QUARTERLY ECONOMIC AND PROPERTY REPORT

QUARTER 4 | 2012

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Economic and Property Overview

The Australian economy is forecasted to slightly contract in 2013 as conditions for many businesses remain difficult, with the majority of growth occurring in the mining and mining-related sectors. While the peak of the mining investment boom has been widely forecasted to be coming to an end in 2014, it will not be felt until the latter half of the decade. Currently, there are estimated to be two to three years' worth of projects already under way in Western Australia and up to five years' worth of investment activity in Queensland.

The high value of the Australian dollar (which has held back other sectors of business) should decline as commodity prices ease and resource investment falls. When mining investment eventually reaches its peak, other sectors of the economy shall expand and transition to the economy's principal driver of growth. Until this time mining related investment is forecasted to rise by a total 22 per cent. Resource export volumes are also forecasted to increase strongly as the projects commence production.

Below average interest rates is expected to assist the continued growth in household spending, at around 3.5 per cent and improve the low volume of dwelling commencements. The combination of these two factors will likely keep the unemployment rate around its current level of just over five per cent during the 2012 financial year.

Economic growth should continue to remain solid through to 2015 as investment activity progresses. As a result, steady unemployment will promote confidence and growth in consumption expenditure. A period of continued low interest rates will create higher inflationary pressure, in which the Reserve Bank of Australia (RBA) could begin to contract its monetary policy towards the end of 2013.

With this in mind, we expect the tight property market in Sydney to continue its upswing through 2013. It is reasonable to expect Sydney to experience steady, but modest growth of around five per cent throughout the upcoming year. The resource driven city of Perth should also perform stronger in 2013, as a combination of mining investment and low interest rates help shift this market off the bottom of its property cycle. A conservative estimate of price growth during 2013 would see Perth increase in value by two per cent, but such is the swing with this resource affected region, greater market sentiment could give rise to six per cent growth. Brisbane finds itself in a similar situation to Perth and would have been included with Perth's forecasted growth but for the sharp rise in unemployment. With a rising rate of jobless residents, any potential growth that was initially forecasted for Brisbane is now expected to be temporarily suppressed.

Melbourne should continue its period of consolidation after recently experiencing its peak of the market. Like all large markets, there will always be pockets of areas that will still hold value, and this should be the case with most inner Melbourne suburbs. Due to a somewhat balance between demand and supply with Adelaide, expect its market to remain fairly consistent, with only marginal increases in value during 2013. Canberra's market remains fairly tight and values are expected to hold firm over the next 12 months.

The International Monetary Fund (IMF) has raised concerns over the stability of Europe during the next few years. The IMF now predicts there is a one in six chance for the European economic crisis to strongly deteriorate to similar levels experienced in 2008. This would cause global confidence to fall sharply, and commodity prices to decline. However, the RBA has been highly efficient in managing monetary policy to curtail the effect of any global fallout.

Key Facts:

CPI: 1.2%

SVHL Rate: 6.85%

AUS Unemployment Rate: 5.5%

Average AUS Fuel Price: $1.45pl

Confidence

Sentiment improves in September

- Since February 2012 the Consumer Sentiment Index has measured a prolonged period of higher pessimism than optimism. The long-term six month moving average Index has remained below the equilibrium of 100 points. However, the long-term Index increased by 2.7 per cent over the September 2012 quarter to register 96.6 points and when compared to the previous year, optimism has increased by 1.3 points.

- On a monthly basis the Australian Consumer Sentiment Index increased by 1.6 points over the month of September 2012, to record a score of 98.2 points. Overall, in September consumers are slightly less worried than one month prior.

- The Reserve Bank of Australia (RBA) has assisted in the increase of confidence by easing monetary policy in May and June. In addition, low-to-moderate income households have received cash handouts from the government, while home values have been fairly stable.

- Out of the five states measured for the Index, sentiment increased the most in Queensland (up a considerable 13.9 per cent) over September 2012, followed by South Australia (up 9.0 per cent) and New South Wales (up 2.6 per cent). Sentiment fell the most in Western Australia (down 5.4 per cent), followed by Victoria (down 3.9 per cent). Optimism is greatest in Western Australia, with the highest Index score at 106.9 points and is the only state where optimists outweigh pessimists. Queensland has the lowest Index score at 94.5 points, with the remaining states all scoring in the high 90s.

- According to the NAB, consumers preferred to use their savings and investments on real estate in the first half of 2012, while the overwhelmingly popular choice has been bank deposits and paying back debt, with shares remaining unpopular.

- More reason to be optimistic- according to a survey of 216 countries from Credit Suisse, Australians have the highest median wealth per adult of any nation, at $A189,225. Credit Suisse has claimed the Asia-Pacific region remains the key growth engine of the world economy and global wealth.

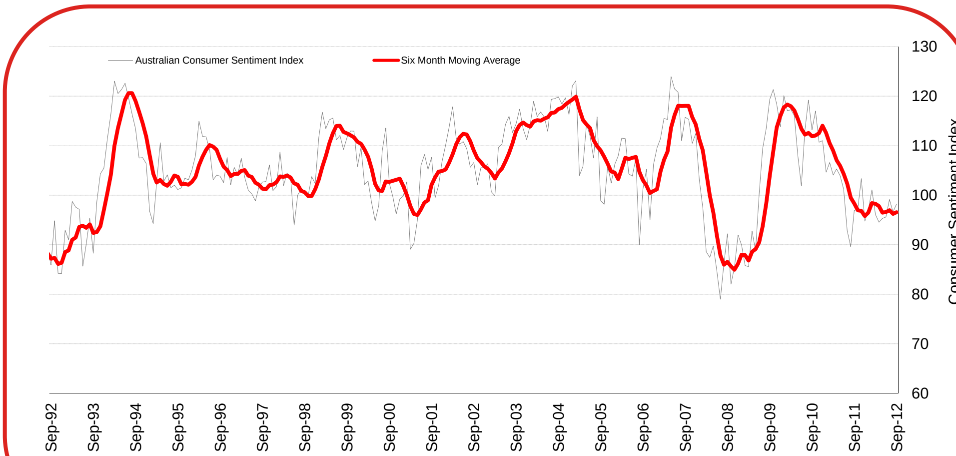
Australian Consumer Sentiment Graph (right):

- *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 Oct-2012

Confidence cont.

Optimists and pessimists finely balanced

- Australian business confidence has improved over the September 2012 quarter to record an Index score of 0, after declining heavily in August. Pessimism in business has reduced in part to the announcements of further international stimulus spending. In addition, speculation of further RBA cuts to the cash rate (which occurred in October) appears to have assisted confidence. The NAB Business Confidence Index remains 6 points below the long-run average (+6 points).

- Confidence improved across the majority of industries in September. Construction increased by 16 to +4 points, while there were moderate improvements to mining and manufacturing but overall confidence remains poor in these industries.

- At a state level, confidence improved considerably in Queensland and New South Wales, while only marginally in Victoria. Confidence in now strongest in Western Australia (+6), while weakest in South Australia (-5), Victoria (-3) and Queensland (-2).

- Business conditions have softened in the month of September to -3 Index points as a result of the high AUD, tighter fiscal policy and weaker commodity prices. The industries to be largely affected by this drop were wholesale, retail and transport & utilities. However conditions improved in construction and recreation & personal services. The NAB Business Conditions Index is now eight points below the medium-term average (+5 points).

