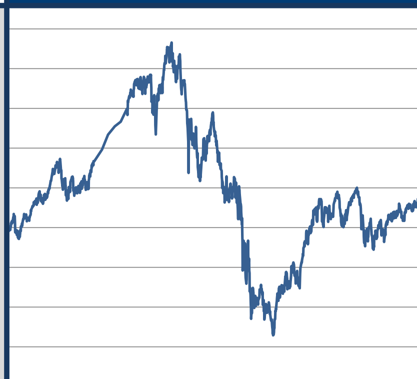
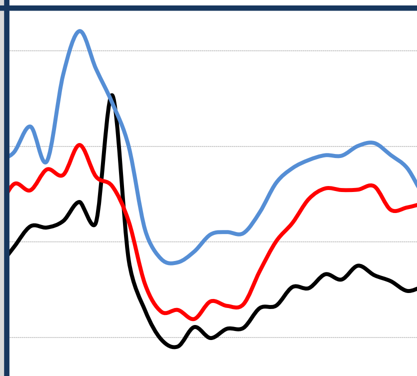
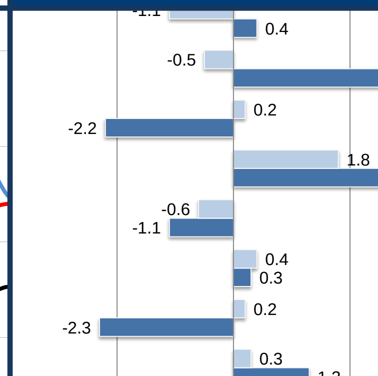
PRD nationwide

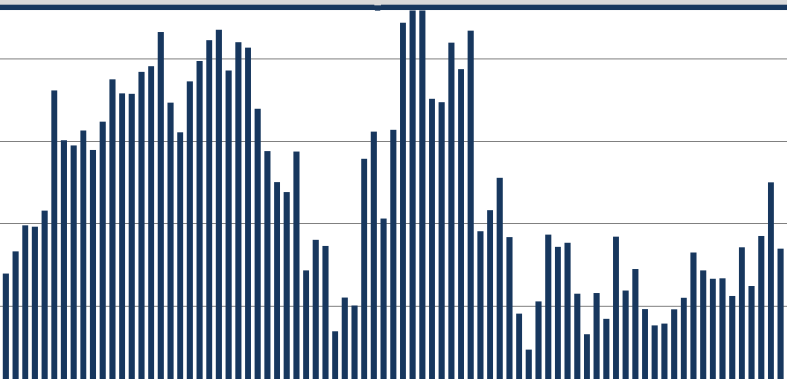


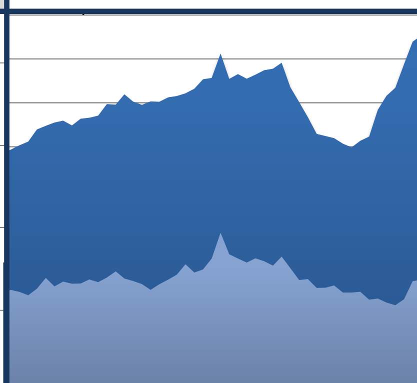
QUARTERLY ECONOMIC AND PROPERTY REPORT

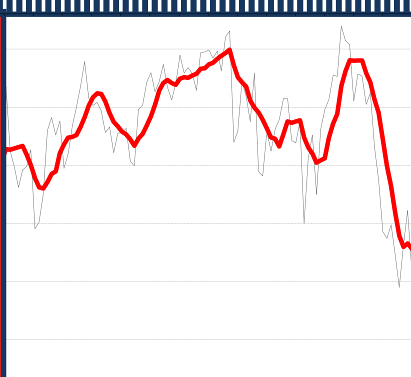
QUARTER 1 | 2013











RESEARCH

YOUR HOME OF PROPERTY KNOWLEDGE

Economic and Property Overview

Australia experienced another period of consolidation over the year just passed. Sales activity in the property market continued its very slow recovery, with many parts of Victoria and Tasmania experiencing further declines in transactions. According to the State of the States report released by CommSec in January 2013, only Western Australia and the Northern Territory were the outstanding economies for the final quarter of 2012. The report analysed eight key indicators: economic growth; retail spending; equipment investment; unemployment, construction work done; population growth; housing finance and dwelling commencements. Western Australia was the highest placed state on four of the eight criteria: retail trade, equipment investment, construction work done and population growth. Western Australia is still second on two of the eight indicators, third on another and fifth on dwelling starts. The Northern Territory is ahead of the ACT, and then there is a gap to Queensland, Victoria and New South Wales with little to separate them. Then there is a sizeable break to South Australia followed by Tasmania. Looking ahead, CommSec expects little change in the rankings but the Northern Territory has the greatest scope for further improvement. Some rebuilding work will provide a boost to the Tasmanian economy.

2013 has started poorly in many aspects of the Australian economy be tough for the economy. The negativity was dominated by three main themes. The mining boom had run out of puff, the Australian Dollar was suffocating the non-mining sector, and the repeated round of rate cuts had failed to fire up consumer sentiment. In addition, the global economy was slowing with the US stuck in neutral, Europe continuing to battle its debt crisis, and Japan displaying further weakness.

However, an 85 per cent rebound in iron prices from their September lows has improved the domestic situation remarkably. Until recently, the soaring price was declared a short-term inventory restocking exercise.

But the sudden surge in China's exports and imports hinted at something far more substantial. There has been tentative evidence of a Chinese recovery for several months now, and with the new leadership likely to be installed in the near future, a new round of optimism is firing up the engine room in our biggest trading partner. The mining boom, delivered to the mortuary just a few months ago, has been resurrected.

The American housing market has improved, despite historically low activity and home values. Unemployment has been inching lower, while growth in construction activity has increased rapidly. Macquarie Private Wealth analysts noted that 2012 would be the year that marked the turnaround in the American property market, with 2013 likely to see a resurgence on Wall Street that already has threatened to head to a new peak.

Meanwhile, the European economy still remains very turbulent. Currently Europe as a whole is officially in recession. European GDP shrank by 0.1 per cent in the third quarter after a drop of 0.2 per cent in the second quarter. The data also suggests that German growth is slowing. The European Central Bank (ECB) halved its 2013 growth forecast for Germany and now expects GDP to grow 0.8 per cent next year, down from the previous forecast of 1.7 per cent. This is aligned with the German government's own forecast for 2013 of around 1.0 per cent. To date, Germany has been insulated from the difficulties in the Eurozone, due to its strong trading ties with non-Eurozone countries and the low Euro. However, with the global economy slowing, German exports are now affected.

Combined with a the resurgence in China and a slowly stabilising US, if Australian unemployment can remain in check for 2013 and interest rates remain low, then rebuilding on Australia's fragile confidence can continue. The second half of 2013 could be much brighter than how the new year has commenced.

Key Facts:

CPI: 2.0%

SVHL Rate: 6.45%

AUS Unemployment Rate: 5.2%

Average AUS Fuel Price: $1.45pl

Confidence

Sentiment better at then end of 2012 than 2011

- The final two months of 2012 registered an improvement in optimism in the Australian Consumer Sentiment Index, with December registering an Index score in equilibrium, at 100 points. This is 5.3 points higher than the previous year, and 1.8 points better than the September 2012 quarter.

- The long-term six month moving average Index has inched towards the equilibrium mark of 100 points. Over the December 2012 quarter the long-term Index registered 99.6 points, up from 95.8 points in the previous year.

- However, for the month of December consumer confidence softened by 4.1 per cent, despite the Reserve Bank of Australia (RBA) cutting interest rates. Lower interest rates alone were not enough to generate stronger levels of confidence as weaker economic conditions appears to have weighed on consumers minds.

- Out of the five states measured for the Index during 2012, sentiment increased the most in South Australia (up a considerable 16.8 per cent), followed by Victoria (up 16.1 per cent) and New South Wales (up 4.9 per cent). Queensland experienced the greatest decline in sentiment, by 7.2 per cent, followed by Western Australia, down by 5.8 per cent. Despite the decrease, optimism is now highest in Western Australia, with an Index score of 108.8 points, followed by Victoria at 100.1 points. Queensland has the lowest Index score at 94.1 points, followed by New South Wales, at 99.7 points.

- Looking ahead, the NAB predicts 2013 economic activity will be weaker than 2012, with a higher level of unemployment. Confidence is expected to decline past the increased gained over the end of 2012. Spending growth is anticipated to remain subdued in early 2013.

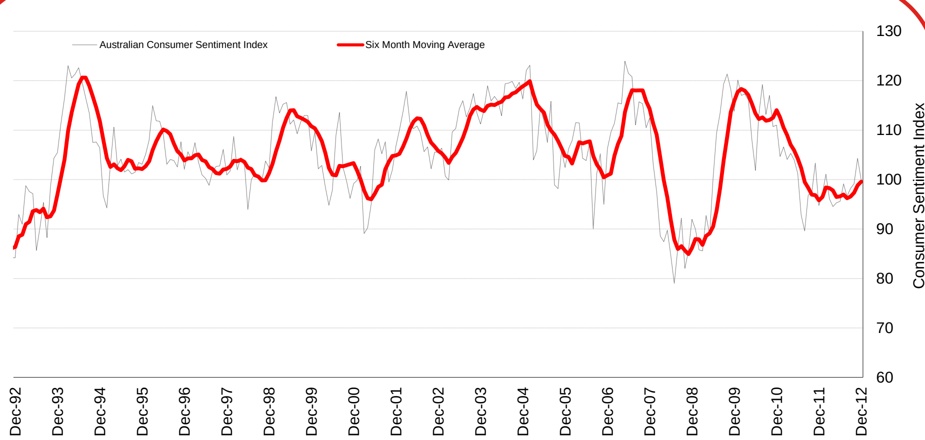
Australian Consumer Sentiment Graph (right):

- *The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter.*

- *The Index is based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac.*

- *It represents current and future perspectives of the broad economic climate and household financial state.*

Australian Consumer Sentiment



Prepared by PRDnationwide Research
Source: Westpac/Melbourne Institute, last updated Jan-2012

Confidence cont.

