Quarterly Review

National Australia Bank

March Quarter Performance

The AREIT sector's (S&P/AREIT 200) March quarter performance (5.2%) saw the sector underperform the broader market (S&P 200) (8.04%) and deliver a quarterly result that sees the AREIT sector record a total return of 20.2% for the three quarters since June 2012 with the March result the lowest of the three quarters. The upward shift in bond yields in the March month has taken some of the steam out of the AREIT sector with the yield spread to the 10-year bond rate currently at 211bps which from a top down valuation has the sector at fair value.

The following table shows our evaluation of the importance and direction of the key macro and AREIT specific issues that will impact the sector over the June quarter.

Factor	Importance	Direction	Factor	Importance	Direction
Macro Economics	◑	+	Capital Management	◔	+
Bond Yields	◕	-	Office Market	◔	-/+
Market Risk Appetite	◕	- -	Retail Market	◔	-/+
Capital Raisings	◔	++	Industrial Market	◑	++
M&A	◑	+	Residential Market	◑	+++
Operational Update	◔	-/+	Partnering	◔	+
Strategic Reviews	◑	++			

Legend
Importance weighting is ranked in quarterly increments in terms of the materiality of the event or market.
The dark shading shows the relative importance.
Direction shows the degree of directional impact of each element with -/+ representing neutral.

Issues that will impact the AREIT sector in the June Quarter

Macro Economics

Australia's economy has slowed in recent quarters. Domestic demand rose just 0.3% in the second half of 2012, with household spending very soft, while public spending is contracting. The softer pace of growth has seen the unemployment rate start to trend higher, while the RBA has cut the cash rate to 3.0% and retains an easing bias. The biggest contributor to growth in the past year has been business investment, primarily resource sector expansion.

But with resource investment expected to peak later this year, and the non-mining sectors of the economy still soft, the Australian economy is expected to grow an average 2.3% this year, after 3.6% in 2012. One positive for the outlook is the gradual recovery in house prices and housing activity. Dwelling investment rose in the second half of 2012 and further gains are anticipated in 2013. The Australian dollar is expected to remain strong, staying at parity or above for most of 2013.

Bond Yields

According to our Interest Rate Strategist the combination of the lower cash rate and higher global yields should result in the yield curve shifting higher in yield with a steepening bias. At current levels the 10y bond is trading near the mid-point of its expected trading range (of 3.30-4%) and as we move further into the year the less confident we are that the market will actually reach the lower end of this trading range.

Market Risk Appetite

The expected weakness in 10 year bonds, the expectation of rising cash rates in the US and the sector's relative underperformance in the March quarter all point to the market repositioning to a growth footing. Arguably the AREIT sector's underperformance was made to look better than it otherwise would with the sector's two largest market cap stocks (WDC and WRT) conducting buy-backs and the whiff of corporate activity. The AREIT reporting season confirmed the sector's headwinds from an earnings growth perspective with yield irrespective of the payout ratio overlaid with the spread to the 10 year bonds acting as a price floor.

Capital Raisings

Given the WACD carried by AREITs and current equity pricing, AREITs have earnings accretive funding capacity assuming a funding mix that comprises an equity component ranging from 30%-60% in order to support undrawn debt levels and gearing metrics post any transaction. The issue is sourcing assets that offer mispricing opportunities, earnings accretion and portfolio fit. We have recently seem some fund-through plays which have offered better risk-adjusted returns than that on offer in the secondary market although the scale of these fund-through projects have required AREITs to hold 50% stakes. AREITs view the current buyer appetite as the opportunity to trim and improve portfolios so we see AREITs raising capital via asset sales in preference to raising equity for acquisitions.

M & A

The Australand saga is expected to reach if not finality at least clarification by the close of the June quarter on whether or not the vehicle is likely to be sold via a cash offer in one line to a consortium. Although Australand has not set a deadline for bids the market will read no further material updates come the close of the June quarter that no acceptable bid has been received leaving a high degree of uncertainty as to what CapitaLand's next move will be. Assuming as the recent price action would imply that a deal is imminent then the Australand transaction will support the residential names on the grounds that its current trading premium to NTA (2.3%) implies a transaction for the residential piece at or near book.

With the majority of AREITs trading more or less at NTA, payout ratios at or near the upper end of stated ranges, WACD across the board substantially trimmed and the XPJ weighted FY13 and FY14 earnings yield of 6.64% and 7.0%, the case for M&A from an AREIT to AREIT perspective that delivers tangible and material earnings accretion and operational benefits respectively is questionable. The potential for M&A sits with the PE sector which typically leverages up vehicles trading at deep discount to asset-backing- not a precondition on offer at this point even amongst the smaller cap names.

Operational Updates

Except for the Stockland and Mirvac strategic updates which will overshadow the more core operational content, the remaining quarterly operational updates in terms of leasing, asset valuations, headline portfolio metrics and retails sales etc are not expected to contain strong price signals.

Strategic Reviews

Given the nature of real estate investing and capital markets investment horizons both the Mirvac and Stockland strategic reviews to be announced mid the June quarter will most likely be couched in terms of broad objectives and market weightings that leverage off their existing earnings base. Strategic reviews under incoming CEOs are "time out" moments that can suggest more than what is delivered. The elongated wind down/ramp up process associated with major property portfolio/asset re-weighting not to mention execution risk and associated earnings impacts constrain the breadth of shift in the strategic agenda. Although we saw with Dexus the full exit from the US in the space of twelve months any material restructure across the residential/retirement spectrum given the FKP experience and the outcome from the Australand play will need to hit valuation hurdles, timing requirements and most critical of all source partners/buyers. A heady combination of challenges.

Capital Management

Although a number of AREITs have tweaked their WACD through rebasing their interest rate hedge books there is capacity for a number of AREITs to further improve their WACD. A key mitigating factor has been that the market will no longer reward AREITs that simply cash out and reset interest rate hedge books as standalone transactions which means that AREITs will be looking for a material transaction as the rationale for rebasing hedge books. The issue is that such transactions are not apparent at this point meaning that the likelihood of further tightening of WACDs over the June quarter for most AREITs is low. We would add however that as part of the business review currently being undertaken at Mirvac and Stockland their high WACD will be under consideration and could be reset as part of the portfolio reweighting exercise. Having said that the timing of any such transactions is likely to be pushed into Q1 FY14 at the earliest.

Operating Markets

Office

Core office market metrics point to cyclical low levels of uncommitted supply and markets operating in generally equilibrium vacancy rates.Wins for the AREIT office portfolios over the next quarter will be retention metrics overlaid with any conversion of sub-leases to direct leases as the head lease expires. Renewals with nominal incentive packages will outperform from a net effective rent basis open market leasing for vacant space. To that end the AREIT office leasing campaigns will have a retention focus and the bringing forward where practicable of pending expiries. Leasing up periods on existing vacancies will also be on the watchlist.

Retail

The February NAB Online Retail Sales Index reported a softening although still a hefty 19% yoy growth rate in online sales with the 'softness' in sales reported across the category spectrum. By comparison traditional retails sales increased 2.9% when seasonally adjusted. Online sales now represent the equivalent of 5.9% of Australia's traditional retail sales which is at the upper end of the forecast band. The key issue for AREITs is not so much online penetration but the material earnings exposure to the specialty category and the underwriting of occupancy rates and in turn retention levels on expiring leases in order to minimise open market rent reversion impacts. The specialty retail category is expected to report flat sales over the quarter

Industrial

The volume of new supply via pre-commitments is expected to track at the modest 2012 levels whilst the level of available space in the Melbourne, Sydney and Brisbane markets have either declined materially at the start of the year (14% in the case of the Sydney market) or in the case of Melbourne and Brisbane are at historical low levels. The outlook is generally one of incremental positives in terms of expected further tightening of available space levels which will provide modest (< CPI) rent growth over the next 12 months.

Residential

The Australian housing market continues to build more momentum through to the end of the March quarter with established house prices up 1.3% in the month of March to be 2.4% higher than year earlier levels, capping off what has been a cumulative 2.8% for the first quarter of this year. Although price momentum has been trending upwards the triggers to kick start activity in the residential communities segment i.e increased lot sales remain absent or at best brittle in particular consumer confidence around household mortgage servicing capacity..

The choppy housing data saw the sequence of monthly sales rises since last October, reverse with the Housing Industry Association (HIA) new home sales declining by 5.3% in February, including a 4.2% rise in January. Within the February fall, there were declines in both detached home sales (-4.0% after +5.0%), while unit sales took a big hit, down 11.0%, reversing all of the rises since last September.

Detached home sales could well just have taken a breather after several months of rises within a rising trend. (Only two states fell.) But the unit sales decline is material and a trend to be watched closely, especially given the increases in supply in this sector, especially in inner city Melbourne and surrounds.

It's not all up and going for this industry, with housing sales data developing the makings of a puncture in the side of this residential investment growth recovery story through the latter part of last year and into this year. We also note in this context that detached home sales in Victoria had by far the largest decline in February, (down 13.7%), where demand is even more prone to underlying local employment and buyer sentiment than in some of the other states where first home owner schemes were ramped up last year that might temporarily support sales and activity.

Despite the patchy fundamentals the overarching residential theme for the June quarter will be the residential acquisition metrics associated with the Australand acquisition

Partnering

The current push to establish joint venture deals whether it be partial asset/portfolio selldowns or co-jointly acquiring assets or portfolios remains ongoing with several AREITs holding the asset pools that will seed the partnership. Outside of the pending Mirvac initiative we don't expect the launch of new joint ventures in the June quarter although the appetite to deal remains on the "to do" list.

