

Some Home Truths About Australia's Housing Market



Christopher Joye
Managing Director
Rismark International

February 2010
Strictly Private & Confidential



Table of Contents

1. Holding Steve Keen to Account
2. Housing Fundamentals
3. Housing Valuation Considerations
4. So What Happened to House Prices?
5. Housing's Investment Characteristics



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

1. Holding Steve Keen to Account

What did Steve Keen Say?	What Actually Happened?
Price of housing <i>“is going to fall by 40 per cent or so in the next few years”</i>	House prices currently 80% above Keen forecast
A depression is <i>“almost a certainty...best case scenario is recession more severe than 1990 and lasting 1.5 times as long”</i>	Australia did not experience a depression, or even a recession
Australia would have <i>“most serious downturn we’ve ever had”</i>	Since 1959 (alone) quarterly GDP growth has been worse than Dec 2008 result on 11 occasions
Australia’s unemployment rate will rise to <i>“double digits”</i>	Australia’s unemployment rate peaked at 5.8% and is now 5.3%
Forecasting rate is <i>“pretty close to 100%”</i>	Forecasting track-record poor



2. Housing Fundamentals



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



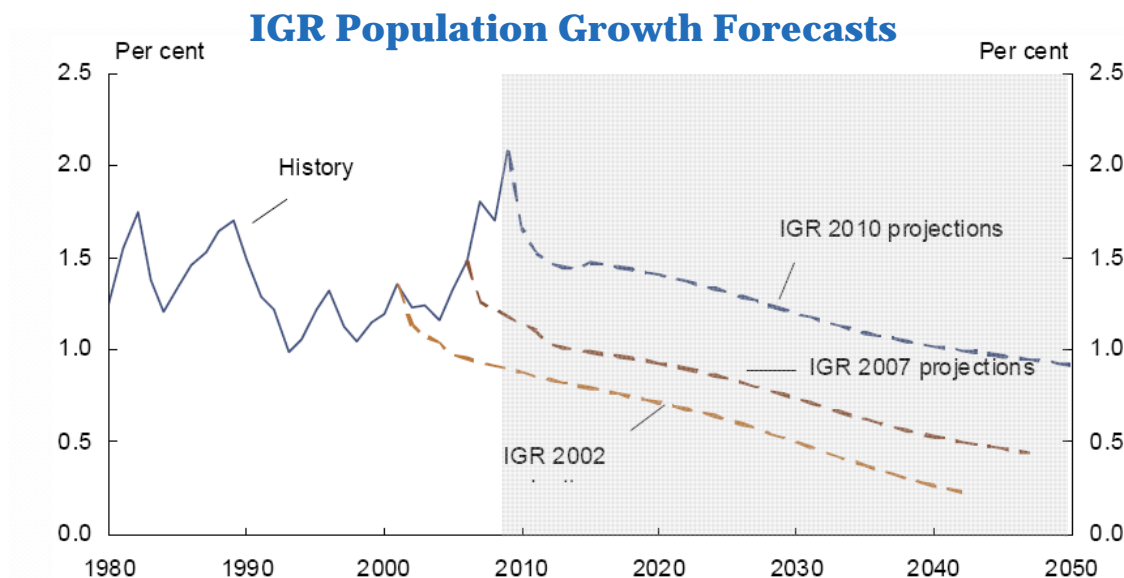
Best Product of the Year 2007



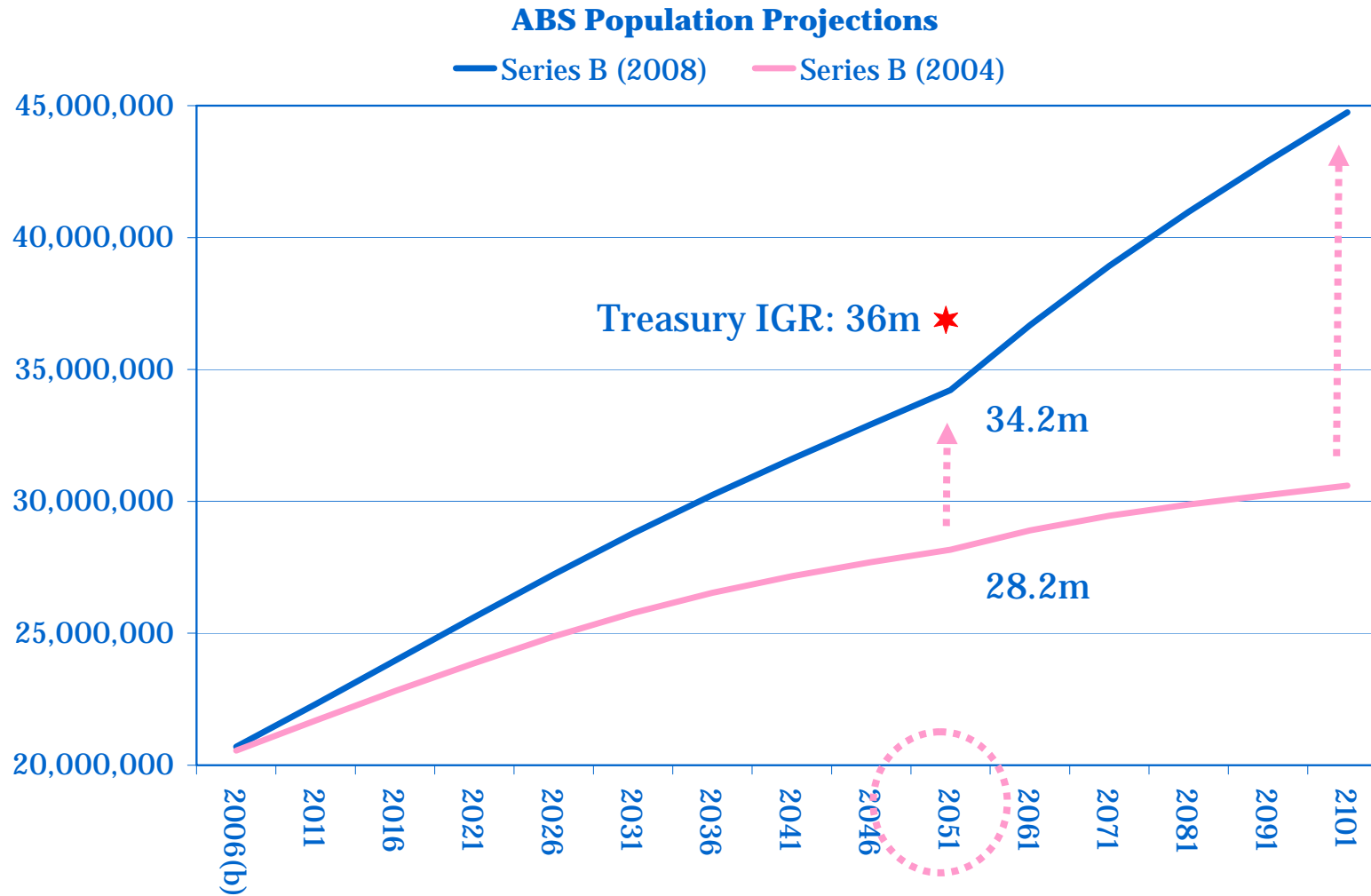
Best New Financial Start-Up of 2007

2. Strongest Population Growth in Developed World

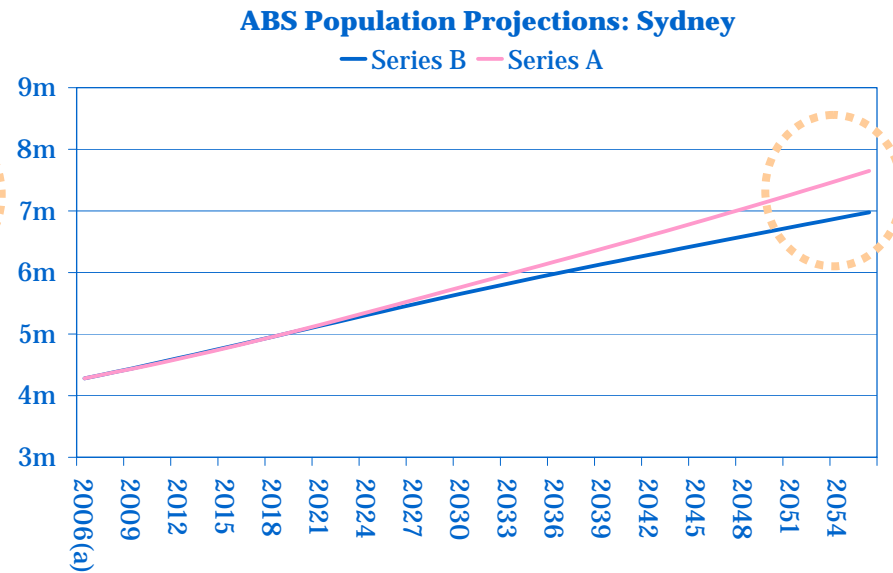
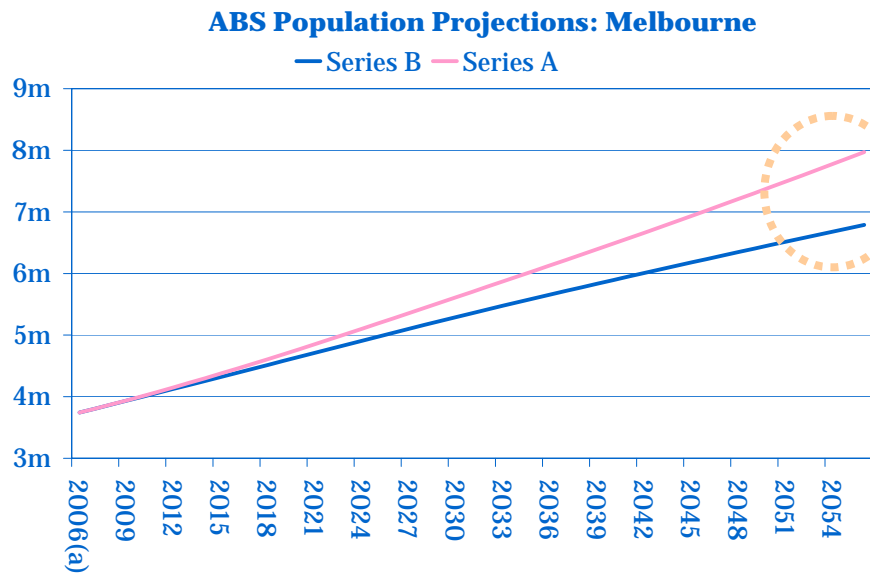
- Asset prices determined by **demand** and **supply**
- Australia currently has strongest population growth in developed world
- Treasury IGR forecasts 36m people by 2050 (conservative):
 - Assumes population growth 2.1% → 1.2% pa (av. 2010-2050)
 - Assumes migration 244k → 180k pa between 2012-2050
- Govt debt forecast to rise to 20% of GDP by 2050—annual 2.75% fiscal gap