- The NAB Business Survey reflects that businesses have found improved borrowing conditions in September, despite a fall in demand for credit. The surveyed proportion of businesses requiring credit fell from 56 per cent to 32 per cent.

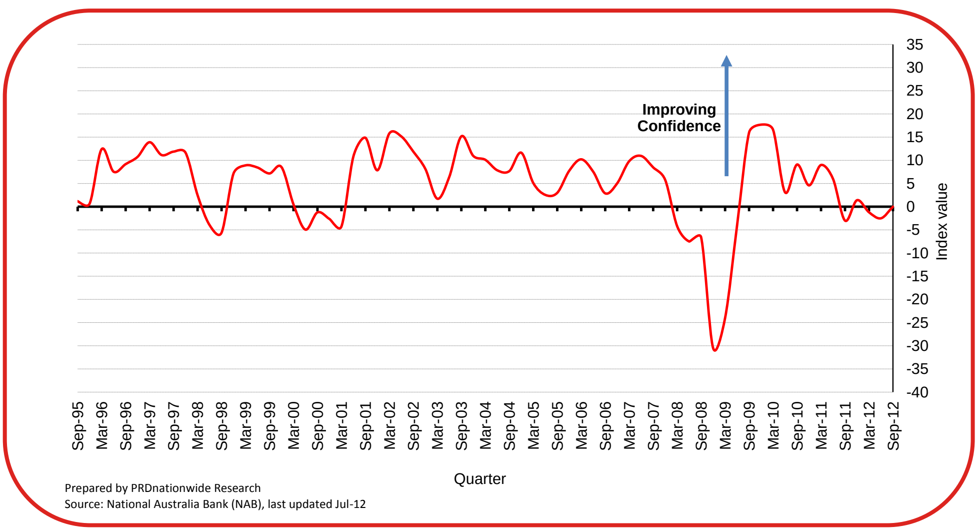
- The NAB predicts global growth to rise from 3.0 per cent in 2012 to 3.25 per cent in 2013. Further central bank stimulus in the US, Europe and Japan have lifted sentiment in financial and commodity markets. The NAB also predicts softer growth domestically, with a reduction in forecasted GDP. GDP this year will likely close at 3.3 per cent (from 3.4 per cent), while 2013 will soften to 2.5 per cent (from 2. per cent) and 3.2 per cent is forecasted in 2014 (from 3.6 per cent).

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

Low inflation allows for easing of monetary policy

- The June 2012 CPI figures recorded an annual change of 1.2 per cent, equating to a rapid decrease from the September 2011 quarter, and is significantly below the RBA target range of two to three per cent.

- The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel, has slipped outside the target range at 1.9 per cent.

- Despite the slowdown in the resources boom, Australia is poised to overtake Spain in rank for the world's biggest economy. This would place Australia 12th on the list of countries measured by their gross domestic product.

- Singapore's economy (considered to be a good barometer of global trade) contracted in the September 2012 quarter, but narrowly avoided a technical recession as the June quarter growth was revised from showing a fall to a small gain.

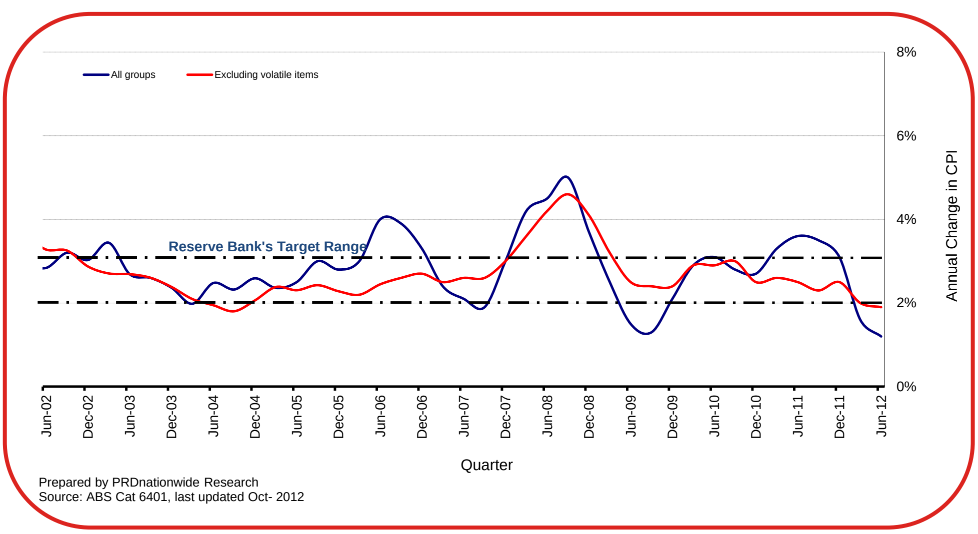
- The International Monetary Fund (IMF) has admitted at its annual meeting in Tokyo, that it had got the fiscal multiplier wrong. It is twice to three times what was previously thought, and certainly more than one. As a result, the IMF is now arguing for an end to fiscal austerity in Europe which places it at odds with Germany. In 2010, the IMF concluded that: "Fiscal consolidation typically lowers growth in the short term. Using a new data set, we find that after two years, a budget deficit cut of one per cent of GDP tends to lower output by about half a per cent and raise the unemployment rate by half a percentage point." Now the IMF is lowering its forecasts for global growth, pushing for debt forgiveness for Greece and more time for other European countries to get their debt down. The fundamental reason that the fiscal multiplier is now thought to be above one rather than below one is because interest rates are "zero bound". This refers to monetary policy which cannot offset the fall in confidence that results from the cut in government spending or the increase in taxes. Food for thought as the RBA continues to cut the cash rate.

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



Macroeconomic Climate cont.

More rate cuts ahead?

- The Reserve Bank of Australia (RBA) has once again cut the official cash rate in 2012, with a drop of 0.25 per cent in October. This equates to an official lending rate of 3.25 per cent and is well below the 10 year average of 5.06 per cent. In total, over the past 12 months the RBA has cut the cash rate by 1.5 per cent.
- The standard variable housing loan interest rate has remained stable in the third quarter of 2012 at 6.85 per cent. The rate is now 0.51 per cent below the 10 year average of 7.36 per cent.
- As a result of many countries entering into Quantitative Easing III, risks of emergency cuts through future global turbulence has reduced. However, if the AUD continues to perform strongly against the USD and commodity prices also rise then the RBA is likely to keep the cash rate on hold, with its focus on growth from global stimulus policies.
- Since the recent rate cut in October, poor domestic data has been released. Soft iron ore prices, retail sales data and building approvals have all enhanced speculation of additional RBA rate cuts to come. It is anticipated that another cut is likely to fall on Melbourne Cup day.
- Fundamentally, the key reasons for the rate cut in October were:

  I. The on-going strength of the AUD is significantly hindering the economic outlook.

  II. The outlook for growth in the world economy has softened over recent months.

  III. The RBA has switched its focus to improving weak domestic constructing and labour demand.

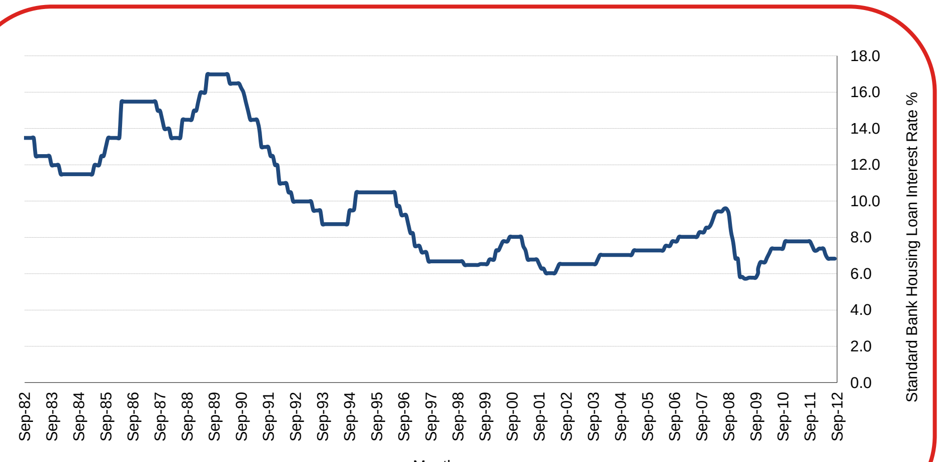
  IV. Key commodity prices for Australia remain significantly lower than earlier in the year.

