

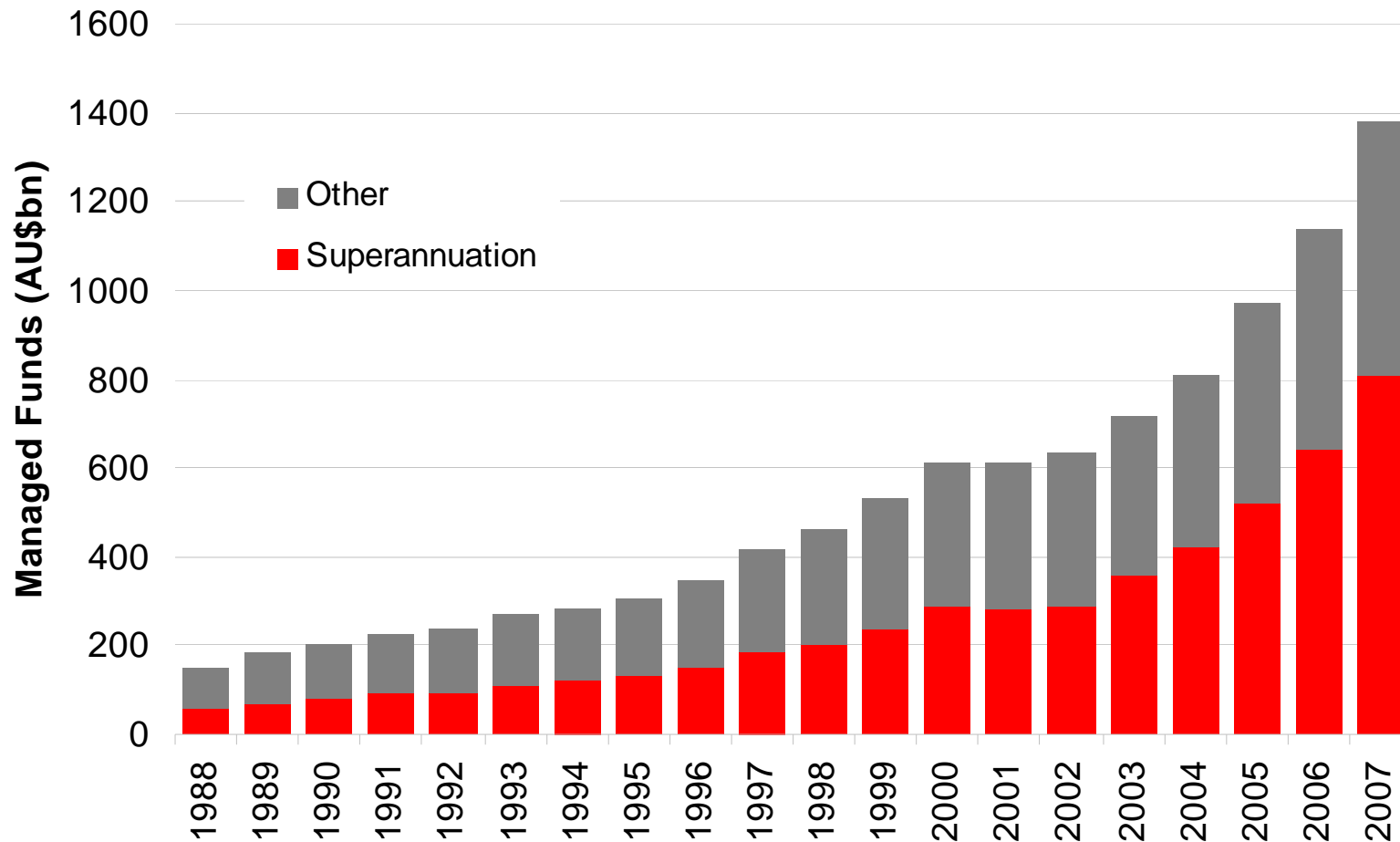
Institutional Investment into Residential Housing

