

Consulting Economist's Report for Product Disclosure Statement

Prepared for Peet Limited

MacroPlan Australia Pty Ltd
15 September 2010

Final Report



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1 Executive Summary

Introduction

1. MacroPlan Australia Pty Ltd (the Consulting Economist) has prepared an economic report for inclusion in a Product Disclosure Statement inviting investments in Peet Yanchep Land Syndicate.
2. The Consulting Economist was asked to provide an economic overview of residential indicators to be relied upon in making forward-looking statements in the Product Disclosure Statement, commenting on the supply and demand for residential development and the level of construction activity in the applicable region. Additionally the Consulting Economist was requested to provide estimates of price growth and escalation of building and construction costs.

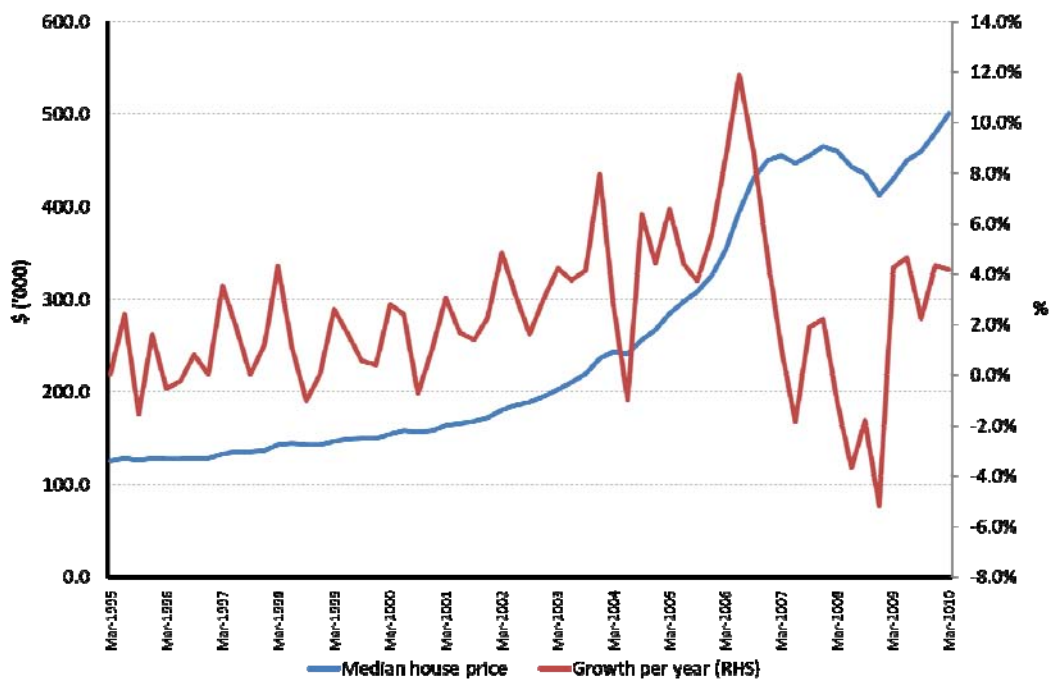
Western Australia and Perth Market Overview

3. Despite the impact of the economic downturn, Western Australia Gross State Product (GSP) increased by 0.7 per cent through 2008/09, down from 5.0 per cent a year earlier. The Western Australian economy has rebounded strongly since, with the unemployment rate falling from its recent peak at 5.7 per cent in September 2009 to 4.0 per cent in June 2010. This view is supported by the Western Australian Treasury. Overall, the Western Australia Treasury is forecasting GSP growth of 3.75 per cent over 2009/10 increasing to 4.75 per cent by 2011/12 before stabilising to 3.0 per cent over 2012/13 and 2013/14.
4. During the economic downturn in 2008/09, residential dwelling approval activity fell sharply in Western Australia, with 3,500 approvals recorded in the March quarter 2009. Weaker wage growth, uncertainty about economic conditions, cessation of the first home owners boost and a sharp rise in unemployment were the key reasons for a fall in approvals throughout 2008 and 2009.
5. Since March 2009, approval activity has rebounded strongly. This improvement has been largely driven by improvement in economic conditions, Government stimulus expenditure and low interest rate conditions.
6. As economic conditions regain sustained momentum and the labour market again tightens, dwelling investment will improve. This view is supported by the Western Australia Treasury. Dwelling investment growth is forecast to increase by 4.25 per cent in 2011/12 and by around 3.6 per cent over the two years to 2013/14.
7. According to the Real Estate Institute of Australia (REIA), the median price for a house in Perth was \$500,000 in the March quarter 2010, up 4 per cent on the previous quarter and 16 per cent from twelve months earlier. This follows a 7 per cent fall in the previous 12 months (from March 2008 to March 2009). This is the first time that the median house price in Perth has been at or above \$500,000. A combination of less first home buyers in the market, (who typically purchase in the entry end of the market), and improved economic conditions has supported this recent median price growth. The Perth median house price is around 15.5 per cent higher than the median house price in Yanchep (\$411,000 for the year ending December 2009), providing areas like Yanchep

with affordability advantages over other regions in Perth making it attractive to a range of market segments.

8. The historical average price growth in Perth is around 9.7 per cent per year. Future house price growth is expected to follow this historical trend.

Figure 1. **Median House Price, Perth (average for the year ending March)**



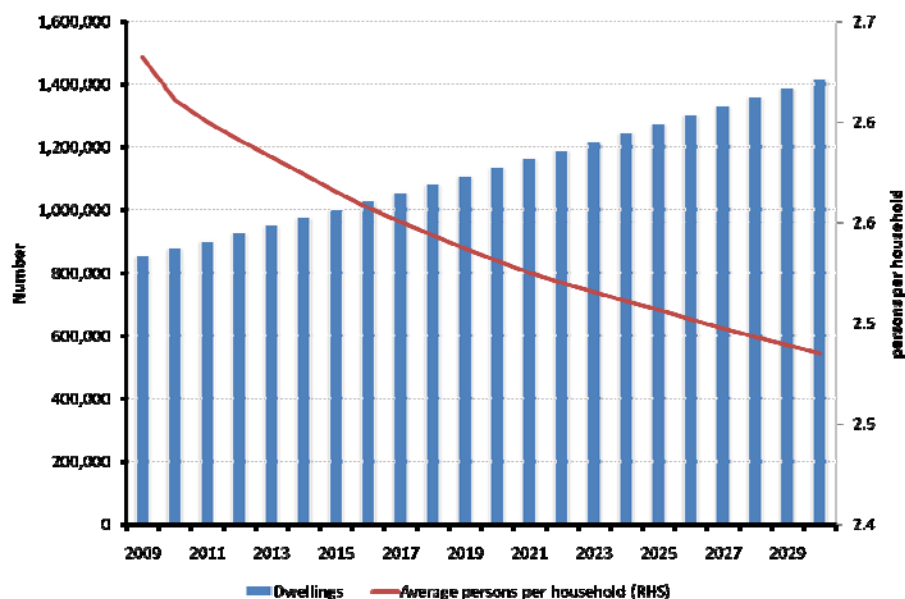
Source: REIA, MacroPlan Australia

9. Population growth in Western Australia and Perth has outstripped the national average over the past 10 years. The margin of difference became decidedly larger through the minerals commodity boom (between 2006 and 2008) as workers moved to Perth and other areas of WA (or permanently to Perth only to Fly-In and Fly-Out of mining communities in Western Australia).
10. In 2009, WA continued to record the fastest population growth (2.7 per cent) of all states and territories ahead of Queensland (2.4 per cent), Northern Territory (2.2 per cent) and Victoria (2.1 per cent).
11. The Estimated Resident Population (ERP) in Western Australia increased from 1.7 million persons in 1995 to 2.2 million in 2009, representing an average annual growth rate of 1.9 per cent over this period. The major source of population growth in Western Australia has been Net Overseas Migration (NOM). There has been a rapid increase in NOM from around 14,000 in 2004 to 46,100 in 2008 before moderating to 38,000 in 2009.
12. In the year ending 31 December 2009, NOM contributed 65 per cent to Western Australia's population growth, while natural increase (birth minus deaths) and net interstate migration contributed 31 per cent and 4 per cent respectively. While the

Government tightened skilled migration in response to the economic downturn, the Consulting Economist expects NOM to remain strong. This will be required to meet local skill shortages and to offset the impact of an ageing population.

13. The metropolitan area of Perth contains 74 per cent of Western Australia's population and contributes greatly to state-wide growth. Between 1995 and 2009, the population of Perth grew by over 387,000 people to reach 1.66 million residents by 2009.
14. Over the more recent period (2001 to 2009), the North metropolitan (34 per cent) and the South-West metropolitan regions (22 per cent) have absorbed much of Perth's population growth. This highlights the increasing importance of the North metropolitan region in terms of economic and dwelling growth.
15. The primary driver of historical and future population growth in Western Australia and specifically metropolitan Perth is employment. Overall, the Consulting Economist estimates that during the next five years, approximately 25,600 construction jobs and almost 12,100 operational jobs will be created by the proposed mining and energy projects in Western Australia. This will create significant demand for new housing. According to the latest data from the Australian Bureau of Agricultural and Resource Economics (ABARE), analysed by the Consulting Economist, there are approximately \$175 billion worth of mining, energy and mineral processing projects proposed for Western Australia. This includes the recently approved Gorgon LNG project worth \$43 billion and projected to generate 3,000 construction jobs and over 600 operational jobs.
16. Moreover, WA and Queensland are expected to return to being the 'twin-engines' of Australia's strong growth as resources drive buoyant economic conditions for a diverse range of industries from mining, to property and business services and tourism. The Consulting Economist expects that these conditions will again drive strong demand for housing in Perth.
17. Western Australia's ERP at 2009 of 2.2 million people is projected by the ABS to increase to between 3.2 and 3.6 million people by 2030. This is based on the ABS medium and high series projections. Over the past four years, the high series has been a better predictor of actual population growth compared with the medium series. Metropolitan Perth is forecast to capture the lion share (81 per cent) of this future growth.
18. This population growth will drive strong demand for new dwellings. This growth combined with falling household sizes due to an increase in the number of smaller households such as older couple families without children and retirees will mean that more dwellings are required per person than ever before.
19. Western Australia's number of dwellings at 2009 was 856,150. This is projected by the ABS to increase to between 1.3 million and 1.4 million by 2030, based on the medium and high population forecasts outlined above.
20. Based on the high level series, which has been a better indicator of actual population growth for Western Australia in recent times; dwelling demand could average around 25,900 per year. This is above the recent historical level of 19,100 dwelling completions per year (1995-2009).

Figure 2. Western Australia Dwelling Requirement



Source: ABS, MacroPlan Australia

21. Underlying dwelling demand (demand based on population growth and an assumed household size preference) in Western Australia increased significantly from 2005 to 2009. This rapid increase resulted largely though the minerals commodity boom (between 2006 and 2008) as workers moved to Perth and other areas of WA (or permanently to Perth only to fly-in and fly-out of mining communities in Western Australia). At the same time, net completions (adjusted for demolitions and unoccupied dwellings) were not able to keep up with demand.
22. The National Housing Supply Council reported that there was a 30,200 dwelling shortfall in Western Australia in 2009. This undersupply has led to strong price growth over the period 2005 to 2009 (see figure 14). This increase in price has made it too expensive for some of this underlying demand to form new households. Instead potential movers have delayed their purchases, stayed at home longer or moved in to spare bedrooms. This means that the identified shortfall may be less than estimated by the National Housing Supply Council.
23. The Consulting Economist expects however the shortfall in dwellings will continue over the medium term to 2020. The Consulting Economist estimates that the cumulative shortfall will increase by almost 29,000 over the period 2010-2020. This is likely to put upward pressure on prices over this period.
24. The RBA estimates underlying inflation for the year to June 2010 was around 2.75 per cent. This is the first time in three years the rate has been under 3.0 per cent.
25. The Reserve Bank of Australia (RBA) noted in its August Statement that prices were continuing to show a moderation in underlying inflation in year-ended terms, reflecting the earlier weaker demand conditions and the appreciation of the exchange rate.

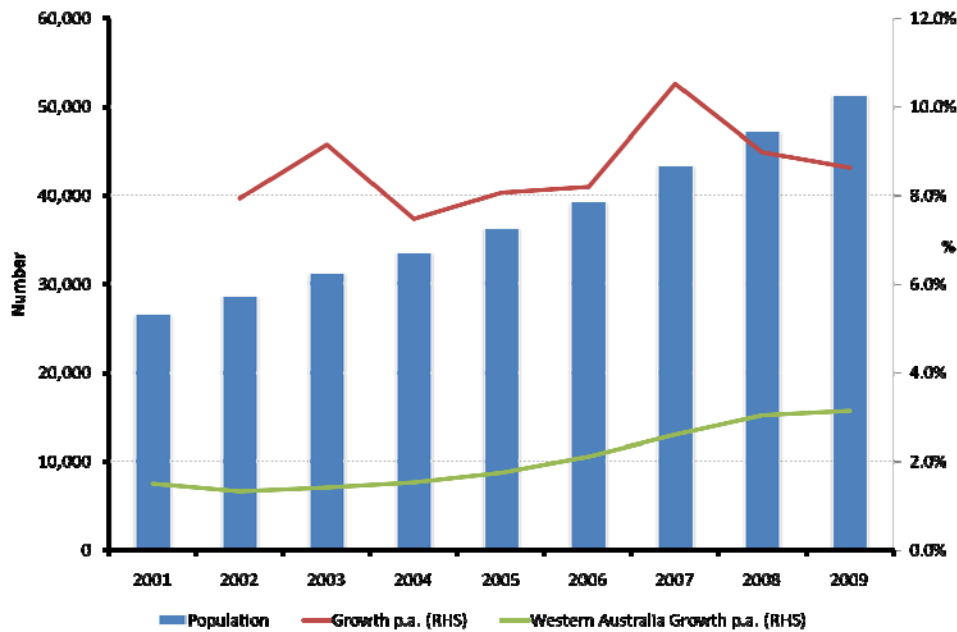
26. Although there is some uncertainty regarding the future direction of interest rates, (particularly due to global growth and the potential slowing in the pace of growth in Asia), the Consulting Economist expects inflation to remain stable in the short term before a gradual rise in inflation in 2011. It is expected that there will be at least one further interest rate rise this year as the RBA moves back towards the medium term average.
27. As economic conditions regain sustained momentum, the labour market tightens and as the economy approaches full capacity again, the Consulting Economist expects construction costs for housing to increase again.
28. Based on the assessment prepared by the Consulting Economist, construction costs have been estimated to increase by 3.0 per cent to 4.0 per cent per year over the period between 2010 and 2015, and around 4.0 per cent to 5.0 per cent per year over the period between 2015 and 2020.

Local Market Analysis

29. The Property is located within the suburb of Yanchep and is located 50 kilometres north of the Perth CBD and 25 kilometres north of the Joondalup City Centre. The Property is bounded by the Mitchell Freeway road reserve to the east, Yanchep Beach Road to the south, Sun City Country Club to the west, future City Centre development to the north and is known as Lot 609 on Deposited Plan 55818 in Certificates of Title Volume 2688 and Folios 587 and 588. Yanchep is located within the Outer North-West Corridor of Perth. This Corridor will play an integral role to the future development of the Perth Metropolitan Region in terms of population and economic growth. Locational attributes include:
 - Good existing demand from locational amenity
 - Relative affordability
 - Land availability for residential and employment developments
 - Rail and road infrastructure
 - Large existing population
30. The northern Corridor of Perth is the preferred Corridor due to its amenity, beaches and connectivity to existing high valued coastal suburbs. Most of this growth is projected to take place in the City of Wanneroo, which had the largest population growth (9,500 people) and the third fastest rate of growth (7.1%) of all metropolitan municipalities in Western Australia between 2008 and 2009. The majority of growth is set to take place in a narrow coastal strip stretching from Tamala Park in the south to Two Rocks in the north.
31. Over the period 1996 to 2009 the population of the Outer North-West Corridor (where the Property is located) grew by over 33,400 people at an average growth rate of 8.5 per cent. As the area has matured, population growth in the Outer North-West Corridor has

increased with growth averaging around 9.5 per cent per year since 2006. The rate of growth in the Outer North-West Corridor has outstripped the Western Australian average over this period.

Figure 3. **Population growth, Outer North-West Corridor**



Source: ABS 3235.0 and 3218.0

32. Based on the Australian Bureau of Statistics (ABS) population projections, the Outer North West Corridor is forecast to increase by almost 60,000 people between 2010 and 2025 at an annual growth rate of 5.0 per cent. In line with historical trends, the largest proportion (29 per cent) is expected to come from people aged 35 to 54. The number of children (aged between 0 and 14) is expected to almost double from 14,101 in 2010 to 27,439 in 2027. This indicates continued demand for family dwellings in the area.
33. While the number of people aged 75 and over is only supposed to increase by around 3,795 people by 2025, this is almost three times the number of people in this age cohort in 2010. This indicates there may be demand for residential dwellings more suited to older retirees.

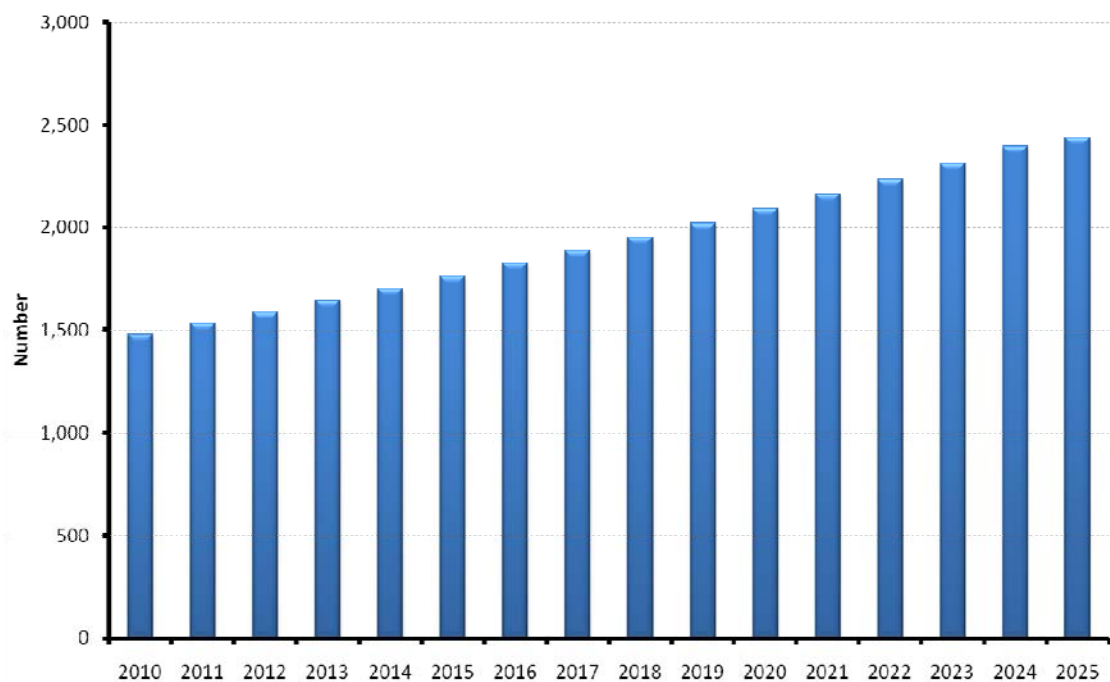
Figure 4. **Outer North-West Corridor Population Projections by Age (Adjusted)**

	2010	2015	2020	2025	Growth (2010- 2025)
0-14	14,101	18,326	22,988	27,439	13,338
15-24	7,813	10,493	12,759	15,490	7,678
25-34	7,913	10,731	13,250	15,440	7,528
35-54	16,209	21,683	27,410	33,444	17,236
55-74	7,008	9,860	13,427	17,022	10,014
75+	1,877	2,698	3,880	5,672	3,795
Total	54,919	73,790	93,715	114,507	59,588
Average annual growth rate		6.1%	4.9%	4.1%	5.0%

Source: Department of Health & Ageing (2009), MacroPlan Australia (2009).

34. A household formation assumption has been estimated at 2.00 persons for every additional dwelling. This estimate has been based on the Consulting Economists analysis of future household sizes in the Outer-North West Corridor and review of assumptions used in Directions 2031 released by the Western Australian Government in August 2010. This estimate is applied to the population growth identified in the table above (59,588). This results in demand for an additional 29,800 dwellings over the period 2010-2025 (1,986 dwellings per annum). The dwelling forecasts for the Outer North-West Corridor could be conservative given the affordability of land in the area compared with other locations in Perth and the potential for significant demand resulting from major mining and gas projects around 2015.

Figure 5. Dwelling requirement per annum, Outer North-West Corridor



Source: MacroPlan Australia

35. Land sales activity in Yanchep increased significantly over the period 2005 to 2009 with an average of around 198 land sales per annum over this period. This compares to 107 sales per annum over the 10 year period to 2009. The increase in sales over the past 5 years is in line with an overall increase in land sales across the Outer North-West Corridor. Over this 5 year period, Yanchep has captured around 12 per cent of all land sales in the Outer North-West Corridor. There were 282 land sales in Yanchep in 2009, representing 21 per cent of all land sales in the Outer North-West Corridor.

