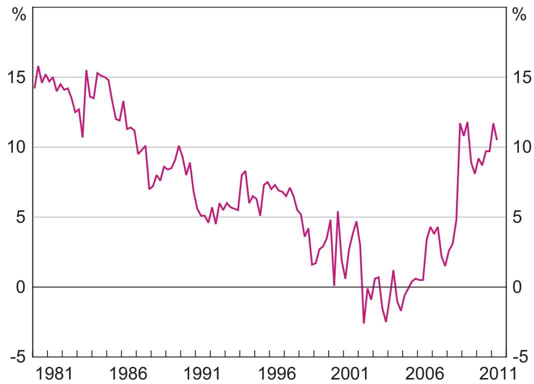
3. Household and Business Balance Sheets

The household sector is continuing to consolidate its financial position. Over the past year, the household saving rate increased further and the debt-to-income ratio declined slightly. Given that household net worth declined in the wake of renewed volatility in global financial markets, the prevailing mood of caution appears unlikely to lift in the near term. While households in aggregate are managing their debt levels well, the mortgage arrears rate drifted up over the first half of the year. However, this mainly relates to loans taken out prior to 2009, when banks' lending standards were weaker; newer loans are performing well despite the increase in interest rates last year. The business sector is also experiencing mixed conditions: the mining and related sectors continue to benefit from the resources boom, while other sectors, including retail, are facing headwinds from subdued domestic household spending and the high exchange rate. Measures of profits and business confidence have therefore diverged between sectors. Having deleveraged considerably, the business sector is in a better financial position than it was several years ago, but its demand for external funding remains weak.

Household Sector

The financial position of the household sector continues to be shaped by a more cautious attitude to spending and borrowing, as evidenced by the considerable increase in the household saving rate (Graph 3.1). After trending up since the mid 2000s, the household saving rate rose further over the past year, reaching 10½ per cent of disposable income in the June quarter. It is now at levels similar to those last seen in the mid 1980s.

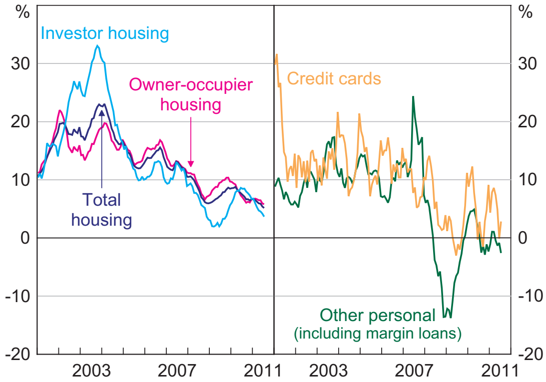
Graph 3.1
Household Saving
Per cent of household disposable income



Source: ABS

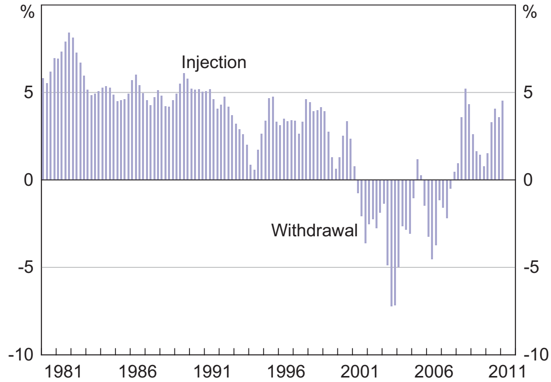
One financial counterpart to the higher saving rate has been a substantial slowdown in the pace of household credit growth. Growth in household credit continued to moderate over the past year, declining to 4.5 per cent in annualised terms over the six months to July. There has been a reduced appetite for most types of debt. Personal credit outstanding declined over the same period, reflecting a recent contraction in credit card debt as well as the ongoing decline in margin lending. The value of outstanding margin debt has more than halved from its peak in late 2007, as volatility in share markets has made equity investments less attractive. Similarly, annualised growth in housing credit eased from 6.7 per cent over the six months to January to 5.2 per cent over the six months to July (Graph 3.2). Growth rates of both owner-occupier and investor housing debt have moderated so far this year. The flow of new borrowing has also moderated, with the value of monthly housing loan approvals

Graph 3.2
Household Debt by Type
Six-month-ended annualised percentage change



Source: RBA

Graph 3.3
Housing Equity Injection
Per cent of household disposable income, trend*

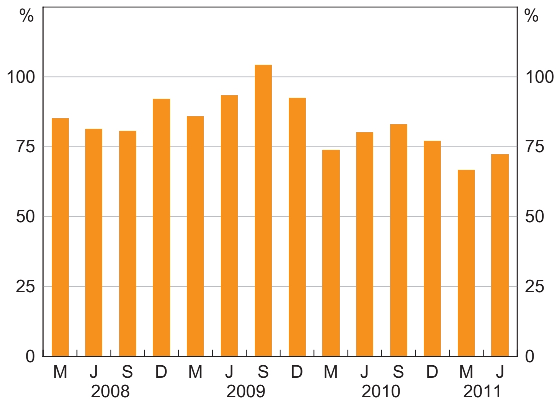


* Household disposable income excludes unincorporated enterprises and is before interest payments; five-term Henderson trend
Sources: ABS; Australian Treasury; RBA

declining by 7 per cent since late 2010. While mortgage refinancing activity has picked up since early 2011, surveys suggest that this is mainly due to households switching to cheaper loans – amid increased competition in the mortgage market – and consolidating debt, rather than taking out larger loans. As debt accumulation has slowed in recent years, the rate of housing equity injection has increased (Graph 3.3).