March Quarter Highlights

- The March quarter was focused on the earnings season with the XPJ's recording weighted EPU/S growth of 1.1% on pcp while DPU/S growth was 5.5% driven by higher payout ratios this reporting period versus pcp which saw the sector payout the equivalent of 79.8% of what respective AREITs define as operating earnings. Although the weighted payout result was above the June 2012 levels (78%) the key issue is that the payout ratios are being based off alternative definitions of core earnings. Asset growth measured by net equity saw the sector weighted NTA up 2% versus pcp.
- On the measure of quality of earnings the majority of AREITs reported falls in gross revenue compared to pcp however the majority of AREITs reported falls in financing costs drawn partly from the sector carrying lower debt levels supplemented with lower financing costs from re-based interest rate hedge books. The net result was that rebased financing costs this reporting period did the work that operational earnings failed to do.
- The 5.5% growth in DPU this reporting period versus earnings growth of 1.1% both on a weighted basis is a run-rate that given where payout ratios currently sit is expected to see the EPU/DPU gap reduced ostensibly through holding distributions flat or at best growing slower than earnings. This strategy is predicated on the basis that operational headwinds prevail over the next 12 months.
- Asset growth through NTA appreciation sees the sector now trading at 0.2% weighted premium to NTA if we adjust for hefty premiums reflected in both the Westfield Group (WDC) and Goodman Group (GMG) trading premiums. The sector has won a level of appeal as an asset play in what some perceive as a further tightening cap rate cycle and with it NTA appreciation. The spectre of M&A despite what looks to be an extended play on the challenging Australand transaction has supported selected AREITs although not necessarily to a degree that saw some names outperform.
- The residential sector was singled out this reporting season from the standpoint that not only are lot sales in key markets such as SE Qld and Victoria materially lower than pcp but under the auspices of new CEOs at Stockland and Mirvac one item of business has been the capital allocation approach to residential development and capitalised interest standards

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March 2013 AREIT Quarterly Performance Review

- The XPJ printed a softer total return for the March quarter (5.2%) compared to the two previous quarters that saw the XPJ underperform most sectors. The March quarter result was impacted by a soft March month trading performance (-2.68%). Both Westfield vehicles underperformed despite having buy-backs on in March and in the case of Westfield Retail Trust (WRT) the March month performance was impacted by the block trade of the LFG holding (7.1%).
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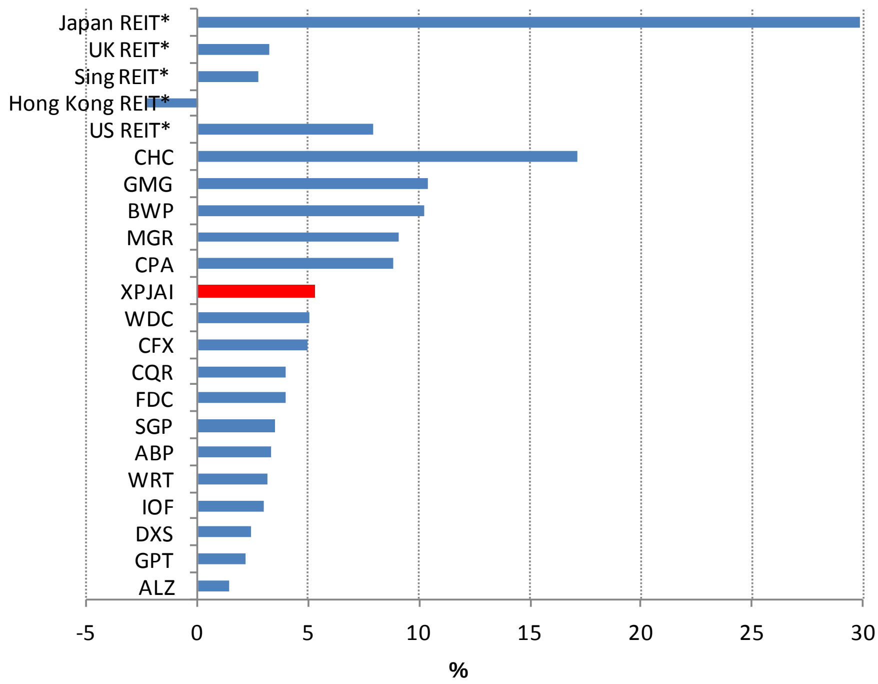
- The residential sector was singled out this reporting season from the standpoint that not only are lot sales in key markets such as SE Qld and Victoria materially lower than pcp but under the auspices of new CEOs at Stockland and Mirvac one item of business has been the capital allocation approach to residential development and capitalised interest standards.
- 10-year bonds over the March quarter drifted higher from the lows of end December 2012 levels (3.27%). Yields have been pushed higher globally and the Australian bond market has replicated this trend. To this we can add the Australian bond market shifting from pricing in a 55bps cut to the cash rate over the year ahead in December 2012 to now pricing in 17bps as at March 2013. It is interesting to note that whilst the bottom end of the 10 year bond trading range has remained relatively consistent the upper end of the trading range has drifted higher and we expect this pattern to continue over the course of 2013.
- The upward shift in bond yields in the March month has taken some of the steam out of the AREIT sector with the yield spread currently at 211bps which from a top down valuation has the sector at fair value.
- For the March 2013 quarter, the average turnover (by value) was 39.8% above 12 month rolling average compared to the March 2012 quarter result was 3.8% above the 12 month rolling average.

- Figure 1 plots the March quarter total return for the stocks in the XPJ and the performance of offshore REIT indices. No discernible pattern or theme came out of the March quarter except for Charter Hall Group (CHC) again materially outperforming. Both GPT Group (GPT) and Australand Group (ALZ) underperformed which in the case of ALZ is effectively its stock price flatlining post the price rally in response to both the GPT bid and the opening of a DD room for other potential bidders. GPT's underperformance is partly a response to how its bid or revised bid for ALZ is going to play out from the standpoint of premiums paid and the end-game of any transaction.

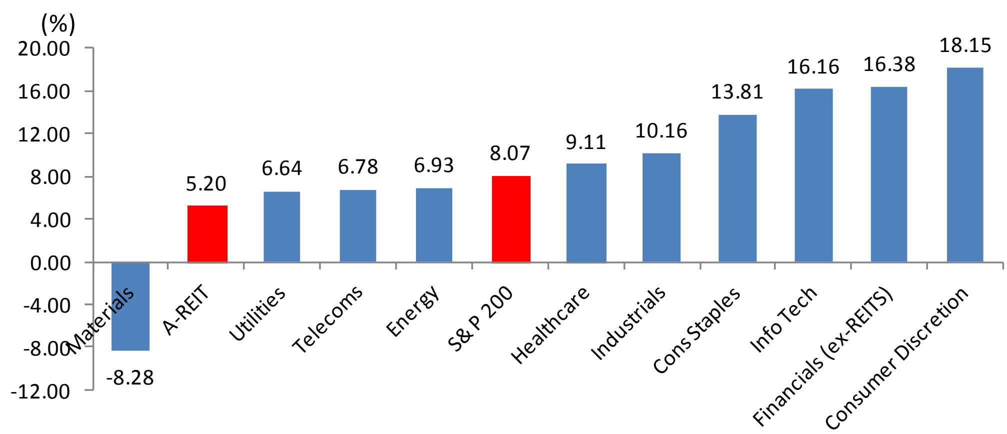
Figure 1: March Quarter Total Return - ASX 200 Property Trust and Global Comparatives



*Source: Iress, Bloomberg *-denotes returns quoted in local currency.*

- Figure 2 plots the XPJ's relative performance that saw it underperform the broader market and most sectors over the March quarter. Defensive sectors featured amongst the underperformers.

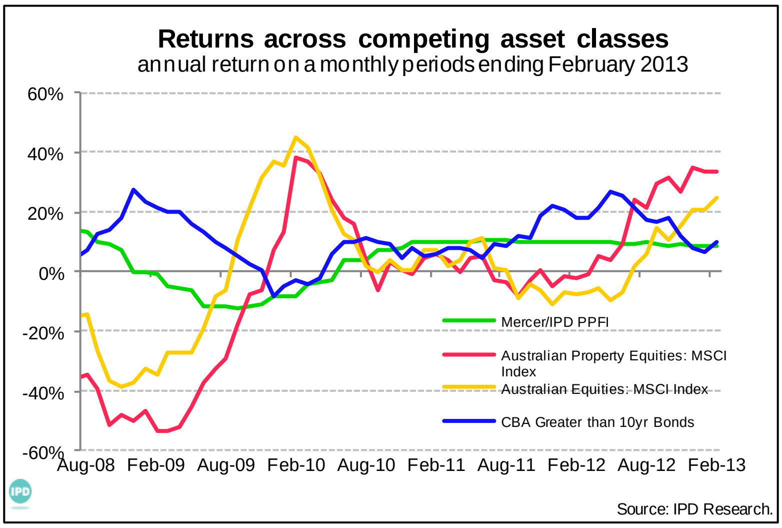
Figure 2: March Quarter Total Return - ASX 200 Sectors



Source: Iress

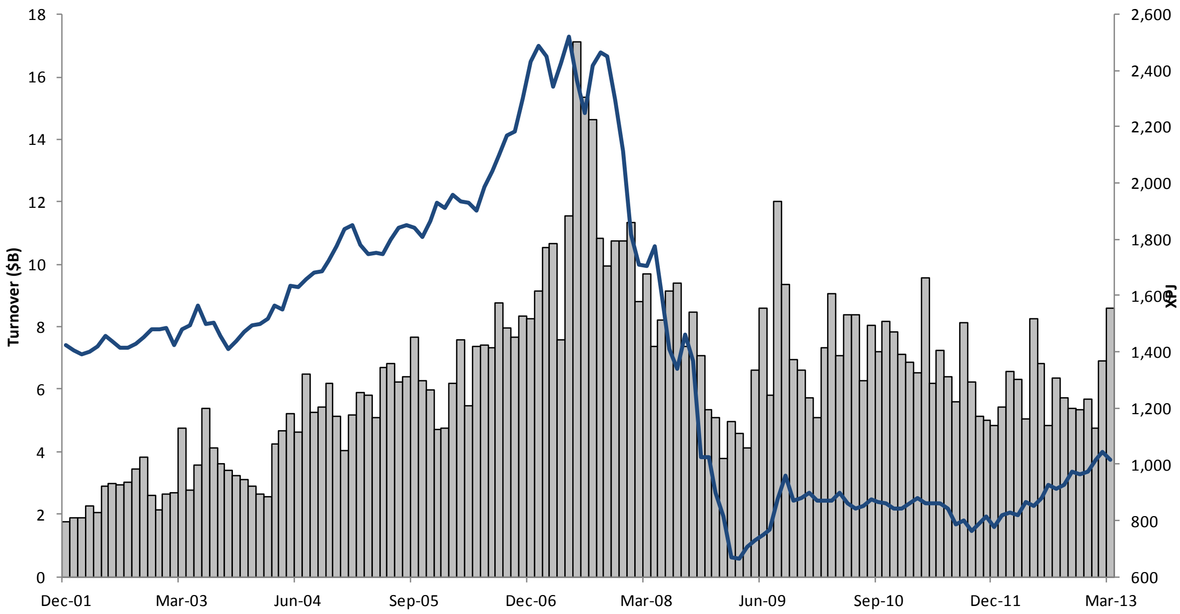
- The following chart (Figure 3) plots the relative performance of various unlisted property structures compared to the AREITs as at February 2013 which highlights the bounce in the AREITs as 10 year bonds firmed whereas unlisted returns show unsurprisingly low volatility.

Figure 3: Comparative Return Performance by Property Vehicle



- Trading patterns over the last 12 months continue to edge lower as evidenced in Figure 4 that plots the volume/value of trades. For the 12 months to March 2013, the average trade value was $7.2K 38% below March 2012 levels whilst the number of transactions was up 46% on the March 2012 quarter. For the March 2013 quarter, the average turnover (by value) was 39.8% above 12 month rolling average compared to the March 2012 quarter result was 3.8% above the 12 month rolling average.

Figure 4: AREIT trading turnover pattern in the 12 months to March 2013



Source: Iress

Recommended Portfolio Weightings June Quarter.

