



Outlook for Australian Property Markets 2010-2012

Canberra

Update August 2010



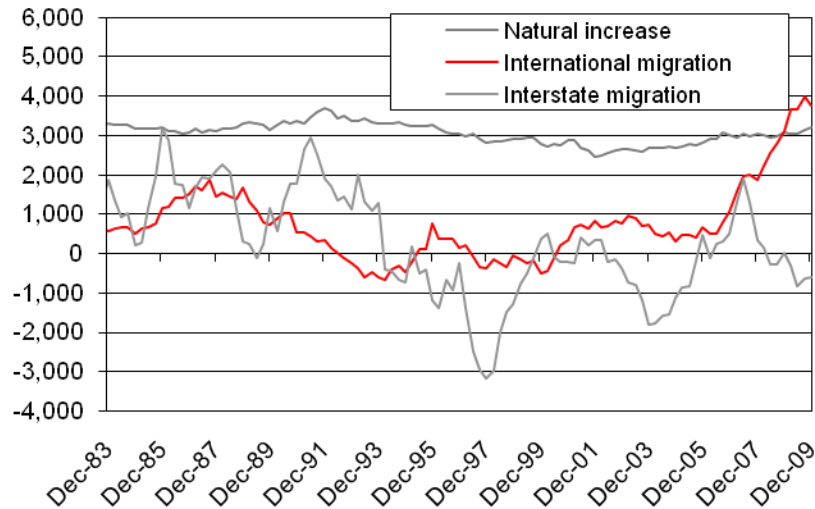
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Canberra residential Update

Population growth boosted by rising natural growth, but immigration still the main driver.

Population growth – ACT

Number of people



- Following a brief slowdown in mid 2009, a resumption of growth resulted in net population growth rising to almost 6,400 in the year to December 2009. At 1.8% it was comparable to recent years growth and above the 1.6% average since 1982.
- While still very strong at 3,775 people, net international migration slowed towards the end of the year, following national trends.
- Fortunately net interstate migration loss also slowed to 600 people in the year to December.
- Once again the strong natural increase (births minus deaths), which also strengthened to 3,210 helped boost population.

Source: ABS

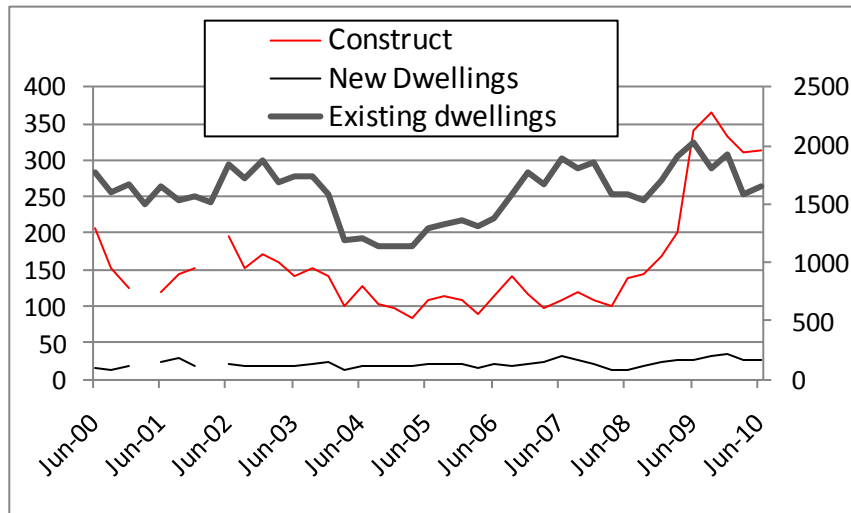
Analysis: Westpac Property

Demand to construct holds better than national, but demand for new follows trend.