Ross Prichard
21 February 2008

**Brisbane
Housing**
Company Ltd

Westpac
InstitutionalBank

Australian Managed Funds: Superannuation



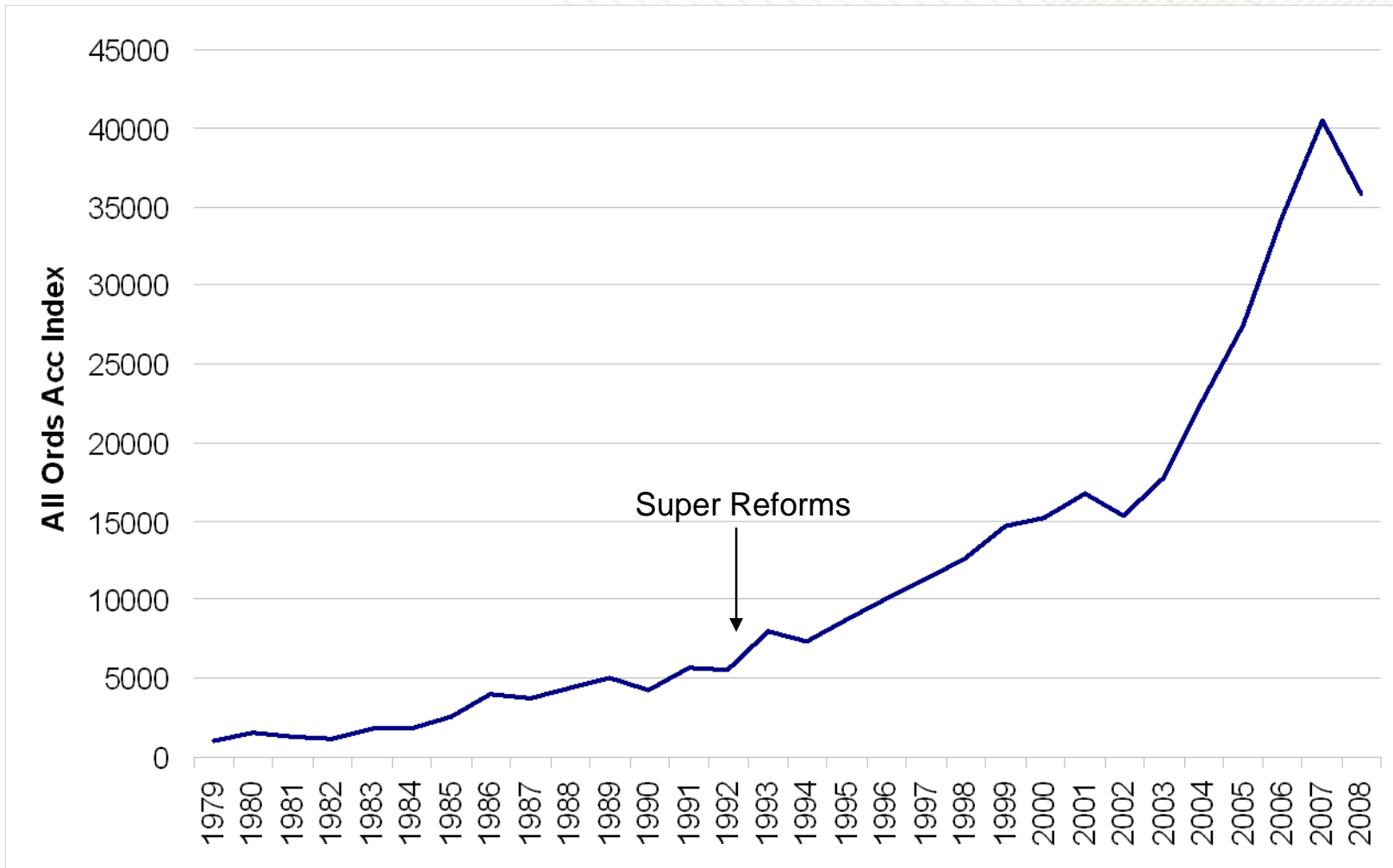
Source: ABS

Some Numbers

- AUD 69,000 per capita – largest in the world
- AUD \$24 billion growth in FUM in the Sept 07 quarter.
- AUD \$2 billion of inflows of per week.

