

Presentation to Macquarie Corporate Day in Singapore & Hong Kong

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Rismark International**

September 2010
Strictly Private & Confidential



Agenda

1. About Rismark
2. Introduction
3. Have Australian House Prices Risen Too Rapidly?
4. International Comparisons
5. Were the Real Bubbles in Equities (shhh!)?
6. What is Happening to the Aussie Housing Market Now?
7. Solid Underlying Fundamentals
8. How Vulnerable are Australian Borrowers?
9. Investment Solutions for those that want to Hedge or Go Long



1. About Rismark



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**Best Product
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**Best New Financial
Start-Up of 2007**

1. About Rismark

- Partnered with Australia's leading data company, RP Data Ltd (ASX: RPX)
- Australia's leading residential real estate research & investment business
 - Awarded 15x patents in Australia, US and Singapore
 - Hedonic house price indices
 - Automated property valuation models
- A range of investment solutions
 - Listed and OTC house price index hedge/shorts
 - Listed and OTC house price index longs
 - Direct longs



2. Introduction



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2. Why is Aussie Housing Market Important?

- At \$3.5 trillion, housing is Australia's most valuable asset-class
 - 2.5x size of Aussie equities market (\$1.4 trillion)
 - Biggest source of household wealth (c. 61%)
- Most important bank balance-sheet asset
 - \$1 trillion of residential mortgages on bank b/s
 - 62% of bank assets are residential loans
- Australia has very concentrated banking system
 - Four 'majors' control c.83% of bank residential credit
 - Four majors currently AA rated (only 16 AA rated (S&P) or better banks in world)
 - Australian banks heavily reliant on wholesale funding
 - Very high 120% loan-to-deposit ratio
- Housing is Australia's biggest "potential" source of financial stability risk



2. Popular Trade: Short Aussie Banks & Aussie House Prices

- **The Economist newspaper:**
 - 2010: Australian housing *“61.1% over-valued”*
 - 2010: *“Australian property is the most overvalued of any of the 20 countries we track”*
- **Jeremy Grantham, GMO:**
 - 2010: Australian housing is a *“time bomb”*
 - 2010: *“You are at near 7.5 times family income which suggests you are 2x size you should be”*
- **Gerard Minack, Morgan Stanley:**
 - 2010: *“Australia’s debt-fuelled housing market remains a major macro risk”*
 - 2010: *“House prices are around 40% above fair value...housing is a bubble”*
- **Assoc. Prof. Steve Keen, Aussie Roubini-wannabe:**
 - 2008: *“Price of housing is going to fall by 40 per cent or so in the next few years”*
 - 2010: Expects to see an *“an accelerating rate of decline in [Australian] house prices now”*



3. Have Australian House Prices Risen Too Rapidly?



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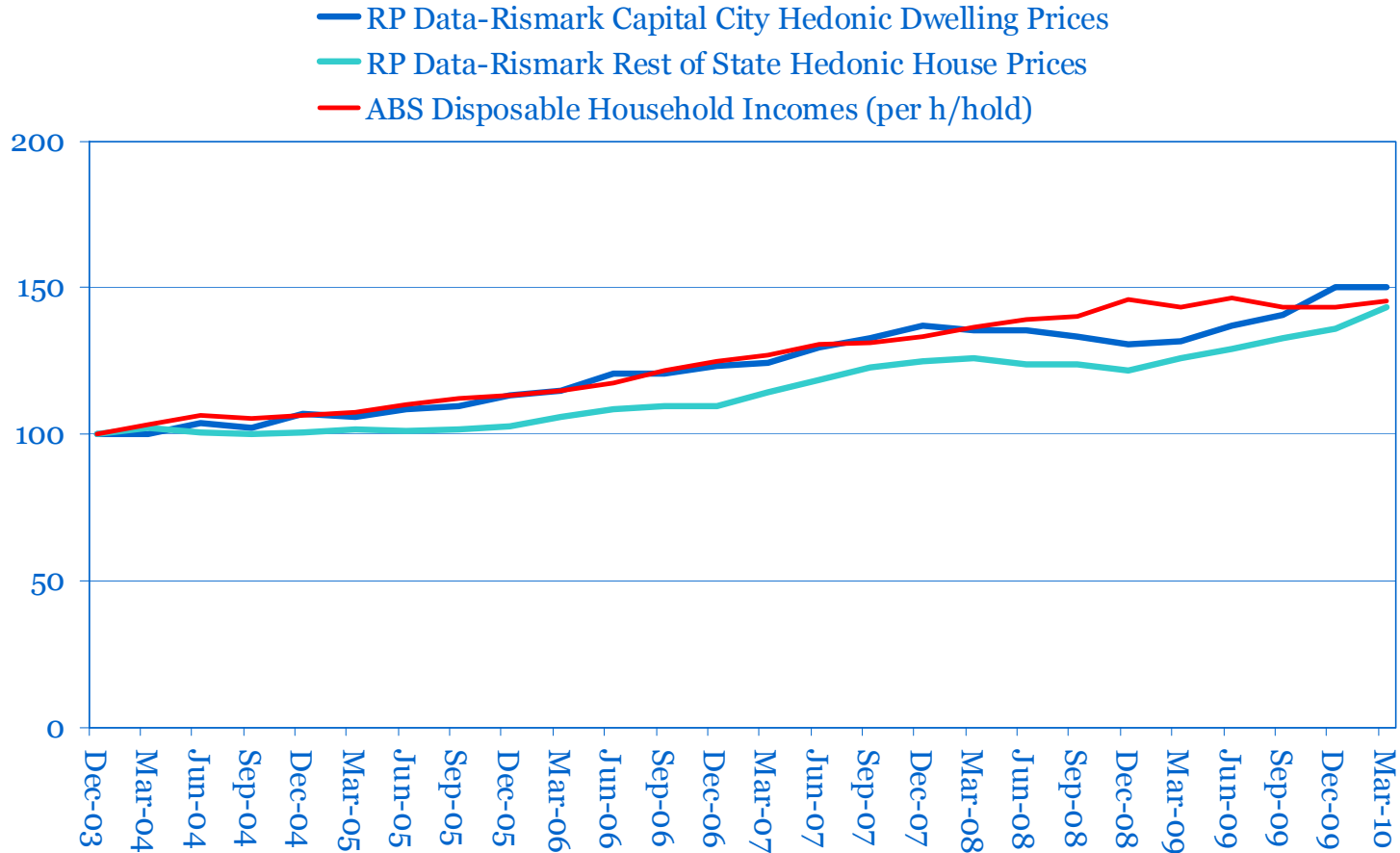
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3. Dwelling Prices Tracked Disposable Incomes 1:1 Last 7 Years

Australian Disposable Household Incomes vs. Capital City and Rest of State Housing Costs



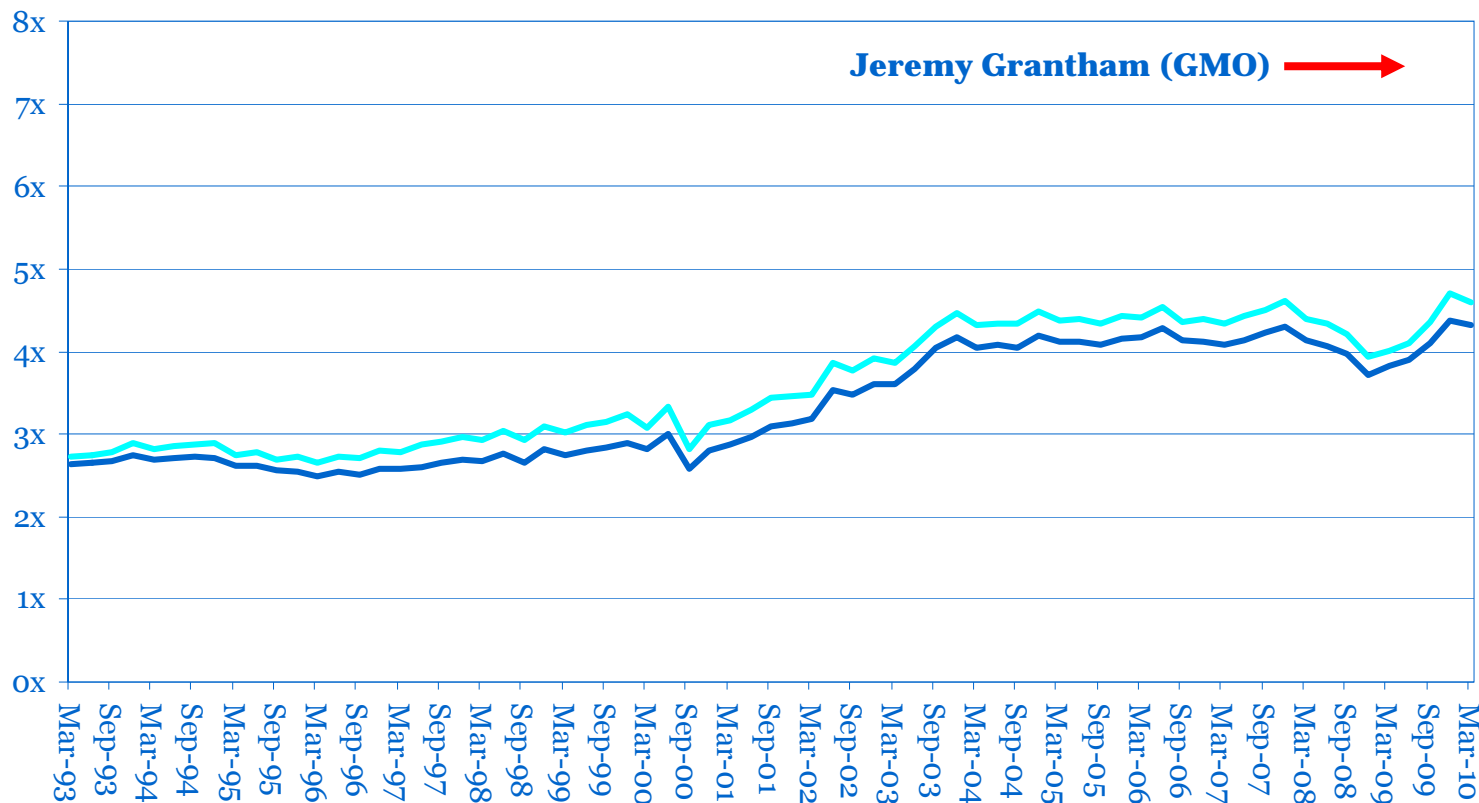
Source: RP Data-Rismark

3. Jeremy Grantham is Wrong: the Price-to-Income Ratio is just 4.6x

- RBA: “the ratio of house prices to income is not that different from most other countries”

Rismark Australian All Regions Dwelling Price-to-Income Ratio Index:

— Rismark All Regions Trimmed Mean Dwelling Price-to-Income Ratio
— Rismark All Regions Median Dwelling Price-to-Income Ratio



Source: Rismark; ABS; HIA



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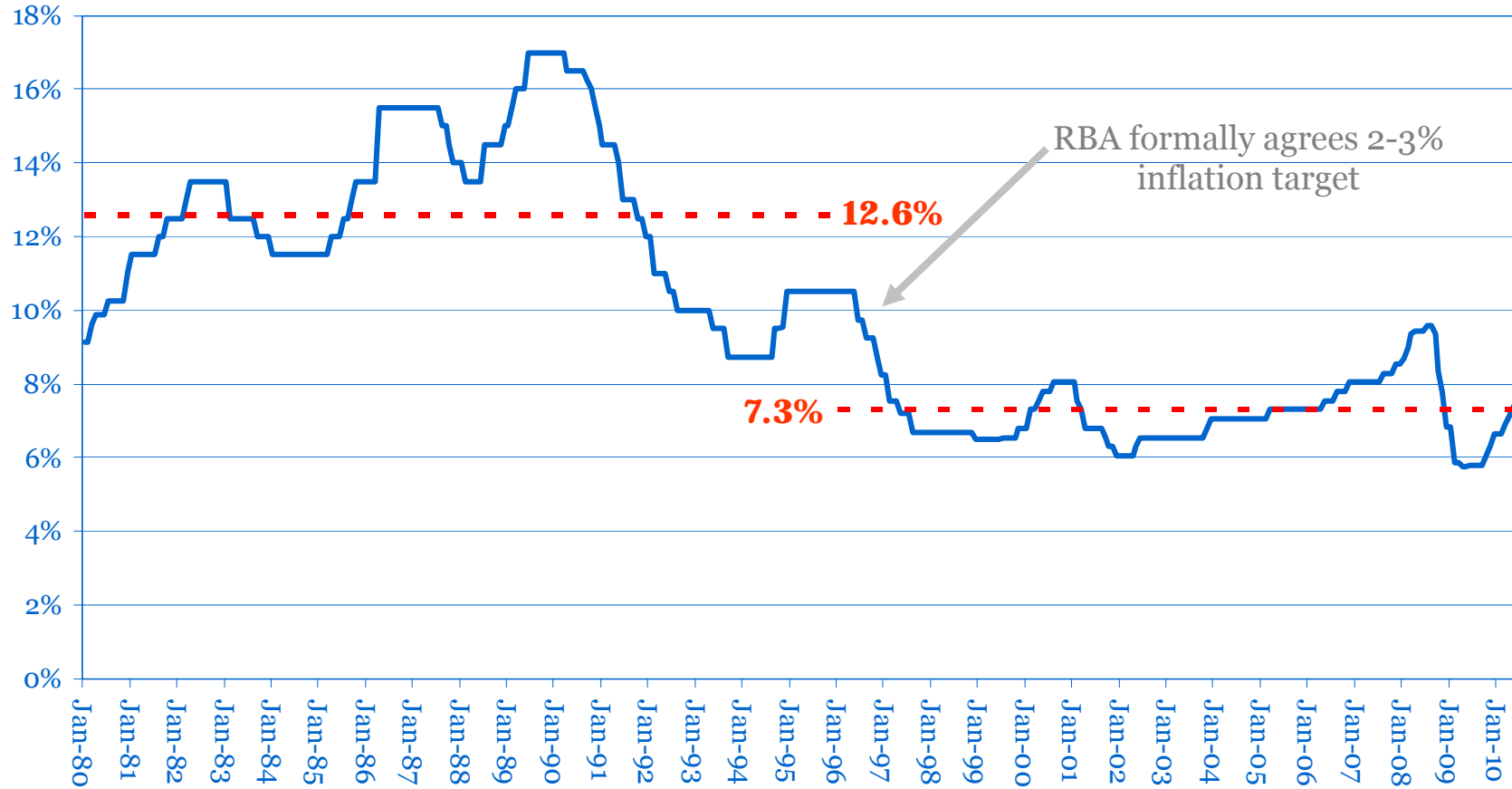
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3. Inflation-Targeting Regime Drove Downward Shift in Nominal Rates

Australian Headline Mortgage Rates



Source: Rismark; RBA



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4. International Comparisons



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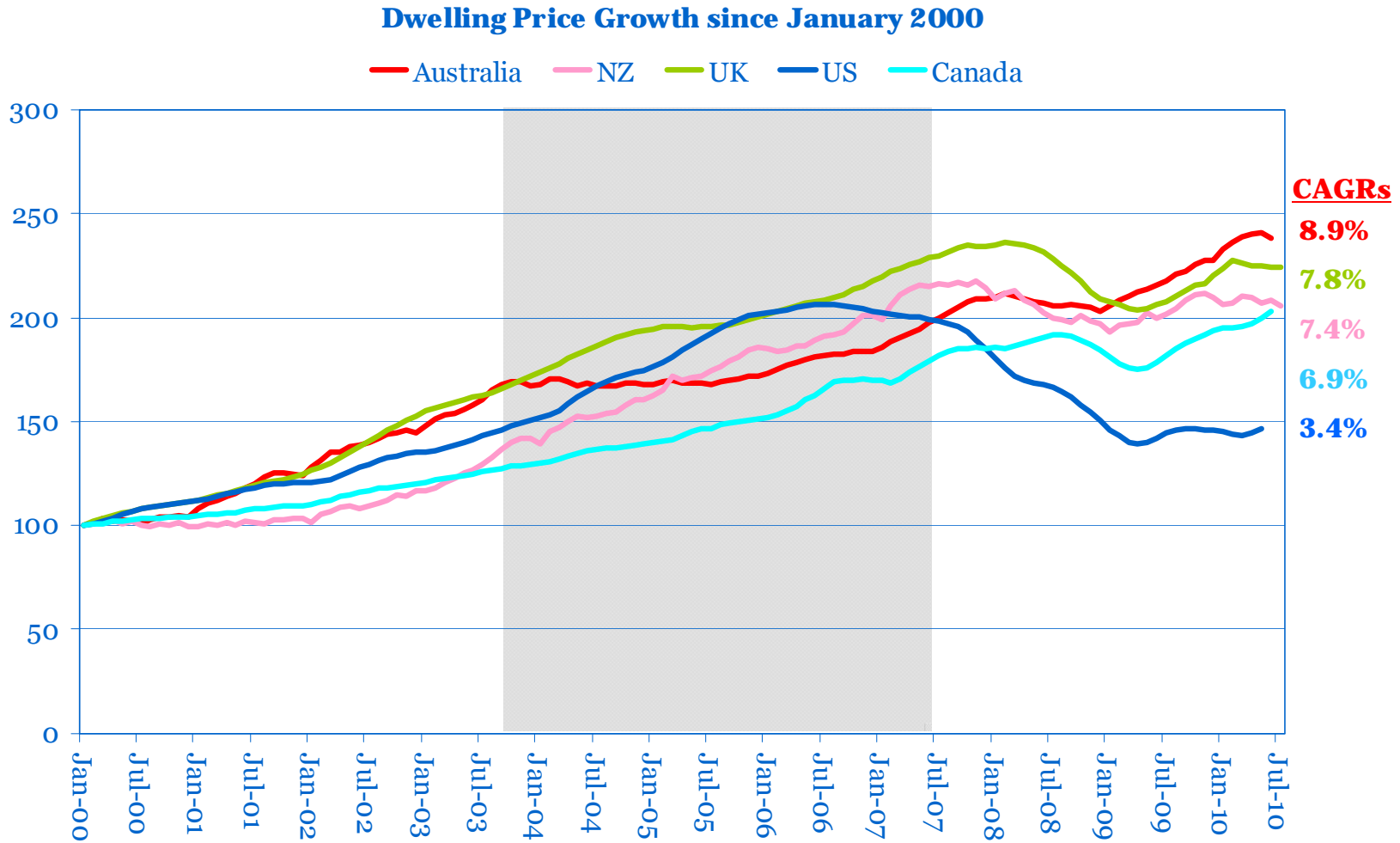


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4. Australia Underperformed Between 2003 and 2006