Quarterly finance commitments - Canberra

No of commitments
(New & construct)

No of commitments
(existing)



Source: ABS

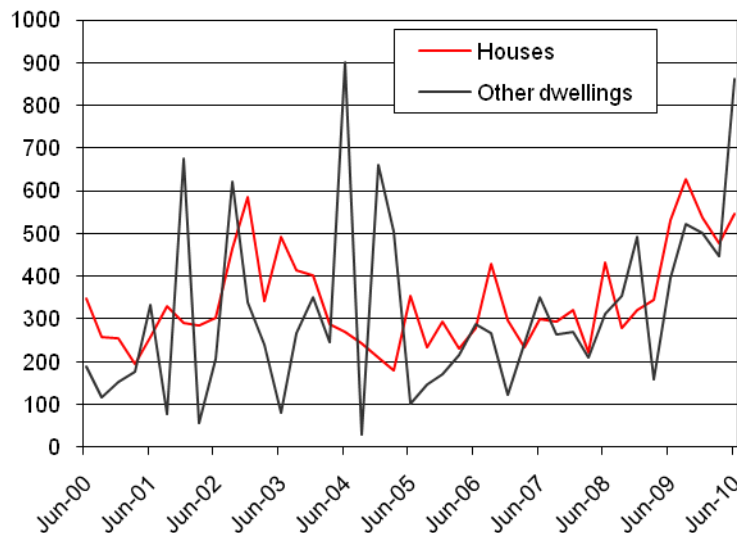
Analysis: Westpac Property

- In February we considered that *'The pull back of the stimulus and rising interest rates could slow demand, although expectations of continued job growth by Access Economics may mitigate this.'*
- Finance to purchase a new dwelling fell by 20% in the first half of 2010, this was in line with falls in falls in NSW and WA and well above falls in Queensland (-33%).
- Finance to construct a dwelling held up far better, falling only 11%, compared with 20%-20% falls elsewhere in the country. This series continues to deliver close to record levels of demand.
- Our expectation for existing dwellings holding up better than others was not correct, with a fall of 13%, although again this was a stronger outcome than in other States. Figures are back to 2008 levels.

Approvals continue to strengthen close to 1992 record high

Quarterly houses and other dwellings approvals – Canberra

Number



Source: ABS

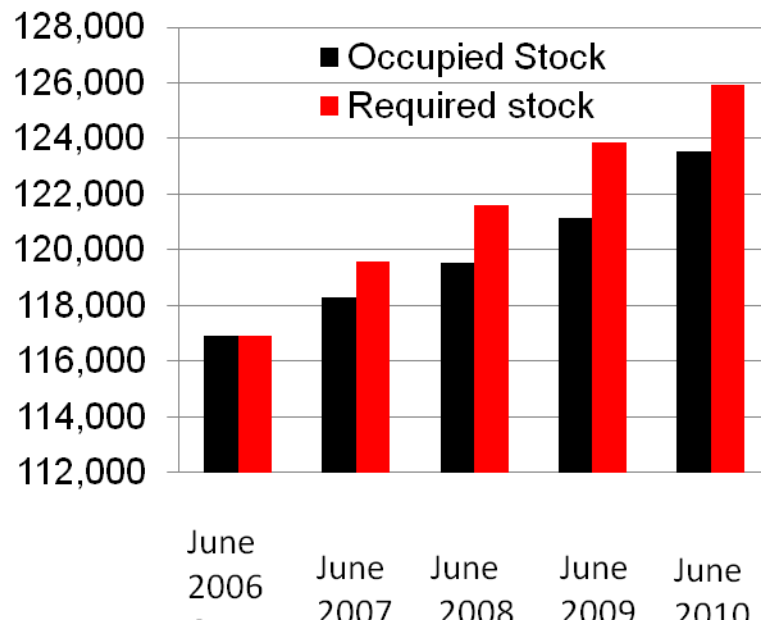
Analysis: Westpac Property

- Dwelling approvals continued to increase through 1H 2010. Some 1,407 dwellings were approved in Q2 2010, the highest since 1992 and well above average. In the year to June 2010 some 4,420 dwellings have been approved.
- Where as supply in 2H 2009 was driven by houses, this shift has been to other dwellings in 1H 2010, with over 1,300 approved. However, this was evenly split between semis/villa/townhouses and units. House approvals remained above average at 1,020.
- Population growth of 6,400 in the year to December 2009 in ACT generates a need for 2,460 new dwellings at 2.6 persons per dwelling using Census 2006 data.
- At 3,620 dwellings to December 2009, the market appears to be heading for oversupply, With continued growth into 1H 2010 stronger population growth is needed.