Overweights

- **WRT** – Trading at a 11% discount to NTA, has buy-back price support and ETR of 14.3%. The news that February retail sales rose 1.3% in February well above market expectations plus January revised up to 1.2% from 0.9% will support the discretionary retailers. We expect the overhang from the Lowy selldown to evaporate over the quarter.
- **CFX** – Although the Emporium Melbourne development is a major focus from a timing and metrics perspective news at the forthcoming March quarterly update (23rd April) is expected to see specialty sales equivalent to the pcp (2.2%) that is positive but modest. Stock offers one of the highest ETRs (7.1%).
- **ABP** –The stock offers an ETR of 13.2% and a business model that we believe is right for the times from the standpoint of capital partnering and capital capacity.
- **MGR** – An outperformer in the March quarter and despite trading at our valuation is expected to benefit from any Australand play. We don’t expect that the strategic review will see Mirvac materially shift the earnings mix but instead ‘flesh out’ the Platform proposition.
- **SGP** – Although there is the risk that the revised strategy looks ambitious with material execution risk the expected news on the Australand transaction over the quarter will support the residential names plus of all the asset classes and despite mixed data points the markets looks prepared to make bet on the residential market. We expect that the strategic review will focus on the retirement valuations and operating model an area that did not get a great deal of focus at the interim results.
- **IOF** – One of the few stocks in our portfolio with modest ETR up side (3.1%). Expect that newsflow of a leasing nature over the June quarter will be light but may see portfolio reweighting via domestic sales.

Underweights

- **ALZ** – Current trading levels has priced in any premium on a pending offer.
- **CPA** – Lacks valuation appeal with no further news on 5 Martin Place in regard to additional leasing over the quarter but some progress on pending expiries.
- **GMG** – At current levels a material level of embedded earnings growth across the management, development and investment platforms already baked in.
- **DXS** – has substantially progressed its portfolio reweighting strategy but not compelling from valuation standpoint.
- **CQR**- Underperformed over the March quarter and despite delivering on exit strategy with redeployment options domestically is not appealing from a valuation perspective.
- **WDC** – Buy-back offers one leg of price support although the macro around risk appetite and to a lesser extent bond yields will outweigh buy-back support.
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Market Weights

- **GPT –** The combined issues of the GIC holding (11.35%) potentially being put through the market the uncertainty on the pricing and structure of the Australand bid (if successful) and ETR in line with weighted sector average.
- **FDC** – Although management has made material progress on reshaping portfolio ownership with work pending on its syndicate business stock is not compelling at current levels
- **CHC**- A material outperformer in the March quarter and an interim result that saw material levels of equity raised and redeployed into asset pools.
- **BWP –** Will trade as sector proxy with newsflow not expected to shift the market’s view on the stock.

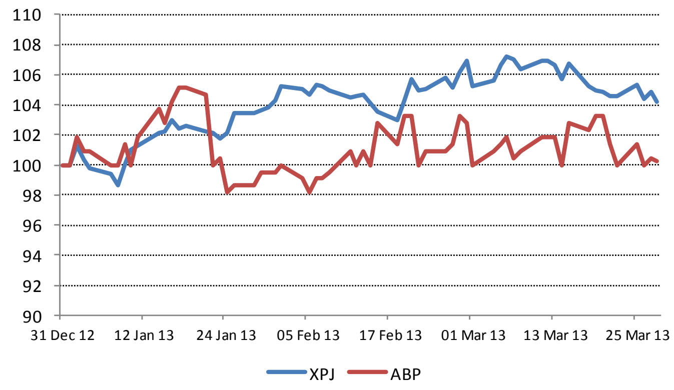
Stock Performance Analysis

The following charts (Figure 5) plots the relative price return of the XPJ consitituents for the 3 months to March 2013 and we have set out commentary on each stock on the March quarter performance.

Figure 5: Stock Price performance for the 3 months to March 2013.

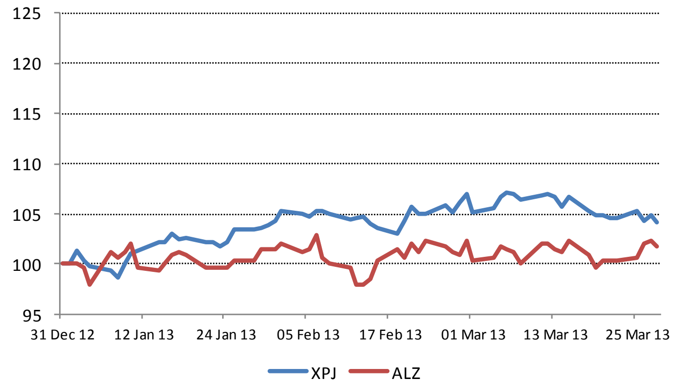
ABP

The second worst performer over the March quarter despite some early outperformance leading into the ex-date. Interim result impacted from assets sales and redeployment of sale proceeds yet to be put to work although ABP investors would support the patient capital thesis recognising that for ABP returns are substantially driven by initial acquisition metrics.



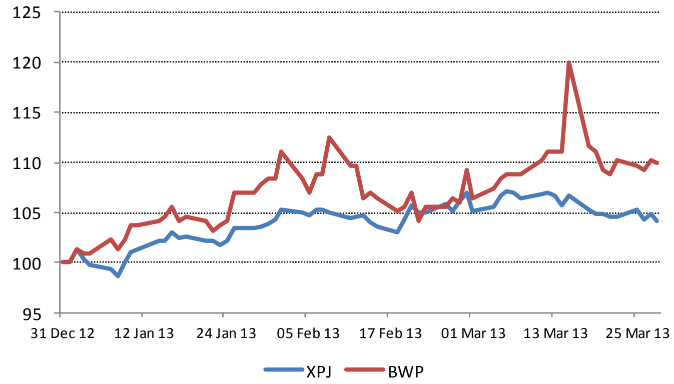
ALZ

The stock traded effectively flat over the March quarter despite a strong FY12 full-year result particularly in its residential business. The upside from any M&A play over the course of the March quarter overshadowed the result with the "sticky " trading price a reflection of the market baking in all the upside. The risk from here is that no deal or some part deal is done with CapitaLand who become frustrated with the process that sees the stock trade nearer pre bid levels.



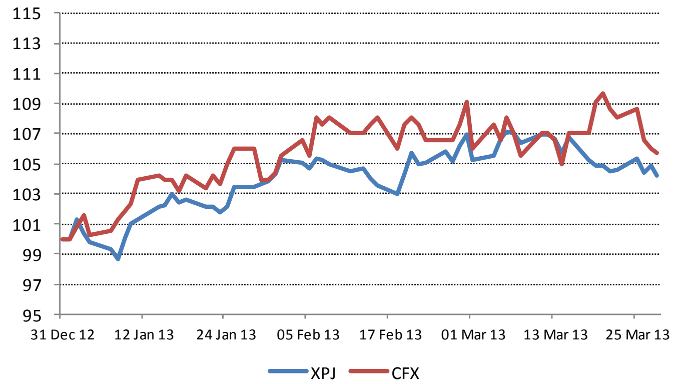
BWP (Not Covered)

The most noteworthy aspect of the interim result was the outcome of the market rent reviews with further market reviews scheduled for the 2HFY13. The stock has consistently outperformed for the greater part of the March quarter with the price spike in mid March not related to any newsflow.



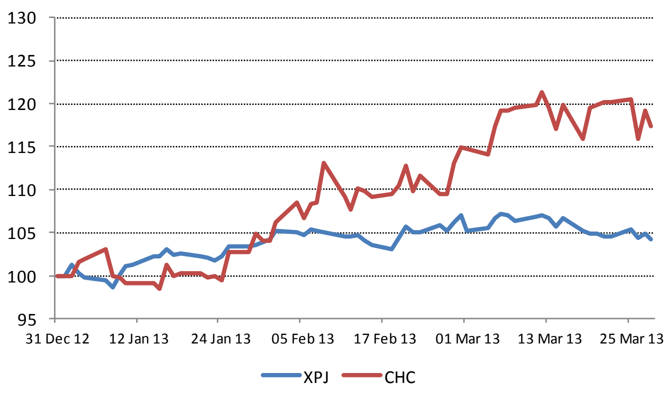
CFX

A combination of a positive print on consumer sentiment and some reversion trading saw the stock steadily outperform over the quarter. The outcome of the Emporium Melbourne development from a timing and return metrics perspective will be a key focus but for now achieved leasing to date has given for now partly underwritten returns metrics.



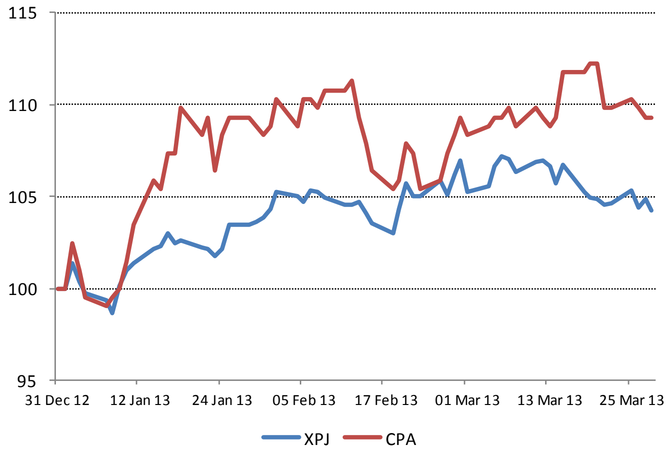
CHC (Not Covered)

The stock has been a consistent outperformer with the March quarter performance seeing it rank #1.Newsflow around the key issue of new capital raisings ($691m) was upbeat and further supported by acquisition activity that has put some of this capital to work.



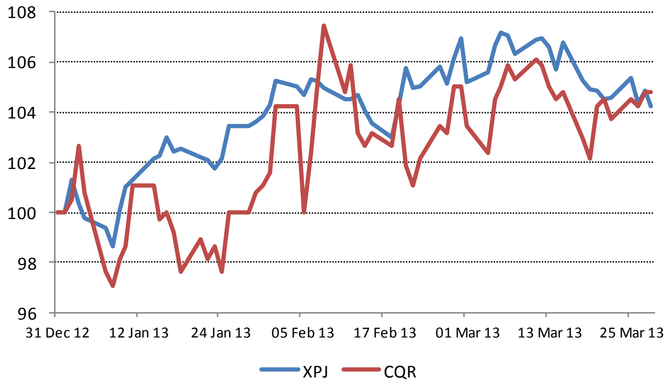
CPA

The stock has outperformed over the March quarter which was drawn from a strong outperformance early in the quarter being a combination of the market viewing the vehicle as a corporate target and the view that core office market cap rates will firm from current levels.



