McGrath

McGRATH LIMITED 2016 ANNUAL GENERAL MEETING
WEDNESDAY 23 NOVEMBER 2016
191 NEW SOUTH HEAD ROAD, EDGECLIFF, NEW SOUTH WALES

CHAIR'S ADDRESS

Dear fellow shareholder,

I start my address today by acknowledging that our company's first 12 months as a publicly listed entity have been defined by some unprecedented conditions in our most important markets.

They are important elements in understanding the context in which we operate, and have been reflected in our share price. We share your disappointment.

After considering various corporate events during calendar 2014 and 2015, we opted to IPO, and did so in early December 2015. Our first half performance was on budget. Then, it was as though every vendor woke up in the New Year and made a resolution not to sell.

This chart shows how listing volumes as a percent of total property stock are currently at levels we have not seen since the data set began.

[*refer McGrath AGM Presentation*]

Coupled with historically low interest rates and other factors, this has resulted in a demand/supply imbalance which has pushed up prices in a self-fulfilling cycle.

Against this backdrop, in April the Board formed the view it was necessary to revise our financial guidance and in August we reported a proforma first year after tax profit of $14.6m and a dividend of 3.5 cents per share in line with that revised guidance.

The good news is that we managed to increase our market share in around two thirds of the areas we serve. In the context of the market conditions, it was an outcome that we believe speaks to the underlying strength of the brand, the quality of our agents and our potential leverage to any improvement in market conditions.

Your Board believes that McGrath's continued focus on building a resilient and sustainable business is the most appropriate response for these conditions.

I would like to discuss in greater detail some of the forces currently at play.

For much of calendar 2016, we have been in an environment in which vendors are reticent to sell, fearing they will not get back into the market. In 2005, residents in Australian Capital Cities would move house on average every 6.7 years, and apartment every 5.9 years. Today that is 10.7 years and 9 years respectively. This contributes to the decline in volumes available for sale, eroding housing affordability in many capital cities of Australia, including Sydney. Average Sydney house prices are now approximately 12 times average wages, necessitating a spend of more than 50% of after tax income on either mortgage or rent. This city is in the midst of what economists might call “severe disequilibrium”: endlessly growing demand meeting newly limited supply.

When our society’s teachers, nurses, police and emergency services personnel cannot afford to live in the communities they serve, housing affordability can very quickly become a factor in social and economic dislocation. The political upheavals of the US earlier this month and the UK in July were born from similar issues and while we don’t have the hate politics of those countries’ 2016 campaigns, to be complacent about this from our positions of relative security would seem unwise.

Our business is about finding people their homes – their dream homes, usually the largest asset they will own in their lifetime, or a family rental property. Housing affordability concerns us, and we believe it is time for State Governments to now review their transfer tax regimes where they are affecting transaction decisions, rather than being a consequence of them. In New South Wales, the Stamp Duty thresholds have not been changed for 30 years, in which time the median house price has increased from $100,000 to over $1 million. Stamp Duty on the median house price has increased from $1,300 or 1.3% then, to over $40,000, or 4% plus today. A two or three bedroom terrace within three kilometres of where we meet today will set you back around $100,000 in Stamp Duty. It is more affordable to renovate than move. We understand that the State Governments rely heavily on these taxes, but point to precedents in Western Australia, the Northern Territory and elsewhere which show that revenues increase when these tax rates decline because of consequent volume increases. State Governments: if you can increase revenue while making your States more affordable, it is simply lack of political will which is stopping you.

Our McGrath Report titled Two Thousand Seventeen contains further insights from John and our team, and we welcome you to take a copy home to read and share, or you can download a copy from the Company website, McGrath.com.au.

2015/16 has been a year of two halves for our Company, which Cameron will discuss shortly. Cameron joined the Company just after Balance Date and has come up to speed very swiftly. On behalf of your Board I would like to thank him for his energy and application.

Also since Balance Date, we have made changes to the Board. Your directors have been acutely conscious of the obligation to maintain appropriate stability and oversight throughout. We are pleased to have expanded the Board’s skills and experience base, and now have 60% of Directors independent, and 60% female.

We believe that over 90% of housing decisions are made by females, and our gender skewed Board makes simple business sense.

Finally, I would like to thank my fellow Directors John McGrath, newcomer Elizabeth Crouch and outgoing Daniel Petre, each of whom contributes valuable time and wisdom to the business. And I look forward to working with Nigel Dews and Cath Rogers, who join the Board at the close of this meeting.

Very best regards,

Cass O'Connor
Chair