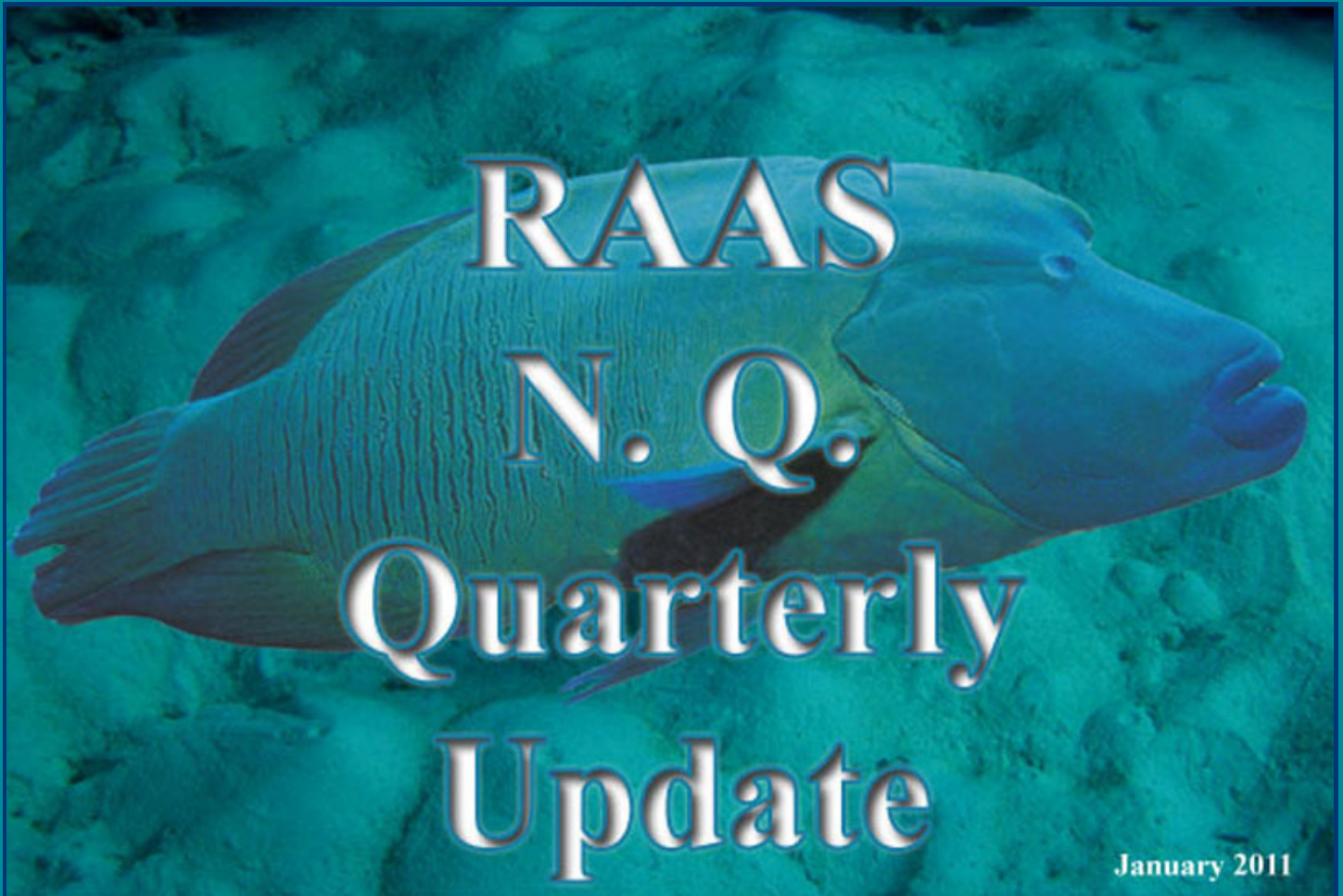


STOP PRESS

This document was prepared "pre-Yasi." It is too early to determine either the scale of the damage or the impacts that will be felt. Also, all of the statistics compiled and reports referred to in this document occurred "pre-Yasi." Please do not feel for one minute that we are not aware of this latest natural disaster. I am sure distilled assessment of the impacts of "Yasi" will be the subject of future RAAS N.Q. Updates. We hope all our readers are safe and sound.



