CMBS/International
Presale

Mirvac Finance Limited

AUD500 Million Multi-option Presales Securitisation Programme (MOPS)

Expected Ratings*

Expected Initial Issued Amounts :

Class	Amount (AUDm)	Term	Rating
MTN	110.0	1 yr	AA
MTN	120.0	2 yr	AA
CP	10.0		F1+

*Preliminary ratings do not reflect final ratings and are based on information provided by issuers as of 26 June 2003.

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■ Summary

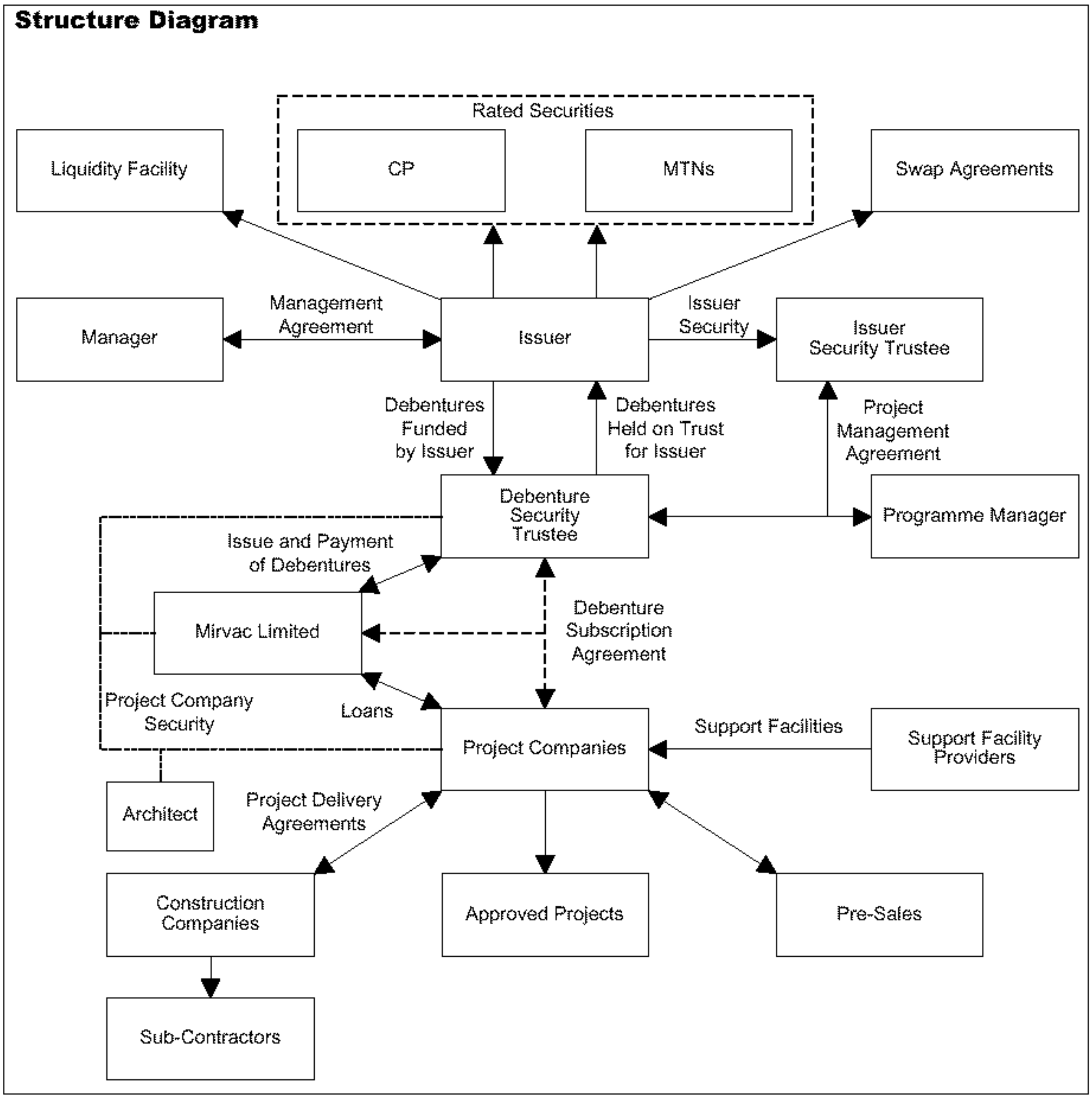
The MOPS transaction is a securitisation of presale contracts in predominantly residential dwellings located in Australia. Fitch Ratings has assigned expected ratings to the medium term notes (Notes) and commercial paper (CP) (Notes and CP together "the Securities") to be issued by Mirvac Finance Limited (the Issuer) as indicated at left. The ratings reflect the level of presales contracts, the mitigation of the construction risk, the historical performance of the developer, the anticipated quality of the finished developments, the requirements for the inclusion of future residential projects and the sound capital and legal structure. The ratings address timely payment of interest and the ultimate payment of principal on the Securities.

The Issuer is a special purpose vehicle (SPV) wholly owned by Mirvac Limited, which is a member of The Mirvac Group (Mirvac). Mirvac is the developer of six residential projects (two projects are on the same site) in three Australian states. Mirvac has sold apartment units in each of these residential projects to buyers under a sales contract whereby purchasers pay an initial 10% deposit with the balance payable upon completion of each of the projects.

The Securities are secured by Debentures issued by Mirvac Limited, which are in turn secured by first mortgages over the six projects as well as a fixed and floating charge over the assets of Mirvac Limited and the various Project and Construction Companies, including the architect (HPA Pty Limited). The proceeds from the sale of the Securities will be used to purchase the Debentures from Mirvac Ltd. Mirvac Ltd will then use the proceeds from the sale of the Debentures to lend to the Project Companies undertaking the development of the six residential projects. The Project Companies will use the loan proceeds to fund construction of the projects. The liability of the Project Companies will be joint and several.

As the residential projects are completed, the funds received from the final settlement of the sale of individual apartment units will be used to repay the Project Companies' loans or to finance other projects that meet certain criteria. If the settlement proceeds are used to repay the Project Companies' loans, the lender, Mirvac Ltd, will use the proceeds to repay the Debentures held by the Issuer, who in turn will repay the Securities on their due date.

Integral to the expected ratings on the Securities are various tests and support facilities. These are described in greater detail later in the report but include the Positive Cash Flow Test, the Permissible Advance Test, the Liquidity Facility and the Support Facilities.



Strengths

- Mirvac's strong track record of project development in Australia.
- As of the date of this report, 91% of the apartment units in the initial pool have already been sold.
- Historically low default rate in Australia's residential mortgage market.
- Being located in three states, the developments are geographically diverse.

