

# Residential-Plus Growth Company Ltd Investment Update

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## Investment Update – General Market Comment

The residential property market continues to be a major focus for many. We have all witnessed commentators predicting either the beginning of a downfall for residential property prices or simply a pause for breath before continuing to further heights. We have, for some time, had some concerns about the general quality of the debate on housing prices. Many of the commentators have vested interests in the views they promote. Adding to this are the often-conflicting data on residential property prices, making it more difficult for independent thinkers to form a view.

We were somewhat relieved when the Reserve Bank of Australia (“RBA”) released a paper on “Measuring House Prices”, in which they raised some concerns about the timeliness and quality of data used to measure house prices. In this fascinating paper, the RBA highlights some of the shortcomings of common measures of aggregate house prices, such as the Australian Bureau of Statistics, Real Estate Institute of Australia, Residex, Australian Property Monitors and CBA indices.

In its conclusion, the paper refers to “the difficulties in ascertaining exactly what is happening in this market.” If the RBA finds it difficult to gauge what is happening in the market, what chance is there for rest of us!

We believe this highlights the importance of taking a long-term view with any property investments. If there is a paucity of reliable and timely information, one has to seriously question the merit of making short-term assessments of the property market.

That said however, the RBA did conclude that there had been sufficient evidence to conclude that house prices had fallen during the first half of 2004. The bank valuations of the properties we have an interest in certainly don't contradict this conclusion.

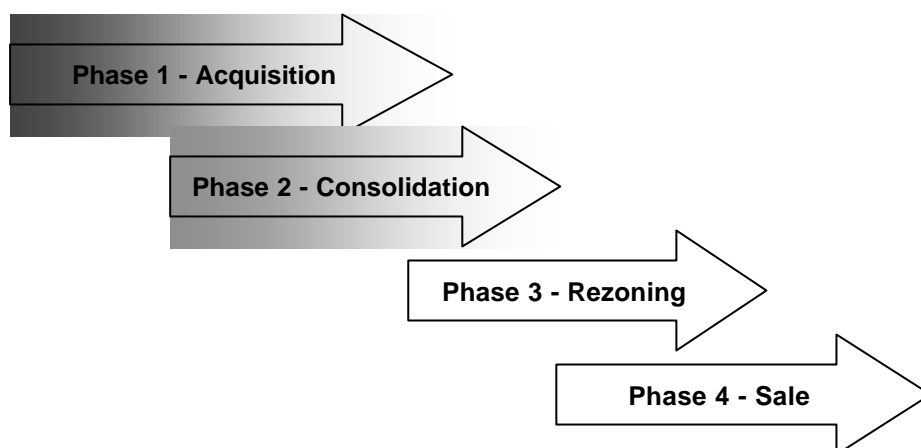
We believe there remain some substantial imbalances in the demand and supply for residential property (both for acquisition and rental). Softness in the rental market and record low yields on residential property are two measures that bear this out.

## Underlying Investments

A total of 43 properties have been acquired so far in the Sydney investment. These include a 12,500 square metre piece of land. This land was bought below the value our underlying manager had assessed and has considerable rezoning potential.

The consolidation strategy, a key driver of potential returns, is now well under way. Consolidation is taking place at nine separate sites, involving 30 properties. These adjacent acquisitions are crucial to the success of the investment, as it is by acquiring and consolidating adjacent properties that we expect to obtain increased housing density. The total number of properties rezoned will depend, amongst other things, on the number and proportion of adjacent properties owned.

Below we illustrate the four phases of our investment strategy. Phase 1 involves acquiring the properties. In phase 2, properties are sought for their ability to contribute to the consolidation of existing sites. We are now well into both the acquisition and consolidation phases of the investment strategy.



Phase 3 is perhaps the most difficult stage of the process, where we seek to rezone the consolidated properties. This is also where the bulk of the returns from the investment are likely to be generated. As a general rule, the larger the parcel of land, the better the odds for obtaining rezoning. Phase 4, the final one, is where we expect to see the justification for all the hard work when a property is sold.

We reached another milestone during the year, when we completed a second investment, this time focusing on Perth. This investment, based on the same principles as our initial investment, provides some diversification away from the Sydney market. As this is a new investment, there is little to report in the way of progress, except that 2 properties have already been acquired. We expect to have more to report on this investment in the coming months.

## Calls on Units

As a result of the most recent Sydney acquisition, we are likely to bring forward a small portion of the next scheduled call on units to fund this acquisition. The final call will still be due on 15 April 2005, which was flagged in the prospectus. We will advise you as soon as we have made a decision on this matter.

## Shareholder Information

This investment update is available on our website ([www.berkleygroup.com.au](http://www.berkleygroup.com.au)). Should you have any enquiries regarding your shareholding, you should contact Registries Ltd on 02 9279 0677.

If you have any questions regarding your investment in Residential-Plus Growth Company Ltd, you should speak with your financial consultant in the first instance or contact us on 02 8233 0200.

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