Figure 6. Land Sales Overview, Yanchep and Outer North-West Corridor

	Yanchep	Outer North-West Corridor	Yanchep - Share of sales
Land sales in 2009	282	1,353	21 per cent
Average annual sales rate over the last 5 years	198	1,676	12 per cent
Average annual sales rate over the last 10 years	107	1,081	10 per cent

Source: RP Data

36. Land prices in Yanchep have also experienced strong growth with the median increasing from \$48,000 in 1995 to \$177,000 in 2009. Land prices growth in Yanchep (9.8% per

annum from 1995 to 2010) is consistent with historical house price growth in Perth (9.7 per cent). Similar to Perth, land prices in Yanchep fell in 2009. In 2009, the median land price in Yanchep was \$177,000, down from \$227,000 in 2008. The Consulting Economist expects land prices to rebound in 2010 in line with general improvements in economic and labour force conditions.

37. From a supply perspective, as development in the Outer North-West corridor intensifies due to releases from Peet, Stockland, Delfin Lend Lease, and Australand, the Consulting Economist considers that the Yanchep region will form part of the growth Corridor from Alkimos to Yanchep/Two Rocks, particularly in line with commencement of construction of a shopping centre in Yanchep in 2011.

Local Area Future Prospects

38. Analysis of various indicators in the local area (prices, sales and lots released), including both the suburb of Yanchep and the Outer North-West Corridor, suggest a robust local property market with considerable potential. The Consulting Economist considers however that the Yanchep housing market has been difficult to interpret in recent times. There is no comparable evidence in relation to take up rates in Yanchep in recent times due to the negative impacts of the Global Financial Crisis and the positive impacts from the construction of Marmion Avenue.

39. Currently, take up rates in Yanchep are around 200 land sales per annum. However historical take up rates in Yanchep partly reflects:

- A market with limited developers until recently;
- Land sales activity characterised by small releases;
- Prospect of a major shopping centre was remote.

40. Although Yanchep has experienced volatility in prices since the onset of the Global Financial Crisis, overall prospects for land price growth and sales growth in the Yanchep region are positive, underpinned by:

- Construction of a shopping centre (6,200 square metres) at Jindowie Estate, commencing in 2011, comprising of a supermarket (3,600 square metres) and fifteen retail specialty stores (2,600 square metres). This is likely to drive land sales in Yanchep in the short and medium term (2011-2020).
- Based on information provided to the Consulting Economist, land at the Property can be released considerably earlier than major supply at Delfin-Lend Lease's Alkimos Joint Venture to the South. This will mean that competition for land sales to the south will be limited over the period 2011 to 2013. This will provide opportunities for the Property to capture additional sales over the period 2011-2013 and to have an established marketing and public awareness level beyond that.
- Yanchep in general establishing itself as a front of mind area for potential buyers in the Outer North-West Corridor. The introduction of a major developer such as Peet in

addition to established estates Jindowie (Australand) and the Capricorn is likely to grow the market size in Yanchep above historical averages.

- The Consulting Economist anticipates that the State Government will commence in 2012 and complete in 2018 the North Railway Link to Yanchep. This will also induce demand into the area following the announcement.
- Land supply constraints in the Peel region may also see demand transfer from the south of Perth to the north in regions such as the Outer North-West Corridor.
- The population forecasts for the Outer North-West Corridor could be conservative given the affordability of land in suburbs such as Yanchep.

41. While Yanchep will face competition from release areas in Alkimos and Eglinton to the South, and Two Rocks to the North, the Consulting Economist anticipates that the Yanchep land supply market will grow significantly above historical rates over the short and medium term based on the factors outlined above.

42. In particular, the Syndicate is likely to have significant lot sales because:

- A range of lot sizes and product type can be delivered due to (a) proximity to the Yanchep City Centre; (b) high amenity sites (e.g. partial ocean views and panoramic inland views); and golf course frontage.
- Good access to existing schools.
- A masterplanned outcome can be achieved given the size of the Property as well as the amenities provided / or in close proximity. The Consulting Economist research has demonstrated that masterplanned communities can achieve both a faster sales rate and price growth than traditional residential estates.
- Proximity to a future rail station will also improve the attractiveness of the location.
- It is located adjacent to the future City Centre development which includes the potential for a university precinct and major hospital. This is likely to generate demand from both owner occupiers and investors given this close proximity.
- Opportunity sell house and land packages through Peet's network of major project home builders. This would induce new demand into the Yanchep suburb and further support strong take up rates for the Property.
- The opportunity to sell golf course frontage lots will diversify the product offered for sale.

43. The Property provides the opportunity for land and house and land packages that are accessible to a range of market segments, namely:

- First homebuyers

- Investors
- Cash – out market for 50+ year olds
- Fly-In and Fly-Out
- Golf properties

44. On this basis, the Consulting Economist considers that the Property will enjoy and successfully compete in the growing Outer North-West Corridor and capture a significant market share. Based on our analysis, an average rate of around 145-180 land sales per year could be achieved over the period 2011-2025. This estimate is based on the assumption of the annual sales including around 6 sales per month to builders over the life time of the project. This opportunity is considered realistic given that Peet can draw from its network of major project home builders as well as offer a diversity of lots including golf course frontage lots. The market share assumed for the Syndicate is lower than that achieved by Capricorn Estate and has been applied on a conservative basis.
45. Whilst forecasting property values assumes a wide variety of factors and conditions, continued economic and resources sector growth in the Greater Perth area (including the Outer North-West Corridor and Yanchep), combined with sustained increases in population should assist price growth over the coming years. Based on our assessment, land price growth of between 6.0% - 7.0% per cent per annum for Yanchep over the period 2010-2015 is reasonable. Land price growth of between 7.5% - 8.5% per cent is projected for the period 2015-2020. This price growth is considered reasonable and takes into account population and employment growth and the infrastructure upgrades and significant lifestyle opportunities afforded in the area.
46. The Consulting Economist believes these forecasts and the assumptions behind them are reasonable.

Forecasts

47. The forecasts and projections in this report are based on assumptions about circumstances and events that have not yet transpired and they are therefore subject to variations that may arise as future economic and market factors actually occur. As a result, we cannot provide any assurance that the forecasts and projections contained in this report will be achieved.
48. Key assumptions made to undertake the forecasts include:
- The Western Australian economy continues to recover over the next two years before growing strongly around 2013 and significant growth occurs around 2015 in line with major mining and gas activity commencing around this period.
 - RBA Cash Rate average 5.0% between 2010 and 2012, increasing to 5.5% thereafter. The Consulting Economist has assumed that the RBA will move towards the medium term average.

- Inflation rate at 2.8% between 2010 and 2012, increasing to 3.0% thereafter.
 - No additional major development not identified already is assumed to occur within Yanchep/Two Rocks over the next 2 years.
 - Significant increase in the land sales market from 2010 in Yanchep due to a range of factors outlined above.
 - Lot price ranges for The Syndicate based on the Independent Valuer assessment are achieved.
 - Analysis of the Subdivision Concept Plan depicts approximately 1,480 residential lots ranging between approximately 300 and 1,000 square metres in area.
 - Land sales for the property commence in 2011.
 - The Property capturing around 15-20% of the Yanchep land sales market over the life time of the Syndicate.
 - Around 6 sales per month to builders over the life time of the Syndicate.
 - The Consulting Economist considers that there is a reasonable basis for making each of these assumptions.
49. A copy of this economic report has been lodged with the Australian Securities and Investment Commission (ASIC). The information in the economic report is incorporated by reference into this Product Disclosure Statement. Peet Yanchep Land Syndicate Limited will provide a copy of the economic report free of charge to any person who requests a copy during the offer period. Alternatively, a copy of the economic report can be obtained by contacting ASIC.

Disclaimer

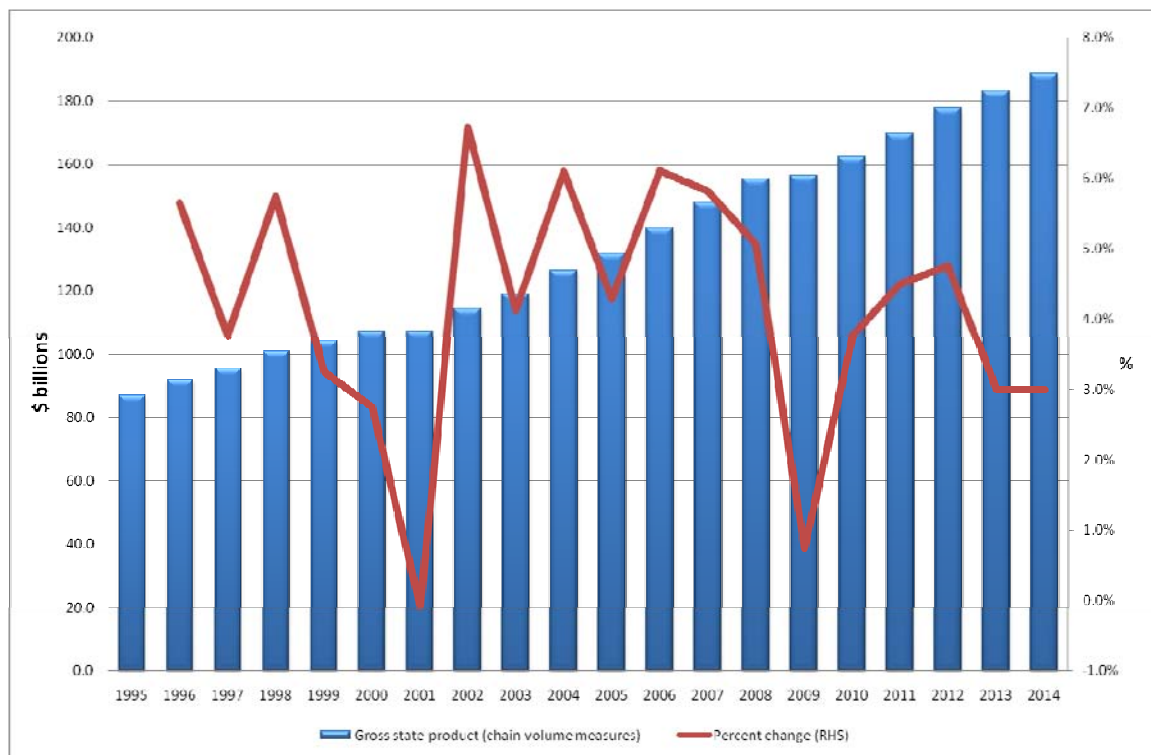
50. MacroPlan Australia Pty Ltd has consented to the inclusion of this report in the Product Disclosure Statement but is not providing advice about a financial product, or the suitability of the investment as set out in the Product Disclosure Statement. Such an opinion can only be provided by a person who holds an Australian Financial Services Licence. MacroPlan Australia does not hold such a licence and is not operating under any such licence in providing this report. We have been retained by Peet Limited and no other party to provide this report. We do not have a financial interest in Peet Limited and have provided this report solely in our capacity as an independent professional adviser. We have received a fee of \$<to be completed> for our professional services in providing this report.

2 Western Australia and Perth

2.1 Economic overview

Despite the impact of the economic downturn, Western Australia Gross State Product (GSP) increased by 0.7 per cent through 2008/09, down from 5.0 per cent a year earlier. The Western Australian economy has rebounded strongly since, with the unemployment rate falling from its recent peak at 5.7 per cent in September 2009 to 4.0 per cent in June 2010. This view is supported by the Western Australian Treasury. Overall, the Western Australia Treasury is forecasting GSP growth of 3.75 per cent over 2009/10 increasing to 4.75 per cent by 2011/12 before stabilising to 3.0 per cent over 2012/13 and 2013/14.

Figure 7. **Annual Gross State Product, Western Australia, Chain Volume, Original, Annual**

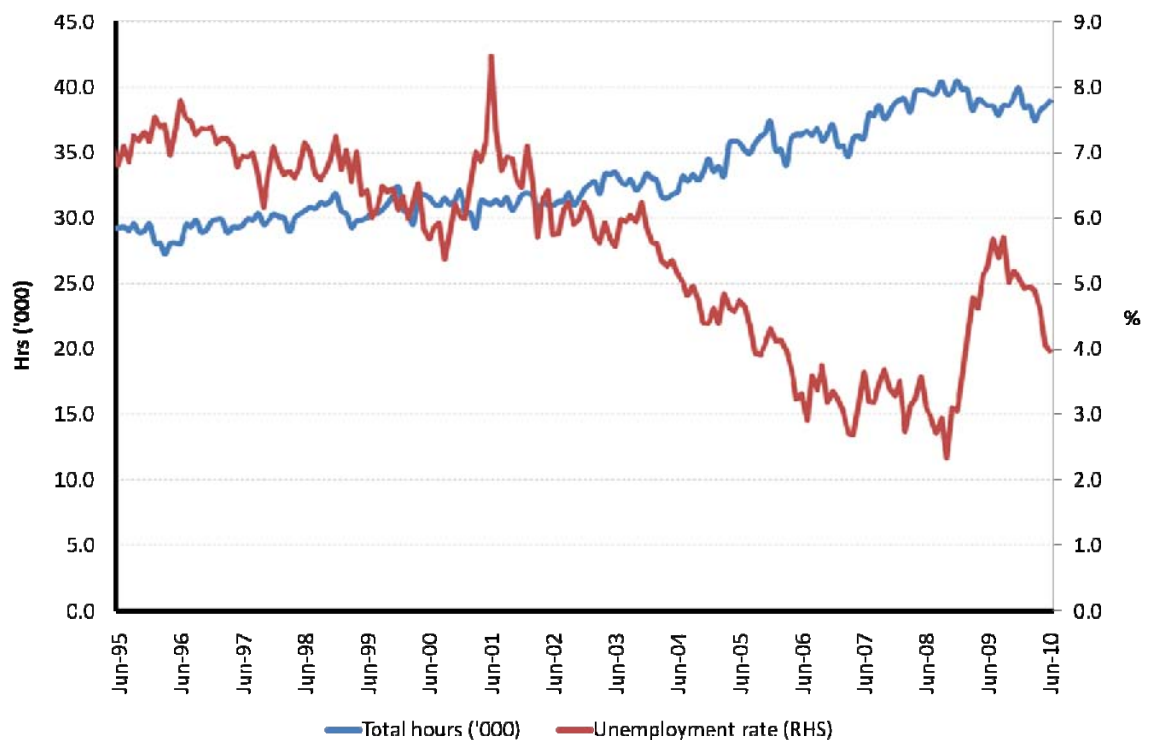


Source: ABS 5220.0, Western Australian Treasury, MacroPlan (2010)

2.2 Labour force conditions

The Western Australian labour market slowed in 2009 in response to the global economic downturn. Total monthly hours worked by employed persons, a key input for labour productivity, fell from 38,130 hours in June 2008 to 37,431 hours in June 2009. Since then, employment conditions have gradually improved with the total number of monthly hours worked rising to 39,723 in June 2010. This improvement was also supported by unemployment falling from its recent peak at 5.7 per cent in September 2009 to 4.0 per cent in June 2010.

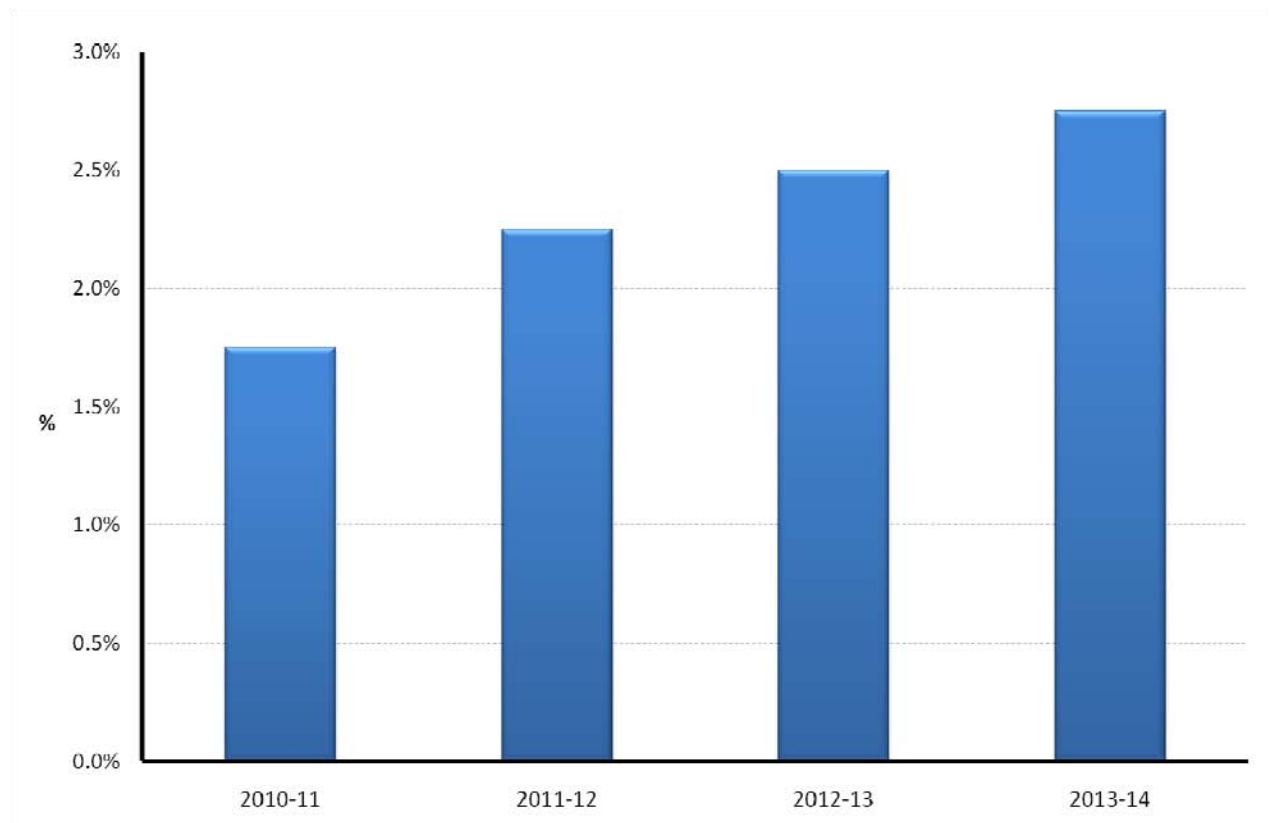
Figure 8. **Labour force conditions (Total hours worked and Unemployment), Western Australia, Seasonally Adjusted, Monthly**



Source: ABS 6291.0

While latest labour demand indicators have shown signs of improvements, they are still at levels lower than their previous peaks. As economic conditions regain sustained momentum, labour market demand will continue to improve. This view is supported by the Western Australian Treasury. Employment growth is forecast to increase by 2.25 per cent in 2011/12; 2.50 per cent in 2012/13 and 2.75 per cent in 2013/14. Strong growth in population and a general recovery of the State's economy is expected to underpin future employment growth.

Figure 9. **Employment growth forecasts, Western Australia**



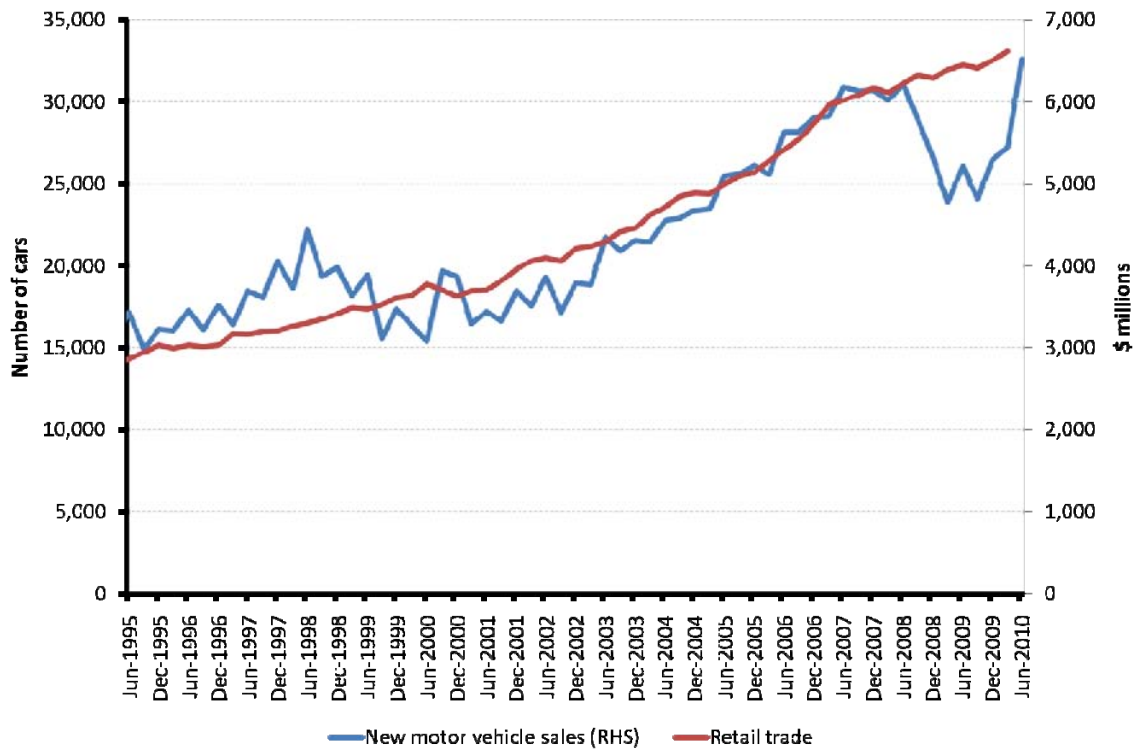
Source: WA Treasury

2.3 Consumer spending

New motor vehicle sales experienced a lower than normal trough in September 2009 with 24,072 vehicles sold. Vehicle sales have recovered to previous peak levels with 32,075 vehicles sold in June 2010. Retail turnover appears to have recovered. In March 2010, retail turnover was 2.9 per cent higher in seasonally adjusted terms than 12 months previously.

