

The Australian Property Market: Economic Overview

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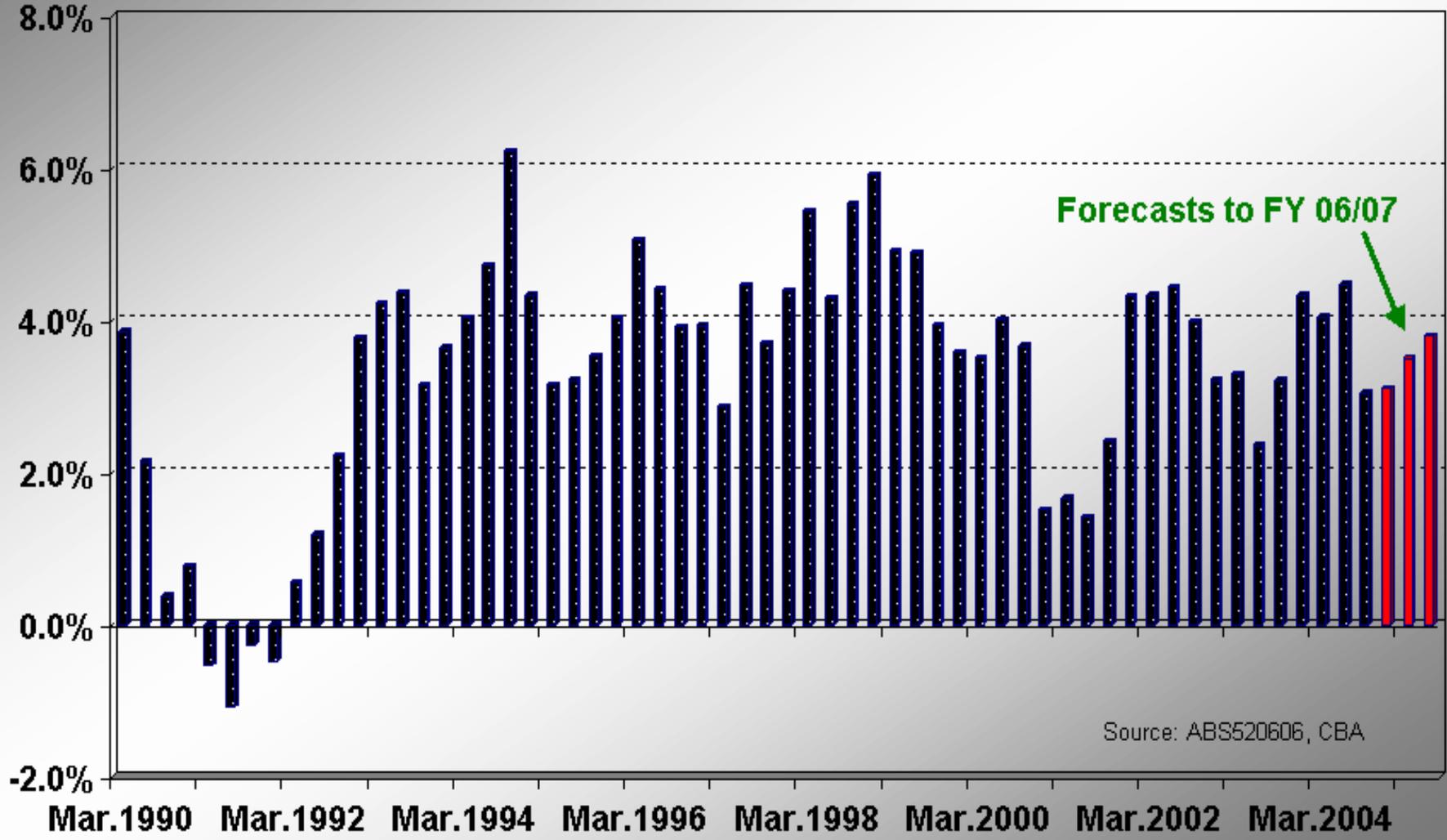
Pacific Rim Real Estate Society Conference

Melbourne 27 January 2005

Agenda

- The Economy
- Key economic drivers:
 - Office
 - Retail
 - Residential
 - Industrial
- 2005/6 outlook favourable, but don't expect “more of the same”: the yield re-rating of 2003/4 will not continue
- **Key question:** Structural or cyclical changes?