  V. The Bank's assessment of the labour market is that the labour market has generally softened.
- While domestic data has weakened, the RBA appears to be more concerned with the longer term outlook for the economy, as mining investment comes to a peak. Other sectors of the economy will be required to pick up the slack left by the slowing down of investment as the boom subsides.

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



Prepared by PRDnationwide Research
Source: RBA Bulletin F05, last updated Oct-2012

Foreign Exchange

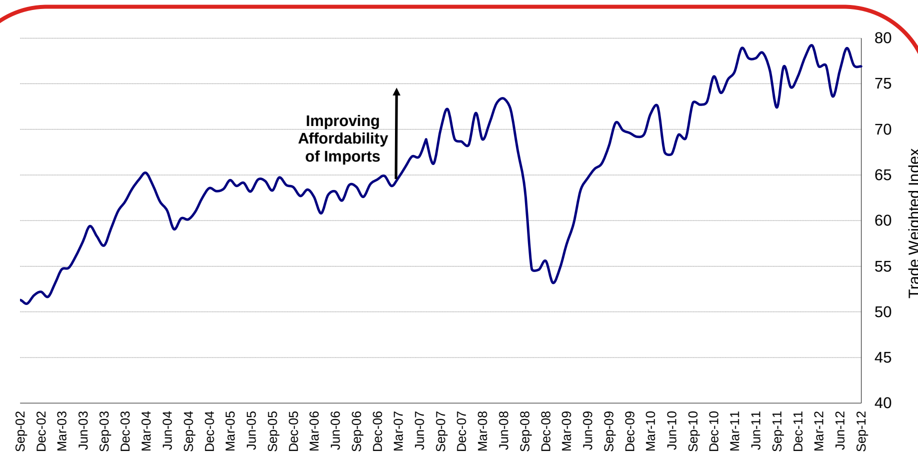
High Dollar hurting economy

- During the month of September 2012, the Australian Dollar Exchange Index decreased slightly by 0.1 per cent to register an Index value of 76.9, while increasing 6.2 per cent over a 12 month period.
- Apart for September 2011 and May 2012, 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. Over September 2012 the AUD has increased 1.6 per cent further against the US Dollar.
- Over the 12 month period ending September 2012, the Australian Dollar has depreciated only against the New Zealand Dollar (down 1.8 per cent), while appreciating the most against the Indonesian Rupiah (up 16.4 per cent).
- Over 2012 the AUD has typically remained above 0.8 against the Euro, equating to a 12.2 per cent change over 12 months. This is the highest level the AUD has registered against the troubled currency.
- The NAB Export Index (which measures export conditions for the economy as a whole) remained unchanged at -2 Index points in September. The industry to experience the largest rise in conditions was wholesale (up 7 points) while conditions diminished the most in mining & utilities (down 4 points).
- The AUD is fundamentally a commodity currency but since the June 2012 quarter, has remained high while the price for commodities has fallen. International demand for Australian cash, bonds and defensive high paying dividend stocks were supporting the high AUD over this period.

	Sep-11	Sep-12	% Change
EU Euro	0.72	0.81	12.2%
JP Yen	74.88	81.05	8.2%
NZ Dollar	1.28	1.25	-1.8%
UK Pound	0.63	0.64	2.7%
US Dollar	0.98	1.05	7.0%

Source: RBA Bulletin F11

Trade Weighted Exchange Rate Index



Month

Prepared by PRDnationwide Research
Source: RBA Bulletin F11, last updated Oct-12

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.*

Fuel Prices

Cheapest fuel in Melbourne

- 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.

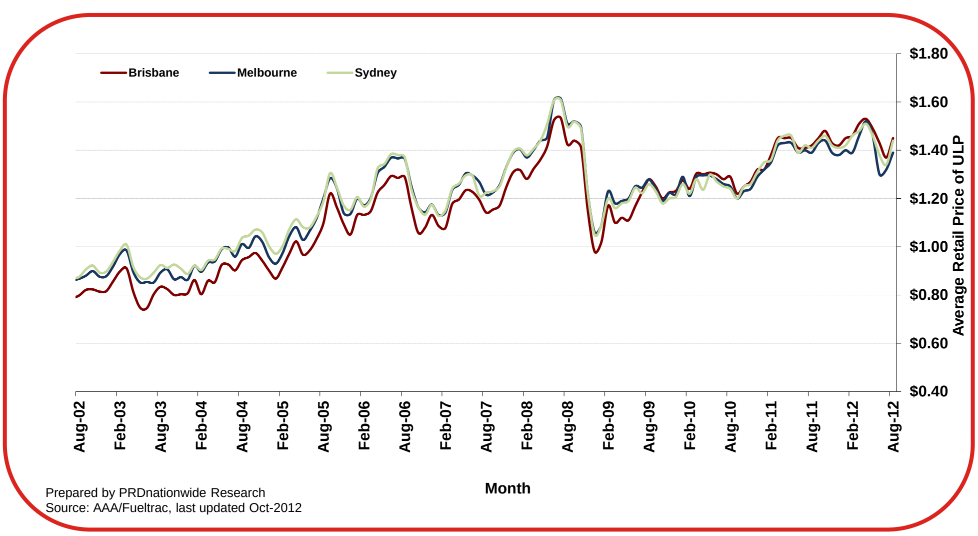
- During the course of the 12 month period, Darwin's petrol prices increased the most at 4.0 per cent, while Canberra was the only capital city to have experienced a decline in petrol prices, by -0.7 per cent.

- The latest data on car sales for the year ending September 2012 shows the rate cuts are having an actual effect in your garage. Total sales are up 14.4per cent year on year and 4.7 per cent from August, which was revised up from 3.6 per cent to 4.3per cent.

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.*

Retail Fuel Prices



Commodities Prices

International stimulus provides temporary fix to commodity price slide

- Surprisingly, during the month of September 2012, the Commodity Price Index increased by 0.9 per cent to reach 90.1 points. Up until the recent month, the Index had declined, from a peak experienced 13 months prior. When compared to the previous year, the Index has fallen by 18.3 per cent. Commodity prices are still above the longer-term 10 year average of 73.7 index points.

- The overall recent decline in commodity prices has diminished the value of Australia’s total exports. Exports are now $3.4 billion below the level recorded one year ago, and were one of the key reasons behind the October rates cuts from the RBA.