THE STATE OF THE MARKET

By Geoff Glanville RAAS Director.

Welcome to 2011 and our latest quarterly RAAS N.Q. Update. What a way to start a year!! Times are uncertain so all the more reason to take stock and plan effectively for the future. As you may be aware The RAAS Group subscribes to Herron Todd White's excellent publication "The Month in Review" We additionally subscribe to the authoritative Midwood Report (www.midwoodaustralia.com) which records movements in Hotel rooms, Motel rooms and Serviced apartments and these figures provide a snapshot of the whole short term industry. We flesh all this out by a subscription to the Matusik Report (www.matusik.com.au) as well as feedback from the some 300 RAAS on site managers in Queensland. Pontificating about the future is fraught with risks at the best of times. It is riskier still when you are preparing a document a few weeks after one of Australia's largest and most expensive natural disasters. That said, and after acknowledging the tragic losses suffered, here is a comment you won't hear often on the nightly news... **"The Queensland Floods may be the best financial news Queensland has seen for some time"**

To understand the basis of this bold statement let's look first at an excerpt from the latest Midwood Report on the current Queensland economy. You don't have to be a student of economics to get the drift:

"A central measure of economic activity is Final Demand, which encompasses public and private investment and consumption. Queensland ranks behind all other states for this statistic at 7.8% in October 2010 – and they call NSW a basket case. In comparison, NSW Final Demand was 14.0% in October 2010 and WA was 22.7%. Other significant statistics include: Household consumption expenditure is the lowest in Queensland (except from Tasmania) at 2.2%, and Private gross fixed capital formation is the lowest in Queensland (except for Tasmania) at -5.6%. Queensland's economy has stalled, and this is due partly to a decline in population increase, in particular interstate migration, which has fallen to its lowest level in 25 years All of this is despite coal prices having increased by

43.7% in the 12 months to September 2010, measured in US dollars. So what is the problem? Well, it's consumption, or a dire shortage of it. The Queensland economy has historically relied on population growth. It is a large state, which is sparsely populated outside of Brisbane and the Gold Coast. Population growth fuels housing construction and the obvious multiplier effects for the related building trades and professionals."

It will be the cash injection into the Queensland economy as a result of the floods that will generate this much needed consumption boost. Michael Matusik takes up this idea much more eloquently than I in his latest January Report, excerpts of which are copied below.

"Please note that the flood's true impact is a watching brief, but there are things that I think need to be said, some of which are not being commented upon (yet) in the mainstream media.

Ø This is a year of two halves; business will be hard hit for the next three to six months, after which things should improve and markedly. Assuming that most legitimate insurance claims come through, the Queensland economy is likely to be stronger during calendar 2011 than would have been the case without the flood. Yes, you have read that right! Next year and beyond looks even better. We just have to get through the next three months or so.

Ø Interest rates could fall by 0.25% in coming months, correcting the unnecessary hike last November. Remember, other parts of the country are now flooding too. Rates could stay low for much of this year, despite lifts in headline inflation. The underlying rate of inflation will rise, but I think not persistently enough to warrant a rate rise.

Ø just 1.5% of the securitised mortgages across Queensland have been affected. We expect end values across SEQ to drop between 5% and 8% as a result; much of this in the first half of this year, with most of these losses potentially being regained during financial 2012. We were forecasting a 5% decline in values for the first half of 2011 prior to the flood anyway.

A much smarter man than I, told me last week that those affected will try to rebuild their lost wealth, which in time will generate demand in retail, construction and other labour intensive industries, resulting in a stronger Queensland economy (again, in time), than otherwise would have been the case. Newcastle's rebound after the 1989 earthquake was remarkable, surprising many - some of whom had claimed that the city was all but finished. Once the insurance money starts to roll in and the rebuild starts in earnest, south east Queensland is likely to follow a similar trajectory."