.. but the market remains under supplied following limited supply in previous years

ACT estimated requirement and supply of dwellings since Census 2006

Number



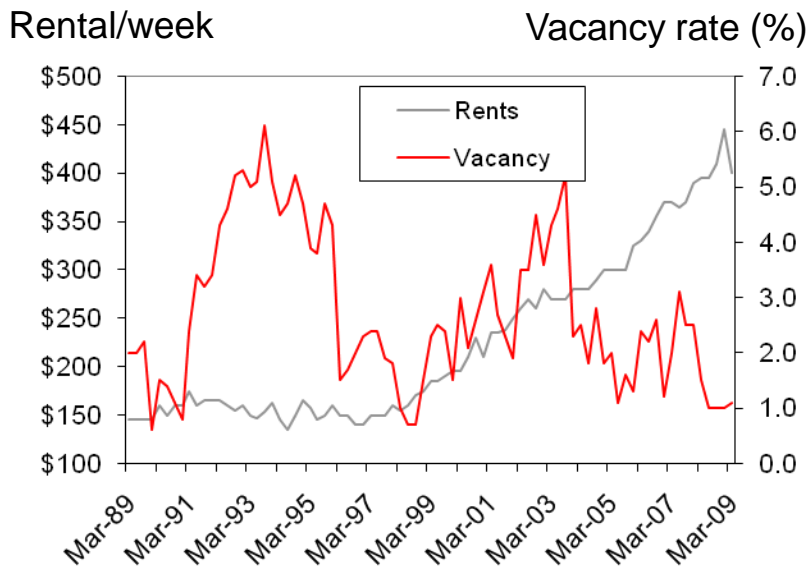
Source: ABS

Analysis: Westpac Property

- The recent high levels of supply have exceeded population driven requirements. However, under supply in previous years suggests the market remains under supplied by around 2,400 dwellings as at mid 2010.
- To arrive at this we have taken population growth from the ABS to end 2009 and extrapolated this forward. Dividing by 2.6 person per dwelling provide the requirement.
- For supply ABS data on completions to March 2010 has been used (and extrapolated) and some allowance for demolition to provide a growth in stock.
- While future supply is likely to reduce the inherent under supply, the market is unlikely to be swamped by vacant or unsold properties.

Rental growth to re-commence on low vacancy

Rentals and vacancy - Canberra



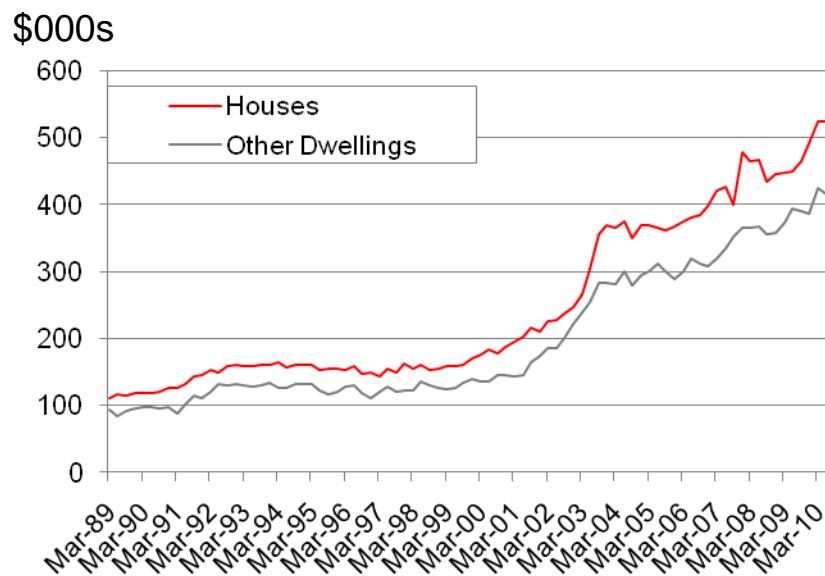
- Vacancy at 1.1% in June is well below the longer term average of 2.7%. However, although the vacancy rate for the past year backs up the consideration of longer term under supply, the volatility in the series suggests it is not a good trend measure.
- Similarly rentals have been volatile, with a strong 8.5% growth in Q1 2010 more than wiped out by a 10% fall in Q2. Perhaps a better measure would be annual change, which at 1.3% is in line with national trends.
- With rising future supply we expect vacancy to lift. Should the 1.1% vacancy at June be correct, rents should continue to increase despite the higher supply, largely because interest rates are expected to rise. However, steady rather than large growth is likely.

Source: REIA

Analysis: Westpac Property

Prices to stabilise.