Concerns

- Completion risk from projects that are still under construction combined with a Sunset Date by which time, if a project is not completed, a prospective purchaser can rescind their contract.
- No progress payments are due from the purchasers other than the original 10% deposit.
- Risk that the completion costs may increase prior to completion.
- Potential asset price bubble in the residential apartment unit sub-market and the risk that the market value of the apartment units may decline prior to completion.
- The revolving nature of the transaction means future projects are unknown at this stage.

Mitigants

- Monthly independent confirmation of expected completion date. If this is beyond the date which is three months prior to the Sunset Date, that project is not counted in the monthly cash flow tests.

■ Key Information

Portfolio Characteristics

Type of Loan: Debentures backed by the future settlement proceeds of residential apartment units and, until settlement takes place, the projects themselves.

Structure

Issuer: Mirvac Finance Limited
Issuer Security Trustee: Perpetual Trustee Company Limited
Debenture Issuer: Mirvac Limited
Debenture Security Trustee: Tower Trust (NSW) Limited
Manager: Mirvac Projects Pty Limited
Programme Manager: ANZ Capel Court Limited
Lead Managers: Australia and New Zealand Banking Group Limited
Merrill Lynch International (Australia) Limited
Liquidity Facility Provider: Australia and New Zealand Banking Group Limited and other financial institutions having the requisite ratings
Support Facility Provider: Australia and New Zealand Banking Group Limited and other financial institutions having the requisite ratings
Co-Mangers: Deutsche Bank AG
Westpac Banking Corporation

- There is a AUD100.0m Liquidity Facility.
- Each project has a Support Facility, which is never less than 25% of the project's then cost-to-complete and, in aggregate, never less than AUD30.0m.
- Purchasers have already provided a 10% deposit in the form of cash, deposit bond or bank guarantee (or a combination of these forms), and the presales contracts include limited ability for the purchaser to rescind the contract. Additionally, in assigning its ratings Fitch has taken into account probabilities of default based on 90% loan-to-value ratios and associated market value declines of 45%.
- Strict requirements need to be met prior to a future project becoming an eligible project.

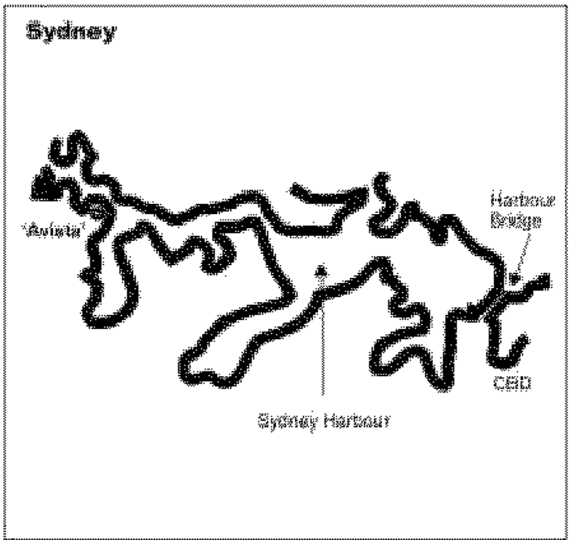
■ The Initial Residential Projects

Initially the primary security for the transaction is the six residential projects described below. Fitch visited all six properties at least once. Photos taken at the site inspections are available on Fitch's Australian web site (www.fitchratings.com.au) under Structured Finance.

Avista Apartments

- Located in Cabarita, Sydney, NSW
- Total of 94 apartment units
- 100% have been pre-sold
- Expected completion date of November 2003
- Sunset Date: 31 July 2004
- Sunset Date buffer: 8 months
- Cost-to-complete as of May 2003: AUD19.4m

Avista Apartments is the second apartment stage at Mirvac's Edgewood development on the shore of Sydney Harbour, 8.5 kilometres west of the CBD (14km by road). Other stages include stand-alone housing.



Cutters Landing – Mitchell

- Located at New Farm, Brisbane, Qld
- Total of 77 apartment units
- 97% have been pre-sold
- Expected completion date of June 2003
- Sunset Date: 1 September 2004
- Sunset Date buffer: 14 months
- Cost-to-complete as of May 2003: AUD13.4m

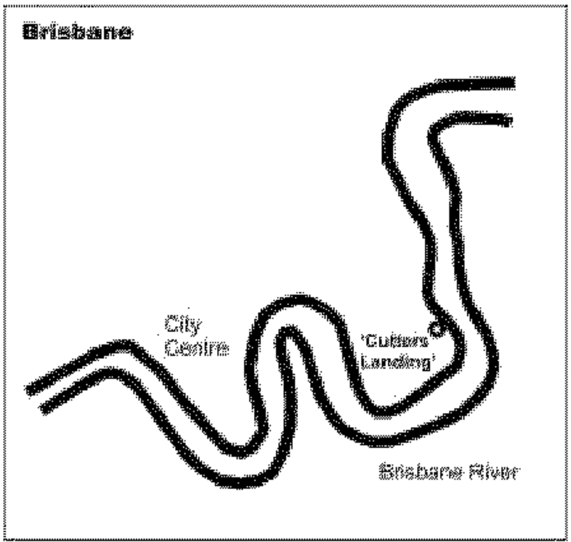
Cutters Landing – Cook

- Located at New Farm, Brisbane, Qld
- Total of 46 apartment units
- 89% have been pre-sold
- Expected completion date of August 2003
- Sunset Date: 15 April 2005
- Sunset Date buffer: 7.5 months
- Cost-to-complete as of May 2003: AUD9.6m

Cutters Landing is a refurbishment and new construction at the site of the Colonial Sugar Refinery on the Brisbane river. The original refinery building dates from 1893. The site is approximately three kilometres from the Brisbane CBD. Properties will be a mix of apartment units and stand-alone housing.

The two buildings forming the initial security are both multi-storey apartment buildings and represent the second stage of construction. The refurbishment of the old refinery building is not part of the initial security nor is the stand-alone housing.

The first stage of the development, which is not security under this transaction, is due to be completed in April 2003.