2. Treasury Expects Australia's Population to Grow by > 60% to 2050



2. Sydney and Melbourne to Hit 7-8m People in 40 Years



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



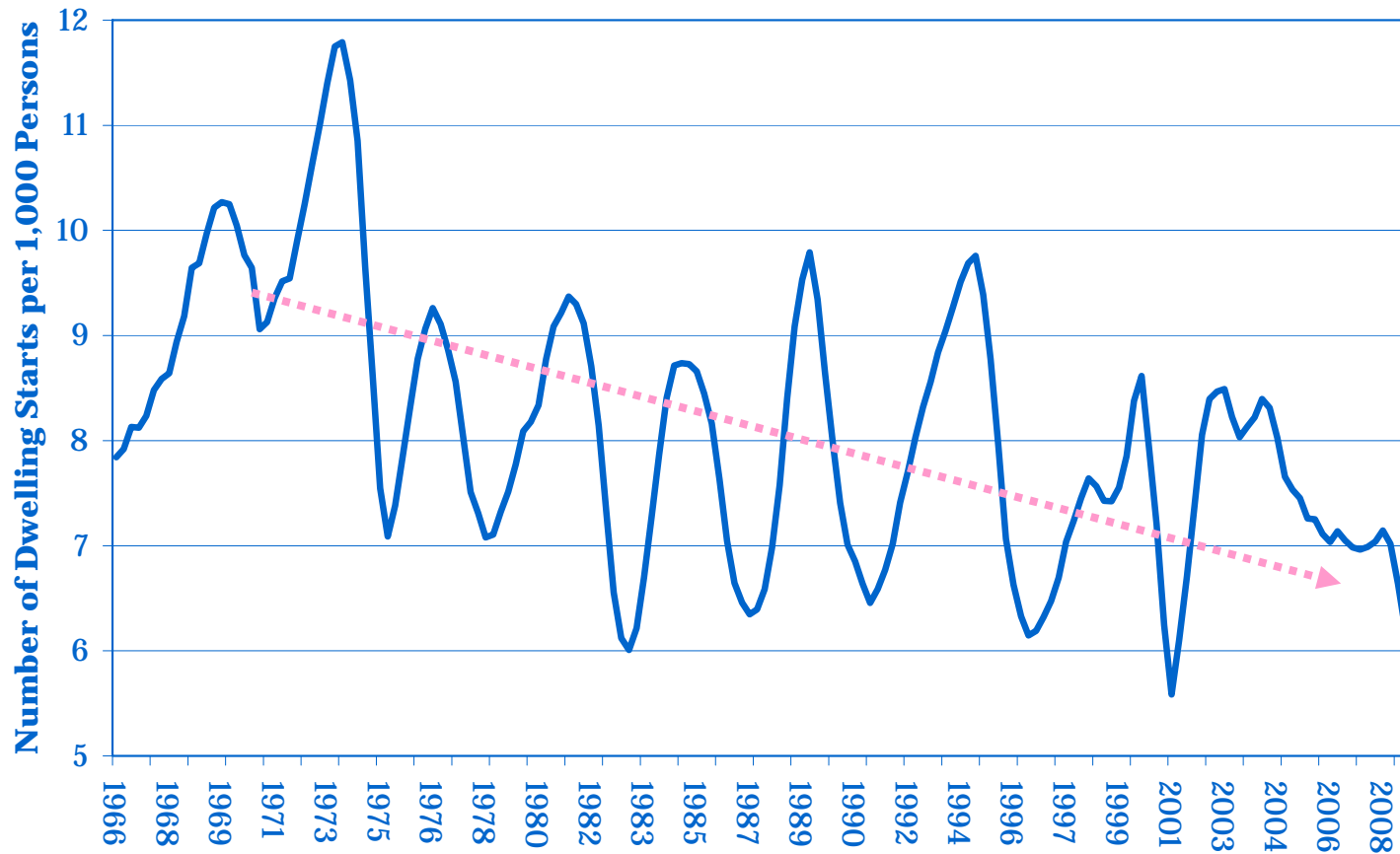
Best Product of the Year 2007



Best New Financial Start-Up of 2007

2. Dwelling Starts per 1,000 Persons Trending Down Since 1960s

Australian Dwelling Starts per 1,000 Persons Trending Down



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



