

APPENDIX 13

Brothers & Newton, *Escalation Forecasts for Land Values in Tasmania*, April 2008

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Escalation Forecasts for Land Values in Tasmania

for

Transend Networks Pty Ltd



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Executive summary:

Instructing party:

Transend Networks Pty Ltd (Transend).

Purpose of report:

We have been commissioned to provide an expert opinion on escalation forecasts for land values in Tasmania from June 2008 to June 2014. The forecasts are to be included within a Revenue Proposal (RP) to the Australian Energy Regulator (AER).

The forecasts have been based on seven land types and further segmented into three geographical areas (Northern, North West and Southern regions) based on Local Government Areas (LGA) throughout Tasmania.

Land Types:

Industrial
Commercial
Residential
Rural residential
Rural (grazing)
Rural agricultural (cropping)
Rural forestry

Date of report:

24 April 2008

Conclusion:

Forecasts indicate an average annual real increase in land values across all sectors for the forecast period of 4.5%. Annual forecasts of land values (real) for the forecast period June 2008 to June 2014 are shown in the table below:

Forecasts (real) land values (June 2008 to June 2014)						
2008	2009	2010	2011	2012	2013	2014
5.33%	5.20%	5.06%	4.45%	3.86%	3.49%	3.95%

Source – Brothers & Newton

Forecast growth rates relating to the individual land types are show in the following table:

Land Type	Average Growth
Industrial	5.32%
Commercial	2.23%
Residential	2.61%
Rural Residential	2.41%
Rural (Grazing)	1.51%
Rural (Cropping)	8.89%
Rural (Forestry)	8.37%

Source – Brothers & Newton

Key assumptions:

- Information supplied contains a full and frank disclosure of all relevant matters
- Forecast future economic conditions and major projects will eventuate (for example, Gunns Pulp Mill at Bell Bay will proceed).

Limitations of the report:

- Statistical data regarding property markets is limited and this affects the ability of the authors to assess likely future changes in land values.
- In the future, with the benefit of hindsight, the forecasts provided in this report could be proven to be inaccurate.
- The forecasts are estimates of average trends across broad property sectors. Actual changes in specific properties will vary.

SECTION 1 Overview of report and methodology

1 | Overview and purpose of report:

Transend has engaged Brothers & Newton to provide independent expert advice on land value escalations for different property types and regions across Tasmania for the purposes of a Revenue Reset proposal to the Australian Energy Regulator (AER). This summary report provides an unbiased opinion of land value escalation forecast for the period from June 2008 to June 2014.

2 | Methodology:

The methodology employed in the preparation of this report and forecasts has been to:

- i. Review current and forecast economic conditions
- ii. Review past trends in property values and the current position of each sector in the market cycle and factors which will impact on the future performance of each sector of the property market
- iii. Consider the potential impact associated with proposed large scale developments throughout each geographical area (eg Gunns Pulp Mill on industrial development, proposed irrigation schemes on rural land values etc)
- iv. Form an impartial independent opinion of likely movement in land values.

We advise that there is a shortage of statistical data available for property markets and this affects the ability of the authors to analyse historic and future forecasts of changes in land values.

We have had reference to the Australian Bureau of Statistics (ABS) 'Australian System of National Accounts, 2006-07' (Cat 5204.0 table 83) time series data from June 1989 to June 2007. However this data is not subject to any geographical segmentation and is subject to relatively high levels of volatility due to relatively small sales numbers in some land classes.

This report presents forecasts of future values. These forecasts have been assessed based on information currently available. In the future, with the benefit of hindsight, the forecasts could be proven to be inaccurate.

The forecasts are estimates of average trends across broad property sectors. Actual changes in specific properties will vary to the estimates provided herein due to property and location specific issues such as subdivision, changes in zonings, development potential, the occupancy status and micro economic conditions.

Ultimately, whilst it is necessary to have regard to relevant information such as economic conditions and factors affecting property markets, forecasts of property and land values is subjective. We contest Brothers & Newton, with considerable experience in Tasmania's property market including analysis of past and current property values, is well placed to make an independent and impartial assessment of likely forecasts of land values in Tasmania.

