properties sold during the 12 months to September 2010, vendors had owned houses for an average of 9.8 years and unit vendors had owned their properties for 8.1 years.
- Melbourne's population sits at almost 4 million persons and has grown at 2.4 percent over the last year or an estimated 93,478 persons.
- On average, Melbourne dwellings are home to 2.7 persons based on the ratio of estimated population to the projection of households.

Brisbane values and volumes

- Brisbane's median house price is recorded at \$460,000 and the median unit price sits at \$375,000.
- During the last 12 months, value growth has been significantly lower than five year and ten year average levels with house values increasing by 1.9 percent and unit values up by 3.1 percent. Across the capitals, only Perth has recorded lower growth levels during the year.
- Since the time that the national property market began to start recording strong growth post GFC, Brisbane has well and truly underperformed and has recorded limited value growth.
- Over the last 10 years, sales volumes have sat at an average of 4,693/month.
- The volume of sales in Brisbane were harder hit than most other capital cities during 2008 as the GFC unravelled falling by as much as -56 percent.
- 2009 saw a slight rebound in sales activity however, current volumes remain -26 percent below the ten year average and well below levels recorded prior to 2008.

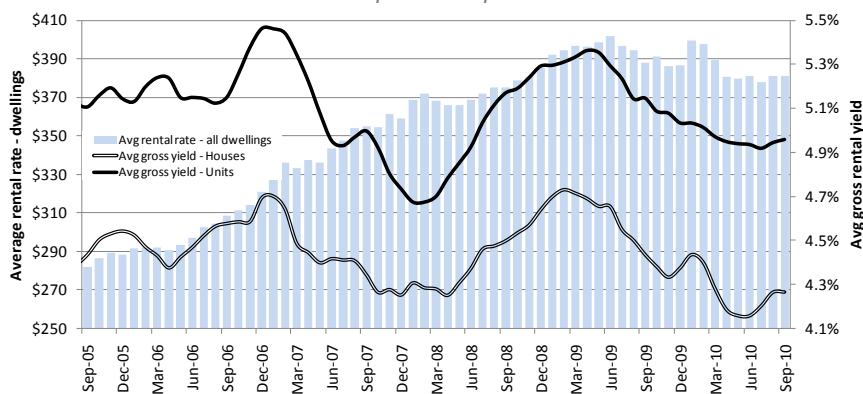
Brisbane sales volumes and change in home values over time



Source: RPDrdpata.com - Rismark

Rental rates and gross yields, Brisbane

Sep-05 to Sep-10



Source: RPData.com - Rismark

Brisbane Key Statistics September 2010

	Houses	Units
Median price	\$460,000	\$375,000
12 month value growth	1.9%	3.1%
5yr average annual growth	6.9%	7.7%
10yr average annual growth	11.1%	9.3%
Average time on market	56	48
Average discount	-7.5%	-5.7%
Rental rate	\$391	\$342
Gross rental yield	4.3%	5.0%
Average hold period	7.9	6.2
Estimated population June 2009	2,004,262	
Population change 2008 to 2009	2.7%	
Household projections 2009	721,080	

Rental rates and yields

- The median rent for a Brisbane house is recorded at \$391/week and for units it sits at \$342/week.
- During the five years to September 2010, house rents in Brisbane have increased by a total of 34.1 percent for houses and 40.6 percent for units.
- Since the beginning of 2009 rental rates across Brisbane have been tapering despite the fact that construction activity has been low and value growth sluggish.
- Over the 12 months to September 2010, rental rates have fallen by -2.0 percent for houses and unit rents have fallen by -0.6 percent.
- There has been an improvement in house rentals during the last quarter, increasing by 1.4 percent whilst unit rents have softened by -0.8 percent.
- With rents easing over the last year they remain well below their peaks of \$413/week for houses and \$350/week for units.
- Gross rental yields have tapered since the beginning of 2009 however, there has been some recent improvement with yields recorded at 4.3 percent for houses and 5.0 percent for houses.

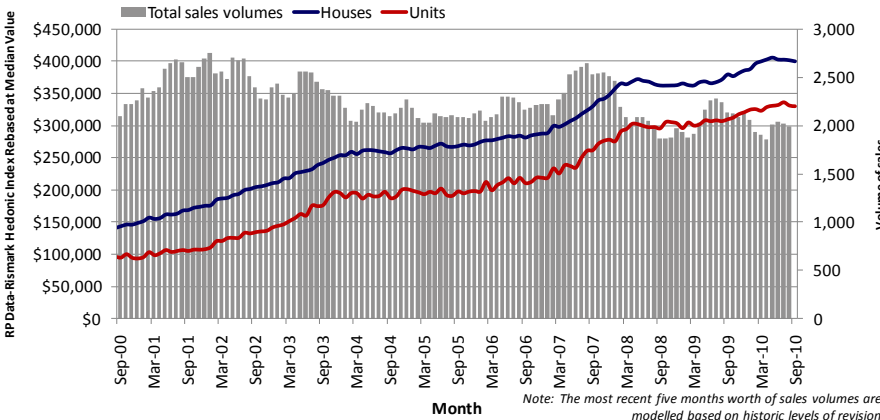
Key Statistics

- Brisbane's capital gains have been below the capital city average since the start of 2009. Compared to Brisbane's long-term and medium term gains, the last 12 months has recorded a very weak performance.
- Average discount levels currently sit at -7.5 percent for houses and -5.7 percent for units and at the same time during 2009 discount levels were recorded at -5.3 percent for houses and -4.4 percent for units.
- Houses in Brisbane are currently taking an average of 56 days to sell whilst units take 48 days. In comparison, 12 months prior houses took 44 days and units 43 days to sell.
- Of those Brisbane dwellings sold during the last year vendors had on average owned houses for 7.9 years and units for 6.2 years.
- Brisbane's population was estimated to sit at just above 2 million persons at June 2009 and has grown at 2.7 percent over the 12 months, or by an estimated 52,104 persons.
- On average, Brisbane dwellings are home to 2.8 persons based on the ratio of estimated population to the projected number of households.

Adelaide values and volumes

- The Adelaide median house price is recorded at \$400,000 and the median unit price sits at \$330,000, the lowest of any mainland capital city.
- House values have recorded average annual value growth of 10.6 percent during the last decade whilst units have grown at a greater 12.7 percent annually indicating that both houses and units have enjoyed an above average performance during the period.
- Over the last 12 months house and unit value growth has tracked below the national average at 6.1 percent for houses and 5.6 percent for units.
- The last 10 years has seen periods of both strong and subdued growth which has generally acted in concert with trends seen nationwide.
- Over the last 10 years, sales volumes have sat at an average of 2,253/month.
- In recent months the volume of sales has been easing and current volumes are -15 percent below the 10 year average.

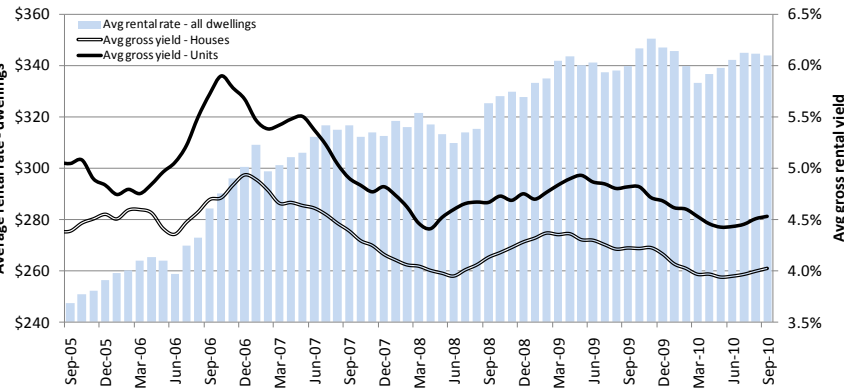
Adelaide sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Adelaide

Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for an Adelaide house is recorded at \$348/week and for units the median rent sits at \$327/week.
- Over the five years to September 2010, house rents have increased by a total of 35.5 percent and unit rents have increased by 52.3 percent.
- Like most capital cities, rental growth has been virtually non-existent since the end of 2008.
- During the year to September 2010, house rents have increased by 1.1 percent whilst unit rents have fallen by -0.6 percent.
- House rents have increased by 1.2 percent over the last quarter and unit rents have increased by 1.6 percent.
- With rental growth limited during the last year, rental rates remain below their peaks of \$353/week for houses and \$335/week for units.
- Gross rental yields have been fairly flat with some softening over recent times and they are currently recorded at 4.0 percent for houses and 4.5 percent for units.