Yarra's Edge Tower 4

- Located in Docklands, Melbourne, Vic
- Total of 110 apartment units
- 99% have been pre-sold
- Expected completion date of October 2003
- Sunset Date: 31 December 2004
- Sunset Date buffer: 14 months
- Cost-to-complete as of May 2003: AUD17.3m

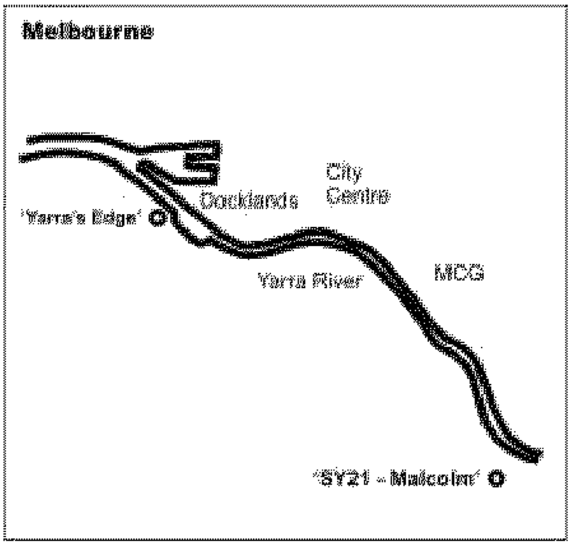
Yarra's Edge Tower 4 is one of the new projects which is part of the Docklands redevelopment site just over the Yarra river, south west of Melbourne's CBD. Mirvac's ten-tower development is an extension of the SouthBank/Crown Casino river promenade. The property has a gym, lap pool, spa and cafe.

The Docklands Authority is charged with the overall 15-year redevelopment of the 200-hectare Docklands site, which will eventually contain residential, commercial and leisure areas as well as extensive parks. Until the middle 1960s Docklands was Melbourne's main port area. The Authority entered into various agreements with Mirvac to develop the site on which Tower 4 is located.

SY21 – Malcolm

- Located on Chapel Street, South Yarra, Melbourne, Vic
- Total of 96 apartment units
- 76% have been pre-sold
- Expected completion date of November 2003
- Sunset Date: 31 December 2004
- Sunset Date buffer: 13 months
- Cost-to-complete as of May 2003: AUD16.4m

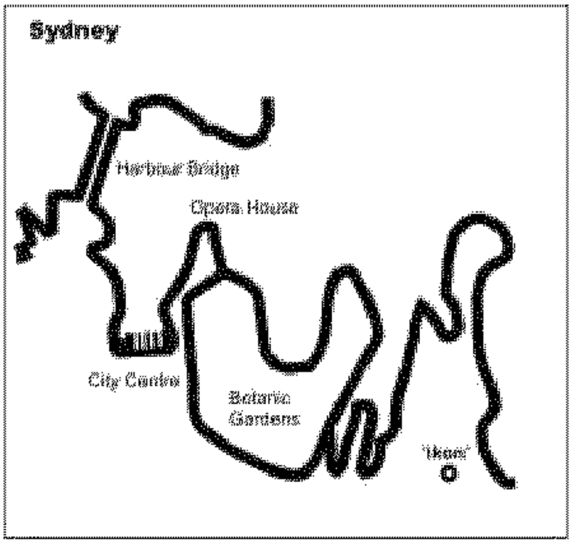
SY21-Malcolm is the fourth and final development at the site, which is three kilometres east of Melbourne's CBD. All developments are multi-storey apartment buildings. The property also has a gym and lap pool. South Yarra is a predominantly residential suburb but along Chapel Street and Toorak Road there are numerous trendy shops, cafes and bars.



ikon

- Located at 81 MacLeay Street, Potts Point, Sydney, NSW
- Total of 185 apartment units
- 89% have been pre-sold
- Expected completion date of March 2004
- Sunset Date: 31 December 2004
- Sunset date buffer: 9 months
- Cost-to-complete as of May 2003: AUD40.5m

ikon is a refurbishment of the 17-storey Chevron Hotel. Its apartment units will have Harbour, Bridge and City views and there will be a concierge service. The property also has a pool, gym, spa and secure underground parking. The ground level contains retail shops.



■ Future Projects

Projects that may become security in the future must comply with the following, among other things:

- At least 50% of the apartment units must be subject to presale contracts
- The project must be predominantly residential in the opinion of the Programme Manager
- The Programme Manager must have received an IC (Independent Certifier) Report on the project that confirms the achievability of the Practical Completion Date and the contracted price
- All required insurances must be in place
- The appropriate Liquidity and Support Facilities must be in place
- The original cost-to-complete of the project must be no more than 30% of the total original cost-to-complete of the pool
- Certain geographic tests must be met

■ The Mirvac Group

Mirvac is one of Australia's largest property groups with a market capitalisation at the date of this report of approximately AUD3.0 billion; it employs over 3,000 staff. The group was formed in 1999 by bringing together Mirvac Limited, Mirvac Property Trust and Mirvac Commercial Trust. Mirvac is internally managed, which avoids the inherent conflicts of interest that arise with the external management structures common in other property trusts.

There are three operating divisions within the group: development, hotel and investment. The group undertakes the full gamut of property-related tasks including property and asset management, sales and leasing activities, architecture and interior design, and construction.

Mirvac is one of the biggest developers of residential housing in Australia and in the last 30 years has developed over 17,000 dwellings. It has a reputation for quality in the market, which results in strong brand awareness, with more than 30% of purchasers of recent developments being previous Mirvac customers.

■ Presales

A presale is a contractual obligation that binds Mirvac to deliver a certain apartment unit in a certain project by a certain date (the Sunset Date). Upon entry into the programme, the Sunset Date is never less than six months beyond the date on which the residential project is expected to be complete (Practical Completion Date). As consideration the purchaser provides a 10% deposit in the form of cash, deposit bond or bank guarantee and upon delivery of the apartment unit in accordance with the presale contract is contractually bound to provide the remaining 90% of the purchase price if the project is completed before the Sunset Date.

A Mirvac residential project is eligible to be included in the transaction if the number of presales for the project is in excess of 50% of the total number of apartment units in the project. In addition there are limits to the number of presales that have deposit bonds and non-resident purchasers.

The Presale Advance Rate is a percentage of the eligible presales that may be advanced under the MOPS programme; it is 85%.

■ Construction

Every residential project, once it is included in the transaction, will require a monthly Independent Certifier Report (IC Report) which will, among other things, state the project's cost-to-complete and time-to-complete at that time. There are also two tests ("the Tests"), undertaken each month, which ensure that there are sufficient funds to make scheduled payments of interest and principal as well as to pay other transaction expenses including construction costs. A more detailed description of the IC Report and the Tests can be found under Transaction Structure below.

Once Practical Completion has been achieved (as determined by the contract between the Project Company and the Construction Company), the purchaser is issued a settlement notice and has 10 days in which to complete the purchase.

■ Transaction Structure

Issuer

The Issuer will issue tranches of Notes and CP. It may also draw advances under the Liquidity Facility.

The Issuer will use the proceeds from the Notes, CP and Liquidity Facility advances to purchase Debentures issued by Mirvac Limited. The Issuer must redeem each tranche of Notes on their scheduled maturity date. If the Notes are not redeemed on the scheduled maturity date it is not an event of default until the Notes are again not redeemed on their final maturity date. The final maturity date occurs no later than twelve months after the scheduled maturity date. During the intervening period no funds can be released to Mirvac or its subsidiaries unless they are used to pay ongoing construction costs, interest and certain other expenses.

