



Introduction

Residential Property Market Outlook

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QBE LMI



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QBE **LMI**

Recent Events

Shift in world economic outlook – higher cost of funds.

But sharp decline in interest rates locally – 1.75% fall in cash rate over October & November 2008.

First Home Owner's Grant

- > \$14,000 for established
- > \$21,000 new

Offsets in other sectors of the economy:

- > Lower \$AU;
- > Increased exports;
- > Boost to dwelling construction.

GDP Growth Forecasts (2005/2006 Prices)

Year Ended June						Forecasts		
	2004	2005	2006	2007	2008	2009	2010	2011
Private Consumption	5.4	4.4	2.6	4.0	3.9	1.5	2.3	3.8
Private Investment	8.1	5.1	8.7	5.4	8.3	3.3	-1.0	6.1
Public Consumption	3.9	3.8	2.5	2.9	3.4	2.8	2.1	3.3
Public Investment	2.5	9.3	9.3	8.3	11.0	3.8	1.0	6.5
GNE	6.4	4.7	3.8	4.4	5.4	1.8	1.5	4.6
Exports	2.1	3.1	2.2	3.7	4.1	6.4	5.8	7.5
Imports	13.0	12.1	7.2	8.9	12.2	5.2	2.2	9.0
GDP	4.0	2.8	3.0	3.3	3.7	1.9	2.2	4.0

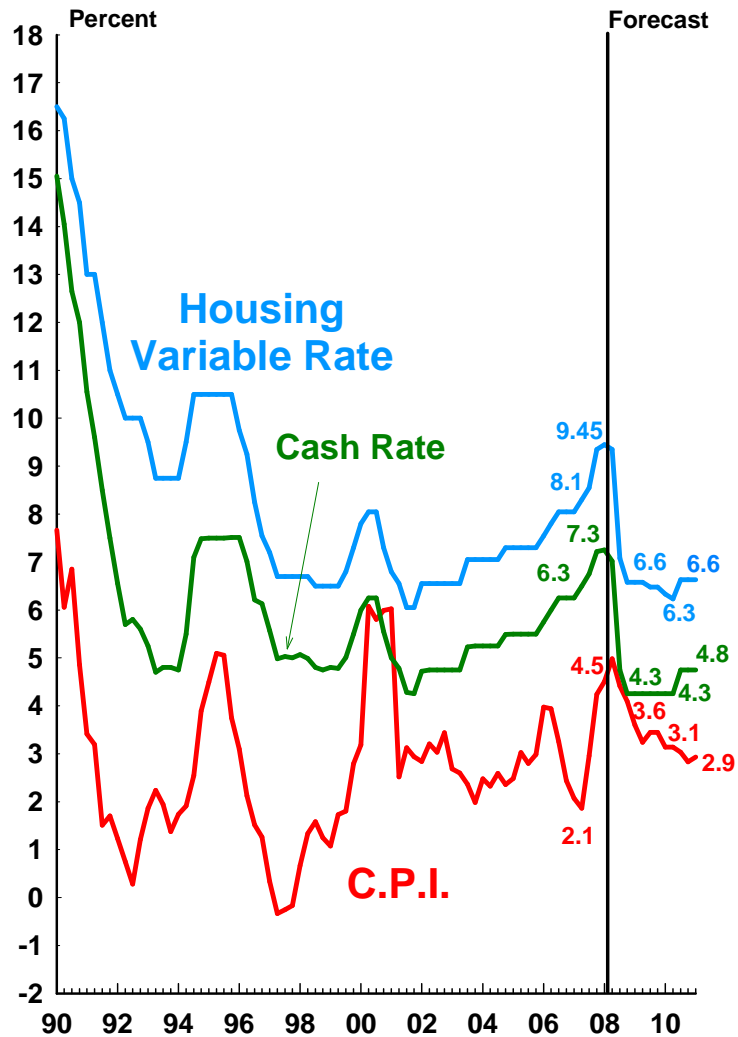
Source: ABS Data, BIS Shrapnel

Private Investment Growth Forecasts (2005/2006 Prices)