Adelaide Key Statistics September 2010

	Houses	Units
Median price	\$400,000	\$330,000
12 month value growth	6.1%	5.7%
5yr average annual growth	6.9%	7.7%
10yr average annual growth	11.1%	9.3%
Average time on market	46	38
Average discount	-5.8%	-5.3%
Rental rate	\$348	\$327
Gross rental yield	4.0%	4.5%
Average hold period	6.8	6.3
Estimated population June 2009	1,187,466	
Population change 2008 to 2009	1.3%	
Household projections 2009	478,120	

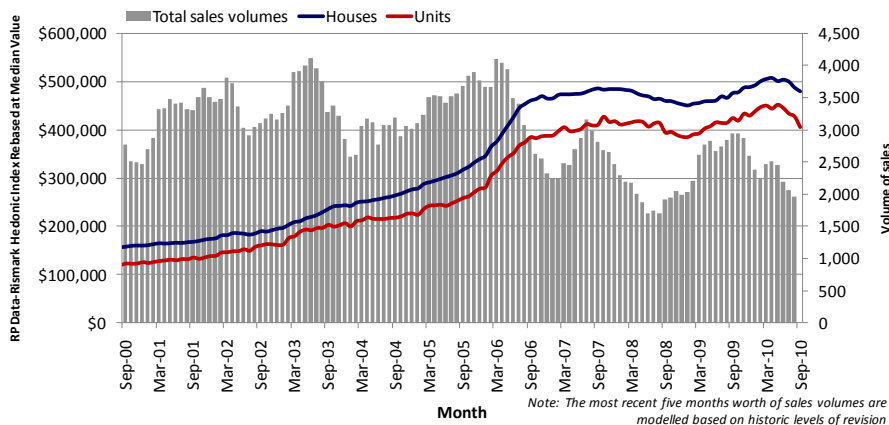
Key Statistics

- Over the last decade, Adelaide houses and units have recorded comparatively strong levels of value growth. Over the last year, the growth in values for houses and units has been below the average annual growth rate over both five and ten years.
- Average discount levels are recorded at -5.8 percent for houses and -5.3 percent for units. During September 2009 discount levels were recorded at -5.1 percent for houses and -4.5 percent for units.
- Adelaide houses are taking an average of 46 days to sell whilst units take 38 days in comparison, during September 2009 houses took 47 days and units 38 days to sell.
- Of the houses which have sold within Adelaide during the year to June 2010 the vendors had owned them for an average of 6.8 years whilst units had been owned for an average of 6.3 years.
- Estimates of Adelaide's population as at the end of June 2009 show a population just under 1.2 million, increasing by 1.3 percent between 2008 and 2009.
- Based on the estimated population and the projected number of households across Adelaide, the average Adelaide household is home to 2.5 persons.

Perth values and volumes

- The Perth median house price is recorded at \$480,000 and the median unit is recorded at \$405,000.
- The last decade has seen house values record average annual growth of 11.6 percent whilst units have recorded annual growth of 12.7 percent which places Perth as one of the best performing markets over the last ten years despite a reasonably weak performance more recently.
- Over the year to September 2010 Perth house values have been relatively flat, recording growth of 0.4 percent whilst unit values have fallen by -3.3 percent.
- During the 10 years to September 2010 there was a period of consistent growth between 2001 and 2004 and then a steep rise in values between 2005 and 2007. Since that time growth in Perth property values has been negligible.
- During the last 10 years, sales volumes have sat at an average of 2,961/month.
- The volume of residential property sales has been easing in recent months as property value growth also stalls, as a result current sales volumes are -33 percent below the 10 year average level.

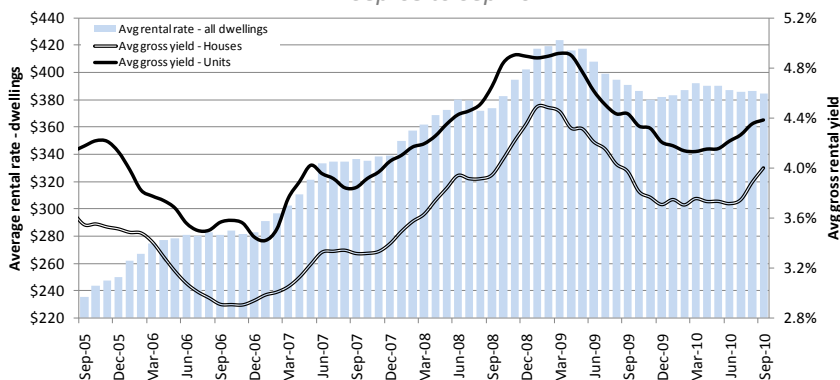
Perth sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Perth

Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for a Perth house is recorded at \$392/week and for units the median weekly rent sits at \$389.
- Rental growth in Perth has been very strong over the past five years with house rents increasing by a total of 67.0 percent and unit rents up 62.3 percent.
- Since the beginning of 2009, rental rates have deteriorated markedly however, in recent months there has been some improvement in house rents.
- Over the last 12 months rental rates have increased by 1.1 percent for houses and have fallen by -4.3 percent for units.
- During the last three months, rents for houses have increased by 2.5 percent whilst units have recorded a significant fall of -5.2 percent.
- Gross rental yields have recorded a steep decline since the beginning of 2009, despite the fact that Perth has underperformed in terms of property value growth it has also seen greater rental falls. There has been some improvement in recent months and yields are currently recorded at 4.0 percent for houses and 4.4 percent for units.

Perth Key Statistics September 2010

	Houses	Units
Median price	\$480,000	\$405,000
12 month value growth	0.4%	-3.3%
5yr average annual growth	8.1%	11.1%
10yr average annual growth	10.6%	12.7%
Average time on market	54	44
Average discount	-6.0%	-5.8%
Rental rate	\$392	\$389
Gross rental yield	4.0%	4.4%
Average hold period	7.2	7.0
Estimated population June 2009	1,658,992	
Population change 2008 to 2009	3.2%	
Household projections 2009	624,059	

Key Statistics

- The Perth market has been a weak performer over the last few years however, over the medium and long term Perth has been one of the best markets for capital growth in Australia.
- Average discounts for houses are recorded at -6.0 percent and for units average discounting levels sit at -5.8 percent. 12 months previous discount levels were recorded at -4.9 percent for houses and -4.3 percent across the unit market.
- Perth houses took an average of 54 days to sell whilst units took 44 days during September 2010. In comparison, during September 2009 houses took 50 days and units were taking 38 days to sell.
- Across Perth, of the houses sold during the 12 months to September 2010, vendors had on average owned these properties for 7.2 years whilst the units which sold had been owned for 7.0 years.
- The estimated population of Perth as at the end of June 2009 was slightly more than 1.6 million with the population growing by 3.2 percent during the year.
- Based on the estimated population and the projected number of households across Perth, the average household is home to 2.7 persons.

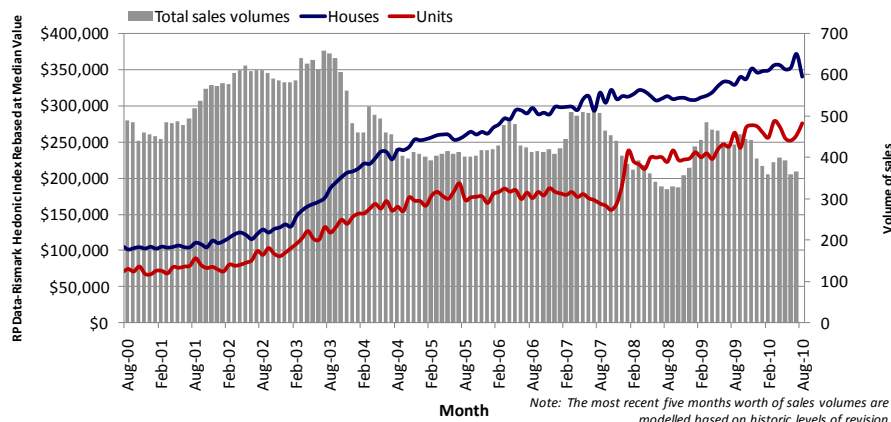
Hobart

Hobart values and volumes

- The Hobart median house price is recorded at \$340,000 and the median unit price is recorded at \$276,000; the most affordable housing prices of any capital city.
- During the last ten years house values have recorded average annual growth of 12.6 percent (the second best performance of any capital city) whilst units have recorded annual growth of 14.5 percent which is the best performance amongst capital cities over the last decade.
- Over the year to August 2010 house values have increased by 0.1 percent and unit value have increased by 14.0 percent.
- During the last 10 years, sales volumes have sat at an average of 468/month.
- Sales volumes in Hobart fell during 2008 as they did across most Australian markets however, 2009 and early 2010 has seen a rebound volumes have now begun to trend lower and they remain -16 percent below 10 year average levels.