The withdrawal of Commonwealth fiscal stimulus measures and recent increases in interest rates will subdue household consumption growth in 2010. Improvements in these household consumption indicators supported by improved employment conditions suggest that household consumption growth will accelerate over the next few years.

Figure 10. **Consumer Spending (Retail and Motor Vehicles), Western Australia, Seasonally Adjusted, Quarters**



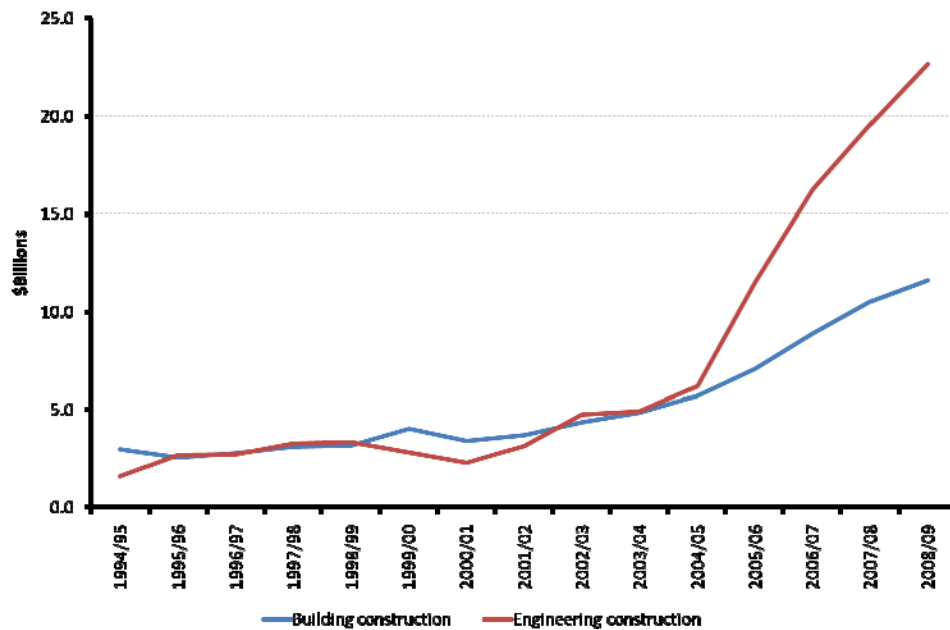
Source: ABS 9314.0, ABS 8501.0

2.4 Business investment

A key driver of Western Australia's economic growth will be business investment, in particular gross fixed capital formation (non dwelling engineering construction). Since 2000, construction of mining projects has facilitated strong real income growth and driven demand for non-residential building activity. As mining activity continues to increase off the back of strong demand for minerals from overseas markets, the outlook is for continued strength in business investment in non-residential construction.

Total construction in Western Australia (in terms of work completed) was around \$34.3 billion in 2008/09, up 14.0 per cent on a year earlier. In light of weak global economic conditions, the increase in activity indicates the strength in momentum of the construction work underway in Western Australia.

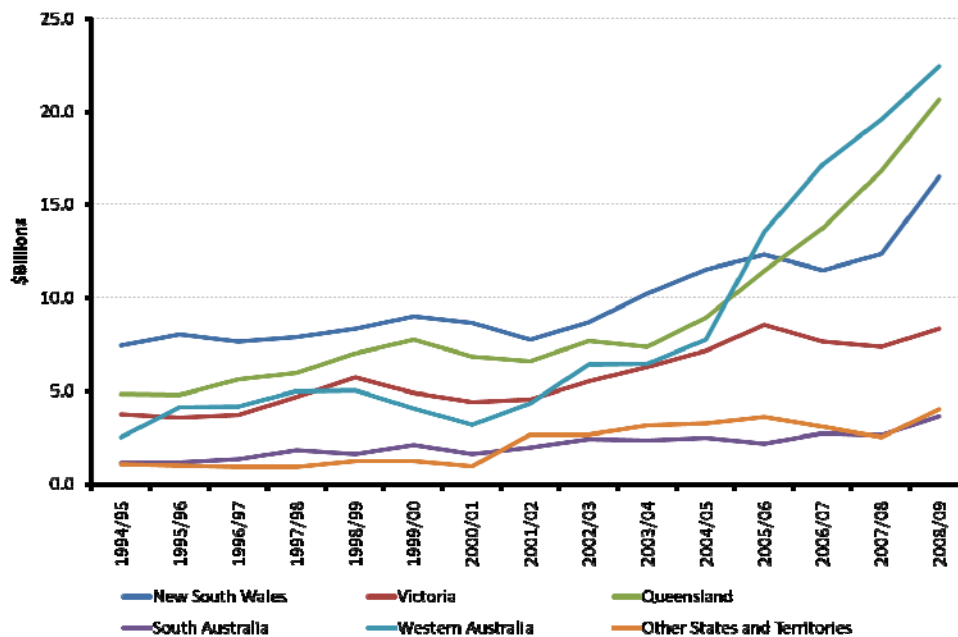
Figure 11. **Building and Engineering Construction, Western Australia**



Source: ABS 8755.0, MacroPlan (2010)

The main contributor to business investment in Western Australia has been engineering construction. It increased by almost fivefold over the decade. Engineering construction is the largest of the construction segments in Western Australia and the largest engineering construction market of all states and territories. Overall, engineering construction activity held up well in 2008/09, increasing by 15.0 per cent.

Figure 12. Engineering Construction, Australia (Value of Work Done Chain Volume, Seasonally Adjusted, Financial Years)



Source: ABS 8762.0, MacroPlan (2010)

The key drivers of business investment activity have been:

- Demand for minerals driving the need for resources projects, particularly oil, gas and iron ore projects.
- Capacity constraints at ports and harbours to ship commodities to export destinations.
- Population growth, driving a requirement to invest in road and rail infrastructure but also electricity and other utilities (including multi-billion dollar desalination plants and major highways and arterials).

The Western Australian Treasury has factored in a continued expansion in business investment, underpinned by the \$43 billion Gorgon oil and gas project as well as numerous other projects in the minerals sector.

This demand will drive activity in other construction markets. In particular, increased mining activity will boost employment and wages which in turn will drive demand for new residential dwellings.

2.5 Property market overview

Housing Activity

A close link exists between interest rate cycles and dwelling approval activity.

In the current cycle, residential activity in Western Australia, as measured by residential dwelling unit approvals, peaked at 5,678 approvals in June quarter 2006. At this peak, the standard variable rate was 7.3 per cent, marginally below the long term rate of 7.5 per cent (since 1995).

Approval activity fell sharply in Western Australia after June 2006 in line with successive interest rate increases over this period. At the same time, Western Australia was experiencing rapid population growth largely driven by mining project activity. A combination of a fall in approval activity and rapid population growth resulted in upward pressure in prices over this period.

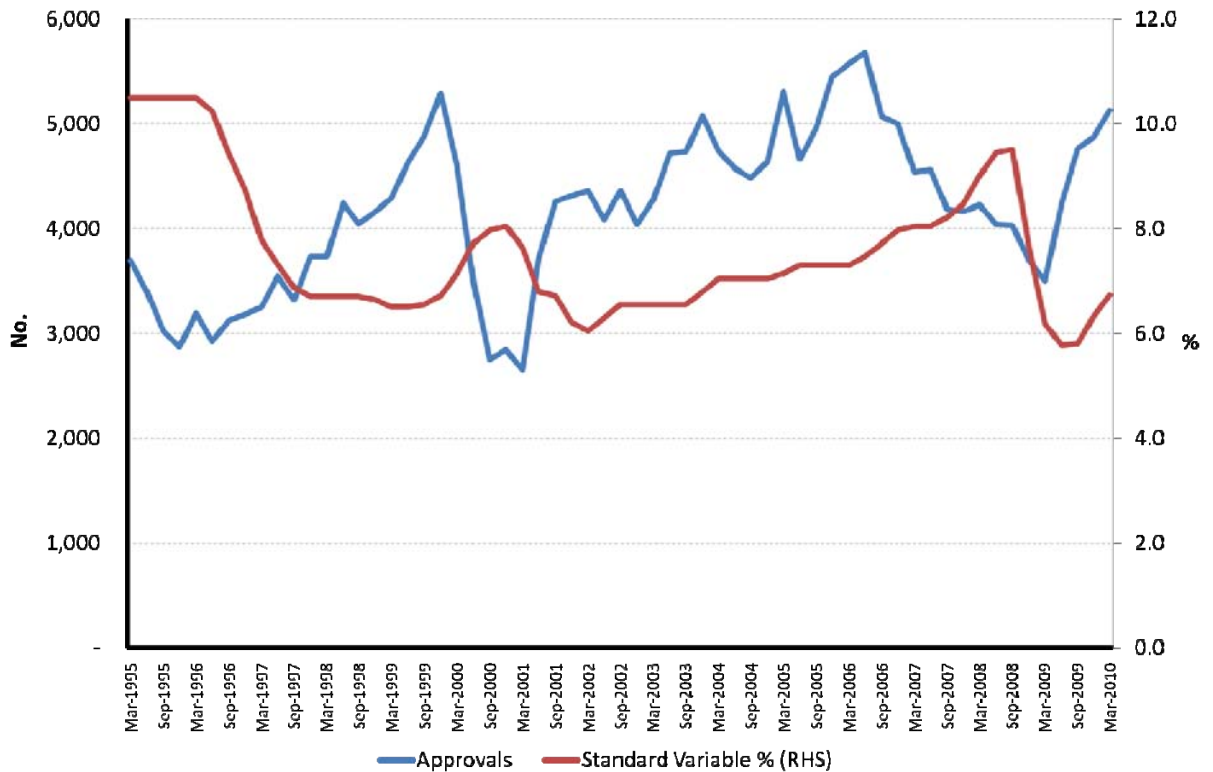
During the economic downturn in 2008/09, approval activity fell sharply in Western Australia again, with only 3,500 approvals recorded in the March quarter 2009. Weaker wage growth, uncertainty about economic conditions, cessation of the first home owners boost and a sharp rise in unemployment were the key reasons for a fall in approvals throughout 2008 and 2009.

Since March 2009, approval activity has rebounded strongly. This improvement has been largely driven by improvement in economic conditions, Government stimulus expenditure and low interest rate conditions.

As economic conditions regain sustained momentum and the labour market again tightens, dwelling investment will improve. This view is supported by the Western Australia Treasury. Dwelling investment growth is forecast to moderate to rates closer to its long-run average, increasing by 4.25 per cent in 2011/12 and by around 3.6 per cent over the two years to 2013/14.

A risk to this growth is further increases to interest rates.

Figure 13. **Housing activity (Approvals and Standard Variable Interest Rate), Western Australia, Seasonally Adjusted**



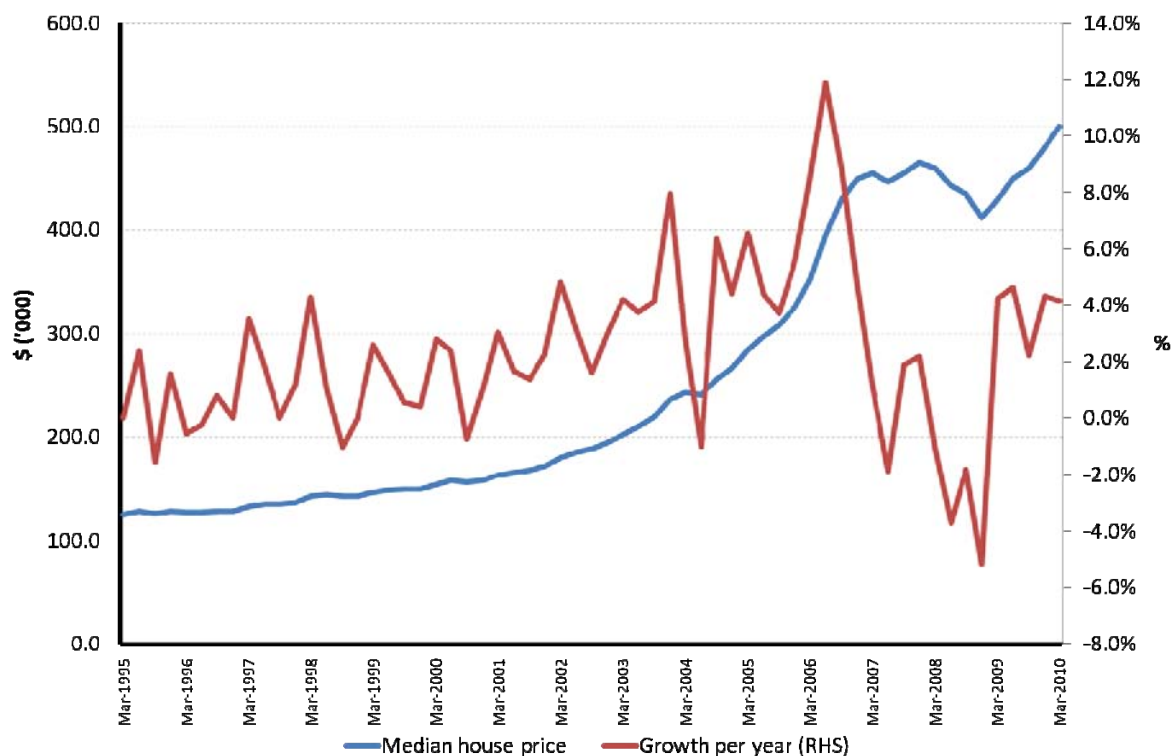
Source: ABS 8752.0

Median prices

According to the Real Estate Institute of Australia (REIA), the median price for a house in Perth was \$500,000 in the March quarter 2010, up 4 per cent on the previous quarter and 16 per cent from twelve months earlier. This follows a 7 per cent fall in the previous 12 months (from March 2008 to March 2009). This is the first time that the median house price in Perth has been at or above \$500,000. A combination of less first home buyers in the market, (who typically purchase in the entry end of the market), and improved economic conditions has supported this recent median price growth. The Perth house price is around 15.5 per cent higher than the median house price in Yanchep (\$411,000 for the year ending 2009). Section 3 provides more detail about the Yanchep housing market.

The historical average price growth in Perth is around 9.7 per cent per year. Future house price growth is expected to follow this historical trend.

Figure 14. **Median House Price, Perth (average for the year ending March)**



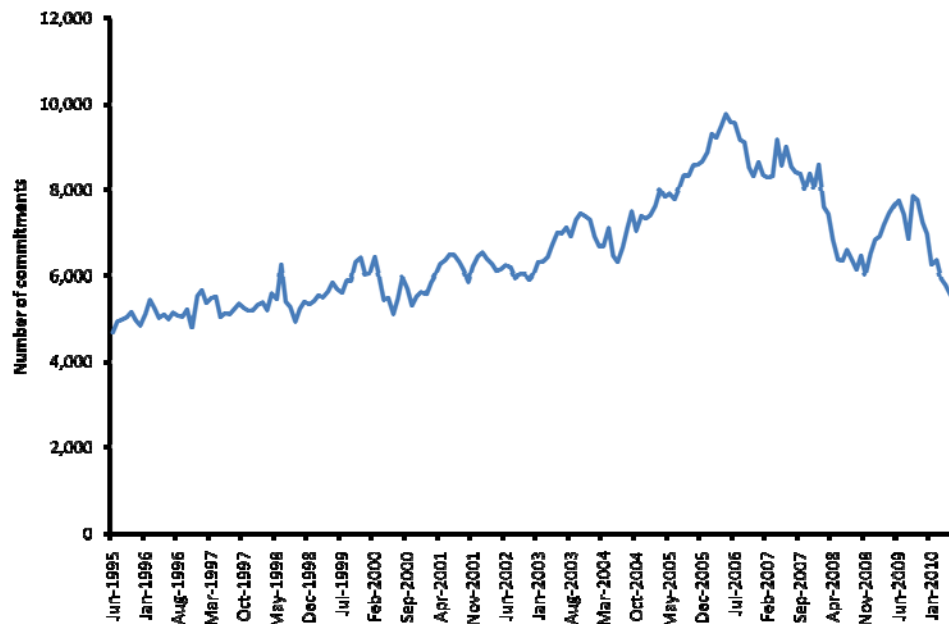
Source: REIA, MacroPlan Australia

Housing finance

Monthly housing finance commitments in WA peaked at around 9,600 (trend) in May 2006 before falling to 6,250 in September 2008. Housing commitments began to rise in October 2008 and peaked with around 7,530 commitments in August 2009. This increase coincided with falling interest rates and Government subsidies.

Since then, housing finance commitments have declined falling to 5,903 in April 2010. One reason for this fall is the number of commitments to first home buyers returning back to trend levels. Under the Commonwealth Government's First Home Owners Boost, commitments by first home owners peaked at 31 per cent in Western Australia well above the historical average of around 21 per cent. Nevertheless, housing commitments by non-first home owners have also declined in recent times.

Figure 15. Number of Dwelling Commitments, Owner Occupied Housing, Monthly



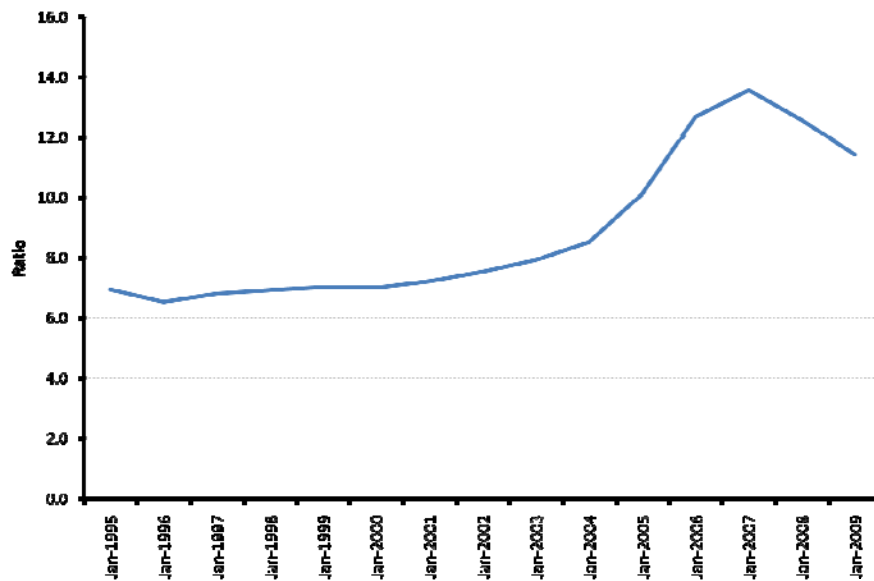
Source: ABS 5609.0

2.6 Affordability

Affordability overview

The dwelling price to income ratio is constructed using median dwelling price data from the REIA and average household disposable income data from the ABS State Accounts. In the year ending June 1996, the ratio between dwelling price and income was 6.9. By June 2007, this ratio had increased to 13.6. Over the past three years, housing prices have risen less rapidly than incomes, with the ratio falling to 11.4 in the year ending Jun 2009. This was a positive development, which improved the affordability of houses in Western Australia. Nevertheless, the ratio of housing prices to incomes is still high relative to earlier decades.

Figure 16. Dwelling price to income ratio, Western Australia

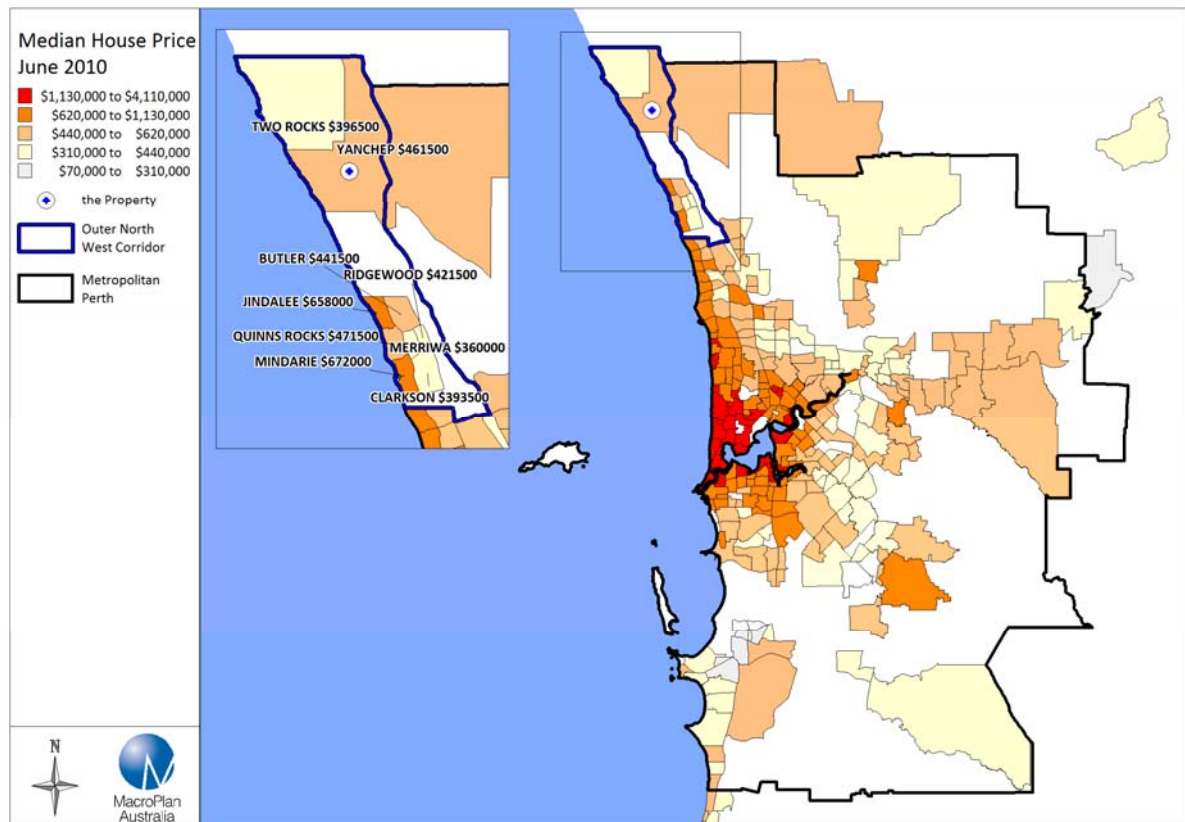


Source: ABS 5220.0, REIA

Median House Prices

The Outer North-west Corridor is relatively affordable with most suburbs within this Corridor recording a median house price below that of metropolitan Perth. In particular, in June 2010, the median house price of Yanchep was \$461,500 compared to the metropolitan median of \$500,000. This is illustrated in the following map.