Year Ended June	Forecasts								
	2004	2005	2006	2007	2008	2009	2010	2011	
Total Dwellings	3.1	-0.8	-4.3	2.4	1.5	2.3	7.1	9.4	
Real Estate Transfer	-0.7	-16.6	2.3	-0.9	0.4	-6.5	15.0	13.5	
Residential and Property - Subtotal	2.2	-4.4	-3.0	1.7	1.3	0.5	8.6	10.2	
New Plant and Equipment	16.2	15.2	15.1	3.4	11.7	5.2	-3.5	7.5	
New Non-Dwelling Construction	6.8	9.0	19.9	12.4	10.7	2.7	-9.1	-1.0	
New Business Investment - Subtotal	12.7	12.0	15.8	7.3	11.7	4.5	-5.1	4.1	
New Private Investment - Subtotal	8.1	5.1	8.7	5.4	8.3	3.3	-1.0	6.1	

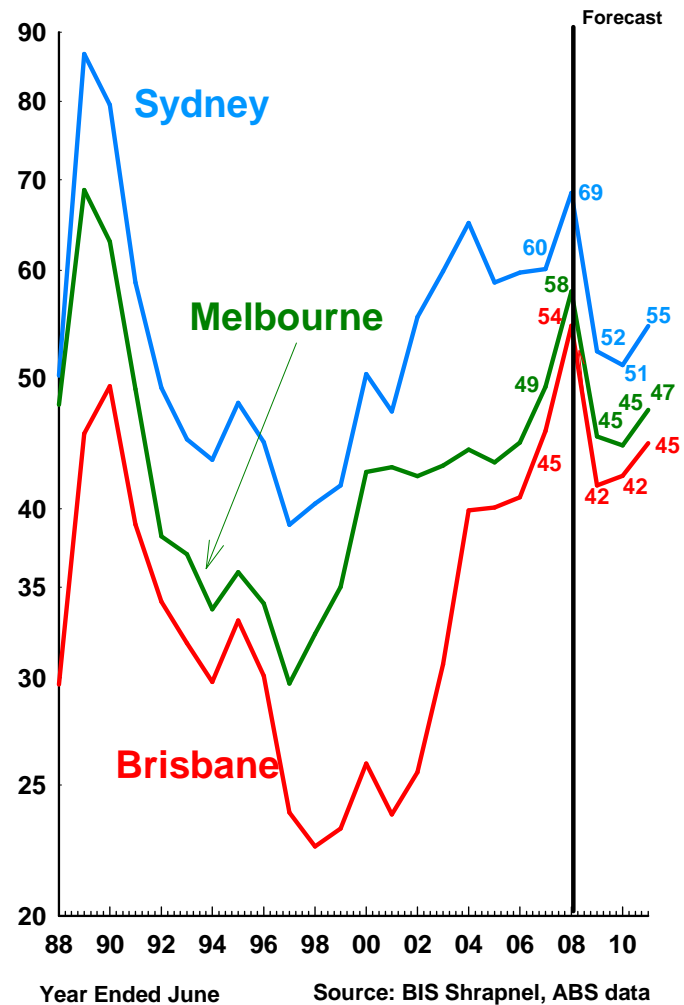
Source: ABS Data, BIS Shrapnel

Interest Rates



Quarter Ended June Source: RBA, ABS data, BIS Shrapnel

Home Loan Affordability Proportion of Monthly Earnings as Repayment



Loan Approvals for Owner-Occupied Dwellings (% Change)

