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Residential-Plus Growth Company Ltd Investment Update

June-September 2005

Quarterly Investment Update

General Market Comment

Recently, Grant's Interest Rate Observer (a leading independent US commentator on interest rates and markets) lauded Ian Macfarlane, the governor of the Reserve Bank of Australia, for his engineering of a "soft landing" to the Australian housing boom. Some in the US have looked to Australia for clues as to how to engineer a soft landing there. The US is in the midst of a housing bubble (although Alan Greenspan, Macfarlane's equivalent in the US, refuses to utter the word bubble, instead preferring the expression "froth").

The reason they may be looking to Australia is that the RBA has managed to deliver the much sough-after "soft landing" in residential property.

The script for a soft landing might read something like this: The RBA begins by talking up the prospects of rising interest rates, citing overheated property prices and credit growth. They follow through, raising rates marginally several times over time. Residential property prices continue to increase, but at a slowing rate. Then the RBA wins - without raising rates excessively, the market takes breath and prices flatten. An additional small rise then reinforces the message for those who may not have heard it.

This is almost exactly the script the RBA and the market have followed. Since the first talk of rising interest rates began, aggregate prices[1] have actually fallen, particularly in Sydney, Melbourne and Canberra.

Perth continues to show strong growth, largely driven by the resources boom in WA, but also partly because it was one of the last mainland capitals to join the party. Sydney, Melbourne and Canberra, in contrast, were the first to come to the party and the first to wake with a hangover.

While prices in Sydney may have continued to fall, if the RBA Governor's comments are anything to go by (when he recently suggested young people looking to buy their first home leave Sydney and go to other State capitals), there may be more changes ahead.

Sydney remains an expensive city in which to live, especially if you want to buy a house. For example, Sydney house prices are roughly ten times average state wages in NSW, whereas they are only seven times in Victoria and around six times in Queensland. In contrast, on a yield basis, renting is cheapest in Sydney, where gross yields are below 3%[2], compared to, say, Brisbane, where gross rental yields are closer to 4%.

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[1] Once again, although we use aggregate data, we do so with the necessary scepticism that dealing with aggregates requires – see our last quarterly report for more on this.
2 We've taken a slight liberty here by using yield, when in fact in dollar terms, Sydney remains the most expensive city.

We believe that while prices may remain subdued, we do not expect large falls in property prices while employment conditions remain positive. What we do expect is that prices will remain subdued for some time. We believe that gross rents (and as a result rental yields) will rise slowly to more sustainable levels.

Investments

The Sydney portfolio comprises 57 properties. There are 12 separate consolidated sites, involving 43 of the Trust's properties (last quarter it was 11 sites involving 36 properties). The commitment to Sydney represents around 74% of investors' commitments.

The largest site owned is in excess of 12,000 sqm. The second largest consolidation site (involving 11 adjoining properties) is in excess of 9,000 sqm.

Work has commenced the secondary planning phase, working with architectural consultants and local council engineering and planning staff to explore the projected highest and best use for each of the consolidated sites.

The broader Sydney residential property market remains in the doldrums, as high housing costs, declining population growth and the threat of rising interest rates increase the risk of an extended downturn.

The Perth portfolio consists of 8 properties. The largest site is almost 10,000 sqm - a former (but currently non-operational) 5-storey motel. The commitment to Perth represents around 26% of the Company's commitments.

Property prices in Perth remain strong, as discussed in the General Market Comment above. In Perth, the focus is on establishing more consolidation sites, as in Sydney.

Calls on Units

The final call on your share is expected to be due on 15 November 2005, which was flagged in the prospectus. We will confirm this shortly and advise you of the payment details.

Shareholder Information

This investment update is available on our website (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.