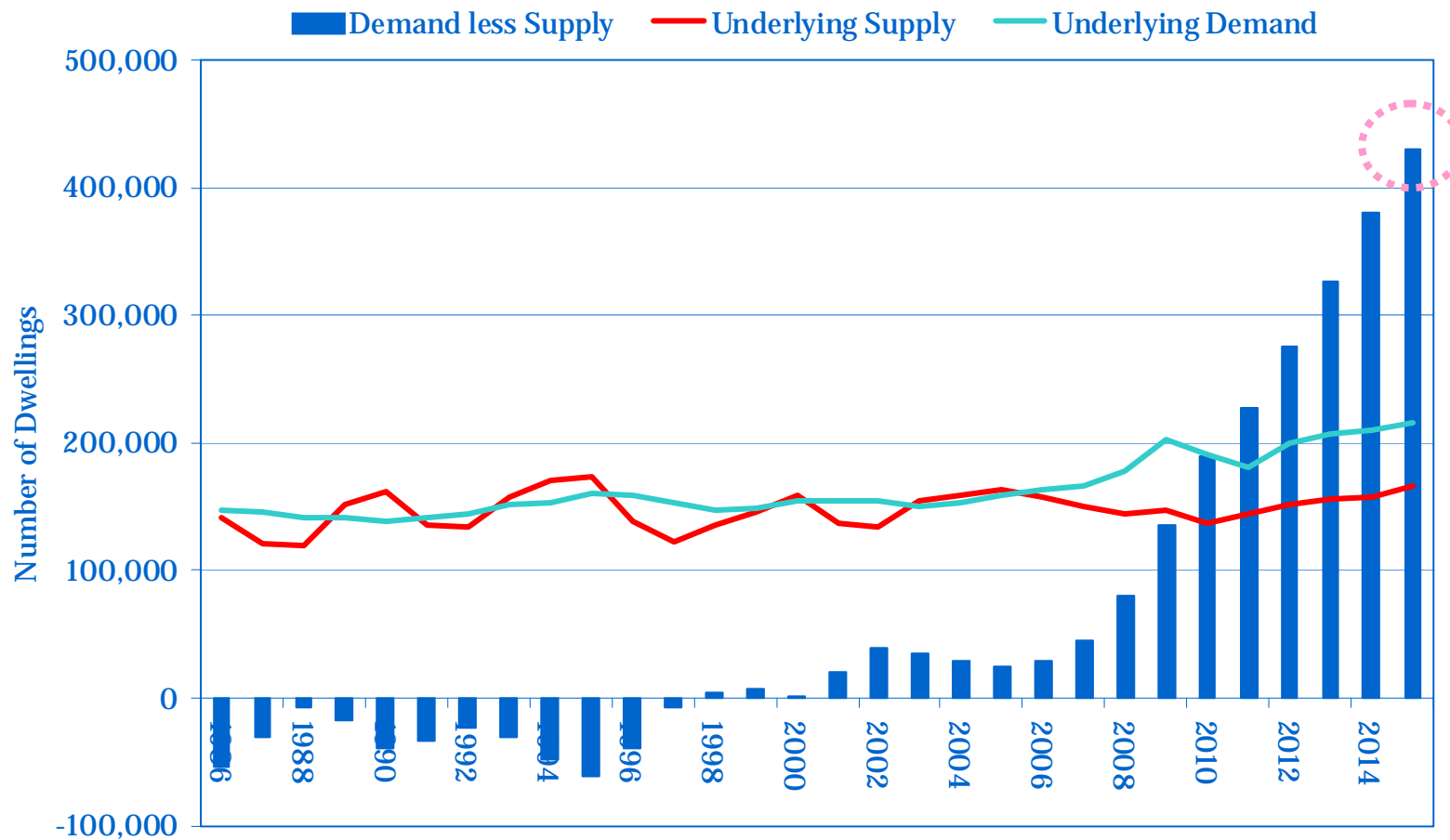
Best Product of the Year 2007



Best New Financial Start-Up of 2007

2. Housing Shortage Rising to “Critical & Potentially Intractable Levels”

ANZ Estimates for Australian Housing Demand and Housing Supply



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

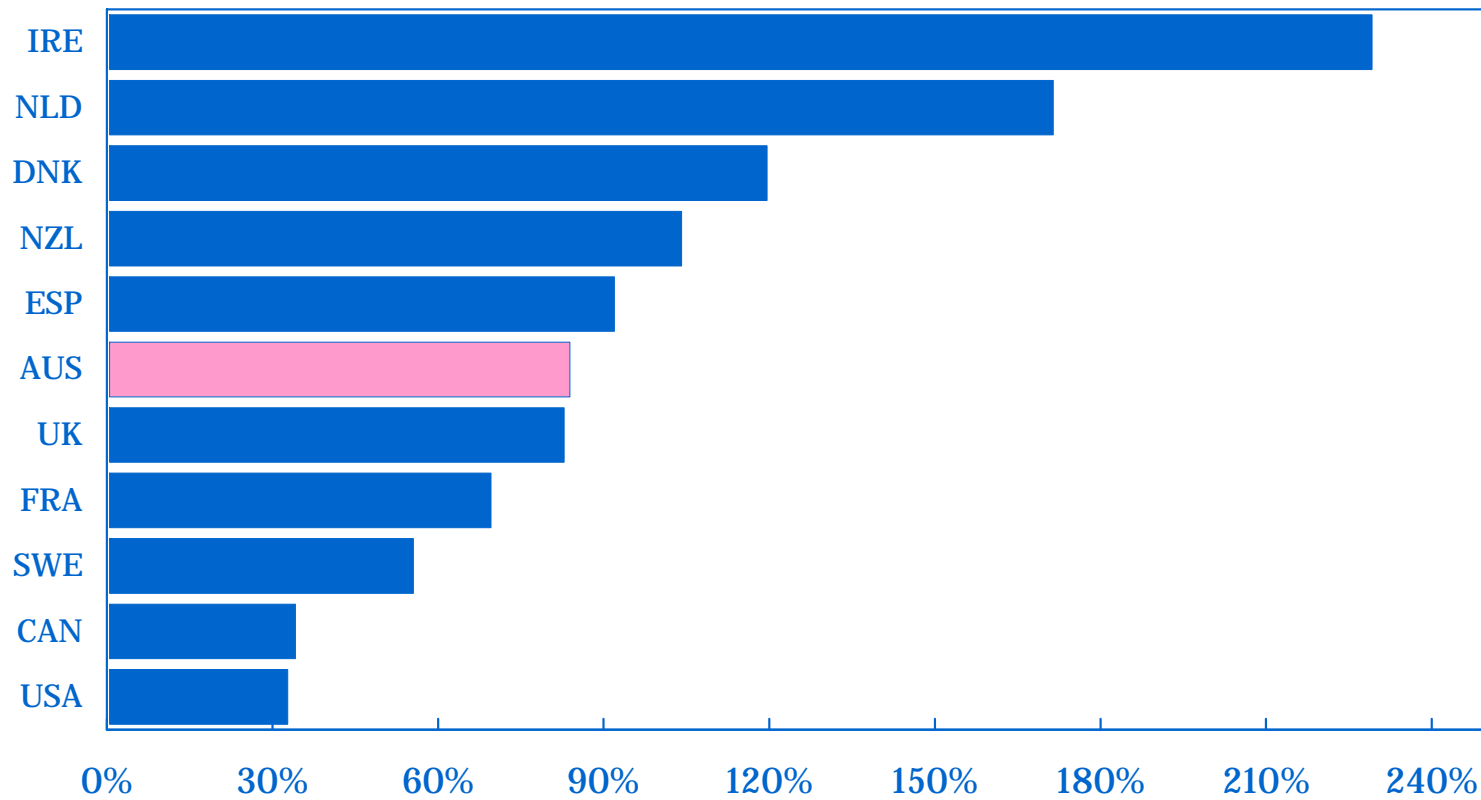


Best New Financial Start-Up of 2007

3. Housing Valuation Considerations

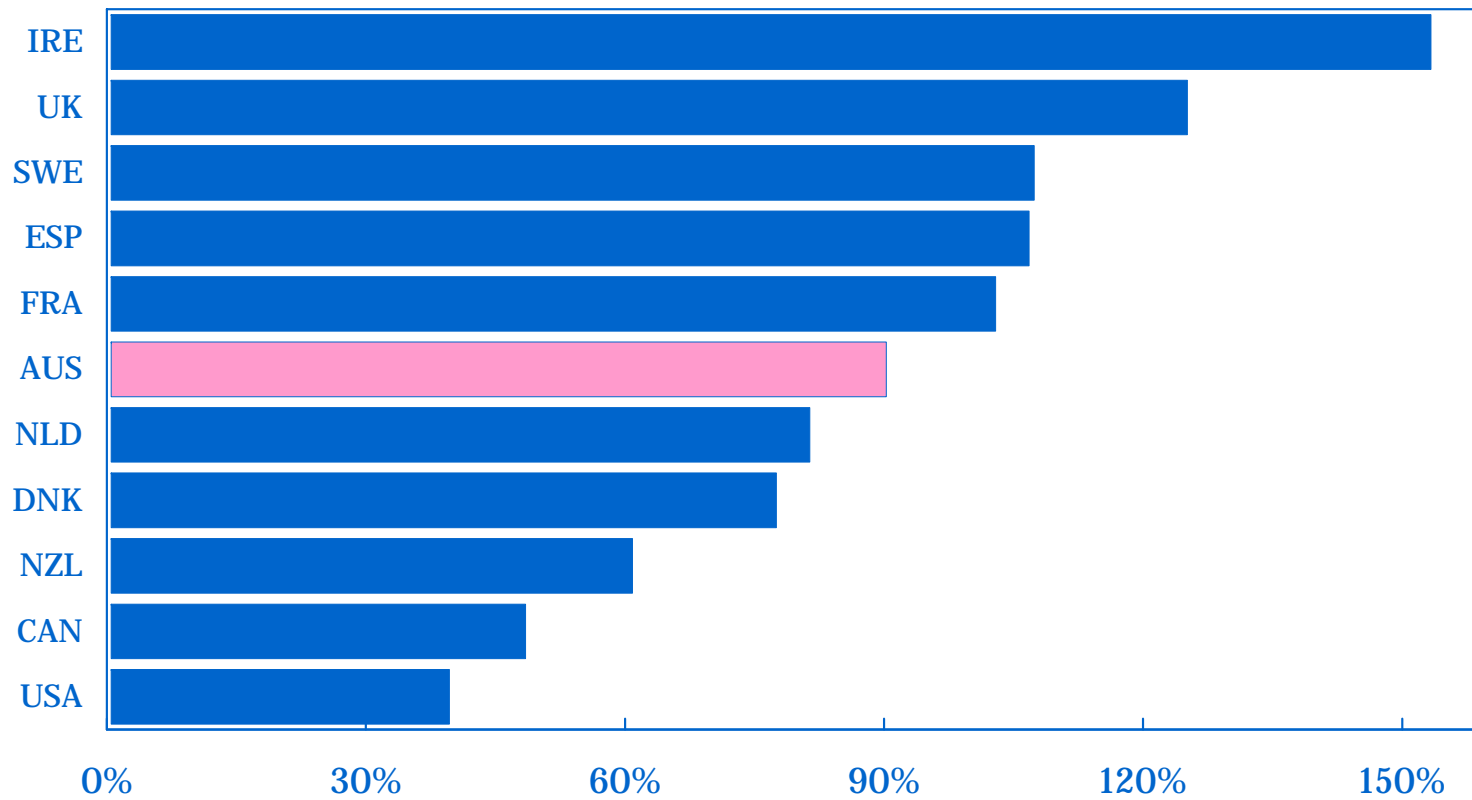
3. Inflation-Adjusted House Price Growth Since 1990