Contributing to the slower pace of debt accumulation, some households are saving more by choosing to pay down their debt more quickly than required. Net repayments on credit cards have picked up in recent months. Many housing loan borrowers have continued to make substantial excess principal repayments, even as higher interest rates have raised required interest – and thus total – repayments. The average excess repayment is currently equivalent to around three-quarters of the scheduled total (principal plus interest) repayment (Graph 3.4). Consistent with this tendency to pay debt ahead of schedule, surveys have shown that a high share of households consider repaying debt to be the wisest place for savings. Households that make excess repayments on their home loans generally build up buffers that they can draw down in the future if required. This should be regarded as a positive development for the resilience of the sector.

Graph 3.4
Net Excess Mortgage Repayment Flows*
Per cent of scheduled repayments**



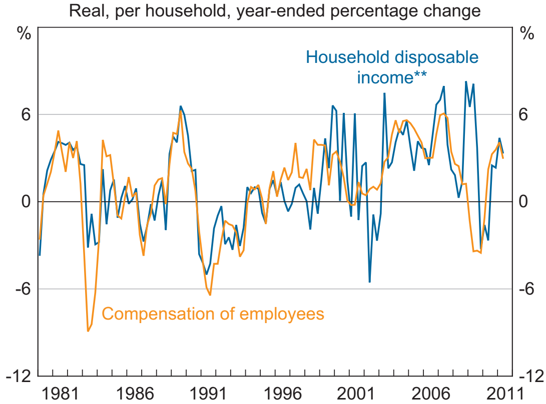
* Excludes repayments due to sales and refinancing; includes interest offset accounts
** Scheduled repayments include interest and principal
Source: APRA

These shifts in saving and borrowing behaviour have in part been enabled by a favourable labour market and solid income growth. The unemployment rate has averaged a little above 5 per cent in recent months after falling from 5.8 per cent in mid 2009. However, forward-looking indicators of labour demand have eased in recent quarters, suggesting only moderate growth in employment in the period ahead. Measured growth in disposable incomes was temporarily boosted by the sharp increase in non-life insurance claims associated with the natural disasters earlier in the year, but other, ongoing, sources of income have remained strong. For example, real compensation of employees per household rose by 3 per cent over the year to the June quarter, reflecting solid employment and wages growth (Graph 3.5). Growth in gross income therefore outpaced the impact of higher interest payments, such that growth in real disposable income per household (after interest payments) also strengthened, to 3.3 per cent over the year to the June quarter, up from 2.3 per cent over the year to the December 2010 quarter.

Putting the slow rate of borrowing and solid income growth together, the ratio of household debt to annual household disposable income fell modestly from a peak of 158 per cent in mid 2010 to 154 per cent in the June quarter (Graph 3.6). This ratio has now been broadly unchanged since 2006. After rising through 2010, the ratio of household interest payments to disposable income also declined slightly in the first half of the year, to 11.7 per cent. Despite being around 2 percentage points lower than its September quarter 2008 peak, it is still relatively high by historical standards.

Households might have been motivated to become more cautious in their financial behaviour in part because their net asset position is no longer following its past trend of rapid expansion.

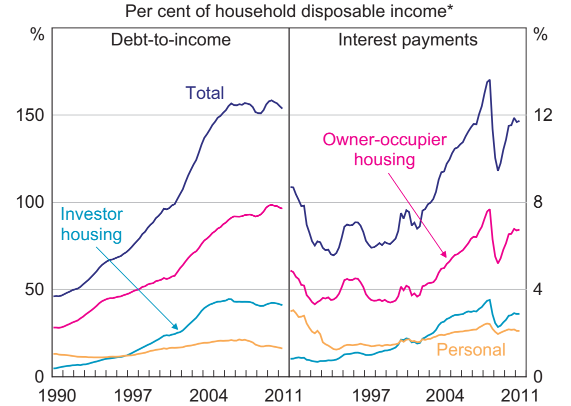
Graph 3.5
Household Income*
Real, per household, year-ended percentage change



* Household sector excludes unincorporated enterprises
** After interest payments; income level smoothed with a two-quarter moving average between March 2000 and March 2002
Sources: ABS; RBA

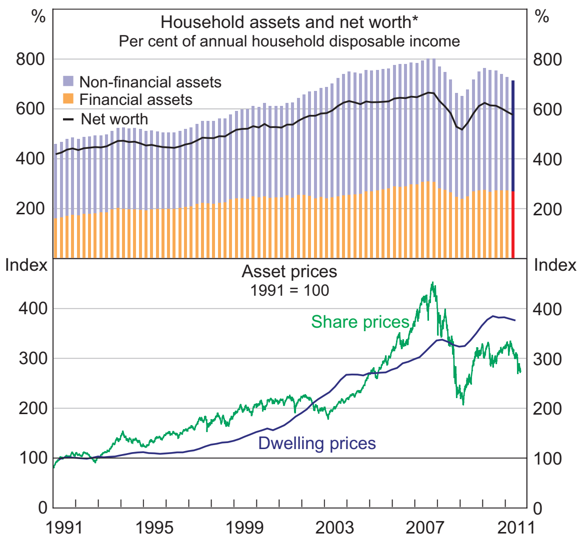
Household net worth is estimated to have declined slightly over the first half of 2011, compared with annual average growth of almost 9 per cent over the past decade. A further decline is likely in the September quarter, given that share prices have fallen. The recent weakness has, however, mainly been driven by falls in dwelling prices, which were down about 2 to 2½ per cent on a nationwide basis over the year to the June quarter (Graph 3.7).