- Commodity markets have improved after the stimulus spending by the Federal Bank, European Central Bank, the Bank of Japan and authorities in China. Both iron ore and copper have prices have made solid gains, but remain well below the highs experienced during 2011, while the terms of trade is 9.0 per cent below its peak.

- The price of iron ore recovered to almost US$110 per tonne in September, from a low of US$85 per tonne earlier in the month. Gold has continued to outperform the majority of commodities during September, with the price trading at $1,775 per ounce. However, the recent downgrade of global growth estimates suggest the rally in minerals and energy prices over September may be eroded.

- As the outlook for the Chinese economy becomes increasingly uncertain, commodity prices are expected to continue to soften, but should remain above long-term averages. China is responsible for 70 per cent of the consumption of Australian iron ore, the nation’s largest export commodity (about one fifth of Australia's total exports).

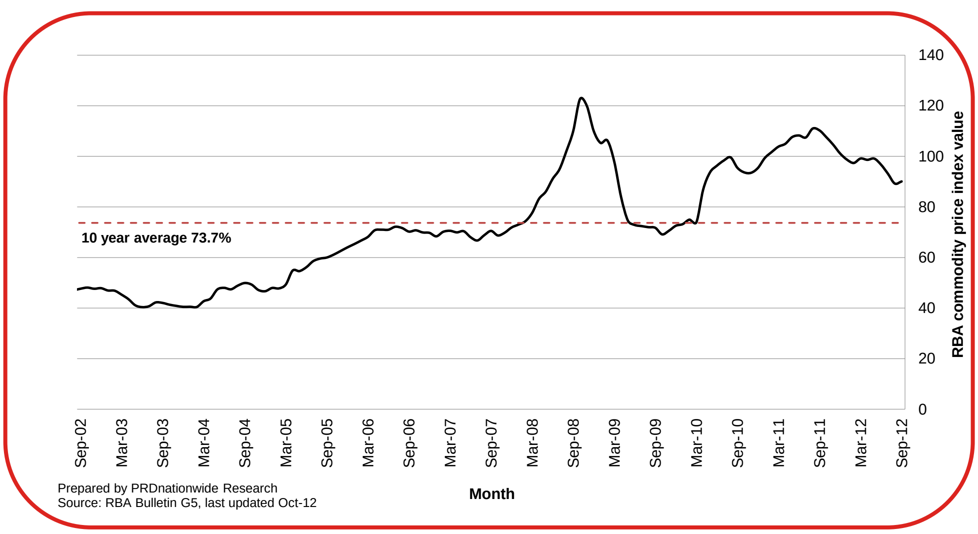
RBA Commodity Price Index Graph (right):

- *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

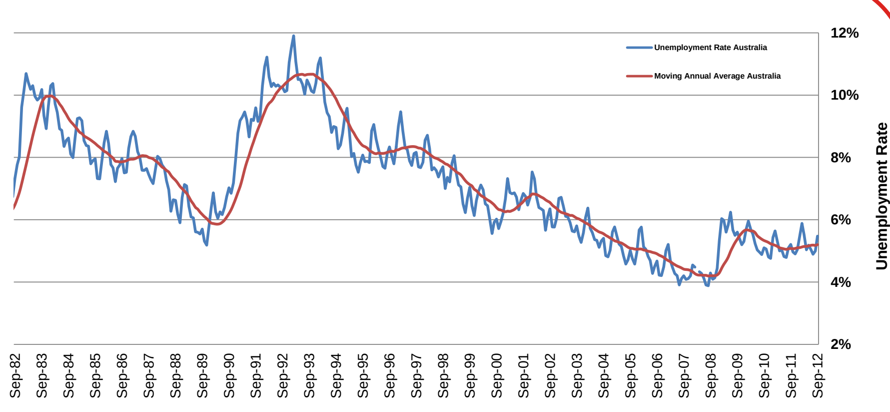
Unemployment poor in Tasmania & Queensland

- During the month of September 2012 unemployment increased to 5.5 per cent. This is significantly higher than originally forecasted by the ABS (at 5.2 per cent) and is 0.5 per cent above the fiver year average of 5.0 per cent. The moving annual average rate has remained steady at 5.2 per cent since May 2012.
- For the month of September 2012, the nation's lowest rate of unemployment occurred in the Northern Territory at 2.9 per cent, a rate that has fallen from 3.8 per cent since the previous month and represents the only state/territory to have experienced an improvement in employment figures. Tasmania's high rate of unemployment continues to climb and is now at 7.2 per cent, up from 6.8 per cent over the month.
- The Queensland Premiers topical cutback to the state workforce combined with the slowdown in the mining sector has resulted in an increased rate of 6.2 per cent over the month of September (up from 5.6 per cent).
- Unemployment in New South Wales increased to 5.3 per cent (up from 4.5 per cent) during the month of September, while Victorian unemployment increased to 5.7 per cent from 5.5 per cent.
- There were also increases in unemployment in South Australia (up to 5.6 per cent), Western Australia (up to 4.2 per cent) and the ACT (up to 3.7 per cent).
- A recent study undertaken by recruitment firm Robert Half has concluded that Gen Y is the hardest generation to hire and retain, with high expectations for career advancement, remuneration and work-life balance.
- The ABS has reported that the healthcare sector has become the biggest employer in Australia, with nearly one in eight workers employed in the industry. Almost 440,000 new jobs have been created since May 2003, while the mining sector grew by only 180,000. Manufacturing, farming and publishing sectors contracted by 93,000 jobs.
- According to a study commissioned by the Victorian Trades Hall Council, approximately one in four young employees is being paid cash in hand. In addition, approximately one in ten employees work in black market jobs, with 60 per cent of these jobs not paying superannuation, annual leave, sick leave or penalty rates.

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



Prepared by PRDnationwide Research
Source: ABS Cat 6202, last updated Oct-12

House Finance

Investor finance steady over August

- The gross spend on housing finance was $20.3 billion during the month of August 2012. Compared to the previous year, the total spend has decreased by 2.6 per cent, equating to $500 million less. The ABS data showed the number of home loans granted in August rose a seasonally adjusted 1.8 per cent to 45,821. This was from an upwardly revised 45,021 in July.

- Year on year investor spending grew slightly to $6.7 billion (up $400 million) and is above the ten year long-term average of $6.1 billion. For the month of August 2012, investor financial commitments remained unchanged.

- During the month of August 2012, owner occupier spending increased by $100 million to $13.6 billion. Approximately 32.8 per cent of the property market is now investor financed and is expected to increase as rental yields across the nation continue to become more attractive.

- The purchase of new dwellings increased over August by 2.5 per cent, while the purchase of established dwellings increased by 0.2 per cent.

- The two key factors that could discourage potential buyers from new home loans is the uncertainty over the European economy and Australian commercial banks have not passed on the RBA rate cuts in full.