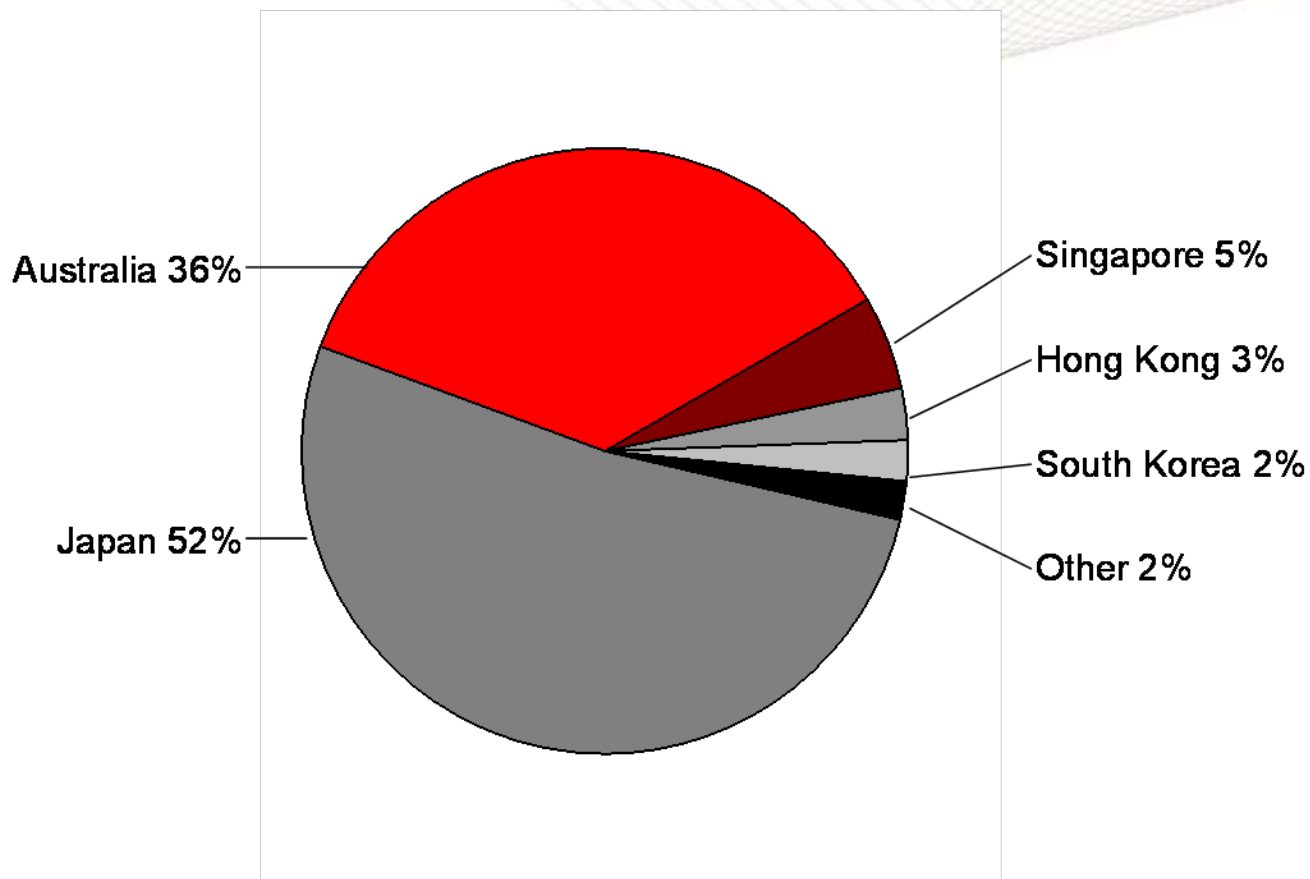
Source: ABS

All Ordinaries Accumulation Index



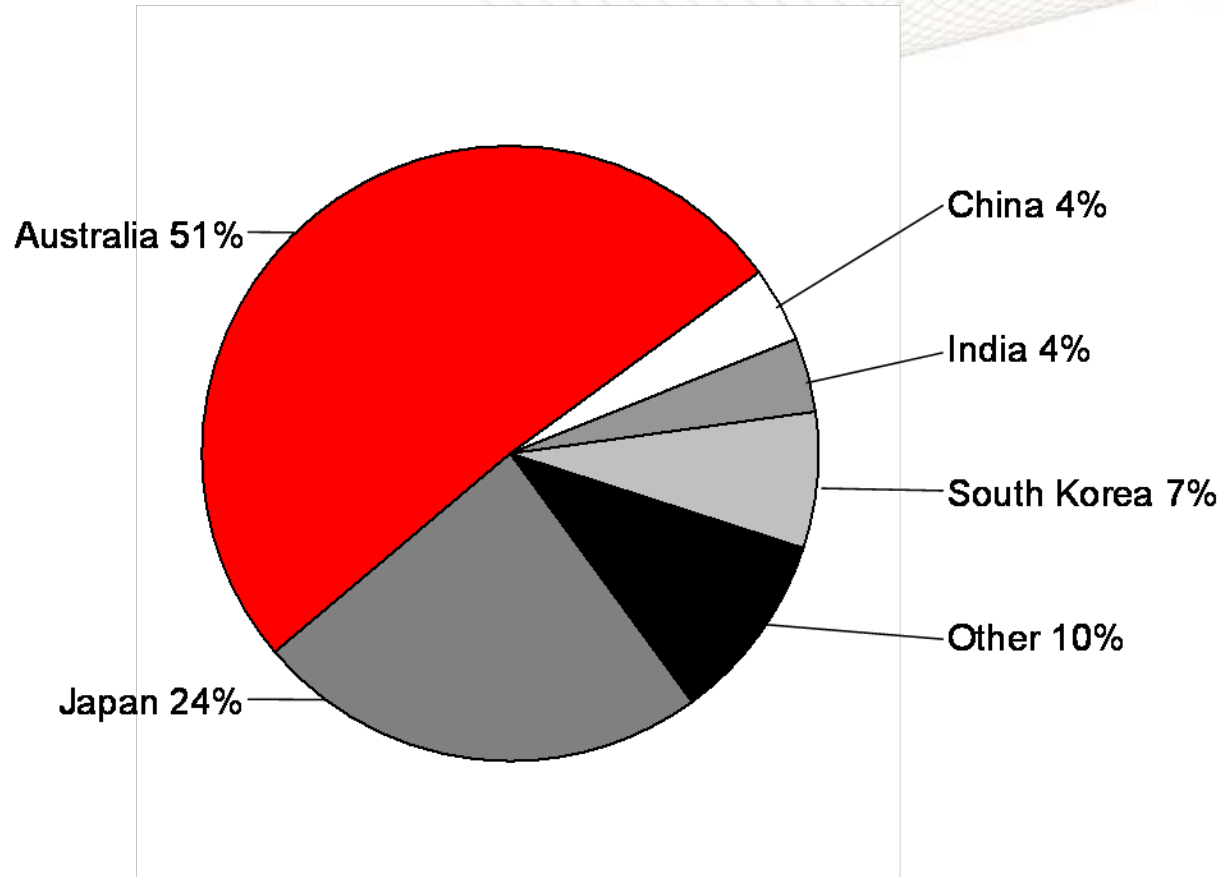
Source: Bloomberg, All Ordinaries Accumulation Index

Managed Funds from 2005 ...