Mirvac Limited

Mirvac Limited will issue Debentures to the Issuer in return for the proceeds of the Notes, CP and Liquidity Facility advances. It will then lend these proceeds to each of the Project Companies undertaking the development of the residential projects in the programme.

Project Companies

The Project Companies will use the proceeds from the Mirvac Limited loan to finance the construction of the residential projects. Under the loans, each of the Project Companies is jointly and severally liable. Each Project Company will enter into a fixed-price construction contract with a Construction Company (a Mirvac subsidiary) to complete the residential project by the Practical Completion Date. Initially there are five Project Companies. They will finance construction according to the State in which the residential project is located. Further Project Companies may be added to the initial four and in each case they will be Mirvac subsidiaries.

Construction Company

The Construction Companies are all Mirvac subsidiaries. A single Construction Company is responsible for all projects in a particular State or Territory. The Construction Companies will contract to build a residential project by a certain date and for a certain fixed cost. In addition they must ensure that they enter into a Support Facility with a financial institution that has either a Fitch long-term or a Fitch short-term rating of no lower than 'AA-'/ 'F1+' respectively. The Construction Companies will also enter into contracts with sub-contractors for specific tasks. Initially there are four Construction Companies but others may be added. In each case they will be Mirvac subsidiaries.

Support Facility

The Support Facility must be provided by a financial institution having a Fitch long-term rating of no lower than 'AA-' or a Fitch short-term rating of no lower than 'F1+'. Initially, the Australia and New Zealand Banking Group Limited (ANZ) will be the Support Facility Provider (see Fitch's rating affirmation press release of 23 January 2003).

The Support Facility can be in one of three forms: (i) a performance bond, (ii) a Letter of Credit, or (iii) another form of facility acceptable to the rating agencies. At all times, the size of the Support Facility is to be no smaller than 25% of the remaining cost-to-complete of the project it supports. In certain cases, where a project is yet to have a completed ground-floor slab, and hence is potentially at risk of more uncertain cost-to-complete estimates, the Support Facility can be no smaller than 50% of the then estimated cost-to-complete of that project until the ground floor slab is substantially completed. It must also be no smaller than 50% of the estimated cost-to-complete if the residential project is the conversion of an existing building. The total of all the Support Facilities must be no less than the greater of 25% of the cost-to-complete of all the projects or AUD30 million.

The Support Facility provider must pay any amount, up to the total of that particular facility, on demand by a Project Company, if one of the following three conditions applies: (i) there has been a breach of contract or repudiation of contract or insolvency by a Construction Company, (ii) the Support Facility provider no longer has the minimum required Fitch rating, or (iii) construction stops for more than ten business days for reasons under the control of the Construction Company. The Support Facility is designed to cover increases in construction costs or to cover the cost of replacing a Construction Company with another entity. Because the Construction Contracts are for fixed prices, a breach of contract under (i) above in reality means that Mirvac has insufficient funds to complete construction.

■ IC Report

An IC Report will be delivered each month for every project by one of three independent certifiers. The three certifiers are:

- WT Partnership Australia Pty Ltd.
- Rider Hunt Sydney Pty Ltd.
- Napier & Blakeley Pty Ltd.

The IC Report must contain, among other things, the following information for each project:

- the estimated cost-to-complete
- the estimated time-to-complete
- a determination that the work completed has been done in accordance with the construction contract and that any variations are in accordance with the construction contract

- confirmation that all required insurance is current
- confirmation that any request for payment of work completed is reasonable
- confirmation that all sub-contractors have been paid or that there are sufficient funds available for them to be paid all amounts owing

■ The Tests

The Positive Cash Flow Test and the Permissible Advance Test are calculated every month. If the Tests are complied with, there are sufficient funds for construction costs, and to pay scheduled interest, principal and other costs. If the Tests are not complied with, Mirvac must deposit sufficient funds to ensure the Tests are met.

The IC Report and transaction documents contain all the necessary information for the Programme Manager to run the Tests.

The Positive Cash Flow Test: This test ensures that all future inflows of cash are greater than all future outflows of cash. It is met when (i) the sum of all the presales multiplied by 85%, plus (ii) the total credit balances in all accounts, plus (iii) any amount of the Liquidity Facility earmarked for future shortfalls, is greater than (i) the total cost-to-complete, plus (ii) the total of all Notes, CP and Liquidity Facility outstanding, plus (iii) forecast interest on the Notes, CP and Liquidity Facility (all calculated on a stressed basis), plus (iv) AUD250,000 (reserved for extraordinary expenses).

The Permissible Advance Test: This test is met when 85% of the total value of all presales is greater than the sum of the total Notes, CP and Liquidity Facility outstanding.

■ Liquidity Facility

The Liquidity Facility will initially be for AUD100 million and will have an initial term of 364 days. The provider of the Liquidity Facility may extend it for further 364-day periods. If the provider decides not to extend the Liquidity Facility, for which there must be 45 days' notice, the Issuer must draw down whatever is still available under the facility at that time.

The Liquidity Facility may be used to provide advances to fund the following actions:

- purchase of Debentures
- payment of fees
- payment of interest on advances and Notes or CP
- redemption of Notes or CP or repayment of advances

There is a mechanism for provisioning future advances whereby identified cost of construction increases, and interest and principal repayments, can be funded without the need to escrow cash.

The maximum amount of any advance is the lesser of (i) the unfunded amount of the Liquidity Facility, or (ii) the value of current presales multiplied by the Presale Advance Rate less the aggregate balances of the Notes face amount and CP issue price less any amounts in authorised investments. Thus the principal amount outstanding on the Liquidity Facility can never be more than the difference between 85% of the value of the presales and the outstanding rated securities. Fitch expects the Liquidity Facility to be used principally to fund interest and principal repayments due on a certain day that cannot be funded from settlement proceeds due to timing mismatches and to make provision for future payments rather than escrowing cash.

■ Australia's Residential Apartment Unit Market

Recent house price growth in Australia has raised concerns that the asset price boom may be followed by a bursting of the bubble with a consequent decline in collateral value (See "The Bigger They Are, The Harder They Fall – Australian Residential Property Prices", published on 14 April 2003, available at www.fitchratings.com). In certain markets, notably Sydney and Melbourne, there has been further concern that the asset price boom in apartment units coupled with significant new product coming on stream will imply a larger decline in collateral value than the overall housing market in general. Particularly in Melbourne, prices for apartment units rose quickly in 2002, even while the number of apartment units continued to expand. In Sydney in 2002, apartment units outsold houses for the first time.