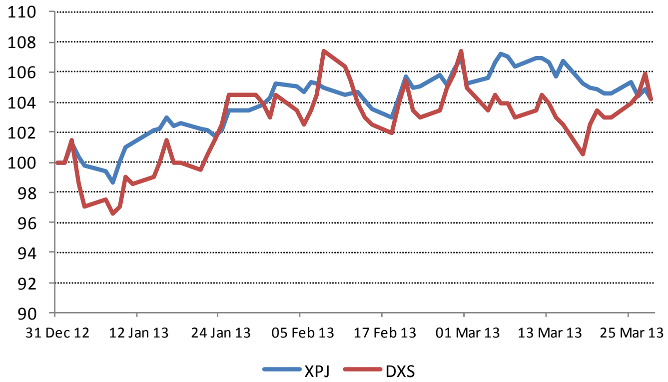
CQR

The stock was the best performing of the retail stocks supported by material progress on not only exiting its remaining offshore non-core exposures but the metrics around earnings impacts. The market is pricing in accretive acquisition potential.



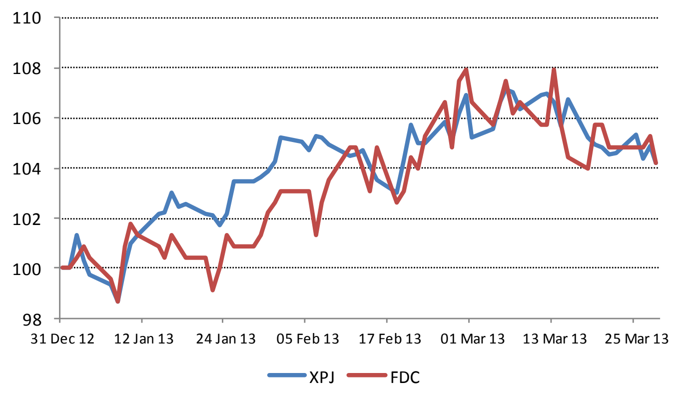
DXS

Despite considerable activity to reposition the earnings platform in line with its stated strategy to upweight its exposure to domestic office-based earnings both from core and tactical perspective plus the exit from the US the stock lagged in the March quarter. Strategy is still a WIP with earnings outcomes to be proved up.



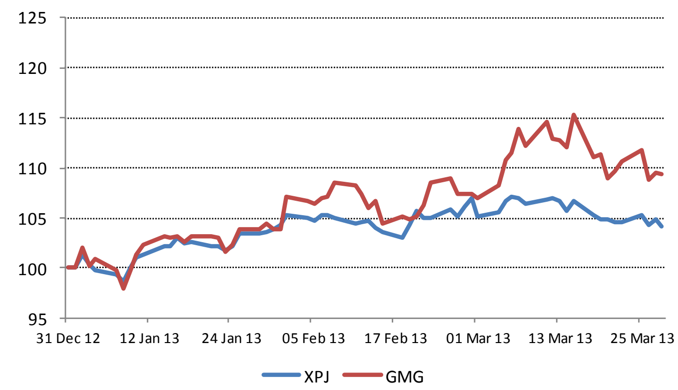
FDC (Not Covered)

Despite wins on the capital management front via pools of assets being sold into co-ownership vehicles and the supportive theme of grocery anchored retailing the stock underperformed. The phased wind down of the syndicate platform does offer an asset pool for FDC. Like other transitioning vehicles (DXS) the interim results and strategy presented in the March quarter saw progress but not sufficient for a material price re-rate.



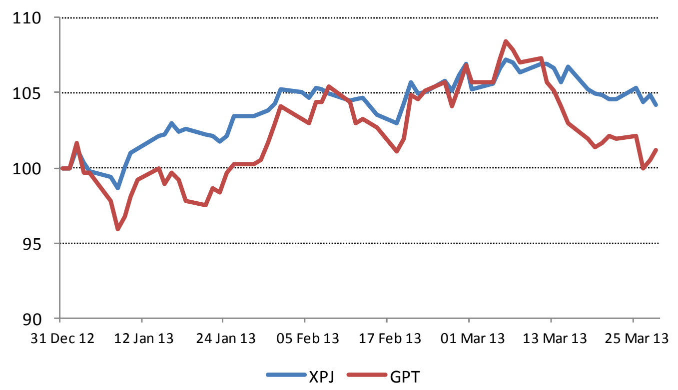
GMG (Not Covered)

The #2 best performing stock over the March quarter with the outperformance back-ended and post its interim results. Newsflow as always covered off on development, management and investment activity overlaid with updates on its flagship funds. The push into the US and Brazil and equally the capital structure to position itself in these markets has been well received.



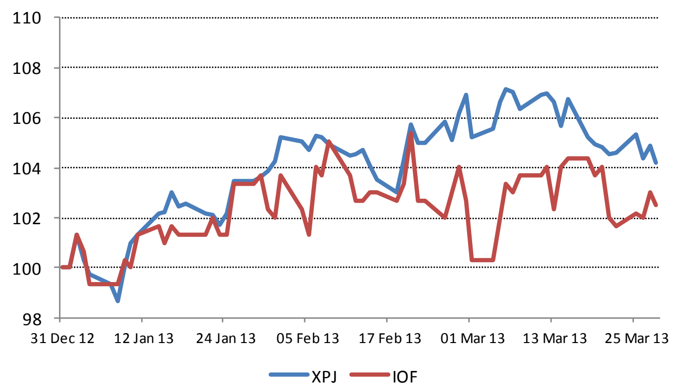
GPT

Despite beating its base case EPS forecasts and forecasting a lower but above sector average EPS growth of at least 5% in FY13 GPT has underperformed over the March quarter which is more a read by the market that it is pursuing the C&I platform in Australand which may ultimately require an equity raising yet deal metrics remain unclear.



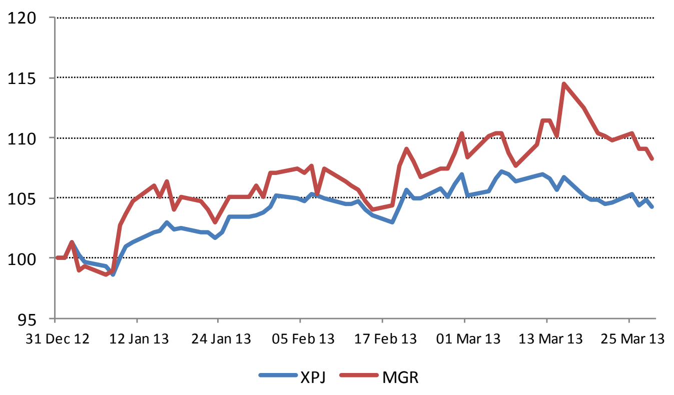
IOF

Although management upgraded FY13 guidance (+1.4%) for EPU/DPU and reported operating metrics that ranked well versus peers the stock has underperformed materially since reporting its results. An offshore investor sold a material line of stock in March.



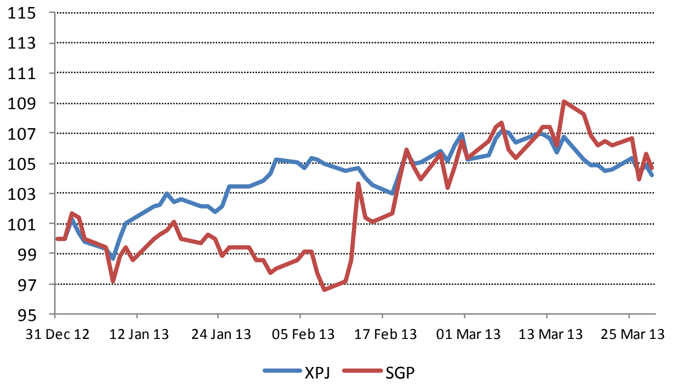
MGR

Mirvac's consistent outperformance over the March quarter was less to do with fundamentals but the market viewing the stock as the preferred play in "all the bad news factored in" residential call. To this we can add some positive leasing news on its 190-200 George St office development offset by a material increase ($273m) in impairments driven largely by further writedowns in Masterplanned Communities and Apartments. For now, the market has played down the impacts arising from the announcement of its strategy review. The timing and metrics on any deal on Australand's residential book will be a price driver.



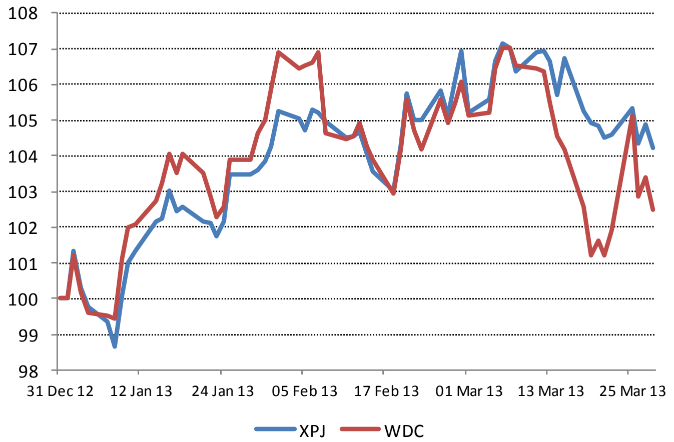
SGP (Not Covered)

A mid-quarter rally following its interim results saw SGP outperform despite reporting a higher than expected fall in forecast earnings (20%-25%) in FY13 versus pcp drawn partly from operational issues and a review of its treatment of capitalised interest.
To this we can add an increase in its impairment book and a May presentation of the outcome of its strategic review. The timing and metrics on any deal on Australand's residential book will be a price driver.



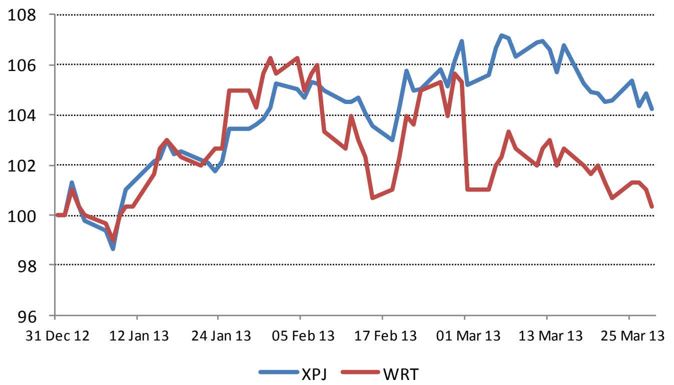
WDC (Not Covered)

WDC's underperformance over the quarter is effectively a mid-March phenomenon in conjunction with the temporary suspension of the buy-back program that has since been reinstated post the announcement of the part sale of a portfolio of Florida assets. The FY13 outlook of forecast FFO 2.3% above pcp and DPS up 3% on pcp implies a modest uptick in payout ratio versus pcp.



WRT

Management has shifted its reported earnings and distribution policy to a FFO approach that effectively adds-back the amortisation of tenant lease incentives to the distributable earnings base with distributions to be 100% of FFO. The sharp price collapse in March was post the Lowy Family selling its 7.1% stake in WRT at $3.09 post WRT reporting its FY12 results.