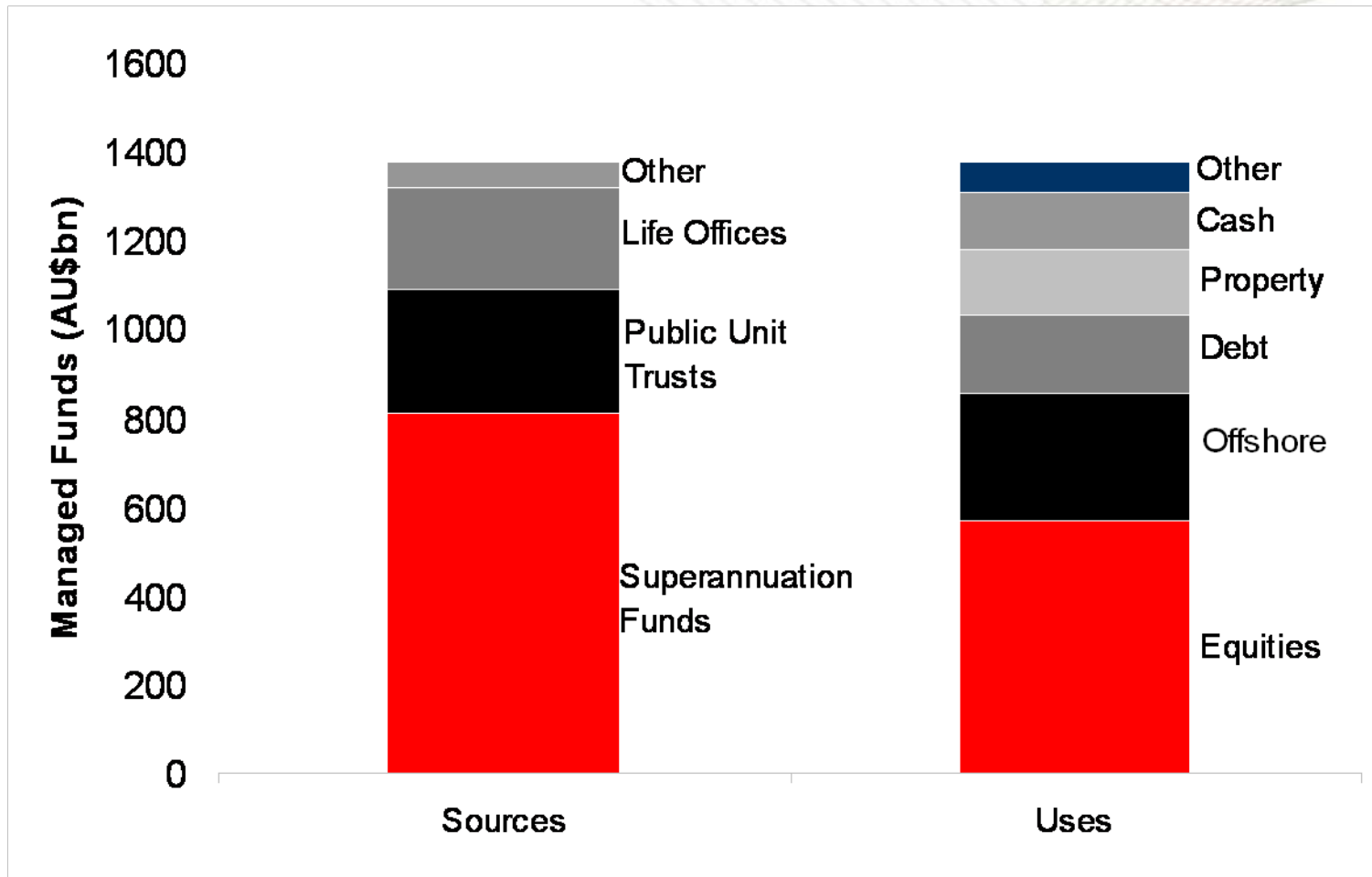
Source: BT

... to 2015 (projected)