Source: RP Data-Rismark; NZ REI; Case-Shiller; Acadametrics; Teranet



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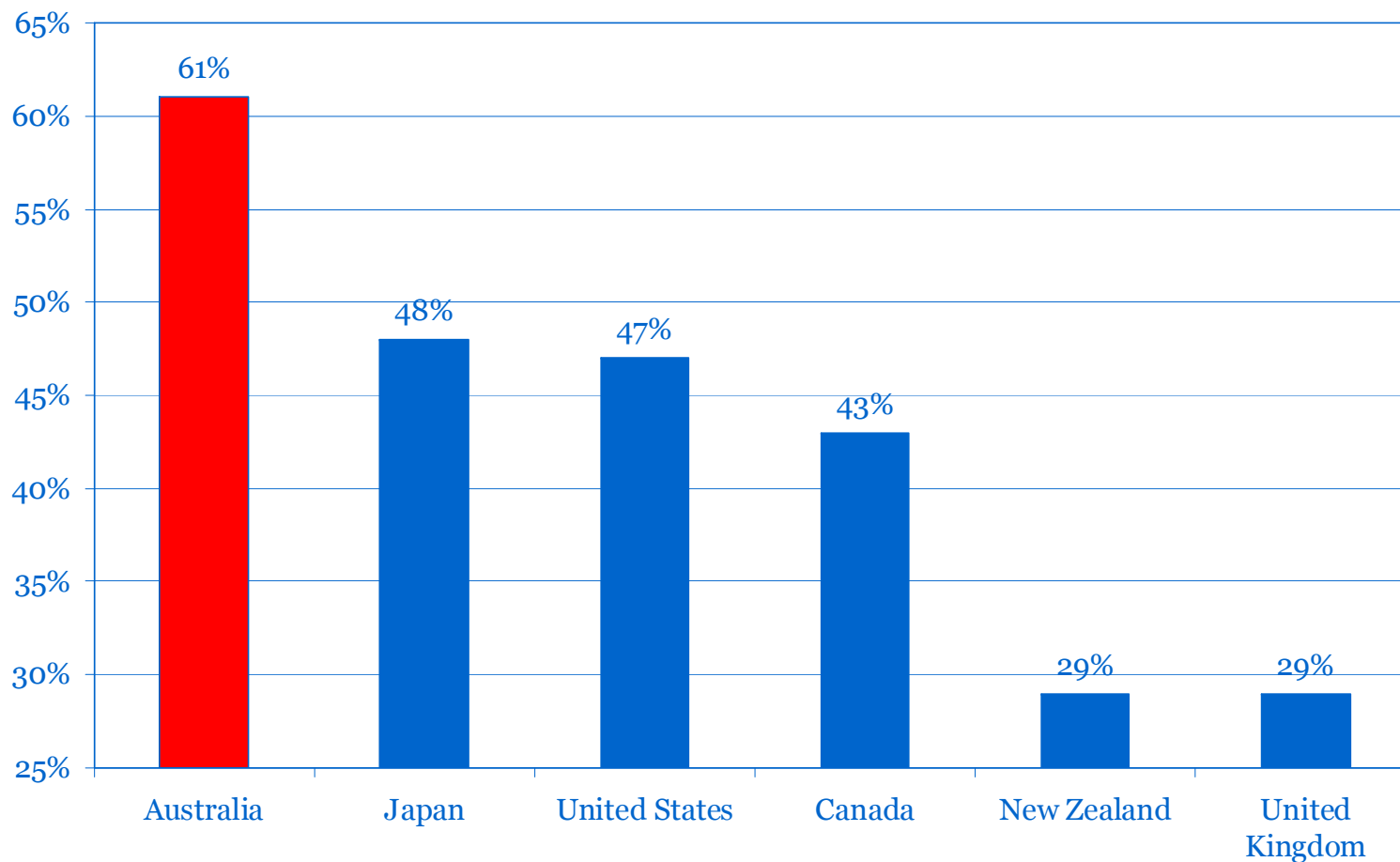
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4. Australia has Much Higher Urban Concentrations

Population Living in Urban Areas of Greater than 750,000 Persons



Source: PRB



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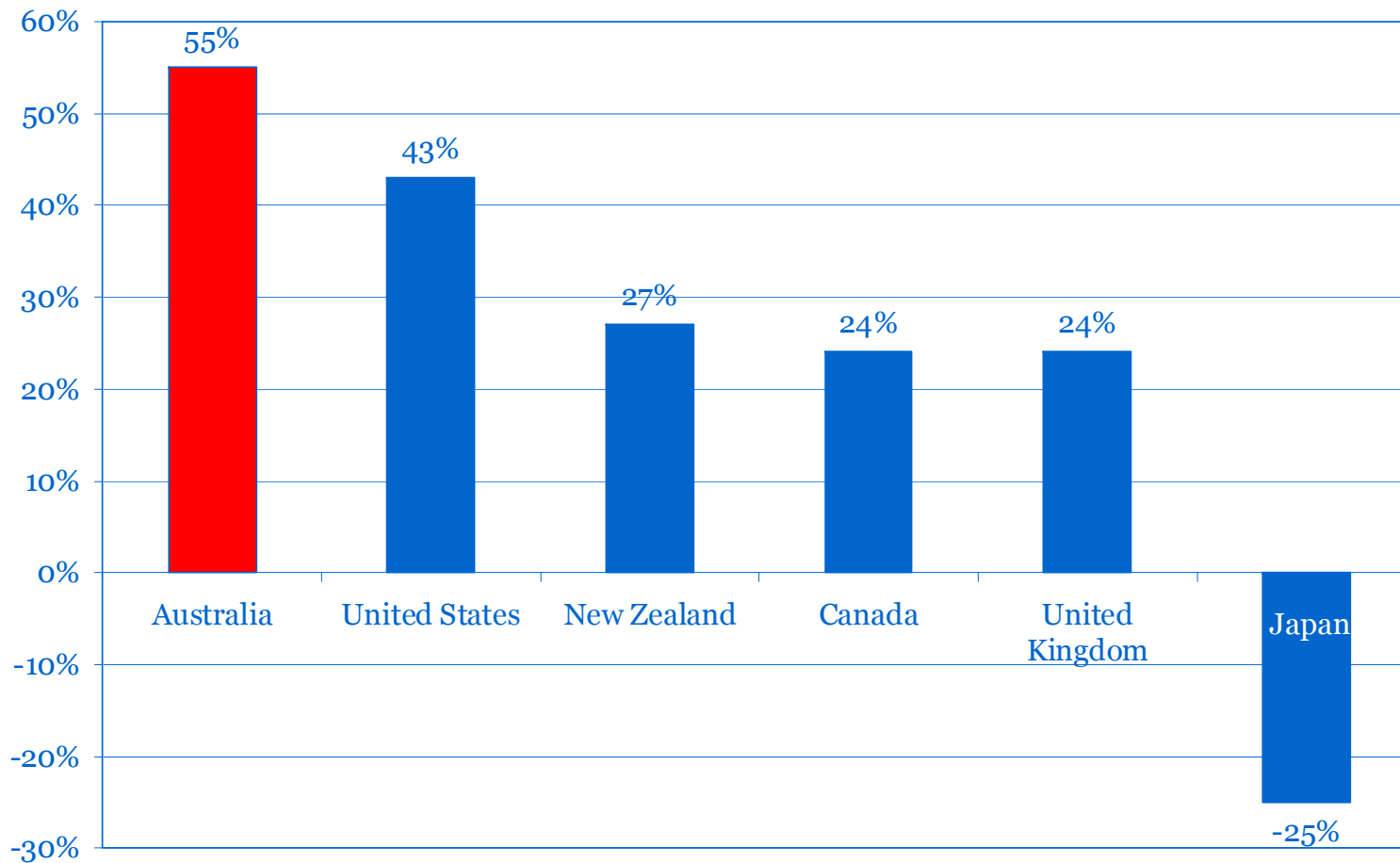
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4. Australia has Much Higher Projected Population Growth Rate

Projected Population Change 2009-2050



Source: PRB



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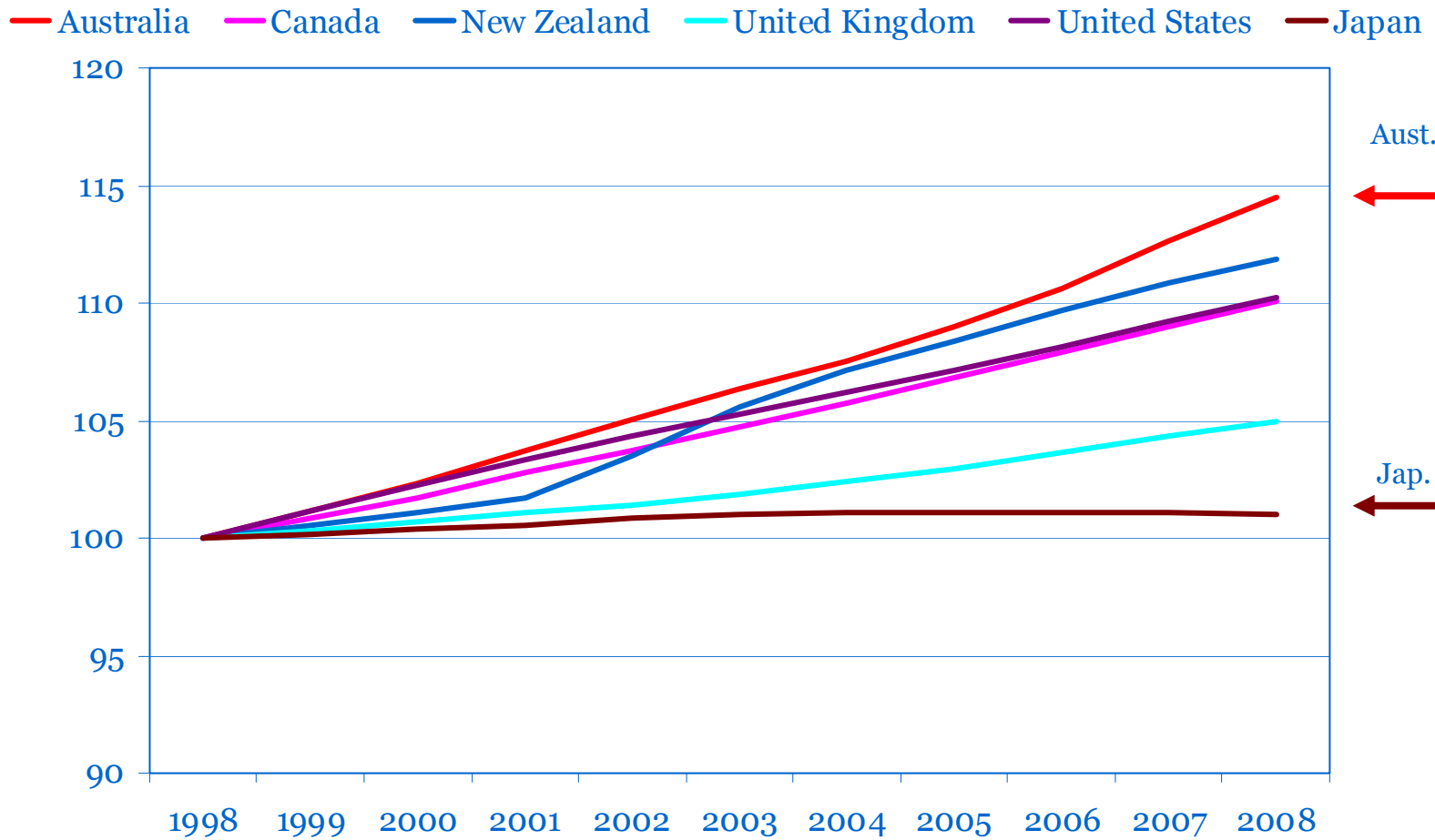
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4. Australian Population Growth Amongst Highest in Developed World

Population Growth Rates over the Last 11 Years (to end 2008)



Source: Rismark; IMF



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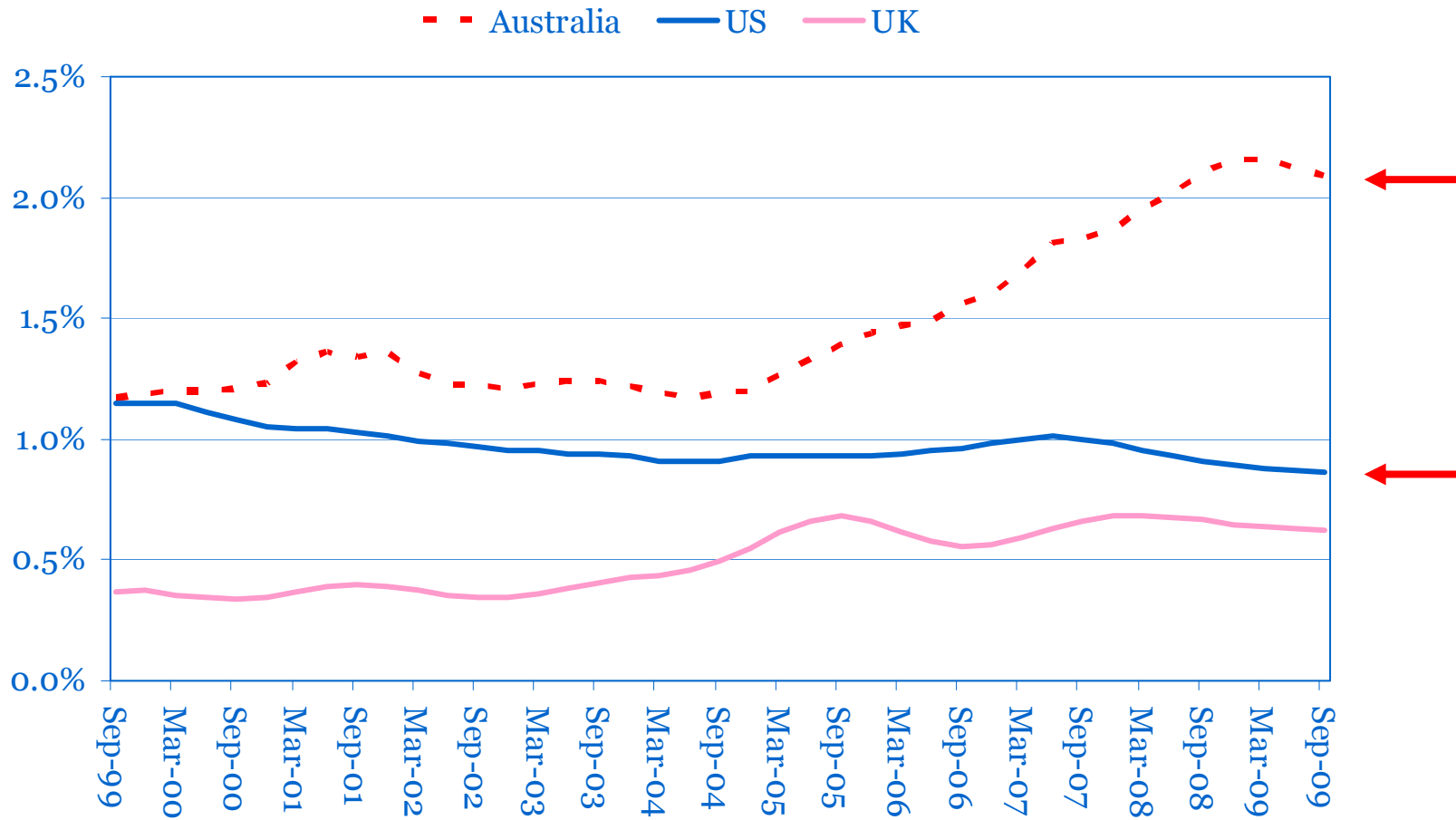
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4. Substantially Stronger than US and UK

Annual Population Change (1999 to 2009)

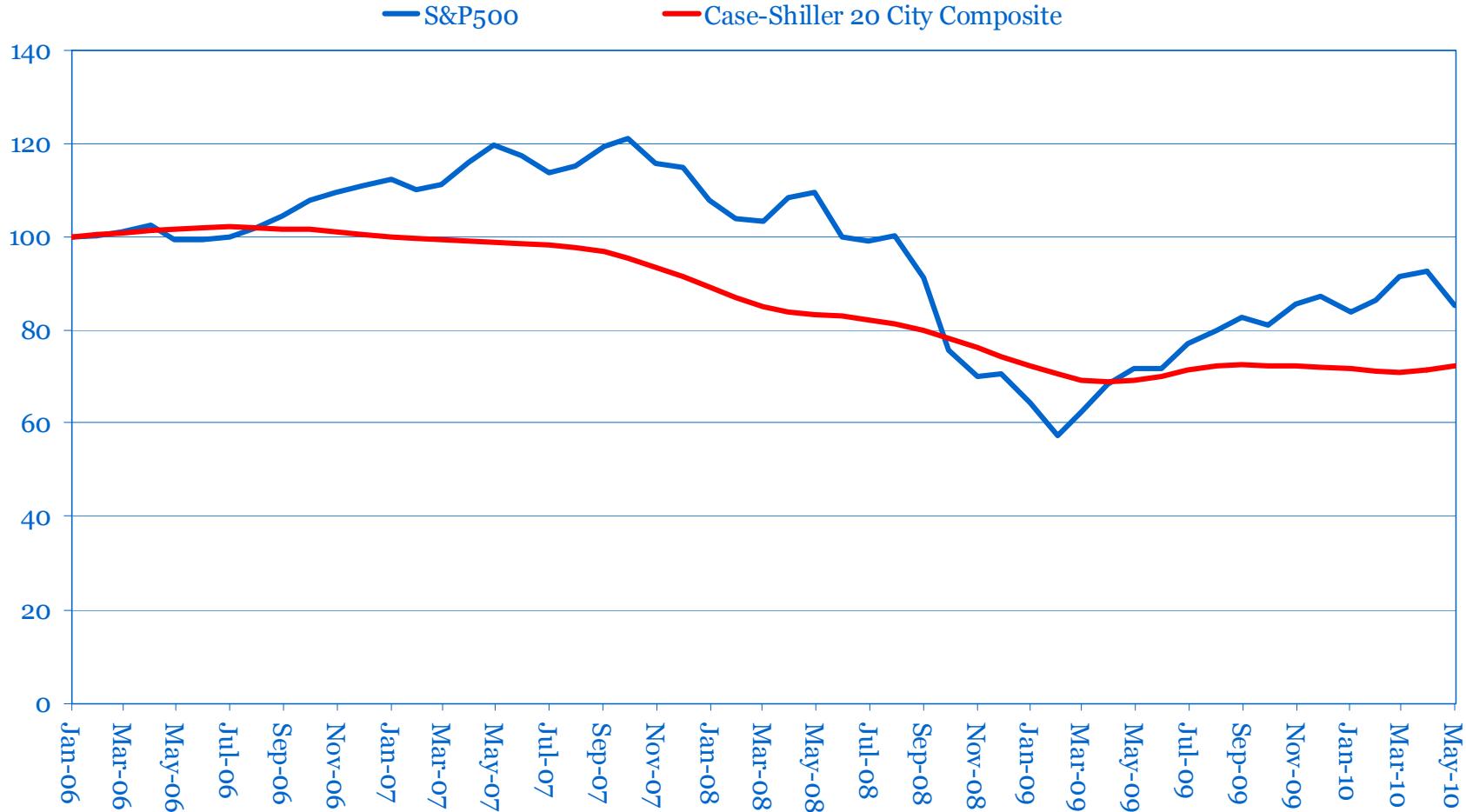


Source: Rismark; US Census Bureau; Statistics UK

5. Were the Real Bubbles in Equities (shhh!)?

5. US Peak-to-Trough: Shares Fell by 52.6% vs. 32.6% for House Prices

Collapse of US Credit Creation System with Fannie, Freddie & FHA Funding c. 90% of Home Loans