Property Market Overview

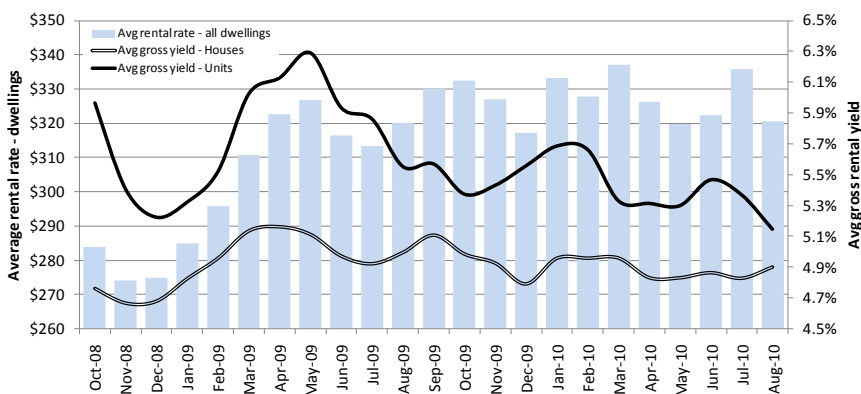
Hobart sales volumes and change in home values over time



Source: RPDData.com - Rismark

Rental rates and gross yields, Hobart

Oct-08 to Aug-10



Source: rpdata.com - Rismark

Rental rates and yields

- The median rent for a Hobart house is recorded at \$321/week and the median unit rent sits at \$293/week, both of which are the most affordable rental rates amongst capital city markets.
- Over the last 12 months, rental rates for houses have fallen by -1.8 percent whilst unit rents have increased by 5.7 percent.
- Rental rates for houses are -7.0 percent below their \$345/week peak and unit rents are -9.9 percent below their \$326/week peak.
- Like most cities, gross rental yields have shown no real growth over the last 18 months. Currently, gross rental yields are recorded at 4.9 percent for houses and 5.1 percent for units.
- Current yields are well below the peak of 5.2 percent for houses and 6.3 percent for units.

Hobart Key Statistics September 2010

	Houses	Units
Median price	\$340,000	\$276,000
12 month value growth	0.1%	14.0%
5yr average annual growth	5.2%	9.7%
10yr average annual growth	12.6%	14.5%
Average time on market	53	46
Average discount	-5.9%	-5.8%
Rental rate	\$321	\$293
Gross rental yield	4.9%	5.1%
Average hold period	7.3	6.7
Estimated population June 2009	212,019	
Population change 2008 to 2009	1.2%	
Household projections 2009	85,523	

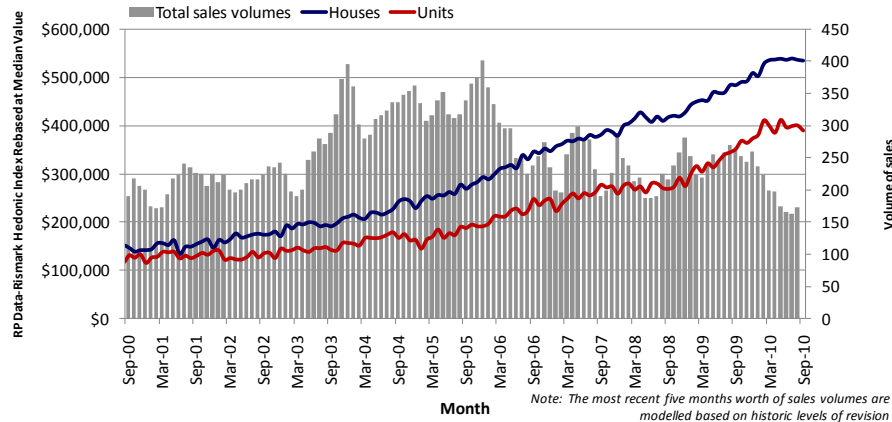
Key Statistics

- Property value growth during the last 12 months has been well below the five year and ten year average levels for houses and in-line with 10 year average levels for units.
- Hobart houses have recorded an average discount of -5.9 percent and units have seen discounts of -5.8 percent. 12 months previously discount levels were recorded at -5.4 percent for houses and -4.3 percent across the unit market.
- Hobart houses sold over the year had been owned by the vendors for an average of 7.3 years and units had been owned for 6.7 years.
- The estimated population of Hobart at the end of June 2009 was just above 210,000 with the population growing by 1.2 percent during the previous year.
- Based on the estimated population and the projected number of households across Hobart the average household is home to 2.5 persons.

Darwin values and volumes

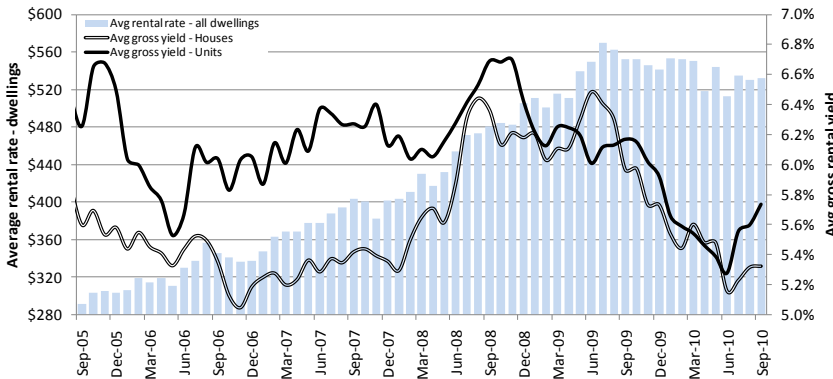
- The Darwin median house price is recorded at \$535,000 and the median unit price is recorded at \$390,000. The median house price for Darwin is now the third most expensive in the country.
- The last decade has seen house values record average annual growth of 14.4 percent which was the nation's strongest performance whilst units have recorded annual growth of 11.9 percent.
- During the 12 months to September 2010 house values in Darwin have increased by 9.0 percent whilst unit values have increased by 9.7 percent.
- During the 10 years highlighted, property values have been consistently increasing with the rate of growth improving since 2005.
- During the last 10 years, sales volumes have sat at an average of 255/month.
- Sales volumes in Darwin held up well during the GFC however, they are now falling sharply, current sales volumes are approximately -30 percent below the ten year average.

Darwin sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Darwin Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for a Darwin house is the nation's highest recorded at \$570/week and unit rents sit at \$457/week.
- Over the past five years rental growth within Darwin has been exceptionally high with house rents increasing by a total of 82.9 percent and unit rents increasing by 83.1 percent.
- Like all of the other capital cities analysed, since the end of 2008 rental rates have eased as property values have risen strongly.
- Over the 12 months leading up to September 2010 rents have fallen by -2.7 percent for houses and -1.7 percent for units.
- During the last quarter there has been an improvement in rental rates with units (6.9 percent) recording superior growth to houses (2.9 percent).
- Darwin still enjoys the nation's highest gross rental yields however, they have fallen sharply over recent times. Yields are currently recorded at 5.3 percent for houses and 5.7 percent for units and have show improvement in recent months which is likely to continue as value growth continues to slow.