Let's now look at some of the stats generated from these various sources, particularly HTW's comments in December 2010 and the Midwood Reports as they relate to the Cairns, Townsville and Mackay markets.

HTW CAIRNS

"In February 2010 the Cairns economy was doing it tough from the slowdown in its two major industries of tourism and construction, and we were expecting soft economic and property market conditions to prevail for most of this year. And we were pretty well right. The Cairns residential property market during 2010 has continued to languish at the bottom of the property market cycle, experiencing slow demand but nevertheless maintaining a degree of resilience.

Volumes of real estate sales during 2010 have remained low, significantly below peak market conditions in 2007 and the first home buyer grant induced activity of 2009. In general terms since 2007, the volumes of property sales in Cairns have come down by about 40% for houses, 60% for units, and 80% for vacant land.

HTW TOWNSVILLE

Throughout 2010 Townsville's residential property market continued to consolidate with confidence continuing to return. Our residential property clock however has not advanced from the 'start of recovery' phase, which we have been stuck in since the start of 2010. During the past year, economic uncertainty surrounding the Mining Super Tax saw the residential property market well and truly spooked, effectively flat-lining the market over much of the June 2010 quarter.

With the Mining Super Tax issue now resolved, the latest statistics for the September quarter indicate that the number of house sales has picked up slightly over the quarter, although it still remains slow overall. The median house price is approximately \$370,000 as at August 2010, which is not much different from the \$365,000 median in August 2007. This indicates that the median house value has changed little now for the past three years. The volume of sales within the unit market has continued to soften with low volumes filtering through our statistics."

HTW MACKAY "The year certainly started with probably more pessimism than optimism in the Mackay market. Coming off the back of the GFC, and a slowing market through 2009, the signs for a bright 2010 were pretty thin. However, it can be said that Mackay has weathered the market troubles reasonably well when compared to other areas. The market appears to have held its own on previous levels, even

in the face of rising interest rates, the proposed mining tax, and general affordability issues. Some sectors have even surprised, including the rural lifestyle/residential market which appears to have gained some momentum during the year, and the top end (above \$600,000) which has found some friends over the past six months with a number of sales occurring. In saying all of the above however, agents are still reporting softer demand, particularly since the last interest rate rise."

Across the 3 N.Q. regions HTW sees the market as either at the bottom or in the early phases of recovery. They also see the "Rental Vacancy Trend" as "Steady."

Many of the readers of this North Queensland RAAS Newsletter would be interested in some statistics relating to occupancy rate and tariff movements in the short term accommodation industry over the last couple of years. This information is available to the RAAS Group by way of our subscription to the authoritative MidwoodReport. (www.midwoodaustralia.com).

MIDWOOD CAIRNS

Unfortunately the ABS did not release complete data for accommodation in Cairns in its latest 8635.0 catalogue. Therefore, it is difficult to decipher how the individual markets of hotels, motels and serviced apartments in Cairns performed in the three months ending June 2010.

As Midwood states, ***"What we can establish is that supply increased slightly from a total of 11,403 rooms in the June 2009 quarter to 11,491 rooms in the June 2010 quarter (+1%), but demand continued to fall to approximately 525,719 room nights sold (-2% over 2009).***

Average room rates have declined to an average of \$126.91 per night in the period, very close to the \$121.02 nightly average recorded in the March quarter. Average rates were up to \$131.60 per night in the June 2008 quarter and \$136.10 per night in the June 2007 quarter.

In terms of takings, Cairns was one of only two regions to record a decrease in this category in the latest June quarter (-3% to \$66.8m over 2009). The other region was the Gold Coast with a 1% decline to \$95.6m. Midwood records movements in Hotel rooms, Motel rooms and Serviced apartments and these figures provide a snapshot of the whole short term industry." Their commentary on permanent rentals in Cairns has little good news as well. "Residential weekly rents in Cairns continue to be sluggish with negative or zero growth over the Sept 2009-10 quarters. Townsville has seen much better growth at the rate of 3-10%. The Queensland average growth rate over the same period for the same categories was between 2 and 3%."