Economic Growth - annual % change



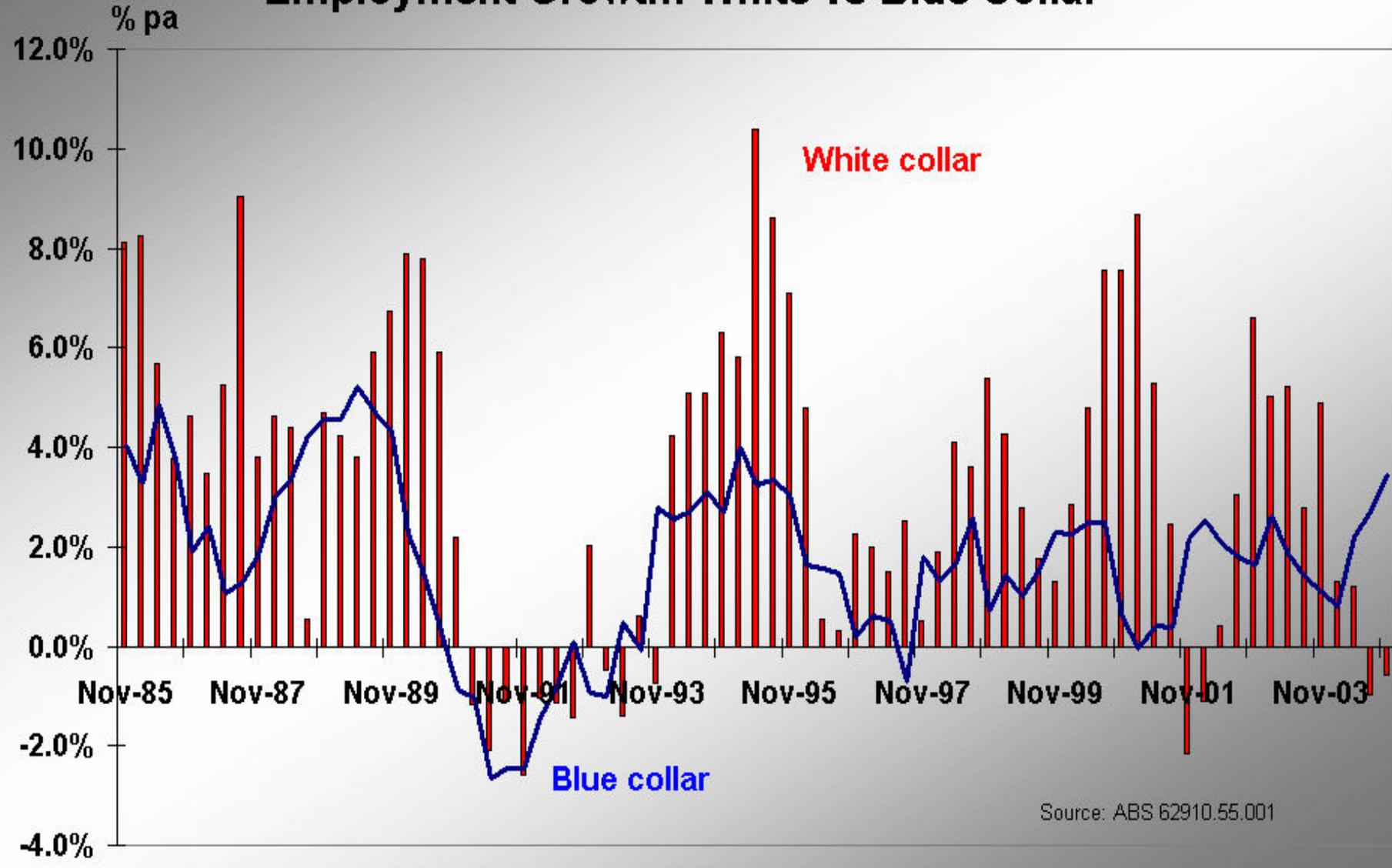
Source: ABS520606, CBA

Economic Growth Outlook

- **GDP Forecast:** 3.1% (FY05); 3.5% (FY06); 3.8% (FY07)
- **Key drivers:**
 - Exports (7.0%, FY06; 7.4%, FY07)
 - Dwelling investment (-0.5%, FY05; -1.7%, FY06; 7.8%, FY07)
- **Business investment falls in FY06**
- **Inflation <3.0%**
- **Risks: Global growth and domestic**