December 2012 Reporting Season

A brief summary of each sector's performance during the reporting season are highlighted below.

Retail

- Improved retention levels across expiring specialty tenant leases was one positive this reporting season which cushioned quoted blended leasing spreads. Quoted negative specialty leasing spreads this reporting period ranged from -4% - -8% whilst retained tenants were re-signed at rents flat versus passing.
- There was little in the way of commentary around online retail trends but more a focus on improved supply chain management processes that has bolstered retailer margins in a soft retail trading environment.
- Development activity has not been materially upsized with AREITs assessing retailer appetite and the economics on new projects at this point.

Office

- Key CBD markets can be described as either exhibiting soft/moderate demand (Sydney/Melbourne) or in the case of resource based office demand (Brisbane/Perth) improving medium term demand but challenging supply conditions.
- Office AREITs will draw heavily from retention outcomes over the next 12-18 months across tranches of expiring space.

Industrial

- In general terms the industrial sector is operating in a flat rent environment and reduced levels of precommitment activity.
- Outside of Dexus we don't see the industrial portfolios printing higher occupancy levels from current levels.

Residential

- The near-term direction of house/land lot sales will be key given that margins have been somewhat impacted by increased impairment provisions.
- Question marks overhang how long the weakness in the key Victorian residential land market can be offset by the more volatile Qld and WA markets.

Figure 6: XPJ – December 2012 Reported Results

	Core Operating Profit (A$m)			Core EPU			Core DPU			Payout Ratio		
	Dec-11	Dec-12	%	Dec-11	Dec-12	%	Dec-11	Dec-12	%	Dec-11	Dec-12	%
ABP	39.80	42.40	7%	10.35	9.6	-7%	8.25	8.25	-	80%	86%	8%
ALZ	135.40	142.07	5%	23.50	24.6	5%	21.50	21.50	-	91%	87%	-4%
BWP	34.50	37.40	8%	6.63	7.0	6%	6.63	7.00	6%	100%	99%	-1%
CFX	184.60	192.30	4%	6.50	6.8	5%	6.50	6.80	5%	100%	100%	-
CHC	30.90	35.10	14%	11.24	11.8	5%	9.10	9.80	8%	81%	83%	3%
CPA	102.90	103.30	0%	3.80	3.8	-	2.89	3.20	11%	76%	84%	11%
FDC	21.97	106.18		1.50	7.5		-	6.60				
CQR	41.70	45.90	10%	13.90	14.8	6%	13.00	13.30	2%	94%	90%	-4%
DXS	184.33	182.20	-1%	3.81	3.9	1%	2.67	2.89	8%	70%	75%	7%
GMG	229.20	265.70	16%	13.60	16.2	19%	9.00	9.70	8%	66%	60%	-10%
GPT	438.10	456.40	4%	22.40	24.2	8%	17.80	19.30	8%	79%	80%	0%
IOF	63.30	70.90	12%	9.60	11.5	20%	7.80	8.75	12%	81%	76%	-6%
MGR	201.50	194.20	-4%	5.91	5.7	-4%	4.00	4.20	5%	68%	74%	9%
SGP	342.30	255.00	-26%	14.90	11.6	-22%	12.00	12.00	-	81%	103%	28%
WRT	561.60	572.60	2%	18.39	18.8	2%	16.50	18.75	14%	90%	100%	11%
WDC	1,492.00	1,474.00	-1%	64.80	65.0	0%	48.40	49.50	2%	75%	76%	2%
Weighted Average			**-0.3%**			**1.1%**			**5.5%**		**79.8%**	

Source: NAB A-REIT Research, Company Reports & Presentations

Earnings Outlook

Coming off the December 2012 weighted earnings growth result (1.1%) it comes as no surprise that outlook statements and earnings are couched in terms of challenging operating environments bolstered by supportive financing costs. A number of AREITs have set 2013 as a transition period as the business shifts it earnings mix.

Figure 7: FY13 Guidance - Commentary

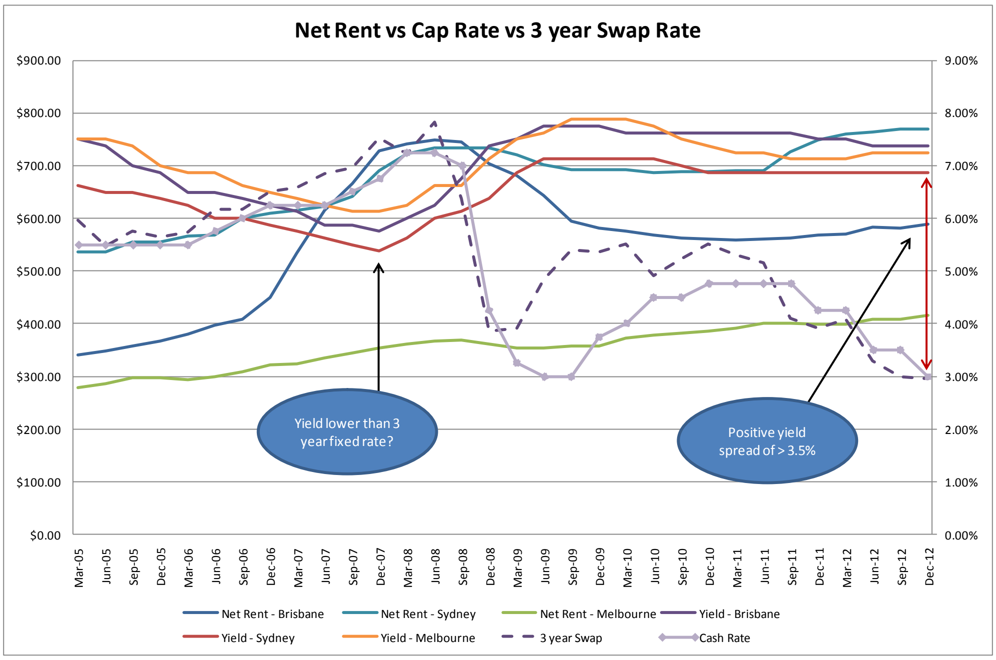
ASX Code	FY13E Guidance EPU	FY13E Guidance DPU	Payout ratio	Interim Commentary
ABP	N/A	16.5	N/A	Abacus has capacity to expand its asset base and in turn develop its third party investment platform. Surplus funds and potentially $190m of acquisition capacity (pre-leverage) sees Abacus with an improved capital base.
BWP	N/A	N/A	N/A	Low inflation constrains CPI linked rent growth. Bunnings continues to trade well in the competitive home improvement market. Potential impact on property values and rents in the home improvements segment may take time to become apparent
CFX	13.6-13.7	13.6-13.7	100%	Forecast 3% specialty sales growth for calendar year 2013 with underlying drivers of retail sector mildly accommodative but caution remains.
CHC	22.5-23.5	-	N/A	Added five new partnerships and improved performance across the funds platform.12% FUM growth since June 2012. $841m of new equity raised since June 2012.
CPA	8.6	6.40	75%	Will focus on forward solving upcoming lease expiries and securing further tenants for jointly-owned 5 Martin Place.
FDC	15.5-15.75	13.2cps (median)	80%-90%	Continue expansion of strategic alliances, simplify syndicate business and focus on redevelopment pipeline.
CQR	29.5-30.0	26.6 (median)	85% - 95%	Well positioned with the majority of the portfolio invested in high quality resilient Australian neighbourhood and sub-regional shopping centres. Sale of Polish portfolio expected by June 2013.
DXS	7.75	5.8	75%	Well positioned for growth with a strong and conservative balance sheet and confident can deliver superior risk-adjusted returns.
GMG	32.3	19.4	60%	North America and Brazil to commence developments in 2H FY13 and focus remains on a low risk approach of pre-committed development matched to third party capital. Continued capital flows expected into China, Australia, Japan and Europe.
IOF	22.2	17.5	80%	Target upper end of 25-35% gearing range and will continue to exit offshore and upweight into domestic assets.
MGR	10.7-10.8	8.5-8.7	80% (mid-point)	On track to deliver >10% ROIC by FY14. Outcome of strategic review to be announced in May.
SGP	N/A	24.0	N/A	FY13 remains challenging with any recovery in the detached new housing market expected to be patchy and slow. FY13 expected to be a low point in earnings and expect FY13 EPS will be 20-25% lower than FY12 taking into account new capitalisation of interest changes. Outcome of strategic review to be announced in May.
ASX Code	**FY13EPU**	**FY1# DPU**	**Payout ratio**	**Commentary**
GPT	N/A	N/A	80%	Targeting FY13 EPS per security of at least 5% above FY12 supported party by a 100bps compression in borrowing costs.
ALZ	N/A	21.5	N/A	1H13 earnings expected to be lower than 1H12 due to timing of settlements on residential built form projects and delivery of C&I forward workload being skewed to 2H13.
WDC	65	49.5	~76%	Confident in the future of the Group's business model and opportunities for growth. Continue to assess new investment opportunities both in existing and new markets.
WRT	19.85	19.85	100%	Has adopted FFO based reporting and distribution profile from FY13 onwards.

Yield/Funding Spreads

The following two charts plot the relative yield/funding spreads prevailing in both CBD and non-CBD office markets applying reported cap rates/rents and the 3-year swap rate (ex-margin) since March 2005. Although spread investing has limited application as a measure of risk-adjusted returns the data points to cash rate pricing anomalies more than it does skews in initial yield although there is room for cap rates in some markets to tighten. Rent levels and market vacancy rates look generally to be in bandwidths that do not test historical levels yet provide ICR headroom.