SECTION 2

Overview of economic conditions and forecasts

3 | Economic and demographic overview of Tasmania:

The following is an overview of the state of the economy and demographic profile of Tasmania as at February 2008. This commentary should not be viewed as expert advice on these matters but rather viewed as background information in the context of broad impacts on the property market. This commentary is based on information from various sources including newspaper articles, Australian Bureau of Statistics data, the Tasmanian state government, and in part sections are reproduced from various economic commentaries.

Economic commentators believe the biggest risk facing the global economy is associated with credit due to the lack of liquidity and potential house price falls within the US which may create a US recession. The strength of the Australian economy is directly based on the performance of China's growth and although interest rates are rising, increasing levels of demand for commodities such as coal and iron ore resulting in price rises, good levels of business investment and the Rudd Federal Government promising tax cuts with job growth remaining strong. The forecast for GDP growth is between 3 to 4.5% for the next five years. The future growth of the property sector is linked to the economic performance of the Australian economy.

Economically, Tasmania's gross state product grew in real terms by 2.1% during 2006-07 showing a decline in growth from the 3.1% achieved in real terms during 2005-06. Economic performance has been illustrated by good gains in employment levels, lower unemployment (and a reduced gap between Tasmanian and Australian unemployment rates), a surge in housing prices, a big lift in disposable incomes and a sharp turnaround in interstate migration.

In November 2007 Tasmania's unemployment rate was 5.1% compared to 4.8% during September 2007, down from 6.3% in July 2006, however still considered low by historic levels. Tasmania's unemployment rate along with the Northern Territory is the highest in the country and is approximately 1% above the national average.

At its meeting in March 2008 the Reserve Bank of Australia decided to increase the cash target rate by 0.25% to 7.25%. With the Australian economy at "full" capacity, a resources boom, and wages growth, this may place pressure on prices of goods and services resulting in higher inflation. Combined with a credit squeeze caused by the US sub-prime mortgage lending crisis, these factors could result in further increases in mortgage interest rates.

As a consequence of higher resource prices, there is renewed interest in mining and exploration in Tasmania, which in parts is rich in mineral deposits. Primary mining activity is concentrated around the North West and west coasts of Tasmania.

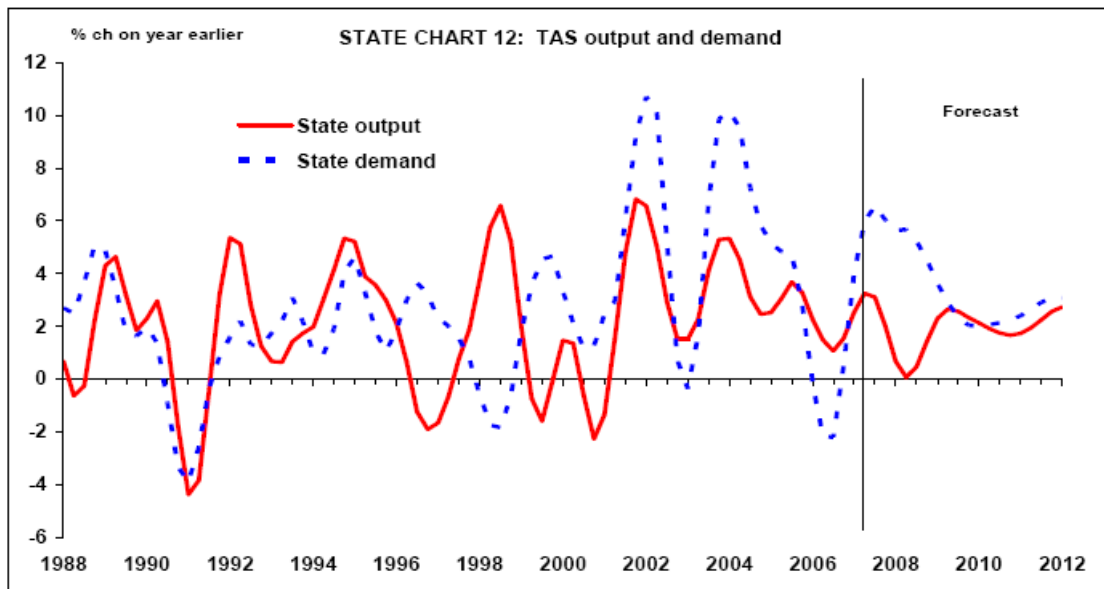
Notably the North West coast is experiencing renewed optimism. The City of Burnie in particular has been known as an industrial town, however closure of major industry, environmental rehabilitation and a progressive Council have helped to transform the City. The "Bay Renaissance" multi level residential development is under construction and is the first of its kind on the coast. Most of the units are now sold. The nearby coastal town of Ulverstone has also experienced solid capital growth.