Graph 3.6
Household Indebtedness and Interest Payments
Per cent of household disposable income*



* Household disposable income excludes unincorporated enterprises and is before interest payments; debt-to-income uses annual income
Sources: ABS; RBA

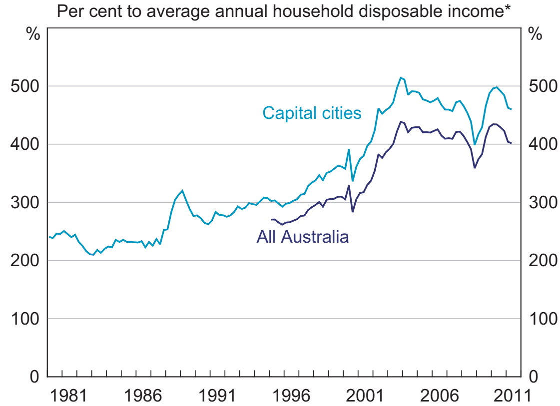
Graph 3.7
Household Assets and Asset Prices



* Includes income and financial assets of unincorporated enterprises and is before interest payments; RBA estimates for June quarter 2011
Sources: ABS; APM; Bloomberg; RBA; REIA

Softness in housing markets has been reasonably broad-based, with dwelling prices falling the most in Perth and Brisbane over the year, while Sydney and Canberra have been fairly resilient. The ratio of dwelling prices to income has declined over the past year to around the average level of the past decade (Graph 3.8). The spread between rental and real bond yields has also widened in recent years.

Graph 3.8
Dwelling Prices
Per cent to average annual household disposable income*

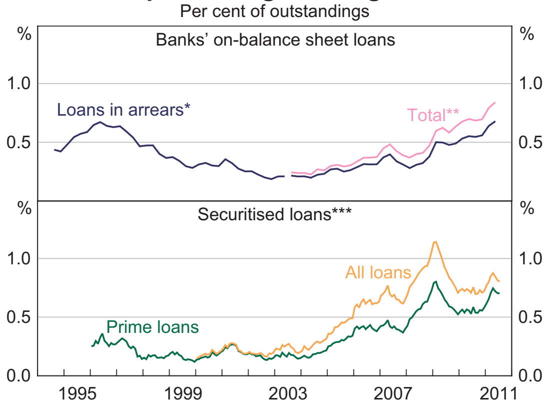


* Household disposable income excludes unincorporated enterprises and is before interest payments
Sources: ABS; APM; RBA; REIA

Growth in household financial assets has also been modest. Over the six months to June, household financial assets are estimated to have expanded by around 4 per cent in annualised terms, compared with average annual growth of about 8½ per cent over the past decade. Continued net inflows, particularly into superannuation and deposits, offset negative valuation effects associated with falls in share prices. Given the volatility in equity markets in recent years and higher returns being offered on deposits, households have become more conservative in their investment preferences, directing a larger share of their discretionary savings to deposits while reducing direct equity investments. This is also consistent with surveys showing an increase over the past few years in the proportion of households nominating bank deposits as the wisest place for their savings and fewer nominating equities and real estate.

Financial stress indicators continue to show that the household sector in aggregate is coping reasonably well with its debt level and higher interest rates, although mortgage arrears rates have increased recently. After broadly levelling out in 2010, mortgage arrears rates resumed their upward drift over the first half of 2011. By loan value, the share of non-performing housing loans on banks' balance sheets increased to 0.8 per cent in June, from 0.7 per cent in December 2010 (Graph 3.9). The upward movement is also evident in the monthly data on securitised housing loans, with the 90+ day prime arrears rate up about 12 basis points over the same period, to 0.7 per cent. However, it appears to have stabilised at these levels more recently.

Graph 3.9
Non-performing Housing Loans
Per cent of outstandings



* Loans that are 90+ days past due but otherwise well secured by collateral
** Includes 'impaired' loans that are in arrears (or are otherwise doubtful) and not well secured by collateral
*** Loans securitised by all lenders, 90+ days past due; excludes self-securitisations
Sources: APRA; Perpetual; RBA; Standard & Poor's

The increase in arrears over the first half of the year likely reflects a combination of factors. Cost of living pressures from higher interest rates and rising utility and petrol prices may have become more important as the pace of expansion in employment slowed in the past year. A sharper increase in the arrears rate on variable-rate than fixed-rate securitised housing loans over the past six months is consistent with this. Higher interest rates and costs of living are also cited as the dominant sources of mortgage repayment stress in household surveys conducted in the first half of 2011.

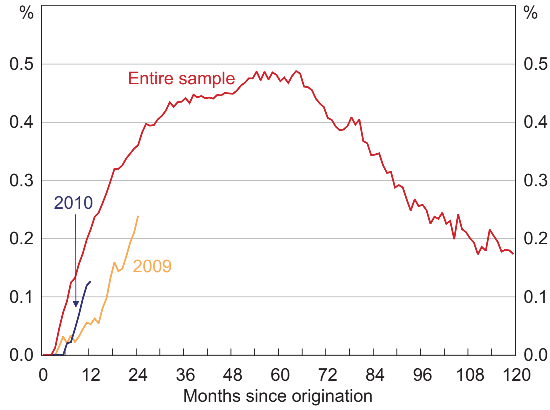
To a lesser extent, the natural disasters earlier in the year, particularly the Queensland floods, may also be contributing some upward pressure on arrears. A large number of borrowers in affected areas were granted temporary repayment holidays, with at least some of these loans being classified as non-performing. Even so, recent liaison with the major banks indicates that the majority of borrowers exiting hardship relief have been able to resume loan repayments, so this effect on arrears rates is likely to be only temporary.