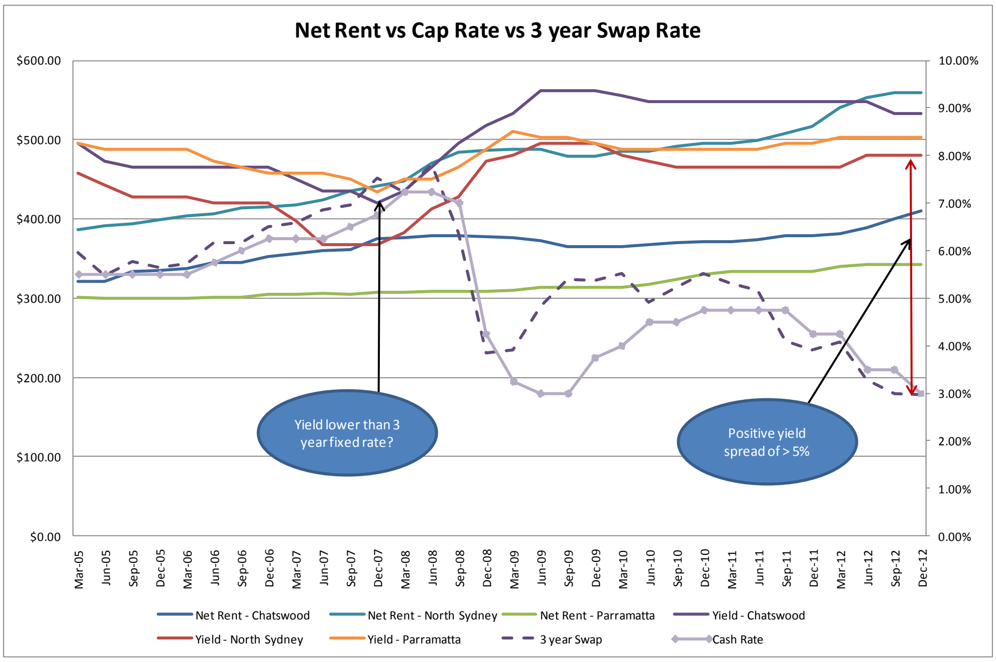
Figure 8: 3 year Swap Rate versus Net Rent/cap rates – CBD and Non-CBD Office markets

CBD Office Markets



Source: JLL, NAB

Non-CBD Office Markets



Source: JLL, NAB

Economic Releases and Outlook

- Economic data released over the March quarter was mixed, in part reflecting the varying fortunes of industry sectors in the economy. GDP for the December quarter was in line with expectations and revealed an economy growing at 3.1%, right on trend. On the plus side, the housing market is recovering and this is translating into modest rises in residential construction. Consumer confidence has bounced but the trend in retail is flat. NAB's Business Survey shows that Mining investment is peaking and sectors such as Manufacturing, Retail and Construction remain weak. Household and Business services are better. Inflation is near the bottom of the RBA's target band with little momentum.
- Looking ahead, we expect unemployment to rise to about 5¾%, with jobs growth elsewhere too weak to soak up job shedding, as major resources projects are completed. This means downside risk to wages and inflation, a factor which our economists expect will lead to lower cash rates from the RBA ahead. Meanwhile, the strength of the Australian dollar, which hit a 28 year high in late March (TWI basis), is likely to persist and we expect the currency to remain strong, above parity, into 2014.

11 Jan - NAB changes rate call: RBA to ease further in coming months to 2.25%

We expect a terminal cash rate of 2¼% in the September quarter of this year. With the economy continuing to weaken and unemployment set to rise noticeably through 2013, we believe the RBA will need to cut significantly further than previously expected in 2013.

The weaker activity outlook will also help contain inflation to below 3% even including the carbon tax impact. Nor do we see the AUD offering much relief to a struggling economy. We continue to expect the Australian dollar to track gradually lower during 2013, as the combination of continuing RBA rate cuts and a firmer US dollar weigh on the currency. Nonetheless our forecast of around parity in late 2013 still represents a strong currency.

17 Jan - Labour Force - Unemployment rate rises to 5.4%

Today's labour force release was largely as expected. A small fall of 5,500 in employment (NAB forecast -5K, Market forecast +4k), while the unemployment rate rose to 5.4% as expected, up from the revised 5.3% in November (previously reported as 5.2%). The participation rate was unchanged at 65.1%.

Employment had been resilient in the previous three months, with 40,500 jobs created in Sep/Oct/Nov, so the December outcome is more in line with the weaker domestic activity we saw in the second half of 2012 and the very weak leading indicators of employment. ANZ job ads have been negative for the past 10 months while the NAB Survey Employment index has been negative for the past seven months. It points to further weakness in the labour force outcomes in coming months.

While employment growth is trending higher (up 1.3%yoy in December), the pace of growth is not fast enough to keep the unemployment rate at previous lows. We have seen the unemployment rate break-out of the 4.9-5.3% range that it was in from May 2010 until August 2012, with unemployment averaging 5.4% in the past four months. Employment growth in the first half of 2013 is expected to average just 0.25% per quarter, so unless we get further falls in the participation rate, the unemployment rate will head higher towards 5.7% by mid year.

23 Jan - CPI provides room for RBA to ease rates. Underlying inflation +0.5% qoq and 2.3% yoy

Underlying inflation (average of trimmed mean and weighted median) printed at +0.5%/2.2% for Q4, down from 0.7%/2.3% in Q3 and lower than quarterly growth consensus of 0.6%-0.7%. The headline CPI rose by 0.2%, for a 2.2% annual rate, lower than consensus of 0.4%/2.4%), a rate that is in the lower band of the RBA's 2%-3% target range.

Whichever inflation metric you look at in the CPI report, the outcomes both in the quarter and over the course of last year were not only lower than NAB's and consensus expectations, but also those of the RBA published last November in their quarterly statement. Bearing in mind that these measures of inflation also include impacts from the carbon tax, they indicate that the economy was underperforming through the latter part of last year.

Given the low inflation outcomes, we concede that the balance of risks has shifted to a cut in rates in February. The market is pricing a 36% chance of a February cut after the CPI (from 34% earlier today). We think the market is significantly underpricing the risk at these levels

5 Feb - RBA leaves the cash rate unchanged at 3.00%

The RBA left rates unchanged at 3.00% during the March quarter.

For us, they have retained an open mind on whether the non-mining sector will fill the void left as resources investment peaks and they also see lower inflation as giving them more scope to ease should that be necessary. In its February statement, the RBA has noted that downside risks appear to have abated, for the moment at least", that Chinese growth has stabilized and that “some commodity prices” have firmed (e.g. iron ore).

8 Feb - RBA Quarterly Statement cautiously optimistic

The RBA’s quarterly statement on Monetary Policy (SMP) cut their near term inflation and growth forecasts, leaving the door open for rate cuts ahead. Our read of the Statement is that it was on the dovish side. On the outlook for the economy, the RBA’s assessment is that growth will be a little below trend in the near term (2½% over the year to June 2013) before rising gradually over the next year or so.

This gradual improvement is predicated on a gradual recovery in dwelling investment and non-mining business investment, with household consumption picking up slightly, while Government net spending is expected to be very subdued (due to fiscal consolidation) and from rising mining and energy exports, the latter implied by comments about increased global supplies from Australia and elsewhere.

12 Feb - NAB Business Survey, January 2013

Business confidence is holding onto the gains made in December, while business conditions have improved. However, despite the improvement over the past couple of months, levels are still weak and the outlook is poor.

Key points from the survey:

- Business confidence was broadly steady in January, after recovering strongly in December from very poor levels. That recovery mainly reflects external factors, including the rally in global equity markets and generally better activity in China, as well as recent RBA cuts. However confidence remains below long-run average levels.
- Business conditions were generally better across interest sensitive industries in January, but fell heavily in mining. That, however, returns mining to levels reported in the Quarterly Business Survey for December (and hence it is hard to separate out any impact of the Queensland floods). Recent surveys have highlighted the gradual deterioration in conditions in recreation & personal services and transport & utilities (previous non-mining strong performers). This trend continued in January. It may well be that continuing weakness elsewhere is now spreading.
- The forward orders index was marginally better in January though remained weak overall, pointing to further softness in trading activity. However, capacity utilisation was particularly low, marginally below the lowest level recorded during the GFC and the lowest overall level since July 2001. Overall, the survey implies underlying demand growth in the March quarter of around 2¾% – a slight improvement on expectations for the December quarter but still below trend.
- Labour costs growth softened significantly in January – in line with a sharp deterioration in employment conditions – suggesting that wage pressures are unlikely to fuel near-term prices growth. Consistent with this, final product price inflation was flat and purchase costs growth eased to a subdued level. Retail prices declined implying further discounting in response to still very poor conditions in this industry.

28 Feb - RBA credit growth on the soft side

Private sector credit growth was softer than expected in January, up 0.2% (NAB and market forecast +0.3%) for an annual growth rate of 3.6%, unchanged from December. Business credit was flat in the month, after the 0.7% growth in December cancelled out November’s 0.7% gain. Indeed, business credit growth has been flat since June 2012, and is up just 2.8%yoy.

There was some further growth in housing credit – up 0.4% in January (and 4.4%yoy) after +0.3% in December. Interestingly, investor housing growth was stronger than owner-occupied for the 12th consecutive month, and is now running at 5.6%yoy, compared to 3.9% yoy for owner-occupied lending. The growth in housing credit was also supported by better new home sales in January. HIA new home sales rose 4.2% in January, the fourth consecutive monthly rise, after the 6.2% rise in December.

Overall, business credit remains disappointingly soft, while housing credit is edging higher as new housing activity continues to slowly improve.

5 Mar - RBA leaves the cash rate unchanged at 3.00%

Uniformly expected by analysts and interest rate market pricing, the RBA again left rates unchanged at 3.00% during the March quarter, retaining their monetary easing bias, or in their words, “the inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand”.

Over the past month, the data has been broadly running in favour of the RBA remaining on hold. Increasing house prices and sales, mostly rising stock prices and confidence, and somewhat less anxiety about the $A have all bought the RBA Board time to think the stimulus is now gaining traction. And that’s all been fair enough. They have made reference to non-mining investment as showing “some prospect of a modest increase during next financial year”. So their interpretation of last week’s CapEx data is that they offer some prospect of a rise.

12 Mar - NAB changes rate call: RBA to cut rates to 2.50%

We expect a terminal cash rate of 2.5% in the September quarter of this year. This reflects RBA’s “comfort” with current activity, signs previous cuts have gained traction in housing markets & retailing, and “so far” resilient labour market. But with weak underlying demand continuing, we still see unemployment rising to 5.7% by mid year, with little sign that non-mining investment will ramp up. Like us, the RBA seems unperturbed about the outlook for inflation, stating that “the inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand”. Our estimates for GDP suggest that growth will slow to a 2.3% annual pace over 2013 and coupled with a soft inflation outlook, we believe the RBA will wait and see how the non-resource sector performs as mining investment begins to retreat. In our view, in total 50bps of rate cuts will be needed over the year.

14 Mar - Labour Force: Strong jobs growth; unemployment rate stuck at 5.4%

This was a strong jobs report, reducing the chances of an RBA cut in April to near zero and surprising the market which was forecasting a 10K jobs rise, only to get 71.5K - the largest increase in jobs since July 2000, when the reading was up 83K. While the participation rate jumped to 65.3% from 65.0%, the rise in employment was enough to hold the unemployment rate at 5.4%, where it has been hovering for the past five months. The market and we expected 5.5%.

Hours worked increased by 0.7%; more evidence that activity in economy is expanding at a modest pace and the best result in three months.

19 Mar - RBA Board minutes 5 Mar Meeting

The RBA Board Minutes from the latest meeting could be characterised as showing the central bank still in ‘wait and see’ stance, albeit a strong hint noting “**further reductions may be required**”. The highlighted dialling up of the easing bias is new.

An easing bias is prominently on display and from the outset we would say that a rate cut will be discussed again at the next policy meeting in October. Nonetheless, since they decided not to cut in September, the evidence accumulated since that meeting would argue for keeping the trigger finger relaxed at the next meeting on 2 October. At this stage, and of course things could change over the next couple of weeks, we would still put the odds of an October cut at just shy of 50%. So, they stay sitting at 3.5%.