Source: Rismark; S&P



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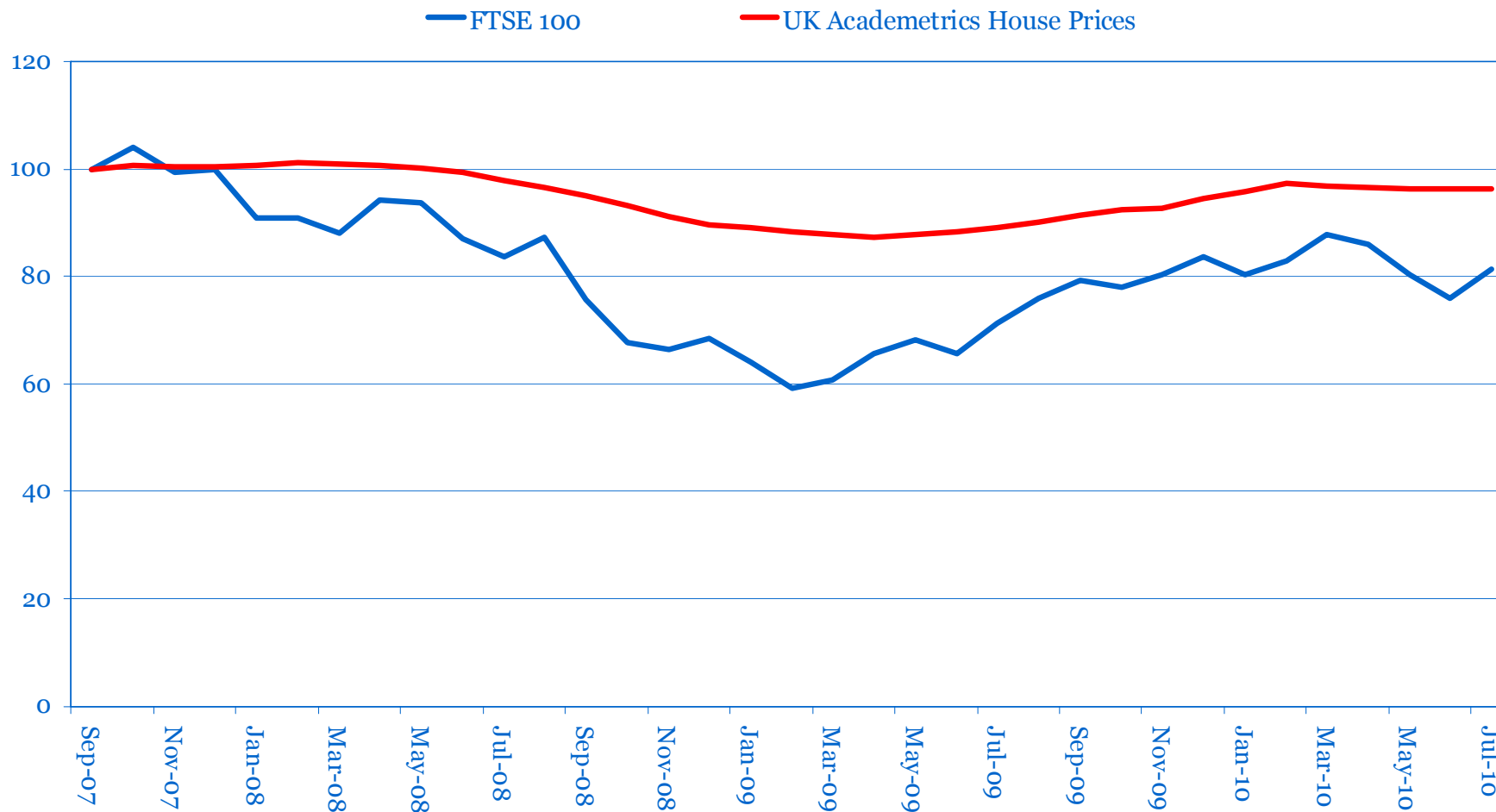
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5. UK Peak-to-Trough: Shares Fell by 43.0% vs. 13.6% for House Prices

Partial Nationalisation of the UK Banking System with Extreme Residential Credit Rationing



Source: Rismark; FTSE; Academetrics



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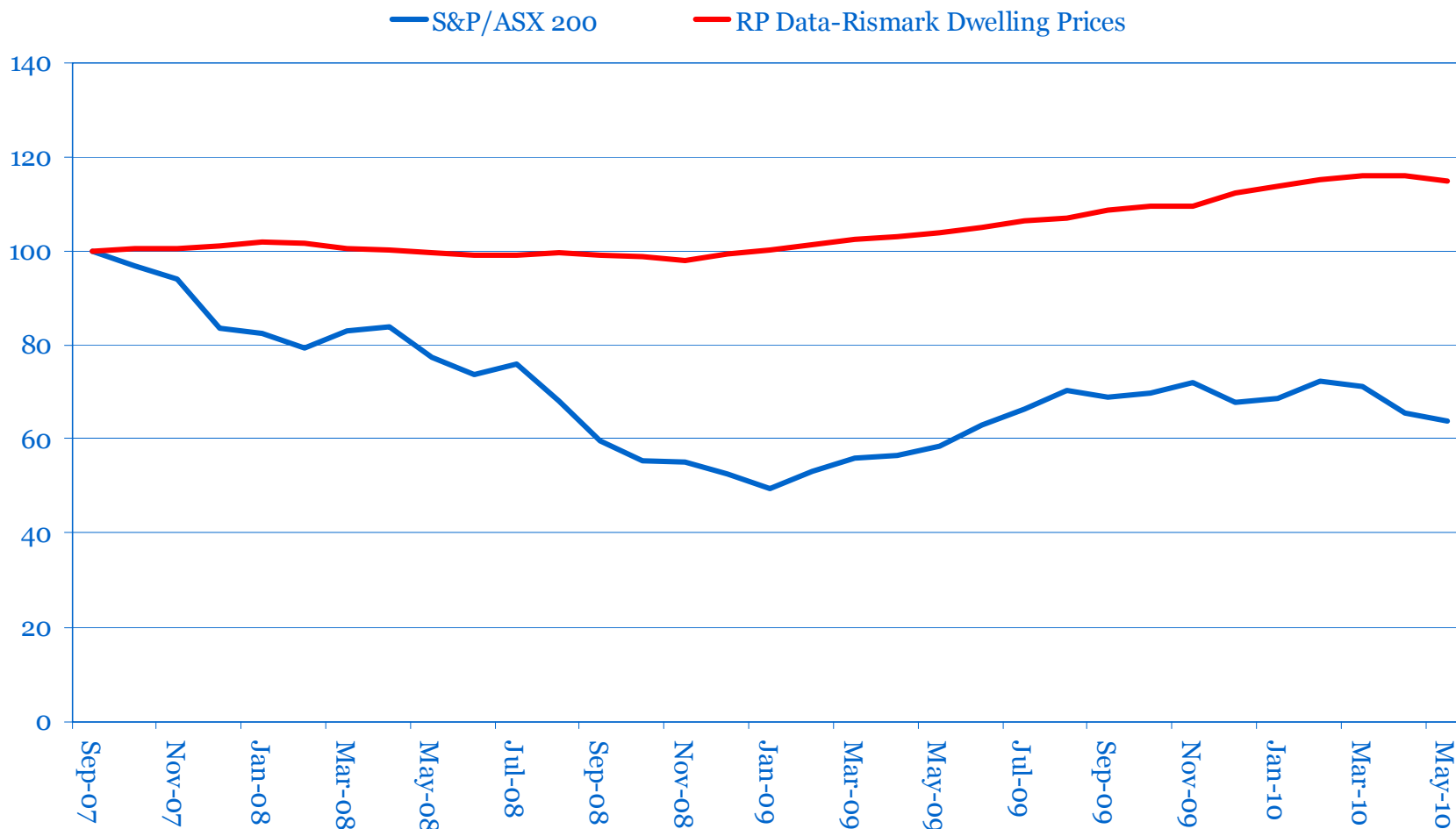
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5. Australia Peak-to-Trough: Shares Fell by 50.5% vs. 3.8% for House Prices

Australian Banking System Remains Secure with Positive Residential Credit Growth



Source: RP Data-Rismark; S&P



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6. What is Happening to Aussie Housing Market Now?



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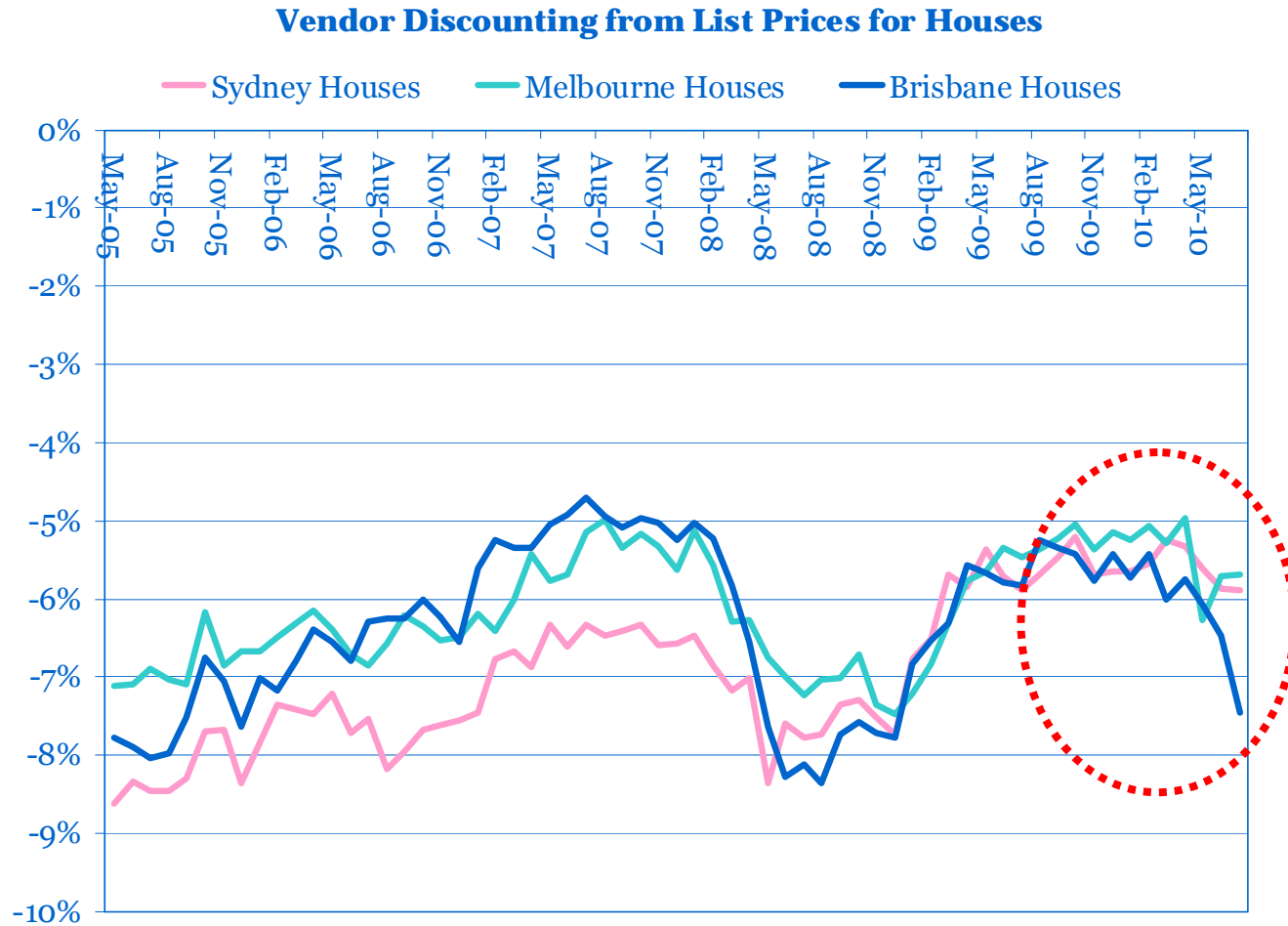


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6. After 6x Rate Increases, Vendors are Discounting Prices More...



Source: RP Data; Rismark



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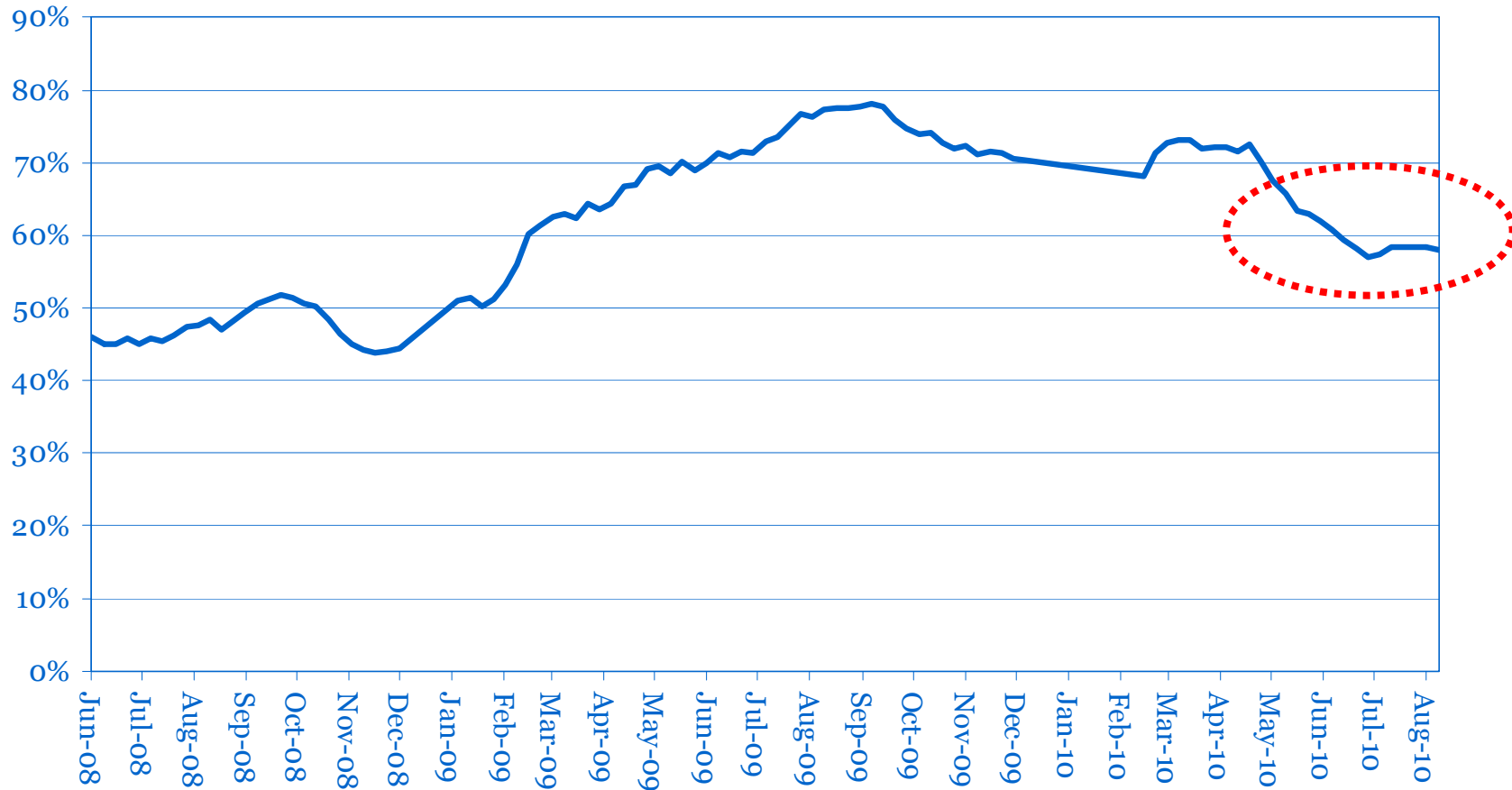
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6. Auction Clearance Rates have Declined but Now Stabilised

RP Data Australian Capital City Auction Clearance Rates



Source: RP Data; Rismark



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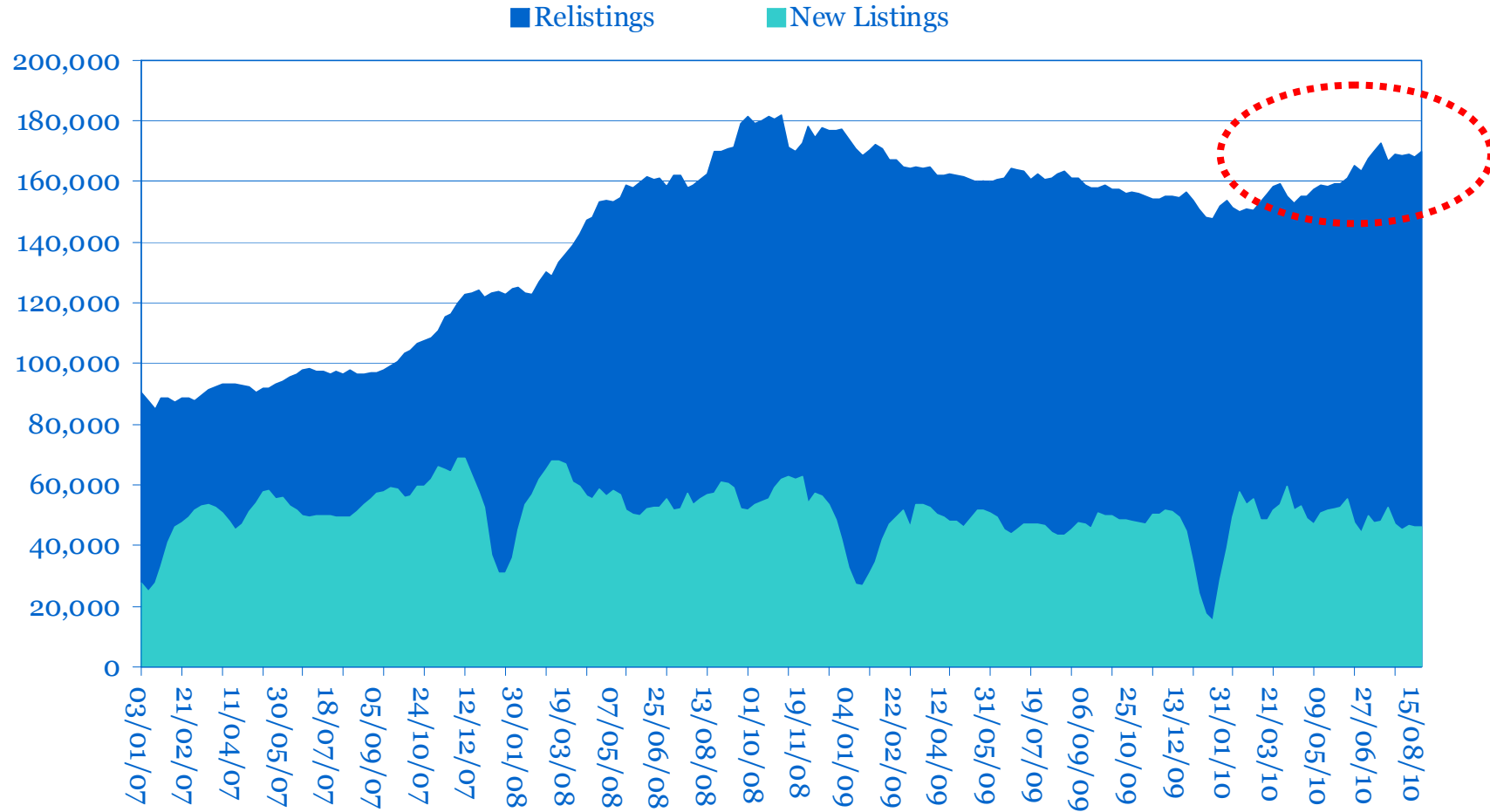
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6. Inventories Across Australia have Risen a Little Higher