Comparing the performance of housing loans across age cohorts, it appears that most of the recent increase in the mortgage arrears rate has been due to loans that were taken out prior to 2009. Loans that were extended towards the end of earlier periods of strong housing price growth and weaker lending standards have generally been the worst performing in recent years (see 'Box C: A Closer Look at Housing Loan Arrears'). Housing loans made since 2009, including for many first-home buyers, have been performing better than earlier cohorts, despite the fact that these borrowers are typically facing higher interest rates than at origination (Graph 3.10). This likely reflects an improvement in loan quality due to a tightening in lending standards after 2008. In particular, the share of new low-doc housing loans (where borrowers can provide less evidence of debt-servicing ability than normal) has fallen considerably since 2008 (Graph 3.11). The share of new loans with loan-to-valuation ratios above 90 per cent also fell significantly in recent years, though it has edged up over the past year as competition in the mortgage market has intensified.

Even though loan performance deteriorated over the first half of the year, the overall mortgage arrears rate in Australia is still low by international standards (Graph 3.12). Looking forward, the experiences of those countries that currently have high arrears rates, as a result of high unemployment or an excessive easing in lending standards in earlier housing price booms, are unlikely to be the model for future outcomes in Australia. First, housing

Graph 3.10
Securitised Housing Loan Arrears by Cohort*

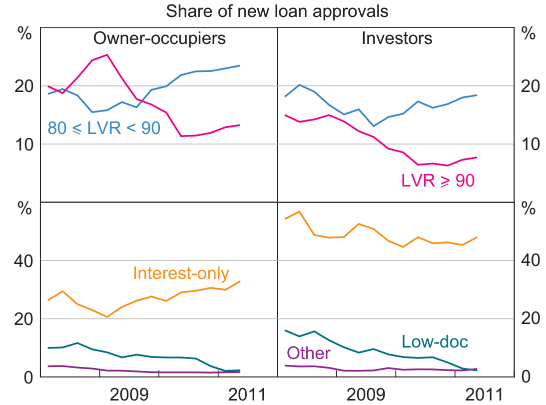
90+ days past due, per cent of outstandings



* Prime loans securitised by all lenders; includes self-securitisations
Sources: Perpetual; RBA

Graph 3.11
Banks' Housing Loan Characteristics*

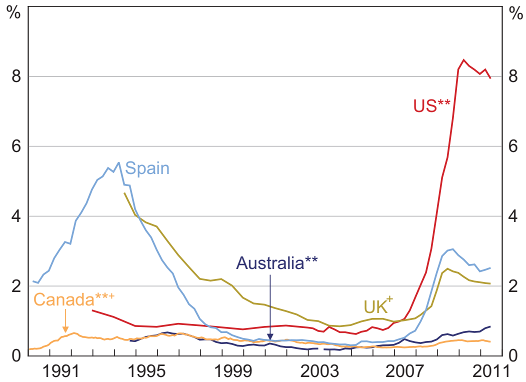
Share of new loan approvals



* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts
Source: APRA

prices in Australia did not grow especially rapidly in most parts of the country in the period since 2004, although Queensland and Western Australia were exceptions at various stages. The decline in housing prices recently has been modest compared with the sharp downturns seen in some cases overseas. Second, even before their tightening in 2009, lending standards in Australia had not eased as much as in some other countries. The near absence of sub-prime housing loans in Australia relative to the United States is one prominent example. Australian

Graph 3.12
Non-performing Housing Loans
Per cent of loans*



* Per cent of loans by value; includes 'impaired' loans unless otherwise stated; for Australia, only includes loans 90+ days in arrears prior to September 2003
** Banks only
\+ Per cent of loans by number that are 90+ days in arrears
Sources: APRA; Bank of Spain; Canadian Bankers' Association; Council of Mortgage Lenders; FDIC; RBA

lenders also assess mortgage serviceability at higher interest rates than those prevailing at origination, a practice not always followed overseas. Third, as noted above, a large share of mortgage borrowers in Australia make excess repayments. This increases the resilience of households to shocks, relative to countries where it is less common to do so. As well as providing a cushion against changes in borrowers' financial circumstances, excess repayments increase the distance between the remaining loan balance and a property value that could be lower in the future, making negative equity positions less likely. Finally, the labour market in Australia is in better shape than in many other countries, and its prospects are also more favourable given the macroeconomic outlook.

As for arrears rates, other indicators of financial stress do not suggest that household financial circumstances have deteriorated markedly. Rates of applications for property possession picked up in most regions in the first half of 2011, consistent with the deterioration in loan performance. They remain below earlier peaks except in Western Australia and south-east Queensland, where the rates of applications for property possession are closer to their recent peaks. The nationwide rate of bankruptcies and other personal administrations declined further in the first half of 2011, and is now well below the peak in 2009, though this also tends to be a more lagged indicator of household financial stress.