Source: BT

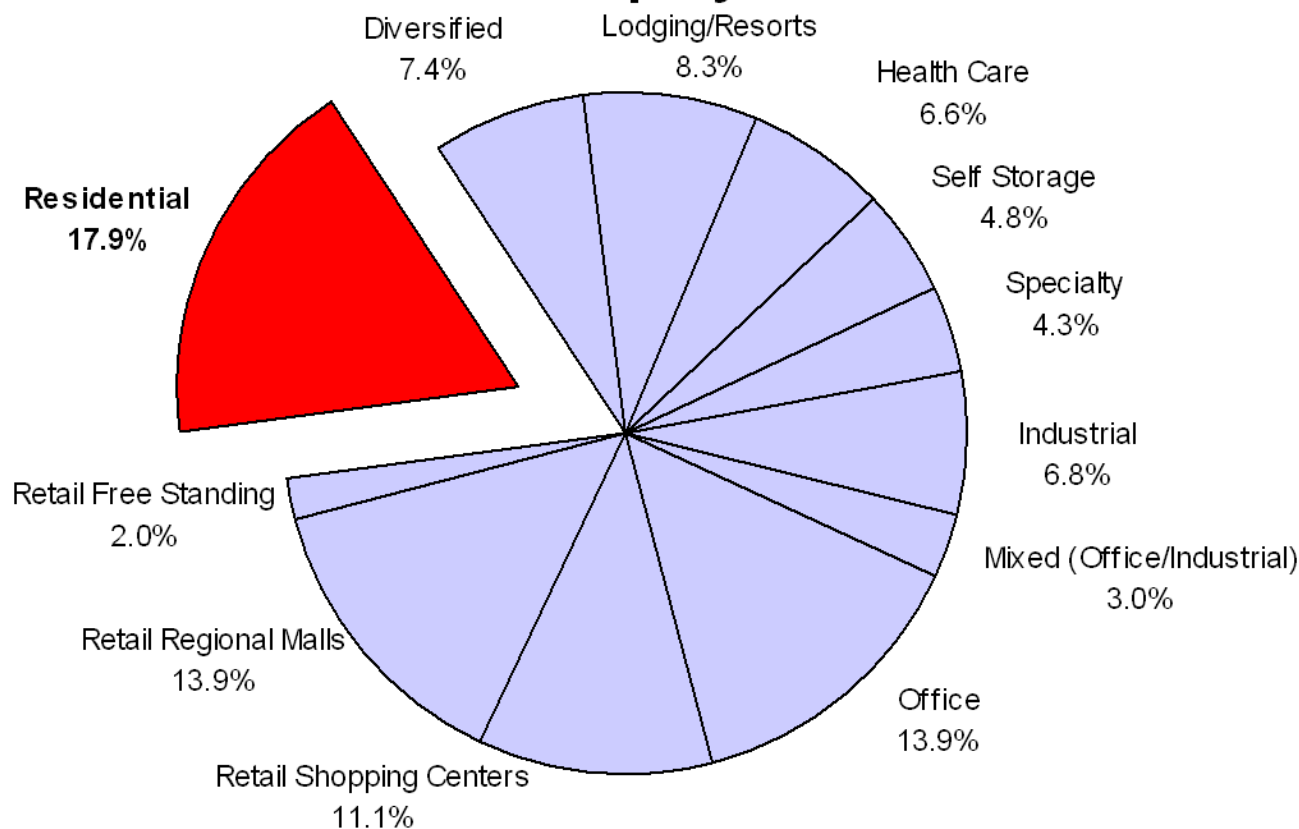
Managed Funds: Sources & Uses



Source: ABS

International REITS

FTSE NAREIT Equity REIT Index



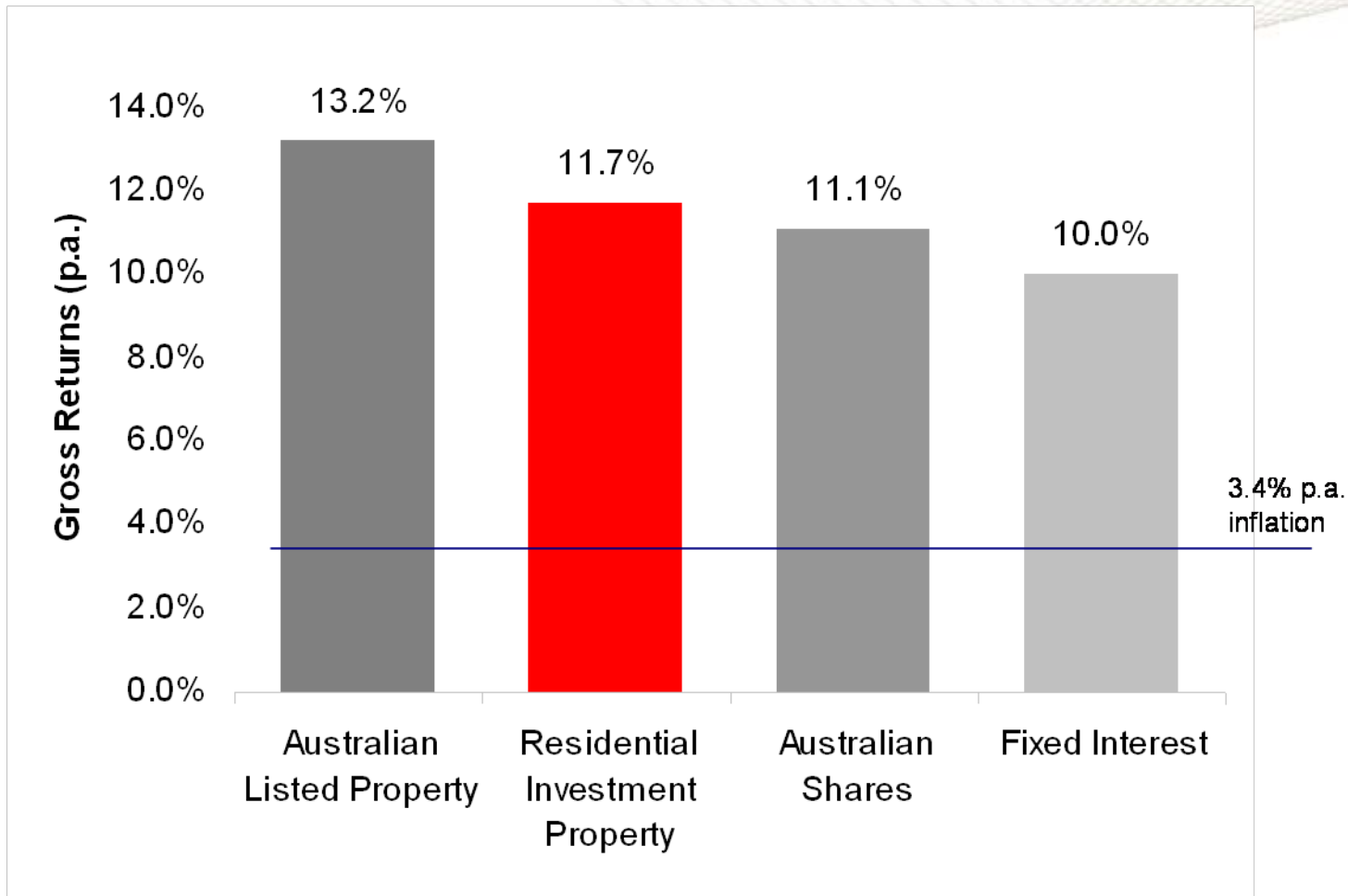
Source NAREIT May 2007

Scale

- Australian residential housing market: A\$ 2,600,000,000,000
- Australian residential investment market: A \$800,000,000,000