**IMF Analysis of Real House Prices:
1990 to 2008; Cumulative Growth Rate**



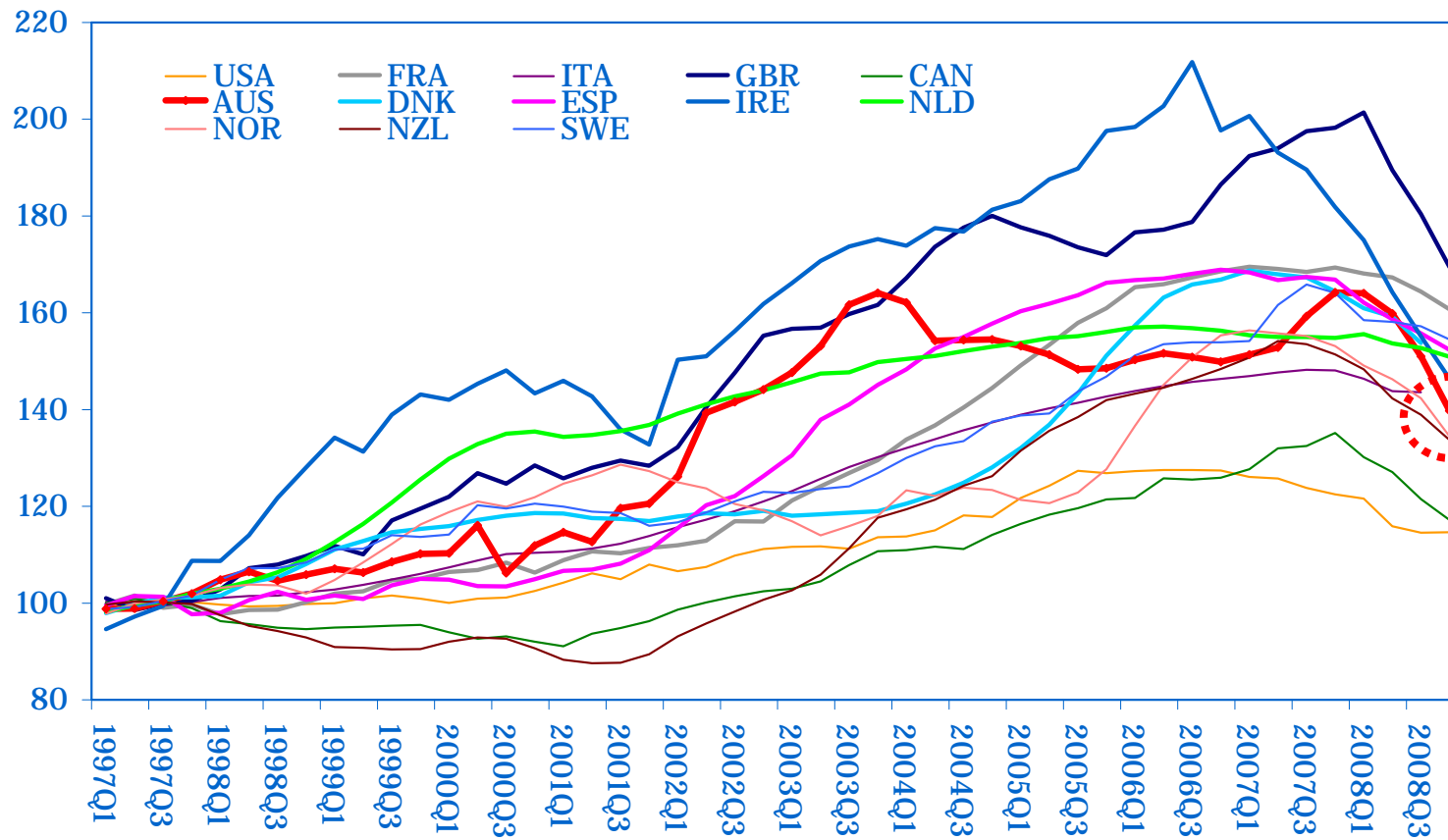
3. Inflation-Adjusted House Price Growth Since 1997

**IMF Analysis of Real House Prices:
1997 to 2008; Cumulative Growth Rate**



3. House Price-to-Income Ratio Growth...Middle of the Road

**IMF Analysis of International House Price-to-Income Ratios:
1997: 100; 1997 to 2008**



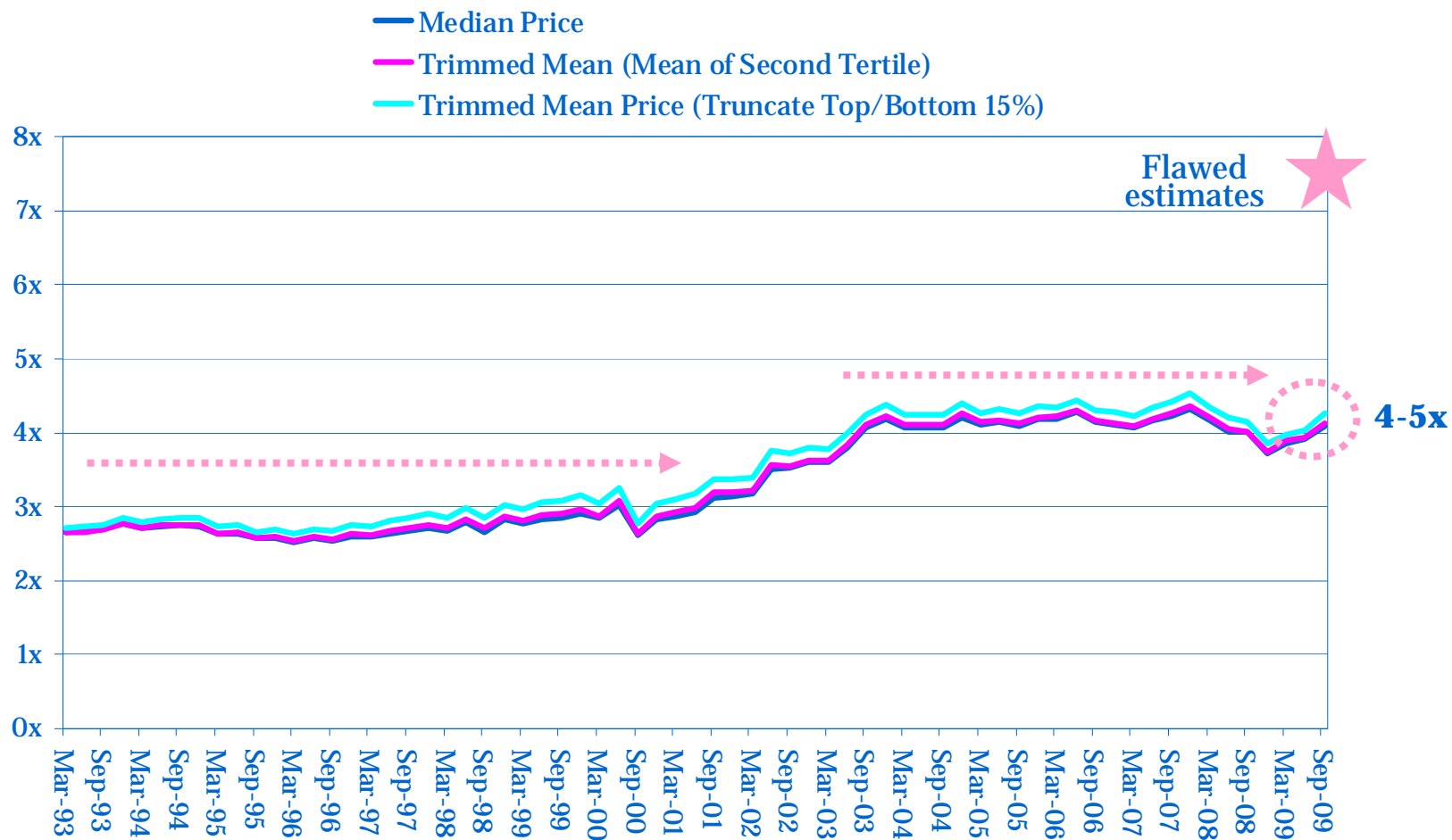
3. House Price-to-Income Ratio Growth...Middle of the Road

- Australia's house price-to-income growth was **lower than** following peers:
 - UK
 - France
 - Sweden
 - Spain
 - Netherlands
 - Ireland
- Australia's house price-to-income growth **higher than** following peers:
 - US
 - Canada
 - Italy (just)
 - New Zealand (just)
 - Norway (just)
- Key conclusion: no evidence of unusually high growth in housing costs
- Sample period may disadvantage Australia given only small correction in 2008




3. National Dwelling-Price-to-Income Ratio is only 4-5x


Rismark Australian All Dwellings, All Regions Price-to-Income Ratio:



3. Where Does the (Previously Hawkish) IMF Stand?

- October 2009 IMF World Economic Outlook Report findings:

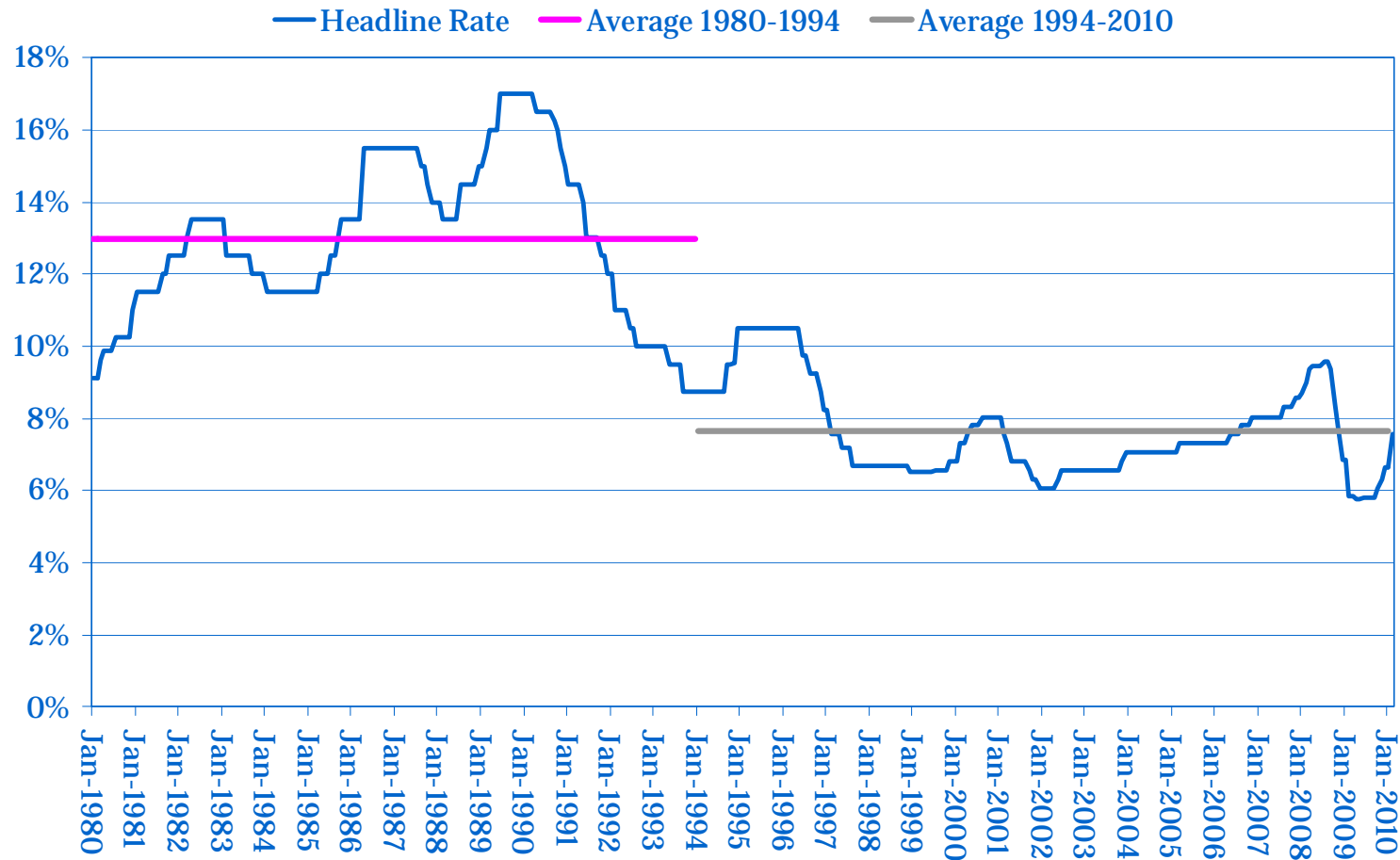
“In the case of Australia, if the impact of long-term migration on housing demand is taken into account, the results do not produce evidence of a significant overvaluation of house prices.” 