Strong pessimism thwarts recovery

- Australian business confidence has decreased over November 2012 to record an Index score of -9 points, from -1 in October. Australia Business Confidence averaged 6.0 Index points, reaching an all time high of 21.1 points in May of 2002 and a record low of -31.6 points in January of 2009. Despite the recent decrease in interest rates over October, pessimism in business has increased. November's low level of confidence has not been observed since the global financial crisis, as a cooling mining boom and strong local currency hit the resource rich economy.

- Confidence did not rise in any sector and fell especially hard in manufacturing. Firms may be concerned about a soft global economy, fiscal tightening, a soft labour market and high Australian Dollar. Manufacturing reported the most significant decline, while confidence was also shaken considerably in transport & utilities and recreation & personal services. At a state level, confidence deteriorated across all states, with particularly heavy falls reported in Western Australia and South Australia. Western Australia is now the most pessimistic state, while sentiment in South Australia, Victoria and New South Wales is not much better.

- Business conditions were unchanged at -5 points, a very low level in November, after falling to the weakest level since May 2009 in the previous month.

- Business confidence appears to have further weakened in December, with softer labour market conditions and weak business conditions could push for another rate cut in February. Latest economic data released in December has shown weaker GDP, flat homes values and retail activity, as well as declining building approvals and job ads.

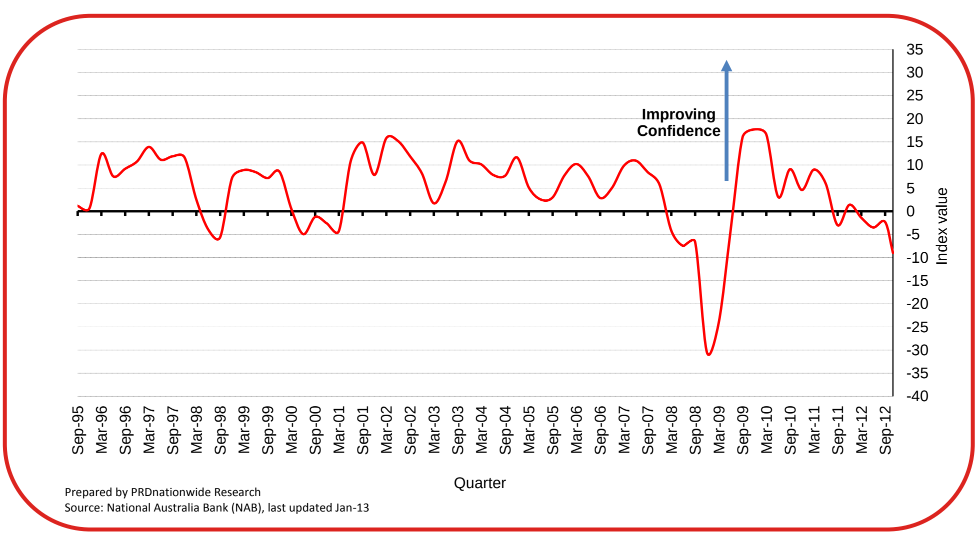
- There has been a poor transmission of recent Reserve Bank cuts to increased spending. This is a result of consumers, corporations and, government have been for the past three focused on cutting costs and reducing debt. When performed by large amounts this can have a debilitating effect on an economy, which is what has happened since 2008. Longer term however, lower debt levels will be a positive for the domestic economy. The combination of healthier balance sheets and a low interest rate environment can be a potent force, and when equilibrium has reached a turnaround in consumer spending, corporate activity and a subsequent rebound in earnings will be sure to follow.

Business Confidence Graph (right):

- *The Business Confidence Index indicates expectations of business conditions for the upcoming quarter.*

- *The Index is based on a survey of approximately 900 small to large businesses in the non-farm sectors and is conducted by the National Australia Bank (NAB).*

Business Confidence



Macroeconomic Climate

Inflation in target range

- The September 2012 CPI figures recorded an annual change of 2.0 per cent, equating to an increase from the June 2012 quarter, and is just on the bottom tier of the RBA target range (between two to three per cent).

- The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel, has increased to 2.4 per cent, up from 1.9 per cent.

- Weaker labour market conditions in December 2012 (which allowed for the end of year rate cut) has eased the RBA's fears over the resurgence of inflation in September.

- Another indicator that inflation is well contained is the evidence that commodity prices remain fairly steady. Since the December interest rate cut from the RBA, global economic conditions have improved. Financial markets are also stronger and some Australian specific commodity prices are sharply higher. On the domestic data front, some of the labour market indicators are weaker, but housing is improving. Consumer demand remains firm, but business investment looks strong.

- The US CPI was unchanged in December to be 1.7 per cent higher than a year ago, while the core inflation rate, which excludes food and energy prices, rose 0.1 per cent in the month to be 1.9 per cent higher than a year earlier. The annual rise in the core CPI in the US has been below 2.0 per cent since 2008 and has not been above 2.5 per cent since the 1990s. The US inflation data released over the past year shows just how effective the Federal Bank's policies have been. The US economy did not fall into a deflationary funk and the economy is improving, with the unemployment rate declining by more than 2.0 per cent from the peak.

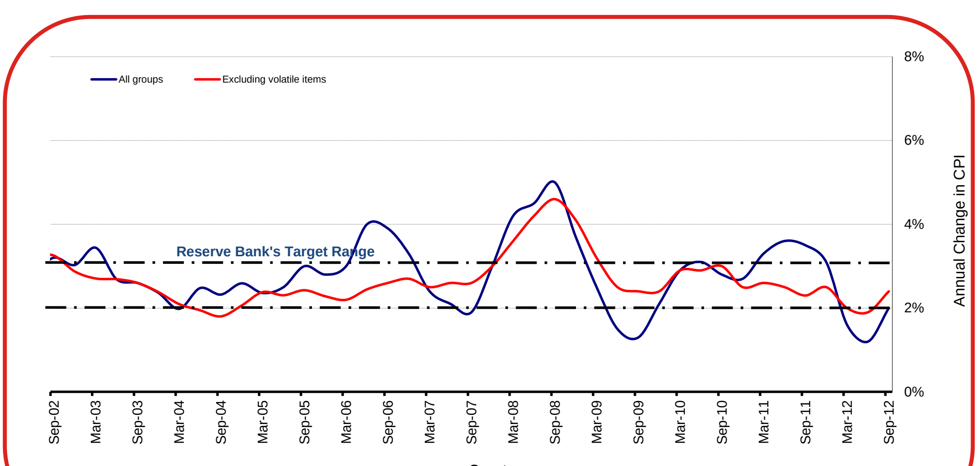
- In the Eurozone, the annual CPI rose 2.2 per cent while the core rate rose by just 1.5 per cent. The core CPI in the Eurozone has been below 2 .0 per cent for a decade. It looks like fourth quarter GDP will be negative and the unemployment rate rose to a record high in December. That said, the core inflation rate, is below that of the US, a point which helps to explain the strength in the Euro against the US Dollar.

Inflation Graph (right):

- *Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households.*

- *The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3% through the setting of interest rates.*

Inflation



Prepared by PRDnationwide Research
Source: ABS Cat 6401, last updated Jan - 2013

Macroeconomic Climate cont.

Rate cuts in store for 2013

- The Reserve Bank of Australia (RBA) has once again cut the official cash rate in the final month of 2012, with a drop of 0.25 per cent. This equates to an official lending rate of 3.00 per cent and is on par with the 'emergency rates' experienced during the Global Financial Crisis. The cash rate is now well below the 10 year average of 5.04 per cent. Over 2012 the RBA has cut the cash rate by 1.25 per cent.
- The standard variable housing loan interest rate has declined in the fourth quarter of 2012 to 6.45 per cent. The rate is now 0.91 per cent below the 10 year average of 7.36 per cent.
- The NAB predicts another rate cut by the RBA during the first quarter of 2013, with further cuts in May and August due to the weakness in confidence and sentiment. The weaker activity outlook will also help contain inflation to below 3 per cent, even including the carbon tax impact. Nor is the AUD offering much relief to a struggling economy.
- Fundamentally, the key reasons for the rate cut in December were:

I. Sentiment continues to be adversely affected by the uncertainty surrounding the situation in Europe and the US fiscal policy. Recent data suggest that the US economy is recording moderate growth and that growth in China has stabilised. Around Asia generally, growth has been dampened by the more moderate Chinese expansion and the weakness in Europe.

II. Key commodity prices for Australia remain significantly lower than earlier in the year, though trends have been more mixed over the past few months. The terms of trade have declined by about 15 per cent since the peak, to a level that is still historically high.

III. Inflation remains within the medium-term target, with underlying measures at around 2.5 per cent. Looking further ahead, with the labour market softening somewhat and unemployment edging higher, conditions are working to contain pressure on labour costs.