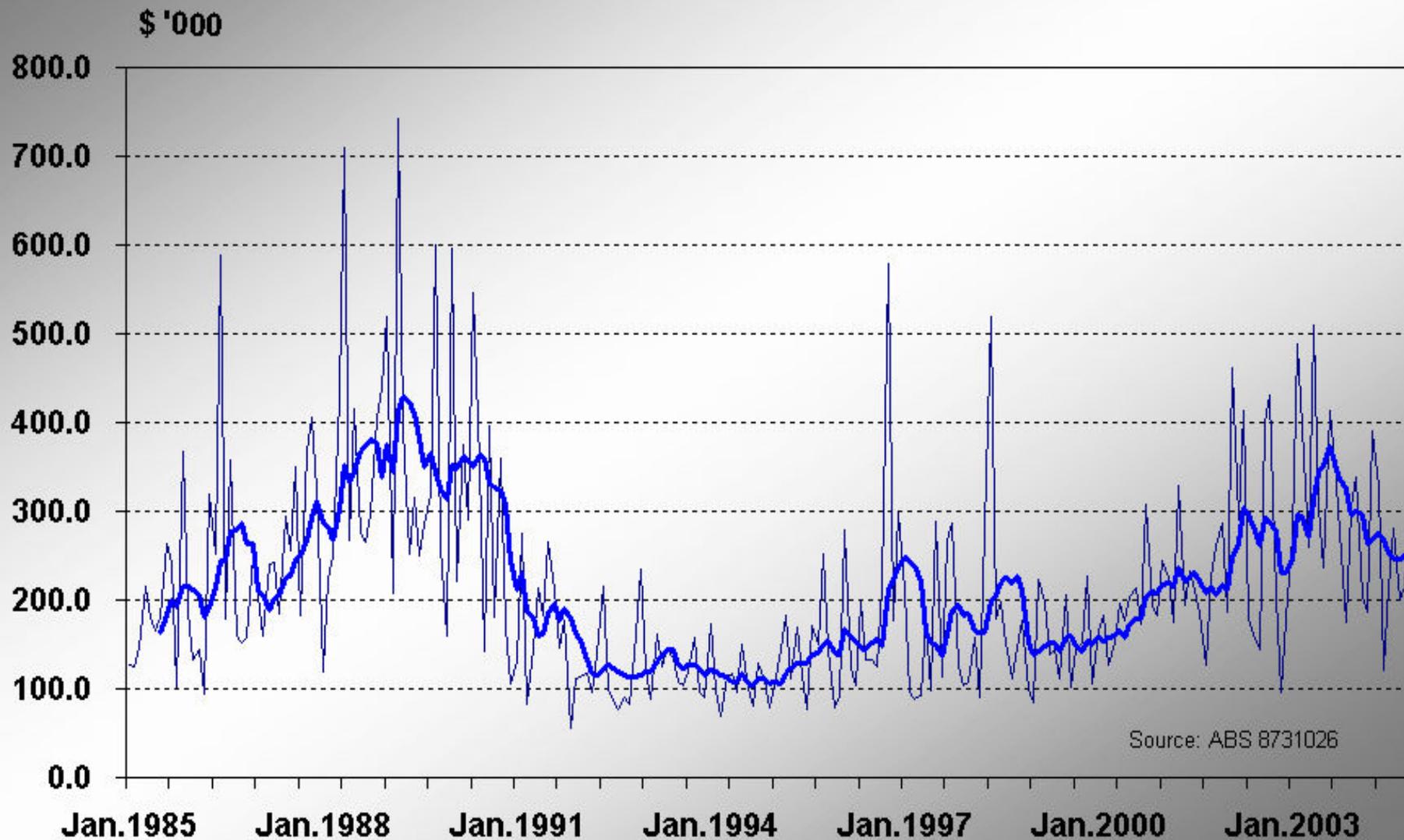
Office market

Employment Growth: White vs Blue Collar



Source: ABS 62910.55.001

Offices - Building Approvals



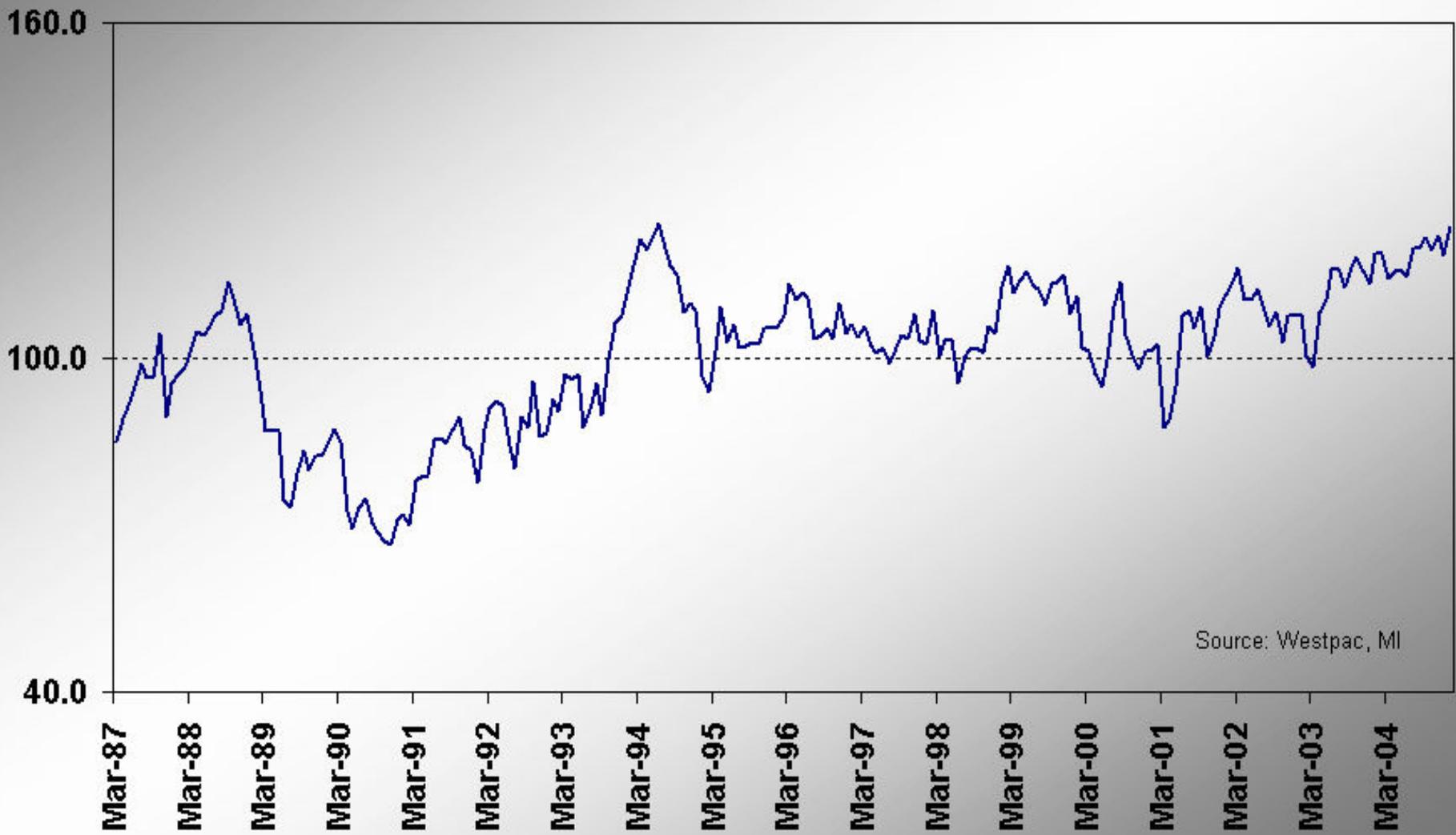
Office market

- White collar employment very volatile
- Divergent blue/white collar employment trends
- Cyclical recovery in white collar employment 2005/6
- Long-term white collar employment growth (3.3% vs 1.7%)