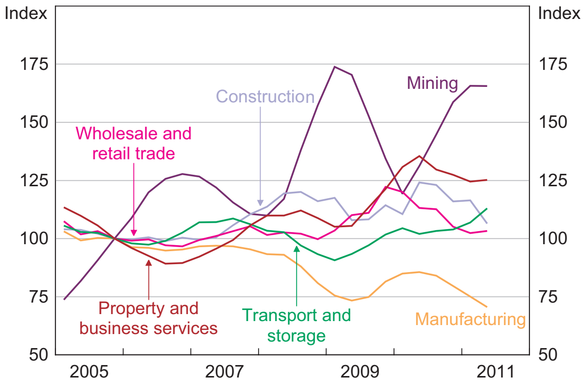
Business Sector

The business sector continues to be affected by conflicting forces, with the resources sector and related industries benefiting from strong foreign demand for Australian commodities, while some other industries are facing challenges from the high level of the exchange rate and relatively subdued domestic household spending. These influences have been reflected in business conditions and profitability during the past year, which have been more moderate outside the mining and related sectors. Overall, though, the business sector has continued to strengthen its financial position.

According to the national accounts, business profits rose by almost 10 per cent over the year to the June quarter in year-average terms, with mining profits increasing by around 35 per cent and non-mining profits declining slightly. The non-mining profits-to-GDP ratio declined from its late 2009 peak and is now slightly below the average of the past decade, while the ratio for the mining sector is well above its long-run average level. Most non-mining industries have seen their profits decline as a share of GDP in the past year, particularly manufacturing and construction (Graph 3.13). Consistent with these trends, firms' perceptions of current conditions and their confidence for the upcoming period have been above average in the mining and related industries, but only around or a little below average in most other industries (Graph 3.14).

The sectoral divergence has also been evident in announcements during the latest corporate reporting season. On a matched sample basis, listed resources companies reported underlying earnings to be up around 45 per cent in the 2010/11 financial year compared with the previous financial year, even though some of them suffered falls in their June

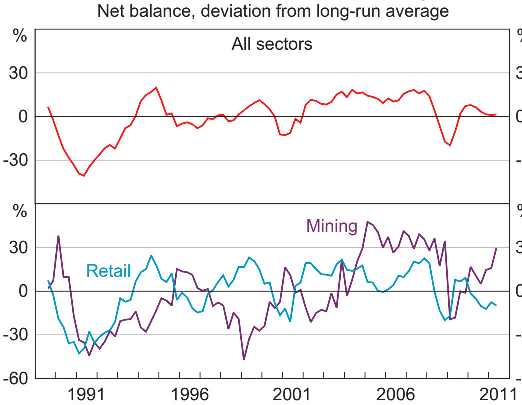
Graph 3.13
Industry Profitability*
Per cent of GDP, December 2005 = 100



* Annual gross operating profits adjusted for inventory valuation effects (except for construction, and transport and storage)

Sources: ABS; RBA

Graph 3.14
Business Conditions Surveys
Net balance, deviation from long-run average

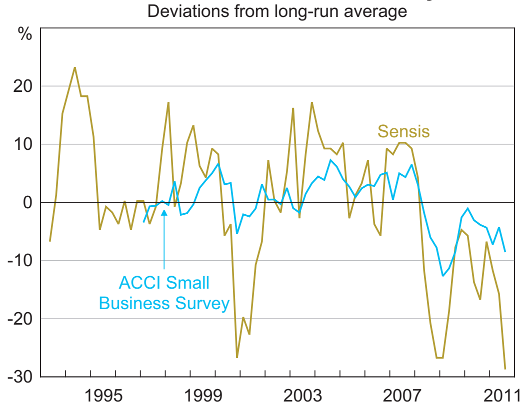


Sources: NAB; RBA

half-year earnings because of adverse weather earlier in the year. In contrast, underlying earnings declined by 5 per cent in the 2010/11 financial year for other listed non-financial companies. Although analysts have revised down earnings forecasts across most sectors since March, they continue to predict strong growth in resources companies' profits.

Smaller businesses have experienced rising profits over the past year, but to a lesser extent than larger businesses. For example, over the year to the June quarter, the national accounts measure of profits of unincorporated enterprises increased by 7 per cent in year-average terms, compared with 11 per cent for the profits of incorporated businesses. Partial credit bureau data suggest that profitability in the unlisted (generally smaller) business sector has improved since 2009 but remains below pre-crisis levels, especially for the smallest firms. The median after-tax return on assets among the limited sample of firms that have already reported 2011 results was 4.7 per cent, compared with a pre-2009 average of about 6.7 per cent. While the share of all unlisted firms making losses has returned to its pre-crisis average, the share of smaller unlisted firms making losses remains above average. Around 40 per cent of firms with assets under $1 million reported losses in 2010 and 2011, compared with an average of 25 per cent over 2006 to 2008. Survey evidence indicates that small business profitability remains below average and industry liaison also suggests that stress among this segment has been increasing (Graph 3.15).

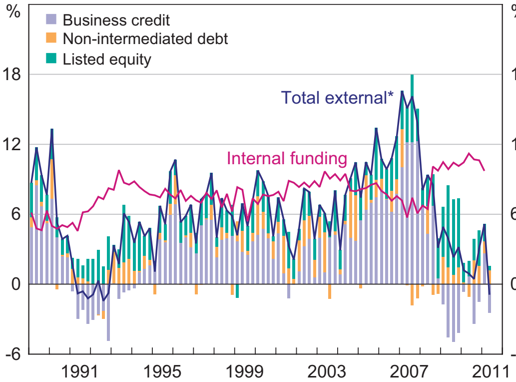
Graph 3.15
Small Business Profitability
Deviations from long-run average