Australia-wide New Listings and Relistings of Dwellings



Source: RP Data; Rismark



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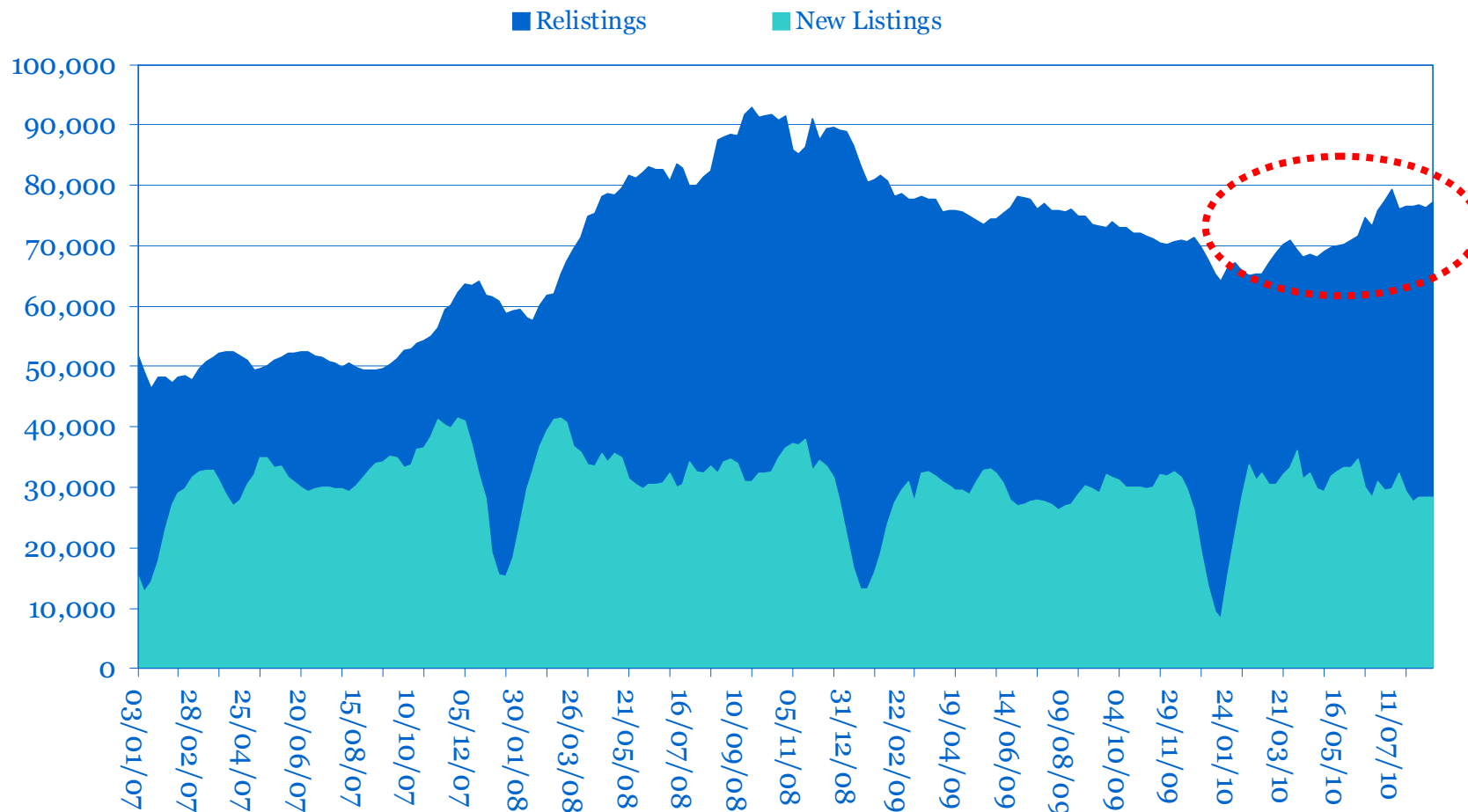
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6. Inventories Across Capital Cities Well Below 2008 Levels

Australia-wide New Listings and Relistings of Capital City Dwellings



Source: RP Data; Rismark



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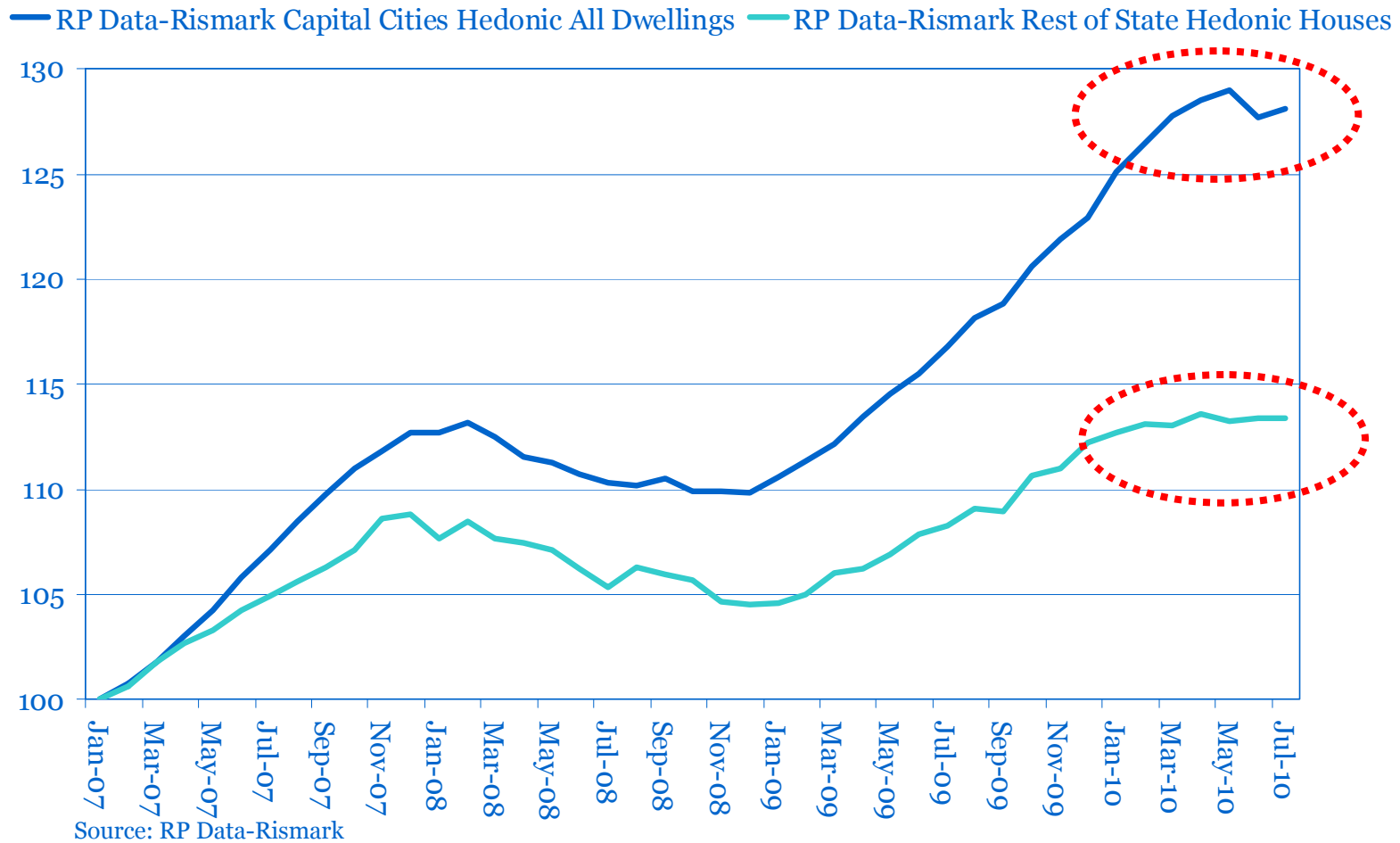
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6. Capital City and Rest of State Dwelling Prices have Tapered (Shock!)

Australian Residential Price since January 2007



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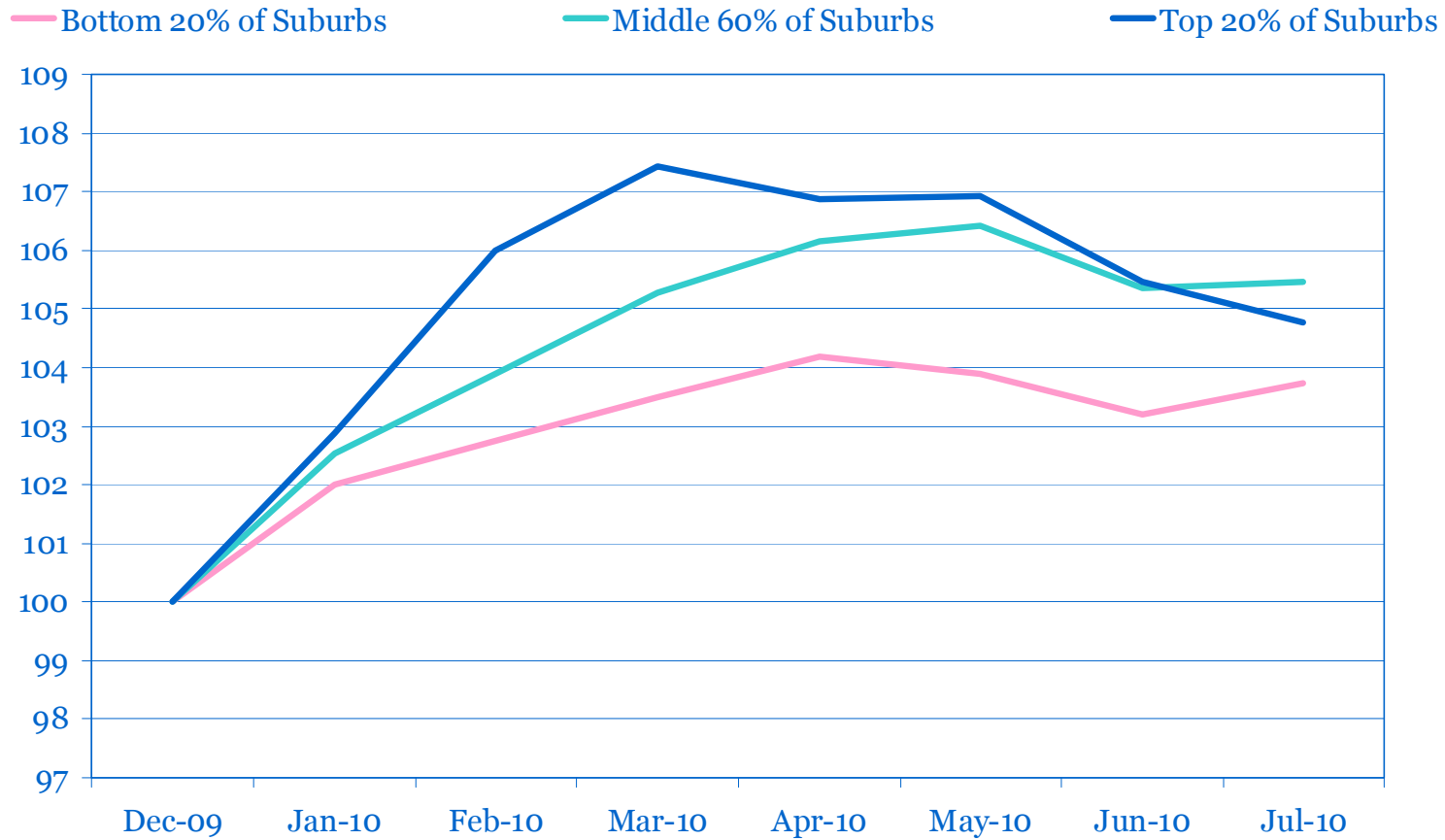
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6. Price Tapering Clear Across All Suburbs During Second Quarter

**Performance of Australian Capital City Suburbs
(All Dwellings) Ranked by Price since December 2009**



Source: RP Data-Rismark



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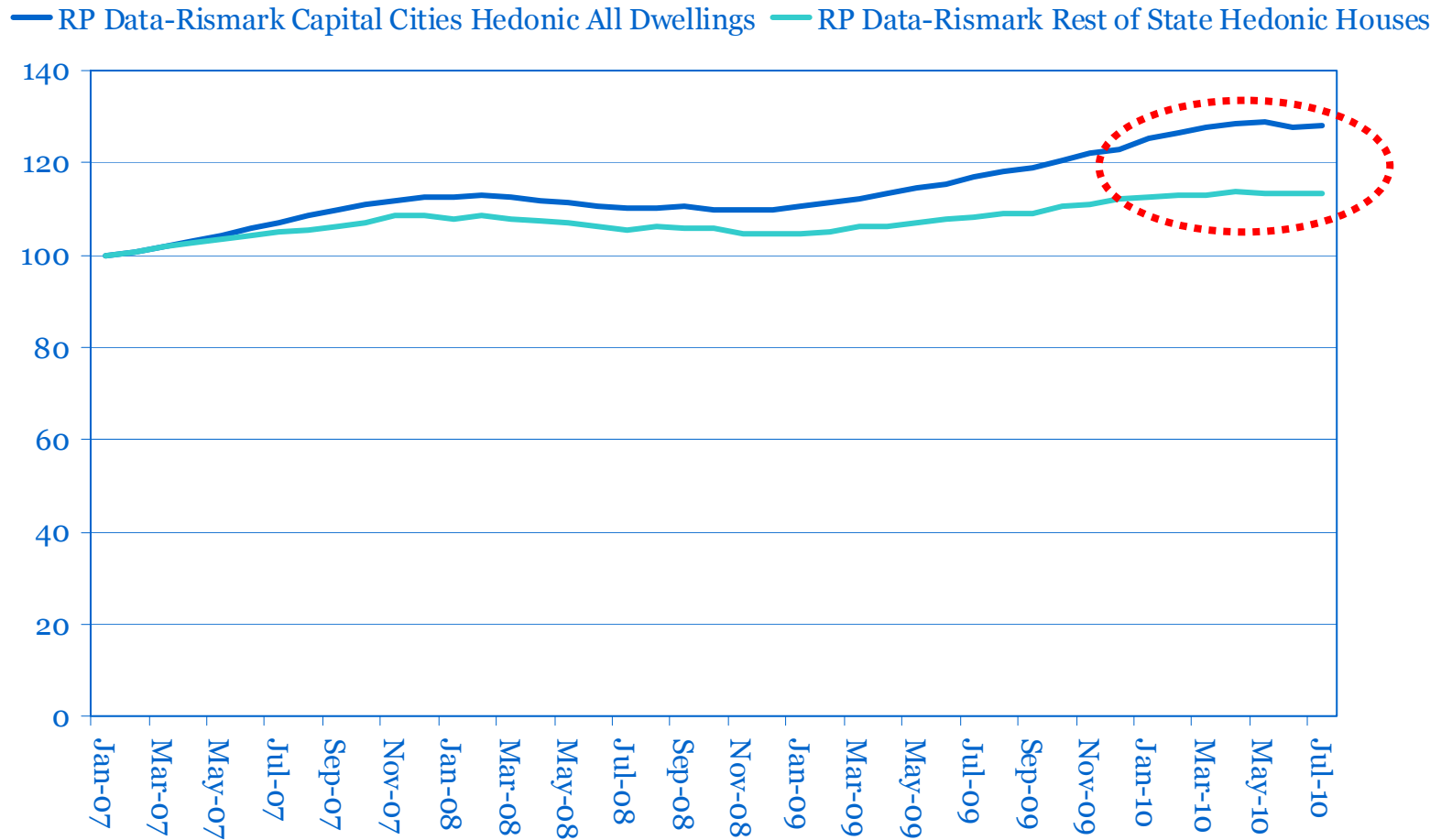
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6. But Put it in Context...Capital Cities and Rest of State with Proper Scaling

Australian Residential Prices since January 2007



Source: RP Data-Rismark



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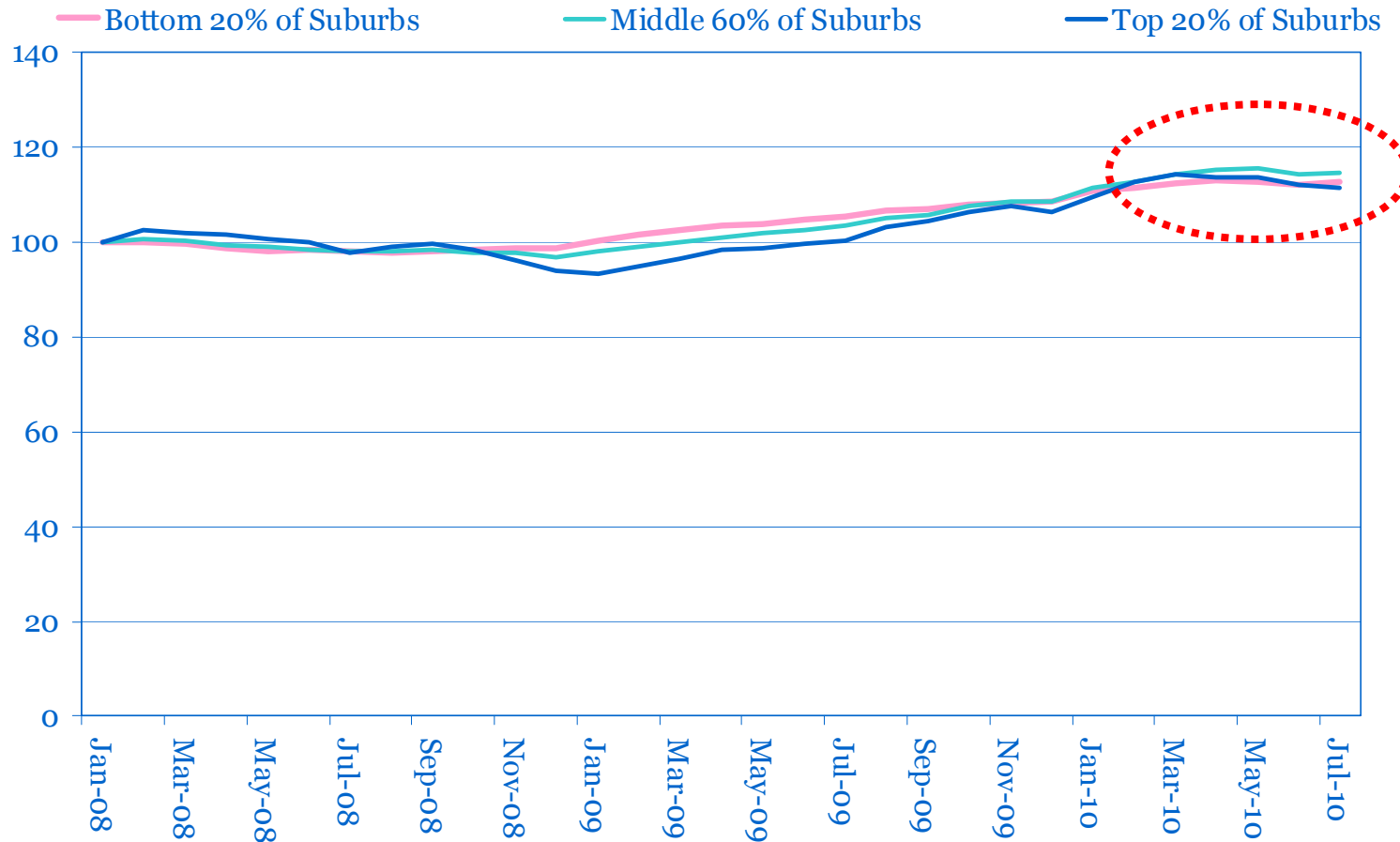
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6. Same for Cheap, Middle and Expensive Suburbs