Risk: Supply/demand mismatch

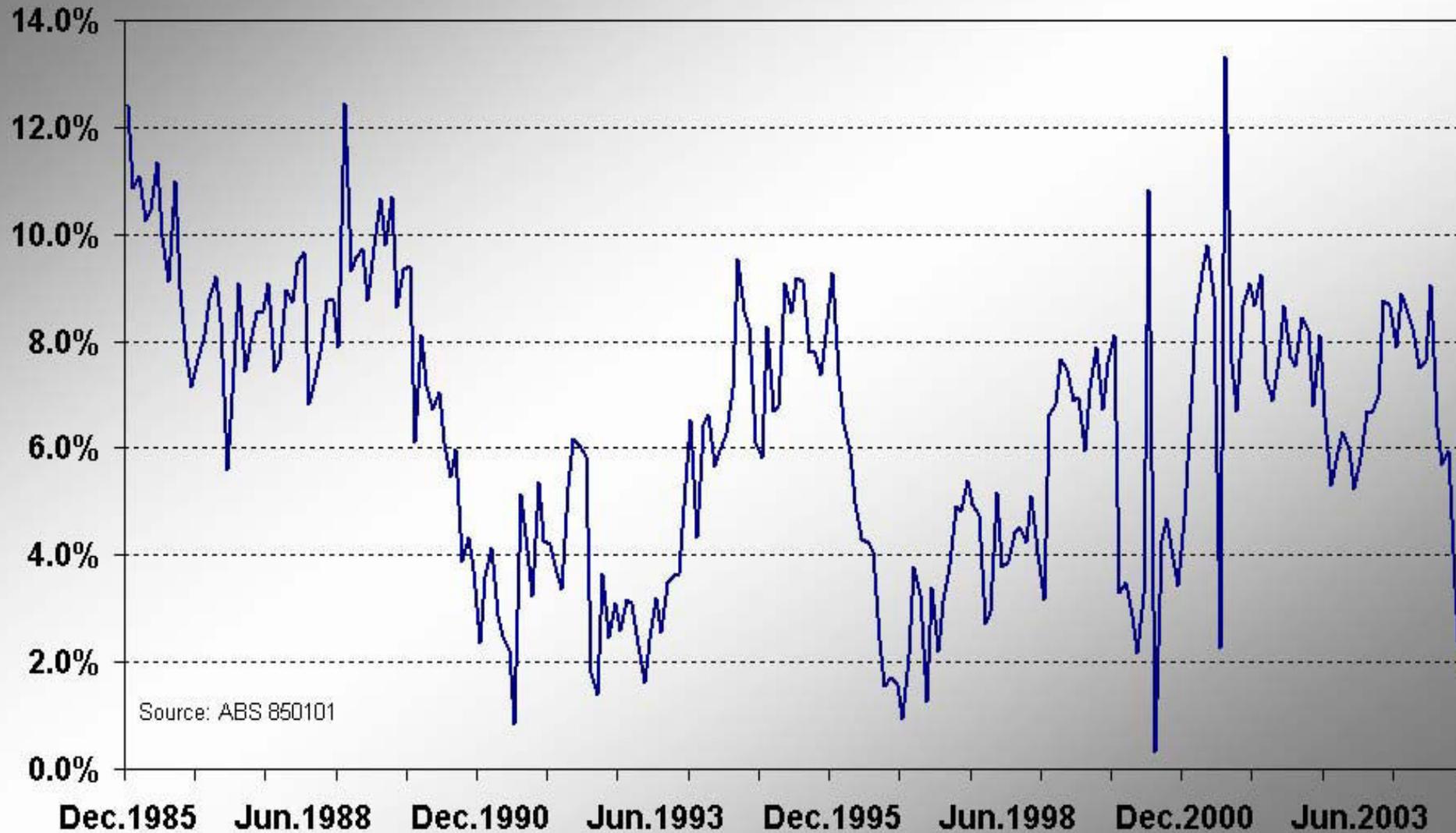
Retail property

Consumer Sentiment - all time high

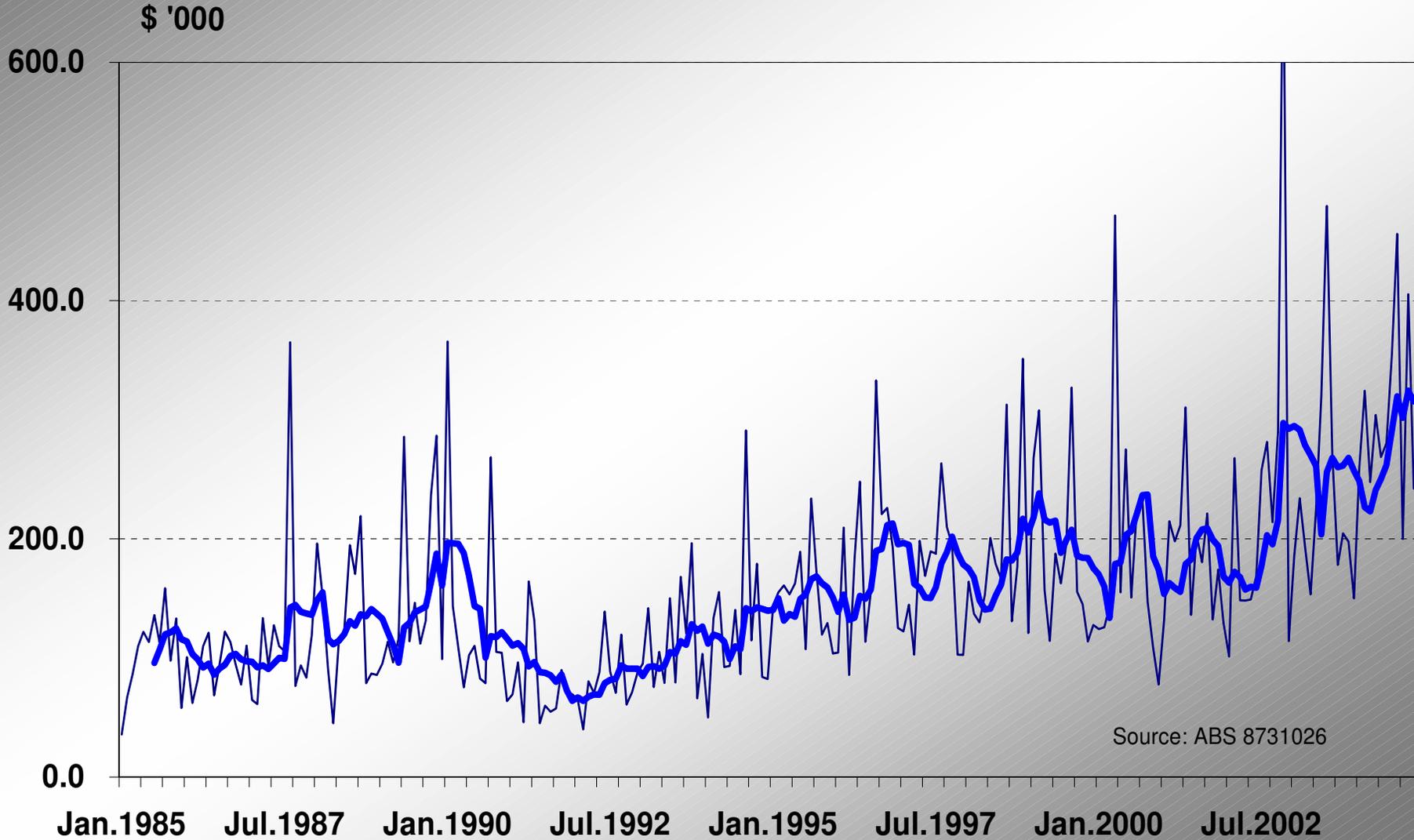


Source: Westpac, MI

Retail Turnover Growth - annual % change



Shops - Building Approvals



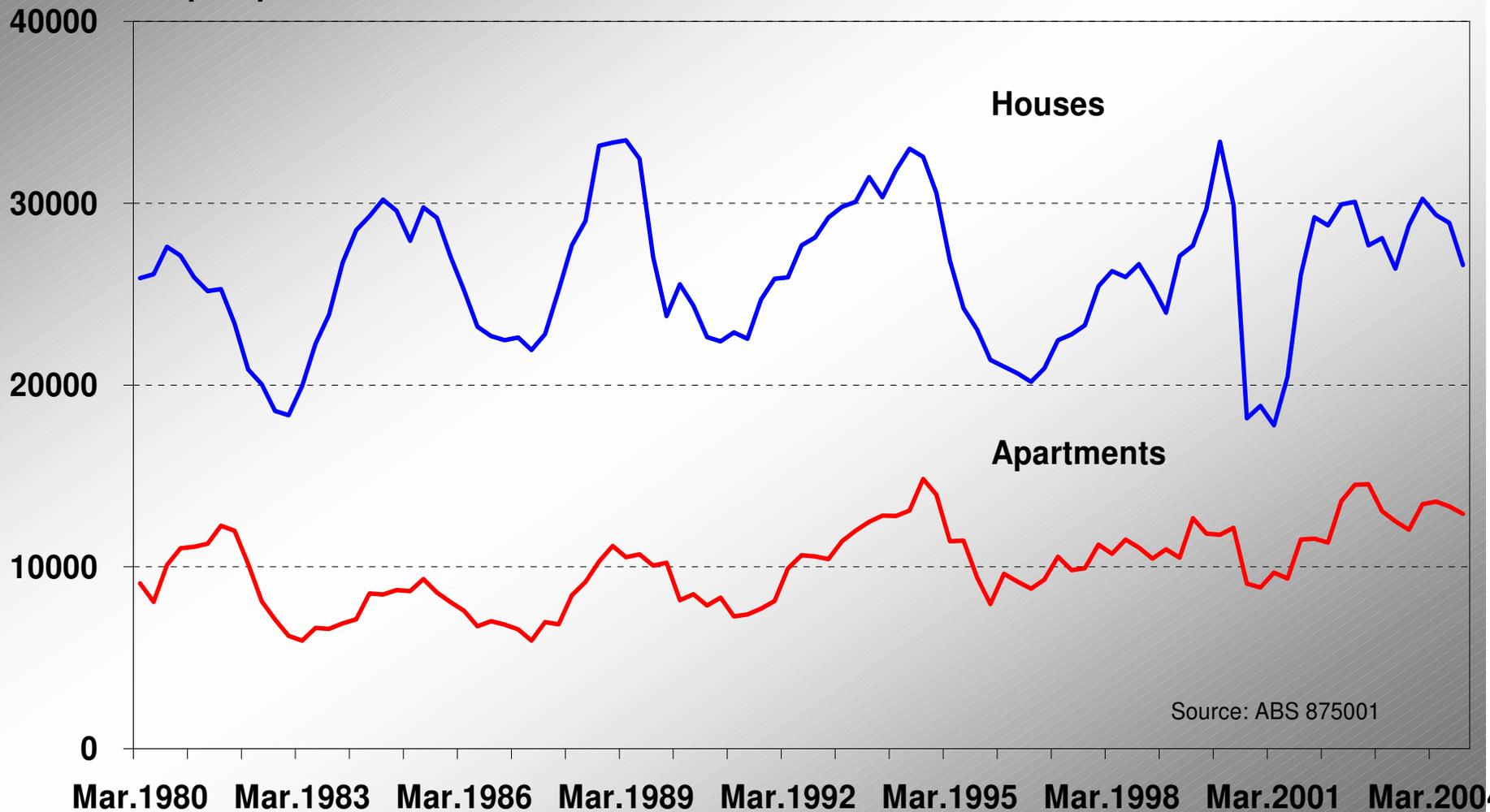
Retail property

