HERRON TODD WHITE

Month in Review

February 2019

The Month in Review identifies the latest movements and trends for property markets across Australia.

Contents

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2019: The year ahead

When you think about it, the idea of 2019 is an unusual thing. It's more than just the prime factorisation of 3 x 673.

2019 has the numeric distinction of being a single digit short of a significant click over in the calendar. Doesn't that seem to promote intrinsic promise?

In this respect, it's like some sort of "almost ran" figure... tantalisingly close to 2020 but not quite there. In reality though, 2019 should be a year of rejuvenation.

This year, we actually do have an opportunity for cathartics. Anyone who looked back to the December issue of our Month In Review will know that the tail end of 2018 saw real estate news dominated by the trials and tribulations of finance. Heading into this year, we are dealing with the same issues, but the pendulum is beginning to swing back. Many at the helm of our political and administrative bodies have highlighted how credit is an important element of economic momentum in Australia.

2019 will also see Aussies go to the polls as we face a federal election in the first half of the year. While a date had not been set at the time of writing, it is imminent.

In 2018, Sydney and Melbourne were in the throes of a softening market. Results showed that they were among the least impressive of Australia's capitals in terms of annual house price growth. Heading into this year, it appears most commentators believe there will be more of the same... although the perceived severity of "bump" varies among the pundits.

The flow on to other capital cities and regions will be a most compelling observation in 2019. Many are expecting demand to just shift beyond the big capitals but, In reality, what drives our markets is far more nuanced than that.

If only there was a way you could drill down into a knowledge base built upon some of our country's most highly informed minds.

Some see a shining beacon of hope while others are hunkering in for twelve months of subdued activity.

Oh wait! You can!

This month, we follow a tradition of decades past and ask each of our offices for their expectations of their property markets in 2019.

The mix is compelling. Some see a shining beacon of hope while others are hunkering in for twelve months of subdued activity. Many have highlighted their places of opportunity as well as the options best avoided in 2019.

The best thing is that come December, each and every one of them will have to revisit these predictions and give us a scorecard on how they performed.

If you're commercially inclined in your property choices, then this month's sector is retail and it's getting a similar treatment to the above. Our commercial property doyens are looking forward and giving a feel for how 2019 will play out in our retail markets around the nation.

Finally, our rural team have also provided thoughts on the coming year. While drought continues to dominate the pages, there are many who still see promise in rural industries. Which locations? Well... flip to the back of the document and read up.

There you have it folks – our take on the year ahead. Make sure you click on your area of interest in our handy PDF index to go straight to your desired text.

While you're at it, get on the phone or online and make contact with your local Herron Todd White office. Our team stands ready to help ease you into 2019 and beyond with excellent property advice.

HERRON TODD WHITE COMMERCIAL

Commercial

February 2019

National Property Clock: Retail

Entries coloured purple indicate positional change from last month.

Peak of Market:
Brisbane
Dubbo
Gold Coast
Lismore
South East NSW

Starting to Decline:
Coffs Harbour
Melbourne
Newcastle

Declining Market:
Alice Springs
Canberra
Echuca
Gippsland

Approaching Bottom of Market:
Adelaide Hills
Barossa Valley
Hobart
Iron Triangle
South West WA

Bottom of Market:
Adelaide
Darwin
Emerald
Gladstone
Mackay
Perth
Rockhampton
Townsville
Wide Bay

Start of Recovery:
Cairns
Mildura
Toowoomba

Rising Market:
Ballarat
Bendigo
Burnie-Devonport
Launceston
Mid North Coast
Sunshine Coast

Approaching Peak of Market:
Sydney

New South Wales

Overview

Australia's retail property sector has had a fairly bumpy ride in recent years and its seems to be the case that existing businesses must adapt to survive. There are, however, pockets of promise.

This month, we give our expectation of how the retail property sector will play out in 2019 across all our service areas.

Sydney

The retail market in Sydney has seen substantial growth over the past twelve months as a result of increased demand for good investment assets, growth in rental income and generally lower vacancy rates, despite the continued threat of online shopping and generally negative perception of the retail market.

The next twelve months look to see continued interest in retail but with less demand than in 2018. Demand from investors will continue to drive the market. Properties with well-established retail tenants and those with underlying future development potential will continue to be popular this year.

The Sydney CBD remains strong, as infrastructure improvements and new development continue and speculation about the impact of these continues to drive areas of the market. Record rates for retail have been seen in the past six months in the CBD, with no evidence to suggest that this has slowed down as yet.

Within the CBD we have seen an increase in high-end retail tenants with evidence suggesting there has been some rental growth in prime locations. High-end retailers are currently looking to secure prime locations in order to meet the growing demand for luxury goods, mainly from overseas tourists. This trend is likely to continue in 2019 albeit at a slightly more subdued rate.

Generally speaking, retail rents across most areas of Sydney look likely to remain stable this year. Food and beverage outlets remain popular as do properties with an established retail trade. Evidence also suggests that some areas that include new retail opportunities (such as Green Square) may do well over the next twelve months as retailers try to secure a position in these new developments that predominantly service the surrounding residential units.

Suburban retail assets with good lease covenants have also seen growth over the past twelve months, which is likely to continue as investors look for strong performing assets, particularly if they offer some form of future growth potential or multiple income streams. That said, properties that lack exposure, have difficulty maintaining a good tenant or are in areas of oversupply of retail should be avoided by investors as usually these assets will be the first to experience a decline in value should the market soften.