Source: ABS

Total Returns (over 20 years)



Source: Russell, Long-Term Investing Report

Returns and Volatility

Australian Capital City Residential Property Returns - 20 Years to 30 June 2007

	Capital Growth (p.a.)	Total Return (p.a.)	Volatility of Total Returns (p.a.)
Sydney	7.7%	11.5%	13.1%
Melbourne	8.1%	12.6%	10.8%
Brisbane	9.2%	13.9%	8.5%
Adelaide	7.4%	12.9%	8.3%
Perth	10.7%	16.2%	9.8%
Canberra	7.9%	12.8%	8.6%
Hobart*	8.3%	14.1%	10.9%
Australia	8.5%	13.0%	6.8%

Source: Atchison Consultants

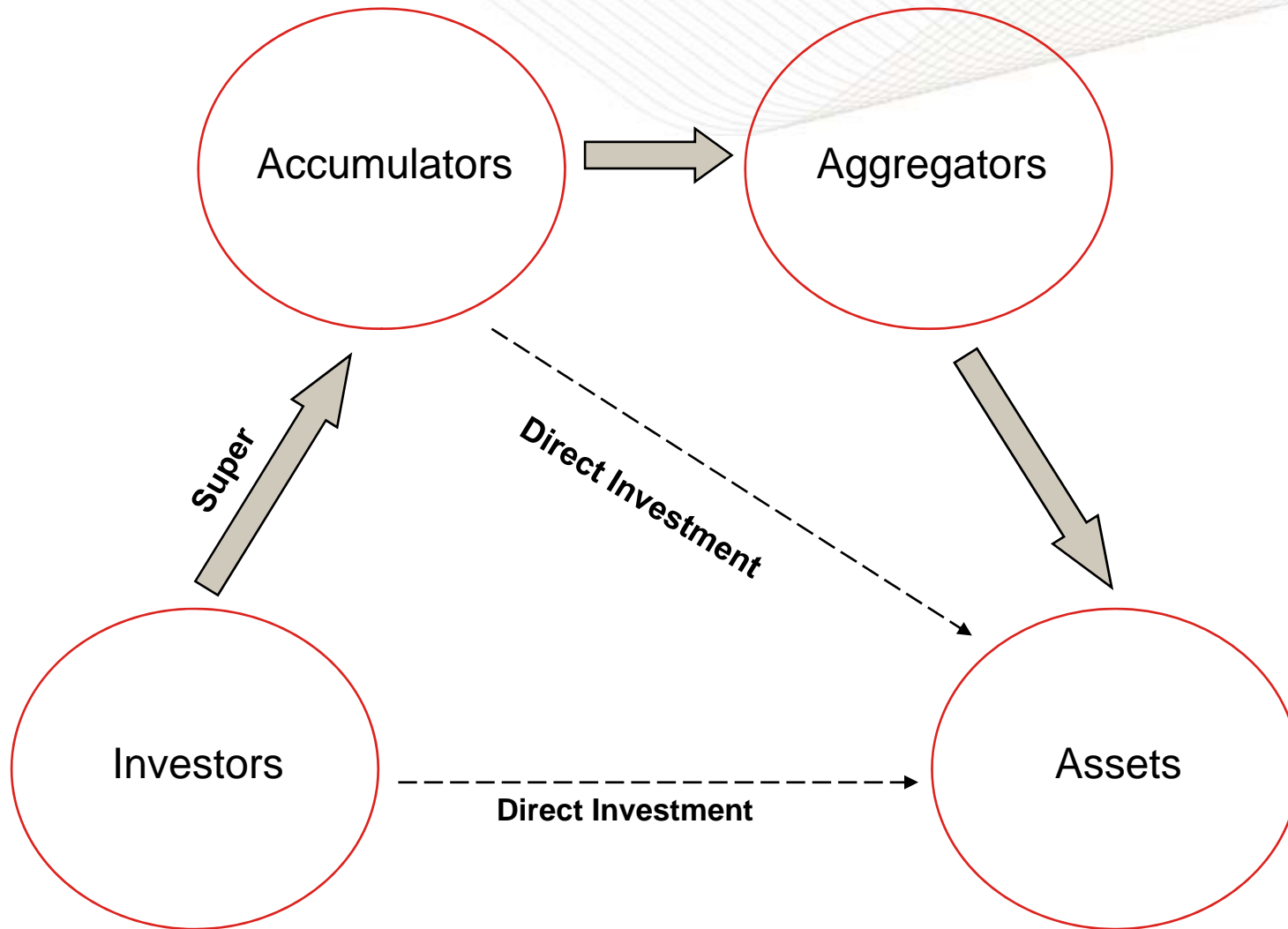
*Hobart data available from March 1994

Low Correlation

Aust Shares		Aust Listed Property		Aust Fixed Interest	
Listed Property	0.67	Shares	0.67	Int. Fixed Interest	0.68
Int. Shares	0.50	Fixed Interest	0.30	Cash	0.39
Fixed Interest	0.12	Int. Shares	0.28	Listed Property	0.30
Direct Property	-0.02	Int. Fixed Interest	-0.03	Int. Shares	0.16
Cash	-0.07	Direct Property	-0.05	Shares	0.12
Int. Fixed Interest	-0.24	Cash	-0.08	Residential	-0.14
Residential	-0.27	Residential	-0.32	Direct Property	-0.28

Source: Atchinson Consultants

Industry Structure



Impediments to Investment

1. Scale & diversity
2. Professional management
3. Low yields and high upfront costs
4. Regulation, tax and stamp duty

But times are changing

1. Accumulators are showing interest
2. Narrowing of margins
3. Changing attitudes
4. Westpac initiatives;
 - Bonnyrigg Living communities
 - Westpac Residential Property Trust

Key messages

1. Australia's pool of institutional investment pool is huge
2. Residential property should be an attractive investment - but there are a number of impediments
3. Government support will be required for meaningful investment into social and affordable housing
4. The Community Housing Sector is one of the best placed to deliver this solution – but there are significant capacity constraints.

Making it happen

- There may be investment funds seeking a home;
- And high levels of need for housing
- But these alone will not achieve housing outcomes for people on low incomes in housing need
- What more is needed to make this happen?

In brief

- How BHC plans to harness private equity through Westpac
- What capacity and capabilities are required?
- What are the prospects (for these deals) for the not for profit sector as a whole?