Housing Loan Interest Rate Graph (right):

- *The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.*
- *Interest rates are set by the RBA, who acts independently of government and sets interest rates with the goal of maintaining inflation in a long-run target range of 2% and 3%. The RBA meets monthly to review the current interest rate and is only required to justify its decision if it chooses to alter the rate.*

Housing Loan Interest Rate

Foreign Exchange

Dollar set to remain high

- During the month of December 2012, the Australian Dollar Exchange Index decreased slightly by 0.1 per cent to register an Index value of 77.9, while increasing 1.7 per cent over a 12 month period. On the whole, the Australian Dollar (AUD) has remained above parity to the US Dollar since January 2011. This is the longest period the AUD has been so high, and continues to hinder Australian exports. However, over December 2012 the AUD decreased 0.5 per cent against the US Dollar to reach 1.04.

- Over the year ending 2012, the Australian Dollar has appreciated the most against the Japanese Yen (up 13.6 per cent), while depreciating the most against the South Korean Won (down 5.4 per cent). Over 2012 the AUD has typically remained above 0.8 against the Euro, and equates to a 0.3 per cent change over 12 months. 2012 was the highest level the AUD has registered against the troubled European currency.

- The AUD could rise further over 2013, if the US Dollar is further eroded by less gloomy news out of the Eurozone, more political disputes from the US Congress over the debt ceiling and further fiscal policy reforms. It appears Australia has held its lure of what was still a wide interest rate differential (compared internationally) and the attraction of the triple-A credit rating from all three major rating agencies have been enough to encourage Australian Dollar buyers. It is worth recalling that there were four cash rate cuts totaling 125 basis points during 2012, with the majority of these rate reductions were not anticipated by financial markets. The RBA's index of commodity prices fell 8.5 per cent in US Dollar terms during 2012, which would normally be enough to knock a good five to ten per cent off the level of the Australian Dollar. However, it has instead risen two per cent through the course of the year.

	Dec-11	Dec-12	% Change
EU Euro	0.78	0.79	0.3%
JP Yen	78.73	89.46	13.6%
NZ Dollar	1.31	1.26	-4.1%
UK Pound	0.66	0.64	-2.4%
US Dollar	1.02	1.04	2.2%

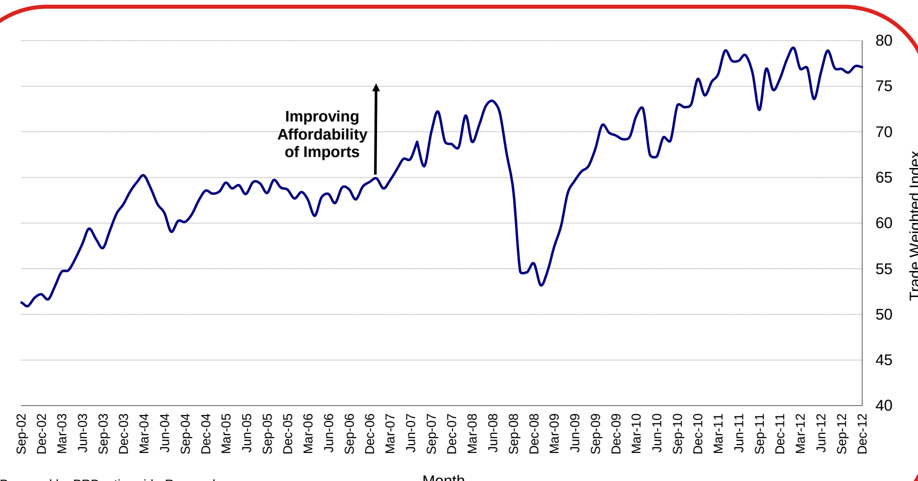
Source: RBA Bulletin F11

Trade Weighted Exchange Rate Index (right):

- *The trade weighted exchange rate index is compiled monthly by the Reserve Bank and ranks the Australian dollar against the currencies of our significant trading partners.*

- *Exchange rates directly affect the prices of our exports in foreign trade dollars.*

Trade Weighted Exchange Rate Index



Prepared by PRDnationwide Research
Source: RBA Bulletin F11, last updated Jan-13

Fuel Prices

Cheapest fuel in Melbourne

- A consultation Regulation Impact Statement (RIS): *Consumers and Fuel Price Boards* has been released recently. The peak national motoring body, the Australian Automobile Association (AAA), is encouraged by a consultation paper on fuel price advertising and admits that action is needed to end confusion at service stations. The AAA views this as an agreement to begin development of a national standard for fuel price boards, and a major step forward to empower motorists.

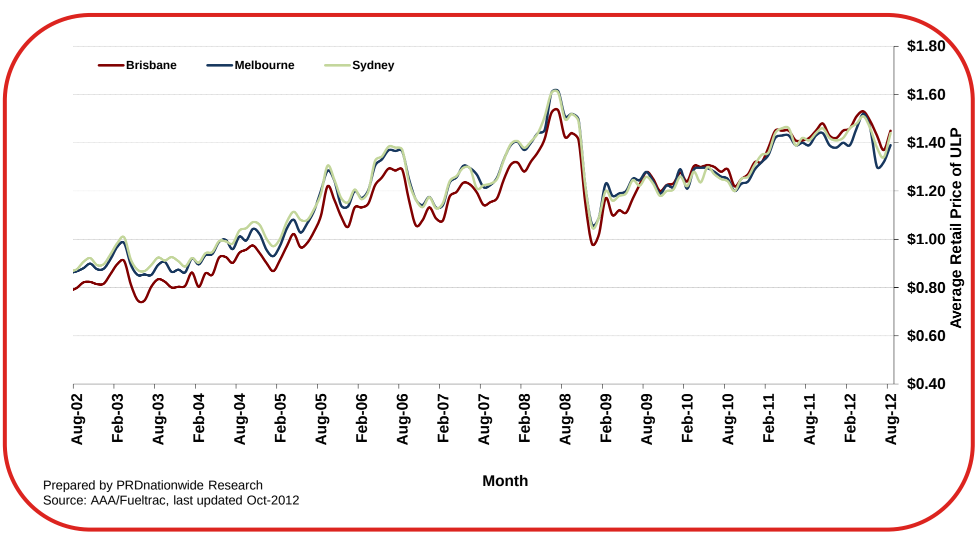
- In dollar value terms, the nation experienced an increase of 4.3 per cent to the average petrol price during the month ending August 2012. The average price Australians pay at the pump is now $1.45 per litre. During the year petrol prices increased at an average rate of 1.8 per cent across the nation.

- Melbourne continues to be the capital city where motorists pay the least at $1.39 per litre. The City has experienced a 4.8 per cent decrease over a three month period ending August 2012, second only to Canberra, in which prices fell 8.4 per cent to $1.41 per litre. In Darwin consumers continue to pay the most at $1.57 per litre, followed by Hobart at $1.49.

- Over the three month period ending August 2012, all capital cities experienced a fall in petrol prices with Darwin and Sydney increasing the least at 1.3 and 1.4 per cent respectively.

- During the course of the 12 month period, Darwin's petrol prices increased the most at 4.0 per cent, while Canberra was the only capital city to have experienced a decline in petrol prices, by -0.7 per cent.

Retail Fuel Prices



Retail Fuel Prices Graph (right):

- *Sourced from Fueltrac, this chart tracks the average retail price for unleaded petrol across a broad range of suppliers in metro areas.*

Commodities Prices

Strong demand from Chine sparks price surge

- Despite the month of December 2012 recording an increase of 0.9 per cent to reach 89.2 Index points, the Commodity Price Index has decreased from its peak in mid-2011. When compared to the previous year, the Index has fallen by 11.8 per cent. However, commodity prices are still above the longer-term 10 year average of 74.7 index points.

- Looking short term, Australian prospects have improved with the news that industrial activity in China is on the rise. The HSBC Purchasing Managers' Index covering China's manufacturing sector reached its highest level since May 2011, suggesting 2013 may see an improvement in the rate of economic growth in China. That good news has translated into stronger iron ore prices of late. The iron ore price is now at US$145 per tonne, a considerable margin from the low of US$87 per tonne seen in September last year. However, a portion of the recent growth in demand from China may be stockpiling, while rising supply will also act as a deterrent on the price going forward.

- China's growth is forecast to accelerate in 2013, helping spur a 78 per cent rebound in the price of iron ore that led Perth based Fortescue Metals Group Ltd. to resume work at a project suspended four months ago. Another key commodity, coking coal, may also rebound from the lowest prices since 2009 as China rebuilds steel supplies.

- There has been a revival in demand in the world's top steel consumer that has fuelled a buying spree for raw material iron-ore and lifted prices to levels last seen in October 2011. Baoshan Iron and Steel, China's biggest listed steelmaker, said it will raise prices for key products for a third straight month in February 2013, reflecting rising raw material costs and a better outlook for steel demand. China's recovering economy is largely behind the optimism. Recent data released showed manufacturing activity in the world's second largest economy was at its strongest since May 2011.

- Tin, a metal with essential uses in electronics, last week hit an 11-month high of $US24,600 a tonne. Aluminum demand is rising. The world's biggest maker of the light metal, Alcoa, is forecasting a seven per cent increase in demand for the light metal in 2013, which will help its Australian associate Alumina. Nickel is similarly forecast to enjoy a seven per cent rise in demand this year. Copper has also been firming to around $US3.70/lb, and lead and zinc, two generally unloved industrial metals, have staged a largely unreported recovery in demand. The lead price has risen over the past six months by 27 per cent to $US1.05/lb. Zinc has been a slower mover, rising a few cents to US92c/lb.