	Total Dwellings					
	Jun qtr 07	Sep qtr 07	Dec qtr 07	Mar qtr 08	Jun qtr 08	Sep qtr 08
New South Wales	8	6	10	-3	-20	-24
Victoria	10	5	10	1	-18	-22
Queensland	15	10	9	-12	-32	-38
South Australia	2	-4	7	-9	-20	-23
Western Australia	-15	-10	1	-5	-27	-29
Tasmania	10	3	14	10	-19	-28
Northern Territory	-27	-16	0	-17	-13	-27
A.C.T.	35	13	4	-8	-25	-21
Australia	6	3	8	-5	-23	-27

Source: ABS Data

Number of Loans to First Home Buyers

	Avg 1997/98 to 2003/04	2004/05	2005/06	2006/07	2007/08	Jul- Sep 08 Ann % var
New South Wales	31,997	27,734	36,499	38,986	38,480	-10
Victoria	28,346	28,532	33,255	33,071	34,089	-16
Queensland	22,910	20,130	26,953	31,324	27,361	-36
South Australia	7,260	6,612	7,912	8,443	8,309	0
Western Australia	15,108	16,328	17,746	13,789	16,445	-11
Tasmania	2,048	1,681	2,220	2,073	2,141	8
Northern Territory	989	1,485	1,912	1,119	930	-8
Aust. Capital Territory	1,776	1,162	1,498	1,792	1,394	-15
Australia	110,433	103,664	127,995	130,597	129,149	-17