- How can capacity be created?
- Opportunities and threats for not for profits in Au seeking to grow
- What will success look like?

Disclaimer

- We are all creatures of our experience; mine has been in the not for profit sector (NfPs)
- I start from a position of wanting the NfPs to grow
- I believe it is the best basis for delivery of a social and affordable housing system
- I believe it can be more efficient, responsive and locally accountable than other options

How BHC plans to work with Westpac

- BHC Richlands site
- BHC's original plans
- How outcomes will change with private finance (equity) investment

What capacity is required?

- To do this deal BHC has required:
 - Ownership of land
 - A development team with capability to undertake a subdivision and supervise \$20m+ of capital works
 - A non charitable subsidiary(ies)
 - A suitable governance framework (Board, risk management etc)
 - Support of our stakeholders

What are the prospects for other NfPs?

- How many NfPs in Australia have these resources at the present time?
- Contrast this with the scale of the needs and potential investment funds
- History is boring, the issue is how we shape the future

How can capacity be created?

- How did they do it in the UK?
 - Did it work?
 - What was learnt?
- How is it being attempted in Australia?
 - Examples from Qld
- The tyranny of overheads
- Small can still be beautiful

Opportunities and threats

- Opportunities
 - The need is high and rising
 - The funds are potentially available
 - There is the prospect of bi-partisan support
 - A sector exists which says it wants to meet these needs
 - This challenge is not new; there is best practice from elsewhere

Opportunities and threats

- Threats
 - The NfPs is not yet ready to play its part
 - A vacuum in capacity will draw in other providers that (in my view) are less suitable
 - The funding and regulatory environment is far from optimal
 - Things need to happen fast and be done well or the NfPs will be perceived as having had an opportunity and failed

What will success look like?

- Always a pertinent question
- In 10 years?
- In 20 years?
- Would there be dissent about this?
- Shared visions are easier to achieve

THANK YOU
For your attention