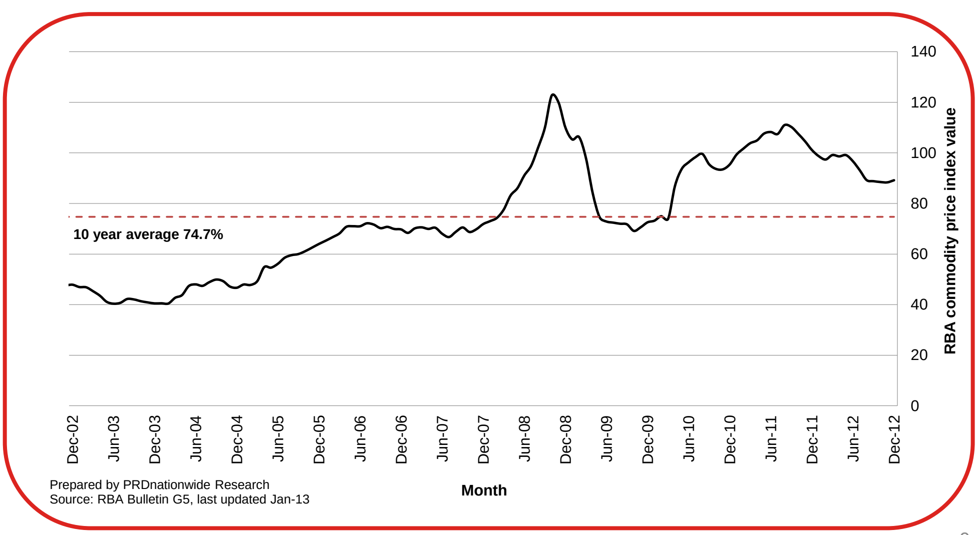
RBA Commodity Price Index Graph (right):

- *Primary commodities account for more than half of Australia's export earning.*

- *The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. The index includes 17 commodities with separate weightings, the highest of which are coal, gold and iron ore.*

- *High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia. Coupled with the resource industry boom, employment and population growth follow, which spurs demand for housing and rental accommodation, particularly in neighbouring resource rich regions.*

RBA Commodity Price Index



Labour Market

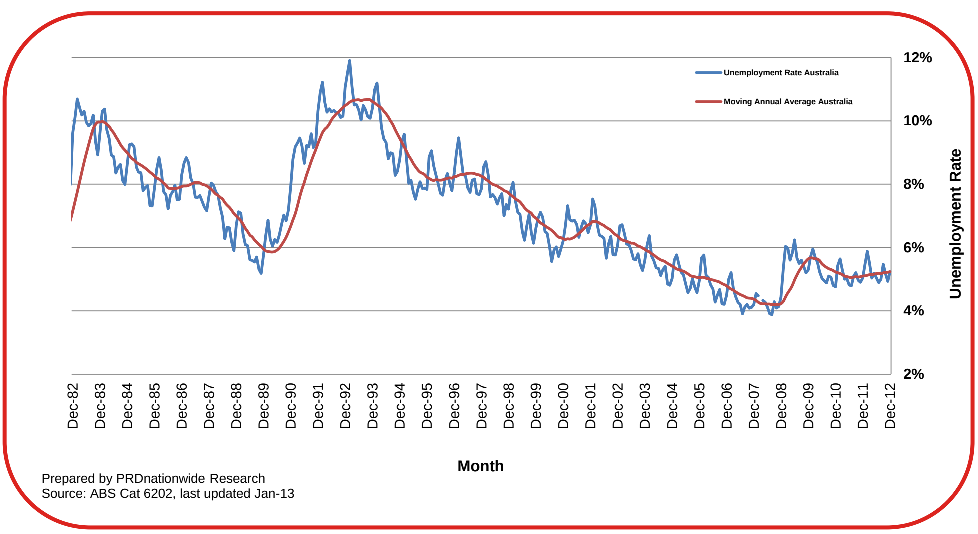
Unemployment rises

- During the month of December 2012 unemployment increased to 5.2 per cent, representing a monthly increase of six per cent. The moving annual average rate has remained steady at 5.2 per cent since May 2012.
- For the month of December 2012, the nation's lowest rate of unemployment occurred in the Northern Territory at 3.8 per cent, but equates to an increase of 43 per cent over the month. Tasmania's high rate of unemployment continues to climb and is now at 7.5 per cent, up from 6.9 per cent over the month.
- Unemployment in Queensland continues to increase, with the month of December increasing by 9.0 per cent to register 6.0 per cent.
- Unemployment in New South Wales increased to 5.0 per cent (up from 4.9 per cent) during the month of December, while Victorian unemployment increased to 5.4 per cent from 5.0 per cent.
- There were also increases in unemployment in South Australia (up to 5.7 per cent), Western Australia (up to 4.0 per cent) and the ACT (up to 4.0 per cent).
- The ANZ job advertisements series for December showed job advertisements declined for the tenth straight month, after the Index fell 2.9 per cent in November. Furthermore, the total number of job ads in November was the lowest since January 2010 and 17 per cent below levels seen in November last year.
- The Roy Morgan measure of unemployment shows a different picture to that of the ABS unemployment rate, with the month of November increasing to 10 per cent. This equates to a record 5.1 per cent divergence from the ABS, which is well above the average 2.3 per cent divergence.
- The ABS has reported that the total job vacancies in November 2012 were 169,900, equating to a decrease of 2.2 per cent from August 2012. The number of job vacancies in the private sector was 157,700 in November 2012, a decrease of 1.5 per cent from August 2012, while the number of job vacancies in the public sector was 12,200 in November 2012, a decrease of 10.7 per cent from August 2012.

Unemployment Rate Graph (right):

- *Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.*
- *The labour force is defined as the number of people aged between 16 and 55 who were either employed or actively looking for work during the survey period.*
- *This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.*

Unemployment Rate



House Finance

Housing finance improves at the end of 2012

- The gross spend on housing finance was $21.5 billion during the month of November 2012. Compared to the previous year, the total spend has increased by 5.5 per cent, equating to $1.2 billion more. The ABS data showed the number of home loans granted in November fell a seasonally adjusted 0.5 per cent to 46,199.

- Compared to the previous year, investor spending grew slightly to $7.5 billion (up $900 million) and is above the ten year long-term average of $6.2 billion. However, for the month of November 2012, investor financial commitments softened by $300 million.

- Owner occupier expenditure increased by $100 million to $13.9 billion from the previous year. The investor financed market now accounts to 35.1 per cent of the property market, equating to an increase of 2.9 per cent in 12 months.

- The purchase of new dwellings increased over November by 2.2 per cent, while the purchase of established dwellings increased by 0.5 per cent.

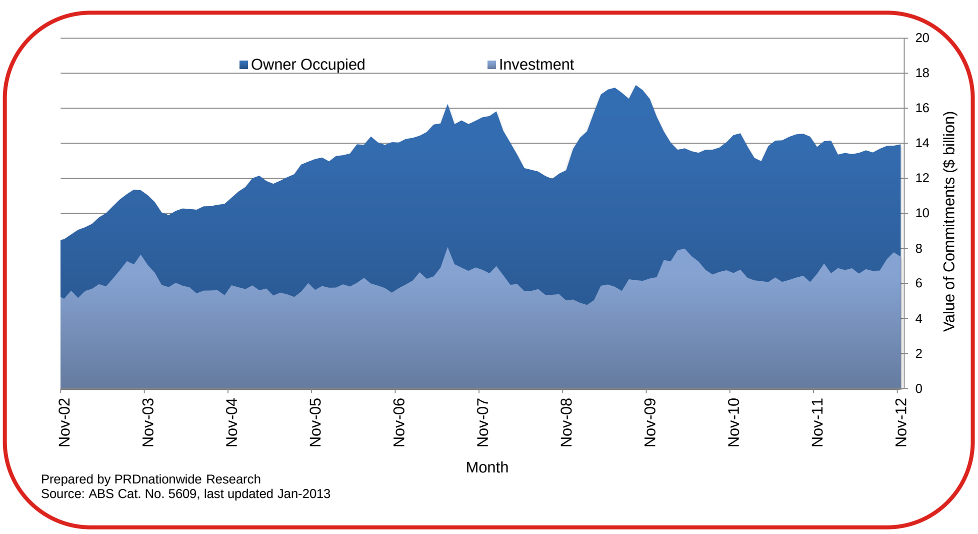
- According to the NAB, the RBA is hoping for a lift in housing activity and residential construction to replace the easing in growth in the mining sector that is expected through 2013 to 2014. But recent housing data suggests further interest rate cuts will be required to boost housing activity. While the RBA may be wary of cutting the cash rate too far (or too fast) in case it creates another period of inflated prices, there is very little risk of a housing 'bubble' in 2013.

Housing Finance Commitments Graph (right):

- *Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.*

- *This graph tracks the value of loans approved for both owner occupiers and investors.*

Housing Finance Commitments



Construction Market

Construction spend improves in New South Wales

- During the September 2012 quarter, the national total value of residential construction work completed increased by 6.9 per cent to reach just over $10 million. While this is the second consecutive quarter where spending has increasing in construction, the September 2012 quarter is still below September 2011 by 1.9 per cent.

- On a state by state basis, new residential construction increased the most over the September quarter in New South Wales (up 15 per cent), followed by Western Australia (up 13.5 per cent) and the Northern Territory (up 9.2 per cent). Construction decreased over the quarter in South Australia (down 7.9 per cent), the ACT (down 6.5 per cent), and Queensland (down 2.2 per cent).

- Over the course of the12 month period ending September 2012 the Northern Territory experienced the largest increase in the total value of residential construction, at 11.6 per cent, while South Australia contracted the greatest at 19.7 per cent.