On 4 October 2007 the Federal Minister for the Environment approved a large scale pulp mill at Bell Bay which is to be built by Gunns Limited. The cost of the project has been recently finalised at \$2 billion following negotiation with civil and building contractors. Gunns Limited have recently announced that they expect the project to be completed by July 2010, however the Gunns board has not approved the project nor has financing issues been resolved. The economic influence of the project for the state will be enormous. The project will have a positive affect on the real estate market in the Tamar Valley district, and more particularly give George Town and Bell Bay a significant injection of capital and increased economic activity.

In recent years the economic climate has improved considerably and combined with major infrastructure projects and in particular the Tasmanian Gas Pipeline and Basslink (link to national electricity grid) this has resulted in a turnaround in the industrial property market in Tasmania.

4 | Graphs of economic forecasts

The chart below depicts Tasmanian output and demand from 1988 to sourced from Access Economic Business Outlook December 2007.



Source - Access Economics

SECTION 3

Property market commentaries

The following is a brief overview of the relevant property sectors and discussion of factors which may impact on future land values.

4.1 Summary of forecast Industrial trends:

In terms of future value trends, we expect property specific factors, such as the occupancy status and tenancy profile, will continue to impact on values although the industrial market is experiencing renewed optimism and growth in rentals and firming investment yields, which has not been seen for many years. This sector is considered to be towards the mid to upper section of a growth phase with potential for further increases in land values particularly in the North and North West due to major investment activity and demand from the mining sector.

4.2 Summary of forecast Commercial trends:

Overall the office property market is in a period of growth however the sustainability of these trends will depend on the level of construction activity and economic conditions. Most of Tasmania's supply and demand for office accommodation is concentrated in Hobart due to the prevalence of public sector offices in the capital city. There are a number of large scale office developments within Hobart that will likely be completed during the next 2-3 years. At present the viability of developments is marginal and accordingly we expect the commercial land sector within Tasmania to experience relatively low growth rates during the next 3-5 years.

4.3 Summary of forecast Residential and rural Residential trends:

During the next few years in global land values may be adversely affected by a decline in sales volumes resulting in increased holding costs, and upward pressure on development costs. However given the shortage of residential accommodation evidenced by historically low rental vacancy rates we consider that this sector will remain subject to reasonable levels of demand however growth rates are expected to stabilise during the next 3-5 years.

Despite expecting a slow down, the market has been surprising resilient to recent increases in interest rates. Statistics for January 2008 reflect changes in the annual moving median house prices for all major centres over the previous 12 months are as:

<i>Hobart</i>	<i>8.9%</i>
<i>Launceston</i>	<i>8.7%</i>
<i>Burnie</i>	<i>11.3%</i>
<i>Ulverstone</i>	<i>13.1%</i>
<i>Devonport</i>	<i>14%</i>

Source- REIT Tasmanian Property Market

4.4 Summary of forecast Rural trends:

In recent years property owners have seen the benefit in diversification from pure grazing properties to include some irrigated cropping and irrigated pastures for fattening of livestock and dairy farming. The increase in demand for rural properties has seen dramatic increases in values, particularly over the past two year period.

Tasmania's relatively regular rainfall compared to interstate, particularly in northern and north western Tasmania, and global trends in terms of demand for agricultural produce and bio-fuels, will likely result in this sector being one of the best performing sectors.

SECTION 4

Escalation forecasts of land values

5 | Concluding comments:

The most significant issue facing Tasmania is encouraging business and government to invest in the state in order to overcome and manage the ageing population, and undertake capital works and infrastructure projects which are otherwise likely to restrict potential capacity for growth.

Large scale development projects such as the Gunns Pulp Mill, commercial expansion within the emerging 'bulk goods' precinct in Cambridge and the discount factory outlet (DFO) together with the expansion of the minerals/mining sector on the West Coast and gas field projects in Bass Strait are likely to be some of the more significant projects to have positive impact on the State's economy and industrial property values during the next decade.