Figure 17. Median House Price, June 2010



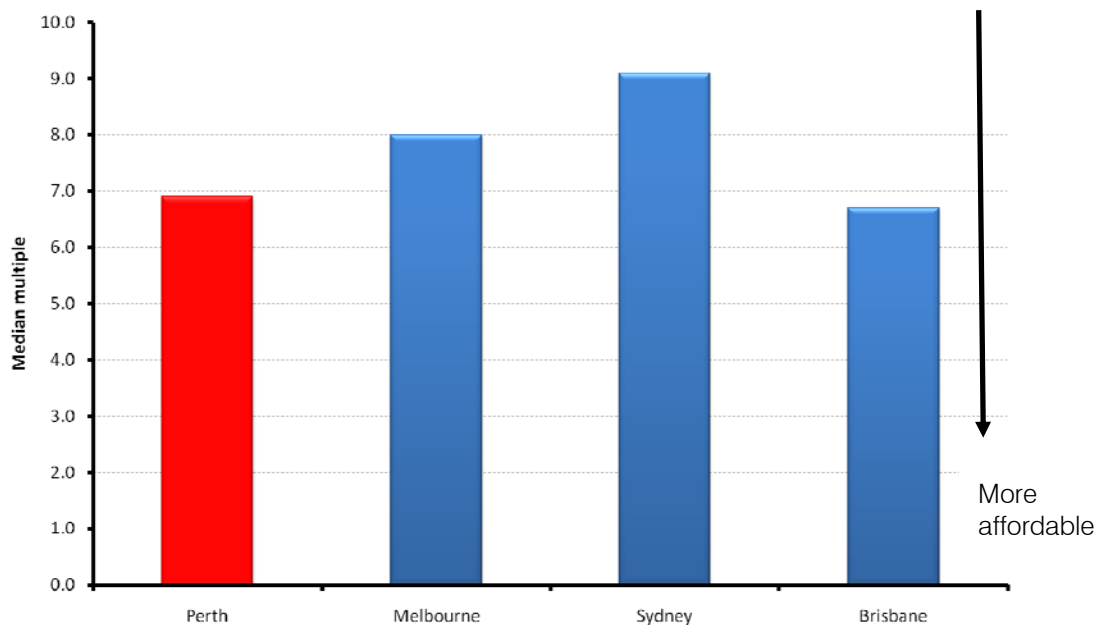
Source: Residex (2010), MacroPlan Australia (2010).

Housing Affordability

In understanding the relative affordability of a region, the Consulting Economist has used a measure referred to as a “median multiple”. Developed by international housing research company, Demographia, and used in their international city comparison on housing affordability, the median multiple calculates the ratio between the value of median house prices and median household incomes.

The 2010 Demographia Housing Affordability Survey has estimated that Perth has a median multiple of 6.9 compared with 9.1 in Sydney and 8.0 in Melbourne. This shows that Perth has a relative price advantage compared with other cities in Australia. This is likely to have a positive impact on Western Australia in terms of attracting overseas and interstate migration.

Figure 18. **Median Multiple – Housing Affordability, Perth compared with selected capital cities, 2010**



Source: Demographia

2.7 Residential demand drivers

In percentage terms, population growth in Western Australia and Perth has outstripped the national average over the past 10 years. The margin of difference became decidedly larger through the minerals commodity boom (between 2006 and 2008) as workers moved to Perth and other areas of WA (or permanently to Perth only to Fly-In and Fly-Out of mining communities in Western Australia).

In 2009, WA continued to record the fastest population growth (2.7 per cent) of all states and territories ahead of Queensland (2.4 per cent), Northern Territory (2.2 per cent) and Victoria (2.1 per cent).

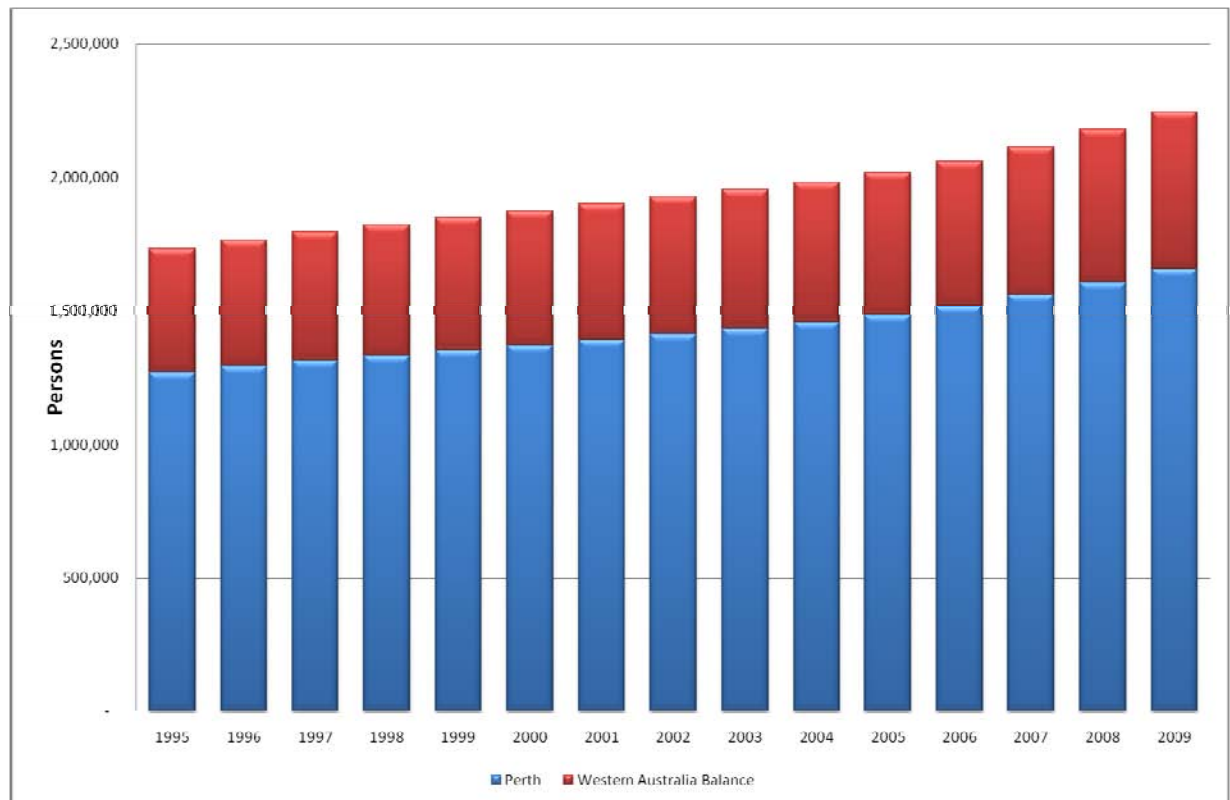
Population growth

The Estimated Resident Population (ERP) in Western Australia increased from 1.7 million persons in 1995 to 2.2 million in 2009, representing an average annual growth rate of 1.9 per cent over this period. Population growth increased significantly in the years during and after the commodities boom: whilst average annual growth between 1995 and 2005 was 1.5 per cent, between 2006 and 2009 the population growth rate in WA averaged approximately 2.9 per cent.

The metropolitan area of Perth contains 74 per cent of Western Australia's population and contributes greatly to state-wide growth. Between 1995 and 2009, the population of Perth grew by over 387,000 people to reach 1.66 million residents by 2009.

The rate of population growth in Perth has also consistently outstripped the growth rate of the rest of Western Australia in recent years. In 2009, metropolitan Perth grew in population by 3.2 per cent, higher than the growth rate of 2.8 per cent in regional Western Australia. Between 1995 and 2009, Perth's population grew an average annual rate of 1.9 per cent, compared with an average annual rate of 1.7 per cent growth in the remainder of Western Australia.

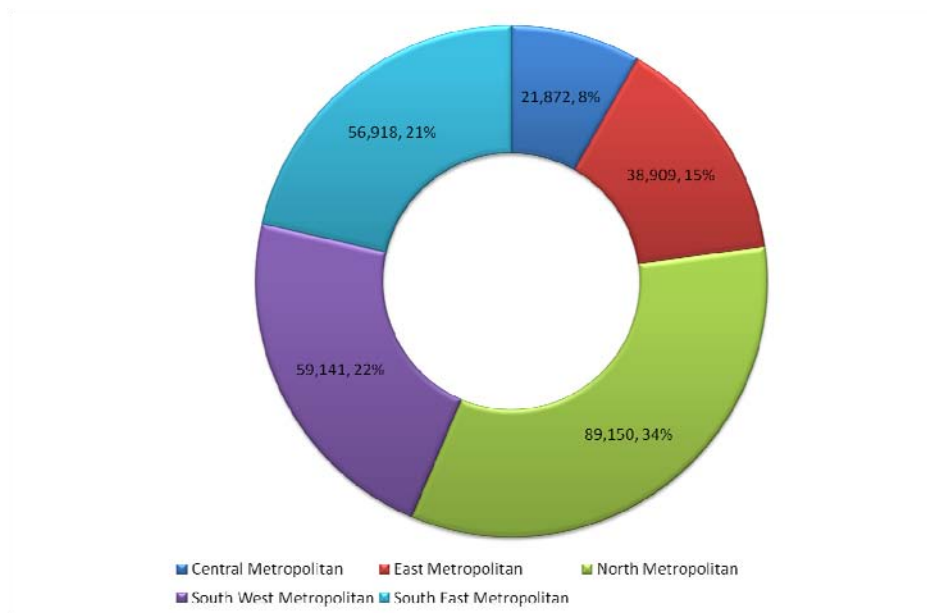
Figure 19. **Historical Population, Western Australia, 1995-2009**



Source: ABS 3218.0

Over the more recent period (2001 to 2009), the North metropolitan (34 per cent) and the South-West metropolitan regions (22 per cent) have absorbed much of Perth's population growth. This highlights the increasing importance of the North metropolitan region in terms of economic and dwelling growth.

Figure 20. **Distribution of Perth's Population Growth by region, 2001-2009**



Source: ABS 3218.0

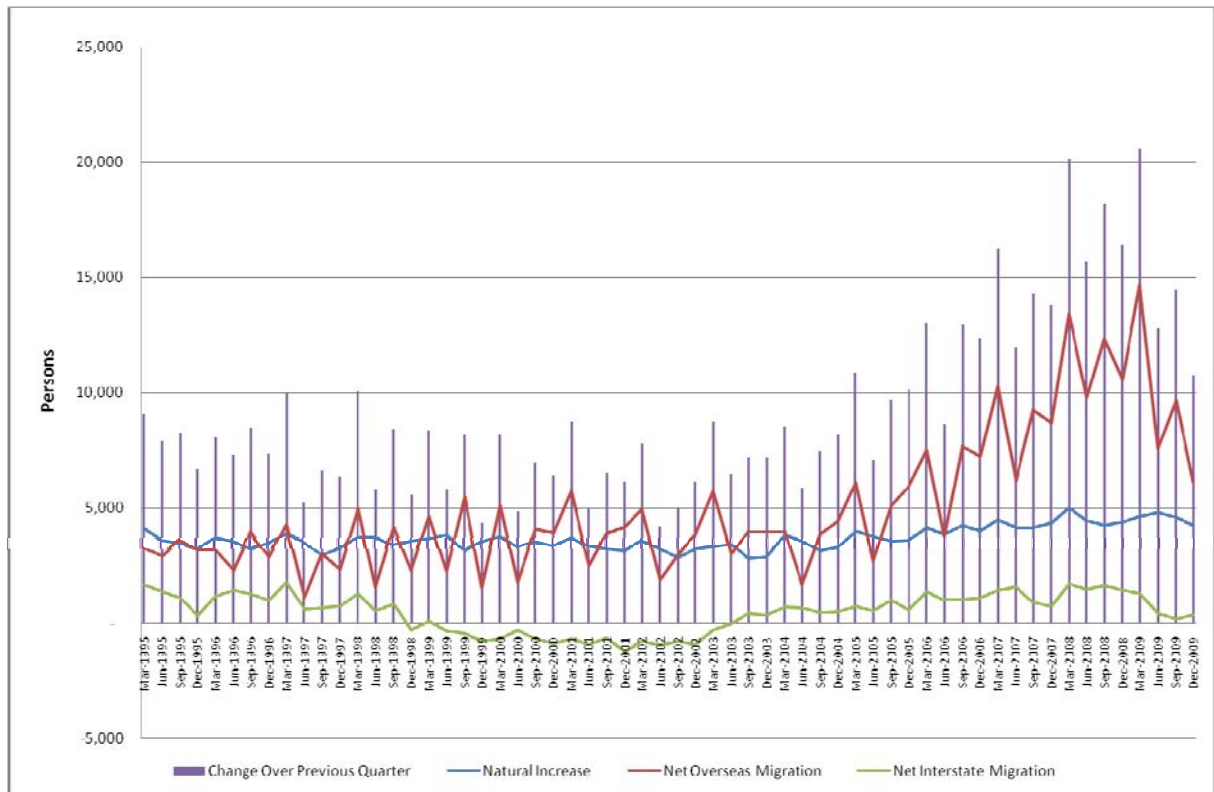
Migration Trends

Sources of population growth come from natural increase, inter-state migration and Net Overseas Migration (NOM). The major source of population growth in Western Australia has been NOM. There has been a rapid increase in NOM from around 14,000 in 2004 to 46,100 in 2008 before moderating to 38,000 in 2009.

In the year ending 31 December 2009, NOM contributed 65 per cent to Western Australia's population growth, while natural increase (birth minus deaths) and net interstate migration contributed 31 per cent and 4 per cent respectively.

While the Government tightened skilled migration in response to the economic downturn, the Consulting Economist expect NOM to remain strong. This will be required to meet local skill shortages and to offset the impact of an ageing population.

Figure 21. Components of population change, Western Australia, Quarters



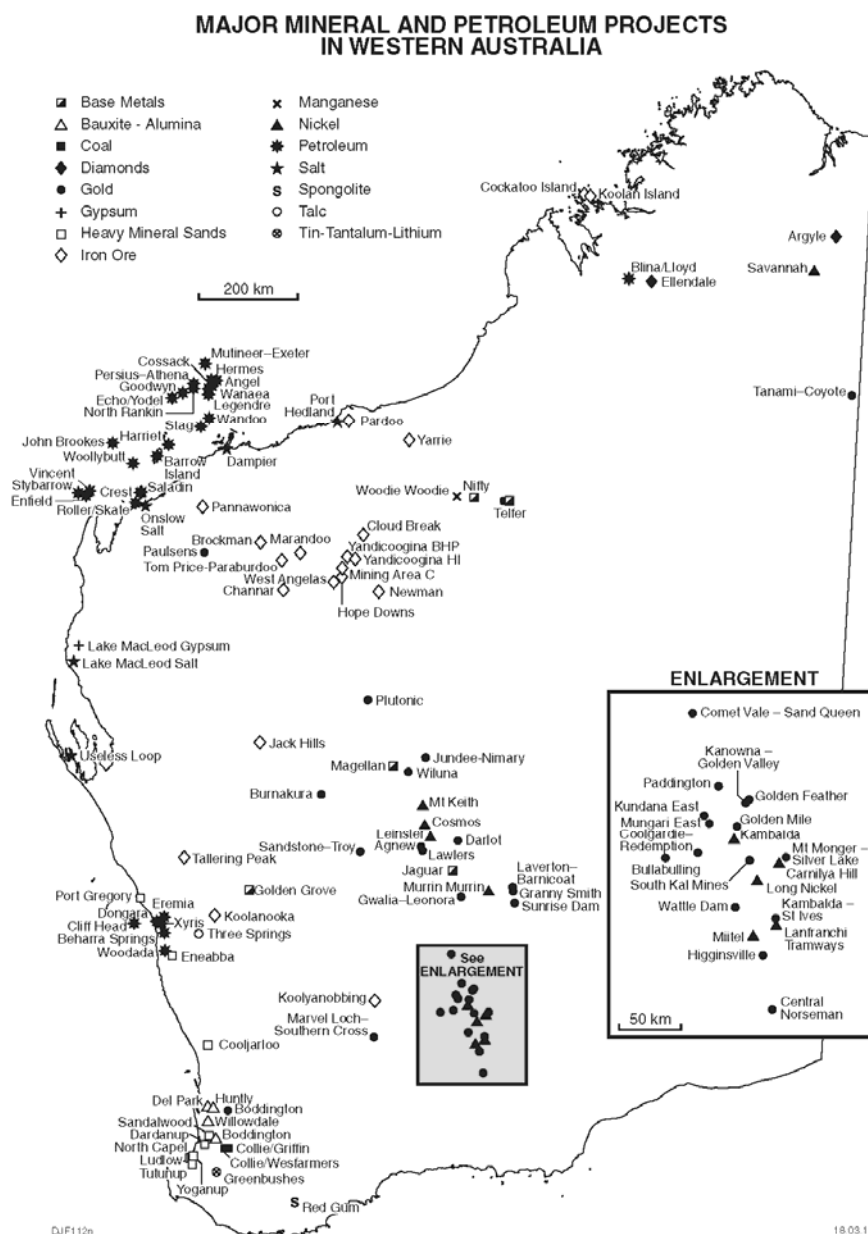
Source: ABS 3101.0

Mining projects

The primary driver of historical and future population growth in Western Australia and specifically metropolitan Perth, is employment. According to the Australian Bureau of Statistics, the number of people in Western Australia with jobs has increased by approximately 300,000 since 1997 to 1.17 million. A primary driver of this growth has been the mining and resources sector.

Since 1997, the number of people in Western Australia working in the mining industry has almost doubled from 29,500 to 56,250 in 2009. The growth in the mining sector (91 per cent) is 3 times faster than employment growth in the whole Western Australian economy (30 per cent) resulting in the mining sector's share of total employment increasing from 4.7 per cent in 1997 to 6.8 per cent in 2009. The following map below illustrates major mineral and petroleum projects in Western Australia.

Figure 22. Major mineral and petroleum projects in Western Australia



Source: Department of Mines and Petroleum

Planned projects

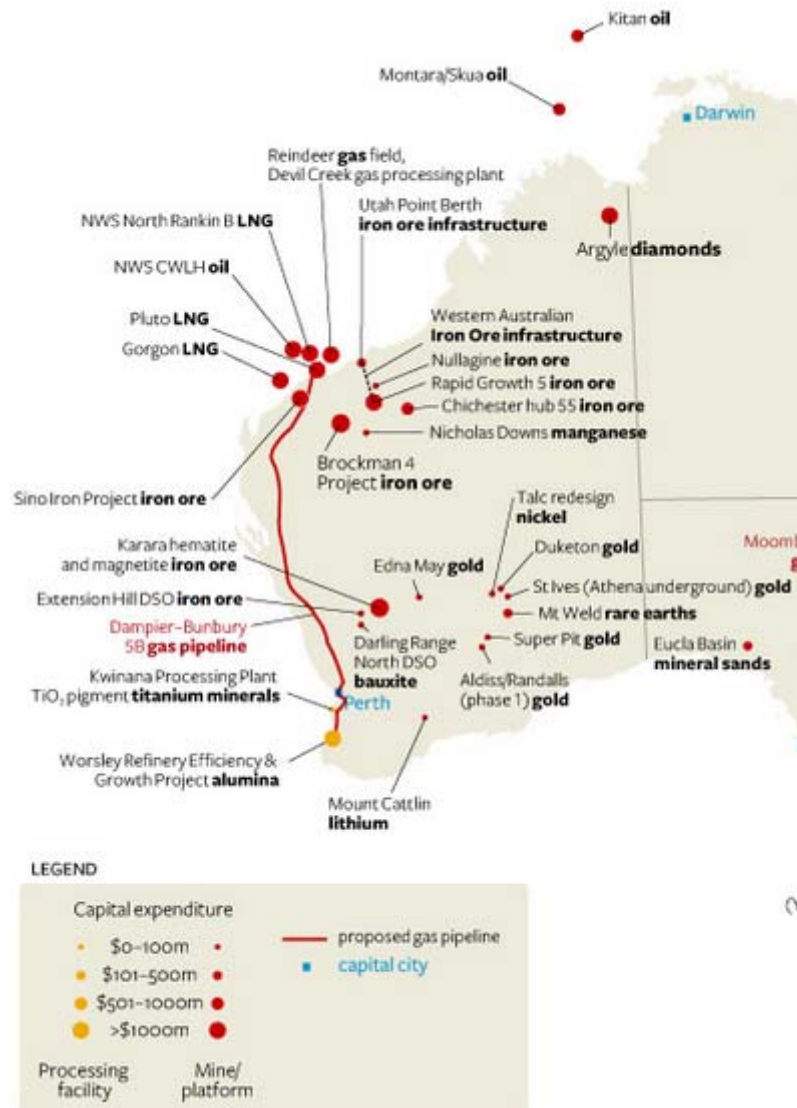
Overall, the Consulting Economist estimates that during the next five years, approximately 25,609 construction jobs and 12,074 operational jobs will be created by the proposed mining and energy projects in Western Australia. This will create significant demand for new housing.