Median residential prices - Canberra



- House prices rose by 17% in the year to June 2010, while other dwelling prices rose by a lesser 5%. However, allowing for a value fall in 2008, when there were concerns for the economy, price growth over the two years has been around 6% for both types of dwelling.
- As suggested in our February forecasts the rate of growth is slowing into 2010. In the June 2010 quarter, house prices were largely stable, while other dwelling prices fell by 2%.
- While affordability at just 18% of household income does not appear to be a problem, it is nearing the longer term average since 1995 and is below the 5 year average.

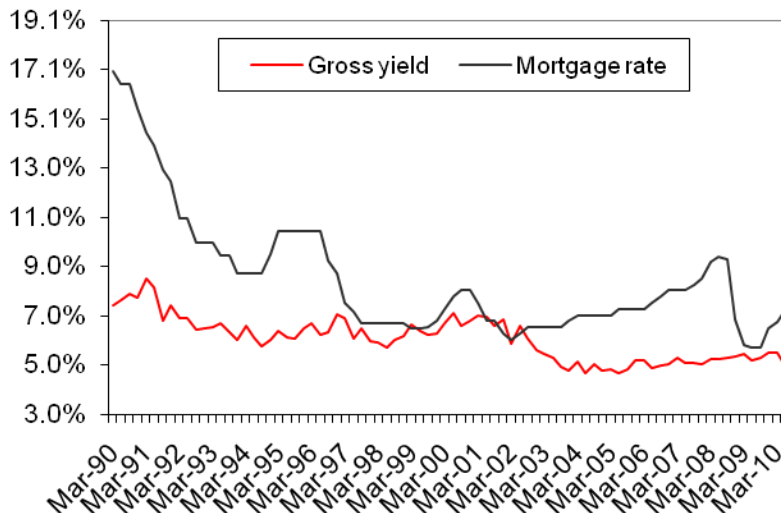
Raw data: REIA

Analysis: Westpac Property

Gross residential yields fall in Q2, expectations for minor rise through forecast period.

Gross residential yields against the mortgage rate - Canberra

Yield



- In February our expectations were for limited price or rental growth, ensuring yields remain steady at around 5.3%, which is one of the highest in the country.
- However, the significant rent fall in Q2 and potential for higher rents, exceeding the minor fall in prices has pushed yields down to 5% as at June 2010.. This is the lowest since December 2007.
- With limited price growth expected, despite the rising supply, yields should lift into 2010 and 2011, although remain in the low 5% level



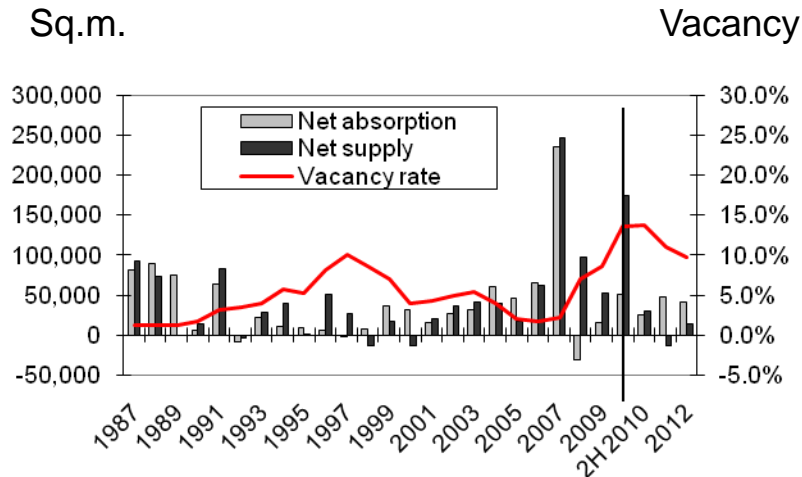
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Canberra offices