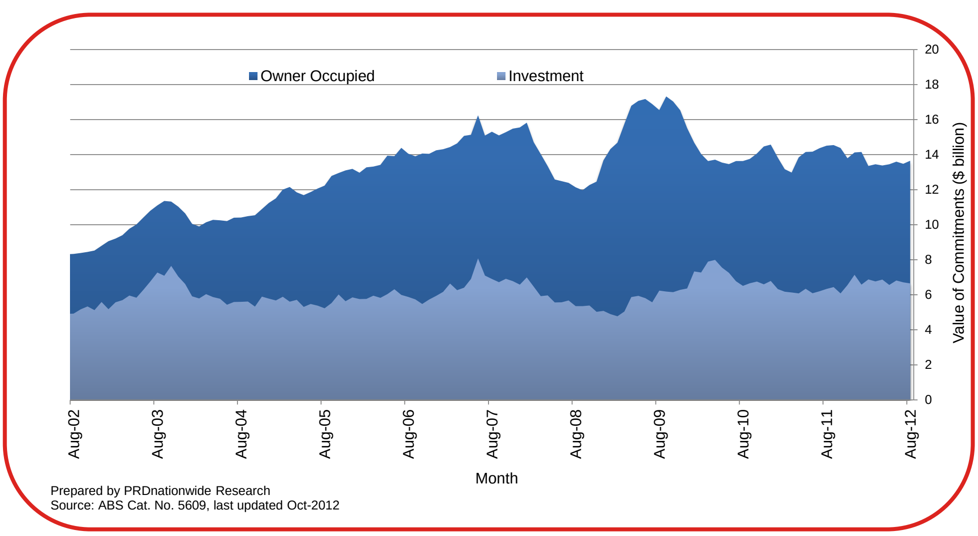
- The recent Financial Stability Review undertaken by the RBA has concluded that “the Australian banking system remains in a relatively strong position.” The report finds Australian banks have little direct exposure to the volatility in the Eurozone, but while they are still affected by shifting sentiment, they have become more resilient to such drastic changes. The RBA also warned against easing lending standards in the pursuit of unrealistic profit, while welcoming the continued deleveraging of household debt.

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



Superannuation

Contributions increase by $9.8 million over June quarter

- Total superannuation assets increased by 3.7 per cent during the quarter to $1.4 trillion. During the June 2012 quarter, industry funds' assets increased by 0.6 per cent, corporate funds' assets decreased by 2.0 per cent, public sector funds' assets increased by 1.9 per cent, retail funds' assets decreased by 1.3 per cent and self-managed superannuation funds' assets increased by 0.5 per cent.

- Superannuation contributions over the June 2012 quarter totalled $29.9 billion, equating to an increase of 48.8 per cent. Employers contributed $24.2 billion (80.9 per cent) and members contributed just over $5.6 billion (18 per cent). Other contributions, which include spouse contributions and government co-contributions, totalled $141 million.

- There is a worrying trend that has seen Australian households increase their debt/spending with the knowledge that it will be eventually covered by their superannuation. A new report by CPA Australia suggests Australians are spending their superannuation before they receive it. During the period from 2002 to 2010, the average superannuation balance for 50 to 64 year olds grew by 48 per cent. Non-super assets grew by three per cent and property assets grew by 58 per cent. However, property debt grew by 123 per cent and other debt by 43 per cent. In the eight years to 2010, other property loans had more than doubled and credit card debt had increased by 70 per cent.

Superannuation Contributions Graph (right):

- *The APRA Annual Superannuation Bulletin comprises statistics on the superannuation industry which have been prepared from the following sources:*

I. superannuation returns submitted to APRA

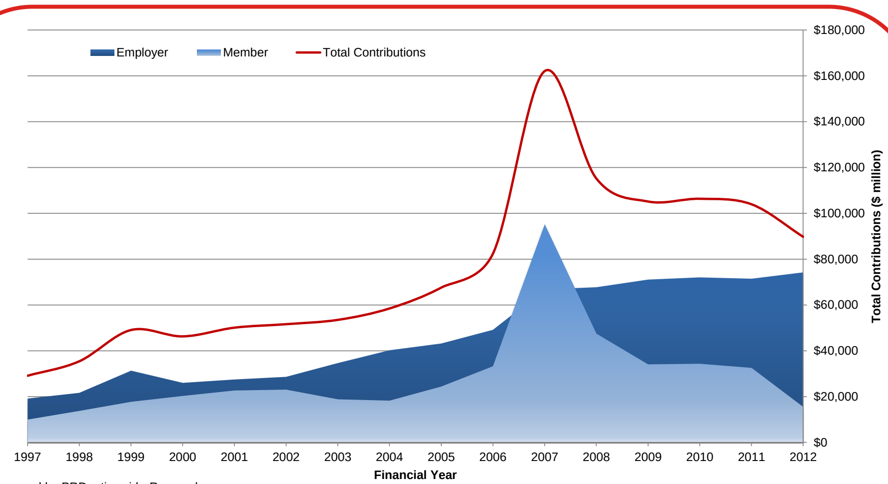
II. data from quarterly returns submitted to APRA by select exempt public sector superannuation schemes in Australia.

III. data provided by the ATO on self-managed superannuation funds

IV. returns submitted to APRA under the Life Insurance Act 1995 by registered life companies in Australia

V. returns submitted to APRA by retirement savings account (RSA) providers

Superannuation Contributions



Prepared by PRDnationwide Research
Source: APRA Bulletin, last updated Oct-12

Stock Market

Global share markets rally with stimulus spending

- The Australian Securities Index has recently recorded a sustained increase since the middle of the year, but remains significantly below the average Index score achieved 12 months prior (a fall of 8.9 per cent). The Index increased its monthly average value during October 2012 to reach 4,405 points, up from September's average of 4,341 points, resulting in an increase of 1.5 per cent over the month.

- It appears that the share market is unconcerned about the upcoming US fiscal cliff and is not pricing in the prospect of the US falling over it, but is instead enjoying the third session of quantitative easing. If the market believed that the US would go into a self-induced recession next year during the same period as Europe (which is already sliding into recession) and China's growth continues to slow, then equity prices would fall rapidly. Instead, there is hope that by the time significant tax increases and spending cuts takes permanent effect, unemployment will already have dropped and growth will have accelerated.

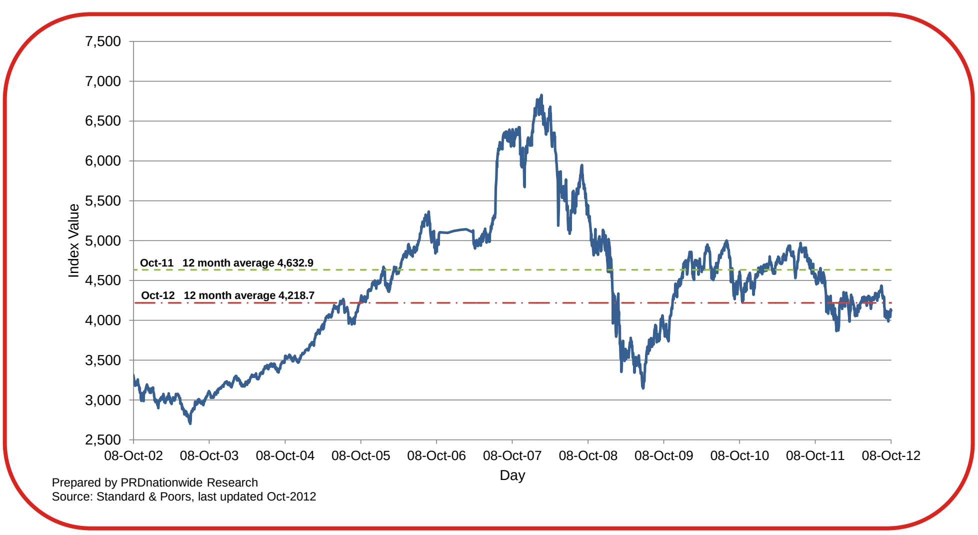
- Market data firm Nanex has claimed an unidentified computer programme briefly accounted to four per cent of all traffic on the US stock market, placing orders in 25 millisecond bursts before cancelling them. This is another example of how computer algorithms on micro trading can affect share markets.