According to the latest data from the Australian Bureau of Agricultural and Resource Economics (ABARE), analysed by the Consulting Economist, there are approximately \$175 billion worth of mining, energy and mineral processing projects proposed for Western Australia. This includes the

recently approved Gorgon LNG project worth \$43 billion and projected to generate 3,000 construction jobs and over 600 operational jobs.

This and other planned major projects are identified in the following map.

Figure 23. **ABARE Mining Projects, April 2010 Listings**



Source: Australian Bureau of Agricultural and Resource Economics

This map illustrates the regional and rural concentration of proposed mining and energy projects in Western Australia. This isolation with respect to metropolitan Perth accounts for why it has over 75 per cent of the State's population and highlights the reason for the prominence of Fly-In and Fly-Out work arrangements during the previous resource boom.

It is expected that these projects will continue to drive demand for housing in Western Australia and in particular Perth – the service centre for this growth.

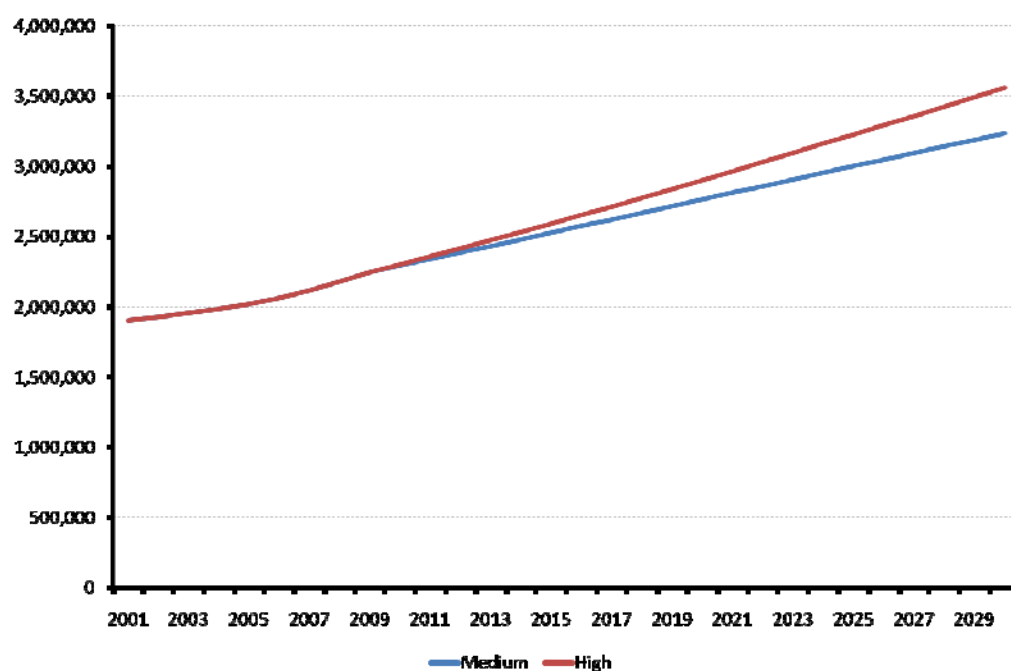
2.8 Western Australia and Perth Projections

Population projections

Western Australia's ERP at 2009 of 2.2 million people is projected by the ABS to increase to between 3.2 and 3.6 million people by 2030. This is based on the ABS medium and high series projections. Over the past four years, the high series has been a better predictor of actual population growth compared with the medium series.

Metropolitan Perth is forecast to capture the lion share (81 per cent) of this future growth.

Figure 24. **Population projections, Western Australia, Medium and High Series**



Source: ABS. MacroPlan

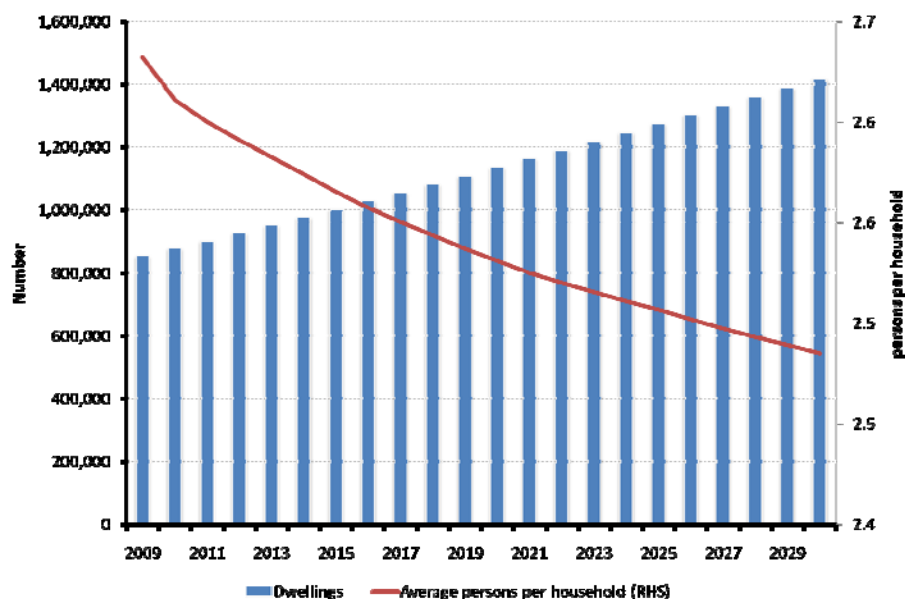
Future Dwelling Demand

The population growth outlined above will drive strong demand for new dwellings. This growth combined with falling household sizes due to an increase in the number of smaller households such as older couple families without children and retirees will mean that more dwellings are required per person than ever before.

Western Australia's number of dwellings at 2009 was 856,150. This is projected by the ABS to increase to between 1.3 million and 1.4 million by 2030, based on the medium and high population forecasts outlined above.

Based on the high level series, which has been a better indicator of actual population growth for Western Australia in recent times; dwelling demand could average around 25,900 per year. This is above the recent historical level of 19,100 dwelling completions per year (1995-2009).

Figure 25. Western Australia Dwelling Requirement



Source: ABS, MacroPlan Australia

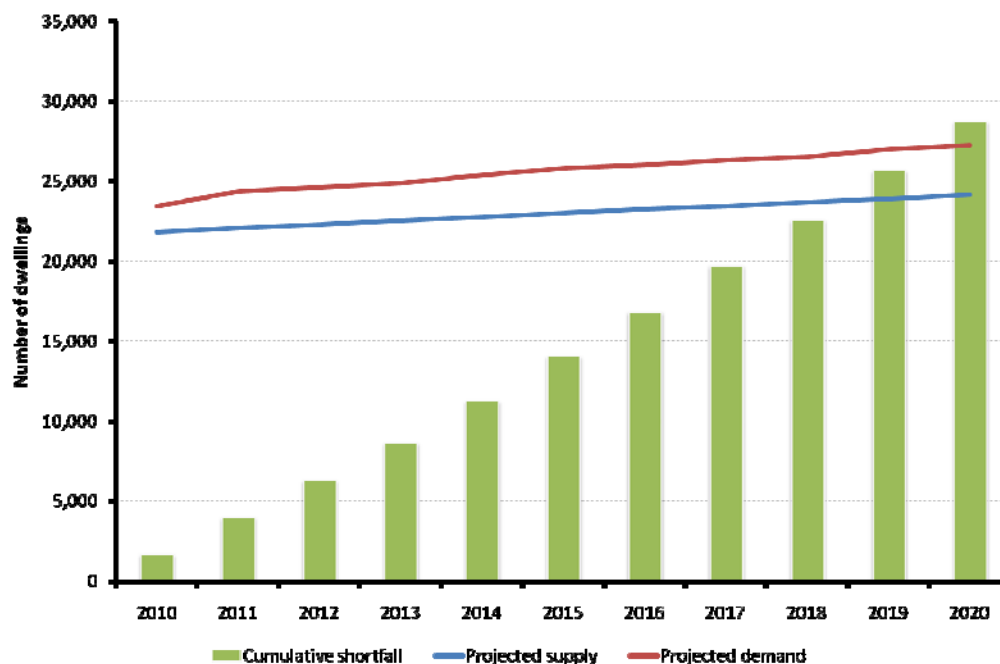
Demand and Supply Balance

Underlying dwelling demand (demand based on population growth and an assumed household size preference) in Western Australia increased significantly from 2005 to 2009. This rapid increase resulted largely though the minerals commodity boom (between 2006 and 2008) as workers moved to Perth and other areas of WA (or permanently to Perth only to fly-in and fly-out of mining communities in Western Australia). At the same time, net completions (adjusted for demolitions and unoccupied dwellings) were not able to keep up with demand.

The National Housing Supply Council reported that there was a 30,200 dwelling shortfall in Western Australia in 2009. This undersupply has led to strong price growth over the period 2005 to 2009 (see figure 9). This increase in price has made it too expensive for some of this underlying demand to form new households. Instead potential movers have delayed their purchases, stayed at home longer or moved in to spare bedrooms. This means that the identified shortfall is likely to be less than estimated by the National Housing Supply Council.

The Consulting Economist expects however the shortfall in dwellings will continue over the medium term to 2020. The Consulting Economist estimates that the cumulative shortfall will increase by 29,000 dwellings over the period 2010-2020. This is likely to put upward pressure on prices over this period.

Figure 26. Demand and Supply balance, Western Australia



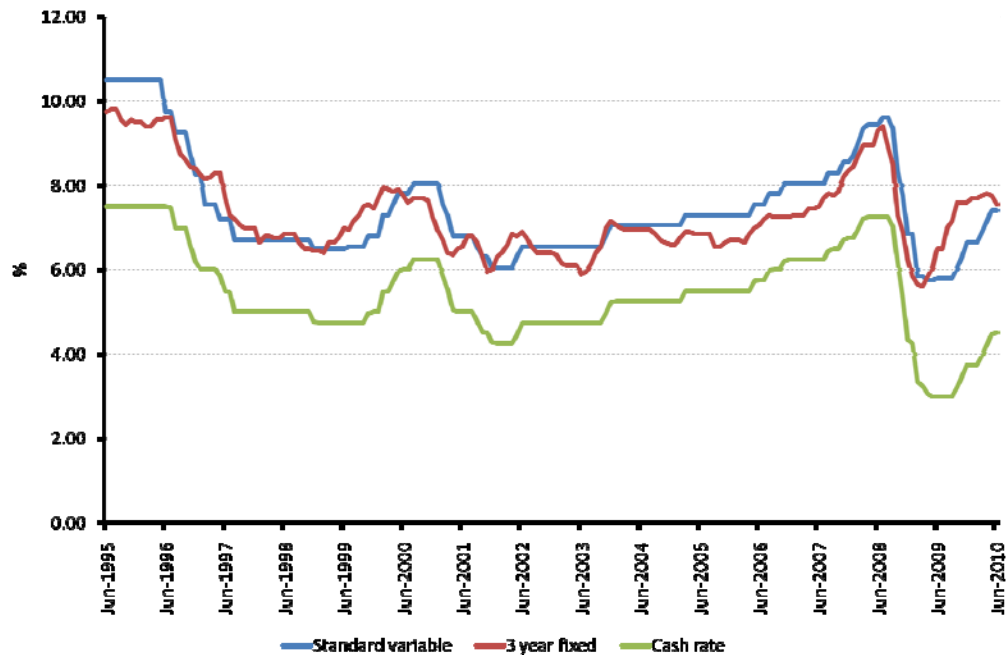
Source: MacroPlan Australia

2.9 Interest rates

The Reserve Bank of Australia (RBA) lifted the cash rate by 0.25 percentage points in April 2010, the 5th increase in 6 meetings. Whilst the RBA has avoided increases in recent meetings, another increase is likely over 2010. At this stage the RBA consider that inflation, wage pressure and capacity pressure are under control.

Although the cash rate remains below its medium-term average, variable lending rates are around their average levels. The three year fixed rate is trending upwards recording 7.55 per cent in June 2010 up from a low reached in March 2009 of 5.60 per cent. The variable rate is up to 7.40 per cent from a June 2009 low of 5.80 per cent.

Figure 27. Interest Rates, Australia



Source: Reserve Bank of Australia

The RBA estimates underlying inflation for the year to June 2010 was around 2.7 per cent. This is the first time in three years the rate has been under 3.0 per cent.

The Reserve Bank of Australia (RBA) noted in its August Statement that prices were continuing to show a moderation in underlying inflation in year-ended terms, reflecting the earlier weaker demand conditions and the appreciation of the exchange rate.

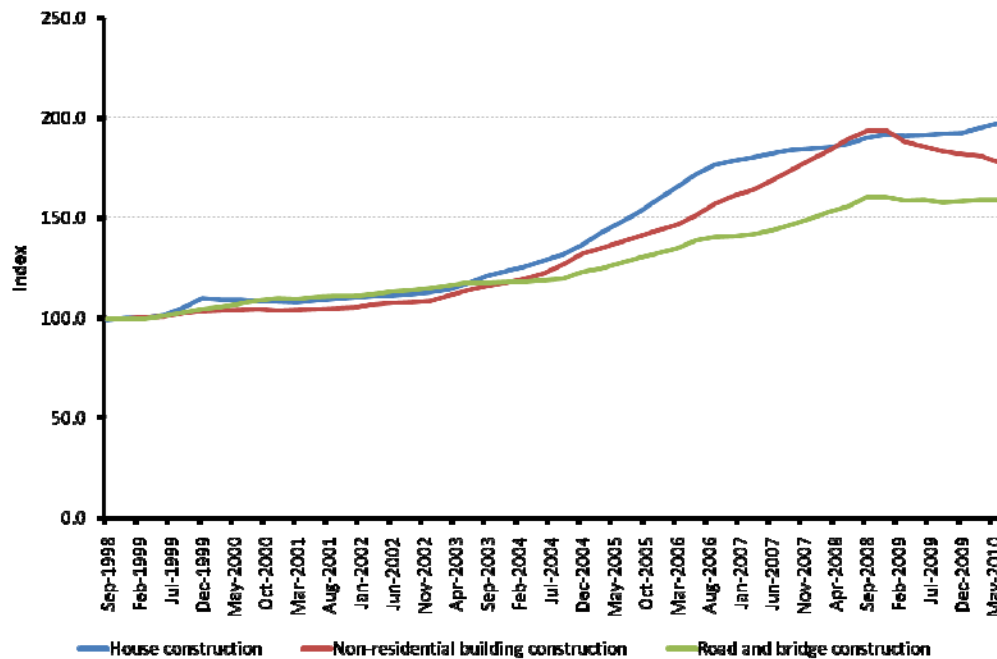
Although there is some uncertainty regarding the future direction of interest rates, (particularly due to global growth and the potential slowing in the pace of growth in Asia), the Consulting Economist expects inflation to remain stable in the short term before a gradual rise in inflation in 2011. It is expected that there will be at least one further interest rate rise this year as the RBA moves back towards the medium term average.

2.10 Construction cost escalation

Long term growth in construction costs generally averages the same as the inflation rate. However this trend has been less stable during the mid to late 2000s. Western Australia had been running at near full capacity during the mid to late 2000s, with some markets running at excess capacity (particularly the labour market) during this period. This in turn was driving rapid price growth (consumer prices, wage prices and house prices). The weakening in economic activity over 2008 and 2009 has reduced many of these capacity constraints and allowed for a cooling in consumer and producer prices. This has allowed for key infrastructure projects to be fast tracked, taking advantage of cheaper inputs to construction (oil, steel, cement).

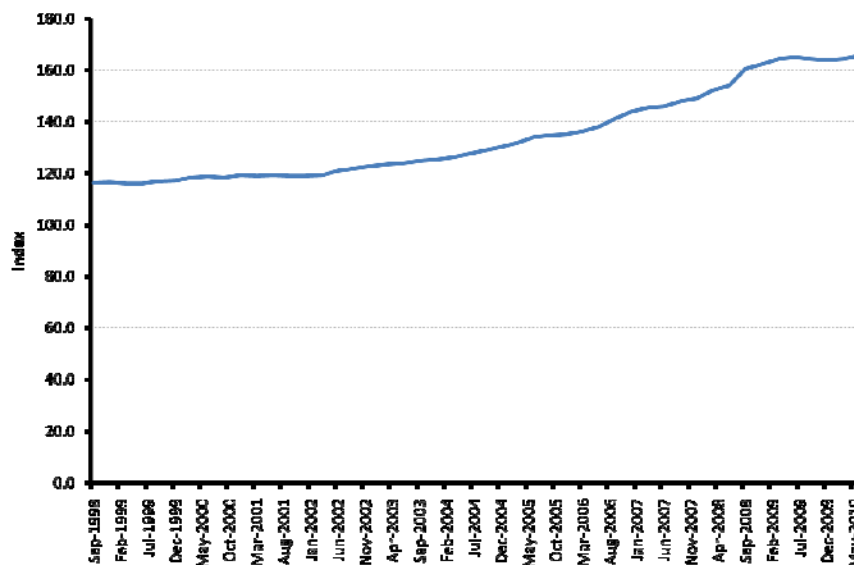
This cooling in producer prices is illustrated in the following figures. All three construction output indexes have flattened since 2007. This indicates that construction cost escalation has moderated over the period 2007 to 2010. The house construction index increased by around 3.4 per cent per year over the period 2007 to 2010; compared with 1.7 per cent for non-residential building construction index; and 2.7 per cent for the road and bridge construction index.

Figure 28. **Construction Output Indexes, Western Australia**



Source: ABS 6427.0

Figure 29. **Material uses in house building, Western Australia**



Source: ABS 6427.0

As economic conditions regain sustained momentum, the labour market tightens and as the economy approaches full capacity again, the Consulting Economist expects construction costs for housing to increase again.

Based on the assessment prepared by the Consulting Economist, construction costs have been estimated to increase by 3.0 per cent to 4.0 per cent per year over the period between 2010 and 2015, and around 4.0 per cent to 5.0 per cent per year over the period between 2015 and 2020. These estimates are considered reasonable.

3 Outer North-West Corridor and Yanchep

The Outer North-West Corridor of Perth will play an integral role to the future development of the Perth Metropolitan Region in terms of population and economic growth. Locational attributes include:

- Good existing demand from locational amenity
- Relative affordability
- Land availability for residential and employment developments
- Rail and road infrastructure
- Large existing population

The northern Corridor of Perth is the preferred Corridor due to its amenity, beaches and connectivity to existing high valued coastal suburbs. Most of this growth is projected to take place in the City of Wanneroo, the majority of which is set to take place in a narrow coastal strip stretching from Tamala Park in the south to Two Rocks in the north.

Yanchep is located 50 kilometres north of the Perth CBD in the northern half of the City of Wanneroo and will play an important role in supporting future population growth in this growth Corridor.