- **Temporary, cyclical or long-term retail spending slow-down?**
- **Impact on retailer margins of**
 - China and strong AUD
 - Inventory management and technology
 - PPI > CPI
- **“Third force” in retailing?**
- **Risk: Household b/sheet contraction**

Residential market

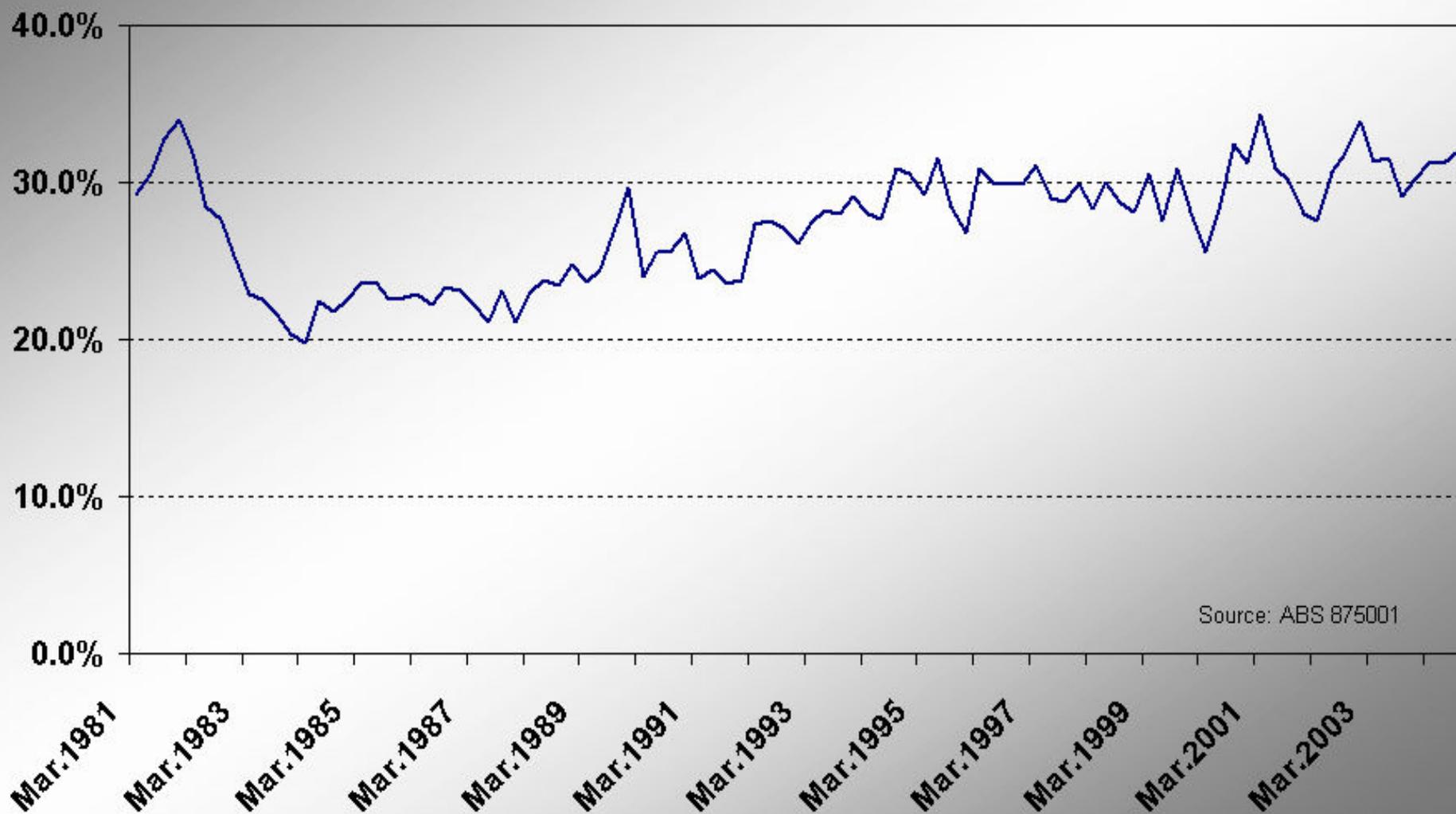
Construction commencements: Houses and apartments