“If past is prologue, these estimates suggest that the Netherlands and Finland are likely to see further house price declines, whereas the corrections in Australia and the United States are close to complete...” 



3. Secular Decline in Nominal Rates Supports Higher Debt

Bank Headline Variable Mortgage Rates



Keen ignores cost of debt



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

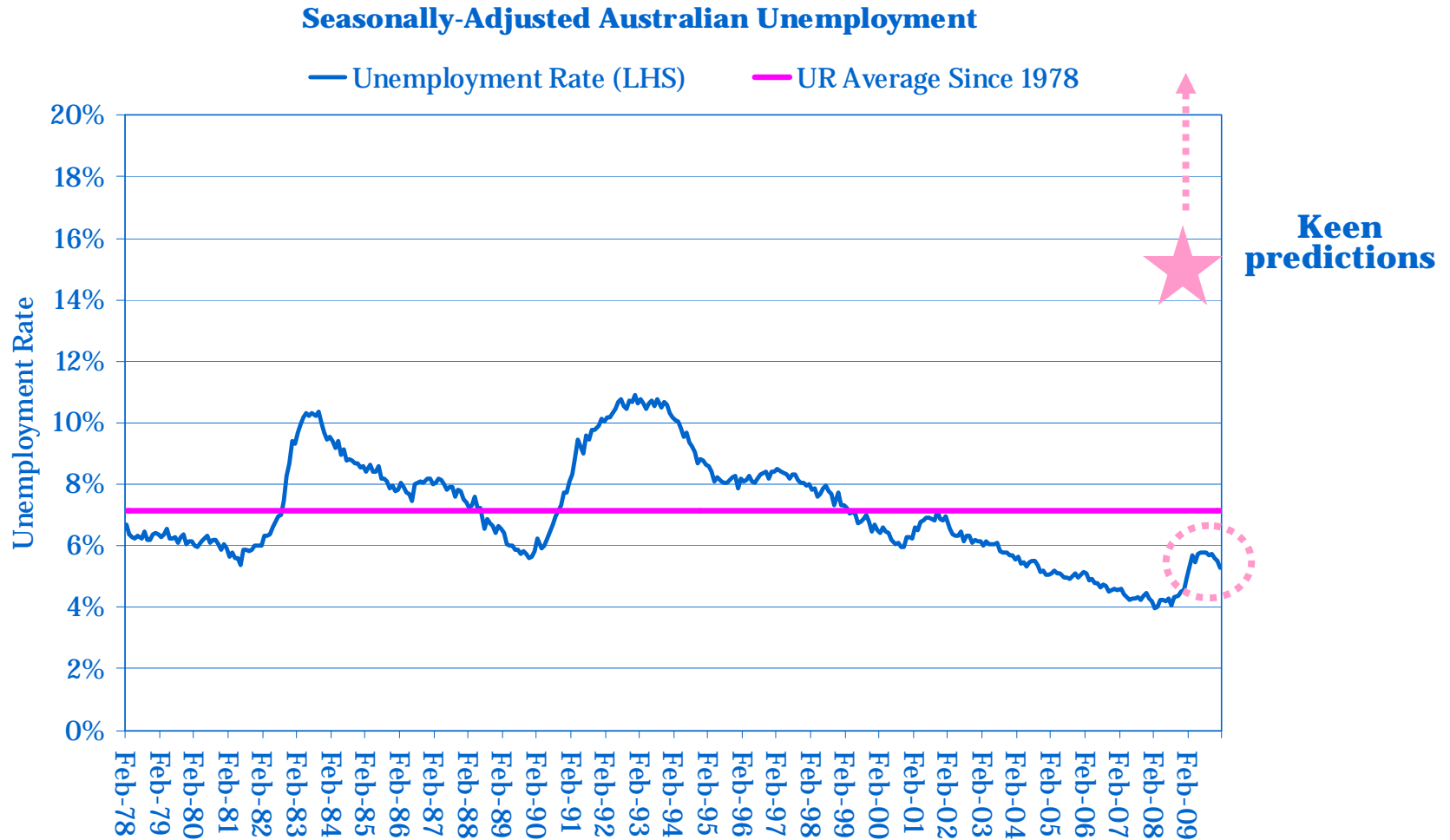


Best Product of the Year 2007

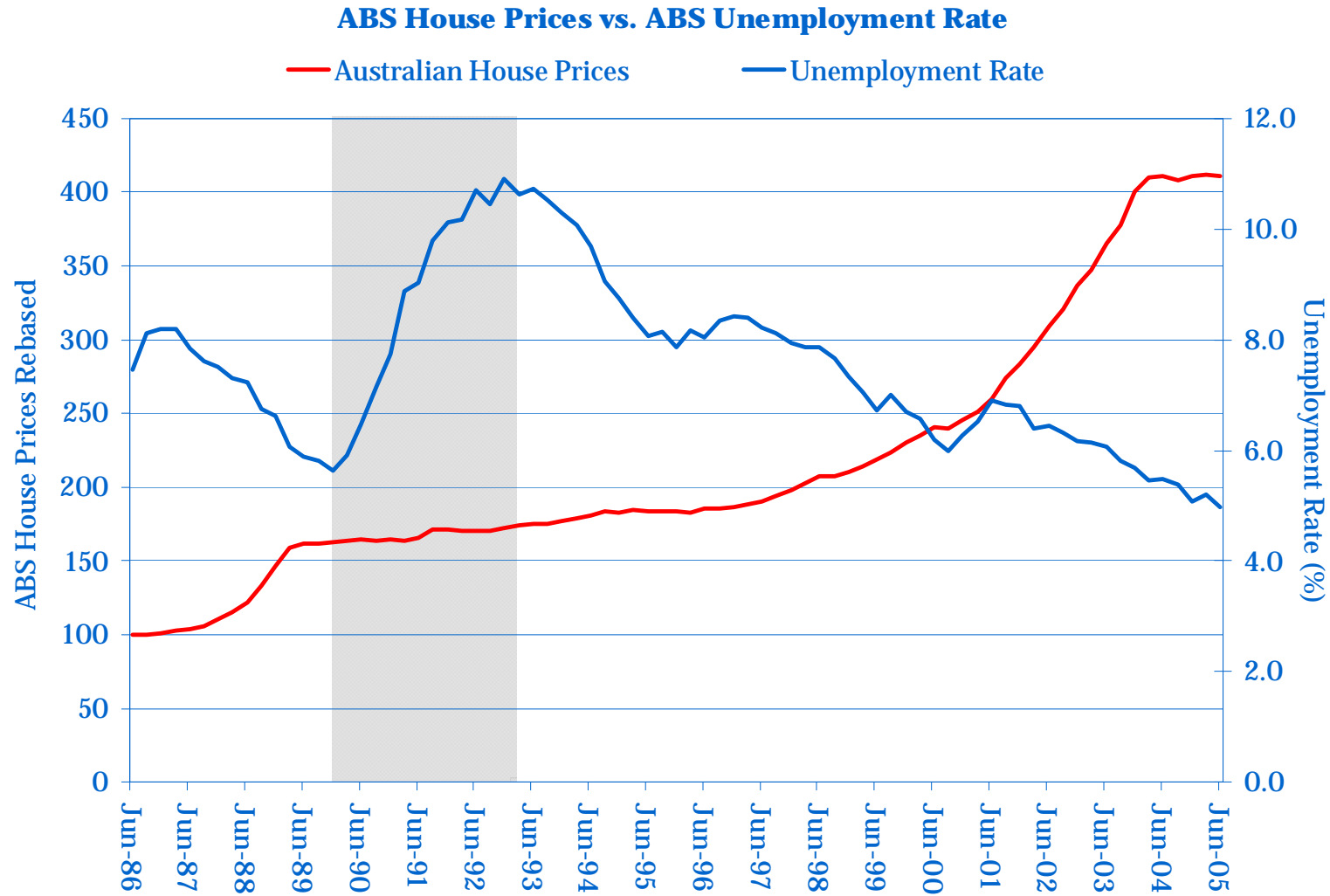


Best New Financial Start-Up of 2007

3. Unemployment Rate Peaked at 5.8% and now 5.3%