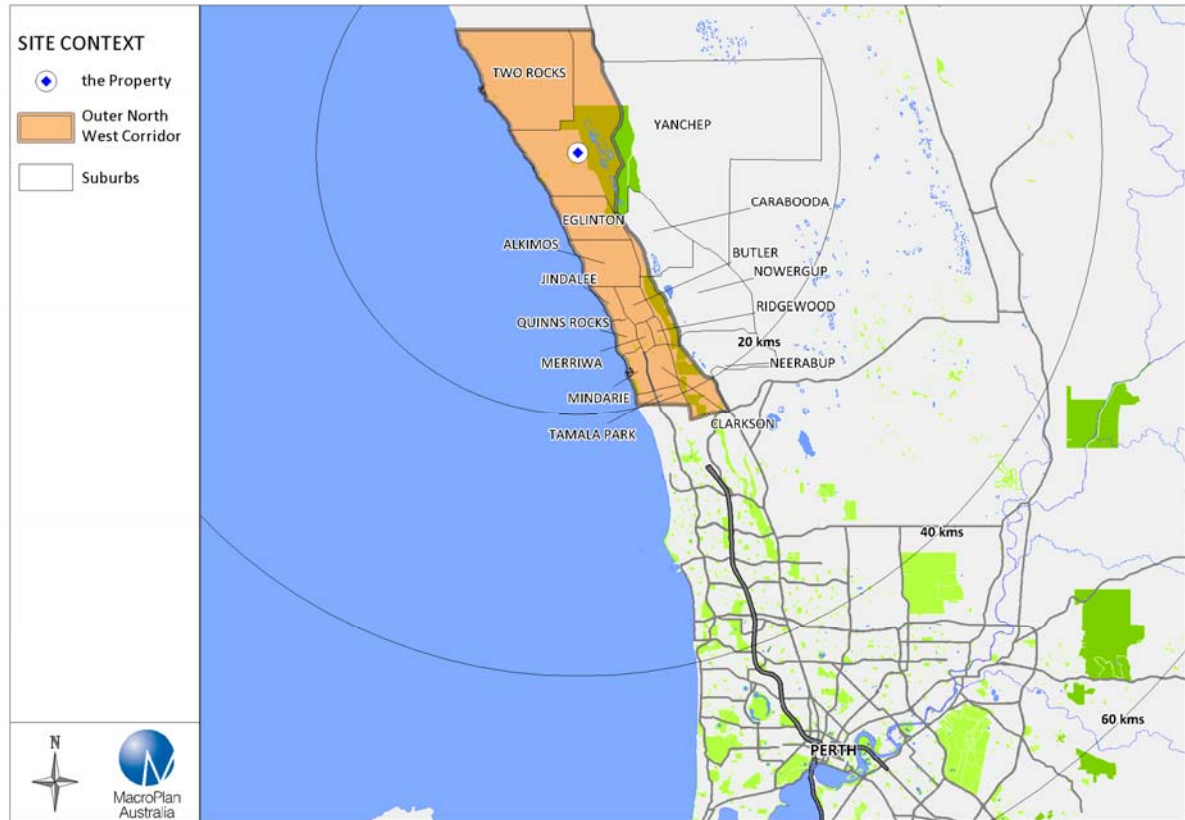
3.1 Context

For the purpose of this analysis we have defined the Outer North-West Corridor as the Wanneroo (C) - North-West Statistical Local Area (SLA). The Outer North-West Corridor forms the coastal strip of the Wanneroo Local Government Area. Within the Outer North-West Corridor there are 14 suburbs. These are:

- | | |
|-------------|---|
| • ALKIMOS | • NEERABUP |
| • BUTLER | • NOWERGUP |
| • CARABOODA | • QUINNS ROCKS |
| • CLARKSON | • RIDGEWOOD |
| • EGLINTON | • TAMALA PARK |
| • JINDALEE | • TWO ROCKS |
| • MERRIWA | • YANCHEP (where the Property is located) |
| • MINDARIE | |

The Property is located within the suburb of Yanchep and is located 50 kilometres north of the Perth CBD and 25 kilometres north of the Joondalup City Centre.

Figure 30. **Geographic Definitions**



Source: MacroPlan Australia

Regional Context

The figure below illustrates the geographical context of the Outer North-West Corridor in relation to the Perth CBD. This map also illustrates the future Activity Centres as outlined in Directions 2031 (Draft). Directions 2031 has identified Yanchep as a City Centre. The Property is immediately adjacent to this Activity Centre and will improve the amenity and attractiveness of the suburb by providing a mix of retail, office, community, entertainment, and employment opportunities which is also supported by high frequency public transport.

Figure 31. Regional Context



Source: MacroPlan Australia

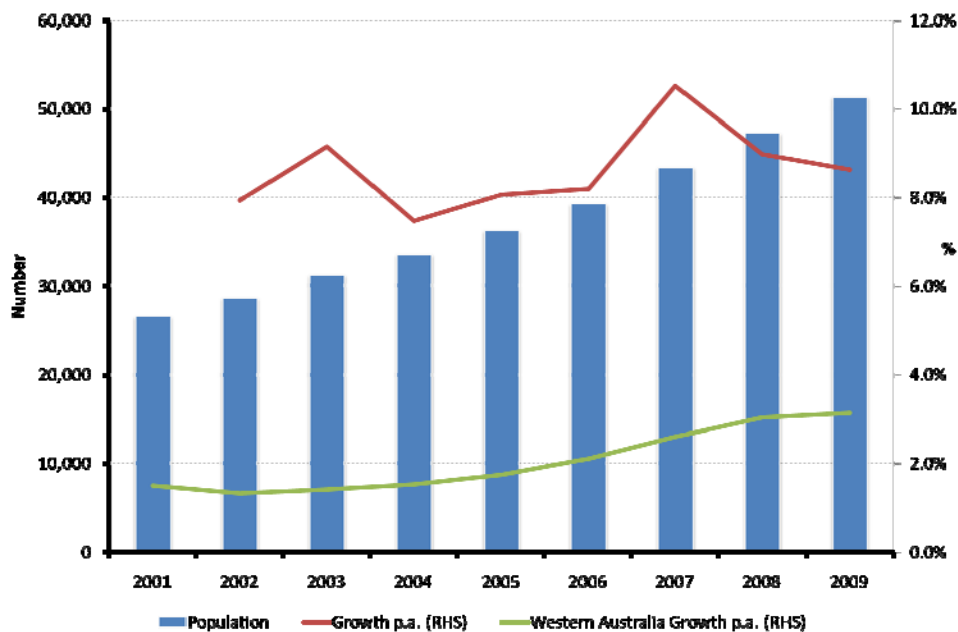
3.2 Demand

3.2.1 Population growth

Over the period 1996 to 2009 the population of the Outer North-West Corridor (where the Property is located) grew by over 33,400 people at an average growth rate of 8.5 per cent. Furthermore, between 2008 and 2009 the City of Wanneroo had the largest population growth (9,500 people) and the third fastest rate of growth (7.1%) of all metropolitan municipalities in Western Australia.

As the area has matured, population growth in the Outer North-West Corridor has accelerated since 2006 with growth averaging around 9.5 per cent per year. The rate of growth in the Outer North-West Corridor has outstripped the Western Australian average over this period.

Figure 32. Population growth, Outer North-West Corridor



Source: ABS 3235.0 and 3218.0

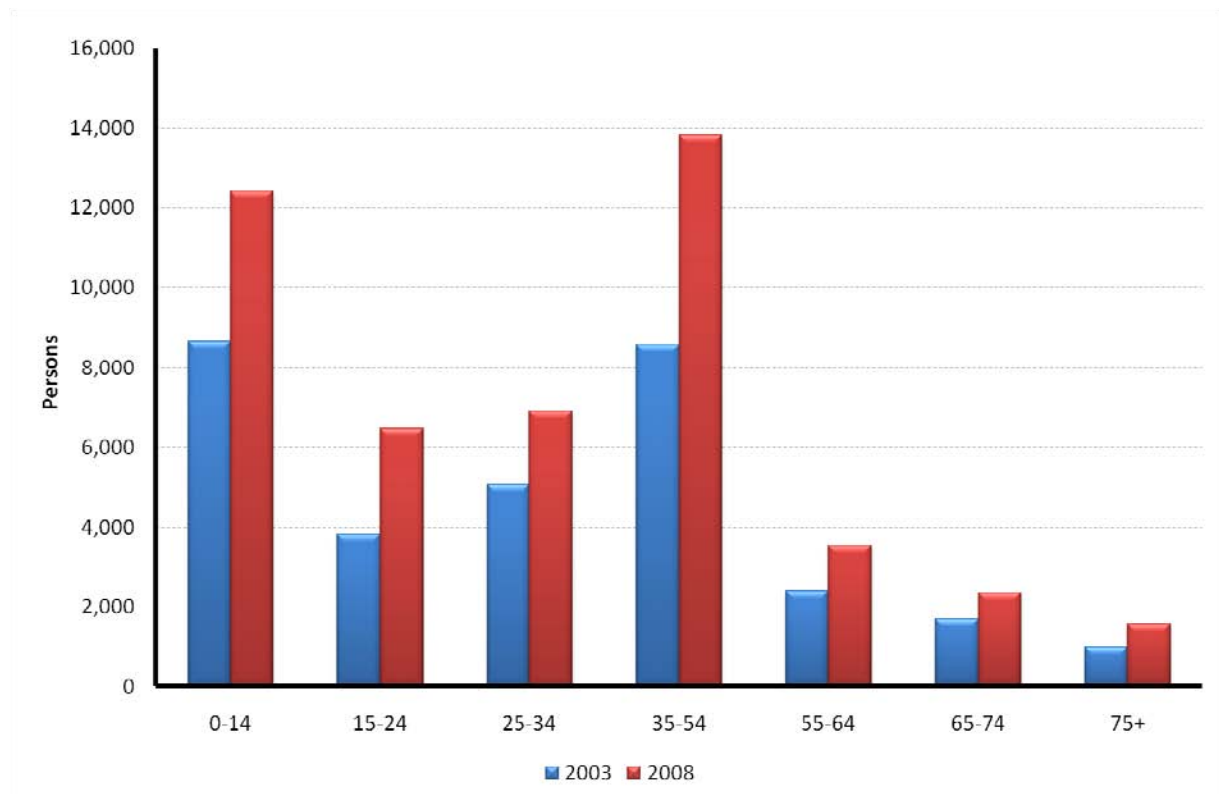
Market Segment Growth by Age Group

The Wanneroo North-West SLA has a very young population with 26 per cent of people in 2008 aged between 0 and 14, with only 3 per cent of the population aged over 75.

The 35-54 year old segment experienced the largest growth (5,248) over the period 2003-2008, followed by 0 to 14 year olds (3,762), 15-24 year olds (2,650) and 25-34 year olds (1,858).

The age profile of the Outer North-West Corridor suggests there is a strong market for traditional family homes. While not a large share in 2008, the 55+ market is expected to emerge over the next 20 years as the population ages nationally and as the 35-54 year old group start to age in place. This is likely to result in demand for new housing market, including demand for smaller and easier to maintain lots.

Figure 33. Population growth by age, Outer North-West Corridor



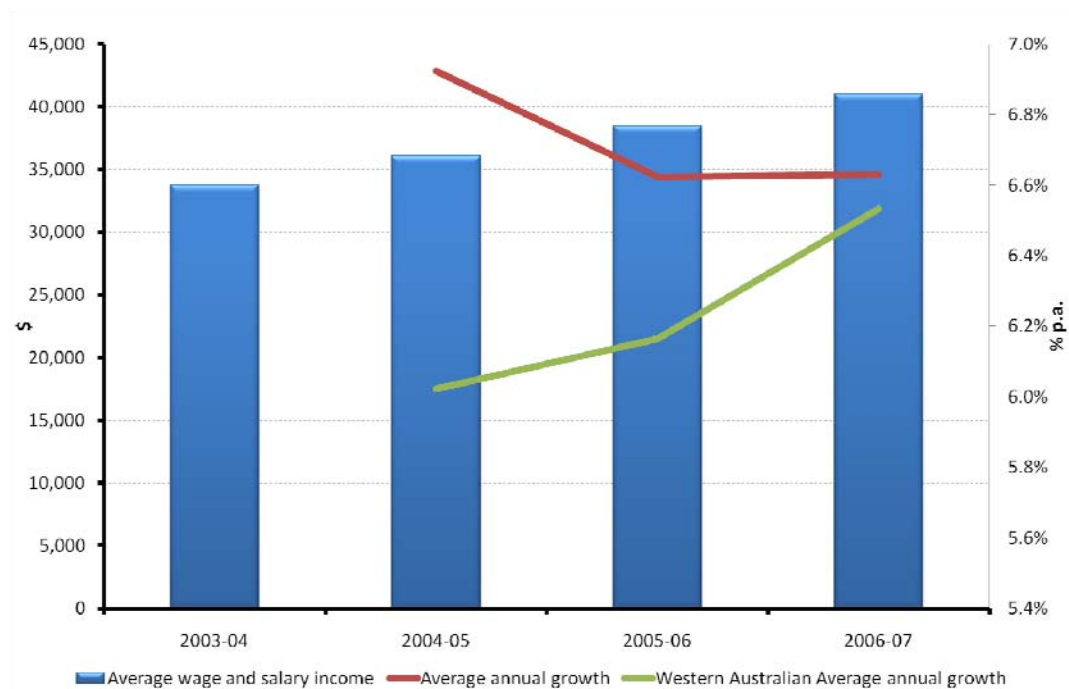
3.2.2 Income and employment conditions

Income

The latest available income data for small areas such as the Outer North-West Corridor has been sourced from the ABS Wage and Salary Earner Statistics for the financial year 2006/07.

On average, as the Outer North-West Corridor earned \$41,003 in Wages and salaries in 2006-07; up from \$38,454 in the previous year. Over the period 2003-04 to 2006-07, the average annual growth rate in average Wage and salary income in as the Outer North-West Corridor was 6.7 per cent. This rate was faster than the average for Western Australia (6.2 per cent).

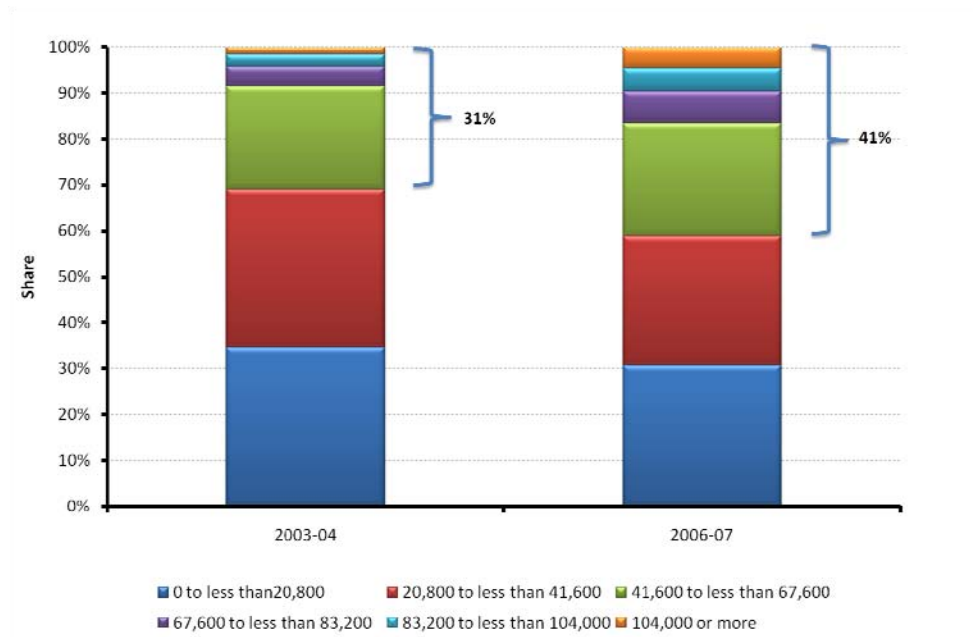
Figure 34. **Average wage and salary income, Outer North-West Corridor, Financial Year**



Source: ABS 5673.0, MacroPlan Australia (2010).

For the Outer North-West Corridor, the proportion of those in the lower and medium income groups fell between 2003-04 and 2006-07. Over the same period, the proportion of Wage and salary earners in the higher income brackets has increased. This has particularly been the case for those earning more than \$104,000 or more; the proportion of Wage and salary earners in this category increased from 1.6 per cent in 2003-04 to 4.7 per cent in 2006-07. This income growth is likely to support the delivery of premium product in the Outer North-West Corridor.

Figure 35. Income ranges, Outer North-West Corridor, Financial Years



Source: ABS 5673.0, MacroPlan Australia (2010).

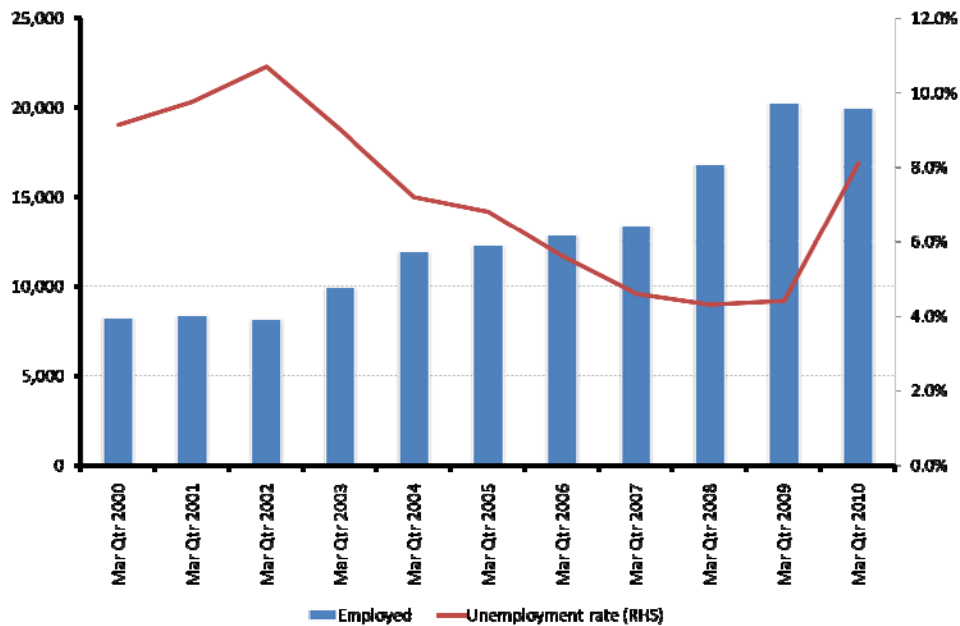
Employment

Since the March quarter 2000 the number of persons employed in the Outer North-West Corridor increased by 242 per cent from 8,226 in the March quarter 2000 to 19,947 in the March quarter 2010. Strong population growth, particularly in the working age population, was largely responsible for this strong in employment.

Unemployment in the Outer North-West Corridor declined from 10.7 per cent in 2002 (March quarter) to a low of 4.3 per cent in 2008. Employment conditions have deteriorated recently with the unemployment rate rising to 8.1 per cent in 2010 (March quarter). While this is relatively above the Perth Metropolitan average (5.1% in the March quarter 2010), the Outer North-West Corridor higher unemployment rate is consistent with areas on the periphery of urban development.

Although this is a noticeable rise, the current unemployment rate is still below 2002 levels. Unemployment is also thought to have reached its peak with indications at the State level suggesting that employment conditions have started to improve.

Figure 36. **Employment Conditions, Outer North-West Corridor, March Quarters**



Source: Department of Employment, Education & Workplace Relations Small Area Data (2009), MacroPlan Australia (2009).

Future employment conditions for the Outer North-West Corridor are strong and will be supported by policy settings set out in Directions 2031 that encourage employment self-sufficiency in the region. The development of major town centres, including the City Centre at Yanchep will support employment growth over the next 20 years.

3.2.3 Migration trends

Sources of migration

Between 2001 and 2006 over 15,000 people moved into the Outer North-West Corridor from elsewhere in Australia and overseas. Almost 1,800 people moved to the Outer North-West Corridor from interstate while almost 4,000 people moved to the area from overseas, the remainder came from other parts of Western Australia.

An analysis of migration data shows that around 70 per cent of inward migration to the Outer North-West Corridor came from 8 Statistical Local Areas (SLAs) including, Bayswater and Swan LGAs and the SLAs of Joondalup - North, Joondalup - South, Stirling – Central, Wanneroo - North-East, Stirling - Coastal and Wanneroo - South.

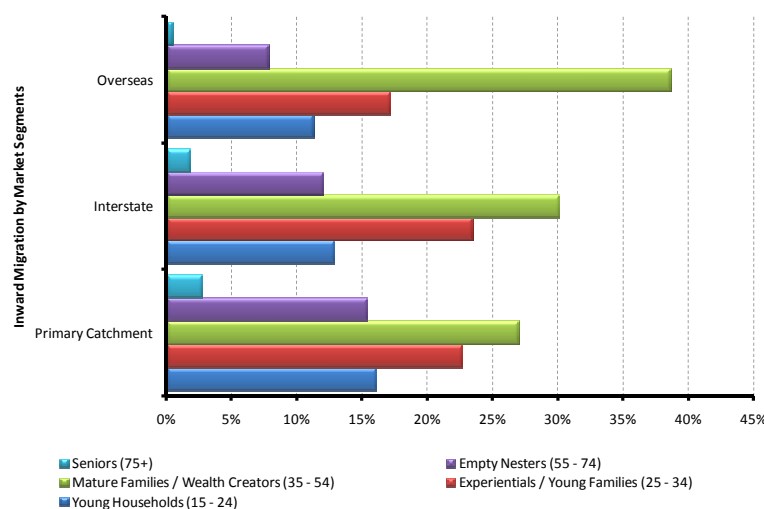
Migration by age

An analysis of migration by age illustrates that the largest proportion of inward movements to the Outer North-West Corridor come from mature families and young families. These market segments usually move home for family lifecycle or employment reasons.

There are very few seniors moving into the area, less than 2 per cent of inward migrants to the Outer North-West Corridor were aged 75 or over. This trend is set to change however with persons aged 75 or over projected to grow by 4,548 persons over the period 2009 to 2027 (see figure 48).

The mature families / wealth creators moving into Outer North-West Corridor will potentially be upgrading the family home, while the young families are likely to be first home buyers.

Figure 37. **Inward Migration by Age, Outer North-West Corridor, 2006**



Source: ABS Census (2006), MacroPlan Australia (2009).