The key messages from the Minutes are as follows:

- The RBA maintains an easing bias but the economy is beginning to respond
- More positive global conditions have been observed, on balance, than a month ago
- Domestic growth around trend as mining investment approaches its peak
- It is still too early to tell whether non-mining business investment will pick up as resource investment plateaus and tails off
- Steady policy for now but easing bias has increased slightly, with the Board noting that “further reductions may be required” (a new RBA observation).

27 Mar - RBA’s Financial Stability Review – Australia’s relatively strong financial system

The Reserve Bank of Australia released its Financial Stability Review today, once again concluding that the Australian banking system is ‘in a relatively strong position’. Banks continue to record strong profits, are in good position to meet the Basel III capital requirements, and there is little sign of any excessive risk in their strategies.

There was little new insight from the RBA’s economic commentary scattered throughout the 64 page report. Households remain in good shape, supported by their prudent behaviour, with the savings rate sill near 10%. They have repaid debt faster than required as interest rates have fallen, and their appetite for debt has eased, as evidenced by the low growth rates for housing and personal credit.

But the RBA has again showed little concern that household credit growth has eased – indeed it has again encouraged it, rather than suggest more accommodative policy is needed to boost spending. In recent years the RBA has repeatedly said that current consumer behaviour is the new normal. With household debt levels still near historical highs, the RBA said that from a financial stability perspective “it would be preferable if households maintained this more prudent behaviour” of slower credit growth.

28 Mar Credit - Business not investing; Jobs - vacancies drying up; Inflation

Credit rose by a meagre 0.2% in February, below the median forecast of 0.3% and in line with our own forecast, which reflected internal anecdotal information. The detail was worse: lending to business fell by 0.2% and, in net terms, over the four months since October, business credit is down by 0.3%, representing a fall of $2.4bn in loans outstanding over the period. Business is not borrowing to invest – it is paying outstanding loans back.

The credit numbers provide evidence of a moderate recovery in the housing market. There is no sign of any pick up in the pace of demand growth however. Residential construction is likely to rise ahead, although only a gradual rise seems to be in prospect

Job Vacancies fell by 10% over the three months to February. This represents a drying-up in labour demand of 16,800 jobs. Private sector vacancies fell by 10%, accounting for the bulk of the reduced labour demand, vacancies falling by 15.800. Public sector vacancies were down by 8.3%. Over the past 12 months public sector job openings are down by more than 1/3 (34%).

Property Related Data Releases

- The RBA's interest rate cuts to date and improving affordability have seen a rise in housing prices over the past quarter, the annual rate of growth back into positive territory nationally, up by around 2% over the past 12 months. This is translating into stronger building approvals in the residential space, notably for apartments, although detached housing approvals remain flat.

- Consumer confidence has risen to an index reading around 110, well above the long run average but the trend rate of growth in nominal retail trade remains flat. Household savings ratios remain around 10%, dampening discretionary spending.

- Our NAB Commercial Property Survey showed an overall negative outcome for the December quarter, indicating conditions had deteriorated in the quarter, although the extent of the deterioration moderated. Our retail, industrial and office indexes were all in negative territory, with only CBD hotels posting improved conditions. Respondents expect a gradual improvement for these sectors ahead, although they are not expecting conditions to start to improve until late 2013 or 2014.

9 Jan – Retail Sales fall in November

The latest Retail Trade report was a shocker, total sales down by 0.1% for the month versus forecasts of 0.3% (near the long run average). This followed a flat result for October and it has to be said that the in retailing is dropping away. Back in August, the official trend series was rising by 0.2% per month; it is now flat.

The weakness was pretty much across the board. The 'core' Food category showed no rise in the month. Household Appliances fell by 0.9%, Apparel was down 0.6% and Department Stores saw sales fall by 0.4%. The category 'Other Retailing' rose by 1% and Cafes and Restaurants were up by 0.3%. For each of these categories, it was the second or third fall in a row. By state, NSW, Qld, WA and NT all recorded falls. Vic and ACT had rises.

10 Jan – Building approvals – No traction from rate cuts

About the best that can be said about the Building Approvals report for November is that with a rise in the headline number of approvals of 2.9% the outcome was trivially different to the market median of 3%.

Approvals for private sector houses fell by 0.3% for and annual rise of just 0.5%. Approvals for the apartments category rose by 10.1% or 36.4%yoy but the last outcome was a fall of 15% in this very lumpy and volatile series.

More important for gauging the outlook for construction activity ahead, the value of residential building did rise 2.7% but that's after an 11.4% fall. The trend in residential building fell by 0.6%, the first fall after nine months of rises. Non-residential building approvals values were down 14.4% after +21%. Trend-5.9% and has been falling for six months.

14 Jan – Housing Finance Approvals

Australia's housing finance approvals (in value terms) fell by 0.8% in November, ending a run of three consecutive monthly gains. While owner-occupied values rose 0.6%, investor approvals fell 3.3% in November. Investor approvals had been driving the gains in recent months, but the easing in house prices towards the end of 2012 has seen investor demand ease back. In trend terms, housing finance approvals are trending higher slowly, but remain well off the peaks seen in 2007 and 2009.

The number of owner-occupied approvals was also weak, down 0.5% in November (NAB forecast -2.0%, Market +0.5%), due to a large 10.3% fall in approvals for purchasing new dwellings. The number of approvals for the construction of dwellings also fell, down -1.8%, while approvals for purchasing established dwellings rose 0.3%.

Overall, the November outcome is particularly disappointing given the October interest rate cut and expectations at the time that the RBA would cut again in December. It is yet another sign that the housing 'recovery' is losing steam. House prices recorded a fall in the December quarter (after a promising Q3), while building approvals are still yet to show any clear signs that lower interest rates are leading to planning for stronger construction. Not surprisingly, housing credit growth is running at a low 4.6%yoy, the slowest pace since the series began in the late 1970s.

4-Feb – Building Approvals

Residential building approvals disappointed, falling by 4.4%. On the surface this might be largely seen as payback to last month's unexpected 3.4% rise, but the detail was far from flattering. Also today, the ANZ Job Ads series eased again in January ahead of Thursday's employment report, down 0.9% in the month to be down 18.4% y/y, and the 10th consecutive monthly decline from this leading indicator of new recruitment.

For the building approvals report, not only was the headline soft but the detail was far from encouraging. While the previous month's November rise of 3.4% all came from the monthly volatile private other medium density sector (+11.5%) with private house approvals close to flat, this month both sector gave up ground. Private sector house approvals fell a hefty 3.3% in December, these detached house approvals back to the lowest levels seen since last April. The apartment/ medium density sector approval rate dipped this month by 5.4% but bearing in mind this followed a rise double that size, approvals in this sector continue to come through.

By state, the largest fall in residential approvals was in Victoria, down 12.3% to the weakest level since last July. Other states have generally held on to levels of late 2012, but without any real upward momentum. In the private house sector, Vic and Qld were the weakest in terms of momentum at the end of last year. Despite the fact that the trend in NSW has been more positive, it has been coming off a low base. In December 2012, there were 745 houses approved to be built in Greater Sydney. That's even lower than in Greater Perth (999) and in Greater Melbourne (1079).

5 Feb – House Prices Up In December.

House prices rose by 1.6% across the country, according to today's ABS release, to be up by 2.1%yoy. This beat the market median forecast of +0.3% and our expectation of a 0.5% fall. This is the first significant (1% or better) quarterly rise in house prices in 2½ years and is a sign that the RBA's rate cuts are working to lift the housing market.

By city, the strongest was Perth up by 2.9% in the quarter (or up 5.6%yoy); Darwin +2.6% (10.1%yoy); Sydney +2.3% (4.2%yoy); Canberra +2.1% (0.3%); Adelaide +0.8% (-0.4%); Melbourne +0.7% (-0.2%); Brisbane +0.7% (0.7%); and Hobart bucked the trend with -1.4% (or 6.1%yoy).

Housing is a leading indicator for the economy as a whole. Rising house prices should encourage spec builders and first home buyers (who don't want to get left behind by a rising market). Rising house prices helps households already in the market via indirect wealth effects.

6 Feb - Retail sales

December retail sales 0.2% decline has again undershot market expectations (+0.3%) but in line with our own forecast (-0.2%) based on the NAB Business Survey and our own anecdotal information. Volumes were similarly soft, rising by a meager 0.1% in the December quarter and that after a downwardly revised 0.3% decline in Q3 that was initially reported as a 0.1% dip.

When you dig below the surface of today's report into the detail, it's hard to uncover much in the way of more encouraging nuggets. It's mostly sobering and in line with the weak level of retail industry business conditions (-12 in December and -13 for the second half of last year). There are hints that confidence may be stabilising (retail industry confidence ticked somewhat higher in December and that may be consistent with some hopeful hints from major retail trading updates. Consumer sentiment is around its long term average through January.

A somewhat optimistic reflection on today's report is that after retailing and consumption was boosted earlier in the year by the pre-carbon-tax household payments, volumes have held to those higher levels through this half. It would be a real stretch though to say that retailing has, as yet, derived any spending stimulus as a result of last year's rate cuts.

11-Feb – Housing finance approvals fall further in December

Australia's housing finance approvals (in value terms) fell by 2.6% in December, after a fall of 0.8% in November. Demand for new approvals has clearly eased after the three consecutive outcomes in Aug, Sep and October. A key influence has been investor approvals, which fell 2.4% in December after the 3.2% fall in November, but were up 15% in the three months before then. Owner occupied values also weaker in December, down 2.7%, after the 0.5% gain in November, and the trend has now turned negative. In mid 2012 owner-occupied approvals were rising at 0.7% per month, but now are falling at 0.1% per month. Not helping is the very low first home buyer activity, at just 14.9% of total approvals, the lowest % since June 2004.

The number of owner-occupied approvals was also weak, down 1.5% in November as we expected (Market flat), due to a 2.1% fall in approvals for purchasing established dwellings.

But the glimmer of hope in today's data is that the number approvals for the construction of dwellings rose 1.2% in December, ending a run of four declines, while in value terms construction approvals rose 3.4%, the second consecutive gain. It's only one month's data but it will give the RBA some further optimism that the residential construction sector is improving. But while we expect dwelling investment to post small increases through 2013, we do not expect that growth to be strong enough to replace the easing in growth in the mining sector that is expected over the next year.

13 Feb – Consumer Sentiment

After the January slight rise in consumer sentiment, this month the Westpac-Melbourne Institute survey revealed what could only be described as a consumer that is starting to see some blue sky, if asset markets are anything to go by. It adds more weight to the rebound in business confidence that's been seen in December and January.

Consumer sentiment rose a sturdy 7.7% in February to an index level of 108.3, a level that is now above its long term average and clinically consistent with good levels of consumer spending.