3. What Happened when Unemployment Hit 10.9% in 1992?



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



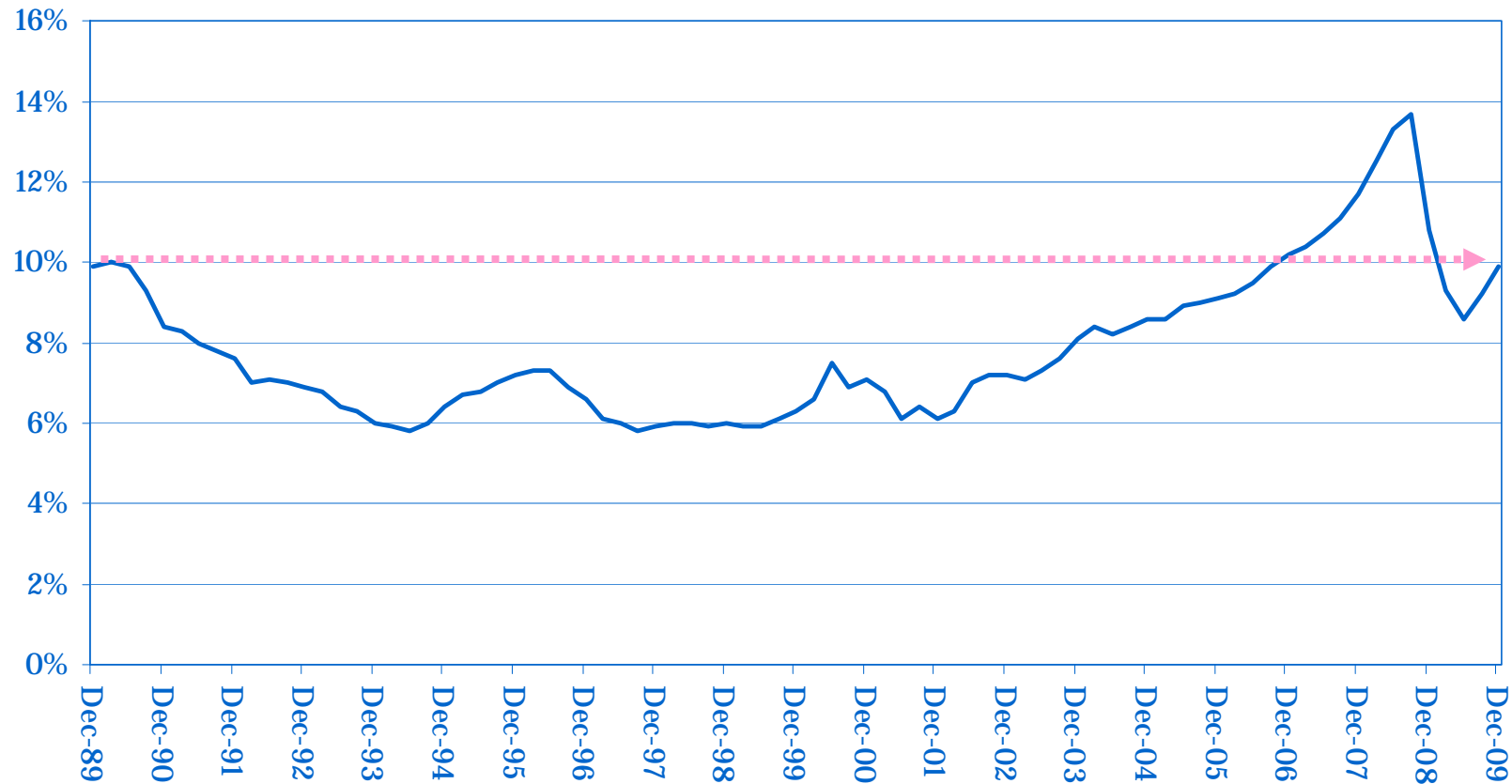
Best Product of the Year 2007



Best New Financial Start-Up of 2007

3. Household Debt Servicing Remains Secure

**Australian Household Debt Service Ratio:
Share of Disposable Income**



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



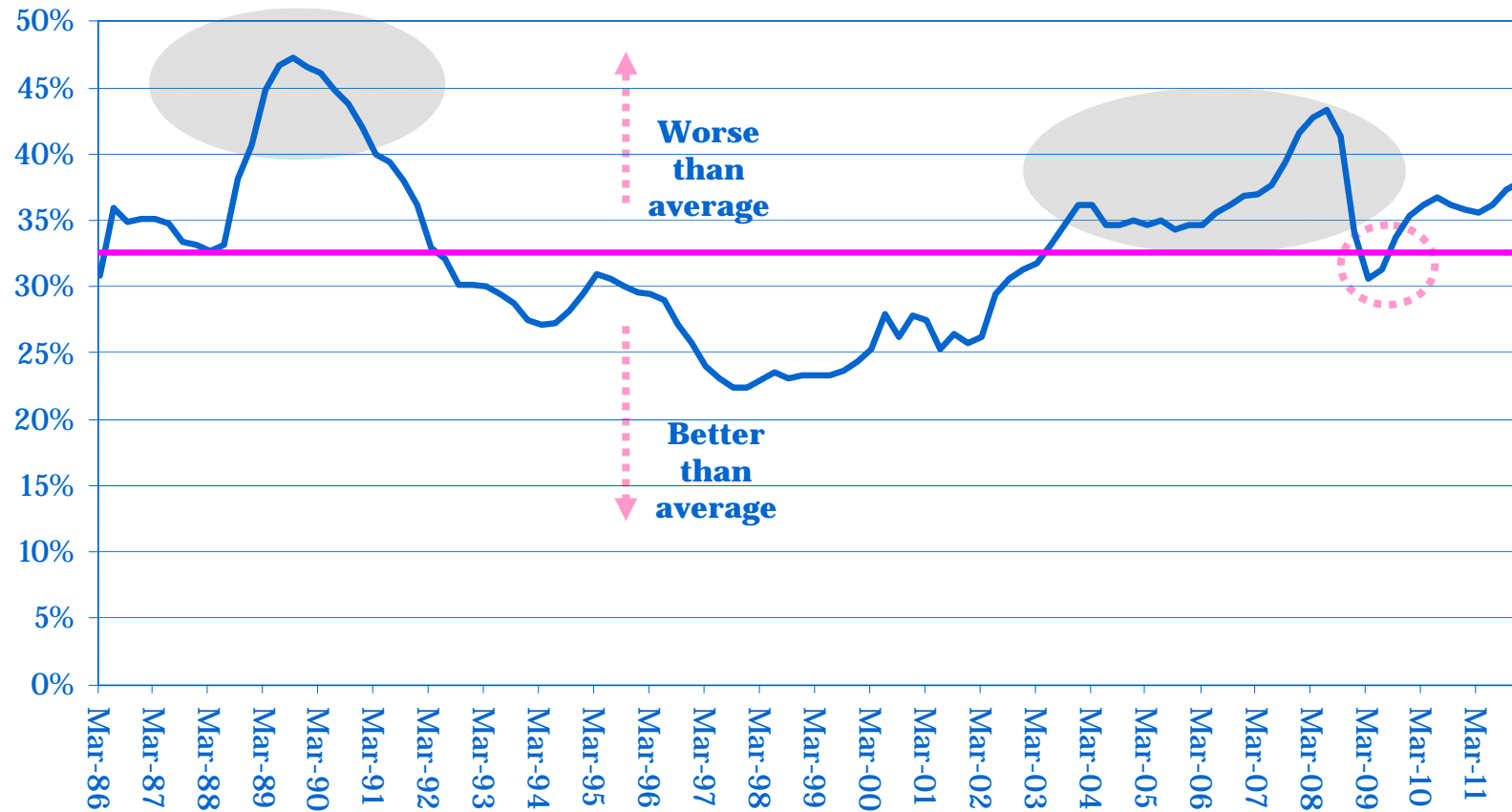
Best Product of the Year 2007



Best New Financial Start-Up of 2007

3. How has Affordability Changed over Time?