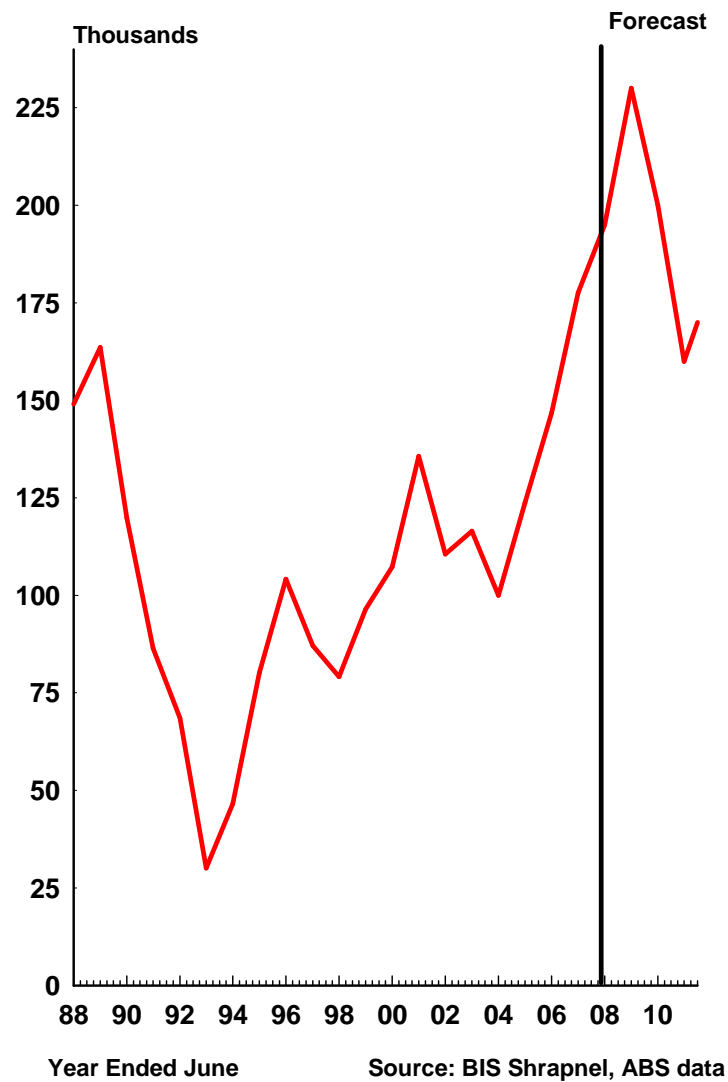
Source: ABS Data

Value of Investment Loans for the Purchase of Property for Rent/Resale

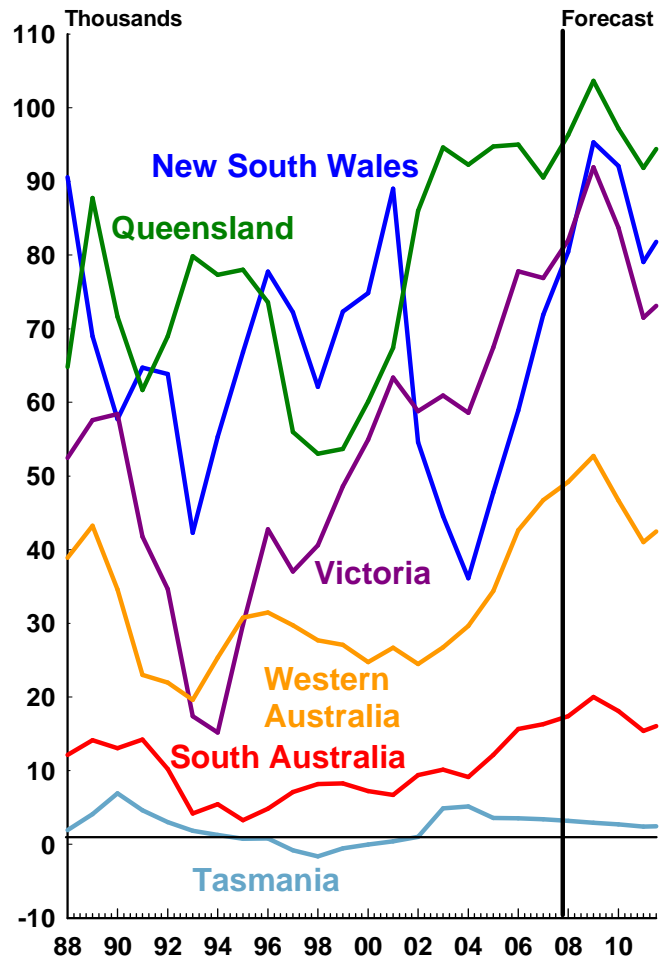
	Sep qtr 07		Dec qtr 07		Mar qtr 08		Jun qtr 08		Sept qtr 08	
	(\$m)	% Var	(\$m)	% Var	(\$m)	% Var	(\$m)	% Var	(\$m)	% Var
New South Wales	6,231	9	5,676	6	4,850	-12	5,110	-32	4,688	-25
Victoria	4,028	28	4,441	49	3,717	22	3,922	-6	3,641	-10
Queensland	4,533	45	4,411	25	3,805	-6	3,639	-24	3,130	-31
South Australia	1,212	45	1,197	41	1,035	12	1,076	-10	856	-29
Western Australia	2,591	-4	2,527	10	1,990	-14	2,210	-25	1,947	-25
Tasmania	170	40	146	11	135	7	147	-12	134	-21
Northern Territory	125	23	116	-12	116	-14	116	-20	104	-16
A.C.T.	288	40	286	44	249	19	247	-26	190	-34
Australia	19,197	20	18,822	21	15,925	-3	16,487	-22	14,714	-23

Source: ABS Data

Net Overseas Migration



Net Population Increase



Year Ended June

Source: BIS Shrapnel, ABS data

	Underlying Demand Annual Average (thousands)			Dwelling Commencements (thousands)
	2001/02 - 2005/06	2006/07 - 2007/08	2008/09 - 2012/13	2007/08
New South Wales	41.4	42.6	50.1	30.6
Victoria	42.2	41.9	46.1	41.9
Queensland	39.2	40.8	45.2	44.1
South Australia	9.7	10.5	12.0	11.9
Western Australia	19.5	23.9	25.0	22.3
Tasmania	2.6	2.2	2.2	2.9
Northern Territory	1.4	1.7	1.7	1.1
A.C.T.	2.3	2.7	2.4	2.1
Australia	158.3	166.2	184.9	156.9