There were rises in responses to all five of the sub-components in the survey with a 14.7% rise in the "economy one year ahead" outlook and a 10.8% increase in the "economy five years ahead" questions, both having also risen last month.

If there are any elements of vulnerability, it's in relation to the family finances responses, though even there, there's been some recovery of late. Consumers continue to report that now is a great time to "buy major household items" with that component standing at an even higher 143.1 this month, up another 5.5%.

27 Feb – Construction Work Done

The first of the meaty December quarter GDP partials came in a little shy of expectations, with Construction Work Done (CWD) virtually flat in the quarter, against the market's forecast of a 1% rise and midway to our own below-consensus -1% pick. Even with flatness in the quarter, CWD still managed to rise a sturdy 11.9% though the course of last year, driven by the massive on-going investment in the LNG sector, activity that has a little further to run before it peaks then tails off through 2014 and beyond.

While activity was flat in the quarter, the details were more friendly, with the decline all coming from a 1.3% decline this latest quarter in the big-ticket engineering construction sector, taking a breather for once, and which managed to grow by a hefty 19.5% though last year.

Dissecting today's report reveals signs of life in the domestic private building industry through last year, signs that were a little more noticeable in the second half. Private building activity rose by 2.5% in Q4, the fourth quarter of growth, with private residential building having turned around from contraction in the first half to growth through the December half.

Private residential building activity overall through last year netted 0.8% growth, not what you'd term rapid, but something positive anyway. Private non-residential building rose 13.5% though the course of last year and that is strong. Take in private engineering construction and that hints at a possible just positive business investment reading for Q4.

28-Feb – Housing Credit improves as home sales rise again

There was some further growth in housing credit – up 0.4% in January (and 4.4%yoy) after +0.3% in December. Interestingly, investor housing growth was stronger than owner-occupied for the 12th consecutive month, and is now running at 5.6%yoy, compared to 3.9%yoy for owner-occupied lending.

The growth in housing credit was also supported by better new home sales in January. HIA new home sales rose 4.2% in January, the fourth consecutive monthly rise, after the 6.2% rise in December. Sales have now risen 10% in the past three months, and the level of monthly sales is at its highest since December 2011.

Importantly, new detached home sales have continued to improve. In the past three months we have seen gains in NSW (+24%), SA (+13%), VIC (+11%) and WA (+8%), while QLD sales are down 3%. While the solid gains in NSW and SA may reflect the revamped first home owner grant schemes in the latter part of last year, the strong sales overall are a further positive sign for the dwelling construction outlook, after the Construction Work Done figures yesterday showed a second consecutive rise in residential building activity in Q4. Supported by lower interest rates, and small increases in house prices, we should continue to see an improvement in housing activity through 2013.

1 Mar – House Prices

Capital city established house prices showed a little more life in February, with the RP Data-Rismark house price eight capital city prices up 0.3%, up 1.2% in the most recent three months after a down to flat period, prices up 1.3% in y/y terms.

There were some pluses and minuses in the month with Melbourne the standout in the month among the larger capital cities. Reflecting a late month surge in prices with the Melbourne auction clearance rate up to 69.5% in the week to 24 February, prices rising by 1.5%, up 2.2% this latest quarter and now lower by just 0.7% on a year-to basis. Sydney prices took a breather for once, up only fractionally, with mixed performances among the other states and territories.

With house prices showing some momentum through the latter part of last year and into this quarter, it's become self evident that lower mortgage interest rates from monetary easing and some improvement in affordability from previous price easing is driving renewed interest in housing.

4 Mar – NAB Online Retail Sales Index – January 2013

NAB's Online Retail Sales Index provides some insights into online versus traditional retail spending. Based on approximately 2 million non-cash transactions per day, the data provides the clearest picture of retail spending behaviour available.

- For the 12 months to December 2012, traditional retail sales* totalled $222 billion. As a result, online sales are equivalent to around 5.8% of the traditional sector i.e. c.$13 billion. The growth in online retail sales was 27% year-on-year much stronger than the traditional retail sector with an increase of a much more modest 4% year-on-year.
- Domestic sales growth increased by 28% year-on-year in January and international sales grew by 25% year-on-year. Domestic online retailers accounted for around 73% of total online sales but trends in individual categories remain quite divergent. We note that while Household Goods & Electronics underperformed in 2012, it was a key driver of growth over the last three months.
- Over the last year, there has been minimal change in the share of total online spending by age group – with the largest shares being among those aged under 30 and those aged in their 30s and 40s, with each of these groups accounting for around 23% of the total. Similarly, the per capita share of spending by age group has remained stable – with the strongest levels of per capita spending concentrated in the 30s and 40s age groups, while under 30s continue to record below average spending levels. Growth in online sales in WA (in particular regional WA) has remained consistently among the strongest across the country over the last year – with 33% growth year-on-year in January, well above the trends for other states

5 Mar – Retail Sales

After wilting through the end of last year, the news on the retail sector from the Statistician's January report was encouraging, up a larger than forecast 0.9% in the month (NAB 0.5%; market 0.4%). This followed a downwardly revised 0.4% decline in December (later information on food retailing). As a better reflection of the trend, retail sales are up 3.0% in y/y terms and up 0.5% in January compared to the December quarter average level.

While it's been a positive start to the year, the payback element in today's release – including from the shifting sands of pre/Christmas/ post Christmas sales – consumer spending is far from racing away. Even a 0.5% gain so far in the quarter will likely be absorbed by some price rises, so it's a little too early to party.

13 Mar – Housing Finance

Australia's housing finance approvals (in value terms) rose by 2.4% in January, after the fall of 2.2% in December. In trend terms total approvals are trending higher at a gentle 0.6% pace, supported mainly by investor approvals, which rose 4.4% in January. Investor approvals rebounded after the poor November and December readings, and are now trending higher at a 1.7% monthly pace.

In contrast, owner-occupied approvals remain soft. Values rose 1.3% in the month, but volumes were down 1.5% in January (NAB forecast -4%, market flat). Values have been holding up much better than volumes in recent quarters, suggesting that the higher-priced homes are seeing more activity. That is also evident in the first home buyer stats – the share of approvals for first home buyers was steady at 14.9%, which is the lowest % since June 2004.

Looking at the weakness in volumes, finance for established dwellings has been soft in the past two months, but there has been better news for new homes. Finance for the purchase of new dwellings rose 2.3% in January, and has been up in 5 of the past 6 months, while the declines in construction finance are getting smaller, down just 0.2% in January. Adding new dwelling and construction finance together (see chart below) provides some further optimism that the residential construction sector will continue to improve in 2013.

The housing finance data suggests that the growth in approvals is being driven by investors, while the building approvals data points to growth in apartments rather than private housing. So it's not surprising that the most recent house price data has shown an increase of 2.3% in apartment prices over the past year, compared to 1.2% for detached houses. Investors have started to respond to the lower interest rate environment and activity in apartments has picked-up, but owner-occupiers are taking a little bit longer to decide if it's time to buy a house, despite their confidence about the outlook.

13 Mar – Consumer Confidence

Consumer confidence rose a further 2.0% in March, the third consecutive rise, and follows the strong 7.7% gain in February. It was another solid reading for confidence, which has been on an upward trend for over a year. Confidence has risen 17% since April 2012, supported by the lower interest rate environment, still low unemployment, small increases in house prices and more recently gains in equity markets.

But while confidence is improving, and consumers are more optimistic about the outlook for the economy and their family finances, consumers remain very prudent in their spending decisions. The current level of the consumer confidence index is around 10% higher than the long-run average, so it is at a level that is usually consistent with good levels of consumer spending. The 0.9% gain in retail sales in January was a good sign, but that did follow three consecutive monthly declines in retail sales.

Nevertheless, the combination of lower interest rates and rising asset prices has consumers feeling less anxious about the outlook, which should eventually lead to better consumption growth in coming quarters that exceeds the soft 0.2% growth in both of the past two quarters.

Interest Rate Outlook

We highlight the economic events coming up in the June quarter (see figure 10). Going forward there has been a lot of debate over the next move from the RBA with the bias moving more towards further cuts.

The Australian rates market will continue to be influenced by expectations on the outlook for the cash rate and directional moves in global yields over the coming quarter. While recent events highlight that developments in Europe will maintain some volatility we remain of the view that bond yields will trend higher through the year. For now, given 'green shoots' in some of the domestic economic data and the RBA's wait-and-see mode the market has re-priced the outlook for the cash rate with only around 20bps of cuts being priced for the year ahead. NAB maintains the view that the RBA will take the cash rate to 2.50% by year end. The combination of the lower cash rate and higher global yields should result in the yield curve shifting higher in yield with a steepening bias. At current levels the 10y bond is trading near the mid-point of its expected trading range (of 3.30-4%) and as we move further into the year the less confident we are that the market will actually reach the lower end of this trading range.

Figure 9: NAB Forecasts

	Current	Jun-13	Sep-13	Dec-13	Mar-14
RBA Cash Rate	3.00	2.75	2.75	2.50	2.50
AUD/USD	1.04	1.03	1.02	1.01	0.97
ACGB 10s	3.43	3.9	3.8	3.8	3.9
3 year swap rate	3.2	3.25	3.05	3.2	3.5
10 year swap rate	4.06	4.35	4.2	4.3	4.4

Figure 10: Economic Calendar 2013

April	May	June
Tuesday 2 RBA Rate Announcement RPData-Rismark House Prices, Sep **Wednesday 3** International Trade, Aug **Thursday 4** Retail Sales, Aug **Tuesday 9** NAB Business Survey, Sep **Wednesday 10** Consumer Sentiment, Oct US, Federal Reserve Beige Book **Thursday 11** Employment, Sep **Monday 15** Housing Finance, Aug **Tuesday 16** RBA Minutes, October Meeting **Wednesday 24** CPI, Q3 US, FOMC Rate Announcement	**Thursday 1** RBA Commodity Prices, Oct RPData-Rismark House Prices, Oct **Friday 2** PPI, Q3 **Monday 5** International Trade, Sep Retail Sales, Sep & Q3 **Tuesday 6** ABS House Prices, Q3 RBA Rate Announcement **Thursday 8** Employment, Oct **Friday 9** RBA Monetary Policy Statement **Monday 12** Housing Finance, Sep **Tuesday 13** NAB Business Survey, Oct **Wednesday 14** Consumer Sentiment, Nov US, FOMC Minutes, October Meeting **Tuesday 20** RBA Minutes, November Meeting	**Monday 3** RBA Commodity Prices, Nov Retail Sales, Oct RPData-Rismark House Prices, Nov **Tuesday 4** RBA Rate Announcement **Wednesday 5** GDP, Q3 **Thursday 6** Employment, Nov International Trade, Oct **Monday 10** Housing Finance, Oct **Tuesday 11** NAB Business Survey, Nov **Wednesday 12** Consumer Sentiment, Dec US, FOMC Rate Announcement **Tuesday 18** RBA Minutes, December Meeting

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