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).*

S&P / ASX 200



Dwelling Market

New dwelling commencement numbers bounce back

- The total number of dwelling commencements increased substantially during the June 2012 quarter by 15.6 per cent, equating to 4,626 more new homes commenced for the quarter. However when compared to the previous year, commencements have decreased by 7.6 per cent.

- On a state-by-state basis, Victoria continued to record the highest number of dwelling commencements during the June quarter, representing 36 per cent of all dwellings commenced nationally. New South Wales followed with 21 per cent and Queensland contributed with 20 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 148.4 per cent over the quarter to 472 dwellings, followed by Tasmania (down 1.8 per cent to 496).

- The majority of the increased commencements occurred in the private apartment/medium density sector, where starts rose 19 per cent. The early indication for July shows that building approvals were weak while Housing Industry Association (HIA) new home sales data has remained weak.

- Residential building approvals in August increased more than initially expected (6.4 per cent), but are still considered to be at a low level considering the 21.2 per cent crash in July. Overall, the trend in housing construction is poor, with the HIA new home sales falling by 5.3 per cent in August after a 5.6 per cent decline in July.

- Residential builders will be pleased with the recent statement from the RBA. As of the October meeting, the RBA has shifted its focus away from house prices to house building, in which the volume has been poor.

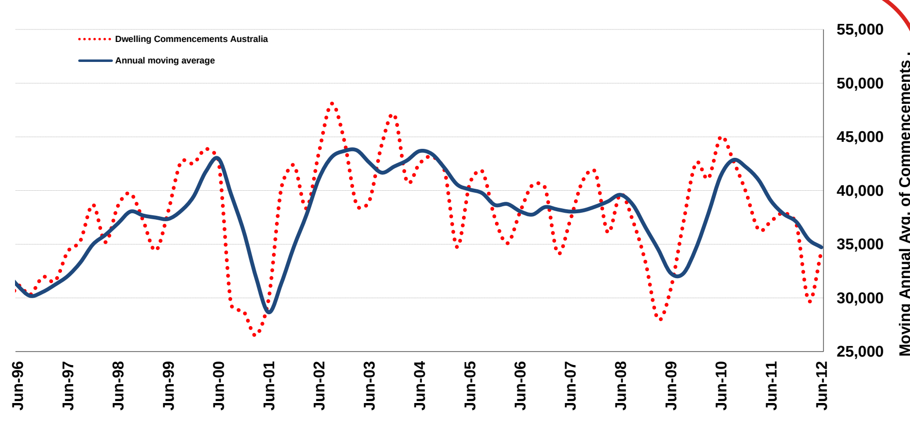
Dwelling Commencements Graph (right):

- *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.*

- *Nationally, the annual number of dwelling commencements have been on a downward trend since Sep-04 (earlier in NSW and VIC).*

Dwelling Commencements



Prepared by PRDnationwide Research
Source: ABS Cat. No. 8750, last updated Oct-2012

Dwelling Market Cont.

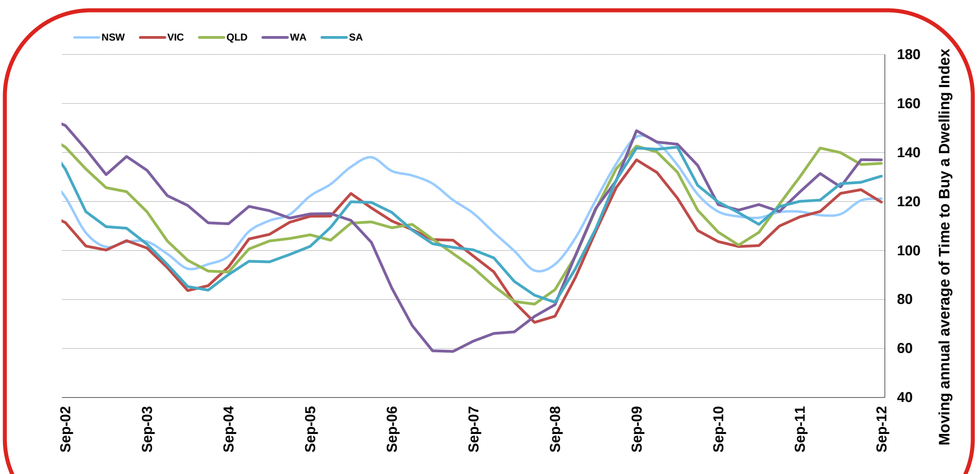
Best time to buy in Queensland

- Over the September 2012 quarter, the Time to Buy a Dwelling Index significantly increased in Queensland (by 32.6 Index points), while decreasing in New South Wales, Western Australia, South Australia and Victoria.

- For the 12 month period ending September 2012, Queensland registered the highest Index value at 147.9 points, an increase of 1.1 per cent from the previous year. The lowest Index score was registered in Victoria at 112.4 (a fall of 15.4 per cent over 12 months), while the Index improved in New South Wales (up 2.4 per cent to 126.7 points) and South Australia (up 7.9 per cent to 133.5 points).

- According to the Westpac-Melbourne Institute Survey of Consumer Sentiment, family financial conditions improved over the 12 month period ending September 2012 in three of the five measured states, with the largest increase felt in South Australia (up 12.2 per cent) followed by Queensland (up 5.6 per cent) and New South Wales (up 5.4 per cent). Victoria experienced a steep decline of 12.2 per cent, while Western Australia fell 12.1 per cent. Indications for the coming 12 months show a strong decrease in South Australia (forecasted to fall 13.2 per cent) while Queensland could rise by 7.9 per cent.

Time to Buy a Dwelling Index



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

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.*

Home Prices

House prices surge in Darwin

- According to the ABS House Price Index, only Darwin and Perth registered an improvement in value over the 12 month period ending June 2012, by 12.3 and 1.1 per cent respectively. On average, property values have fallen by 2.1 per cent, with the largest declines felt in Melbourne (-4.8 per cent) Hobart (-3.2 per cent) and Brisbane (-2.7 per cent). Sydney and Adelaide only experienced a slight decrease of 0.9 and 1.3 per cent respectively.

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

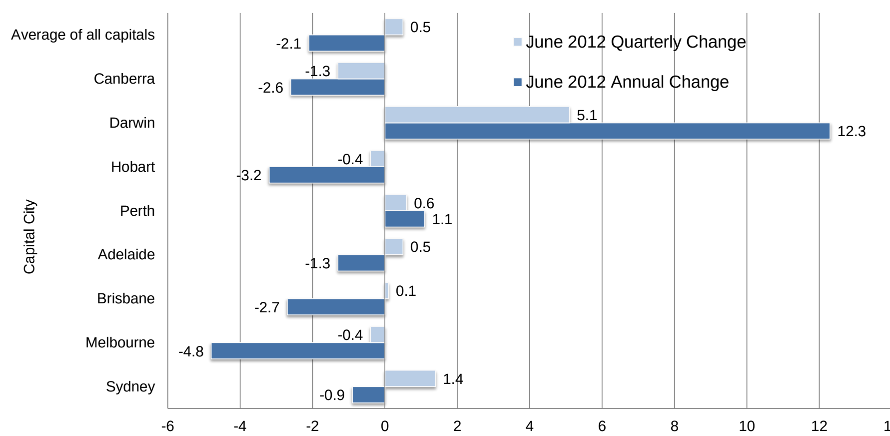
- House prices increase the most in Darwin over the June quarter, by 5.1 per cent, followed by Sydney at 1.4 per cent.