f = forecast. NB: Australia may not equal sum of the states due to rounding

Source: BIS Shrapnel & ABS data

* Includes conversions

	Underlying Demand Annual Average (Thousands)	Dwelling Stock Deficiency As at June (Thousands)				
		2008/09 - 2012/13	2007	2008	2009	2010
New South Wales	50.1	16.6	32.4	53.2	71.3	84.7
Victoria	46.1	7.5	12.4	16.6	20.0	21.2
Queensland	45.2	16.4	17.5	21.2	23.5	22.4
South Australia	12.0	-0.3	-1.1	-1.4	-1.8	-2.2
Western Australia	25.0	-0.1	0.4	3.0	6.2	8.3
Tasmania	2.2	-1.0	-1.5	-2.3	-2.8	-3.0
Northern Territory	1.7	-0.1	0.6	1.4	1.9	2.1
A.C.T.	2.4	0.4	0.8	1.1	1.3	1.2
Australia	184.9	39.3	61.4	92.9	119.5	134.5

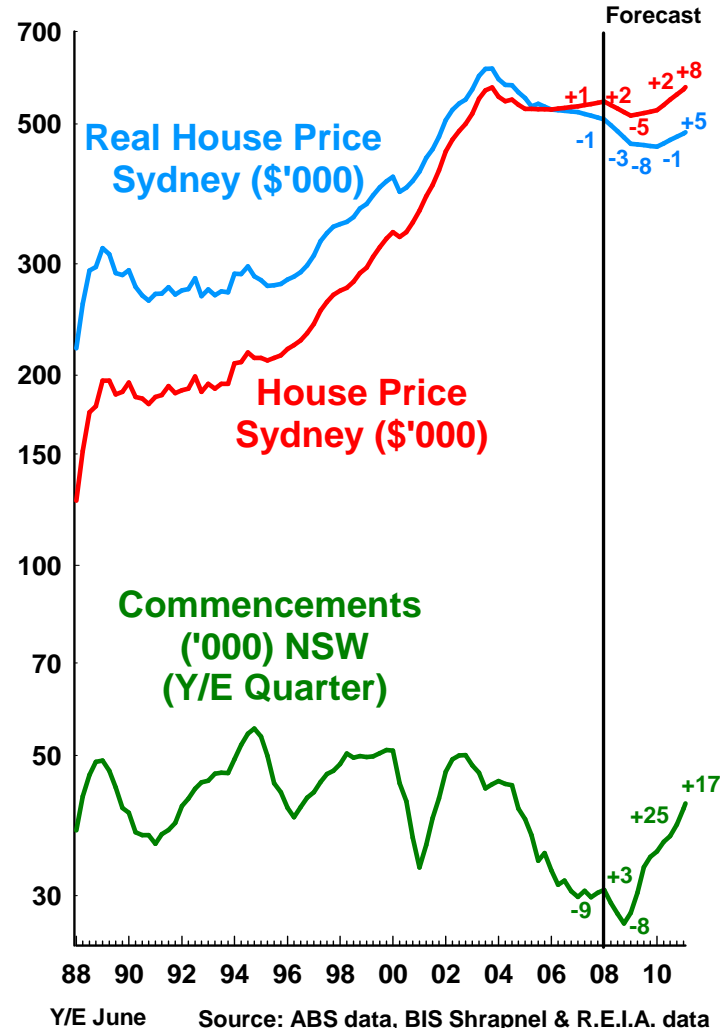
Source: BIS Shrapnel & ABS data

Residential rental vacancy rates (%)								