6 | Brothers & Newton Forecasts:

The following table indicates our forecasts relating to the seven property classes and the average price escalation across all sectors. The forecasts have been assessed having regard to the foregoing commentary and are provided in real terms.

Forecasts (real) of land values for year ending June in Tasmania as at February 2008

	2008	2009	2010	2011	2012	2013	2014	Average Growth Category	Average Growth Sector
CEG inflation forecasts	3.00%	2.80%	2.40%	2.41%	2.52%	2.51%	2.43%	2.58%	
Industrial South	5.00%	5.20%	5.60%	5.59%	4.48%	2.49%	0.57%	4.13%	
Industrial North	7.00%	8.20%	9.60%	8.59%	7.48%	6.49%	5.57%	7.56%	
Industrial North West	7.00%	7.20%	5.60%	3.59%	2.48%	1.49%	2.57%	4.28%	5.32%
Commercial South	2.00%	2.20%	1.60%	1.59%	1.48%	1.49%	2.57%	1.85%	
Commercial North	3.00%	3.20%	2.60%	2.59%	2.48%	1.49%	3.57%	2.70%	
Commercial North West	3.00%	2.20%	2.60%	1.59%	1.48%	1.49%	2.57%	2.13%	2.23%
Residential South	2.00%	1.20%	0.60%	1.59%	2.48%	3.49%	4.57%	2.28%	
Residential North	3.00%	2.20%	1.60%	1.59%	1.48%	2.49%	3.57%	2.28%	
Residential North West	4.00%	4.20%	3.60%	2.59%	2.48%	2.49%	3.57%	3.28%	2.61%
Rural Residential South	2.00%	1.20%	1.10%	1.59%	2.48%	2.49%	3.57%	2.06%	
Rural Residential North	3.00%	2.20%	1.60%	1.59%	2.48%	3.49%	4.57%	2.70%	
Rural Residential North West	3.00%	2.20%	1.85%	1.59%	2.48%	2.49%	3.57%	2.45%	2.41%
Rural (Grazing) South	2.00%	1.20%	0.60%	-0.41%	-2.52%	-1.51%	2.57%	0.28%	
Rural (Grazing) North	3.00%	2.20%	1.60%	1.59%	1.48%	0.49%	1.57%	1.70%	
Rural (Grazing) North West	4.00%	3.20%	2.60%	2.59%	2.48%	1.49%	1.57%	2.56%	1.51%
Rural Agricultural (Cropping) South	7.00%	8.20%	9.60%	7.59%	6.48%	5.49%	5.57%	7.13%	
Rural Agricultural (Cropping) North	9.00%	9.20%	10.60%	9.59%	8.48%	7.49%	6.57%	8.70%	
Rural Agricultural (Cropping) North West	12.00%	12.20%	11.60%	10.59%	9.48%	9.49%	10.57%	10.85%	8.89%
Rural Forestry South	7.00%	7.20%	5.60%	5.59%	3.48%	3.49%	2.57%	4.99%	
Rural Forestry North	12.00%	12.20%	13.60%	11.59%	9.48%	7.49%	5.57%	10.28%	
Rural Forestry North West	12.00%	12.20%	12.60%	10.59%	8.48%	7.49%	5.57%	9.85%	8.37%
Average Growth pa	5.33%	5.20%	5.06%	4.45%	3.86%	3.49%	3.95%	4.48%	4.48%