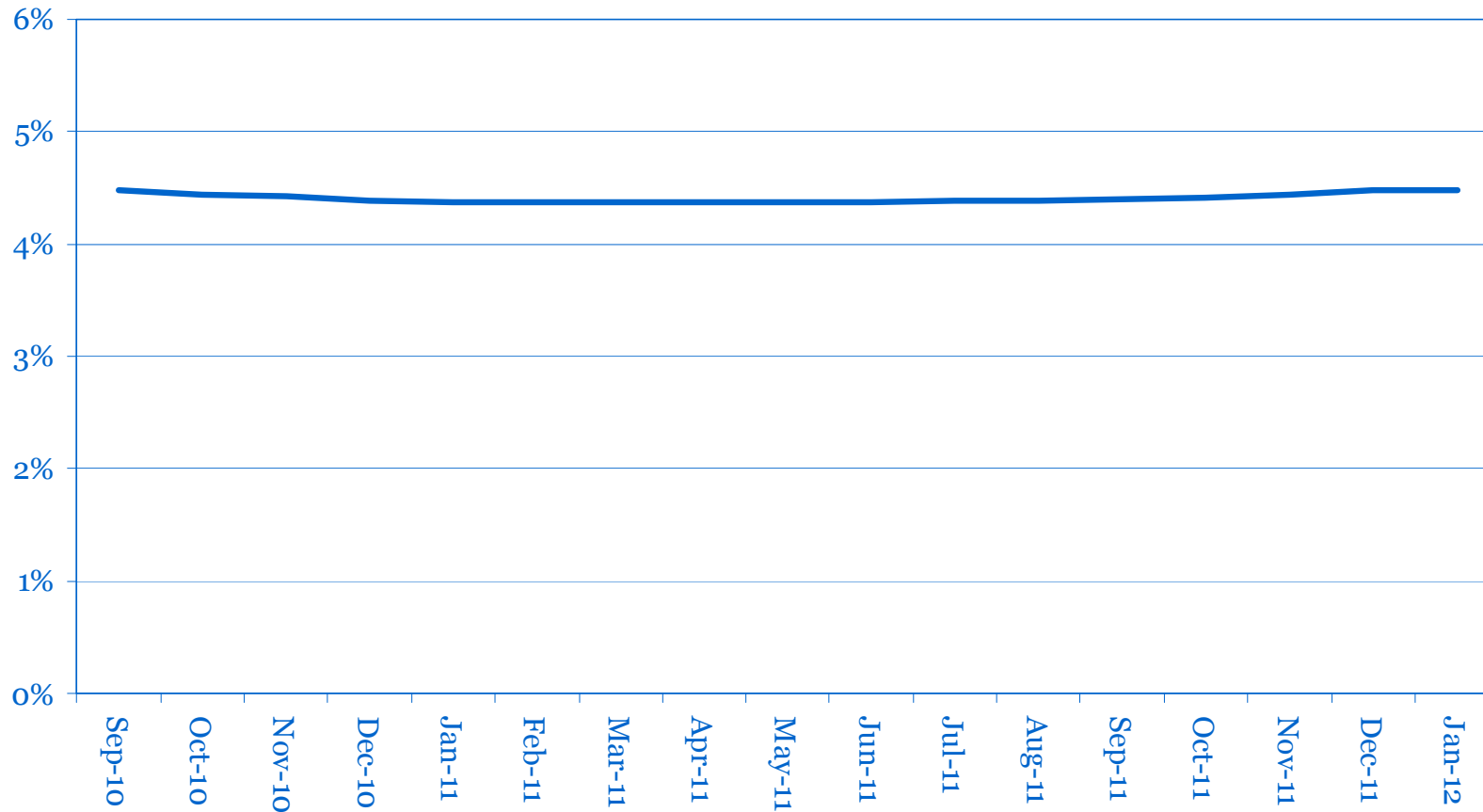
**Performance of Australian Capital City Suburbs
(All Dwellings) Ranked by Price since December 2008**



Source: RP Data-Rismark

6. Good News: Markets Think No More Rate Hikes (But is Market Wrong?)...

SFE Interbank Futures Implied Cash Rate



Source: Rismark; ASX



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7. Solid Underlying Fundamentals



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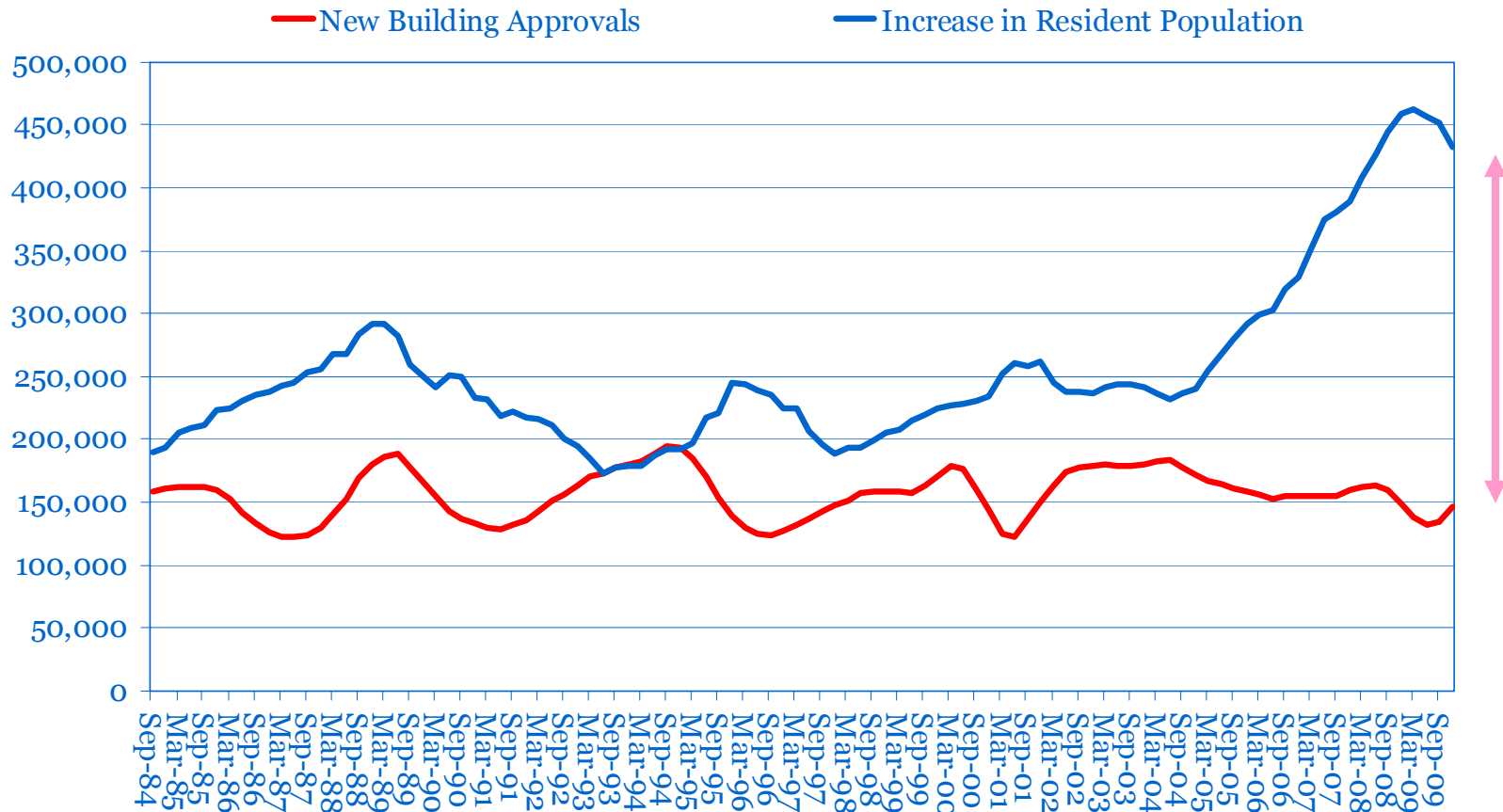
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7. Big Divergence between Growth in Population and Growth in New Supply

**New Building Approvals vs. Increase in Australia's Resident Population:
Quarterly Moving Annual Change**



Source: Rismark; ABS



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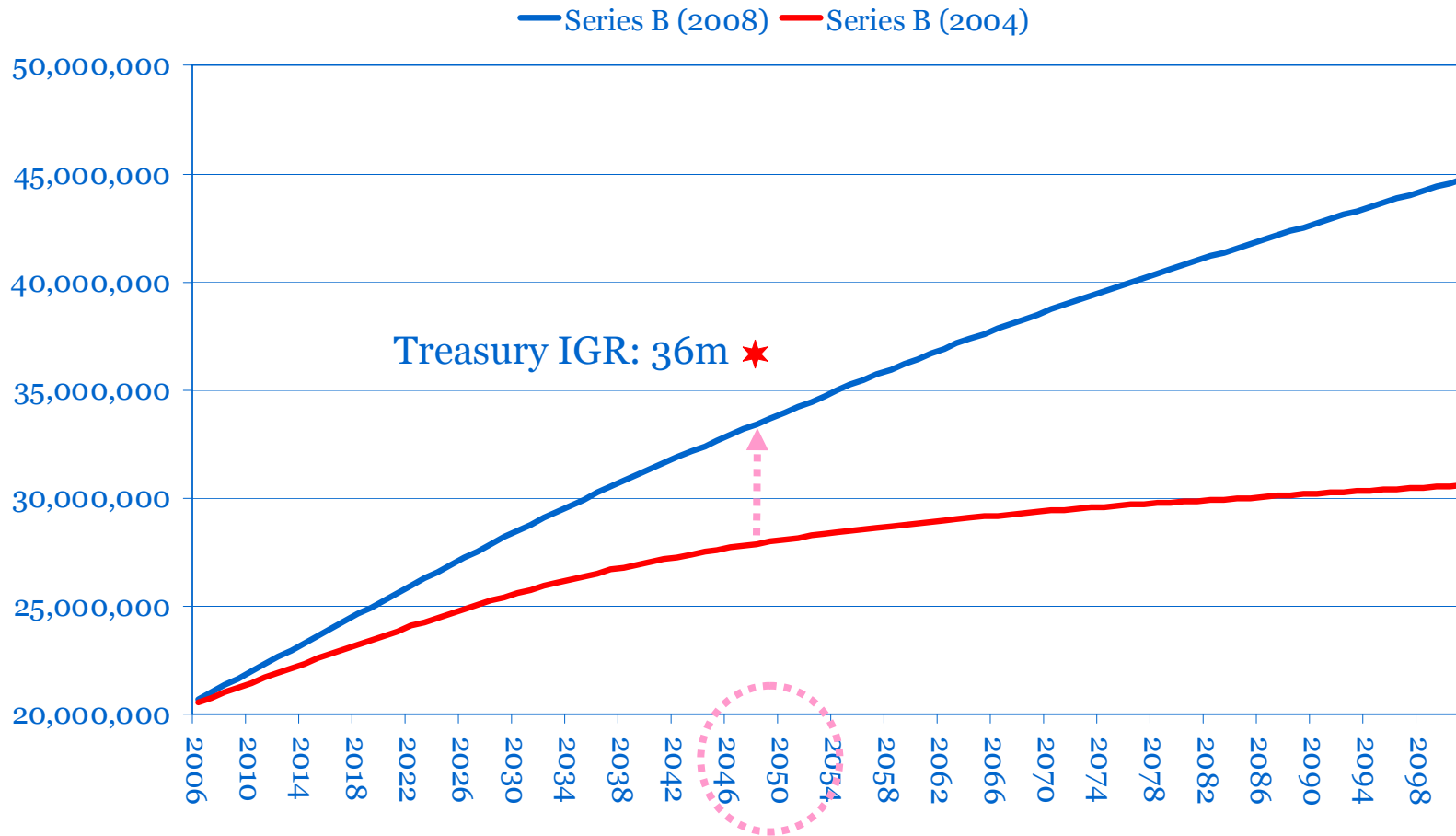
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7. Treasury Expects c. 60% Increase in Resident Population by 2050

Change in ABS Population Projections



Source: Rismark; ABS



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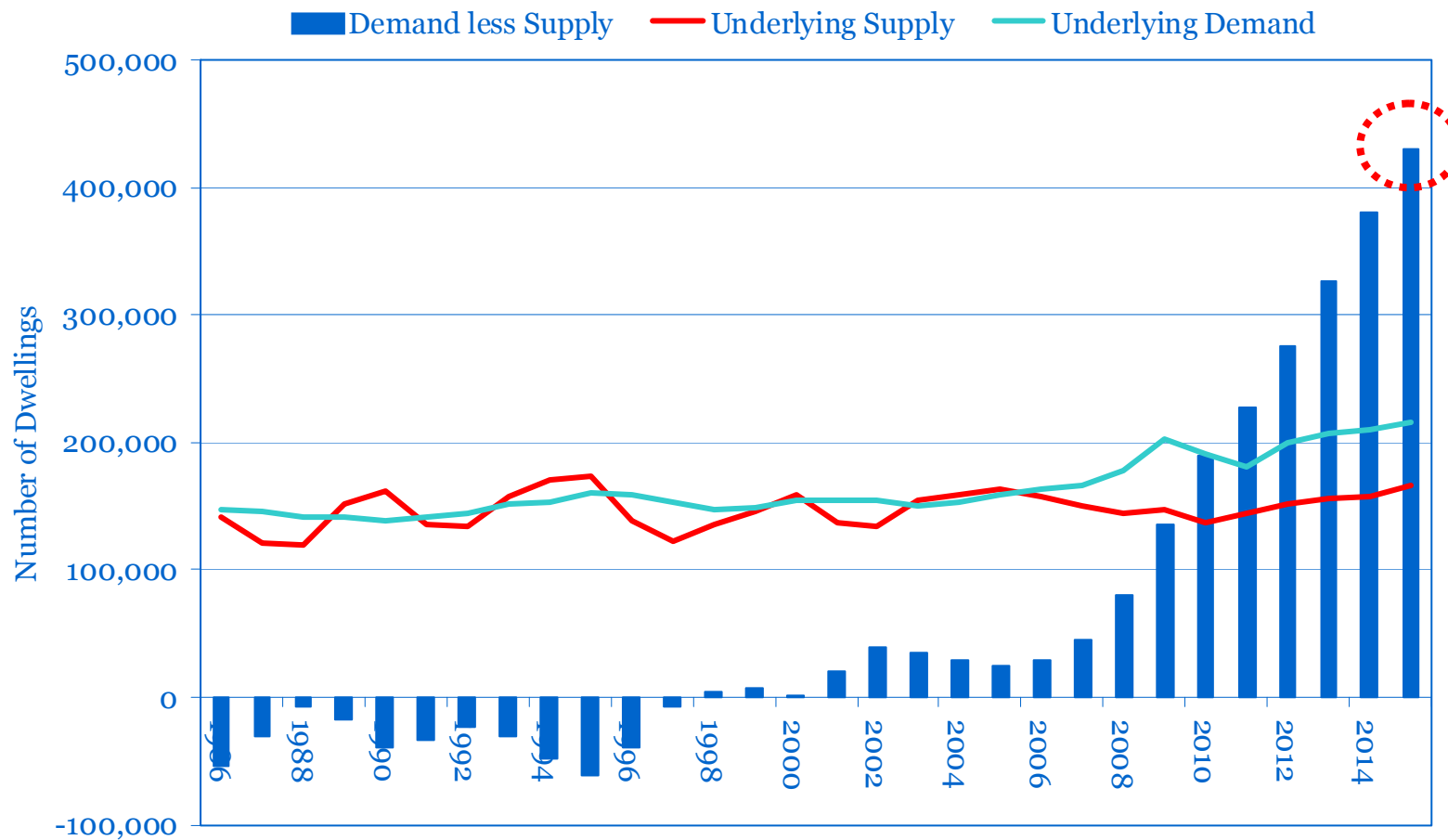
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7. Demand-Supply Disconnect Drive Underlying Housing Shortage

ANZ Estimates for Australian Housing Demand and Housing Supply



Source: ANZ



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8. How Vulnerable are Australian Borrowers?