The significant increase in supply of apartment units needs to be looked at in the context of the demand side of the market. There has been a significant increase in demand for apartment units and the reasons given for this include a shortage of land, changes in lifestyle, population ageing, and investors buying apartment units to rent to third parties.

Fitch would consider only the last reason – investors buying apartment units to rent to third parties – as a significant contributor of risk to a price bubble. Since the mid-1990s, investment home loans have grown rapidly. In some residential mortgage backed security (RMBS) transactions that Fitch rates, more than one third of the pool of loans is investment loans. One of the greatest attractions to investors, other than the tax benefits provided by negative gearing, has been the potential to make significant capital gains as the property market has risen. This growth in the investment market has had a marked impact on certain property sectors. In particular, inner-city apartment units have been a favoured type of property for investors. The investment is often negatively geared. Further increases in the vacancy rate may precipitate a movement out of investment properties by those investors who do not have sufficient cash flow from other sources to subsidise the mortgage payment on the apartment unit when it is vacant. As more apartment units come onto the "for sale" market, it can begin to create its own inertia. Other investors, in an effort to beat a predicted fall in value due to oversupply, put their properties up for sale, thus fulfilling predictions on falls in value.

Another potential cause of a price bubble is derived from speculators purchasing "off the plan apartments" and hoping to sell them for a profit before the apartment unit is complete. Buying "off the plan" means purchasing an apartment unit before the property is finished. Speculators are looking for increases in value in the period between paying their deposit and final settlement. Commentators are concerned that their actions have artificially inflated the apartment unit market. This is especially so when they can purchase an apartment unit by using a deposit bond instead of a cash deposit. In the current transaction, deposit bonds cannot make up more than 50% of deposits. Once increases in capital appreciation slow or disappear, speculators will exit the market. With the resulting reduced demand, prices would be expected to fall.

It is not just speculators who would exit the market. Any decline in values for apartment units overall will cause those people who are buying "off the plan" to think twice before proceeding with final settlement, especially if the value of the apartment unit at settlement is lower than the cost less the deposit already paid. In the current transaction, purchasers who fail to settle under the terms of their presale contract upon completion of their apartment unit will be liable for legal action from Mirvac for any losses suffered. They would also lose their 10% deposit.

■ The Transaction's Properties

By definition, all the properties in the transaction are "off the plan". Furthermore, two of the residential projects are in inner-city locations. Yarra's Edge Tower 4 is located in the Docklands redevelopment of Melbourne; and ikon is located in Potts Point, Sydney.

Fitch's rating of the transaction takes into account these risks and is outlined in the following descriptions of Fitch's analysis. It should be pointed out, however, that Mirvac has relatively fewer speculators selling their units prior to completion and hoping for profit from value increases since purchase, compared with other developers.

■ Fitch Analysis

Overview

Fitch's analysis assumes a worst case scenario. Fitch's economic stress in the current transaction is such that all debt securities rated 'A+' and lower would most likely default. However, all debt securities rated 'AA-' and higher would receive timely payment of interest and ultimate payment of principal by the rated final maturity date (Fitch's 'F1+' short-term rating is most similar to a 'AA-' long-term rating).

Under a 'AA-' stress, Fitch has to assume that certain economic events take place. These include a severe economic recession, high unemployment and falling property values. Fitch also has to assume that Mirvac fails and is wound up, or that the only property assets Mirvac has at the time of the stress are part of this transaction and that Mirvac subsequently does not fulfil its undertakings under the transaction documents. Investors' only security is thus the projects in the transaction at the time of the stress and the various support structures. Because the timing of such a stress cannot be predicted, Fitch also has to consider the possibility that such a stress occurs when there is only one project available as security to investors.

The following analyses take these assumptions into account. The economic stresses are assumptions to test the strength of the transaction and do not indicate Fitch's view of the likelihood of such occurrences.

Residential Mortgage Default Analysis

This analysis is based on Fitch's Australian Residential Mortgage Default Study (see Fitch's reports "Australian Mortgage Default Model 1999", published 17 February 1999, and "Australian Residential Mortgage Loan Performance Study", published 10 June 2002, both available at Fitch Ratings' web site www.fitchratings.com) and uses mortgage default rates and market value declines (MVDs) in 'AA' stress periods. This provides an advance rate that can be used in calculating how much of the prospective settlement proceeds can be advanced to the Project Companies, given the required rating and the economic stresses that the required rating entails.

Fitch's residential mortgage default model predicts the losses likely to occur at various stress levels. The likelihood of a mortgage defaulting is based on the original loan-to-value ratio (LVR) and the loss, once default occurs, is based on how far values decline. Both are adjusted according to the severity of the stress under consideration. In general, default rates and losses, given default, are greater in an 'AA' stress than in a 'BBB' stress. For instance, an 'AA' stress implies a greater number of people losing their jobs and therefore a greater probability of a borrower defaulting compared with a 'BBB' stress. Likewise, in an 'AA' stress, the value of a property is expected to fall further than in a 'BBB' stress.

Fitch believes residential mortgage default rates are a suitable proxy for the likelihood of a prospective purchaser in the current transaction not proceeding with final settlement upon completion of their apartment unit. Mirvac's historical default rate is under 1.0%. However, Fitch would expect this figure to increase if there were an economic downturn with, among other things, higher unemployment levels and market-wide disruptions in residential values. The new default rate would depend on: (i) the general level of economic stress; (ii) the magnitude of the decline in the value of the property; (iii) the prospective purchaser's views on how long the value decline will last; and (iv) whether the property values will ever regain their original levels.

This analysis assumes that all the projects are completed on time. As long as a project is completed by its Sunset Date and there are no material differences between the promised apartment unit and the actual apartment unit (generally, the difference must substantially and detrimentally affect the property), then the prospective purchaser must provide the final settlement proceeds. The risks associated with the project not being completed prior to the Sunset Date are discussed below under **Construction Delays**.

Default Analysis

The first component in calculating an 'AA' advance rate is to determine the appropriate default rates. Default rates based on the original LVR are a proxy for the amount of equity cushion available. The 10% presale deposit can be equated to a residential mortgage borrower who has 10% equity, and therefore a 90% LVR mortgage. In Fitch's residential mortgage default model, a 90% LVR loan implies a 16.0% probability of default (PoD) in an 'AA' stress. This PoD was adjusted for the following factors:

Timing of Defaults: In the residential model, Fitch expects almost all defaults to occur in the first ten years after origination. In the current transaction, the average expected time-to-complete at closing is approximately seven months. Therefore, an adjustment is appropriate to account for the shorter duration of time between a presale being made and final settlement, compared with the normal residential default curve. However, this adjustment is limited because the majority of defaults in Fitch's studies occur in the first 48 months of the curve.