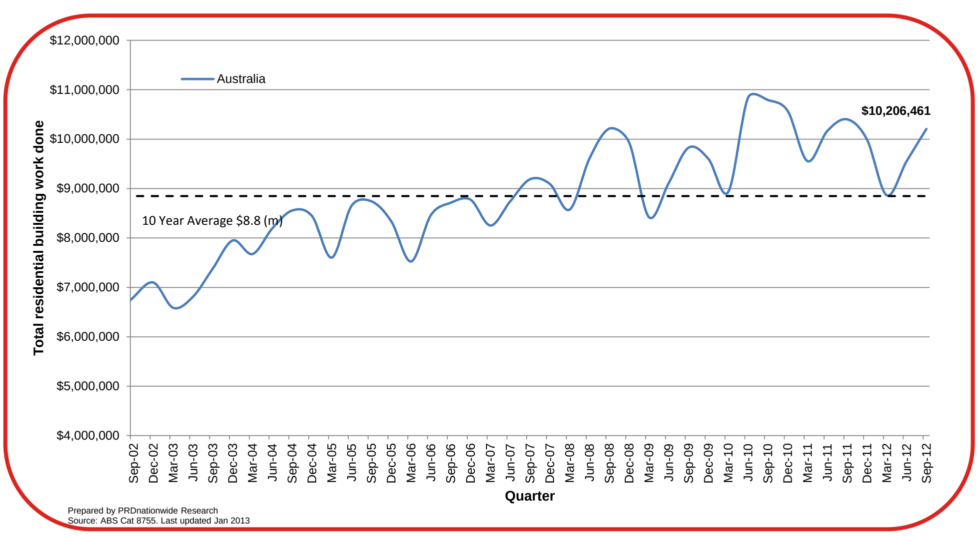
- According to the Performance of Construction Index (PCI) there were encouraging signs in the national construction industry, despite continuing to exhibit substantial weakness in December 2012. The overall rate of contraction eased for a third consecutive month in response to slower declines in activity and new orders. The seasonally adjusted Housing Industry Association Australian PCI increased by 1.8 points in December to 38.8. The Index has now remained below the critical 50 points level (that separates expansion from contraction) for 31 consecutive months.

- Observing individual sectors of industry, commercial construction activity contracted at its slowest pace in just over two years, while the rate of decline in engineering construction again eased during the month. In contrast, house building activity declined at its steepest rate in three months amid weaker new orders. Apartment building activity also moved further into negative territory.

National Residential Construction Graph (right):

- *This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85% of the value of both building and engineering work done during the quarter.*

Total Quarterly Value of National Residential Construction



Stock Market

Australian share market strengthens

- The Australian Securities Index has recently recorded a strong increase since the middle of 2012, and is headed towards the levels experienced directly after the Global Financial Crisis, at around 5,000 Index points. The Index increased its monthly average value during December 2012 to reach 4,586.7 points, up from September's average of 4,341 points, resulting in an increase of 5.7 per cent over the quarter.

- Stocks in Australia had a positive performance during the last month. Historically, from 1992 until 2013, Australia Stock Market (S&P/ASX 200) averaged 3476 Index points reaching an all time high of 6829 Index points in November 2007 and a record low of 1359 Index points in November 1992.

- Looking ahead, the most bullish prediction for the ASX 200 for 2013 came from HSBC's Paul Bloxham, who estimated 5,200 by the year end. Contrary to this, Macquarie Group's Richard Gibbs was the most bearish with a target of 4,600.

- The Australian stockmarket is still 30 per cent below its 2007 peak. It is clear that it now has shifted off its lows and, while this year may not be spectacular, the general sentiment has it that it is likely to be the year when the foundations are laid for a return to steady growth.

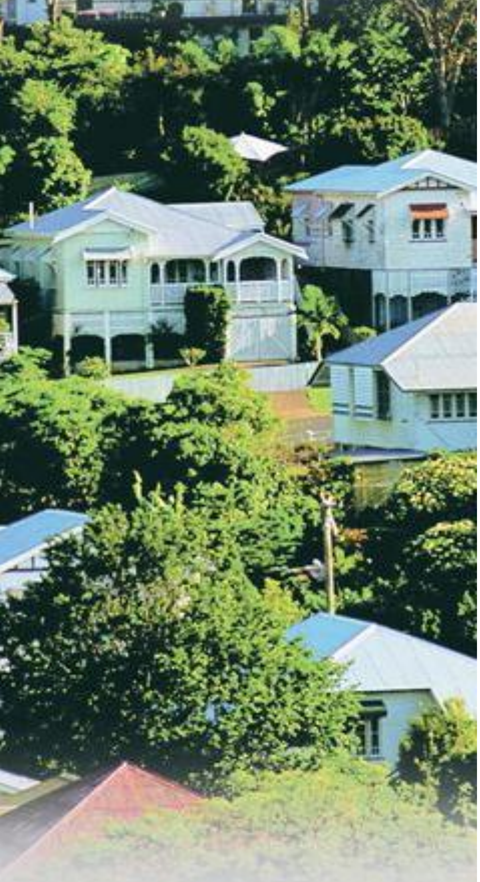
S&P / ASX 200

Prepared by PRDnationwide Research
Source: Standard & Poors, last updated Jan-2013

S&P / ASX 200 Graph (right):

- *The S&P/ASX 200 is recognized as the primary investable benchmark in Australia. The index covers approximately 78% of Australian equity market capitalization. Index constituents are drawn from eligible companies listed on the Australian Stock Exchange. This index is designed to address investment managers' needs to benchmark against a portfolio characterized by sufficient size and liquidity.*

- *The S&P/ASX Australian Index is a real-time, market capitalisation weighted index that include the largest and most liquid stocks in the Australian equity market listed on the Australian Stock Exchange (ASX).*



Dwelling Market

Long term trend evident of declining new dwelling commencements

- The total number of dwelling commencements increased during the September 2012 quarter by 10.6 per cent, equating to 2,280 more new homes commenced for the quarter. However when compared to the previous year, commencements have decreased by 6.2 per cent.

- On a state-by-state basis, Victoria continued to record the highest number of dwelling commencements during the September quarter, representing 32.4 per cent of all dwellings commenced nationally. Queensland followed with 20.3 per cent and New South Wales contributed with 19.2 per cent of commencements.

- The least amount of dwellings commenced for a state during the second quarter of 2012 was the Northern Territory, which recorded an increase of 27.2 per cent over the quarter to 248 dwellings, followed by Tasmania (up 2.7 per cent to 381).

- Residential building approvals in November increased by 2.9 per cent after the recent fall in October. However, Victoria was the only state which recorded an increase in dwelling approvals in November, posting an increase of 8.7 per cent. The improvement was driven by a rebound in approvals for multi-unit dwellings after a relatively soft result a month earlier. Only the ACT and the Northern Territory recorded minor increases, with all other states recorded a decline in building approvals.

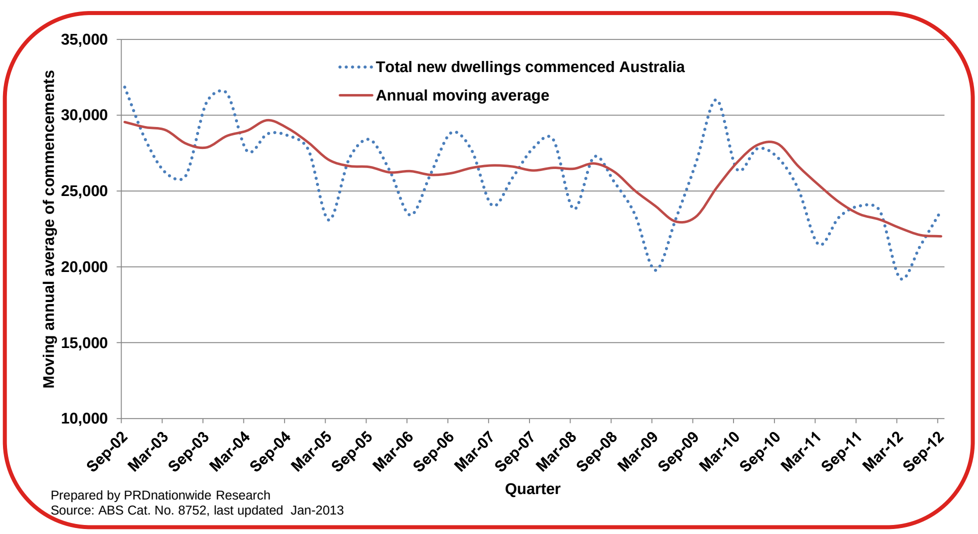
- According to the NAB the value of buildings approved is trending lower for both residential and non-residential components. There is no sign yet of a sustained upturn in construction, as major mining projects move towards the completion phase. Central bankers have been hoping that the rate cuts to date will stimulate construction outside of the resources sector as an offset to the end of the mining boom. Building approvals suggest that so far this has not happened.

Dwelling Commencements Graph (right):

- *Dwelling commencements indicate the number of new dwellings that have commenced their construction phase.*

- *A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.*

Dwelling Commencements



Dwelling Market Cont.

Best time to buy is still in Queensland

- Over the December 2012 quarter, the Time to Buy a Dwelling Index significantly increased in New South Wales (by 13.7 per cent), followed by Victoria (up 12.7 per cent), while only marginally increasing in Queensland (up 1.3 per cent).

- Despite only recording a marginal increase over the December quarter, Queensland registered the highest Index value at 149.8 points, an increase of 0.2 per cent from the previous year. The lowest Index score was registered in Victoria at 126.7 (equating to an increase of 7.7 per cent over 12 months). The Index improved the most in South Australia over 2012, increasing by 26.7 per cent, followed by New South Wales, up 25.2 per cent.