- A recent study by RPData has revealed that Perth has the most expensive vacant land, with a price of $555 per square metre. Sydney followed at $547 per square metre and surprisingly Adelaide was third at $547.

- Urban densification is expected to continue to grow. Leading professor of urban studies at the London School of Economics has stated that within the next 25 years, 75 per cent of the global population will reside in cities. This news is not new to Australians, with the latest figures from the ABS showing 90 per cent of Australians reside in an urban area.

- The RP Data-Rismark Combined Capital Cities Index had its fourth consecutive month-on-month rise in values with the month of September increasing by 0.37 per cent.

ABS House Price Index Change by Capital City



Prepared by PRDnationwide Research
Source: ABS Cat 6416, last updated Oct- 2012

ABS House Price Index Graph (right):

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

Home Affordability

Affordability climbs with falling rates

- Over the past 12 months, the Home Loan Affordability Index has continued to increase, with a further 0.1 points in the June 2012 quarter to an Index score of 31.4 points.

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

- Affordability continues to be highest in the ACT, with an Index score of 58.3, followed by the Northern Territory (recording 43.7), while the least affordable state is New South Wales (26.7 points) followed by South Australia (31.3 points).

- Over the quarter, the ACT increased at the largest rate (up 6.8 per cent), followed by Western Australia (up 3.9 per cent). The largest decline in affordability occurred in Queensland (down 3.2 per cent) and New South Wales (down 2.6 per cent).

- When compared to the previous year, the state that experienced the largest growth in affordability was Tasmania, increasing by 15.6 per cent. The Northern Territory was the only state to experience a decrease 0.2 per cent to register 43.7 points.

- The average Australian household requires 31.9 per cent of the family income to service a home loan. Queensland families require approximately 30.5 per cent, while Victoria requires 31.8 per cent. The ACT requires the least amount, with 17.2 per cent and New South Wales requires the most, at 37.4 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 June 2012 quarter to 24.5 per cent.

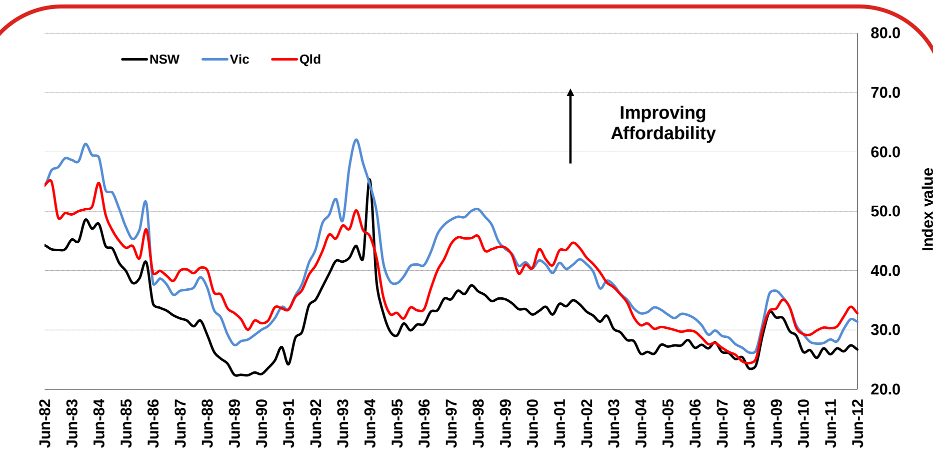
Home Loan Affordability Index Graph (right):

- *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



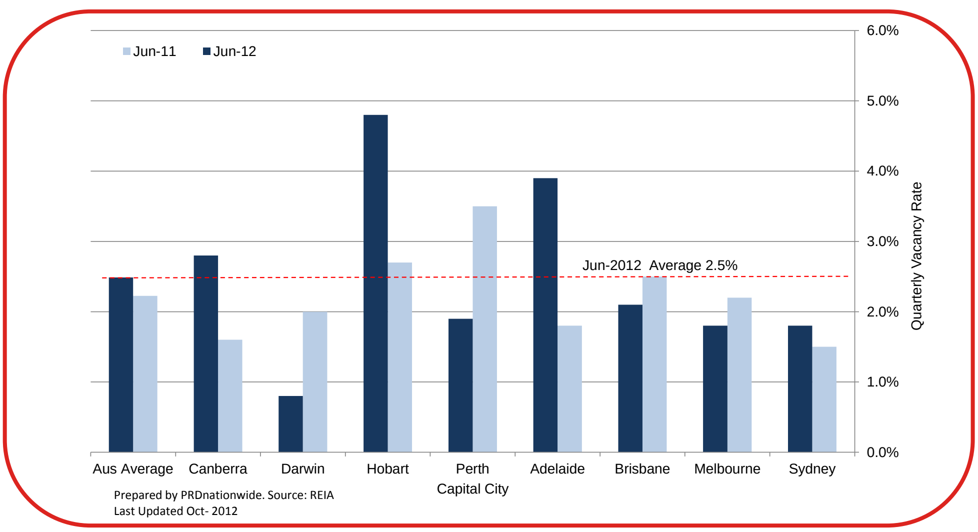
Prepared by PRDnationwide Research
Source: REIA / Deposit Power, last updated Oct- 2012

Rental Market

Expect Darwin rents to increase through tight market

- The Australian average vacancy rate expanded to 2.5 per cent over the most recent June 2012 quarter. Darwin is now the tightest rental market with a 0.8 per cent vacancy rate, followed by Sydney and Melbourne at 1.8 per cent each.
- Darwin and Melbourne were the only capital cities to have experienced a tightening rental market, with Darwin experiencing a decrease of 1.1 per cent while Melbourne decreasing by 0.5 per cent.
- Vacancies expanded the most in Hobart, by 0.9 per cent, which continues to have the highest vacant rate at 4.8 per cent.
- Darwin maintains the highest median rental price for a standard three bedroom house at $560 per week, through a slight increase of 0.2 per cent over the quarter. Adelaide remains the most affordable city 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 June 2012 quarter. The Australian capital city average decreased to $403 per week, equating to a 2.1 per cent fall over the quarter.

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

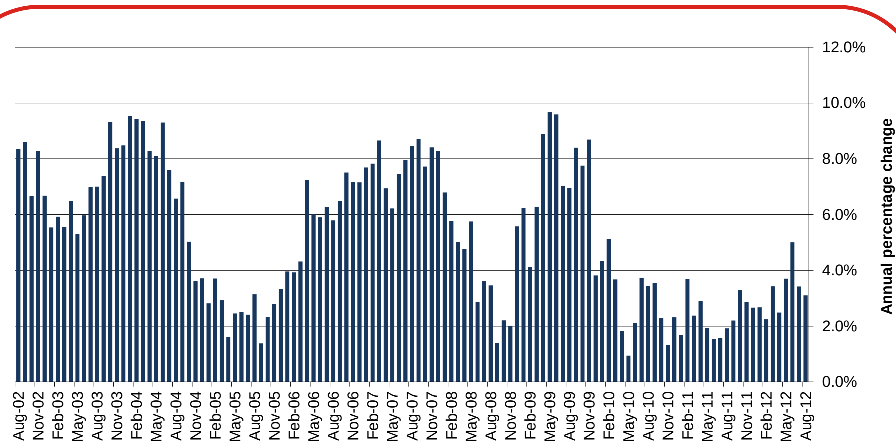
Expenditure in departments stores improve over August