These figures point up the need for some serious work to be done on the Far North Qld economy. The Far North draft action plan tabled recently by Regional Development Australia needs to be actioned as a priority.

MIDWOOD TOWNSVILLE

Things are looking a little more positive in the northern capital which some put down to the broader economic base and positive flow on from the mining boom. Midwood states: ***"Accommodation in Townsville continues to be the most affordable of all major Queensland regions. Nightly room rates averaged \$120.58 in the latest June quarter, regaining the 3% decline recorded in the June 2009 quarter (to \$117.28).***

Demand for hotel accommodation in Townsville declined by 29% from 55,759 to 39,474 room nights sold in the June 2009 quarter, but the June 2010 quarter confirms a rebound to 2008 levels where 52,760 room nights were sold (+34% over 2009). There was only a slight decline in demand for motels and serviced apartments (-1%) in the June 2010 quarter.

Despite supply of hotel accommodation increasing by 13% in the period, hotel occupancies increased by significant 11% to an average of 62.4%. Whilst this is a positive result, it is still well below the 73.8% average recorded in the June 2008 quarter.

Total accommodation takings were also up by 11% to \$20.4m in the latest quarter, on par with 2008 levels. ... a mixed bag of results for residential rents in Townsville over the Sept 2009-10 quarters. Popular one-bed flats (suitable for fly-in, fly-out workers) grew by 10% over the period to an average of \$230 per week, and three-bed homes by 3% for \$330 per week, but the remaining categories were either steady or in decline".

MIDWOOD MACKAY/WHITSUNDAYS

"The accommodation market in the Whitsundays continues to remain flat in the June quarter with average occupancies at 45.6%. This compares to 44.8% in the June 2009 quarter and 48.4% in the June 2008 quarter.

Average nightly room rates continue to increase, reaching a high of \$210.28 as at 30 June 2010. The Whitsundays has the second highest average nightly room rate for all major Queensland regions, behind the Great Barrier Reef Islands at \$287.79... ABS data shows that demand for accommodation in the Whitsundays equated to a total of 119,256 room nights sold in the June 2010 quarter, representing a minimal 1% decline over 2009 (119,924 room

nights sold). In 2008, however, demand was reaching 126,814 room nights sold in the corresponding quarter."

Now I know there are a lot of stats here, but I for one get the distinct impression that we have found bottom and that operators who provide a superior service will start to see a positive change of direction from mid-2011 onward.

RAAS RIGHTS RECEIVES THE APPOINTMENT TO SELL MANAGEMENT RIGHTS TO "THE DALGETY" TOWNSVILLE.

"Does an "Off the Plan" Management Rights Opportunity, in a major growth region, where you can actually inspect the finished product seem an appealing prospect?? Do you like the idea of building a substantial business from the ground up while living in North Queensland's newest and most prestigious residential complexes?" If so the Management Rights for The Dalgety Townsville might well be for you!!"

Sitting right in the heart of the Townsville CBD at 1 to 13 Sturt Street, "The Dalgety" offers you the opportunity to complete a business dream that started in 1924 when iconic Australian pastoral firm Dalgety & Co Ltd constructed its North Queensland warehouse and offices headquarters on this very site. Fast forward to 2011 and the heritage listed facade and name has been retained, but erected above it, is the northern capital's tallest residential building, offering owners and tenants the opportunity to enjoy Townsville's newest piece of history.

The Dalgety's contemporary design ensures each apartment's position enables residents and guests to take advantage of the unrivalled panoramic views, which reach from Magnetic Island, and the picturesque Mt Louisa, Mt Stuart, Castle Hill and Hervey's Range.