- According to the Westpac-Melbourne Institute Survey of Consumer Sentiment, family financial conditions improved over the 12 month period ending December 2012 in all of the five measured states, with the largest increase felt in South Australia (up 41.2 per cent) followed by Western Australia (up 6.2 per cent) and New South Wales (up 5.2 per cent). Queensland experienced the smallest increase of 0.9 per cent. Western Australia now has the best family financial conditions, at 92 Index points, followed by Queensland at 87.6 points. Victoria has the worst conditions at 79.9 Index points.

- The latest Property Council of Australia-ANZ Property Industry Confidence Survey reveals the improved economic outlook, combined with further RBA rate cuts, are having a positive impact on the property sector outlook. The Property Council of Australia-ANZ Property Industry Confidence Index increased by five index points in the March quarter (107 compared to 102 in the December quarter), following a four Index point decrease in the December quarter.

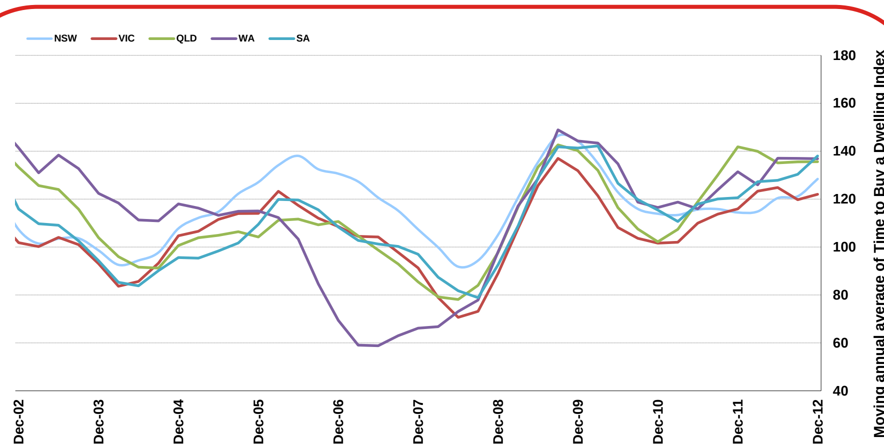
- Property industry confidence increased in all states and territories except Tasmania and the ACT in the March quarter. The states with the greatest exposure to the mining industry (Western Australia and the Northern Territory) continued to report the highest confidence in level terms, followed by New South Wales. Victoria, Tasmania and the ACT were the only states/territories to report negative confidence.

Time to Buy a Dwelling Index Graph (right):

- *The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling.*

- *It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.*

Time to Buy a Dwelling Index



Prepared by PRDnationwide Research
Source: Westpac/Melbourne Institute, last updated Jan-2012

Home Prices

Home values face slow recovery

- According to the ABS House Price Index, only Hobart, Adelaide and Melbourne registered a fall in value over the 12 month period ending September 2012. On average, capital city property values have increased by 0.3 per cent, with the largest improvement felt in Darwin (8.2per cent), Perth (4.4 per cent) and Sydney (1.3 per cent).

- When observing changes to the Index over the September 2012 quarter, most capital cities have ceased the decrease in house values, with only Adelaide, Darwin and Canberra experiencing marginal declines.

- House prices increased the most in Perth over the September quarter, by1.8 per cent, followed by Brisbane at 0.8 per cent.

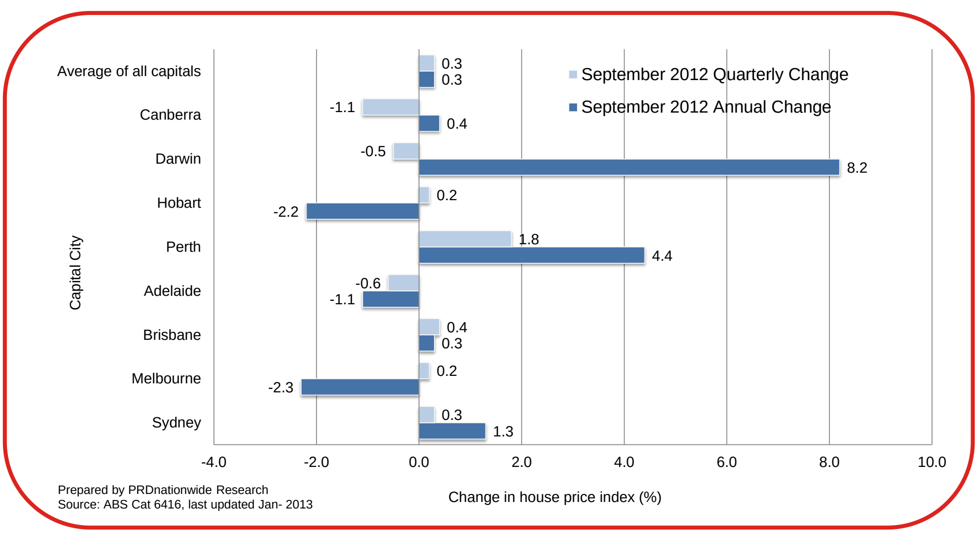
- Looking ahead, the RP Data-Rismark Combined Capital Cities Index fell by 0.3 per cent over the month of December, home values recorded an aggregate decline of -0.4 per cent over the 2012 calendar year.

- The housing finance release from the ABS revealed a sharp contraction in first home buyer (FHB) mortgage demand following the October 2012 expiry of first home buyer grant subsidies on pre-existing dwellings in New South Wales and Queensland, as well as the 1 July 2012 expiry of the $13,000 first home bonus on newly constructed dwellings in Victoria. According to the ABS, the non-seasonally adjusted number of first home buyer commitments fell by 14 per cent in the month of November to 7,921 commitments. This was 21 per cent lower than November 2011 equating to the lowest November since 2003. The decline in FHB commitments was driven by steep falls in New South Wales and Queensland (down 34 per cent and 33 per cent respectively), which were adversely affected by the October expiry of the FHB grant on pre-existing dwellings. FHB commitments also continue to trend lower in Victoria following the 1 July expiry of the $13,000 FHB boost on newly constructed dwellings. By contrast, FHB mortgage demand in Western Australia continues to surge.

ABS House Price Index Graph (right):

- *The graph to the right measures an annual & quarterly change in house prices of the capital cities.*

ABS House Price Index Change by Capital City



Home Affordability

Affordability reaches a plateau

- Over the past quarter ending September 2012, the Home Affordability Index has reached a plateau at 31.5 points. Looking longer-term, this equates to an improvement from the previous 12 month period by 5.7 per cent.

- The Index has varied across the states, with decreases occurring over the quarter in Western Australia, Victoria, South Australia, Tasmania and the ACT, while New South Wales, Queensland and the Northern Territory all experienced improvements in the Index.

- Affordability continues to be highest in the ACT, with an Index score of 53.0, followed by the Northern Territory (recording 45.2), while the least affordable state is New South Wales (27.4 points) followed by South Australia (30.7 points).

- Over the quarter, the Northern Territory increased at the largest rate (up 3.4 per cent), followed by New South Wales (up 2.6 per cent). The largest decline in affordability occurred in the ACT (down 9.1 per cent) and South Australia (down 1.9 per cent).

- When compared to the previous year, the state that experienced the largest growth in affordability was Victoria, increasing by 11.0 per cent. The Northern Territory and the ACT were the only states to experience a decrease 3.4 and 5.4 per cent respectively.

- The average Australian household requires 31.8 per cent of the family income to service a home loan. Queensland families require approximately 30.0 per cent, while Victoria requires 32.1 per cent. The ACT requires the least amount, with 18.9 per cent and New South Wales requires the most, at 36.5 per cent of the average family income. According to the REIA, the proportion of family income required to meet the average rental payment has decreased slightly during the September 2012 quarter to 24.4 per cent.

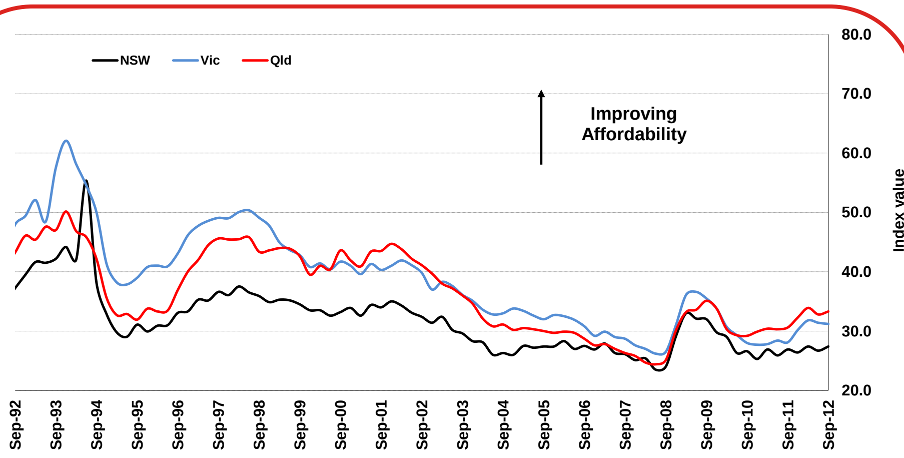
Home Loan Affordability Index Graph (right):

- *The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.*

- *Continued price growth in the property market without an accompanying rise in income saw a long period of decline in the home loan affordability index across the nation.*

- *The Home Loan Affordability index commenced its rapid descent during 2002. After a short leveling between 2004 and 2006, affordability levels have again continued to trend downwards.*