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Canberra	Darwin
1992	3.0	4.3	5.4	5.4	5.7	4.6	3.4	n/a
1993	2.9	3.8	6.0	4.8	5.0	6.1	5.1	n/a
1994	3.0	3.1	4.9	5.5	4.7	7.0	5.0	n/a
1995	1.3	1.9	4.5	5.2	3.5	6.6	4.4	n/a
1996	1.6	1.5	4.0	3.4	4.9	5.6	3.4	1.8
1997	2.3	2.0	4.2	2.6	2.7	6.2	4.3	5.8
1998	2.6	1.7	4.7	1.9	2.5	6.9	2.9	14.1
1999	1.8	3.6	5.4	2.5	2.4	8.3	1.0	14.1
2000	2.2	3.5	n/a	4.5	3.0	4.1	2.3	6.4
2001	3.3	3.9	n/a	3.6	4.2	2.0	3.0	9.0
2002	4.6	3.8	4.1	n/a	4.5	2.3	3.6	5.0
2003	4.4	3.9	2.3	2.8	4.5	2.8	3.5	7.1
2006	2.1	1.7	2.2	1.6	1.9	2.2	2.3	2.4
2007	1.4	1.4	1.5	1.3	2.1	2.3	2.4	1.2
2008 Mar	1.0	1.6	2.2	1.7	1.4	2.3	0.5	2.0
2008 June	1.1	1.0	2.2	1.5	2.8	2.4	0.3	2.0
2008 Sept	1.2	1.9	n/a	1.1	n/a	n/a	n/a	n/a

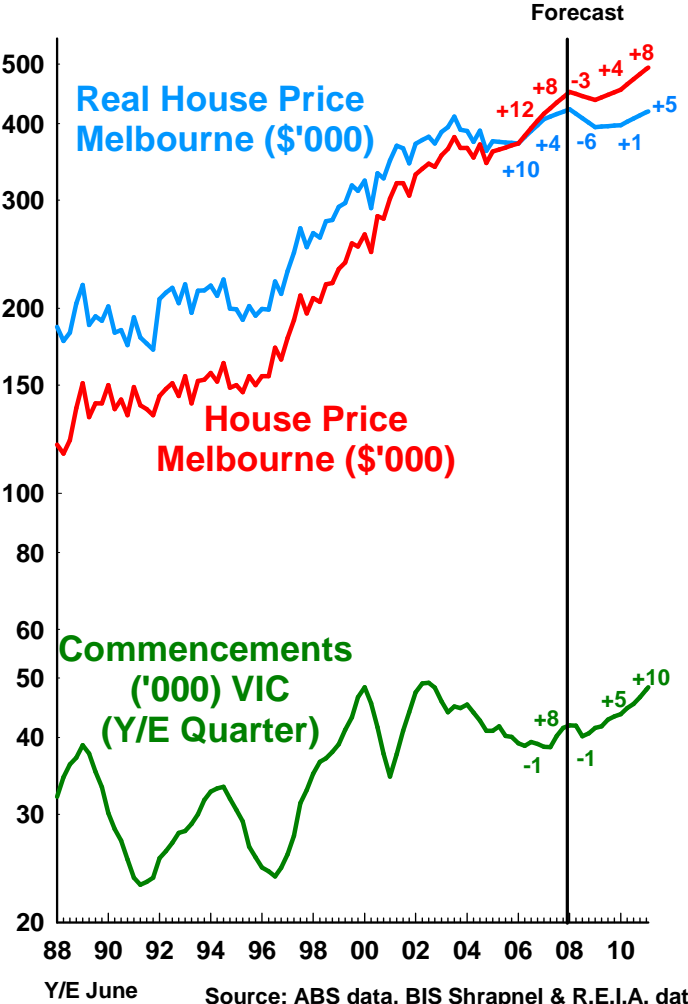
n/a: data not available

Source: R.E.I.A.