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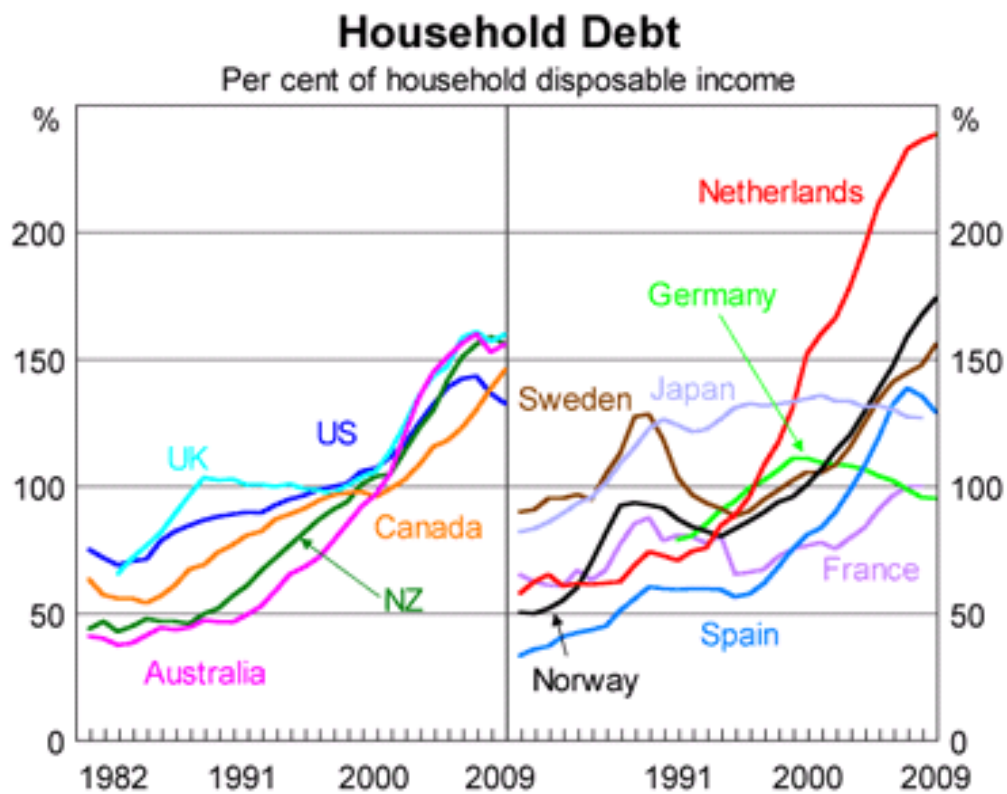
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8. Household Debt Not Unusually High

- RBA: “the current household debt ratio in Australia is similar to that in most developed countries”



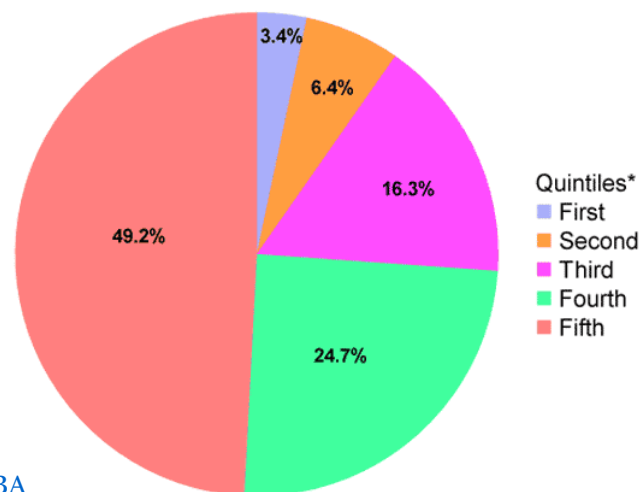
Source: RBA



8. Three-Quarters of Debt Held by Top 2x Income Quintiles

- RBA: “The increased debt has mostly been taken on by households which are in the strongest position to service it...the big increases in household debt over the past decade have been at the high end of the income distribution”
- RBA: “Households in the top two income quintiles account for 75 per cent of all outstanding household debt...households in the bottom two income quintiles account for only 10 per cent of household debt”

Indebted Households
Share of household debt held by income quintiles, 2006



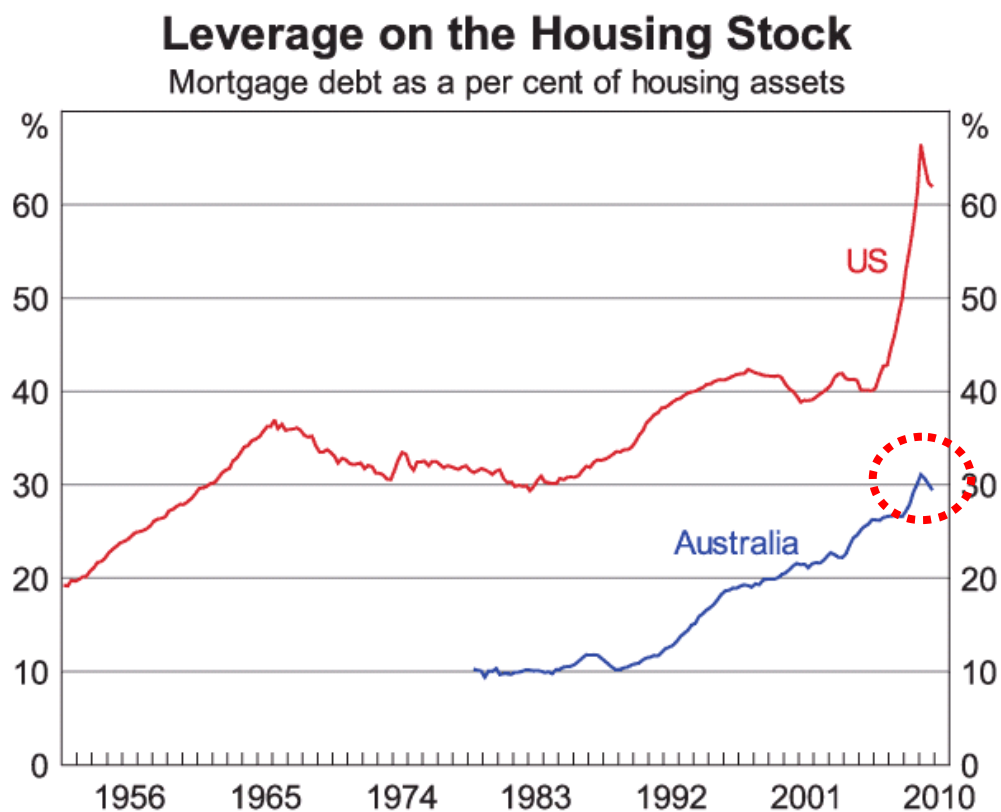
Source: RBA

* Income quintiles include all households
Sources: HILDA Release 6.0; RBA



8. Australian Housing Leverage Less than Half US Levels

- RBA: Total gearing in the housing sector is just 29%, which is less than half US leverage
- RBA: Total household debt to household assets ratio is also less than 20%

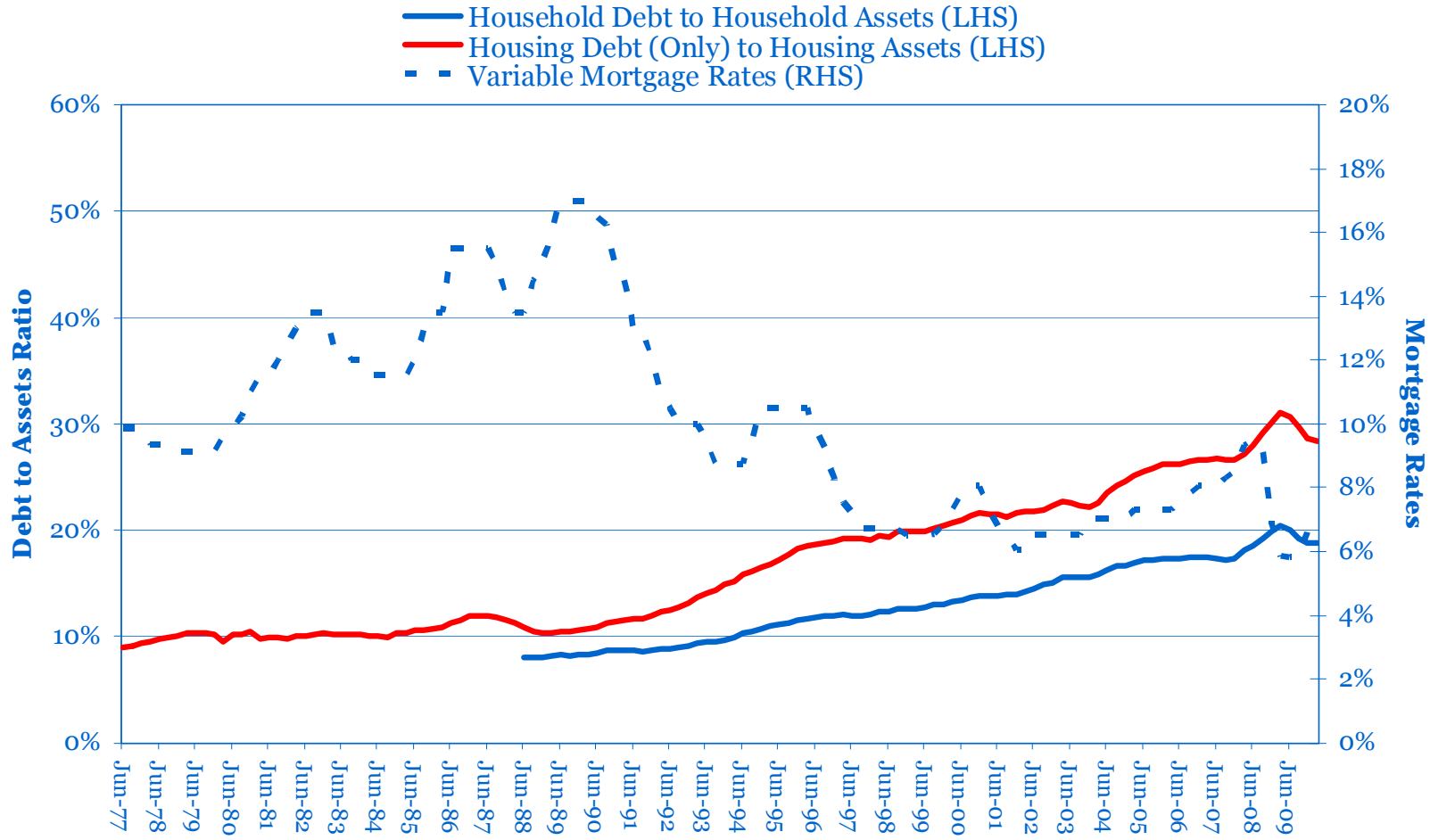


Source: RBA



8. Change in Debt-to-Assets Ratios Function of Inflation-Targeting

Long-Term Australian Debt to Assets Ratios



Source: Rismark; RBA



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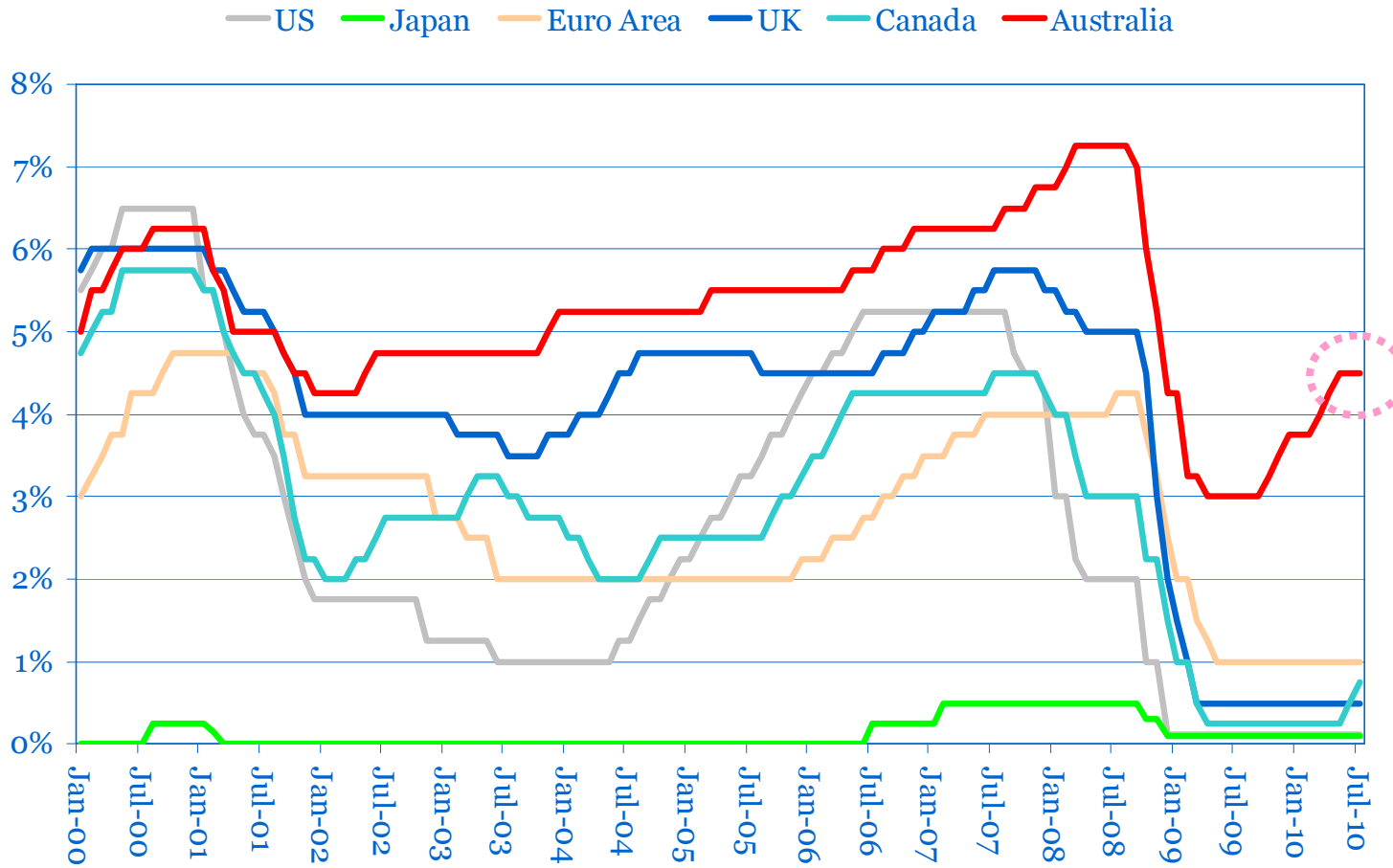
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8. Australia Does have High Interest Rates (c. 85% Resi. Borrowers Variable)

Comparisons of Official Interest Rates



Source: Rismark; RBA



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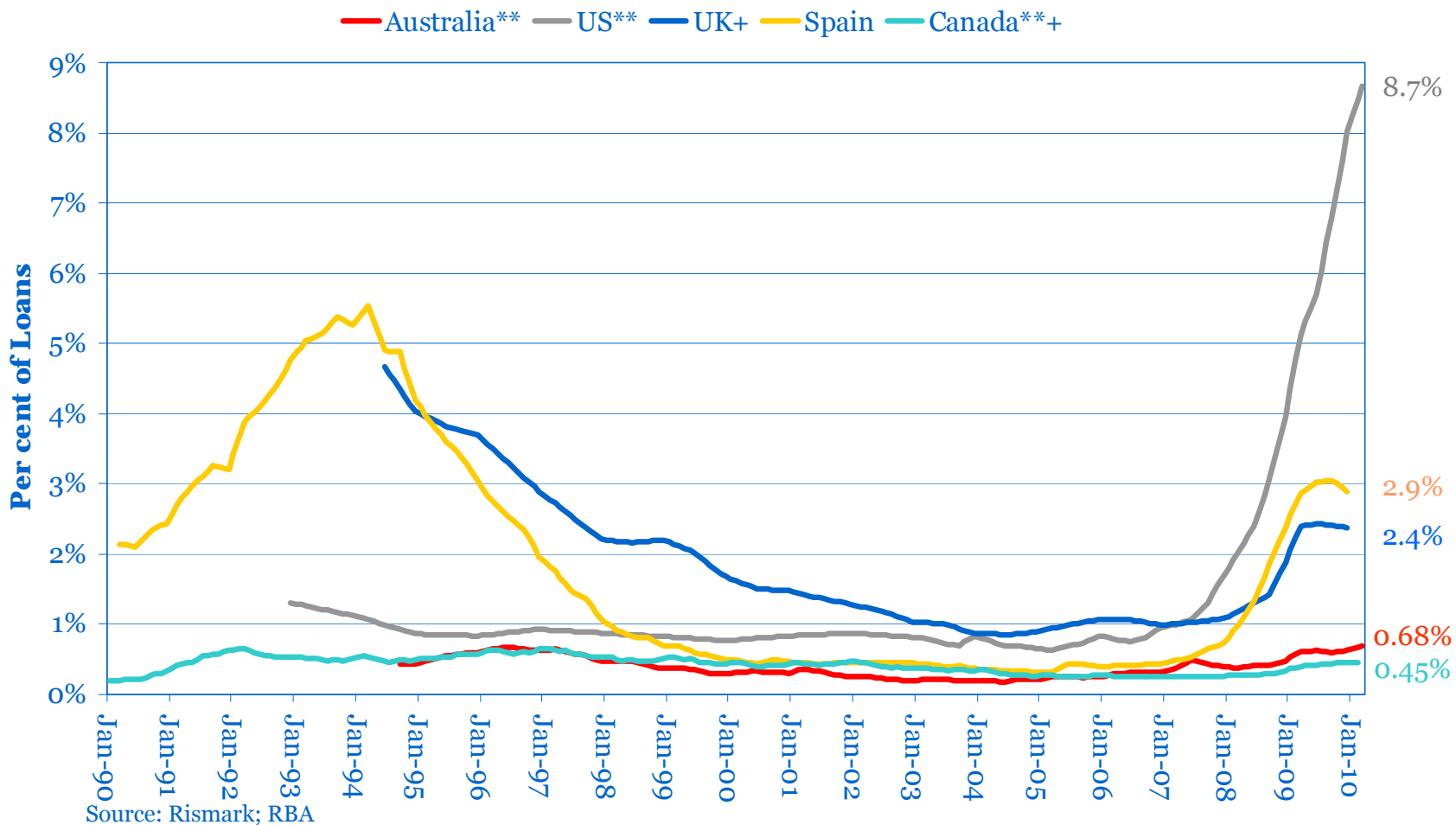
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8. But Consistently Very Low Mortgage Default Rates