Sources: ACCI; Sensis

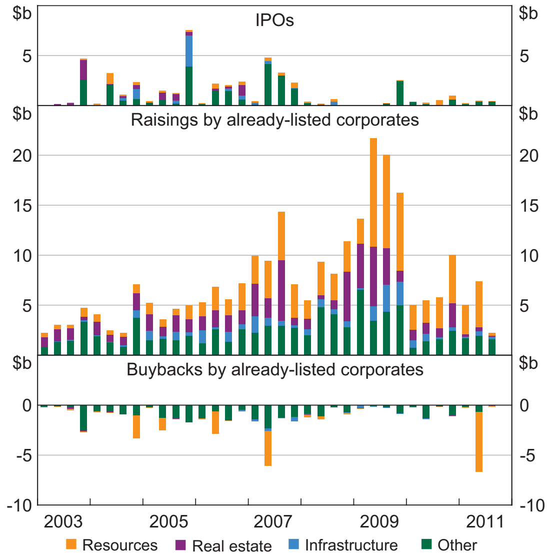
The business sector has been able to finance a larger share of its investment through internal funding in recent years, largely because that investment has been concentrated in sectors such as mining, where profitability has increased the most. Internal funding of non-financial corporates fell slightly in the March quarter, but was still close to its average of the past few years of 10 per cent of GDP (Graph 3.16). This compares with a long-run average of about 8 per cent of GDP.

Graph 3.16
Business Funding
Per cent of GDP, quarterly



* Does not capture loans by institutions domiciled outside Australia
Sources: ABS; ASX; Austraclear Limited; RBA

Graph 3.17
Listed Non-financial Corporates' Equity Raisings*



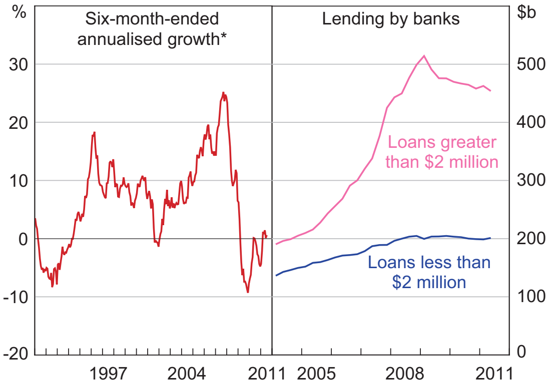
* Excludes privatisations and hybrid conversions, which are very small; September quarter 2011 includes July and August only
Sources: ASX; RBA

In contrast to internal funding, businesses' external funding has been subdued in recent years. Looking through the quarterly volatility, external funding has averaged around 2½ per cent of GDP since 2009, below the long-run average of about 6 per cent. The switch from debt to equity funding evident during the crisis, when many firms sought to reduce their leverage, appears to have run its course. Listed non-financial companies raised about $16 billion of equity over the eight months to August, slightly above the corresponding period in 2010 (Graph 3.17). This was partly offset by buybacks, including BHP's $6 billion purchase of domestically listed shares. Consequently, net equity raisings over the same period were only about $9 billion, which was below the long-run average. Resources companies accounted for much of the equity issuance in the past few years, while issuance by companies in the real estate and infrastructure sectors remained low. Reflecting the general weakness in share prices, there have been relatively few initial public offerings during the past few years.

Business debt funding remains subdued: while non-intermediated debt issuance has been robust since mid 2010, this has largely been offset by a contraction in intermediated business credit. Corporate bond issuance in the year to August was $31 billion, up from $18 billion in the previous year. Firms across a number of sectors have taken advantage of strong offshore demand for Australian debt to increase their issuance. Spreads between corporate bond yields and yields on Commonwealth Government securities have increased over the past few months, but generally to a lesser extent than comparable spreads in the United States and Europe, and remain well below the peaks in early 2009.

After contracting over much of 2009 and 2010, business credit remains weak. Growth turned positive in the early part of this year, but this was followed by further declines in recent months, such that the level of business credit rose at an annualised rate of only 0.6 per cent over the six months to July (Graph 3.18). The weakness has been concentrated in lending to larger firms. Loans larger than $2 million account for almost all of the decline in bank business credit since the end of 2008, and lending to incorporated businesses has fallen by 11½ per cent over the same period; by contrast, lending to smaller, unincorporated businesses expanded by about 7 per cent.

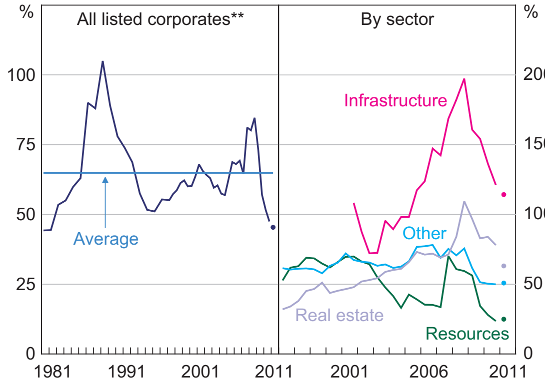
Graph 3.18
Lending to Businesses



* Seasonally adjusted and break adjusted; includes lending by non-bank financial institutions and securitised loans, but excludes lending to non-residents

Sources: APRA; RBA

Graph 3.19
Listed Corporates' Gearing*



* Excludes foreign-domiciled companies; book value debt over equity; latest observation includes only companies that have reported to June 2011

** Data from 1997 include real estate companies

Sources: ABS; Bloomberg; Morningstar; RBA; Statex; Thomson Reuters

Smaller businesses typically rely more on bank funding because they cannot obtain funding from capital markets. It is therefore not surprising that measures of lending to this group have held up better than lending to larger businesses in recent years. One driver of the difference more recently is that some larger and listed businesses took advantage of favourable conditions to issue debt in wholesale markets, particularly offshore. But the weakness in intermediated borrowing by listed companies, and therefore in overall business credit, was in large part a response to the pressures those firms faced to deleverage, both during the crisis and since. Many of them sought to reduce leverage by replacing debt with equity, sometimes under pressure from their creditors. Surveys point to a reduction since 2009 in the share of firms reporting difficulty obtaining finance. While liaison also indicates that the availability of bank finance has improved over the past year for many firms, credit conditions remain tighter than prior to the crisis.