**ANZ House Purchase Affordability:
Mortgage Repayments as a % of Disposable Income; 1986 to 2011**



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



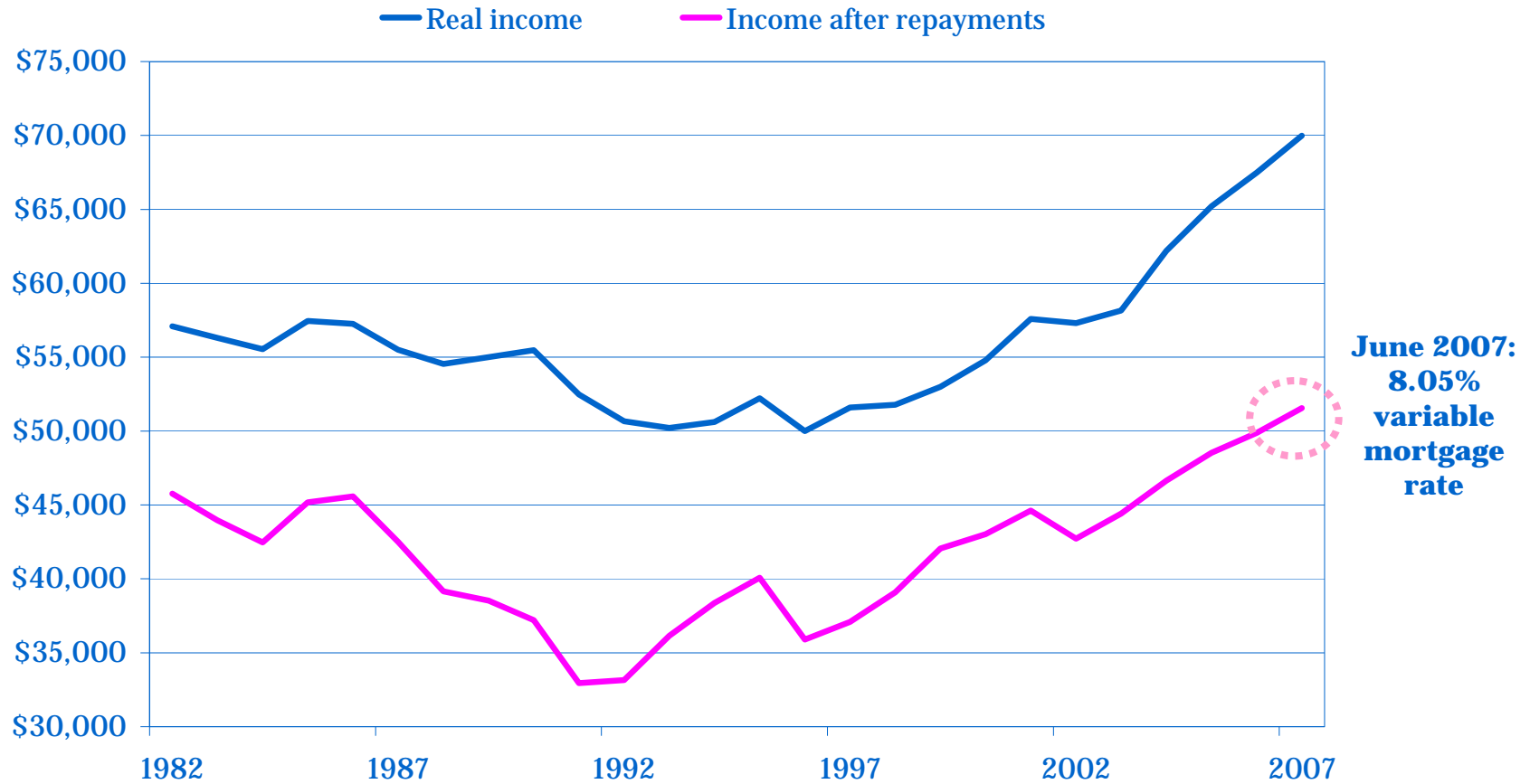
Best Product of the Year 2007



Best New Financial Start-Up of 2007

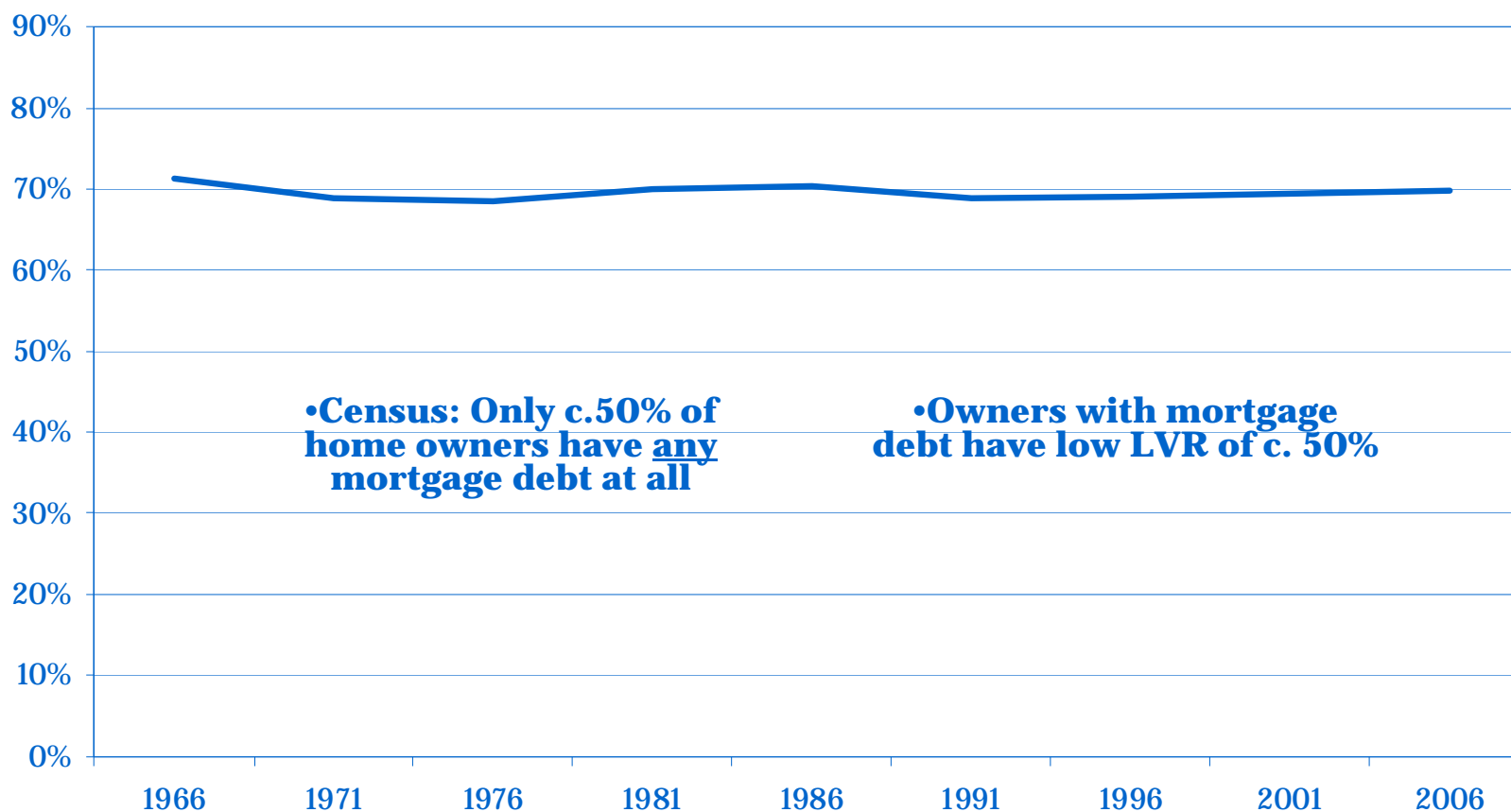
3. How has Affordability Changed over Time (RBA)?

**RBA: Real Household Income after Loan Repayments:
Household < 35 years age; 90% LVR; House Price in 33rd Percentile**



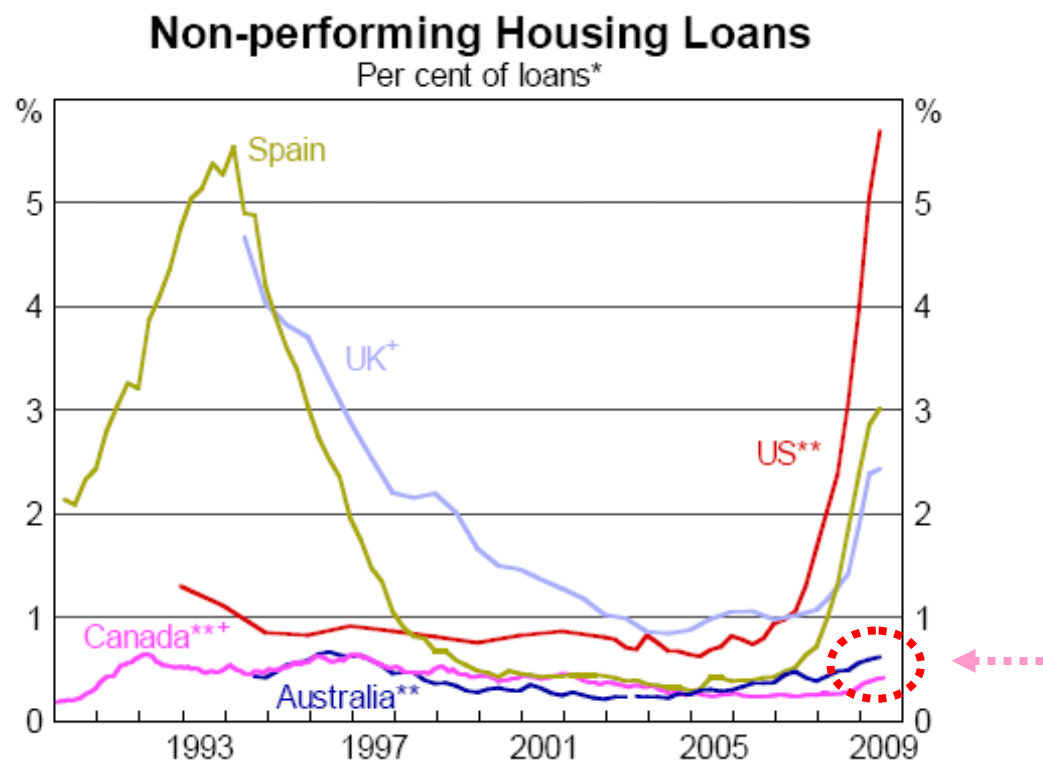
3. What has Happened to Home Ownership Rate (ABS Census)?