Update August 2010

Canberra office market vacancy peaked in 1H 2010

Net absorption, net supply and vacancy – Canberra



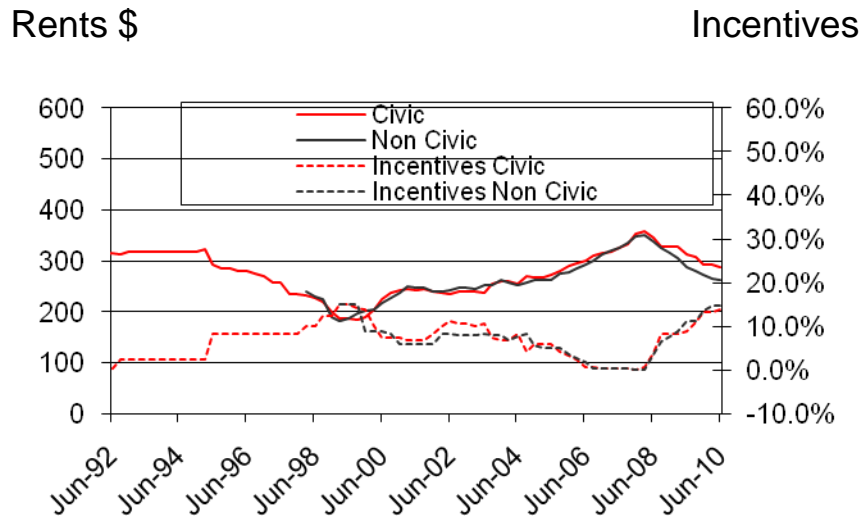
- Far higher than expected net additions took vacancy to 13.6% as at the end of June 2010 for Canberra.
- By region Civic vacancy rose to 16% from 7.4% at year start due to high supply and weak demand. Non Civic vacancy rose from 9.2% to 12.6%, as high supply outpaced strong net absorption.
- The supply cycle is largely over given the high supply in 1H 2010. However, there remains almost 50,000 sq.m. due in 2H 2010, which only has a pre-commitment of 27%.
- Fortunately Access Economics consider continued strong growth in the Canberra employment levels, which should help generate demand to absorb new supply
- As such our forecast is for stability in vacancy over 2H 2010, with falls thereafter as supply declines.

Source: Historical data: PCA Office market report

Forecasts: Westpac Property

Canberra rents record a minor fall, should stabilise from here

Prime net effective rents & incentives - Canberra



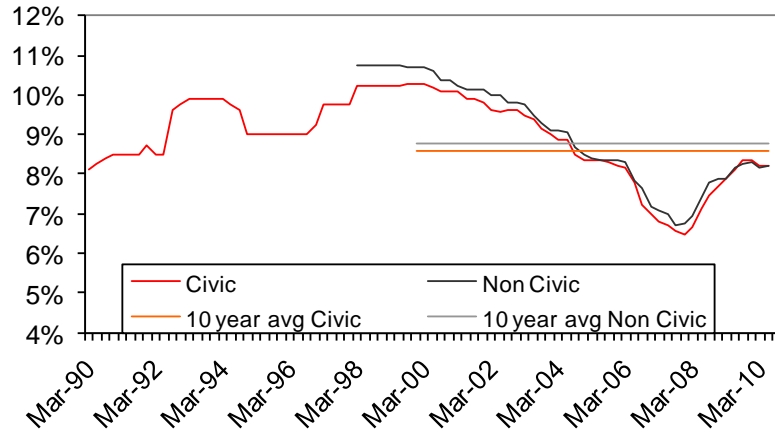
- In February we forecast that incentives could peak at close to 20%, from the year start 13%, driving effective rents down a further 14% in 2010 in Civic and providing a peak to trough of around 30%.
- In 1H 2010 rents fell by 2% in Civic and almost 4% in non Civic markets. Incentives rose to 14%, which is below the mid 1990s peak of 15% when vacancy was lower.
- While continued supply into 2H 2010 could place further pressure on incentives, we now forecast that rents will stabilise, or show only marginal falls in 2H 2010, given limited new supply after 2010.
- With our forecast for vacancy to remain above 10% until 2012, rentals should stabilise over the forecast period.

Source: CB Richard Ellis historic data to June 2010

Prime office yields stabilise, fall marginally

Office yields and 10 year averages - Canberra

Yield



- In February while we considered that yields were below average, the consideration of well leased properties leased to Government tenants could attract investor interest. A such yields may well stabilise.
- Prime yields in both Civic and Non Civic firmed marginally in 1H 2010, ahead of expectations.
- Yields remain below average and although limited rental growth is expected, continued investor interest should ensure remain stable for sometime.

Source: CB Richard Ellis historic data to June 2010

Disclaimer

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts. Information current as at August 2010. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac Banking Corporation (ABN 33 007 457 141) ("Westpac") accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. If you wish to be removed from our e-mail mailing list please send an e-mail to westpacproperty@westpac.com.au. © 2010 Westpac Banking Corporation.

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