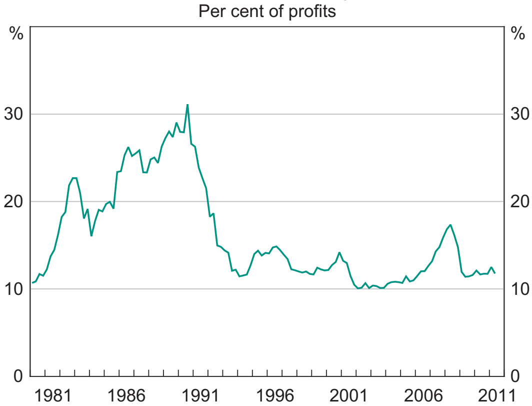
Listed corporates' gearing remains at low levels not seen since the early 1980s. Book value gearing of listed non-financial companies was around 45 per cent at June 2011, down from a pre-crisis peak of about 85 per cent and below the long-run average of 65 per cent (Graph 3.19). The restructuring of Centro Properties Group, together with continued deleveraging and stable or slightly higher asset valuations at other firms, sharply lowered the gearing of the listed real estate sector over the first half of 2011. Likewise, the restructure of Alinta Energy lowered the gearing of infrastructure firms, despite higher debt levels at a number of other companies in this sector. Debt-funded acquisitions and share buybacks by a few large resources companies, together with higher debt levels at some large industrial and media firms, contributed to a slight rise in gearing across other sectors over the six months to June.

Partial credit bureau data suggest the unlisted business sector has continued to deleverage. Median gearing was 35 per cent based on the 2011 sample of firms, down from 38 per cent in the 2010 sample. As has been the case for a few years, the fall was mostly due to reductions in gearing by the most highly leveraged firms; this pattern could be interpreted as reducing risk in the business sector more than proportionately to the decline in median gearing.

Firms have also strengthened their financial positions by increasing their cash holdings. Year-ended growth in business deposits at banks has recently been around 12 per cent, up from 5 per cent in mid 2010. While listed resources companies reduced their cash holdings over the first half of 2011, these holdings have still grown considerably over recent years due to strong profitability. Liquidity ratios have also drifted up modestly among other listed and unlisted non-financial companies.

As the business sector has deleveraged, the ratio of its interest payments on intermediated debt to profits has remained below its long-run average level despite the increases in interest rates in the past few years. This ratio declined to about 12 per cent in the June quarter, well below the recent peak of 17 per cent in 2008 (Graph 3.20). Even so, interest-servicing ratios vary widely across different sectors, being above average in sectors such as property where gearing ratios are still relatively high, and well below average in the mining sector.

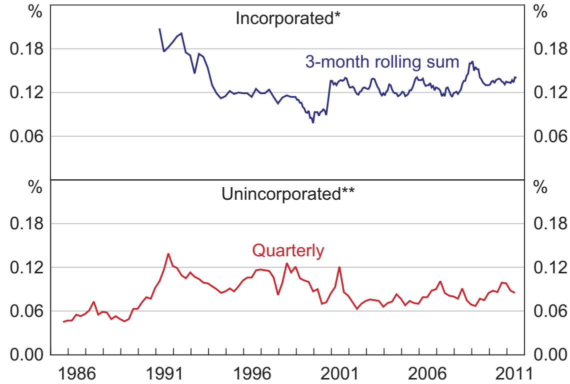
Graph 3.20
Business Interest Payments*
Per cent of profits



* Interest on intermediated debt from Australian-domiciled financial institutions
Sources: ABS; RBA

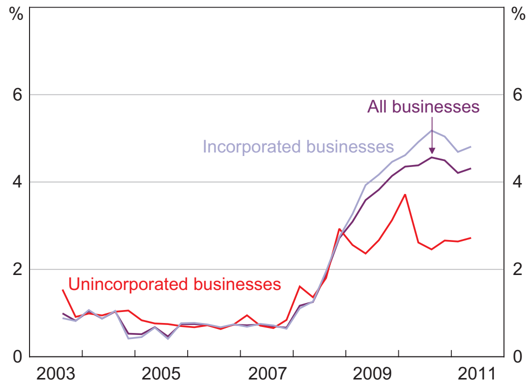
The rate at which incorporated businesses are entering external administration has been relatively stable over recent years, despite a pick-up in June and July (Graph 3.21). Queensland and New South Wales continue to have above-average rates of corporate failure. In contrast, after rising over the past couple of years, the failure rate for unincorporated businesses has moderated since late 2010. As discussed in 'The Australian Financial System' chapter, the share of banks' business loans that is non-performing increased slightly in the June quarter, but remains below the peak reached in September 2010 (Graph 3.22). The non-performance rate is still higher for loans to incorporated businesses than to unincorporated businesses.