Home Loan Affordability Index



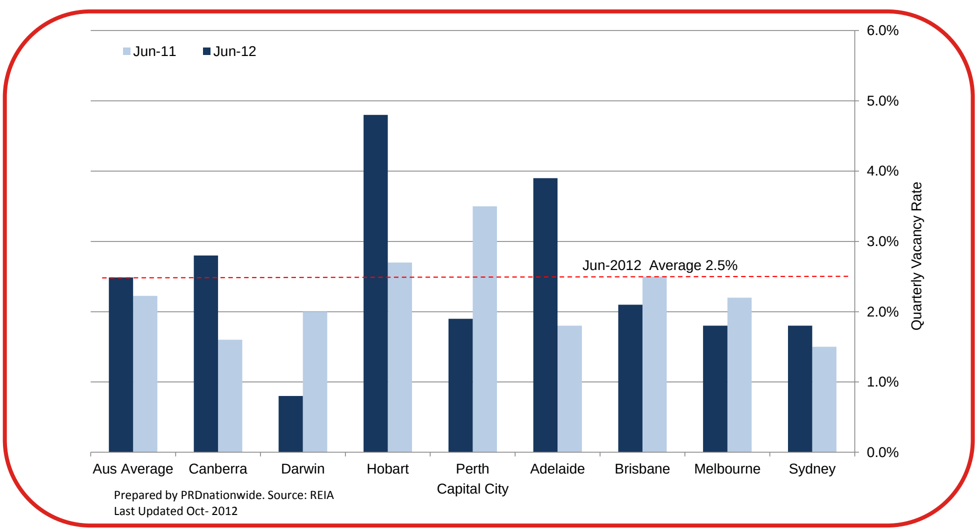
Prepared by PRDnationwide Research
Source: REIA / Deposit Power, last updated Jan- 2013

Rental Market

Tightest rental market in Darwin

- The Australian average vacancy rate maintained level at 2.5 per cent over the most recent September 2012 quarter. Darwin has remained the tightest rental market with a 1.5 per cent vacancy rate, followed by Brisbane and Perth at 1.7 and 1.8 per cent respectively.
- Vacancies expanded the most in Sydney and Darwin, by 0.7 per cent each, while Adelaide contracted the most by 0.8 per cent.
- Darwin maintains the highest median rental price for a standard three bedroom house at a very high $597 per week, through an increase of 6.6 per cent over the quarter. Adelaide and Hobart are the most affordable cities to rent in, with a median rental price of $320 per week.
- Rental prices for a standard three bedroom house in Melbourne and Sydney have remained steady over the September 2012 quarter, at $420 and $340 per week. The Australian capital city average increased to $408 per week, equating to a 1.5 per cent fall over the quarter.
- According to the REIA, the September 2012 quarter provided Darwin with the largest annual net yield for detached houses, at 4.4 per cent. This was followed by Perth at 4.0 per cent, while Sydney and Melbourne recorded the smallest yield at 2.7 per cent. Darwin, Perth, and Canberra registered the largest net yield at 4.5 per cent, for two bedroom units, while Melbourne recorded the smallest at 3.2 per cent.

Quarterly Vacancy Rates



Quarterly Vacancy Rates Graph (right):

- *An industry benchmark for vacancy rates is considered to be 3%. Vacancy rates lower than 3% indicate strong demand for rental accommodation, whilst rates higher than 3% reflect an oversupply of rental accommodation.*

Retail Trade

Retail spending slumps before holidays

- Surprisingly, retail expenditure has declined for the second consecutive month, in the lead up to the end of year holidays. The most recent month of November 2012 recorded a soft decline of 0.1 per cent to the total annual retail turnover.

- Over the 12 month period ending November 2012, Australia's annual change in retail expenditure increased 3.0 per cent from the previous year. Resource rich Western Australia continues to spend well above the national average for the 12 month period ending November 2012, with a 8.6 per cent surge, followed by the ACT at 6.5 per cent. All states recorded an increase in spending, for the exception of Tasmania which registered a decline of 4.8 per cent.

- Cafes, restaurants and takeaway food services accounted for the largest increase in expenditure throughout the 12 month period ending November 2012, at 5.3 per cent. This was followed by food retailing, registering an annual growth of 4.5 per cent.

- Household good retailing was the only industry to register a decrease in expenditure (of 2.2 per cent) over the past 12 months to November 2012.

- The RBA's November credit card data was released in January with insights displaying a rise in demand. Spending held at 21.8 billion for the month, a slight pullback from October's record. Meanwhile, outstanding balances remained in their distinctly sideways trend, suggesting ongoing limited demand for revolving credit. It's worth noting that outstanding balances have not grown since house prices plateaued in late 2010.

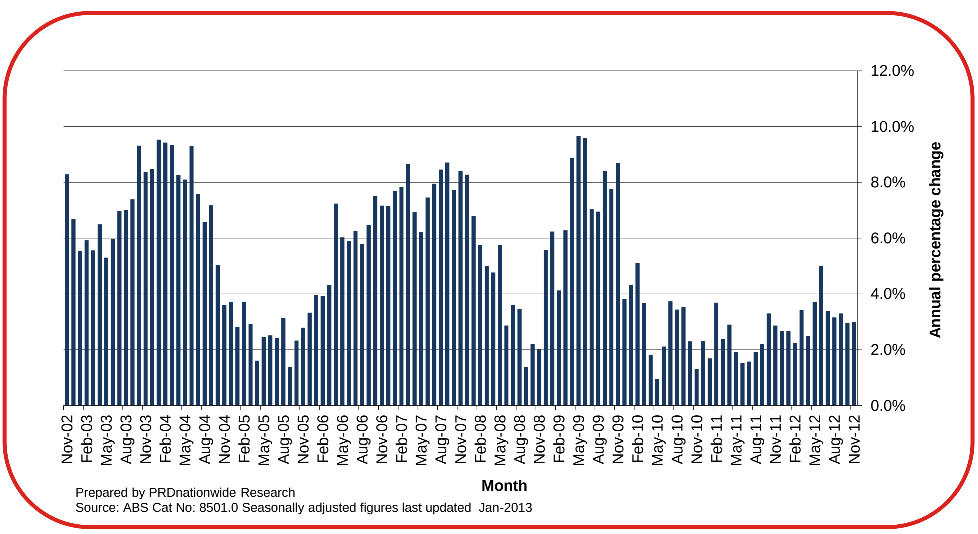
Annual Change in Retail Expenditure Graph (right):

- *Retail spending figures are estimated by the ABS based on the Retail Business Survey conducted monthly amongst 4,350 retail and selected service businesses.*

- *The annual change in retail spending indicates how active consumers are in the marketplace and the degree to which consumers are willing to spend.*

- *The seasonally adjusted figures are used to smooth out seasonal factors associated with this data.*

Annual Change in Retail Expenditure



Demographics

Western Australia attracts overseas migrants

- The Australian population is now estimated to be at 22.7 million residents, resulting through an increase of just 0.3 per cent over a 12 month period ending June 2012. Australia increased its population by 63,019 net migrants in the 12 months to June 2012 from the previous year.

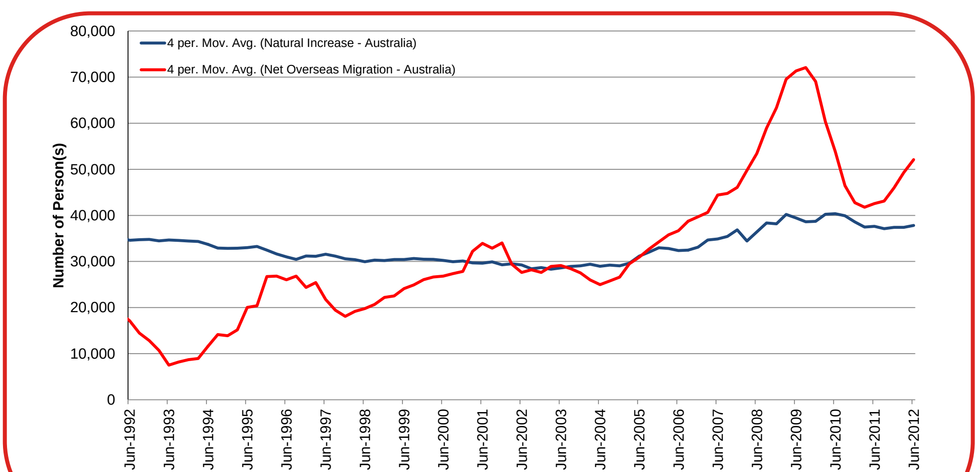
- While the four month moving average of net overseas migrants has increased sharply since 2011, the most recent quarter ending June 2012 recorded a 34.3 per cent decrease. Over 12 months to June 2012, the natural increase has increased by 4.3 per cent. Its current level of increase is at the highest point since March 2010. It is estimated that a Total Fertility Rate (TFR) of 2.1 would be required to keep the long term population level constant in the absence of any migration effects. Since the 1970s Australia's fertility rate has consistently been below the replacement rate. This isn't unique to Australia. Fertility rates fell in most of the developed world, and for mostly the same reasons. These include the introduction of the contraceptive pill, increased workforce participation by women, and increased incomes meaning an opportunity cost of having kids.

- Over the June 2012 quarter, the majority of the overseas migrants took up residence in Western Australia (15 per cent), followed by Queensland (14 per cent.