Darwin Key Statistics September 2010

	Houses	Units
Median price	\$535,000	\$390,000
12 month value growth	9.0%	5.8%
5yr average annual growth	14.0%	14.9%
10yr average annual growth	14.4%	11.9%
Average time on market	45	42
Average discount	-5.1%	-5.7%
Rental rate	\$570	\$457
Gross rental yield	5.3%	5.7%
Average hold period	4.9	4.2
Estimated population June 2009	124,760	
Population change 2008 to 2009	3.1%	
Household projections 2009	43,794	

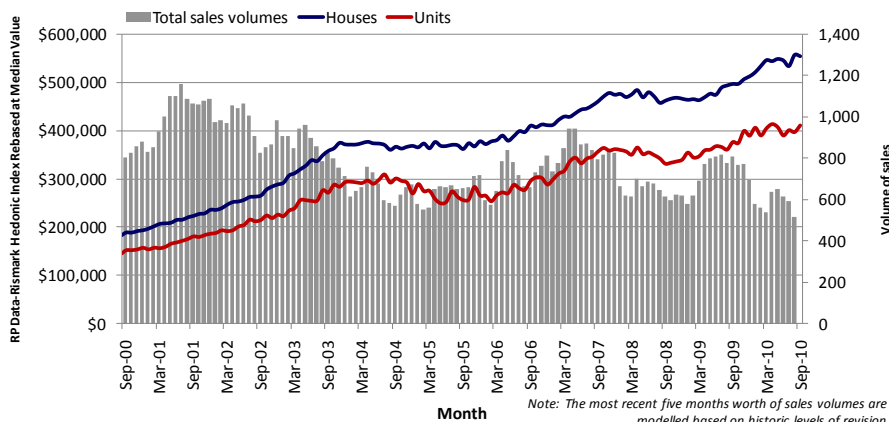
Key Statistics

- Capital gains have been consistently high over the short, medium and long term in Darwin due to a tight housing supply, high level of population growth and ongoing infrastructure and resource projects.
- In recent months discounting in Darwin has been increasing with units recording a current vendor discount of -5.7 percent up from -4.2 percent last year. House discounting has also increased from just -3.1 percent last year to -5.1 percent in September this year.
- Darwin houses as at September 2010 are taking an average of 45 days to sell whilst units are taking 42 days. 12 months previous houses were taking an average of 45 days and units 37 days.
- Of the residential properties sold across the city during the last year vendors had owned their houses for an average of 4.9 years whilst unit owners had held the property for 4.2 years.
- The estimated population of Darwin at the end of June 2009 was just over 120,000 with the population growing by 3.1 percent during the previous year.
- Based on the estimated population and the projected number of households across the city the average household is home to 2.8 persons.

Canberra values and volumes

- The Canberra median house price is recorded at \$555,000 which positions Canberra as having the nation's second most expensive median house prices. The median unit price is slightly below the national average recorded at \$410,000.
- The last decade has seen house values record average annual growth of 11.4 percent whilst units have recorded annual growth of an average of 10.4 percent.
- During the 12 months to September 2010 house values have increased by 9.7 percent and unit values are up by 11.6 percent.
- Houses and unit values sit slightly below the peaks which were recorded in April 2010 for units and during August 2010 for houses.
- Over the last decade, Canberra has recorded an average of 772 sales each month.
- Sales volumes have been falling during recent months as the market slows, as a result the current level of sales activity is -39 percent below the 10 year average.

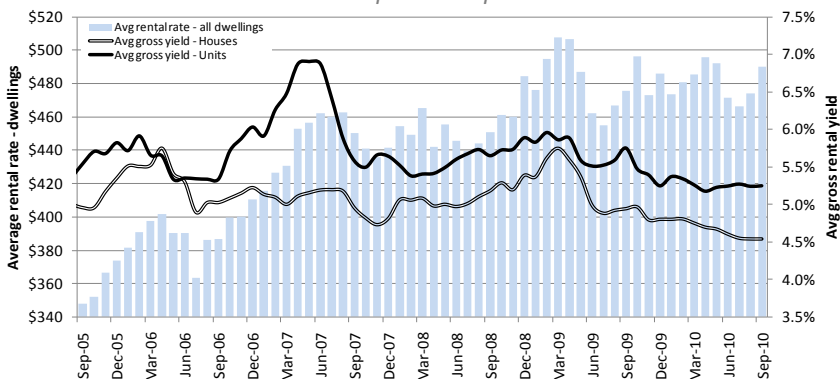
Canberra sales volumes and change in home values over time



Source: RPData.com - Rismark

Rental rates and gross yields, Canberra

Sep-05 to Sep-10



Source: RPData.com - Rismark

Rental rates and yields

- The median rent for a Canberra house is recorded at \$499/week and for units it sits at \$438/week.
- During the last five years rental rates have recorded below average increases for houses (36.0 percent) whilst unit rents have recorded total growth in excess of that nationally (51.1 percent).
- As is the case nationwide, since the beginning of 2009 rents have fallen and they remain below their peak levels.
- During the 12 months to September 2010, rents have increased by 2.5 percent for houses whilst unit rents are relatively flat recording growth of just 0.1 percent.
- During the last quarter house rents have improved slightly, up 0.2 percent, whilst unit rents have increased by 5.4 percent.
- As rents have fallen and property values have recorded significant improvements, gross rental yields have eased. Currently, rental yields are recorded at 4.5 percent for houses and 5.3 percent for units which is a superior yield to that recorded nationally.

Canberra Key Statistics September 2010

	Houses	Units
Median price	\$555,000	\$410,000
12 month value growth	11.6%	9.7%
5yr average annual growth	8.2%	9.8%
10yr average annual growth	11.4%	10.4%
Average time on market	39	35
Average discount	-3.7%	-3.4%
Rental rate	\$499	\$438
Gross rental yield	4.5%	5.3%
Average hold period	7.8	6.9
Estimated population June 2009	351,868	
Population change 2008 to 2009	1.7%	
Household projections 2009	133,494	

Key Statistics

- Canberra has recorded solid capital growth over both the short term and long term across both the house and unit markets.
- Canberra properties are recording average levels of discounting which are well below average with houses recording an average discount of -3.7 percent and units have recorded discounts of -3.4 percent. 12 months previously discount levels were recorded at -4.6 percent for houses and -2.8 percent across the unit market.
- Canberra houses are taking an average of 39 days to sell whilst units are taking 35 days. At the same time last year houses were taking an average of 41 days to sell and units 37 days.
- Of the residential properties sold across the city during the year to September 2010, vendors had owned their houses for an average of 7.8 years whilst unit owners had held the property for 6.9 years.
- The estimated population of Canberra at the end of June 2009 was slightly above 351,000 with the population growing by 1.7 percent during the previous year.
- Based on the estimated population and the projected number of households across the city the average household is home to 2.6 persons.

Economic Overview

ASX 200 volatile during recent months

- The Australian share market has been quite volatile over recent months indicating that the global recovery remains delicately placed.
- The S&P/ASX 200 share market index remains -29 percent below its historic end of month peak which was recorded at 6,754 points at the end of October 2007.
- Following the 2007 peak, the share market recorded dramatic falls and it reached its recent low at the end of February 2009 when the index was recorded at 3,345 points, 50.5 percent below the peak.
- As at the end of October 2010 the index was recorded at 4,662 points.
- Despite the fact that Australian business has typically been improving during the past 12 months, the ASX 200 Index is only 0.4 percent higher than it was at the same time last year.
- At the time of the last 'Quarterly Review' at the end of July the Index was recorded at 4,494 points, the current value is 4 percent higher.

Consumer sentiment at highest level since January

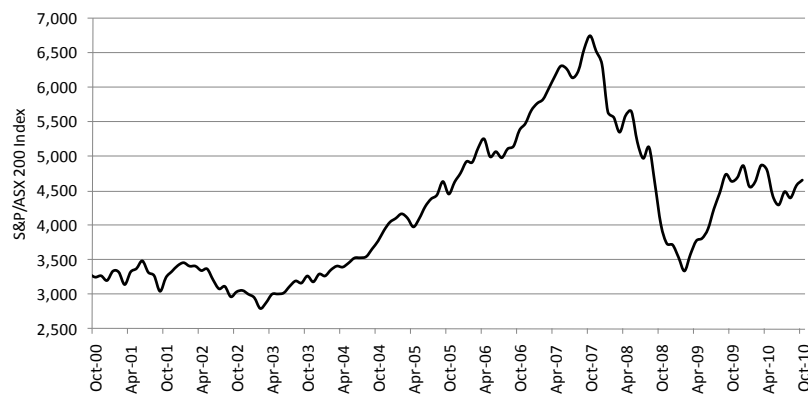
- The monthly survey of Consumer Sentiment undertaken by Westpac and the Melbourne Institute shows that Australia's consumers are much more optimistic than pessimistic.
- The Index measures views on consumers household financial situation over the past an coming year, anticipated economic conditions over the coming and five years and buying conditions for major household items. When the Index is above 100 points consumers are more optimistic than pessimistic and when it sits below 100 points it indicates there is more pessimism than optimism.
- Over recent months sentiment has been trending lower due to higher interest rates and a slowing property sector, clearly consumers are not as optimistic as they were earlier in the year.
- The November result recorded an index value of 110.7 points, still much more optimistic than pessimistic but falling by -5.3 percent during the month.
- Despite the recent dip, optimism well and truly still outweighs pessimism. With an expectation that interest rates will remain unchanged for the remainder of 2010 we expect that sentiment will largely be influenced by factors such as retail trade, property market results and global economic factors.