Source - Brothers & Newton

6.1 Average forecast land value escalation

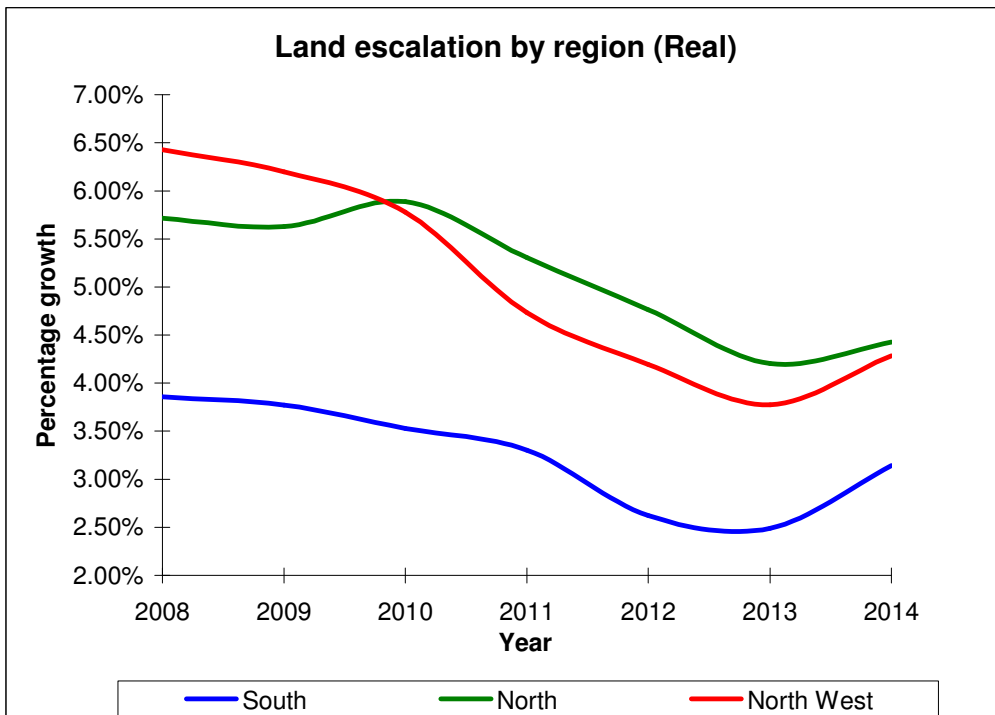
The previous land escalation values for the five financial years from 1 July 2009 to 30 June 2014. The average of these forecasts across all sectors reflects 4.48% per annum.

The real and nominal growth rates by the three Tasmanian regions are shown in the following tables and graphs:

Real land escalation by region

	2008	2009	2010	2011	2012	2013	2014	Average Growth Region
South	3.86%	3.77%	3.53%	3.30%	2.62%	2.49%	3.14%	3.25%
North	5.71%	5.63%	5.89%	5.30%	4.77%	4.20%	4.43%	5.13%
North West	6.43%	6.20%	5.78%	4.73%	4.19%	3.78%	4.28%	5.06%