RBA Estimates of Non-Performing Housing Loans



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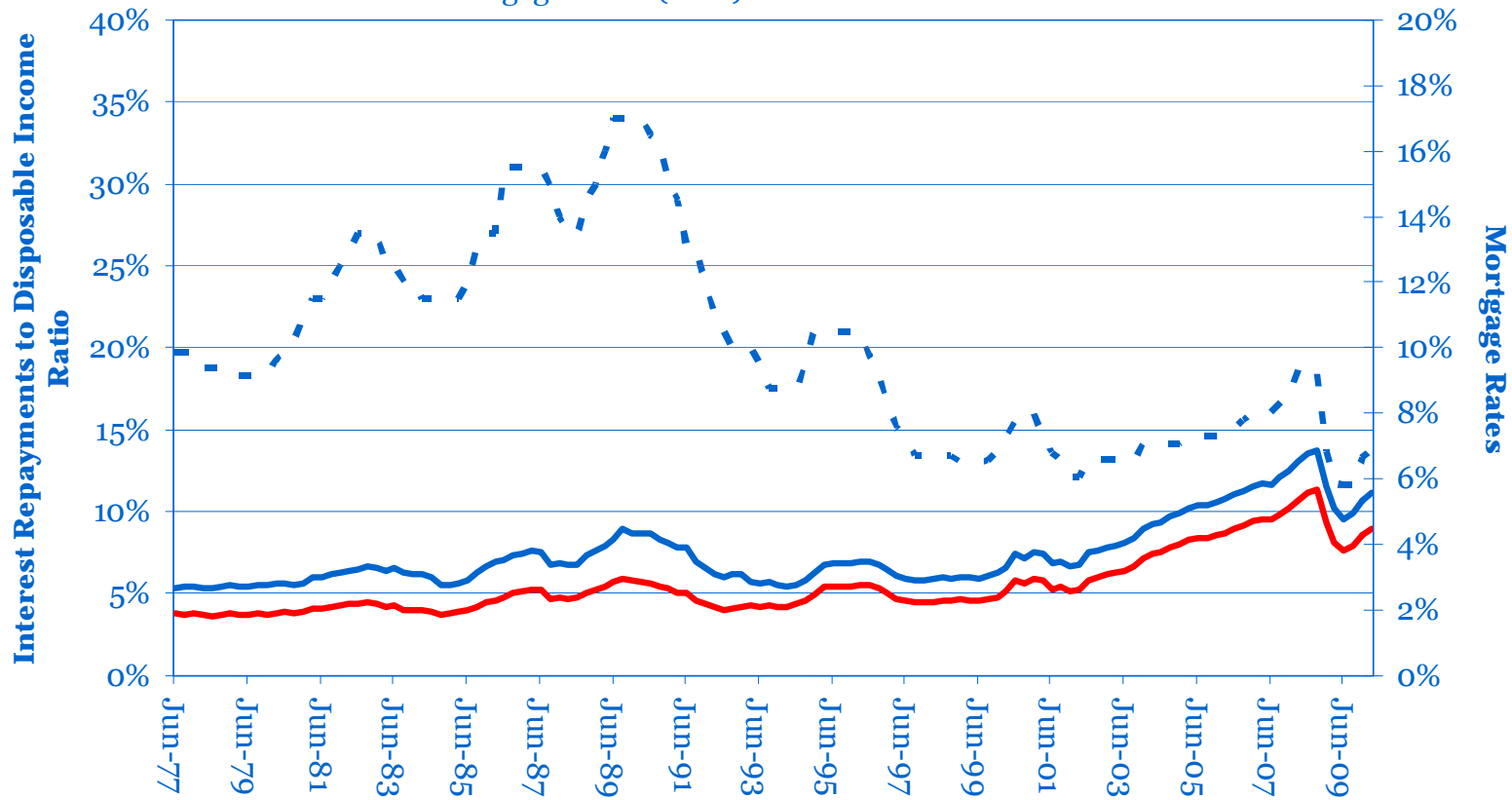


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8. System-Wide Household DSCR is Strong

Household Interest Repayments to Disposable Income

- Total Interest Repayments to Disposable Household Income (LHS)
- Mortgage Interest Repayments to Disposable Household Income (LHS)
- - Variable Mortgage Rates (RHS)



Source: Rismark; RBA



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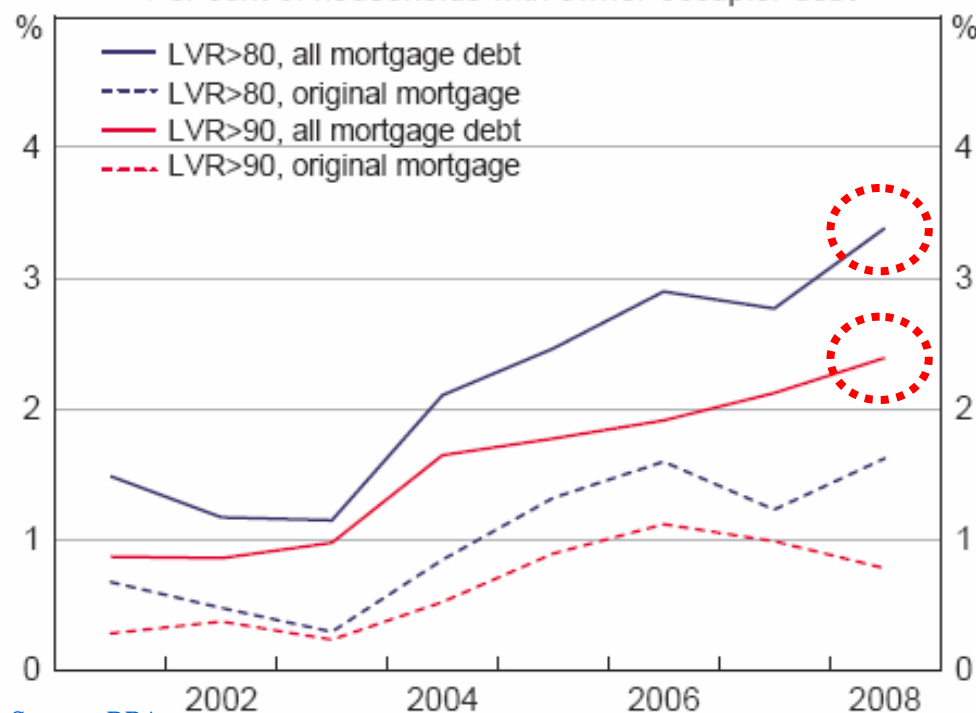
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8. Only Small Share of High Risk Borrowers

- RBA: Only ~2.5% of borrowers have LVR \geq 90% AND repayments \geq 50% disposable income
- RBA: Only ~3.5% have LVR \geq 80% AND repayments \geq 50% disposable income

Households with Low Equity and High Repayments*

Per cent of households with owner-occupier debt

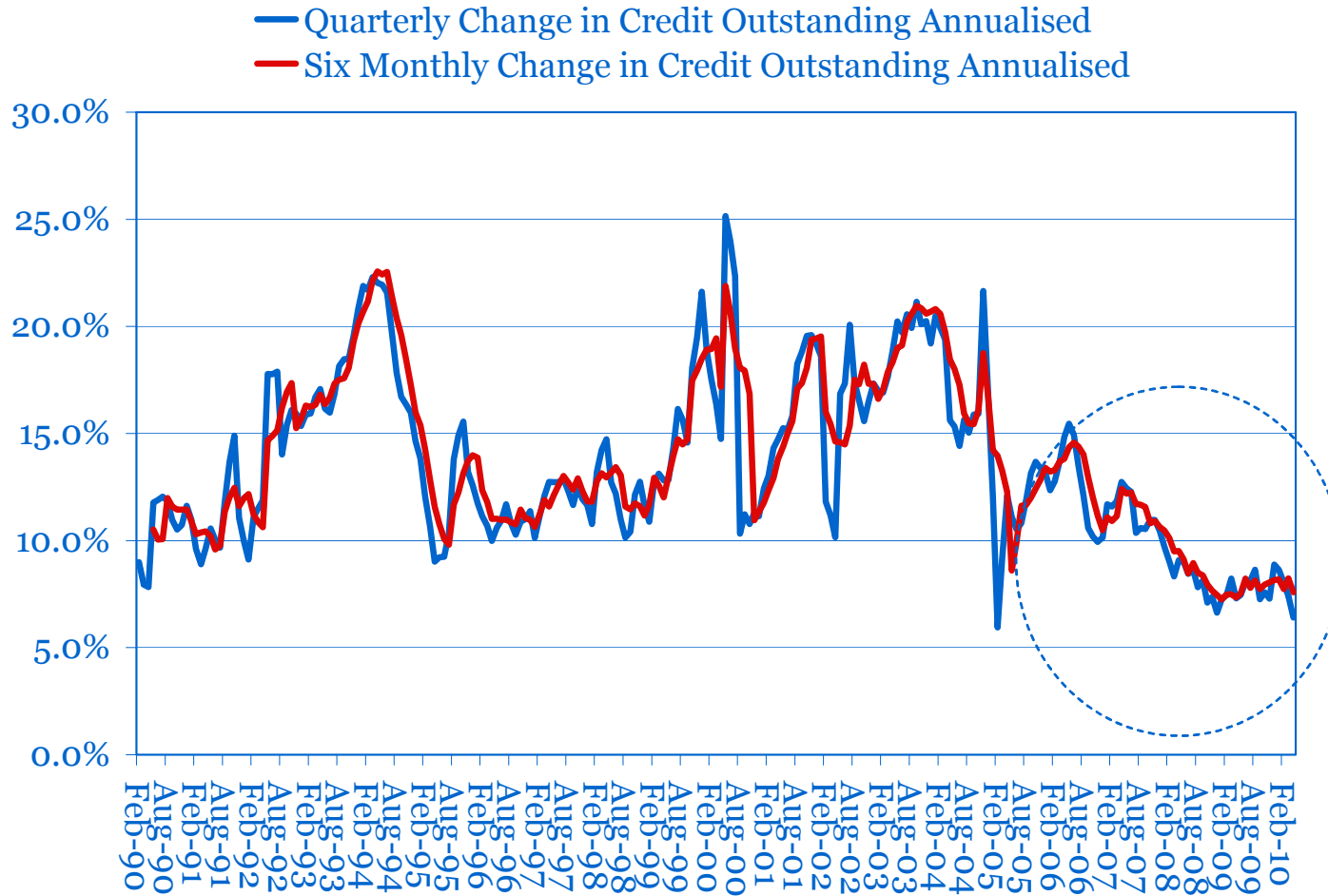


Source: RBA



8. Australia has not Experienced Debt-Fuelled Property Boom since 2007

Growth in Australian Housing Credit Outstanding Very Low



Source: Rismark; RBA



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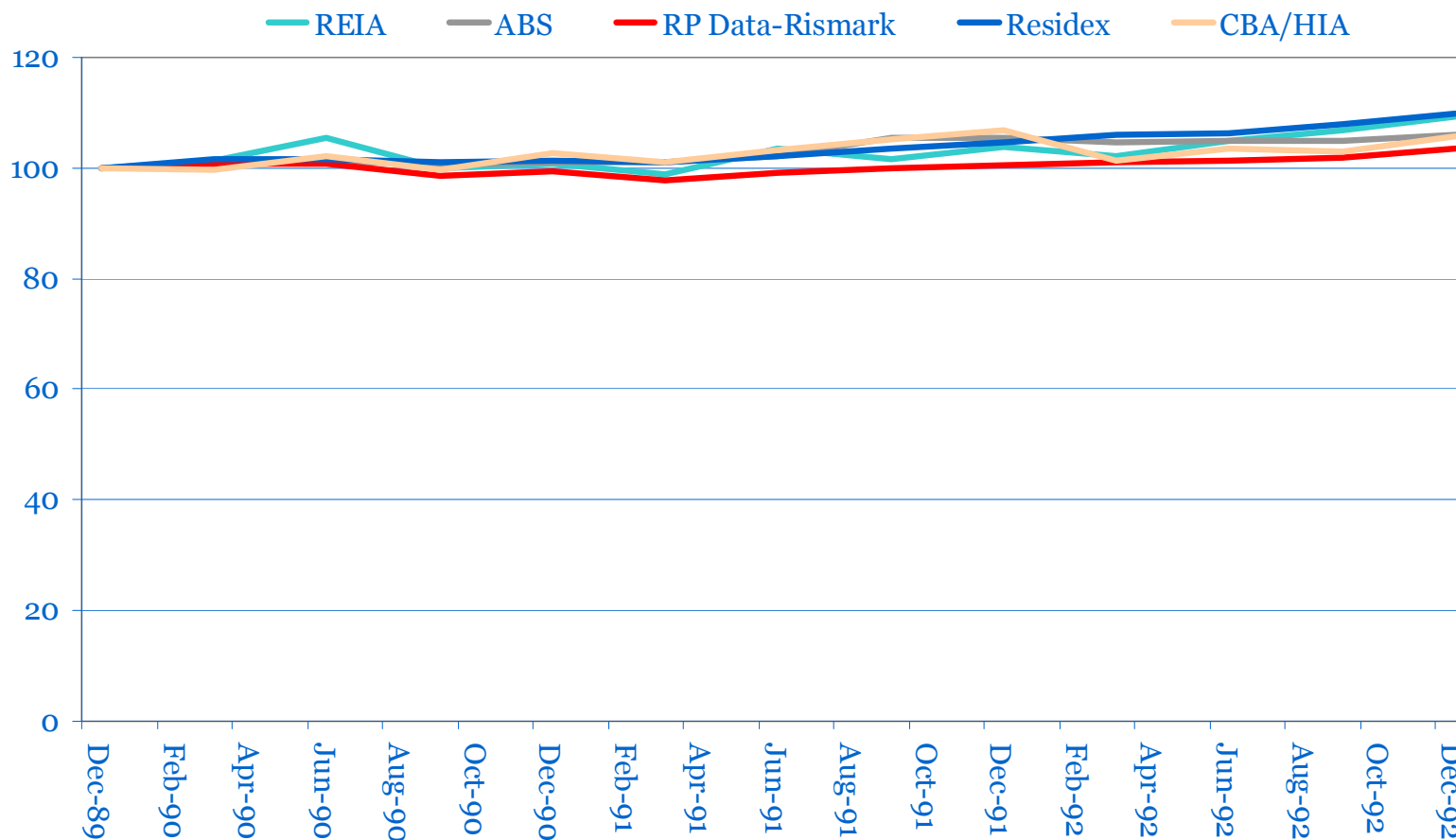
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8. What Happened in 1991 Recession with Huge Spike in Unemployment?

What Happened During the 1991 Recession when Unemployment Rose from 5.6% to 10.9% and Mortgage Rates Averaged 13.7%?



Source: RP Data-Rismark; ABS; Residex; REIA; CBA/HIA



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9. What about China?



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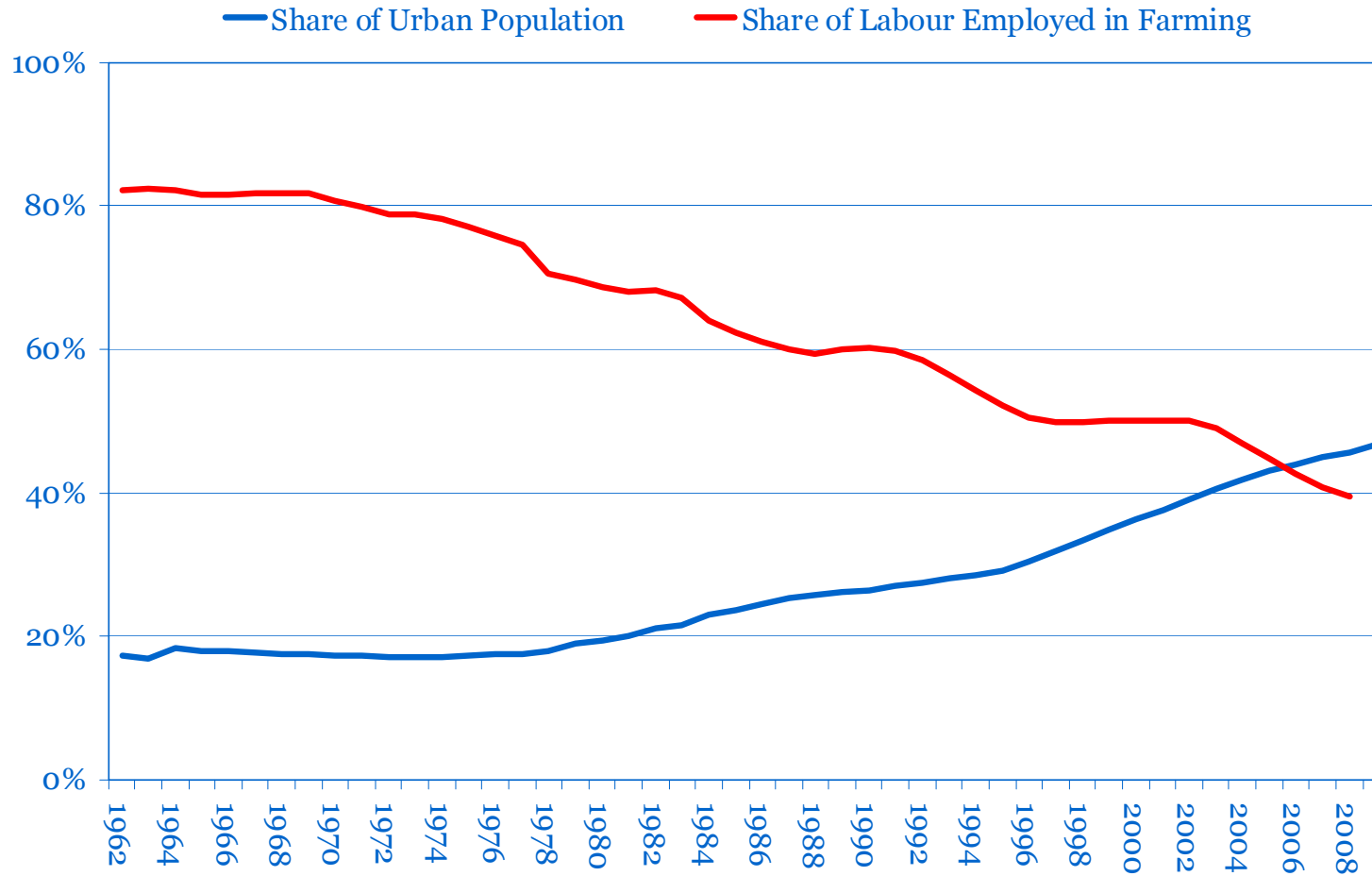
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9. 40% of Labour Still Employed in Agriculture; Only 46.6% Urbanised

Urbanisation vs. Share of Labour Employed in Farming



Source: UBS



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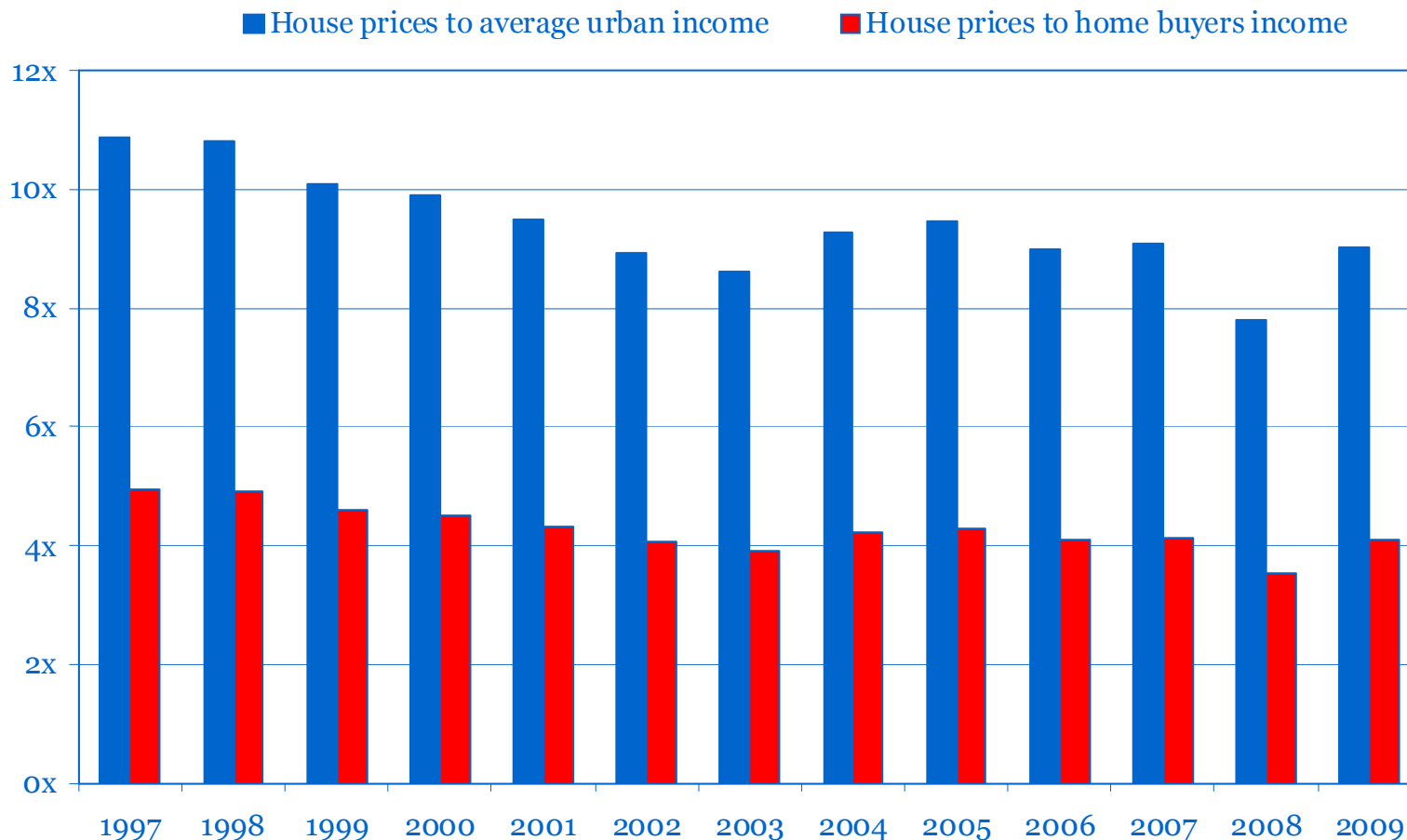
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9. House Price-to-Income Ratios Look High; But also Low!