3.2.4 Residential Activity

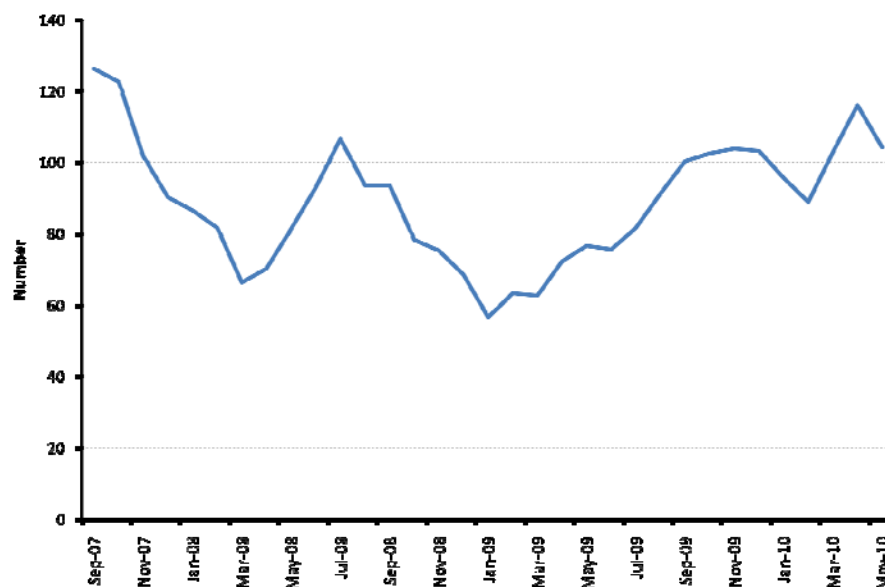
Total new residential approvals

Residential activity in the Outer North-West Corridor has fluctuated in the last few years due to the impact of the global financial crisis. The three month average of residential building approvals fell to 57 in January 2009; however, since then residential activity has improved in line with the economic recovery.

Whilst the most recent figures have shown a slight decrease in the number of new residential building approvals, the three month average of 104 that was recorded in May 2010 is still relatively strong in light of historical figures. It can be compared to the mean three month average of 89 approvals over the Sep-07 to May-10 period.

This recent trend of strengthening residential activity in the Outer North-West Corridor is further emphasised by the average value of building approvals over the given period, which has consistently increased since December 2009. The three month average value of new residential building approvals in May 2010 was \$222,000, which was the highest average of all months between Sep-07 and May-10.

Figure 38. **New residential building approvals, Three month average, Outer North-West Corridor**



Source: ABS 8731.0

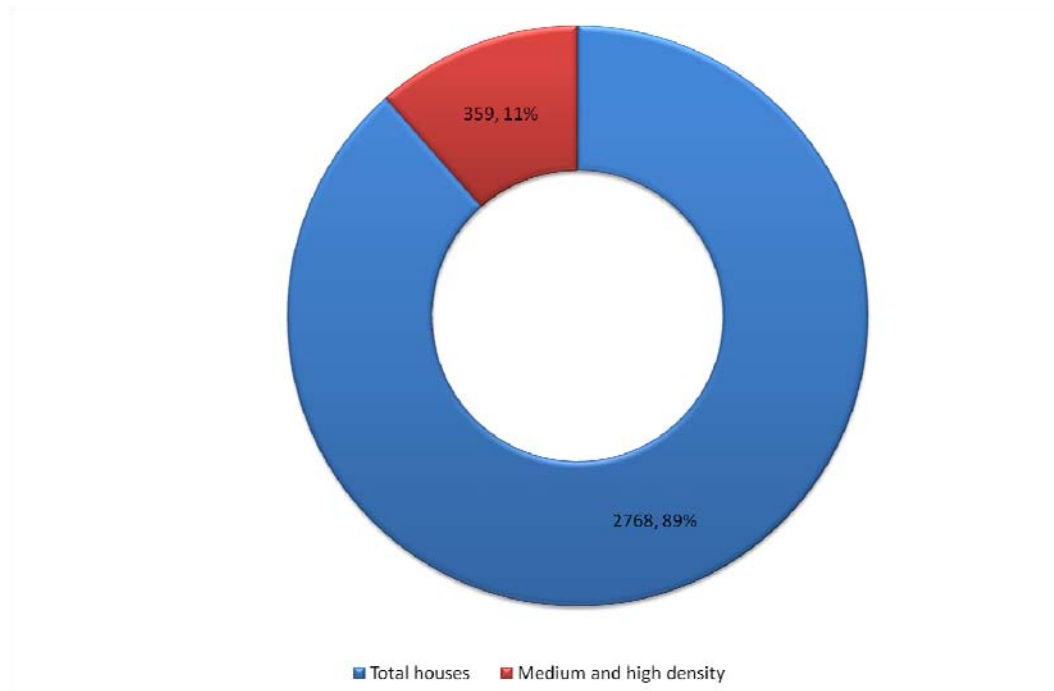
Composition of Activity

Residential activity in the Outer North-West Corridor is dominated by single houses, with 2,768 or 89 per cent of the new residential building approvals granted between Sep-07 and May-10 categorised in this group.

However, there also exists a market for medium and high density residential buildings, with 359 such building approvals over the same period. The demand for these higher density building types arises mainly around town centres, high levels of amenity and in coastal areas with ocean views.

In the year to May 2010, medium and high density residences made up 12 per cent of all new residential building approvals, which represents a slight increase on the longer term average of 11 per cent.

Figure 39. **Composition of residential activity, Outer North-West Corridor**



Source: ABS 8731.0

3.2.5 Locational Demand Drivers

Infrastructure projects

A number of significant infrastructure projects are planned for or are presently taking place within the North-West Corridor, including current and proposed road extensions, a future extension of the Northern Metropolitan rail line and the recently commissioned Alkimos Wastewater Treatment Plant.

The recent strong population growth in Western Australia has put a significant amount of pressure on existing infrastructure. To alleviate these pressures and prepare for future growth a number of new infrastructure projects are planned. Some of the major infrastructure projects include:

- **Roads:** There are two key road developments with regard to the North- West Corridor; 1) the Marmion Avenue extension and 2) the Mitchell Freeway extension. The \$15 million recently completed 12 kilometre extension of Marmion Avenue funded by landowners in the region, now serves as the main point of access into Yanchep. The Mitchell Freeway extension to Burns Beach Road, also recently completed, has cut travel times to and from Yanchep.
- **Rail:** The recently completed \$1.66 billion MetroRail project has effectively doubled the size of Perth's Rail network. The project included the construction of the Mandurah Line and the extension of the Joondalup Line from Currambine to Clarkson. Importantly for the Northern Region of Perth, the WA Government is fulfilling a \$240 million

commitment to extend Perth's Joondalup railway line by 7.5km, building a new train and bus station in Butler and will include a Park 'n' Ride facility. An extension of the rail line to Yanchep has been considered by government but no firm commitments provided. The Consulting Economist expects that this rail extension will be delivered around 2018.

- Alkimos Waste Water Treatment Plant: Construction of a Wastewater Treatment Plant commenced in 2007 and is expected to be completed by late-2010. The plant is located in Alkimos, approximately 40km north of Perth. This will be essential to population growth and development in this region.
- Health: The Joondalup Health Campus currently has an upgrade planned. When complete stage one of the upgrade will increase the number of beds from 284 to 451 and will double the size of the emergency room.
- A \$1 billion upgrade of Perth Airport. The plan includes the phased relocation of all regular passenger services to the international airport site, improvements to the local road network and access. These upgrades will play a critical role in the growth of the local and State economy.

The rollout of infrastructure throughout the North-West metropolitan Corridor is likely to positively impact the competitiveness of the region and therefore have the potential to increase the market share of the North-West metropolitan Corridor compared to other parts of the Perth metropolitan area.

Economic and employment nodes

Directions 2031 has identified a number of opportunities to support higher levels of employment and therefore higher levels of employment self-sufficiency. Opportunities include a range of planned centres including two Primary Activity Centres, a Strategic City Centre, a Regional Town Centre, a Regional Industrial Centre and the network of existing and planned district, neighbourhood and local centres. This is illustrated in the figure below.

Figure 40. North-West Sub Region, Centres Network



Source: Directions 2031

The development of these centres could have a strong impact on population growth in the North-West sector. This could see population increase above historical trends.

There exists a strong relationship between population and employment growth in any new development. The two components are inherently interconnected by a range of factors. For example:

- Population growth and associated expenditure creates demand for retail, cafes and restaurant, health and community, education; child care and other population-related services. This creates employment opportunities in these industries;
- Population growth provides people of working age and with skills and characteristics attractive to employers; and
- Availability of employment opportunities are a major driver of population growth in a region.

By integrating a mix of uses into centres throughout the North-West Sub Region and creating a critical mass of activity, the attractiveness of the Sub Region is enhanced. This will provide significant retail, urban form and accessibility related amenity that can provide a catalyst to population growth relative to comparable developments (to the south) and encourage the take up of dwellings throughout the Corridor. This is considered an essential element to growth front development and centre development.

Therefore, the successful delivery of key centres in the North-West Sub Region is likely to improve the Sub Region's historical market share of the Perth Metropolitan Region. This may in turn provide opportunity for the Outer North-West Corridor to increase land supply.

3.3 Supply

Recent supply conditions

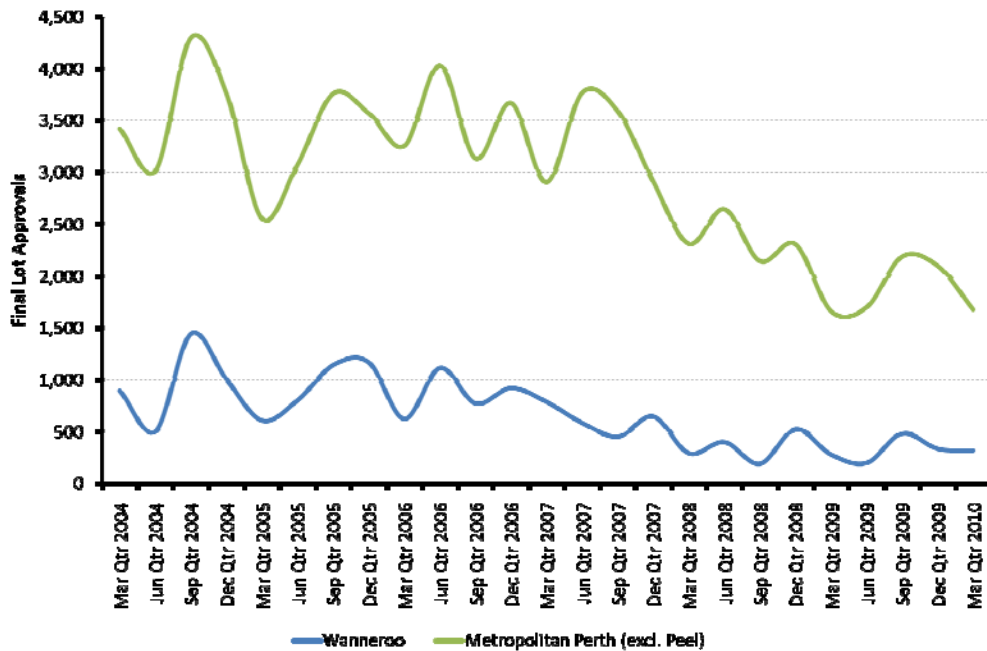
The Wanneroo Local Government Area (where the Outer North-West Corridor is located) has contributed, on average, about 21 per cent annually to Perth's new residential development (post-2004 production).

Wanneroo has experienced a tightening of supply in greenfield lot releases at the same time as demand has increased.

Despite strong population growth over the past decade, lot production in the Wanneroo LGA has gradually declined since 2004. In 2004, there were around 3,800 final lot approvals; by 2008 this had declined to only 1,400 final lot approvals. Lot approvals fell again in 2009 by around 8 per cent to 1,290.

This trend was experienced across Perth as well with regions such as Peel not producing enough lots to meet demand. Strong levels of demand and tightening of supply resulted in the vacancy rate in Perth dropping sharply. Vacancy rates fell from 4.50% in September 2003 to 0.80% in March 2007. The vacancy rate has since increased to around 4.30% in June 2010, mainly as a result of the downturn in economic conditions in 2008 and 2009.

Figure 41. Final Lot Approvals, Wanneroo LGA and Perth



Source: State Lot Activity (2009), MacroPlan Australia (2009).

In 2008/09, most of the Wanneroo Local Government Area lot production activity was generated in Clarkson (161), Jindalee (40), Butler (70), Yanchep (73).

Future Supply Overview

The Outer North-West Corridor has several active developers and multiple releases planned over the next 30 years. The current growth front is focussed around Butler and Jindalee. This will soon shift to the Alkimos-Eglinton region with supply in Butler and Jindalee almost exhausted.

Developers in the Alkimos-Eglinton region include Peet Limited, Delfin Lend Lease, Stockland and Eglinton Estates. The Alkimos-Eglinton area is mainly controlled by LandCorp, a State Government agency. LandCorp recently announced a joint venture with Delfin Lend Lease on the largest parcel of land in Alkimos and Eglinton. The Consulting Economist understands that the LandCorp Alkimos project may be set at a higher price than existing land. This may provide opportunities for residential land to the north in Yanchep/Two Rocks.

Other residential estates in the Yanchep location include Capricorn Yanchep Estate and Jindowie Estate (Australand). There are also a number of developments in Two Rocks including the Capricorn Two Rocks Estate, The Reef and Breakwater.

Of the 7,550 hectares of land within the DSP area, approximately 2,572 hectares are owned by Tokyu Corporation with an additional 1,500 hectares joint ventured between a Tokyu subsidiary and a third party. A further 1500 hectares is owned by, or vested in, the WAPC as Reserves for Recreation. The remainder of the DSP area is owned by State and Local Government agencies and various other private landowners.

Sequencing of development in the short term is expected to occur around the town centres at Yanchep and Two Rocks.

The sequential delivery of growth fronts from Butler to Alkimos and Yanchep / Two Rocks will create significant competition for The Property. However there are opportunities to capitalise on latent demand that has built up due to tight supply conditions, combined with strong population growth in the short and medium term.

From a supply perspective, as development in the area intensifies due to releases from Peet, Stockland, Delfin Lend Lease, and Australand, the Consulting Economist considers that the Yanchep region will form part of the growth Corridor from Alkimos to Yanchep/Two Rocks, particularly in line with the construction of a shopping centre in Yanchep in 2011.

The Consulting Economist's analysis also shows the highly price sensitive nature of the Outer North-West Corridor. There appears to be a decreasing market for lots in excess of \$300,000 for land. Estates with a significant amount of their product priced in excess of \$300,000 have recorded corresponding decreases in sales rates, even at the height of the most recent property boom.

3.4 Land Sales

There were 282 land sales in Yanchep in 2009, representing 21 per cent of all land sales in the North-West Corridor.

Figure 42. **Land Sales Overview, Yanchep and Outer North-West Corridor**

	Yanchep	Outer North-West Corridor	Yanchep - Share of sales
Land sales in 2009	282	1,353	21 per cent
Average annual sales rate over the last 5 years	198	1,676	12 per cent
Average annual sales rate over the last 10 years	107	1,081	10 per cent

Source: RP Data

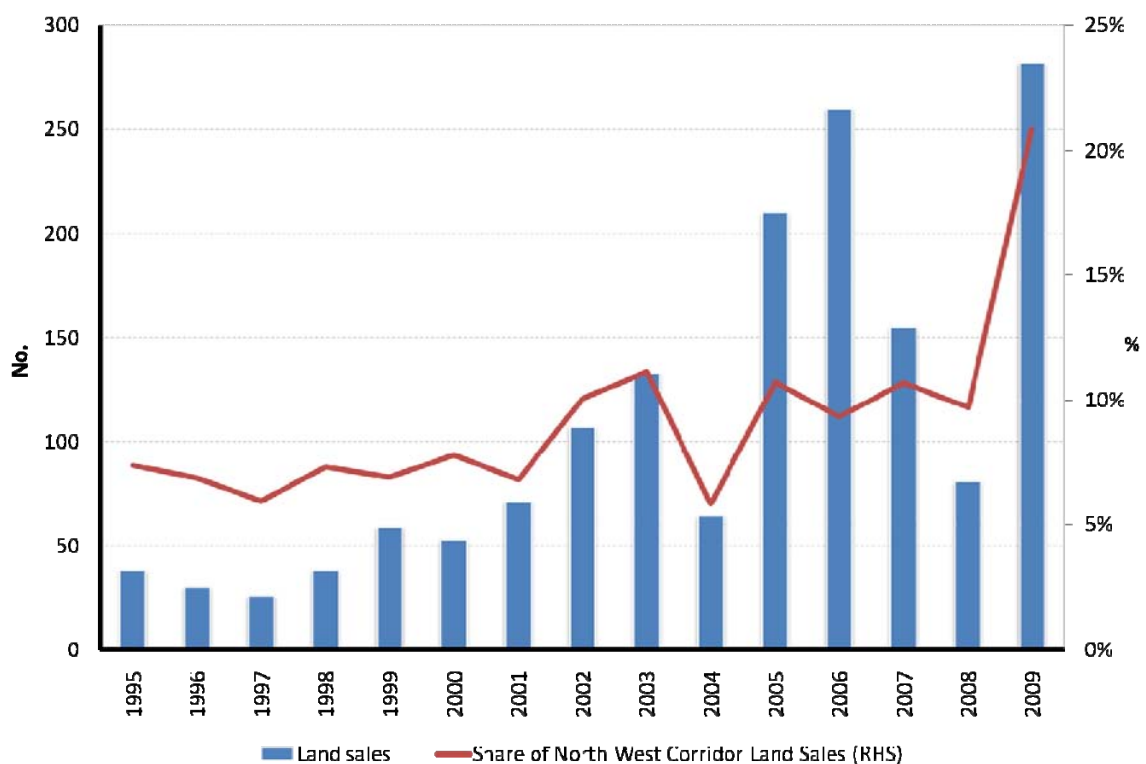
Land sales activity in Yanchep increased significantly over the period 2005 to 2009 with an average of around 198 land sales per annum over this period. This compares to 107 sales per annum over the 10 year period ended 2009. The increase in sales over the past 5 years is in line with an overall increase in land sales across the North-West Corridor. Over this 5 year period, Yanchep has captured around 12 per cent of all land sales in the North-West Corridor.

Land sales fell in 2008 with 182 sales recorded in Yanchep. This fall was experienced across the North-West Corridor. Yanchep however was able to maintain its share of total Outer North-West Corridor land sales.

Land sales in Yanchep rebounded strongly in 2009 with a record number of sales recorded (282 sales). The median land price in Yanchep in 2009 was around 20 per cent less expensive than the Outer North-West Corridor in 2009. This differential may explain the strong performance experienced in 2009.

Land sales have also increased in Yanchep over the past 5 years with the delivery of a number of key estates as opposed to small land releases. The main estate in Yanchep at the beginning of the decade was Ocean Lagoon (PEET). Capricorn Village commenced land sales in 2005, averaging around 110 sales per annum to 2009. Australand (Jindowie) have recently entered the market which has further added to the activity in Yanchep. This competition appears to be driving sales volumes above historical averages.

Figure 43. **Historical Land Sales, Yanchep**



Source: RP Data, MacroPlan Australia

3.5 Prices

In 2009, the median land price in Yanchep was \$177,000, down from \$227,000 in 2008. The historical land price growth in Yanchep has been around 9.8 per cent per year since 1995. Land prices growth in Yanchep is consistent with historical house price growth in Perth (9.7 per cent).

Figure 44. **Median Land Price Growth, Yanchep and City of Wanneroo**

Land	1995	2010	Historical price growth p.a. (1995-2010)
Yanchep	\$48,000	\$177,000	9.8%
City of Wanneroo	\$52,500	\$225,000	11.0%

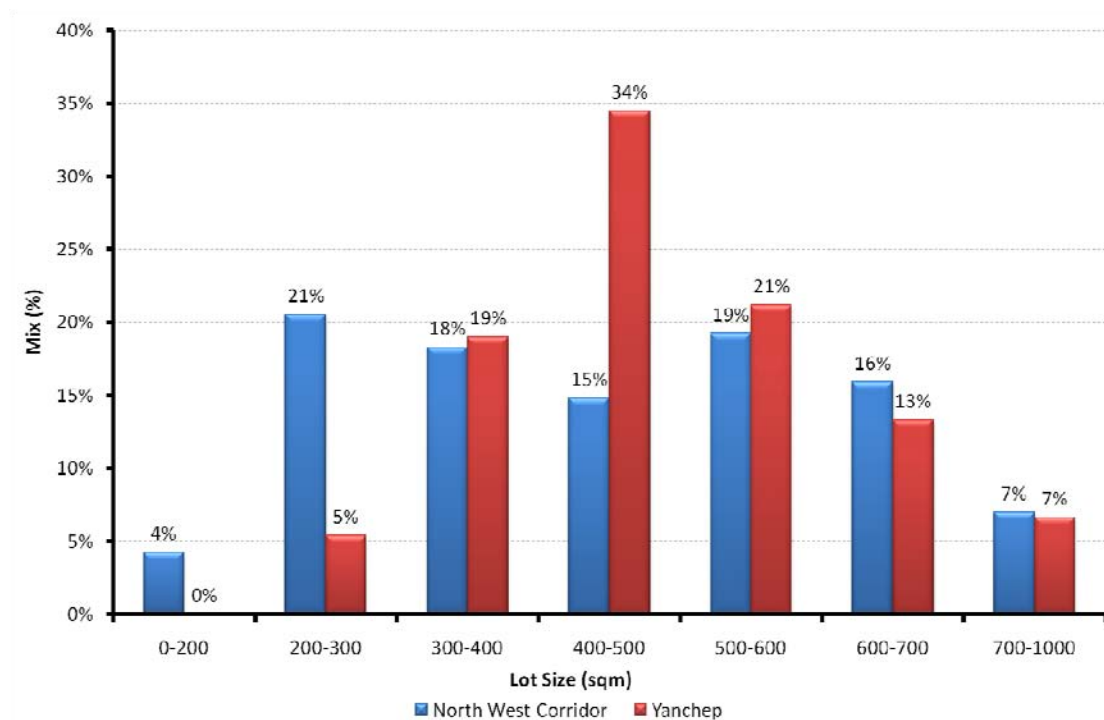
Source: RP Data, MacroPlan Australia

3.6 Price point and lot mix analysis

Lot Mix

Compared to the North-West Corridor, Yanchep is delivering a larger share (34 per cent) of 400-500 sq.m lots, but a much lower share (5 per cent) of 200-300 sq.m lots. This reflects the type of households moving to the area. The future delivery of a major town centre in Yanchep is likely to result in increased acceptance for smaller lot product, particularly in close proximity to town centres and high amenity locations (e.g. ocean views or golf course frontage).