- While not hitting the high level of increased expenditure in 2009, retail spending has remained above two per cent for the past 12 months. The most recent month of August 2012 recorded an improved 0.2 per cent increase to the total annual retail turnover.
- Over the 12 month period ending August 2012, Australia's annual change in retail expenditure increased 3.1 per cent from the previous year, aided in large by the increase in spending through the month of June (up to 5.0 per cent).
- Resource rich Western Australia continues to spend well above the national average for the 12 month period ending August 2012, with a 9.2 per cent surge, followed by the ACT at 6.0 per cent. All states recorded an increase in spending, for the exception of Tasmania which registered a decline of 3.4 per cent.
- Clothing and soft good retailing accounted for the largest increase in expenditure throughout the 12 month period ending August 2012, at 6.7 per cent. This was followed by cafes, restaurants, and takeaway services, registering an annual growth of 6.4 per cent.
- Household good retailing was the industry to register the smallest increase in expenditure (of 0.4 per cent) over the past 12 months to August 2012.
- Household consumption represents 56 per cent of total expenditure in the economy, while retails accounts to 32 per cent of this, or 18 per cent of GDP. The NAB forecasts a glum picture for traditional 'brick and mortar' retailers. So far 'traditional retailers' have experienced growth at 2.7 per cent per annum. Meanwhile, online retailing has grown by 22 per cent per annum.

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



Prepared by PRDnationwide Research
Source: ABS Cat No: 8501.0 Seasonally adjusted figures last updated Oct-2012

Demographics

Net international migrant numbers continue to grow

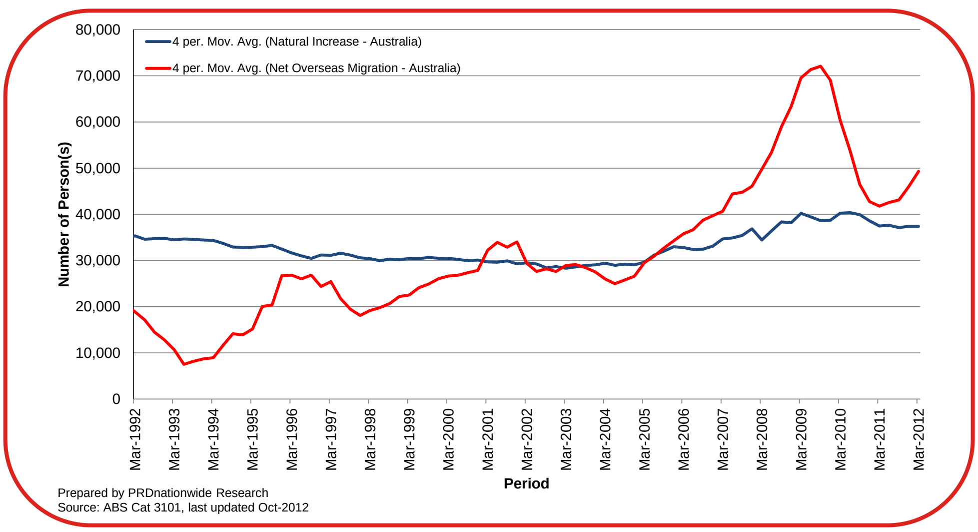
- The Australian population is now estimated to be at 22.6 million residents, resulting through an increase of just 1.5 per cent over a 12 month period ending March 2012.

- Australia increased its population by 50,161 net migrants in the 12 months to March 2012 from the previous year.

- There has been a sharp increase to the number of net overseas migration since 2011, with the most recent quarter recording a 54.5 per cent increase. Over 12 months the natural increase has remained fairly steady, only decreasing by 0.1 per cent. This equates to 197,200 (its highest level in two years) and is responsible for 57 per cent of the nation's increase over the year.

- Over the March 2012 quarter, the majority of the overseas migrants took up residence in New South Wales (26 per cent), followed by Victoria (25 per cent) and Western Australia (21 per cent).

Population Growth



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 March 2012 quarter, Western Australia received the largest number of net interstate migrants out of any state or territory, at 3,296 new residents. Over a 12 month period this has equated to an increase of 80.7 per cent.

- Queensland has the largest growing rate of net migration, increasing by 99.8 per cent from 12 months prior. It is also the second largest growing state in terms of net residents moving into the state, at 3,153.

- The rate of interstate migrant growth has slowed in Victoria since mid-2011. Approximately 472 net migrants decided to call Victoria home during the March 2011 quarter, equating to a decrease of 65.9 per cent from the previous year.

- New South Wales still records the highest outward migration of residents nationwide. During the March 2011 quarter a net outward migration of 4,958 residents shifted to other states, equating to a decline of 50.6 per cent from the previous year.

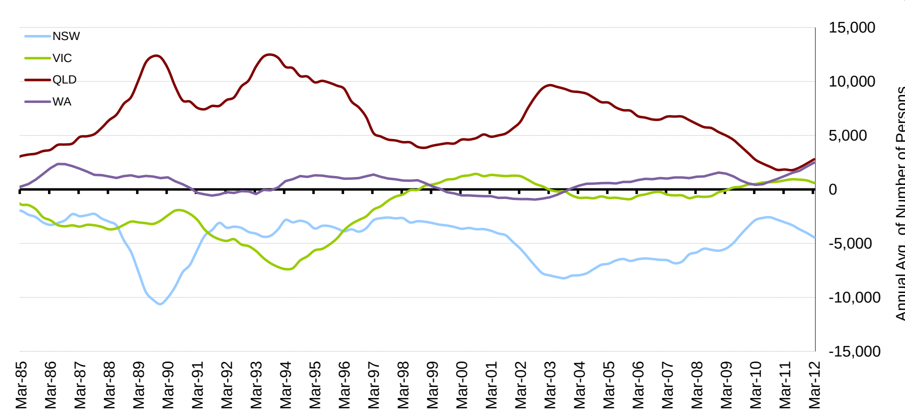
- South Australia continued to lose residents, with 754 net residents departing during the quarter, while the ACT increased a net 19 interstate migrants.

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.*

Net Interstate Migration



About PRDnationwide Research

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.

Our Knowledge

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:

- Advisory and consultancy
- 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
- Social research, including focus groups

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

Our Research Reports

Property Watch® Reports
Over 130 snapshots of various areas around Australia, as well as specific reports on property topics of interest such as resale growth, infrastructure planning, luxury properties, and supply and demand.

Highlight Reports
Major annual reports examining the macro and micro economic information of larger catchment areas within select city, rural, and coastal regions.

Quarterly Economic and Property Report
Produced quarterly to examine economic and property trends nationally.

Niche Reports
Covering topical subjects such as mixed use and transit oriented developments, marina berths, waterfront property and luxury property markets.

Suburb Reports
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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Elias Sleiman
0438 184 127
eliassleiman@prd.com.au

PRDnationwide

32-36 Doggett Street
Newstead QLD 4006
GPO Box 2750
Brisbane QLD 4001

P 07 3229 3344 F 07 3221 7744
E brisbane@prd.com.au

www.prdnationwide.com.au

Researcher

Aaron Maskrey
Director | Research

07 3370 1702
aaronmaskrey@prd.com.au

Prepared by PRDnationwide Research. For further details, contact Aaron Maskrey on 07 3370 1702 www.prdnationwide.com.au

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