Chinese House Price-to-Income Ratios



Source: UBS; Rismark



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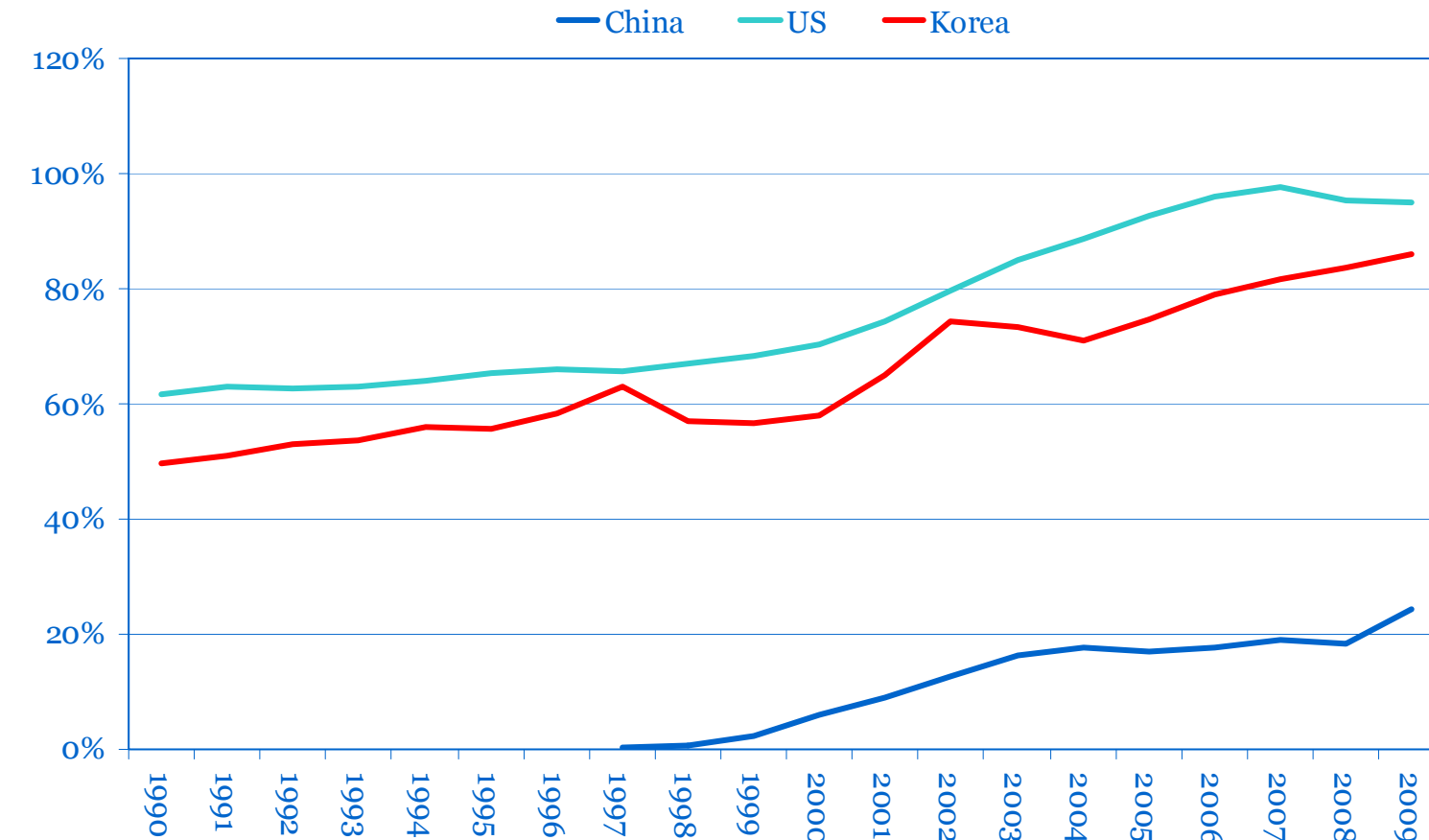
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9. Very Low Levels of Household Leverage

Household Debt as a Share of GDP



Source: UBS



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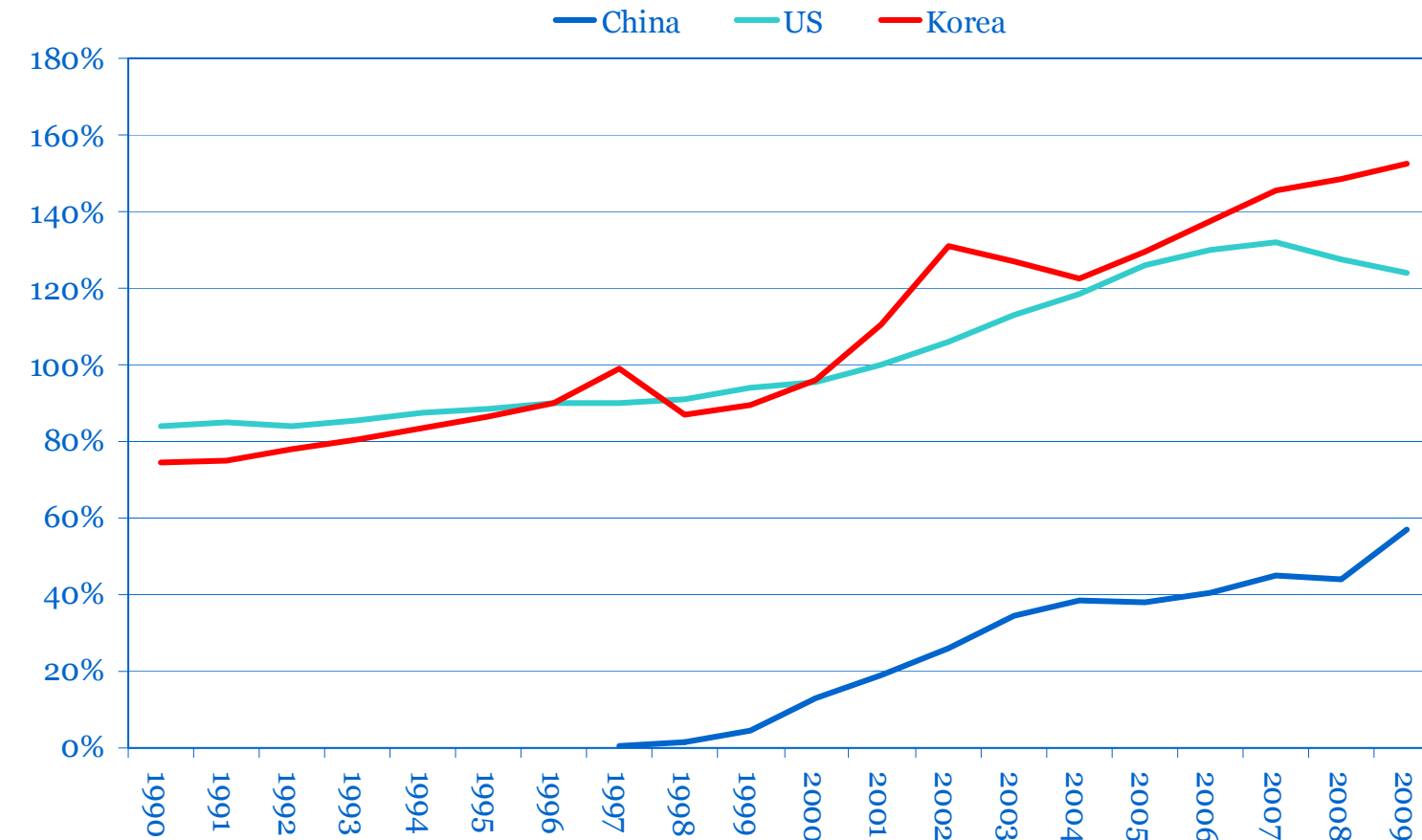
Best Product of the Year 2007



Best New Financial Start-Up of 2007

9. Very Low Levels of Household Leverage

Household Debt as a Share of Disposable Income



Source: UBS



MFAA Mortgage Manager of the Year 2009



Australian Business Award for Innovation 2009



MFAA Non Bank Lender/ Mortgage Manager of the Year 2008



Best New Product of the Year 2008



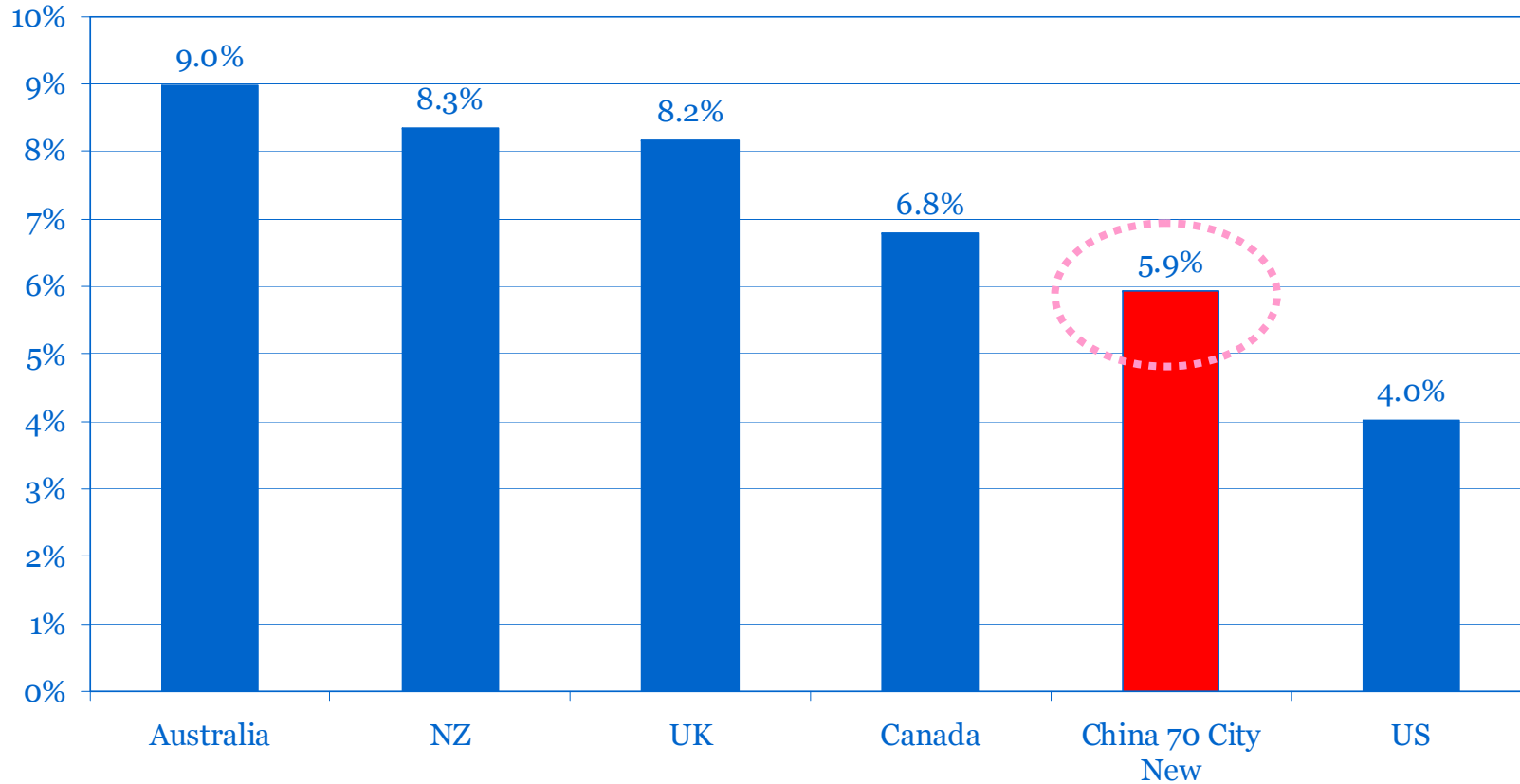
Best Product of the Year 2007



Best New Financial Start-Up of 2007

9. China 70-City New Houses Index has *Underperformed* since 2000

Average Monthly Annual House Price Growth: January 2000 to March 2010



Source: UK (Academetrics, Composite Indices); US (Case-Shiller 20 City, Repeat-Sales); Canada (Teranet, Repeat-Sales); Australia (RP Data-Rismark, Hedonic); NZ (REINZ, Stratified); China (National Bureau of Statistics)



MFAA Mortgage Manager of the Year 2009



Australian Business Award for Innovation 2009



MFAA Non Bank Lender/ Mortgage Manager of the Year 2008



Best New Product of the Year 2008



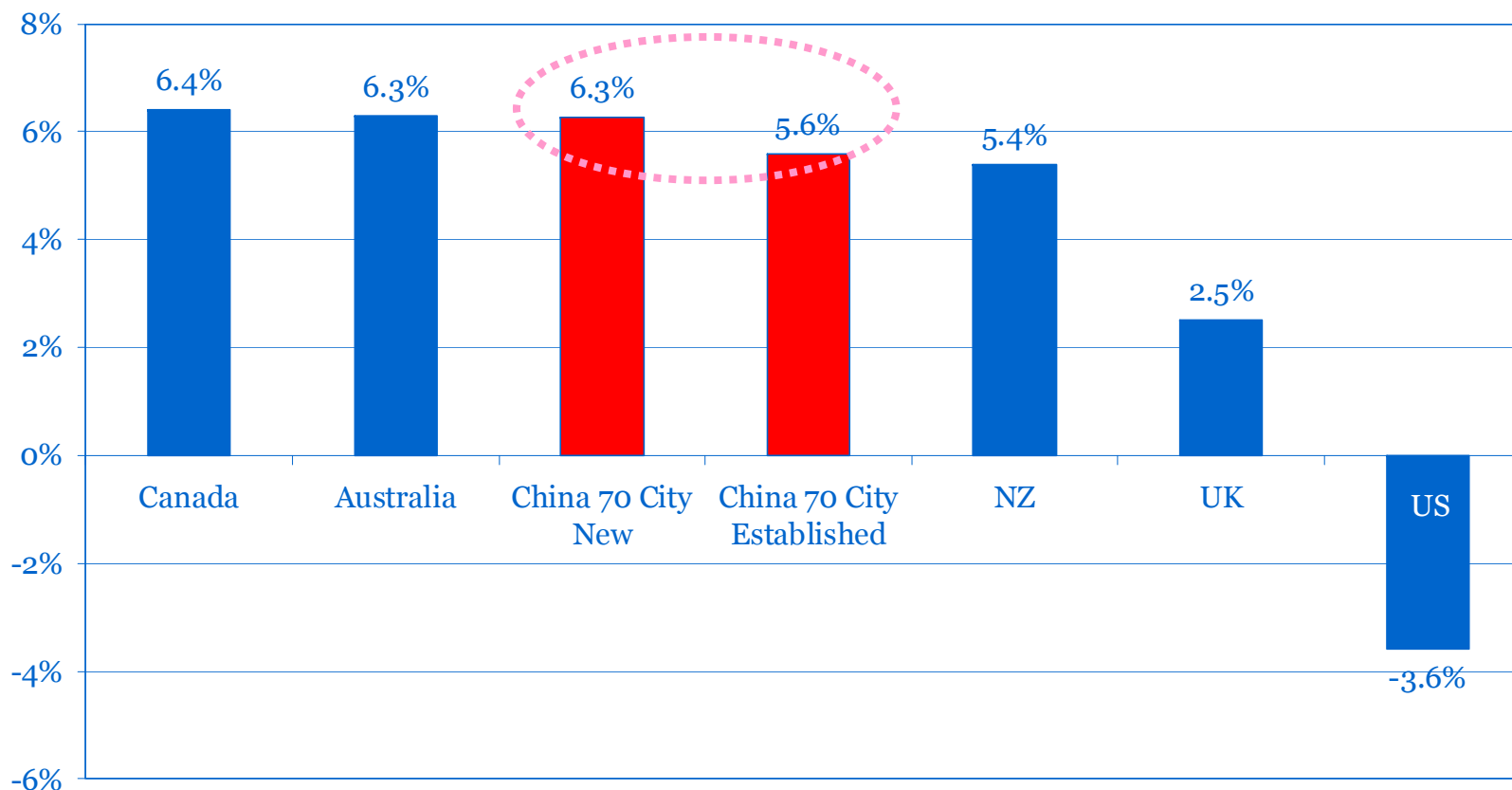
Best Product of the Year 2007



Best New Financial Start-Up of 2007

9. China 70-City New/Estab. Houses Index have *Not Outperformed* since 2005

Average Monthly Annual House Price Growth: July 2005 to March 2010



Source: UK (Academetrics, Composite Indices); US (Case-Shiller 20 City, Repeat-Sales); Canada (Teranet, Repeat-Sales); Australia (RP Data-Rismark, Hedonic); NZ (REINZ, Stratified); China (National Bureau of Statistics)



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Best New Product of the Year 2008



Best Product of the Year 2007



Best New Financial Start-Up of 2007

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