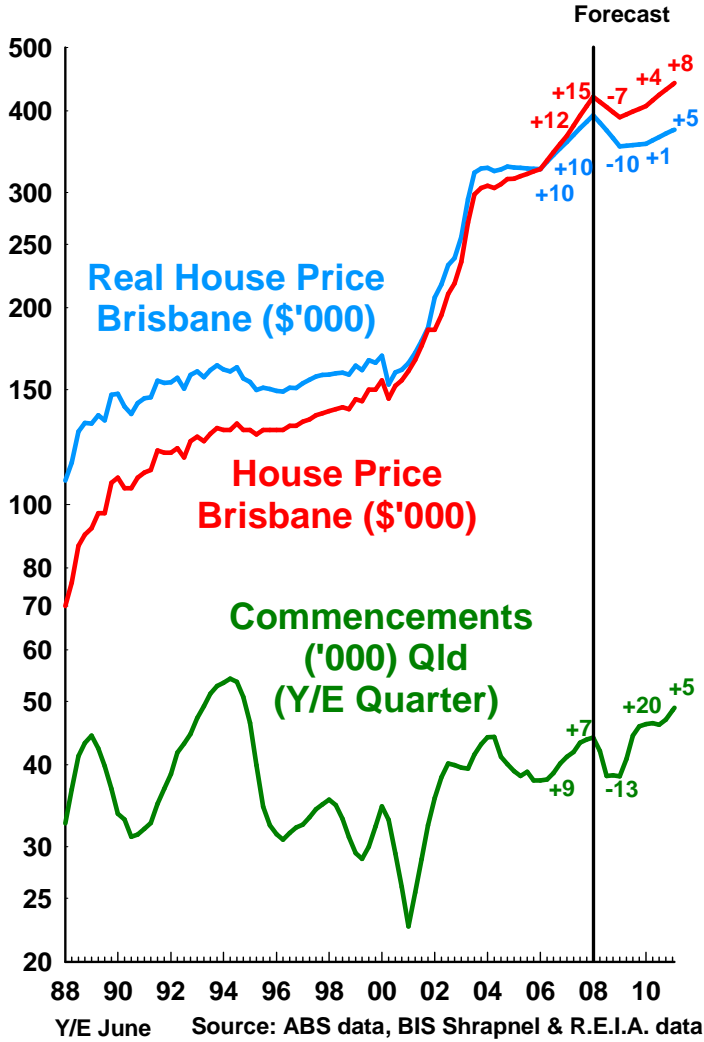
New South Wales Residential Building and Property Cycle



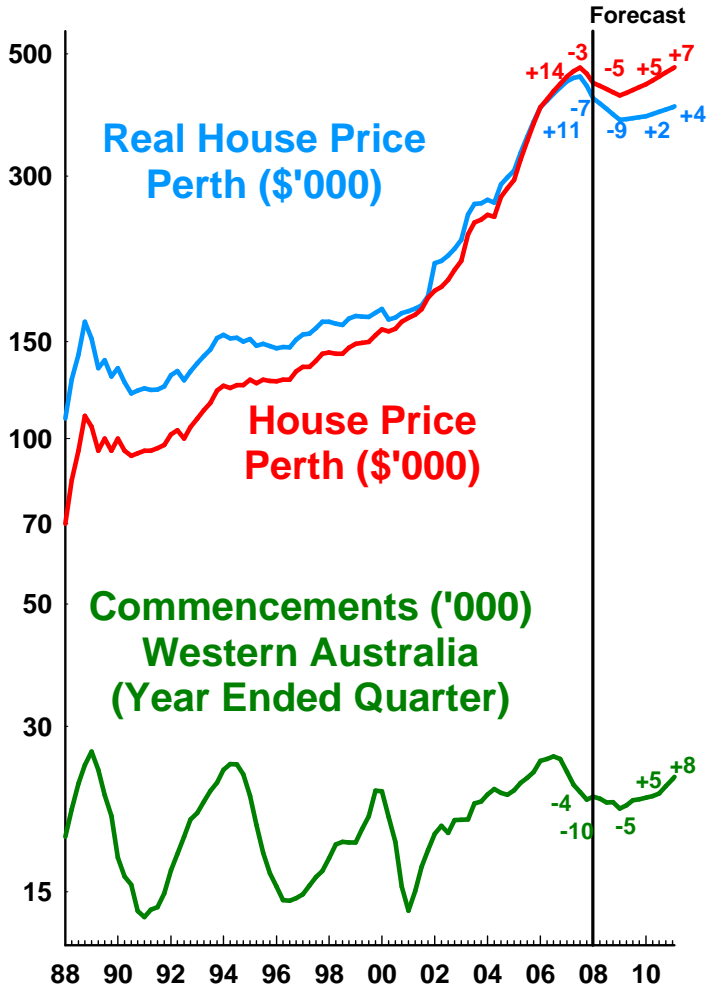
Victoria Residential Building and Property Cycle