Figure 45. **Lot Mix, Yanchep and Outer North-West Corridor, 2009 and 2010**



Source: RP Data

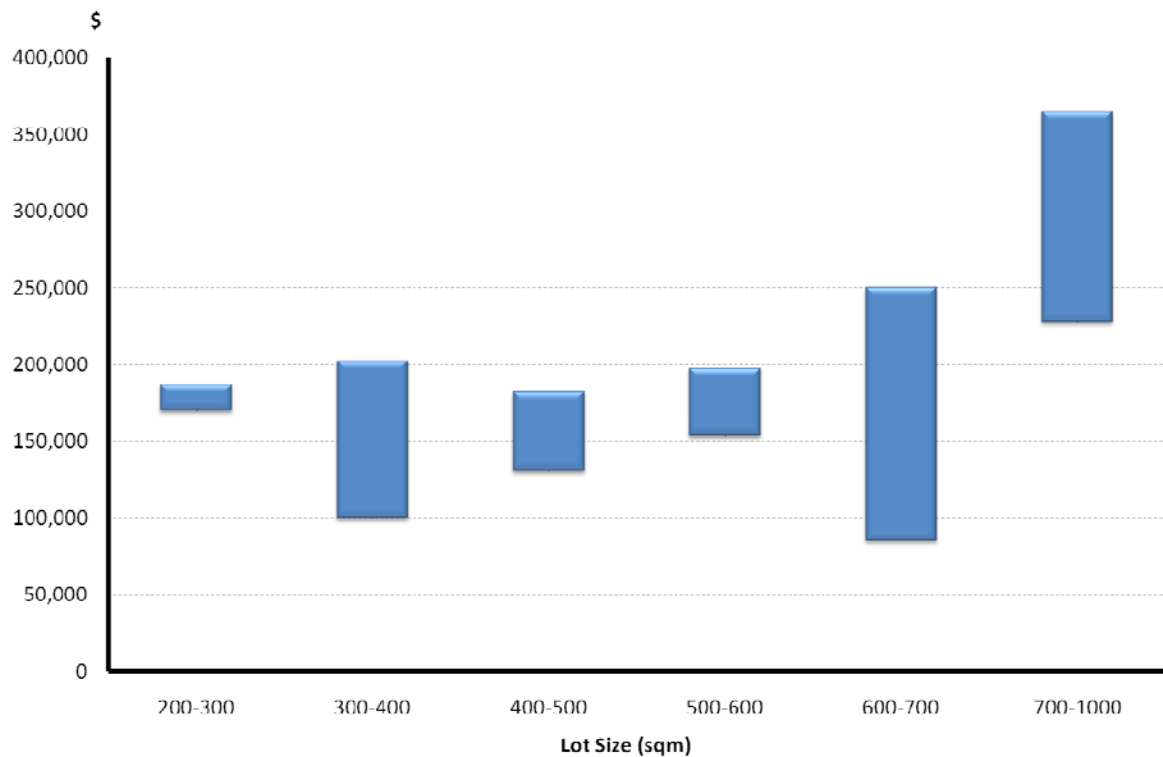
Lot mix and price points

The figure below presents price points for different lot mixes in Yanchep. The median land price for 300-400 sq.m lots is around \$168,000. There appears to be a price premium, (of around 20 per cent), for 300-400 sq.m lots that are well located (e.g. ocean views).

Based on this analysis, The Consulting Economist outlines the following price point parameters:

- 300-400sqm lots at \$155,000 to \$160,000
- 400-500sqm lots at \$155,000 to \$175,000
- 500-600 sqm lots at \$165,000 to \$190,000
- 600-700sqm lots at \$180,000 to \$250,000

Figure 46. **Price points by lot mix, Yanchep**



Source: RP Data, MacroPlan Australia

4 Forecasts

This section presents the Consulting Economist's forecasts of:

- Potential sales rates achievable by the Syndicate.
- Land price escalation for the Outer North-West Corridor over the period 2010 to 2015 and 2015-2020;

The forecasts and projections in this section are based on assumptions about circumstances and events that have not yet transpired and they are therefore subject to variations that may arise as future economic and market factors actually occur. As a result, the Consulting Economist cannot provide any assurance that the forecasts and projections contained in this report will be achieved.

Key assumptions made to undertake the forecasts include:

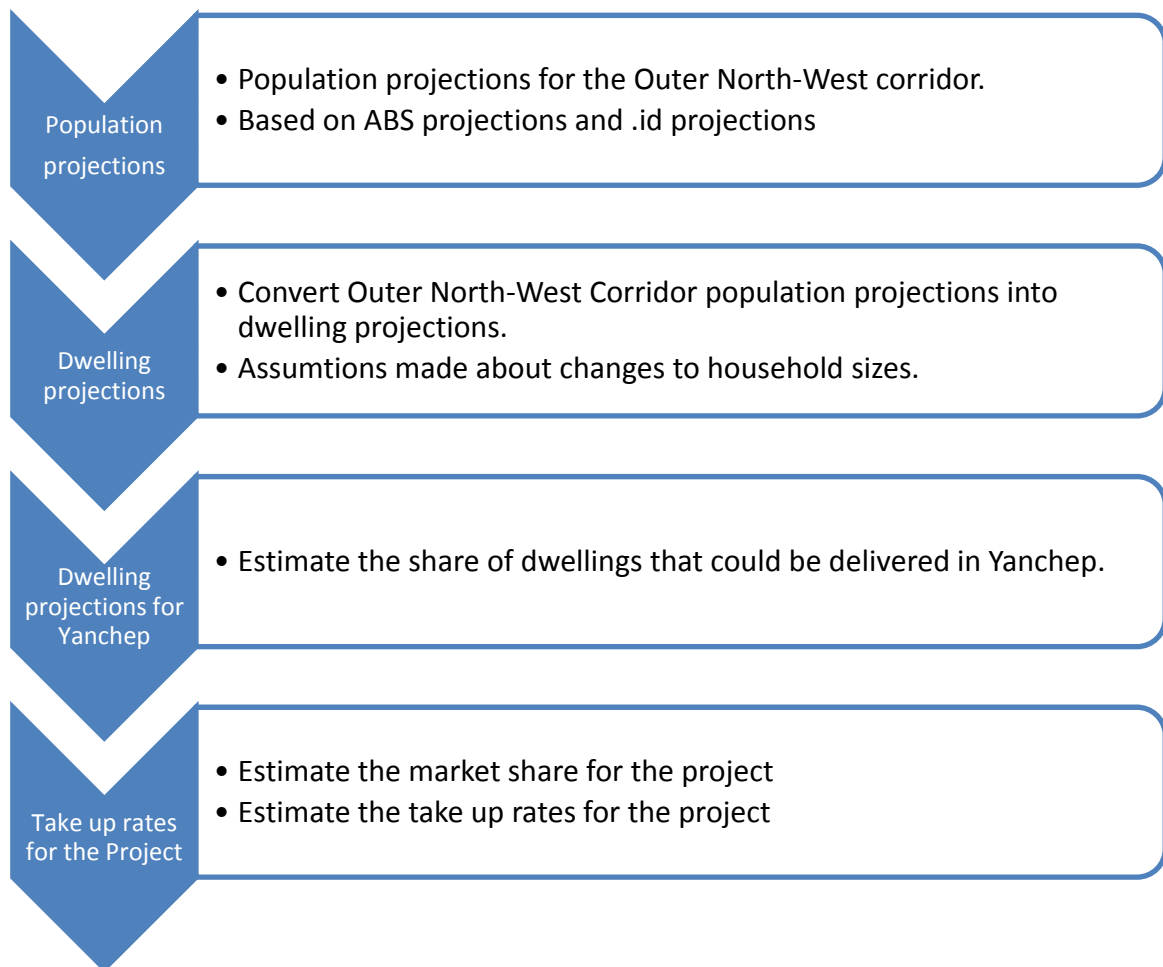
- The Western Australian economy continues to recover over the next two years before growing strongly around 2013 and significant growth occurs around 2015 in line with major mining and gas activity commencing around this period.
- RBA Cash Rate average 5.0% between 2010 and 2012, increasing to 5.5% thereafter. The Consulting Economist has assumed that the RBA will move towards the medium term average.
- Inflation rate at 2.8% between 2010 and 2012, increasing to 3.0% thereafter.
- No additional major development not identified already is assumed to occur within Yanchep/Two Rocks over the next 2 years.
- Significant increase in the land sales market from 2010 in Yanchep due to a range of factors outlined above.
- Lot price ranges for The Syndicate based on the Independent Valuer assessment are achieved.
- Analysis of the Subdivision Concept Plan depicts approximately 1,480 residential lots ranging between approximately 300 and 1,000 square metres in area.
- Land sales for the property commence in 2011.
- The Property capturing around 15-20% of the Yanchep land sales market over the life time of the Syndicate.
- Around 6 sales per month to builders over the life time of the Syndicate.
- The Consulting Economist considers that there is a reasonable basis for making each of these assumptions.

4.1 Methodology

4.1.1 Potential sales rate

The diagram below describes the general approach used by the Consulting Economist in its potential sales rate forecasts.

Figure 47. **Population projections based forecast**



Source: MacroPlan Australia

The key input into this methodology is the population projections estimated by the ABS. These projections by the ABS make assumptions of fertility (birth rates), mortality (death rates) and migration and are primarily based on historical patterns and trends specific to each area. While the assumptions are formulated on the basis of an assessment of demographic trends, there is no certainty that any of the assumptions will be realised. In addition, the ABS projections do not take into account possible future changes in non-demographic conditions.

4.1.2 Price escalation methodology

Whilst forecasting property values assumes a wide variety of factors and conditions, continued economic and resources sector growth in the Greater Perth area (including Yanchep), combined with sustained increases in population should assist price growth over the next year despite the recent downturn in economic conditions. Other factors will also impact prices including interest rates and the capacity of the industry to convert approvals and commencements into completions. However, the availability of land will play a key role.

The Consulting Economist has estimated the long term price growth based on a predictive methodology that takes into account historical trends and the property cycle in the market and projected population growth rates. The long term projections are where we expect the suburb to be in the future, all other things being equal. It is noted that there are a vast number of things that cannot be allowed for by this predictive analysis. This analysis however provides a reasonably accurate guide based on historical trends.

4.2 Potential Sales Rates

4.2.1 Population Forecasts: Outer North-West Corridor

The Consulting Economist has used the ABS population forecasts, prepared for the Department of Health and Ageing, as a base to project forward the population of the Outer North-West Corridor.

Based on this, The Consulting Economist has forecast an increase of almost 60,000 people between 2010 and 2025 at an annual growth rate of 5.0 per cent. In line with historical trends, the largest proportion (29 per cent) is expected to come from people aged 35 to 54. The number of children (aged between 0 and 14) is expected to almost double from 14,101 in 2010 to 27,439 in 2025. This indicates continued demand for family dwellings in the area.

While the number of people aged 75 and over is only supposed to increase by around 3,795 people, this is around three times the number of people in this age cohort in 2010. This indicates there may be demand for residential dwellings more suited to older retirees.

Figure 48. **Outer North-West Corridor Population Projections by Age (Adjusted)**

	2010	2015	2020	2025	Growth (2010- 2025)
0-14	14,101	18,326	22,988	27,439	13,338
15-24	7,813	10,493	12,759	15,490	7,678
25-34	7,913	10,731	13,250	15,440	7,528
35-54	16,209	21,683	27,410	33,444	17,236
55-74	7,008	9,860	13,427	17,022	10,014
75+	1,877	2,698	3,880	5,672	3,795
Total	54,919	73,790	93,715	114,507	59,588
Average annual growth rate		6.1%	4.9%	4.1%	5.0%

Source: Department of Health & Ageing (2009), MacroPlan Australia (2009).

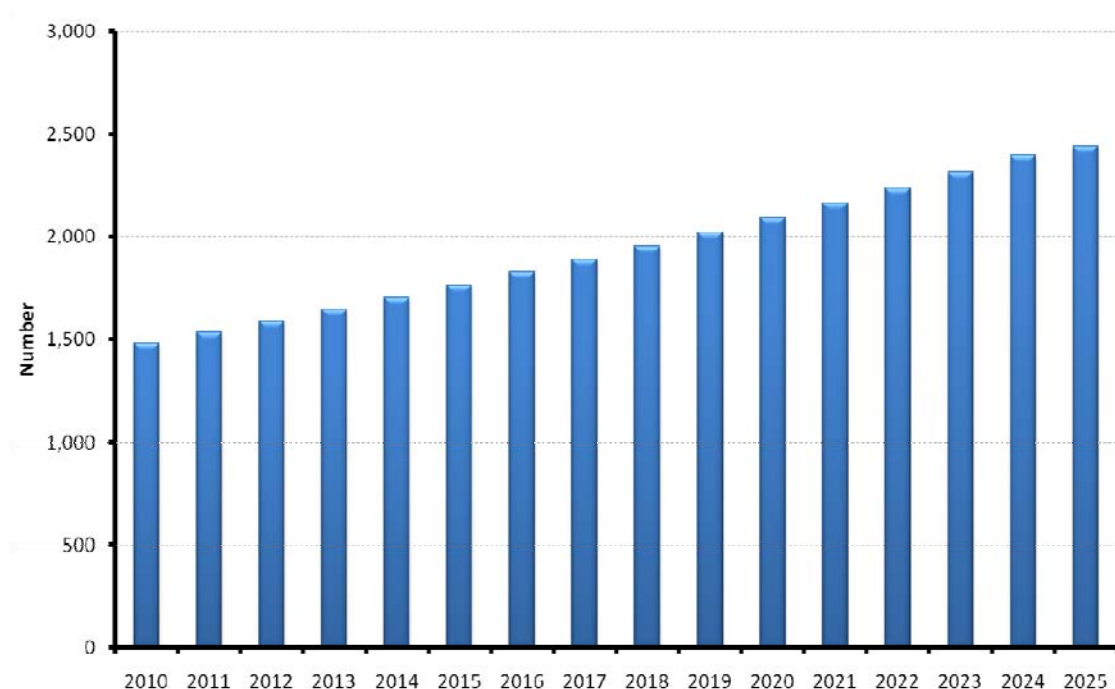
4.2.2 Dwelling forecasts: Outer North-West Corridor

A household formation assumption is required to estimate the future dwelling requirement in the Outer North-West Corridor. The household formation rate refers to the number of persons for each additional dwelling. Directions 2031, released by the Western Australian Government in August 2010, uses a household formation assumption of 1.70 when estimating future dwelling requirements at the sub-region level.

To estimate dwelling demand in the Outer North-West Corridor, the Consulting Economist has used a slightly higher estimate of 2.00 persons for every additional dwelling as the household size is expected to be relatively higher in the Outer North-West Corridor compared to its sub-region and Metropolitan Perth.

This estimate is applied to the population growth identified in the table above (59,588). This results in demand for an additional 29,794 dwellings over the period 2010-2025. This results in a dwelling requirement of around 1,986 dwellings per annum.

Figure 49. **Dwelling requirement per annum, Outer North-West Corridor**



Source: MacroPlan Australia

4.2.3 Dwelling demand in Yanchep

Yanchep

The Consulting Economist considers that the housing market in Yanchep has been difficult to interpret in recent times. There is no comparable evidence in relation to take up rates in Yanchep

due to the negative impacts of the Global Financial Crisis and the positive impacts from the construction of Marmion Avenue.

Currently, take up rates in Yanchep are around 200 per annum (refer to figure 35). However historical take up rates in Yanchep partly reflects:

- Establishing market
- Land sales activity characterised by small releases;
- No major builders;
- Prospect of a major shopping centre was remote;

The Consulting Economist considers that the market size in Yanchep will grow significantly over the next decade. This growth will depend on:

- Construction of a shopping centre (6,200 square metres) at Jindowie Estate, commencing in 2011, comprising of a supermarket (3,600 square metres) and fifteen retail specialty stores (2,600 square metres). This is likely to drive land sales in Yanchep in the short and medium term (2011-2020).
- Based on information provided to the Consulting Economist, land at the Property can be released considerably earlier than major supply at Delfin-Lend Lease Alkimos to the South. This will provide opportunities to capture sales over the period 2011-2013.
- Yanchep in general establishing itself as a front of mind area for potential buyers in the Outer North-West Corridor. The introduction of a major developer such as Peet in addition to established estates by Australand (Jindowie) and the Capricorn project is likely to grow the market size in Yanchep above historical averages.
- The Consulting Economist anticipate that the State Government will announce (around 2012) and complete (around 2018) the North Railway Link to Yanchep. This will also induce demand into the area following the announcement.
- Land supply constraints in the Peel region may also see demand transfer from the south of Perth to the north in regions such as the Outer North-West Corridor.

On this basis, the Consulting Economist anticipates that the Yanchep land supply market will grow significantly over the short and medium term. The following assumptions have been applied:

- Yanchep attracts around 290-340 dwellings per year (18-21% of total dwellings in the Outer North-West Corridor) over the period 2010-2015. While this is above the average land sales in Yanchep over the past five year (200 land sales per year), this estimate reflects the short term opportunities in Yanchep such as the construction of a shopping centre with a full line supermarket in 2011 and land release program at the Delfin-Lend Lease project at Alkimos being delayed until 2013.

- Yanchep attracts around 340-390 dwellings per year (21-24% of total dwellings in the Outer North-West Corridor) over the period 2016-2020.
- Yanchep attracts around 420-480 dwellings per annum (22-25% of total dwellings in the Outer North-West Corridor) over the period 2021-2025.
- The Consulting Economist considers that there is a reasonable basis for making each of these assumptions.

The figure below summarises the estimates outlined above.

Figure 50. **Yanchep Dwelling Estimates**

Low estimate	2010-2015		2016-2020		2021-2025	
Dwelling Commencements	Total	per year	Total	per year	Total	per year
Outer North-West Corridor	9,716	1,619	9,780	1,956	11,545	2,309
Yanchep	1,749	291	2,054	342	2,540	423
High estimate	2010-2015		2016-2020		2021-2025	
Dwelling Commencements	Total	per year	Total	per year	Total	per year
Outer North-West Corridor	9,716	1,619	9,780	1,956	11,545	2,309
Yanchep	2,040	340	2,347	391	2,886	481

Source: MacroPlan Australia

Take up rates for the Syndicate

The Syndicate is likely to have significant lot sales because:

- A range of lot sizes and product types can be delivered due to (a) proximity to the Yanchep City Centre; (b) high amenity sites (e.g. ocean views and panoramic inland views); and golf course frontage.
- Good access to existing schools.
- A masterplanned outcome can be achieved given the size of the Property as well as the amenities provided / or in close proximity. The Consulting Economist's research has demonstrated that masterplanned communities can achieve both a faster sales rate and price growth.
- Proximity to a future rail station will also improve the attractiveness of the location, particularly from white collar workers with higher incomes.

- It is located adjacent to the future City Centre at Yanchep which includes the potential for a university precinct and major hospital. This is likely to generate demand from both owner occupiers and investors given this close proximity.
- Opportunity to sell to Peet's builder network which is seeking to sell house and land packages. This would induce new demand into the Yanchep suburb and further support strong take up rates for the Property.

The Property provides the opportunity to provide land and house and land packages that are accessible to a range of market segments, namely:

- First homebuyers
- Investors
- Cash – out market for 50+ year olds
- Fly-In and Fly-Out
- Golf properties

On this basis, the Consulting Economist considers that the Syndicate will enjoy and successfully compete in the growing Outer North-West Corridor and capture a significant market share. Based on our analysis we consider that the Syndicate could capture between 15% and 20% of the Yanchep land sales market. Based on this analysis an average take up rate of around 63 to 97 land sales per year could be achieved over the period 2011 to 2025. The market share assumed for The Syndicate is lower than that achieved by Capricorn Estate and has been applied on a conservative basis.

It is also expected that there will be significant demand from builders to purchase lots. The Consulting Economist has estimated that around 6 sales per month could be generated by builders taking advantage of a range of new product and lot sizes. This opportunity is considered realistic given that there is little representation from builders currently in Yanchep and the diversity of lots available including golf course frontage lots.

Based on our analysis, in total the Syndicate could achieve an average rate of around 145-180 land sales per year over the period 2011 to 2025. We think this forecast and the assumptions behind it are reasonable.

4.2.4 Price forecasts

Based on our assessment, land price growth of between 6.0% - 7.0% per cent per annum for Yanchep over the period 2010-2015 is reasonable. Land price growth of between 7.5% - 8.5% per cent is projected for the period 2015-2020. This estimate is below the historical average as it takes into account the relatively low starting price at \$48,000. However this price growth is considered strong and takes into account population and employment growth and the infrastructure upgrades and significant lifestyle opportunities afforded in the area.