Refinance Risk: There should be an upward adjustment to the PoD for the refinance-like nature of the settlement payment. Fitch assumed that most purchasers would take out a mortgage at settlement to fund the final payment due. This mortgage can be likened to a future re-financing of a current mortgage. Over the intervening period, interest rate changes, value declines, and borrowers' circumstances may all change, and reduce the borrower's ability to obtain a mortgage without a further injection of equity. This increases the likelihood that any one purchaser may renege on their particular commitment.

Single Builder Risk: Fitch felt that at an 'AA' level there is a risk from all the projects being developed in essence by a single developer. This risk is different from the financial risk of Mirvac failing, which is described later in this report. Instead, it accounts for the 'headline risk' that may cause prospective purchasers to shy away from Mirvac apartment units. This would most likely be issues arising post-completion, which are circulated via the media and which cause reductions in value. Given Mirvac's reputation for quality this risk is not considered serious, even at 'AA'.

Geographic Concentration: Although the transaction has six properties at five separate projects in three different states, the concentration is still greater than the typical residential mortgage transactions that Fitch rates. In those transactions it is not uncommon to have 7,000 to 12,000 different loans. Therefore, an adjustment was required to allow for the greater concentration risk.

Credit Crunch: If banks tighten their mortgage lending parameters, this will lead to difficulty in raising mortgage debt. A purchaser that was able to finance 90% of the purchase price may now find themselves only able to raise 75% finance on the apartment unit. To complete the purchase, the borrower needs to find a further 15% over and above the initial 10% deposit. This may lead to increased defaults at settlement.

In accounting for the above risks Fitch adjusted the 'AA' PoD for a 90% LVR mortgage from 16.0% to 25.0%, an increase of over 55%.

Loss Analysis

The second component in calculating the advance rate is the expected loss once a default occurs. The expected loss is based on the market value decline at the 'AA' stress. In Fitch's residential mortgage model, the magnitude of the market value decline varies not only with the different stress scenarios but also according to the state in which the property is located. In this particular transaction, Fitch used a MVD of 40%, which is the average of the New South Wales and Victoria 'AA' MVDs. The MVD was adjusted for the following factors:

Pricing Volatility: Mirvac's apartment units are typically more expensive than the market average. Fitch adjusted the MVD by five percentage points to 45.0%. This is to account for the higher volatility in values experienced in recessionary times for higher-priced housing.

Resale Costs: Fitch calculated a 5% resale costs adjustment to the declined value, to account for the costs of re-marketing and re-selling the property. This equates to a 2.75% cost at current values.

The Resale Recovery (RR) is therefore calculated as:

1 – (MVD + Resale Costs)

= 1 – (45.00% + 2.75%)

= 52.25%

Because Mirvac can keep the 10% deposit provided by a defaulting prospective purchaser and also attempt to resell the property (albeit for the new, lower market value), an additional adjustment needs to be made, to take into account the value of retained deposits. The adjusted Resale Recovery is therefore:

52.25% + 10.00% = 62.25%

Because Fitch is considering an 'AA' stress, the agency did not give any credit for the ability to sue defaulting purchasers for damages.

The Net Loss calculation for the pre-sold apartment units is therefore:

PoD * (1 - RR)

= 25.00% * (1- 62.25%)

= 9.44%

The Net Loss is the actual losses expected in an 'AA' scenario due to prospective purchasers defaulting on their commitment to proceed with final settlement. The inverse, 90.56%, is the maximum advance rate Fitch would expect at an 'AA' rating level. The actual Presale Advance Rate in the transaction is 85%, which Fitch feels is well within the 'AA' stress scenario.

The Residential Mortgage Defaults Analysis assumes that construction proceeds as planned and Sunset Dates are met. At completion, the purchasers are required to make final settlement and, in an 'AA' stress scenario, Fitch expects an approximate 9.50% shortfall, which, if it had been originally advanced, would not now be available to repay investors. Therefore, to achieve an 'AA' rating, at least 9.50% must be held back to account for this expected non-receipt of monies at settlement.

The above calculations do not give any credit for apartment units that are not subject to presales. For instance, the SY21 - Malcolm property is 76% presold, so 24% is still available to be sold. Because of the dynamic nature of the programme, funds can be advanced against these units as they are sold. This avoids the lower advance rate that Fitch would require for unsold units if the advance was to be funded at closing. Fitch would require a lower advance rate against unsold units in view of the greater uncertainty attributable to them.

Consideration must now be given to the possibility that construction risks, cost increases and other risks mean that final settlement does not take place prior to the Sunset Date.

Cost Overruns

A cost overrun will occur when the current cost-to-complete is greater than the project's contract price less amounts already spent. Given the strict reporting requirements, the cash flow tests and the Liquidity Facility, and the fact that the projects are already under construction when they become an asset of the transaction, it is unlikely there will be material cost overruns in the normal course of business. Mirvac's track record in completing projects on time and within budget also provides comfort. While analysing this transaction, Fitch met Mirvac on several different occasions. At one meeting Fitch discussed the budgeting and construction process with members of Mirvac's development group. Fitch believes that their processes and procedures, as well as the expertise gained from 30 years' experience in property development, are positive factors for this transaction.

If a cost overrun is identified and the Tests will not be met on the next payment date, Mirvac would be required to deposit sufficient funds to ensure the Tests will in fact be met. Under its stresses Fitch assumed that if cost overruns on a project or projects were large enough to wipe out any equity and profit Mirvac might have in the project(s), there would be less incentive for Mirvac to cover the cost overrun.

This is mitigated by the diversity of the projects. All six projects would need to suffer such serious cost overruns as to reduce Mirvac's equity and profit from all six to zero. Furthermore, these are not the only projects Mirvac has under development – Mirvac is a AUD2.5 billion capitalised company.

However, in an 'AA' stress, because Mirvac is not rated, Fitch, in rating the Securities 'AA', has to assume that Mirvac fails to deposit the funds required to ensure that the Tests are passed. That would be a Mirvac Event of Default but not an event of default on the rated securities. A Mirvac Event of Default would enable an immediate draw on each Support Facility.