Queensland Residential Building and Property Cycle



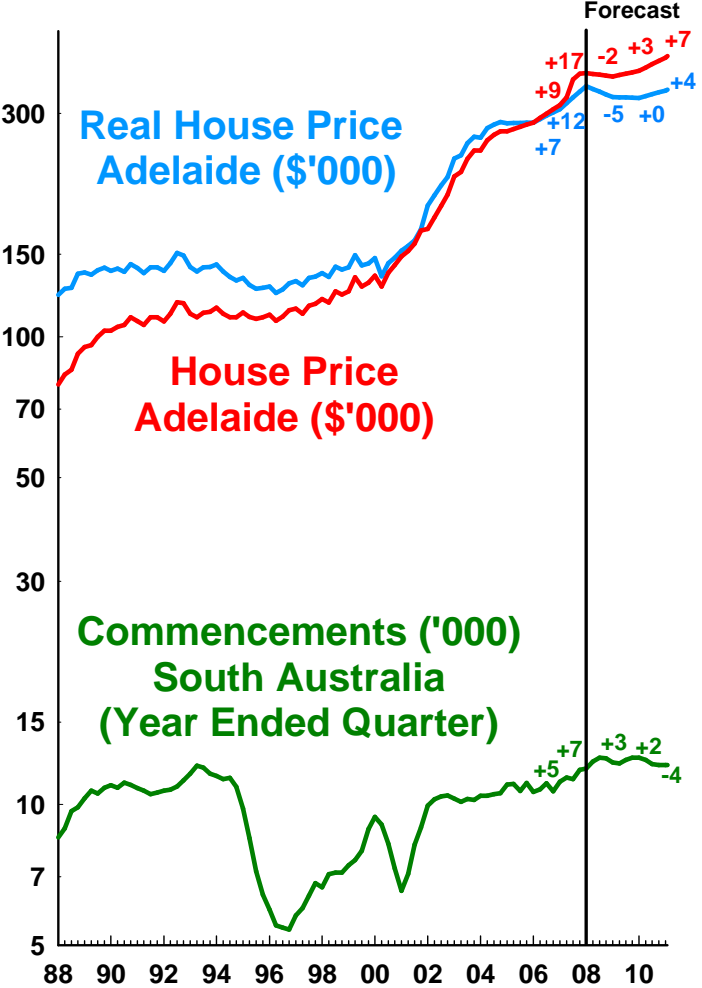
Western Australia Residential Building and Property Cycle



Y/E June Source: ABS data, BIS Shrapnel & R.E.I.A. data



South Australia Residential Building and Property Cycle



Y/E June Source: ABS data, BIS Shrapnel & R.E.I.A. data



Summary

Rental market tightening, rents accelerating (but yields still low) – pressure on supply.

Weakening financial and economic environment to continue to impact on purchaser confidence.

Significant improvement in housing affordability due to house price declines and dramatic fall in interest rates.

Potential boost to first home buyer demand given the additional incentives from Federal and State Governments.

Summary

Forecast cumulative median house price growth between 2009 and 2011

> Sydney +5%

> Melbourne +9%

> Brisbane +5%

> Perth +6%

> Adelaide +8%

Summary – risk factors

Deterioration of world economies and its impact on Australia.

Duration of the credit squeeze and the cost of funds.

Larger fall in interest rates.

Magnitude of decline in commodity prices and subsequent impact on mining investment.