The Australian economy continues to grow

- Gross Domestic Product (GDP) measures the final value of all goods and services produced in an economy over a given period and as such is important as it shows whether an economy is expanding or contracting.
- Australia is one of the few countries that has 'technically' avoided a recession in recent times having not recorded two consecutive quarters of negative growth in GDP.
- The latest GDP results show that the Australian economy continues to grow at a time when many of the world's major economies are struggling.
- Prior to the December 2008 quarter, Australia had not recorded a single quarter of negative growth since December 2000 when the economy contracted by -0.1 percent.
- Unlike most major economies which fell into a technical recession during 2008/09, Australia managed to stave off recession thanks in large to Government stimulus, a strong banking sector and significant demand for natural resources particularly from China and India.
- Over the June 2010 quarter the Australian economy grew by 1.2 percent after growing by 0.7 percent during the March 2010 quarter.
- On an annual basis, the Australian economy has grown by 3.2 percent to June 2010.
- Recent RBA forecast for GDP suggest that the Australian economy will continue to grow at an annual rate in excess of 3 percent.

ASX 200 end of month value

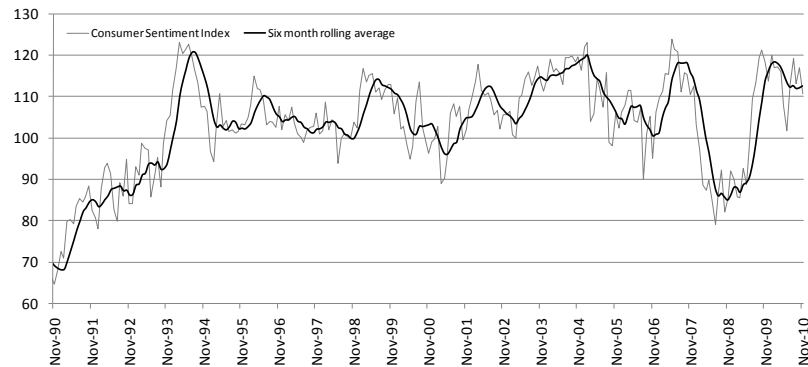
Oct-00 to Oct-10



Source: rpdata.com, Standard and Poors

Australian consumer sentiment

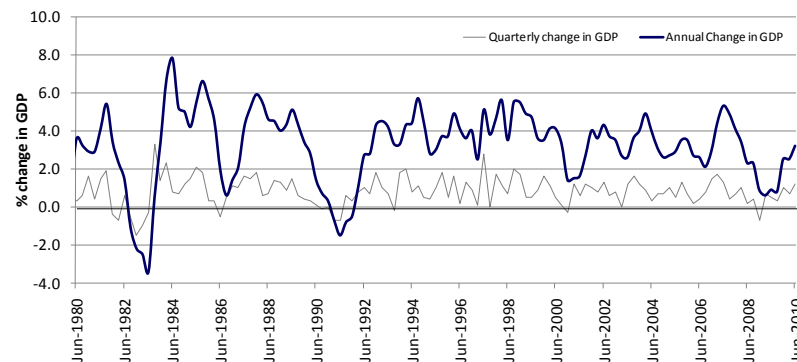
Aug-90 to Aug-10



Source: rpdata.com, Westpac-Melbourne Institute

Percentage change in GDP

Jun-80 to Jun-10



Source: rpdata.com, ABS

RBA GDP growth forecasts

Jun-10 to Jun-13

	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13
GDP growth	3.30%	3.50%	3.50%	3.75%	3.75%	4.00%	4.00%
Non-farm GDP growth	3.30%	3.25%	3.25%	3.75%	3.75%	4.00%	4.00%

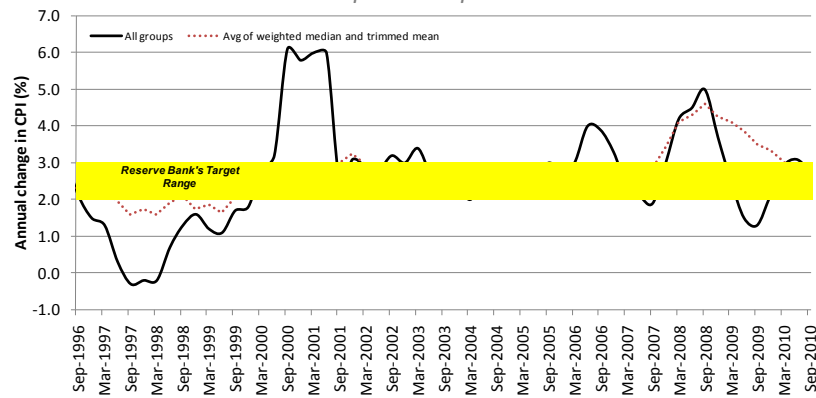
Source: rpdata.com, RBA Statement on Monetary Policy November 2010

Inflation below expectations during the June quarter

- The Consumer Price Index (CPI), which measures the level of inflation, has reduced dramatically since the all groups indicator peaked at 4.9 percent during the September 2008 quarter.
- As at September 2010, the all groups indicator shows that annual inflation sits at 2.8 percent which is at the upper end of the Reserve Bank of Australia's (RBA) long-term target range of 2 to 3 percent.
- Other inflation indicators which are the preferred measures by the RBA include the weighted median (2.4 percent) and trimmed mean (2.5 percent) which are right in the middle of the RBA target range.
- Despite the fact that inflation is within the long-term target range of the RBA, clearly they see inflationary pressures increasing and as a result, decided to increase official interest rates in November 2010 despite the fact that inflation appears to be under control currently.

Consumer Price Index

Sep-96 to Sep-10



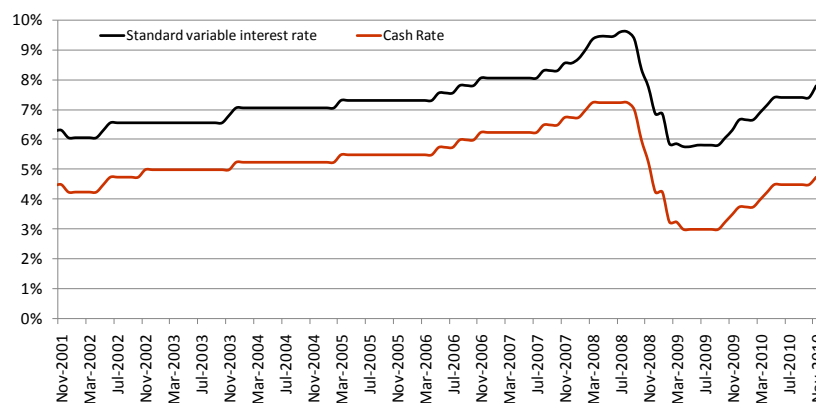
Source: rpdata.com, ABS

Interest rates increase in November and banks grab a little extra

- Average standard variable mortgage rates are currently recorded at 7.79 percent and the official cash rate is at 4.75 percent.
- Following their November Board meeting the RBA Board lifted official interest rates by 25 basis points. Whilst official rates increased by 25 basis points, the big four banks have increased standard variable interest rates by an average of 39 basis points.
- Historically, the gap between the cash rate and variable mortgage rate had sat at 1.8 percent. Recently the banks have increased the differential to 3.04 percent due to increases in the costs of wholesale funding.
- Australia was the first major economy to start lifting official interest rates with a previously unprecedented three successive 25 basis point increases in October, November and December 2009. We once again saw three successive rate rises between March and May 2010 prior to the recent November increase
- Over the last ten years standard variable interest rates have been recorded an average of 7.22 percent which suggests that rates are now at above average levels.