The Support Facility must be provided by a financial institution having a Fitch long-term rating of no lower than 'AA-' or a Fitch short-term rating of no lower than 'F1+'. Initially the Australian and New Zealand Banking Group Limited will be the Support Facility Provider. The Support Facility is designed to reduce the impact significant cost overruns may have on the transaction. The largest project, ikon, has a current cost-to-complete of AUD40.5 million. The size of the Support Facility is always the greater of 25% of the current cost-to-complete (unless either the project is a refurbishment of an existing building or the foundation slab of a new building is yet to be completed, in which case the Support Facility can be no lower than 50% of the cost-to-complete) or an amount in excess of 25% of the current cost-to-complete, is required to ensure that the AUD30.0 million floor across the portfolio is maintained. Of the six initial projects, only ikon is a refurbishment. Thus, even if the ikon project were the only project remaining in the transaction, cost increases would have to amount to AUD30.0 million before the support facility was used up. Because the transaction is rated 'AA' and not 'AAA' and there is geographic diversification among the projects, the size of the Support Facility is smaller than facilities required in similar transactions rated by Fitch. (See Jasmine Investment Corporation Ltd., published on 20 June 2002, and Peridot Investments Ltd, published on 16 September 2001, at www.fitchratings.com).

Because the Support Facilities are specific to individual projects and are sized according to a percentage of the cost-to-complete, Fitch did not consider it relevant in an 'AA' scenario to stress the costliest project. Instead, Fitch focused on the project that had the smallest differential between the original cost-to-complete and total presales as of the closing date – in essence, the least profitable project. This project was the Yarra's Edge Tower 4 project, with an original cost-to-complete of AUD55.2 million and total presales as of the date of this report of AUD80.3 million. Yarra's Edge is a new construction, so the Support Facility the day construction started would have been AUD13.8 million. In an 'AA' stress Fitch assumed that the Yarra's Edge project had a significant cost overrun. It is possible to draw on the Support Facility after Mirvac fails to inject further funds. Fitch assumed that, while Mirvac does not have the requisite rating to support 'AA' securities, it will continue advancing funds so long as it perceives that there is still a profit in the Yarra's Edge project. The budgeted profit on the Yarra's Edge project was approximately AUD25.1 million. Fitch assumed that Mirvac would continue to advance until 110% of this profit was eaten up. This implies that AUD27.6 million is available to fund the project before Mirvac decides to discontinue funding. Once that occurs, the Support Facility may be drawn. Therefore, the total cost overrun that may be considered to be covered for the Yarra's Edge project is AUD41.4 million (AUD27.6m + AUD13.8m = AUD41.4m), which is 75% of the original cost-to-complete.

This is a stressed example because it uses the original cost-to-complete, not the current cost-to-complete – which is AUD17.3m, less than the projected profit. If Yarra's Edge was the only project left in the pool, the Support Facility would need to be a minimum of AUD30.0m, which is 1.46 times the current cost-to-complete. For the other projects, even assuming just the 25% Support Facility on the refurbishment properties, the cost overruns need to be in excess of 100% before funds start to run out. Fitch felt these margins were consistent with an 'AA' rating. To give further comfort, Fitch did not give any credit to the possibility that, despite Mirvac's inability to support the transaction in an 'AA' stress scenario, all the residential projects are in fact profitable.

Funds advanced by the Support Facility Provider are repayable by Mirvac. Repayments to the Support Facility Provider do not form any part of this transaction and do not reduce in any way the settlement proceeds from completed residential projects.

In assuming that Mirvac fails to further fund the transaction to ensure the Tests are passed, it also has to be assumed that the Project Company, being a Mirvac subsidiary, is no longer able to continue with construction. Thus, while Fitch believes there is sufficient liquidity to cover the risk of massive cost overruns, the risk of construction delays also requires analysis.

Construction Delays

The construction contract promises that a project will be completed by a certain date. The presales contract promises a prospective purchaser that an apartment unit will be completed by a certain date – the Sunset Date. Any delays by the Construction Company in completing the project could inhibit the ability of the Project Company to provide apartment units to prospective purchasers by the Sunset Date. This would be a breach of the presales contract and would provide a reason for a purchaser not to proceed with final settlement. Because the settlement proceeds are used to repay Debentures, which in turn repay investors holding the rated Securities, a delay could mean that investors do not receive timely payment of interest and ultimate payment of principal on the dates they are due. In addition, the 10% cash deposit is repayable to the purchaser.

Construction delays can arise from a number of sources including adverse weather, industrial action, damage or destruction and non-performance by a Construction Company or a sub-contractor. At the time of Fitch's inspection of the Cutters Landing project, delays were occurring because of a recent strike by an electrical union, but these delays were minor.

If a project were to be badly damaged by fire during construction, serious delays could occur. A large fire late in the construction process could easily move the Practical Completion Date beyond the Sunset Date. Insurance would cover such events and in the case of total or near-total destruction, the insurance proceeds could be used in lieu of settlement proceeds. However, if the damage was only partial, repair would be the most appropriate course of action. The time taken to prepare the site and the actual repair could delay practical completion. It is likely in these circumstances, however, that the Sunset Date could be postponed.

In analysing the risk that construction delays pose to the transaction, Fitch considered the following:

Sunset Date: The Sunset Date is never less than six months beyond the date on which the residential project is expected to be complete (Practical Completion Date). The Practical Completion Date is the date stated in the Construction Contract between the Construction Company and the Project Company. Therefore delays would only pose a threat to receiving final settlement proceeds if the delay was to approach six months. In the initial pool, the smallest time period between the Practical Completion Date and the Sunset Date is seven and a half months for the Cutters Landing – Cook project.

Ability to extend Sunset Date: Depending on the causes of the construction delay, the Sunset Date may be moved for projects where such delays also delay the registration of the plan and are not within the Project Company's control, e.g. adverse weather.

Mirvac's completion record: A sample of Mirvac's history in completing projects shows that the biggest completion delay was seven months after the forecast completion date given at construction commencement. The cause of the delay was fire. In addition, Mirvac has never missed a Sunset Date.

Ability to appoint new Construction Company or sub-contractor: Non-performance by a Construction Company or a sub-contractor is cause for it to be replaced. The Support Facility can be used in such an event to cover any costs incurred in engaging a new party. In addition, the obligations of a sub-contractor remain in force if a Construction Company is replaced, as long as the sub-contractor is being paid on time.

Inclusion criteria: Because the projects are all "out of the ground" at the time they are included in the programme, the potential for delays is greatly reduced. Most construction delays occur in the early stages; either in the planning and approvals process, or when the foundation footings are being dug and the reliability of the sub-ground causes engineering problems. Projects that provide or will provide security to the transaction all have construction beyond these early stages.

IC Reports: The IC Reports contain a monthly confirmation of the expected completion date. If this date is revised beyond the date which is three months prior to the Sunset Date or, if this date has already been revised to a date which falls between the date six months prior to the Sunset Date and the date three months prior to the Sunset Date, and is to be revised again (closer to the Sunset Date), then the future settlement proceeds on the presales for that project are not counted in the monthly cash flow tests. In addition, if the total number of months by which the revised completion dates have been extended in aggregate is more than five, the future settlement proceeds of the project that takes the aggregate extension over five months (and all subsequent projects that require extensions) will not be counted in the cash flow tests.