Graph 3.21
Business Failures
Per cent of businesses in each sector



* Companies entering external administration, pre-1999 data are quarterly
** Business bankruptcies
Sources: ABS; ASIC; ITSA; RBA

Graph 3.22
Banks' Non-performing Business Assets*
Domestic books, per cent of outstandings by type



* Includes 'impaired' loans and items 90+ days past due that are well secured; series exclude lending to financial businesses and include bill acceptances and debt securities
Sources: APRA; RBA

Commercial Property

Loans for commercial property acquisition and development are the largest component of banks' business lending in Australia, at about one-third. While there has been an improvement recently, these exposures continue to account for about one-half of banks' impaired business loans. In June, around 5.7 per cent of banks' domestic commercial property exposures were classified as impaired, down from a peak of 6.2 per cent in September 2010. Much of the recent improvement has been due to banks selling a few large bad debts.

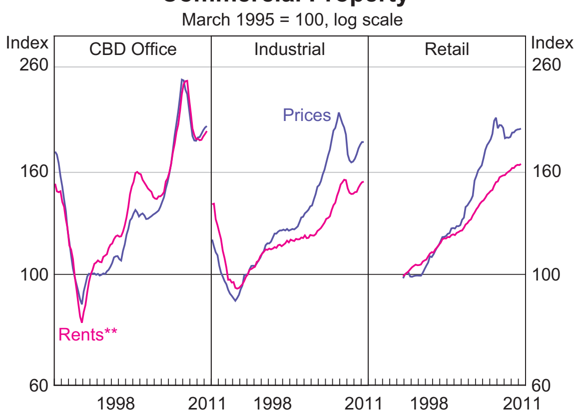
After a period of rising vacancy rates and falling property values and rents, conditions in the commercial property sector have generally improved over the past year. CBD office vacancy rates have edged down in most cities since 2009, particularly in Perth and Brisbane. Consistent with this, office property values and rents have recovered somewhat, though both remain around 20 per cent lower than their recent peaks on a national basis (Graph 3.23). Rents and property values have also increased in the industrial and retail property markets over the past year.

Despite the improvement in conditions overall, commercial property construction activity remains weak. Commercial building work done has continued to moderate as a share of GDP and remains around one-quarter below its long-run average. However, industry liaison points to considerable activity in the Melbourne high-rise residential market. While these projects typically meet appropriate lending standards with strong pre-sales and sufficient equity, some rely heavily on overseas purchasers, a source of demand that might not necessarily be available in the longer term.

The broader weakness in construction activity in part reflects ongoing tightness in lending conditions. While larger developers have good access to wholesale debt markets, industry liaison indicates that access to intermediated finance for small- to medium-sized developers is still quite tight, with lenders requiring stricter collateral and covenant conditions and higher pre-commitment/pre-sale ratios. Foreign-owned and smaller Australian-owned banks continued to reduce their exposures to the domestic commercial property market over the year to June, while the major banks' exposures were relatively steady (Graph 3.24). Non-bank forms of finance also remain constrained, with very little issuance of commercial mortgage-backed securities since the crisis and mortgage trusts' funds under management remaining low. The major banks are now estimated to account for about 65 per cent of all commercial property debt financing in Australia, up from nearly 48 per cent in 2006, due to the larger declines in debt funding from other sources in recent years.

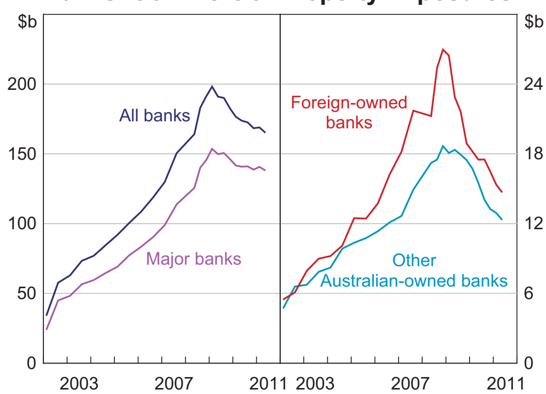
ASX-listed real estate investment trusts (A-REITs) have come closer to completing their targeted balance sheet restructuring and have therefore slowed their equity raisings since 2009. Net equity raisings during the first eight months of 2011 amounted to $0.4 billion, down from $1.4 billion over the same period last year, and well below the pre-crisis average (Graph 3.25). The aggregate debt-to-equity ratio of A-REITs has fallen from 110 per cent in December 2008

Graph 3.23
Commercial Property*



* CBD office and industrial are prime property, retail is regional property
** CBD office is effective rents, industrial and retail are face rents
Sources: Jones Lang LaSalle; Property Council of Australia; RBA

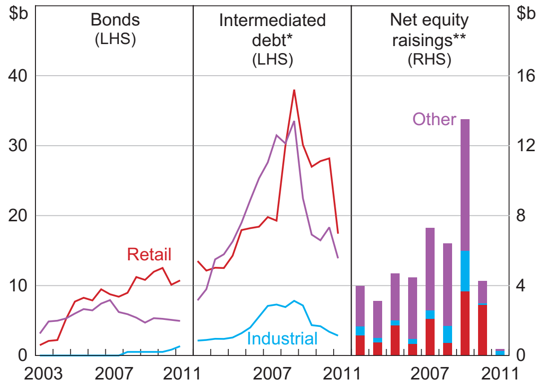
Graph 3.24
Banks' Commercial Property Exposures*



* Consolidated Australian operations; sample of 26 banks
Sources: APRA; RBA

to around 60 per cent as at June 2011. Their profitability has recovered over recent periods, but remains below the high levels seen prior to the crisis when property price appreciation was a contributing factor. Even though they have improved their financial position and profitability, A-REITs' shares trade at lower price-to-book ratios than prior to the crisis.

Graph 3.25
A-REITs' Funding



* Total debt less outstanding bonds
** 2011 includes data to August only
Sources: ASX; Morningstar; RBA