Standard variable mortgage rates vs. cash rate

Nov-01 to Nov-10



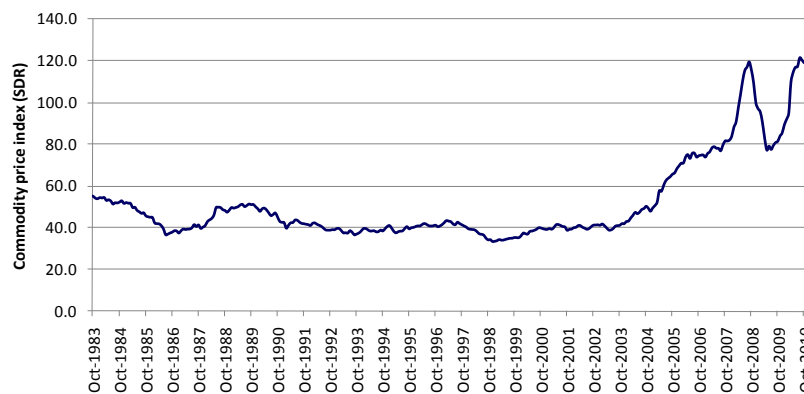
Source: rpdata.com, RBA

Commodity prices back at their peak

- Commodity prices incorporating: rural, non-rural and base metals all recorded a big slump during the GFC.
- Since commodity prices reached their recent low in early to mid 2009, prices have rebounded strongly.
- Commodity prices have now rebounded to their historic high whilst rural commodities are -3.6 percent below their peak, non-rural commodities are -1.8 percent off their peak and base metals are -31.7 percent off their all-time high.
- Commodity prices have now been trending consistently higher since August 2009.
- Much of the increase in commodity prices recently is due to increases in the prices of iron ore, coking coal and thermal coal export prices.
- Looking at base metals specifically, they recorded the greatest value decline of -65 percent of any commodity index.
- It will be interesting to watch during the coming months to see if commodity prices are impacted as the Government appears to have still not resolved the Resources Super Profits Tax as well as the murmurings of a slowdown in the Chinese Economy which may result in a slackening of demand
- There is a broad based expectation that resource based investment will escalate during 2011 which may result in further increases to commodity prices.

Commodity price index

Oct-83 to Oct-10



Source: rpdata.com, RBA

Economic Overview

Parity with the \$US has been achieved

- Although the month end results don't show it, the Australian dollar has recently reached parity with the \$US.
- At the end of October 2010, \$1A would buy you almost \$0.98US.
- It hasn't just been an improvement in the \$A against the \$US, \$1A currently buys more than 0.70 Euro and more than 0.61 Pound. In January 2009, the exchange rates were recorded at 0.50 Euro and 0.45 Pound.
- The improvement in exchange rate is great news for those looking to import products from overseas but does not bode so well for exporters. Given that the country has gone into a budget deficit, it will be harder to pay off the deficit due to buying power being eroded for offshore buyers.
- One of the major reasons that the Australian dollar is performing so well is due to the fact that our interest rates are so much higher than most other western nations meaning investments in \$A are resulting in greater interest payments than those of other countries. Also countries such as the US and China are actively trying to devalue their currencies in \$US to improve conditions for exporters.

Unemployment increases but participation at record highs

- Australia's unemployment rate sits at 5.4 percent as at October 2010 and has fallen from a recent peak of 5.8 percent recorded in October last year.
- Despite the fact that unemployment is below the peak the has increased from 5.1 percent in September 2010.
- Total employment has increased by 3.4 percent over the 12 months to October 2010 with 11.36 million persons employed. This increase in employment has resulted in a fall in the number of persons unemployed which is down by -3.4 percent.
- Over the past year full-time employment growth (3.5 percent) has eclipsed that of part-time employment (3.2 percent) which shows that Australian business conditions have improves and employers are once again hiring full time staff.
- There is currently an estimated 7.97 million full time employees nationally and 3.39 million part-time employees.
- Australia recorded its greatest ever employment participation rate during October, with employment participation increasing to 65.9 percent.
- The October rise in unemployment can be attributed to the rise in the participation rate rather than a rise in unemployment numbers.

Unemployment below 6 percent in every state

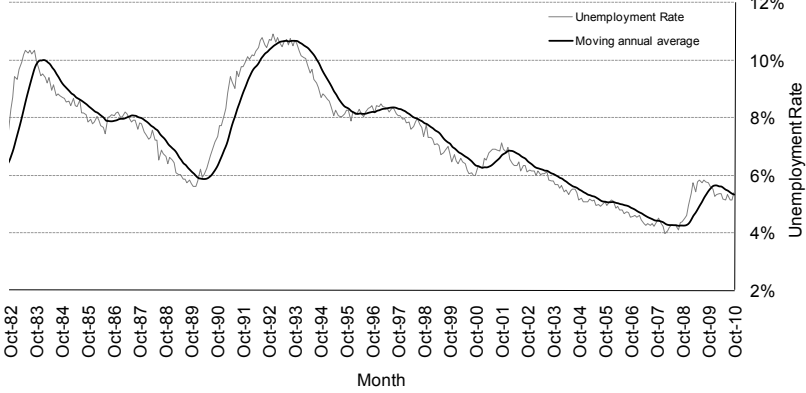
- Each state and territory currently has an unemployment rate which sits below 6 percent.
- South Australia had the nation's highest unemployment rate during October at 5.7 percent, only slightly higher than the 5.4 percent unemployment rate nationally.
- The Australian Capital Territory and Northern Territory continue to record the nation's lowest unemployment rates at 3.0 percent and 3.1 percent respectively.
- Whilst the Australian Capital Territory and Northern Territory have the lowest unemployment rate they also have the highest employment participation rates at 72.8 percent and 74.1 percent respectively.
- Tasmania (60.8 percent) and South Australia (63.9 percent) have the country's lowest employment participation rates however, this is reflective of the fact that they have they have a heightened average resident age.
- Over the last 12 months each state has seen additional jobs created.
- Job creation has been greatest in New South Wales and Queensland with total employment increasing by 3.6 percent in each state over the past 12 months.

\$A exchange rate to \$US
Oct-81 to Oct-10



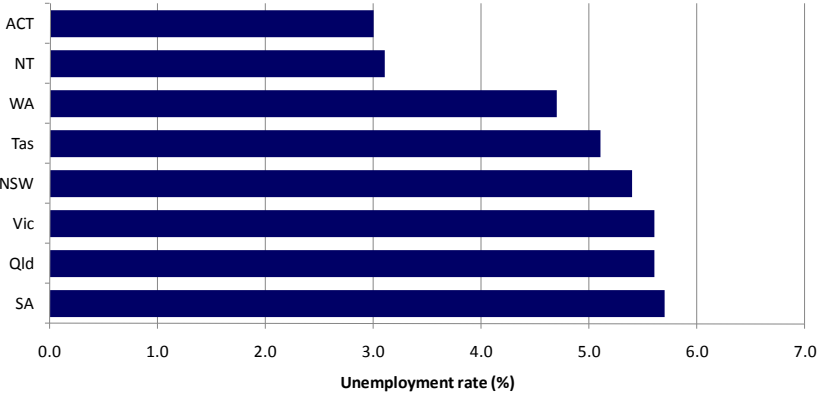
Source; rpdata.com, RBA

Unemployment Rate – Seasonally adjusted
Oct-82 to Oct-10



Source; rpdata.com, ABS

Unemployment Rate by State
October 2010



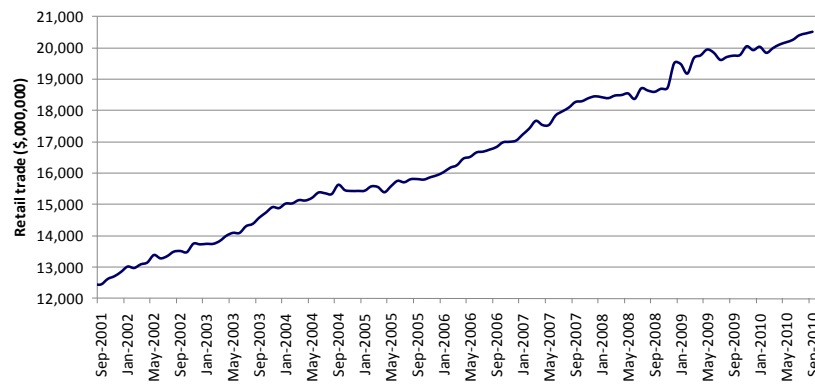
Source; rpdata.com, ABS

Annual growth in retail trade only slightly above inflation

- The rate of growth in retail trade has slowed in recent times and is at a level only slightly above inflation.
- During the month of September, retailers recorded \$20.51 billion in sales, however it was just 0.3 percent higher than the August result.
- Over the 12 months to September 2010, retail trade increased by a total of 3.9 percent.
- At the same time last year retail trade was growing at an annual rate of 6.2 percent highlighting that currently Australia consumers are not spending at the same rate as they were a year ago.
- Looking at individual states, retail trade has recorded annual growth in all states except Tasmania (-2.3 percent), with the biggest increases in Victoria (5.9 percent) and Northern Territory (5.4 percent).
- During the last month retail trade fell in Tasmania (-0.4 percent) and in New South Wales and Australian Capital Territory (both -0.2 percent) with all other states and territories either flat or recording an improvement.