Project Diversity: There are six different projects on five different sites in three different states. This diversity makes it very unlikely that all or most projects will suffer delays of longer than six months.

Liquidity Facility: If a project is delayed beyond its Practical Completion Date, the Liquidity Facility may be drawn upon to provide timely interest and principal payments to investors. The Liquidity Facility is replenished from settlement proceeds when the project is completed.

Apartment Units still an asset: As discussed above, under Fitch's 'AA' stresses, Fitch has modelled a market value decline of 45% and has used this decline to calculate the value of the apartment units. At this stage the apartment units are still an asset of the Project Companies and are available to be re-sold if the original purchaser reneges.

Prospective Purchasers: Mirvac has a reputation for quality and attracts good customer loyalty. Over 30% of prospective purchasers in recent property releases were previous Mirvac customers. In addition, Mirvac properties have higher levels of owner-occupiers than other similar property types. Mirvac's historical default rate on presales has been less than 1.0%.

Tests and Cash Flow Analysis

"Predictable cash flow" and "timely payment of principal and interest" are not phrases that traditional lenders may have historically associated with the financing of commercial real estate construction. In this transaction, robust cash flow tests have been developed, in order to ensure that cash flows are predictable and that principal and interest are paid on time.

The cash flow tests represent the expected magnitude and timing of the various cash flows within the transaction. Cash inflows and outflows represent funds received from the issuance of the Notes and CP, amounts available under the Liquidity Facility, interest payments, presales multiplied by the Presale Advance Rate and settlement collections.

The Tests and IC Reports provide the structural integrity of the transaction and ensure that there is always sufficient funding within the transaction given the information known at the time. The Tests will be calculated by the Programme Manager. The tests assume various stresses in their calculations. For instance, interest rates on floating rate Notes are stressed up to 200 basis points over a two-year period, and the receipt of final settlement proceeds will always be three months later than when they are actually expected.

Given that a large proportion of the positive cash flows are from final settlement of the presales and that these occur only when a project is completed, whereas negative cash flows occur during the construction phase (to pay for the construction to date), it is important that there is sufficient cash flow at any point to pay all liabilities due at that time. Therefore the cash flow tests determine, on current and future dates, the funds required to ensure there are always sufficient monies to pay current liabilities. The funds required today for future payments are called the Amount to be Provisioned.

An Amount to be Provisioned is required when (i) construction costs plus (ii) Notes principal plus (iii) interest, all due on the Payment Date in question, are greater than (i) the total presales settlements expected to be received in the month prior to the Payment Date less (ii) any amount from such proceeds that has been earmarked to defease Notes maturing on future payment dates. The Amount to be Provisioned ensures that there are always sufficient monies available to pay future expenses, interest and principal repayments on their due dates, when it is anticipated that there will be insufficient funds flowing from settlements of presales due to timing differences.

The Amount to be Provisioned can be funded either through an allocation against the Liquidity Facility or through funds in the Programme Accounts. If there is no further capacity remaining in the Liquidity Facility, the Amount to be Provisioned must be escrowed from the funds in the Programme Accounts.

Insurance

The Project Companies are required to maintain insurance policies covering damage and destruction of the properties. The insurance providers must meet a minimum required rating of 'A-'. For the insurance providers on the six initial projects please see the table below.

Damage and Destruction: Insurance policies for the loss or damage to a project include the full cost of rebuilding as well as debris removal and professional fees. Coverage is maintained until the owner's body corporate arranges its own insurance.

Public Liability: Insurance policies are required to cover compensation payable to third parties who suffer property loss or damage or bodily injury or death arising from an event during construction. The amount insured is at least AUD50m for any one occurrence. If the expected completed value of the project is less than AUD45m, a blanket insurance cover is maintained. If not, separate project 'contract works liability' policies are arranged.

In addition, workers' compensation insurances are also maintained.

Insurance Coverage on the Six Initial Projects

	Material Damage	Public Liability	Project
Ikon	Allianz	Allianz/QBE	Specific
Cutters Landing 1	Zurich	QBE	Blanket
Cutters Landing 2	Zurich	QBE	Blanket
Avista	Zurich	QBE	Blanket
Yarra's Edge	Royal Sun Alliance	QBE	Blanket
SY21 - Malcolm	Royal Sun Alliance	QBE	

■ Events of Default

The following are Mirvac Events of Default. They are not events of default on the rated Securities but a breach of any one of them, if not cured within the prescribed time frame, will trigger certain actions.

A Project Company or Mirvac fails to pay an amount that is due unless the amount due is payable on a scheduled repayment date as opposed to the final repayment date.

A Project Company or Mirvac fails to comply with its obligations under the programme documents and the failure is not remedied within 30 business days.

A representation or statement made by a Project Company or Mirvac is untrue or misleading and is likely to lead Fitch to downgrade the securities.

A Project Company or Mirvac is insolvent.

A Support Facility provider is insolvent and is not replaced within 30 business days or no longer has the required rating and it is not remedied.

A Project Company fails to procure an IC Report and it is not remedied within 10 business days.

A Debenture becomes enforceable or loses its priority.

Mirvac Limited and the Project Companies have failed to enable the Tests to be satisfied after having been informed by the Programme Manager that they need to deposit funds into the programme account in order for the Tests to be met. A Mirvac Event of Default allows the Issuer Trustee to choose a course of action. The course of action may include preventing Mirvac and the Project Companies from receiving further funds (but does not apply to amounts drawn from the Liquidity Facility that were previously provisioned) and requiring any Debenture funds to become immediately payable.

■ Allocation of Cash Flow

Payments under the MOPS programme will generally occur monthly. The Issuer will deposit proceeds received from issuing the Securities, from Liquidity Facility advances and interest and principal received in relation to the Debentures into an Issuer account. The Issuer account must be held at a bank having a Fitch short-term rating of no less than 'F1+'. The funds in the Issuer account will be used on every payment date to subscribe for Debentures, pay interest and principal on the Securities and to pay any Issuer expenses. The following is the allocation of cash flow as long as no Mirvac Event of Default exists:

- all fees and costs of Mirvac or the Project Companies
- interest to the Debenture holders, which is passed through to the holders of the rated securities
- principal due to be paid to the Debenture holders, which is passed through to the holders of the rated securities
- amounts to the Project Companies identified in the IC Report
- and finally, for so long as there is no Mirvac Event of Default, the remainder to the Project Companies.

In the event of a Mirvac Event of Default, the above cash flow waterfall is maintained except that the following two steps become the first two steps in the waterfall:

- fees incurred by the Debenture Security Trustee in its attempt to exercise any rights and remedies
- remuneration of any receiver appointed

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance Performance Analytics ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is available at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.