No. per quarter

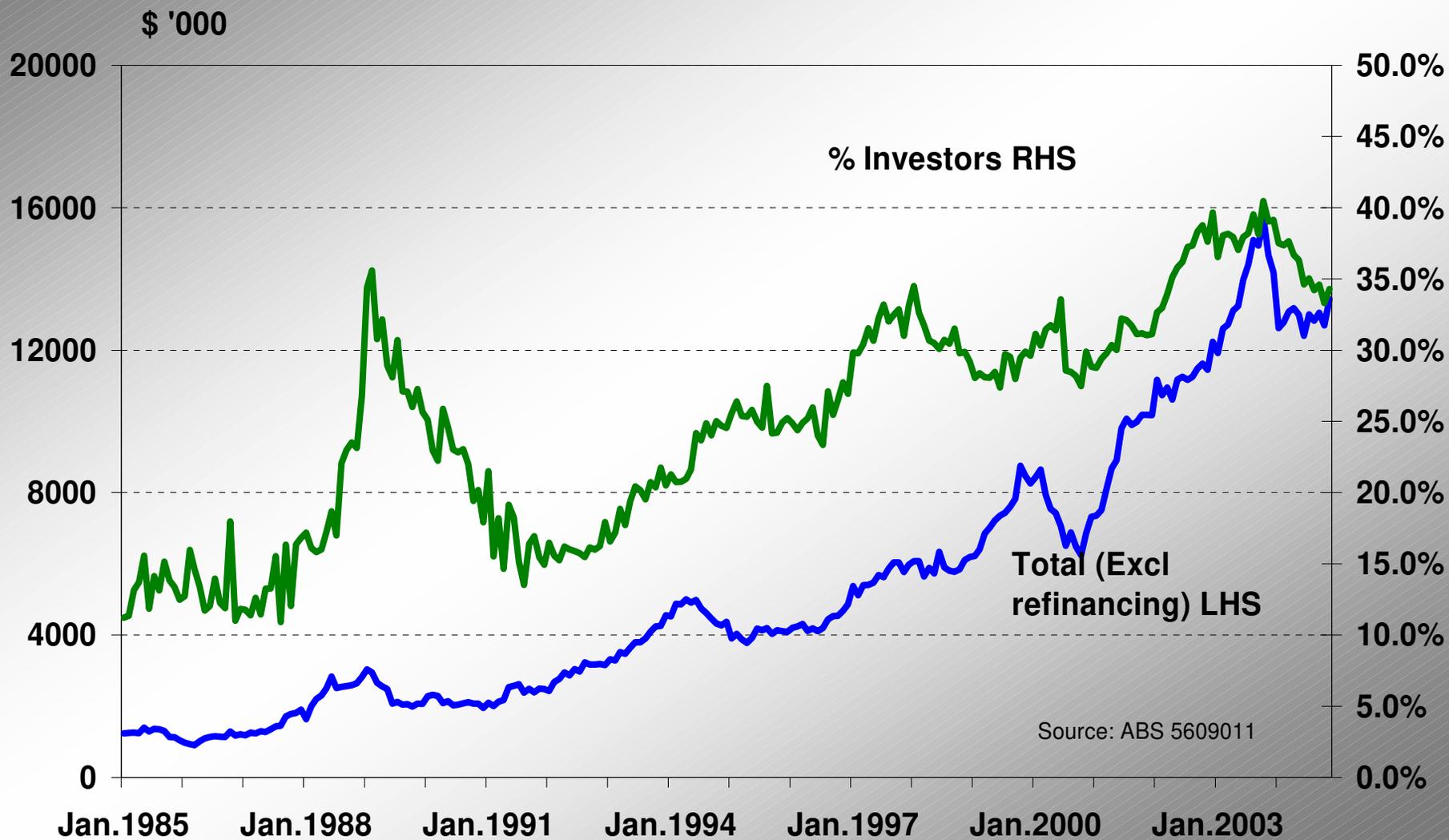


Source: ABS 875001

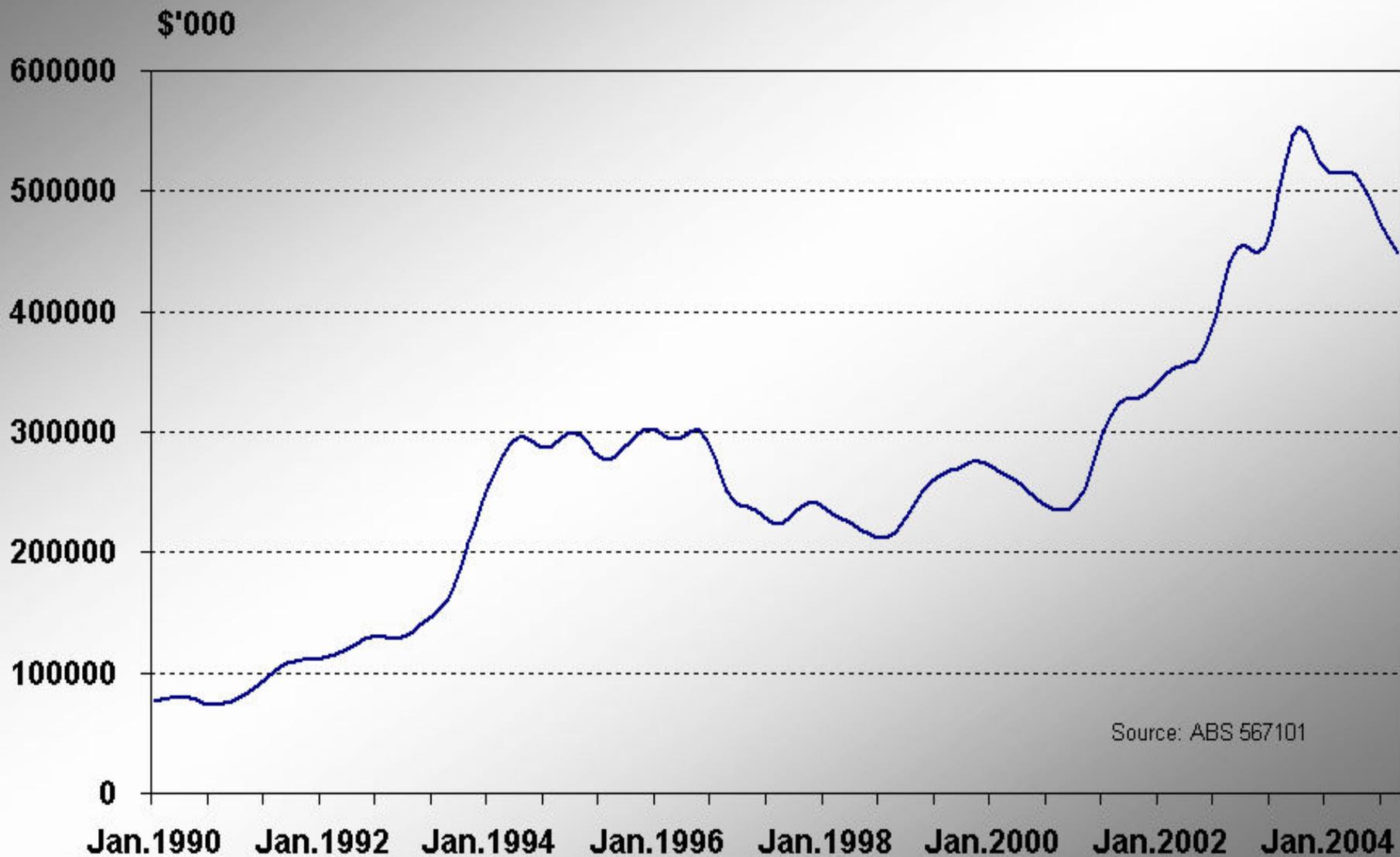
Apartments as percentage of total



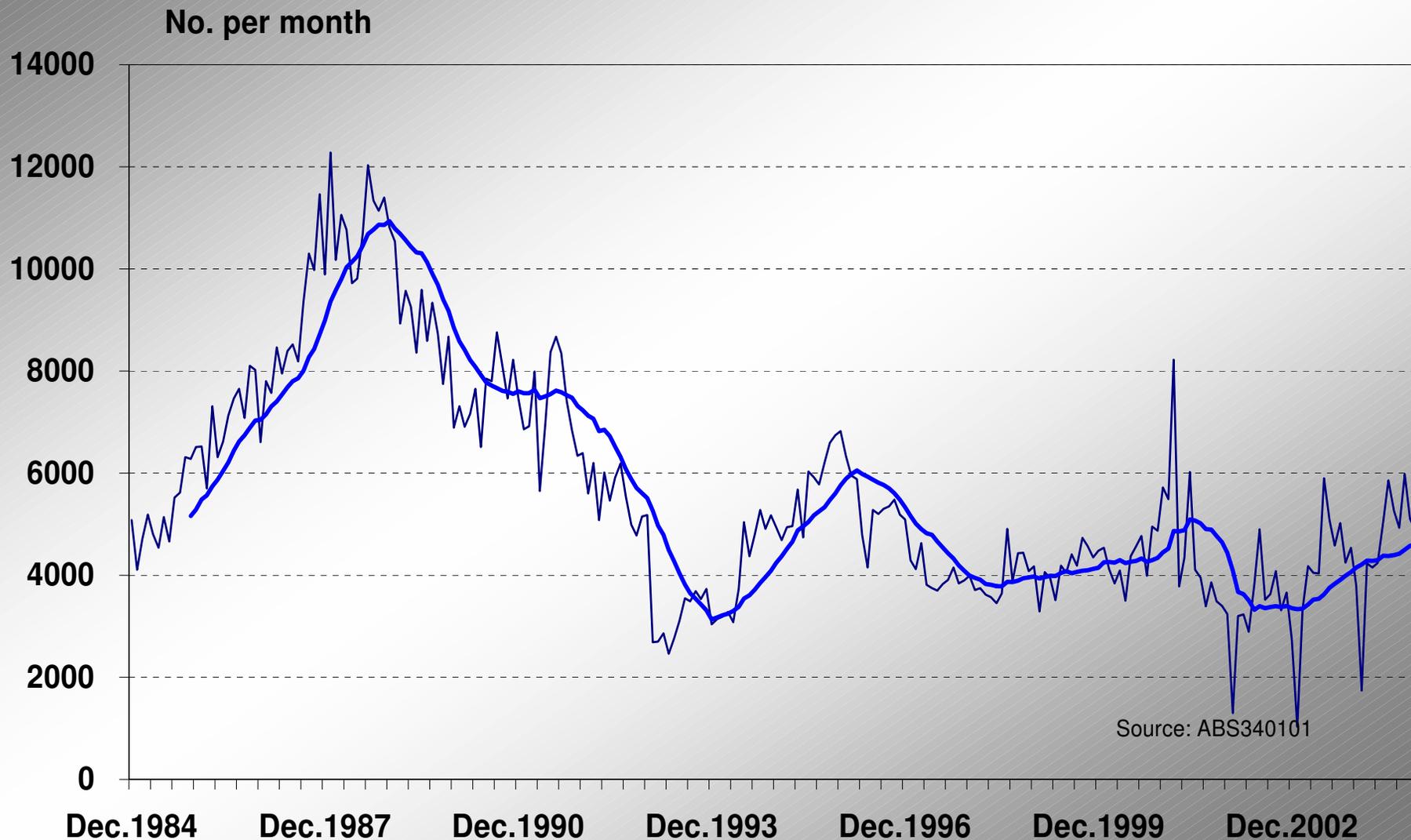
Housing Finance



Housing finance - Alterations and additions



Migration - net permanent arrivals

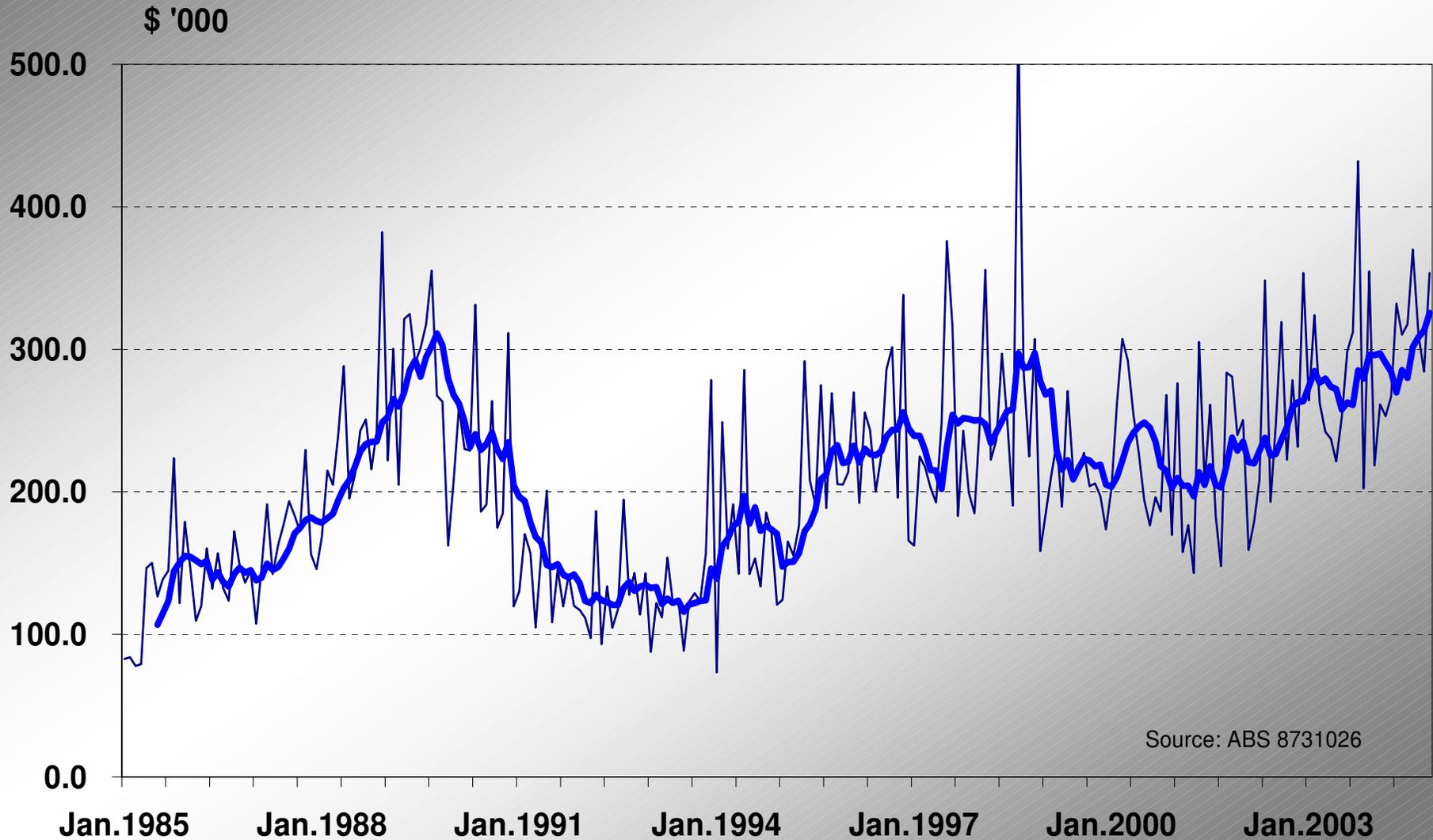


Residential market

- **Accumulating evidence of a “soft landing”**
- **Latest (November) finance data supportive**
- **Other positives:**
 - RBA “wait-and-see” strategy
 - Migration
 - Sharemarket
- **Risk: Declining investor demand or interest rate rise**

Industrial market

Factories and Other Business - Building Approvals



Industrial market

- **Rising estimates for FY05 capex**
- **4.3% higher than FY04 and highest on record**
- **FY05 Buildings and structures +23%**
- **FY05 Equipment - 5%**
- **By industry, Mining + 10%, Manufacturing +5%, “Other” + 2%**
- **Risk: Supply/demand mismatch**

Summary

- Domestic and global economic growth will under-write property markets through 2005/6 2005/6
- But don't expect "more of the same": the yield yield re-rating of 2003/4 will not continue
- **Key question:** Structural or cyclical changes?
- **Key risks**
 - Global grow slowdown
 - Domestic consumer spending decline

Common Market Themes

- Two (largely) independent themes through 2003/4
 - Portfolio-driven re-rating of the commercial and residential property
 - Strong economy drives demand for space and assets
- Increased supply/refurbishment the obvious response
- Re-rating has several consequences, for example
 - Lower yields, harder to generate investment returns
 - Qualitative change - refurbishment
 - Higher “base case” vacancy rates

Prospects for 2005/6 - three inter-related markets

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