The complex offers residents, tenants and guests uncompromised luxury with its fully equipped gymnasium and a spectacular, landscaped roof-top swimming pool and BBQ area affording 360 degree views. There are 117 apartments made up of 42x 1 bedroom; 66 x 2 bedroom; 8 x 3 bedroom and 1 x 4 bedroom penthouse. Befitting a building of this size and quality, it has been designed to be operated and maintained by a professional on site management team.

Though The Dalgety settled in late 2010 it has yet to operate under the usual Management Rights structure. (The simple transition into this standard structure was disrupted when the developer of the complex went into receivership.)

Receivers PPB are currently redressing this situation and "The Dalgety" management rights and the associated 9th floor managers unit will formally come on the market in the very near future.

This is a rare opportunity to complete The Dalgety dream. It will offer immediate first class returns and unprecedented potential to further develop the business into a North Queensland icon.

To ensure you are among the first to receive details on this pending opportunity, contact

Robert Collins 0404 678 792 robert@raas.com.au

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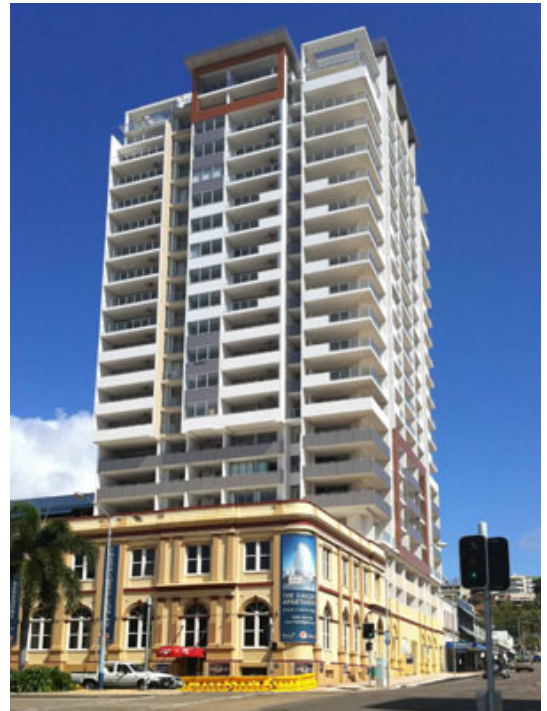


www.raasrights.com.au

TRUSTED ADVISORS



By Danny Adams N.Q. Lending 0408 772295



If you were thinking of flying a plane (assuming you are not qualified) then a quick breeze over the "Flight Instruction Manual" would be beneficial. In fact, better still, maybe some "one on one" training with a Professional Instructor would result in a more successful take-off and landing.

In life we are regularly presented with opportunities to move forward positively. Frustration however is often evidenced as a common by-product of not making progress. You wheel-spin, move sideways and sometimes go backwards. Inefficiencies create anxiety, concern and often result in potentially worthwhile charters being cast aside for another day or abandoned altogether.

In years gone by, the study of the "Instruction Manual" or "Hand Book" was perhaps the only resource we had at our disposal or worse we had to make do with what we had. Today with the advent of the Internet we have witnessed the "Worlds Biggest Do-It-Yourself" resource centre.

In conjunction with our own self education however, the most valuable assistance that can carry us in good stead is often the "Trusted Advisor". Since day one people have consulted others that they believe have qualities that will assist in their endeavours. Past experience, superior knowledge, wisdom, etc. through the ages have witnessed a sharing of thoughts that may have aided the beneficiary. God instructed Noah to build an Ark but it seems Noah still asked plenty of questions of his most trusted advisor.....boat floats, successful voyage, 2x etc. etc. etc.

Many successful business people convey the impression that a good part of their success results from making their own decisions however when pressed they will also admit that they that surround themselves with other successful people that they confide in and trust.

I insist on my clients seeking guidance from and engaging the services of experienced, qualified industry specialists in areas such as law, accounting, insurance, financial planning and even your wills. (If you are going to be successful and make a whole heap of money then you may as well leave to the parties you wish to have it!).

Give it some serious thought "Invest" in Trusted Advice don't just leave it to chance. Mistakes are costly, wheel spin is costly, missed opportunity is.....

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