Monthly retail trade

Sep-01 to Sep-10



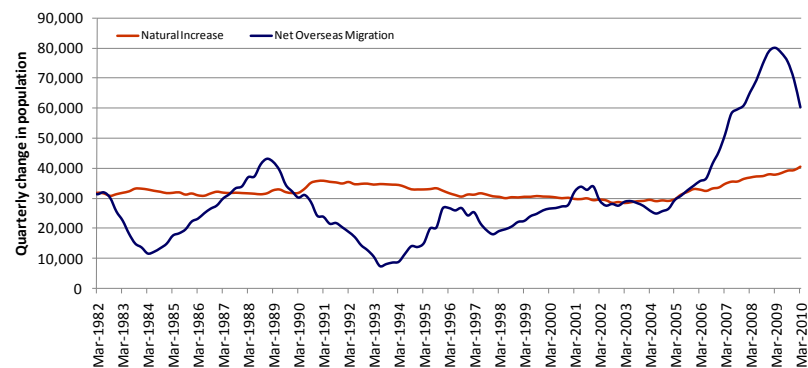
Source; rpdata.com, ABS

Population growth is a proxy for demand for new housing, more Australians means more demand for accommodation

- In raw number terms, Australia's population grew by 403,082 persons during the year to March 2010 and the results indicate that the rate of population growth is now slowing after peaking at 462,000 persons over the year to March 2009.
- The ramping up of population growth has largely been fuelled by the significant increase in net overseas migration to the country. In the five years to March 2010, net overseas migration has jumped by 105 percent.
- Over the last year net migration has contributed an additional 241,000 persons to the Australian population however, the slowdown in population growth is entirely the result of a decline in net migrant numbers.
- The Federal Government has cut net migration to around 160,000 to 170,000 persons annually (which is still well above long-term average levels of 120,000 persons annually) however, with skilled workers in short supply we may see the population debate reignited.
- Despite the cut to migration numbers, the rate of natural increase has been climbing, over the year to March 2010 almost 162,000 more children were born than persons passed away.

Quarterly population growth

Mar-82 to Mar-10



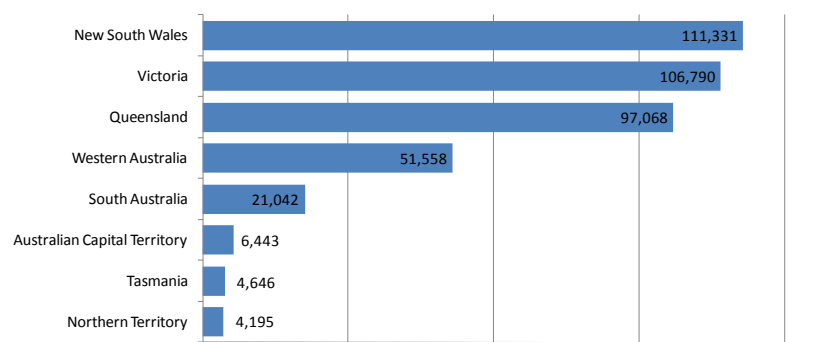
Source; rpdata.com, ABS

New South Wales recording the greatest population increase

- On an annual basis, New South Wales has recorded the greatest increase in population over the 12 months to March 2010.
- In terms of raw number population growth, New South Wales' population increased by 111,331 persons over the year, slightly greater than the 106,790 persons in Victoria and 97,068 persons in Queensland.
- In percentage terms Western Australia still leads the way with the population increasing at a rate of 2.3 percent followed by 2.2 percent growth in Queensland. Nationally, the population has grown at a rate of 1.8 percent over the last year.
- Fundamentally, an increasing population fuels demand for housing. With more children being born and an above average number of migrants moving to Australia, a greater number of dwellings need to be built in order to cater to this demand.
- The vast majority of population growth is occurring in the major population centres such as Sydney, Melbourne and to a lesser degree Brisbane and Perth. This growth results in additional competition for housing and essential services within these regions.

Annual population growth by state

Mar-10



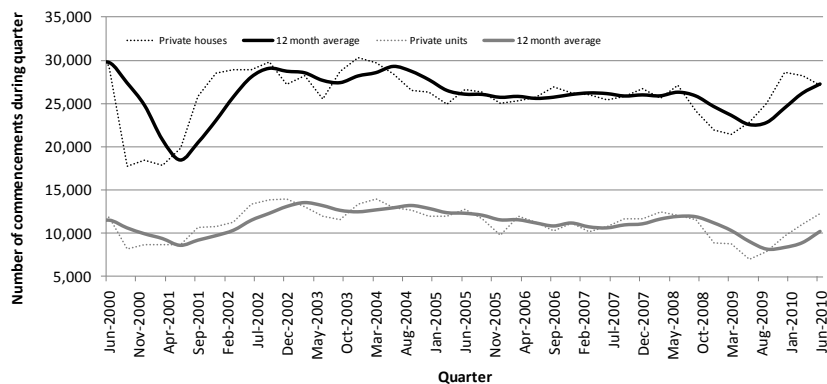
Source; rpdata.com, ABS

New housing supply shows a short lived improvement

- Although Australia's population has been growing strongly and has recently been at record levels, dwelling commencements have not been sufficient to cater to increasing demand through an increase in population.
- Dwelling commencements have still not returned to those levels recorded between 2002 and 2003.
- The data shows that the number of commencements has increased by 43.8 percent over the year and 0.8 percent during the last quarter.
- Despite the strong recent figures, building approval volumes have been trending lower since March 2010 suggesting that dwelling commencements will also likely start to ease shortly.
- During the September quarter there was 27,154 commencements of private houses and 12,303 commencements of private units.
- Compared to 12 months previous, house commencements had increased by 18.8 percent for the quarter and unit commencements were up 74.7 percent.

Dwelling commencements houses vs. units

Jun-01 to Jun-10

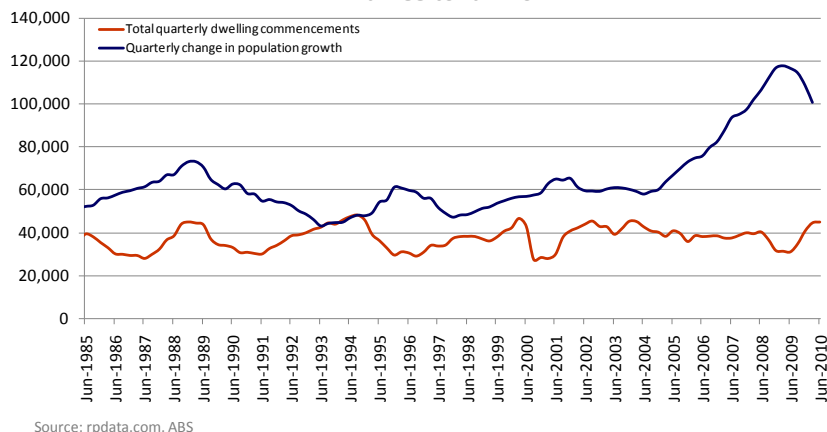


The imbalance between housing demand and supply persists

- The demand / supply imbalance is highlighted by many reports from a number of Government departments and private institutions. With fewer dwellings being constructed, the supply shortage will continue to be exacerbated. It is likely the shortage of housing will worsen as the population grows further and required dwelling approval and commencement targets continue to go unfulfilled.
- Demand for housing isn't likely to ease any time soon. The Housing Supply Council forecasts that the shortfall of dwellings currently sits at around 178,000 homes and this shortfall is anticipated to increase to 308,000 by 2014.
- Despite the fact that both sides of politics have announced that they will decrease migration, the proposed levels remain well above long term averages.
- The adjacent graph highlights that although population growth has taken off in recent years the number of new dwelling commencements has well and truly been unable to keep pace.