Source - Brothers & Newton

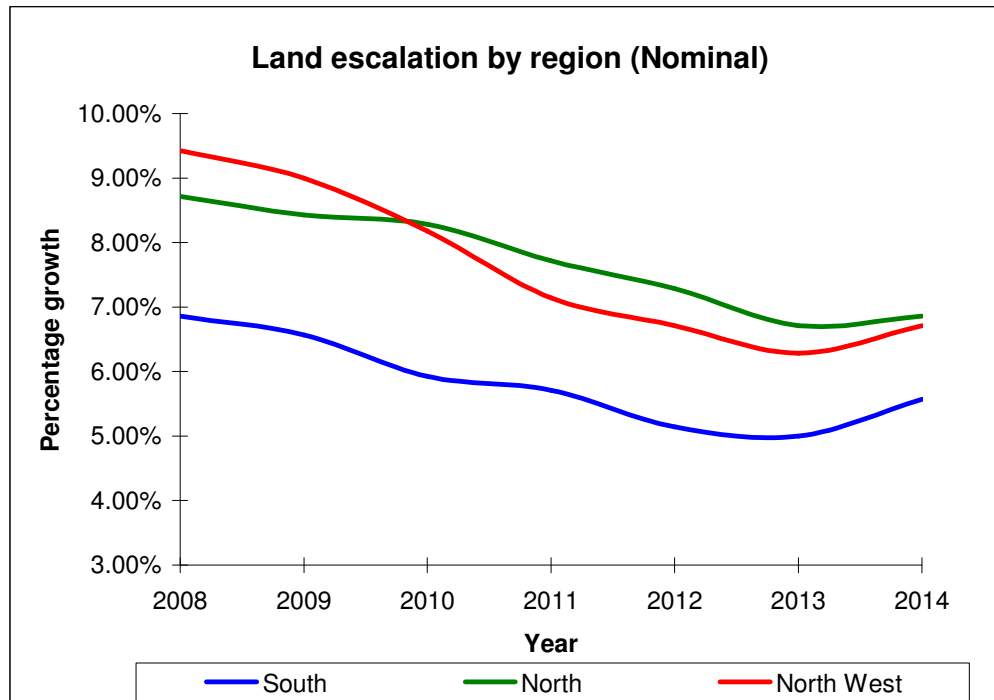


Source - Brothers & Newton

Nominal land escalation by region

	2008	2009	2010	2011	2012	2013	2014	Average Growth Region
South	6.86%	6.57%	5.93%	5.71%	5.14%	5.00%	5.57%	5.83%
North	8.71%	8.43%	8.29%	7.71%	7.29%	6.71%	6.86%	7.71%
North West	9.43%	9.00%	8.18%	7.14%	6.71%	6.29%	6.71%	7.64%

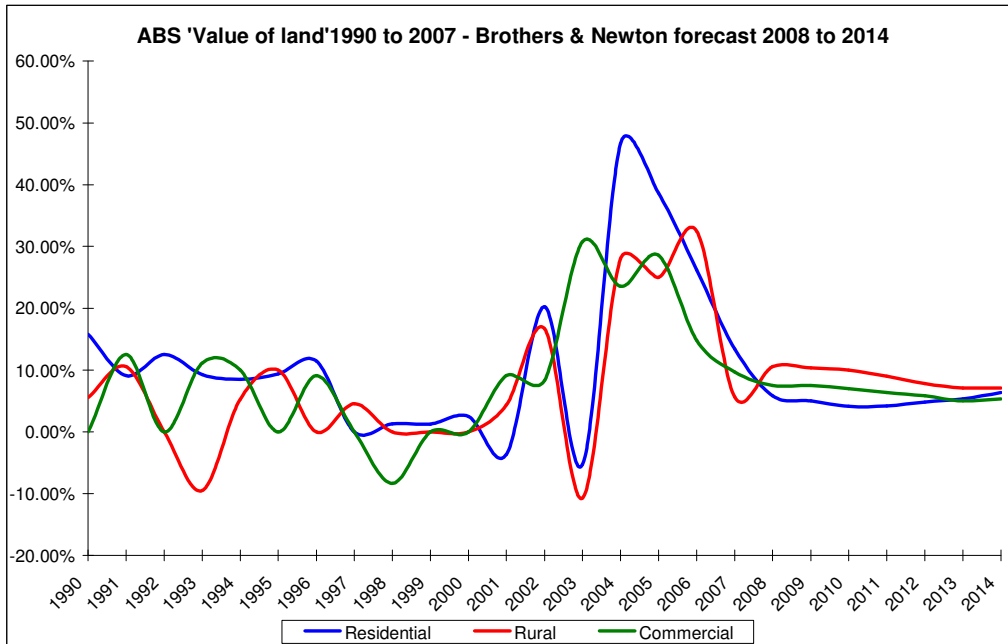
Source - Brothers & Newton



Source - Brothers & Newton

The higher growth rates attributed to the north regions result from the location of the prime rural land within these areas.

The following graph depicts nominal percentages. Our forecast of relatively stable growth rates during the forecast period compared to the substantial growth rates achieved during the period 2002 to 2007.



Source - Brothers & Newton

Thank you for relying on Brothers & Newton Pty Ltd to provide this report. Should you have any queries regarding the report or forecasts please contact the authors.

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Date of issue: 24 April 2008

7 | **Qualifications and disclaimers:**

We certify that the authors and firm do not have any conflict of interest, or direct, indirect or financial interest in relation to this consultancy.

This advice and forecasts are current as at the date of this report. The forecasts assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property sector or geographical location). We do not accept liability for losses arising from such subsequent changes in value. Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this advice is relied upon after the expiration of three months from the date of the report. We recommend forecasts of values be reviewed at regular intervals.

This report has been prepared for the private and confidential use of our client, Transend Networks Pty Ltd for review of revenue pricing purposes. It should not be reproduced in whole or part without the express written authority of Brothers & Newton Pty Ltd or relied upon by any other party for any purpose and the valuer shall not have any liability to any party who does so. Our warning is registered here, that any party, other than those specifically named in this paragraph should obtain their own valuation before acting in any way in respect of the subject property.