Australia's Home Ownership Rate



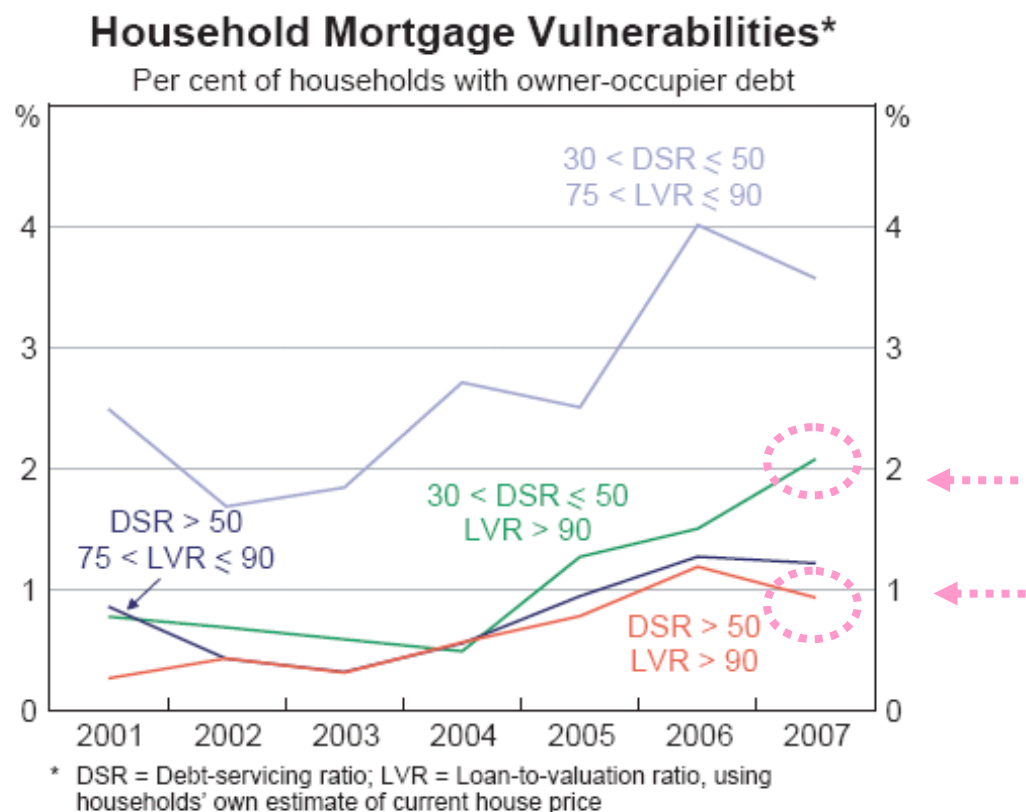
3. Australian Mortgage Stress? Amongst Lowest in World...

- Only 0.66% of Australian home loans in 90 days arrears (Sep '09)
 - Compared with US (5.7%), Spain (3%) and UK (2.4%)
 - Australia does not have a sub-prime sector; ~ 13% of all US loans were sub-prime



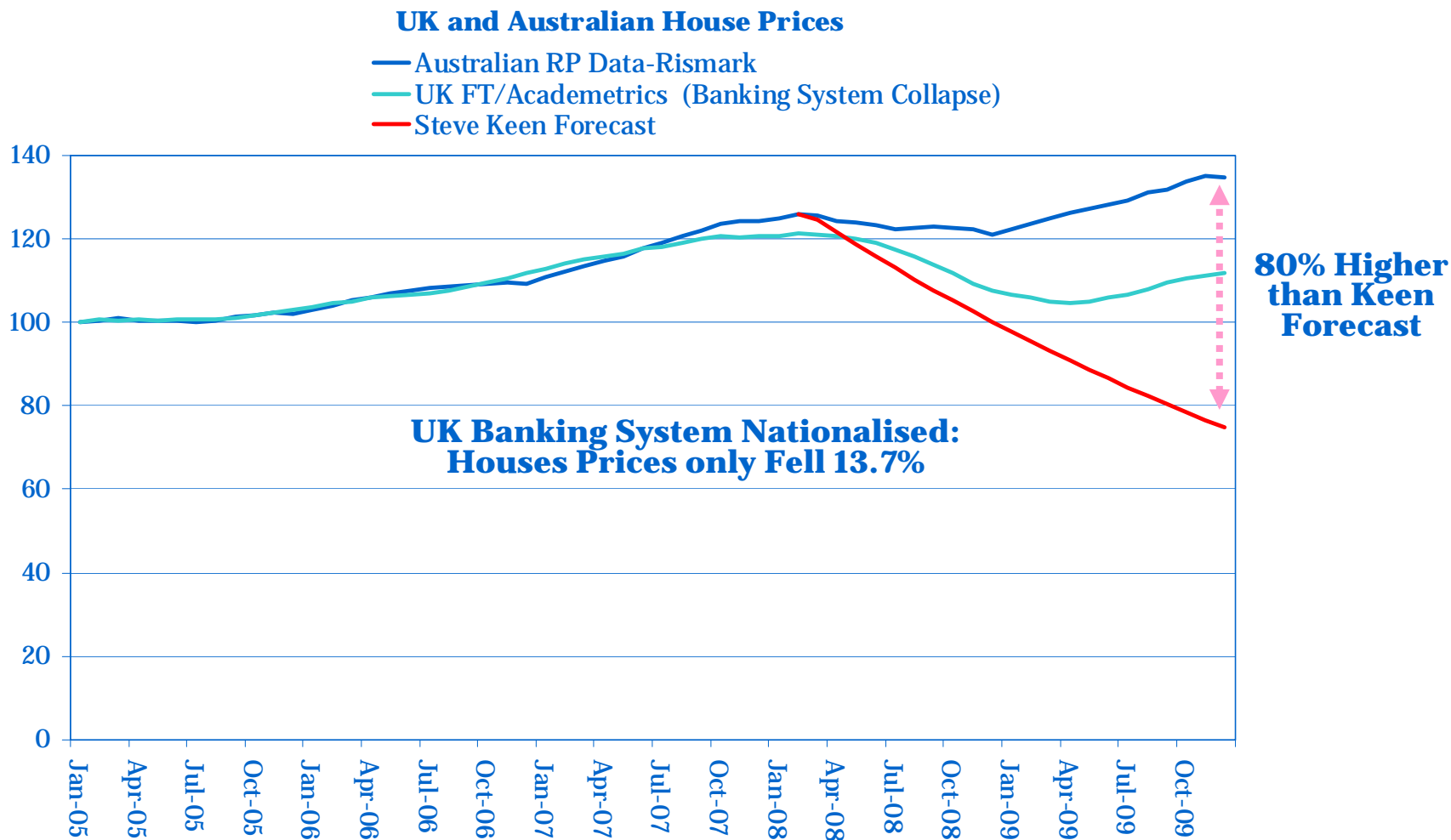
3. Australian Mortgage Stress? Amongst Lowest in World...

- Less than 1% of mortgagors have LVR > 90% and debt service ratio > 50%
- Only 2% of mortgagors have LVR > 90% and DSR between 30-50%



4. So What Happened to House Prices?

4. Home Values Today 80% Higher than Keen Forecast



Important Notice, Confidentiality and Intellectual Property

Rismark International is an authorised representative of AFS Licensee 293881. Neither the presentation nor any summary or reconstituted form of its informational contents may be copied, distributed or otherwise made available to any other person by any recipient without the written consent of Rismark International. While all reasonable care has been taken to ensure the facts stated herein are accurate and that any opinions contained herein are fair and reasonable, this document is selective in nature and is intended to provide an introduction to, and an overview of, investment in EFMs. Where any information and statistics are quoted from any external source, such information or statistics should not be interpreted as having been adopted or endorsed by Rismark International as being accurate. The facts and information contained herein are as up to date as is reasonably possible and may be subject to revision in the future. Neither Rismark International nor any of its directors, officers, employees or advisors nor any other person makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this presentation. Neither Rismark International nor any of its directors, officers, employees and advisors nor any other person shall have any liability whatsoever for loss howsoever arising, directly or indirectly, from any use of this presentation. All references to \$ or dollars are to Australian dollars unless otherwise specified. This presentation does not constitute an offer or invitation to subscribe for, or purchase, any securities.

This presentation is strictly confidential. It contains descriptions of confidential intellectual property and business methods, processes, systems, and technologies that are protected under pending and sealed patents owned by Rismark International or its related entities. This presentation is only being made available to recipients who have signed and returned a Confidentiality Agreement and recipients are therefore bound by the Confidentiality Agreement in respect of all information contained in this presentation. This presentation is confidential and must not be copied, reproduced, distributed or passed (in whole or in part) to any other person at any time without the prior written consent of Rismark International. This presentation contains references to several registered and pending trade marks, including RAPT, ARES, Rismark and EFM, amongst others. It also makes references to proprietary business methods, processes, systems, and technologies that are either protected intellectual property assets under Australian Innovation Patent No. 2005100 871, Australian Innovation Patent No. 2005100 869, Australian Innovation Patent No. 2005100 868, Australian Innovation Patent No. 2005 100 867, Australian Innovation Patent No. 2005 100 865, and Australian Innovation Patent No. 2005 100 864, or pending intellectual property assets covered in claims under European Patent No. 05256351.7, International Patent No. PCT/AU2005/001586, US Patent No. 11/248,253, and Australian Patent No. 2005 222 542. Rismark International or entities related to Rismark International own these patents, trade marks and other intellectual property assets and reserve their rights in relation to such. Unauthorised violation of these rights may result in civil action, including orders for damages, injunctions and accounts of profits and claims will be actively pursued.