- There have been slight improvements in the Australia's tourism industry, with the release of the overseas short-term arrivals and departures figures for November 2012 showing a fourth consecutive monthly lift in the number of inbound tourists and a solid rise over the year. The number of inbound tourists rose by a seasonally-adjusted 0.8 per cent in November and was up 5.9 per cent over the year. However, the good news is tempered somewhat by short-term resident departures, which lifted by 2.5 per cent in the month of November and by 7.2 per cent over the year. As a result, the ratio of annual arrivals to departures fell by -0.1 per cent to 75.1 per cent in November, but remained above the 25 year lows of 74.8per cent experienced in July 2012.

- The year to November 2012 was a record for both inbound and outbound tourism. A record 6.1 million inbound tourists arrived in Australia over the year, equating to a 27 per cent increase on a decade ago (4.7 million). However, the number of Australians holidaying overseas also hit a record 8.1 million departures, a 134 per cent increase on 10 years ago (3.4 million).

Population Growth



Prepared by PRDnationwide Research
Source: ABS Cat 3101, last updated Jan-2013

Population Growth Graph (right):

- *Population change tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.*

Demographics Cont.

Western Australia attracts most interstate migrants

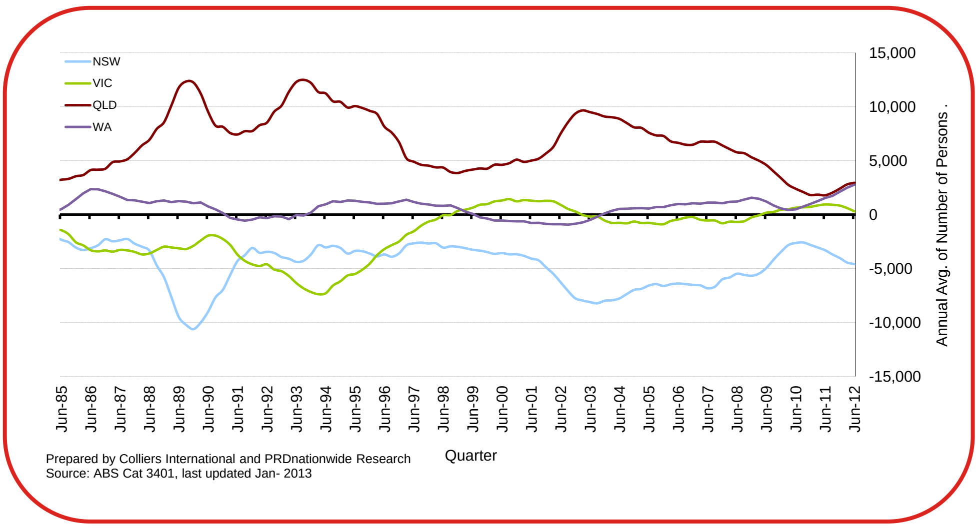
- Over the June 2012 quarter, Western Australia continued to receive the largest number of net interstate migrants out of any state or territory, at 2,975 new residents. Compared to the previous 12 month period, this has equated to an increase of 63.3 per cent. Queensland is the second largest growing state in terms of net residents moving into the state, at 2,689 new residents.

- The rate of interstate migrant growth has slowed in Victoria since mid-2011. Approximately a total of 87 more migrants decided to leave Victoria than enter, during the June 2011 quarter.

- New South Wales still records the highest outward migration of residents nationwide. During the June 2011 quarter a net outward migration of 4,550 residents shifted to other states, equating to a decline of 15.4 per cent from the previous year.

- South Australia continued to lose residents, with 368 net residents departing during the quarter, while the ACT increased a net 212 interstate migrants. Tasmania and the Northern Territory continue to shed residents, at 713 and 158 less migrants over the quarter.

Net Interstate Migration



Net Interstate Migration Graph (right):

- *Net interstate migration tracks the net population change in each state attributable to interstate migration.*

- *Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.*

US Fiscal Cliff

What is it and how does it affect the Australian property market?

The ‘fiscal cliff’ refers to how the end of 2012 would have triggered a double impact on the American economy. Residents in the US would have seen dramatic tax hikes combined with a substantial drop in government spending. By US law, several time-bound tax reductions and spending increases were to expire last 31st of December. Expiring tax provisions include $156 billion worth of tax cuts enacted in 2001 and 2003 under President Bush, a two percent payroll tax holiday worth $125 billion, a temporary reduction in the Alternative Minimum Tax (AMT) worth $88 billion, and a few others. These were all set to lapse by 2013. The result would have seen nearly half a trillion dollars in tax hikes.

Five taxes enacted as part of the “Obamacare” law also took effect on the first of January. Emergency unemployment compensation worth $40 billion introduced during President Obama’s first term was also set to expire at the end of 2012. On the expenditure side, around $11 billion in fiscal stimulus spending instituted in 2008 to fight global recession then, was to end as well. Approximately $109 billion in forced automatic budget cuts would have also been activated with the failure of the US Congress to reach consensus on budget reductions.

Basic macroeconomics holds that increased taxes and reduced government spending, whether individually or in combination, would depress the economy. Higher taxes results in less money left in people’s pockets to spend, thereby lowering consumer demands for the economy’s goods and services, which in turn would induce production cutbacks. Lower spending by government similarly dampens demand and reduces overall production. Doing the reverse would stimulate more economic activity. Indeed, this was the original rationale for Bush’s tax cuts and Obama’s “fiscal stimulus” government spending, both of which were time-bound, being extraordinary measures taken at the time.

The impending tax increases paired with spending cuts represent more than $600 billion of combined reduction in consumer and government spending, not counting the multiplier effects that would further magnify the resulting drop in US GDP. With consumer and government spending together accounting for 90 percent of overall US GDP, this would push their economy into a steep decline and another round of recession. Estimates have placed the expected drop in US GDP at four percent.

The good news is that this has not yet occurred, as the US Congress reached a compromise agreement to avert falling off the cliff. Stock markets surged all over the world, reflecting a collective sigh of relief. However, all that was really achieved was yet another band-aid solution that pushed back this ticking time bomb. More permanent solutions have yet to be agreed upon, and there are wide disagreements between Democrats and Republicans on the issue. In fact, the compromise solution does not avoid pain altogether; it simply turned the cliff into a downhill slope. The Tax Policy Center estimates that most American households will still see their taxes rise. It is estimated that the deal could still dampen 2013’s GDP growth by one per cent.

US Fiscal Cliff cont.

What is it and how does it affect the Australian property market?

How would the Australian property market be affected by the US decisions on the financial cliff?

Simply put, a US recession would be poor news for most Australians. While, the US has slipped down the rankings of Australian trading partners in recent years, it's still the fifth-largest export market and the third-largest trading partner overall, albeit well behind China and Japan. It's also Australia's largest investment partner by far. So a weaker US economy would have some direct spillovers for Australian growth.

A weakened US economy should somehow impact on us through our usual economic linkages, particularly via trade, investment, tourism and remittances. Lower US incomes would translate into lower demand for our exports.

More important, however, would be the indirect consequences of a US downturn via its impact on the global economy. Weaker US demand would most hurt growth in its immediate neighbourhood, but there would also be consequences for big regional exporters such as China, with knock-on effects for their demand for Australian resources. Weaker growth would likewise push commodity prices lower, providing another hit to local incomes.

In addition, there would be negative effects through the poor confidence, transmitted by nervous financial markets. As a result of the US being at the centre of the global financial system, any US financial shocks have a disproportionately large impact on the rest of the global economy, as evidenced by the turmoil triggered by the global financial crisis.

Buyer sentiment has only just begun to inch its way back from the lows experienced over 2011 and 2012, with pessimists outweighing optimists for this duration. Any shockwaves from the US would almost certainly sap any new found confidence in the market. Sales activity could be stifled, and growth in values could be stunted once again.

Fortunately for Australia, the US appears to be navigating its way through this difficult economic situation.

About PRDnationwide Research

"We set industry benchmarks when partnering with our clients to answer key questions and solve complex issues in the residential development arena."

PRDnationwide's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia. Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

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Access to accurate and objective research is the foundation of all good property decisions. As the first and only truly knowledge based property services company, PRDnationwide shares experience and knowledge to deliver innovative and effective solutions to our clients. We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections We focus on understanding new issues impacting the property industry; such as the environment and sustainability, the economy, demographic and psychographic shifts, commercial and residential design; and forecast future implications around such issues based on historical data and fact.

Our People

Our research team is made up of highly qualified researchers who focus solely on property analysis. Skilled in deriving macro and micro quantitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the most well considered and financially viable.

Our experts are highly sought after consultants for both corporate and government bodies and their advice has helped steer the direction of a number of property developments and secured successful outcomes for our clients.

Our Services

PRDnationwide provides a full range of property research services across all sectors and markets within Australia. We have the ability and systems to monitor market movements, demographic changes and property trends. We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

Our services include:

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- Market Analysis including profiling and trends
- Primary qualitative and quantitative research
- Demographic and target market analysis
- Geographic information mapping
- Project Analysis including product and pricing recommendations
- Rental and investment return analysis
- Competitive project activity analysis
- Economic indicators
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Major annual reports examining the macro and micro economic information of larger catchment areas within select city, rural, and coastal regions.

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Detailed demographic and sales information for statistical local areas (suburbs) in Queensland, New South Wales, Victoria, and Australian Capital Territory.

Residential Unit Reports
Quarterly reports based on primary research into the sale of new units within major metro and coastal cities identifying trends and opportunities.

Research Consultancy Service
We set industry benchmarks when partnering with our clients to answer key questions and solve complex issues in the residential development arena.

Our specialised consultancy service adds value to our clients' business by identifying the best means for gaining a competitive advantage. We have extensive experience in providing advice on virtually every type of residential property and the issues and considerations that surround them.

We simplify your decision-making process by providing comprehensive information and recommendations including (but not limited to):

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