Appendix 1



Appendix 2

Tasmania Local Government Areas - Geographical Division

Southern Tasmania

Brighton Council
Central Highlands Council
Clarence City Council
Derwent Valley Council
Glamorgan Spring Bay Council
Glenorchy City Council
Hobart City Council
Huon Valley Council
Kingborough Council)
Sorell Council
Southern Midlands Council
Tasman Council

North Western Tasmania

Burnie City Council
Central Coast Council
Circular Head Council
Devonport City Council
Dorset Council
Kentish Council
King Island Council
Latrobe Council
Waratah-Wynyard Council
West Coast Council

Northern Tasmania

Break O'Day Council
Flinders Council
George Town Council
Launceston City Council
Meander Valley Council
Northern Midlands Council
West Tamar Council

Appendix 3

Forecasts (nominal) of land values for year ending June in Tasmania as at February 2008

	2008	2009	2010	2011	2012	2013	2014	Average Growth Category	Average Growth Sector
CEG inflation forecasts	3.00%	2.80%	2.40%	2.41%	2.52%	2.51%	2.43%	2.58%	
Industrial South	8.00%	8.00%	8.00%	8.00%	7.00%	5.00%	3.00%	6.71%	
Industrial North	10.00%	11.00%	12.00%	11.00%	10.00%	9.00%	8.00%	10.14%	
Industrial North West	10.00%	10.00%	8.00%	6.00%	5.00%	4.00%	5.00%	6.86%	7.90%
Commercial South	5.00%	5.00%	4.00%	4.00%	4.00%	4.00%	5.00%	4.43%	
Commercial North	6.00%	6.00%	5.00%	5.00%	5.00%	4.00%	6.00%	5.29%	
Commercial North West	6.00%	5.00%	5.00%	4.00%	4.00%	4.00%	5.00%	4.71%	4.81%
Residential South	5.00%	4.00%	3.00%	4.00%	5.00%	6.00%	7.00%	4.86%	
Residential North	6.00%	5.00%	4.00%	4.00%	4.00%	5.00%	6.00%	4.86%	
Residential North West	7.00%	7.00%	6.00%	5.00%	5.00%	5.00%	6.00%	5.86%	5.19%
Rural Residential South	5.00%	4.00%	3.50%	4.00%	5.00%	5.00%	6.00%	4.64%	
Rural Residential North	6.00%	5.00%	4.00%	4.00%	5.00%	6.00%	7.00%	5.29%	
Rural Residential North West	6.00%	5.00%	4.25%	4.00%	5.00%	5.00%	6.00%	5.04%	4.99%
Rural (Grazing) South	5.00%	4.00%	3.00%	2.00%	0.00%	1.00%	5.00%	2.86%	
Rural (Grazing) North	6.00%	5.00%	4.00%	4.00%	4.00%	3.00%	4.00%	4.29%	
Rural (Grazing) North West	7.00%	6.00%	5.00%	5.00%	5.00%	4.00%	4.00%	5.14%	4.10%
Rural Agricultural (Cropping) South	10.00%	11.00%	12.00%	10.00%	9.00%	8.00%	8.00%	9.71%	
Rural Agricultural (Cropping) North	12.00%	12.00%	13.00%	12.00%	11.00%	10.00%	9.00%	11.29%	
Rural Agricultural (Cropping) North West	15.00%	15.00%	14.00%	13.00%	12.00%	12.00%	13.00%	13.43%	11.48%
Rural Forestry South	10.00%	10.00%	8.00%	8.00%	6.00%	6.00%	5.00%	7.57%	
Rural Forestry North	15.00%	15.00%	16.00%	14.00%	12.00%	10.00%	8.00%	12.86%	
Rural Forestry North West	15.00%	15.00%	15.00%	13.00%	11.00%	10.00%	8.00%	12.43%	10.95%
Average Growth pa	8.33%	8.00%	7.46%	6.86%	6.38%	6.00%	6.38%	7.06%	7.06%
Average Growth region									
South	6.86%	6.57%	5.93%	5.71%	5.14%	5.00%	5.57%	5.83%	
North	8.71%	8.43%	8.29%	7.71%	7.29%	6.71%	6.86%	7.71%	
North West	9.43%	9.00%	8.18%	7.14%	6.71%	6.29%	6.71%	7.64%	