Dwelling commencements vs. population growth

Jun-85 to Jun-10

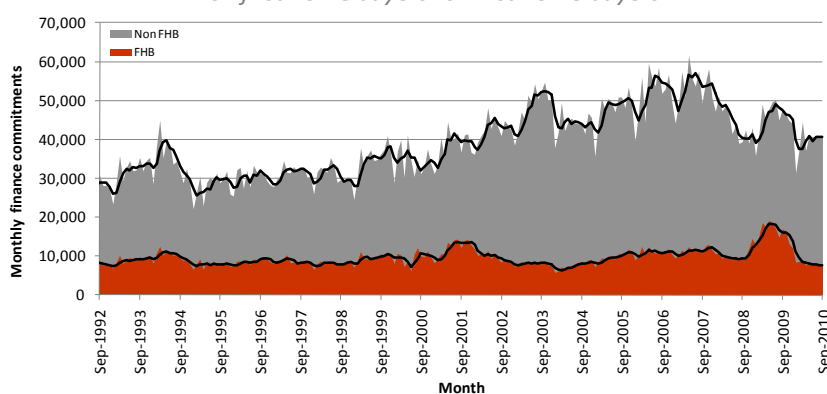


Demand for housing finance remains quite soft

- Finance commitments for owner occupiers had been trending upwards for most of 2009 and has since slumped significantly.
- First home buyer volumes are now lower than they were at any time during the Global Financial Crisis accounting for just 15.9 percent of all owner occupier purchasers however, volumes have improved during September 2010.
- Non first home buyer volumes have shown signs of a recovery a few times recently but none of these 'recoveries' have persisted long-term.
- It appears that the 150 basis points worth of interest rate increases to September 2010 has had the desired effect and has resulted in a fall in home loan activity. The November rate hike will likely slow activity further.
- During September 2010, the volume of finance commitments for first home buyers increased by 3.3 percent and for non first home buyers volumes increased by 0.4 percent,
- Over the year to September 2010 first home buyer finance commitments have fallen by -54.2 percent and non first home buyer owner occupier commitments have fallen by -14.6 percent.

Number of owner occupier finance commitments

Non first home buyers vs. First home buyers

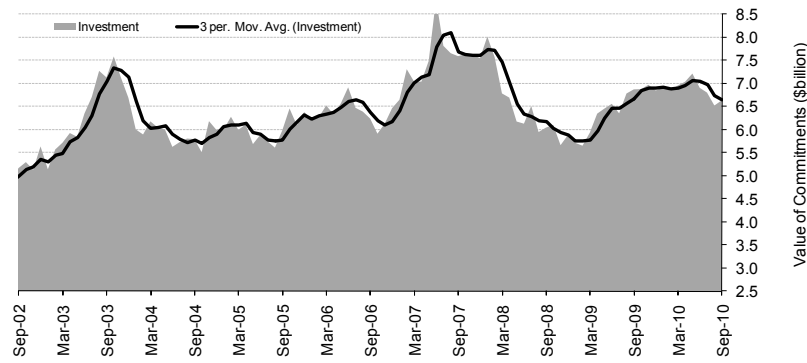


Investor activity easing as value growth slows

- Investor housing finance commitments have shown a much higher level of resilience to rising interest rates however, they have trended lower during recent months as property value growth has stalled.
- During September 2010 the total value of investor finance housing commitments was recorded at \$6.6 billion, which was down from \$7.3 billion peak during May 2010.
- The \$6.6 billion of investor finance equates to 32.5 percent of the value of all finance commitments during the month, a year ago investors comprised just 28.4 percent of all housing finance.
- These results highlight that the increase in investor finance volumes during early 2010 was likely due to investors chasing capital growth rather than positioning themselves for potential rental improvement.
- With property value growth having flat-lined it is anticipated that investor activity will probably also plateau with investors seeking rental returns and negative gearing opportunities likely to be more attracted to entering the market, as opposed to those looking for short-term capital growth.

Total value of investment finance commitments

Sep-02 to Sep-10



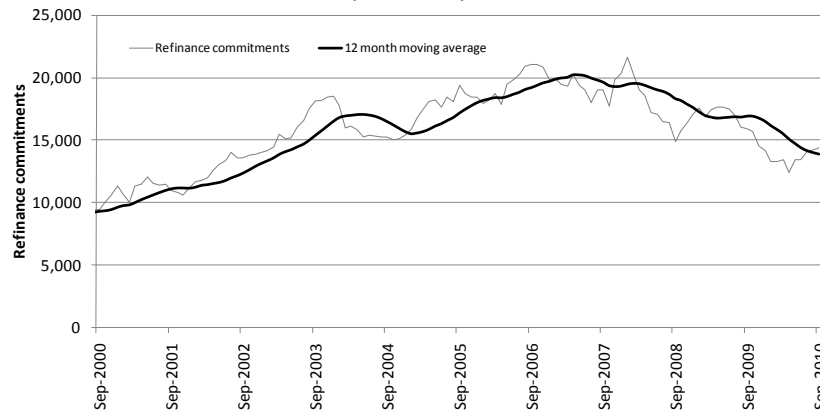
Source; rpdata.com, ABS

Refinance commitments also trending lower

- Since the middle of 2007 the number of refinancing commitments has been falling and since the onset of the GFC, the rate of decline in refinance volumes has accelerated.
- The results likely suggest that home owners are either more reluctant to use the equity in their home to re-invest, home owners have less equity to re-invest or the banks have tightened provisions around equity requirements and its ability to be used to re-invest.
- During September 2010, the number of refinance commitments increased by 1.4 percent and it was the third successive month in which refinance commitments increased.
- On an annual basis, refinances have fallen by -9.3 percent to September 2010.
- With the rate of property value growth now slowing and the generally cautious nature of consumers following the GFC we don't anticipate any significant increase in the number of refinances over the remainder of 2010. The potential removal of bank exit fees may result in an increase in refinances.

Refinance commitments – established dwellings

Sep-00 to Sep-10



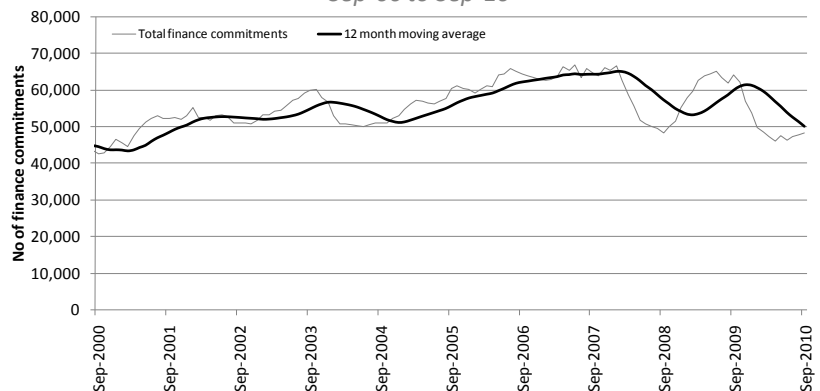
Source; rpdata.com, ABS

Owner occupier housing finance commitments also trending down

- Total owner occupier housing finance commitments increased by 1.3 percent during September 2010 however, on an annual basis total finance commitments are -24.3 percent lower.
- In September, housing finance commitments for the construction of new dwellings increased by 0.5 percent, purchase of new dwellings fell -3.2 percent, and purchase of established dwellings was up by 1.6 percent.
- In comparison to 12 months previous, the number of loans for the construction of new housing has fallen by -33.5 percent, purchase of new dwellings is down -19.6 percent and finance for the purchase of established dwellings is -23.6 percent lower.
- A sustained recovery in finance commitments for the construction of new dwellings and the purchase of new dwellings is vital as new construction adds to the national dwelling supply.
- These results indicate that any long-term recovery in dwelling commencements is fragile however, the recent improvement is a positive result
- A higher interest rate environment is likely to hinder demand for finance commitments for new construction and likely to result in a housing shortfall persisting and potentially worsening.

Total owner occupier housing finance commitments

Sep-00 to Sep-10



Source; rpdata.com, ABS

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