Looking ahead, the outlook for retail in Sydney overall remains cautiously positive for 2019.

Looking ahead, the outlook for retail in Sydney overall remains cautiously positive for 2019. We expect prime locations to continue to perform well along with properties perceived to have growth or redevelopment opportunities in the future and properties with good returns and long lease expiry profiles. That said, we are of the opinion that the market looks to be reaching the peak of the cycle and any tightening of monetary policy or increase in the cost of debt will result in the prevailing investment yields not being sustainable.

Newcastle

We have a mixed bag of market factors playing out in the Newcastle retail space at present. This is particularly true in the hospitality sector where recent infrastructure upgrades have benefited some retail locations in the Newcastle CBD while these same infrastructure changes have rendered many retail locations untenable for some tenants.

An example of the negative impact of the new light rail line is between the intersections of Worth Place and Merewether Street on Hunter Street. Kerbside car parking to the northern elevation of this section of Hunter Street has been removed to make way for the light rail line. The "walk in off the street" retailers along this strip have found retailing to be extremely difficult and this locality will most likely morph into ground level office space before too long given the access difficulties. Proximity to the university campus will play a part in the tenancy mix here though and we will see retailers tailoring their offerings to students in this area.

On the flip side, food retailers and bars at the northern end of Darby Street and around Crown Street should benefit from the light rail stop in close proximity and we note that internal fitout construction is underway for a number of outlets in this area where office property once stood.

Sales activity in the retail sector slowed significantly over the past six months. Of the sales we have seen, selling periods have increased and yields have now begun to soften for assets of a multi-tenanted nature or those that might indicate a higher than average cash flow risk. We do note that well-tenanted property continues to sell at record low yields and of the sales we have seen, yields remain historically very low.

We anticipate a relatively slow start to 2019 as the market adjusts to new, tighter lender criteria. Some market adjustment has already been noted and while we expect some further adjustment, strong local economic factors indicate that any market value losses should be relatively limited.

Lismore

We are entering a period of uncertainty in our markets. Despite significant media attention about declining capital city markets, our coastal markets have remained relatively buoyant, albeit with softer demand.

The limited supply has contributed to this stability.

While supply conditions remain limited, we envisage the market will remain relatively stable, however if supply increases in the current weaker demand conditions, it's likely to result in a softening of the market with slightly higher yields and lower value levels over the coming months.

We note that lenders have tightened their lending policies in part due to their concerns about the market and in part as a reaction to the banking enquiry. This has reduced the number of potential purchasers and therefore has contributed to the fall in demand.

It is likely that as time passes, supply will increase as weaker demand creates slightly longer sales periods and therefore supply increases over time.

We envisage that until the banking enquiry is complete, tighter guidelines will remain in place. The completion of the banking enquiry is likely to provide a release valve as lenders will be able to adjust their policies to meet the inevitable change in lending requirements.

The broader economy does not appear to warrant the doom and gloom being portrayed by the media and as such with more balanced lending policies, a more stabilised market is likely.

Therefore, while there is a risk of decline should supply significantly increase, the market in coastal localities is likely to remain relatively stable over the coming twelve months.

Despite the coastal market being reflective of a seller's market over the past two to three years, our inland localities have been less buoyant. Buyers' appetites for purchasing commercial real estate remains cautious. Markets are still showing a level of maturity with limited demand for poorer quality properties in secondary locations, while investors show a strong preference for fully leased assets with good lease profiles, particularly national tenants or higher profile stable local tenants.

There are significant variations in demand, yield and resultant value between prime and secondary properties. Quality investment properties with strong lease covenants (in particular long-term national tenants) are indicating reasonable to strong demand in non-coastal locations despite the broader markets being more subdued.

The recent sale of prime properties continues to indicate yields at relatively low levels. In contrast, demand and yields for secondary properties in fringe locations which have any negative characteristics or inferior tenant profiles have remained at higher levels, with analysed yields in the order of two to three per cent higher for similar non-leased product.

The exception to this rule is vacant lower priced properties which appeal to owner-occupiers and demonstrate lower yield more in line with national tenanted assets.

We envisage this trend to continue while interest rates remain low.

Ultimately the strength in the market can be relatively fragile and any increase in interest rates, decline in economic activity or significant decrease in market sentiment could see a rapid softening in the market which could result in downward pressure on values to coastal and non-coastal markets.

Overall, it's steady as she goes, however there is underlying risk and uncertainty which is more negative than positive.

Coffs Harbour

The retail market within the Coffs Harbour CBD is relatively stable although there is a high number of shop vacancies and rent price sensitivity. The forecast is for a continuation of this.

Retail development in Coffs Harbour City Centre is limited with an ongoing oversupply within the CBD strip centre. The Coffs Central development is now complete but not fully leased. The immediate future should see a continuation of soft conditions within the retail lease market.

There have been some strong sales for redevelopment within the Jetty precinct. Jetty Village recently sold and an adjoining development site has also sold to the same purchaser. The precinct will undergo a modern transformation in the medium to long term future.

The tightening lending policy by banks is restricting access to funds and therefore having some negative effect on the depth of potential purchasers in the local market. Purchasers remain active for strongly leased commercial property subject to the strength of the tenant and lease covenants. The strength of the local blueberry industry over the past two to three years is generating demand for commercial real estate from cashed up horticulturalists seeking medium term investment at interest rates in excess of those on offer from term deposits.

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Wollongong

Our crystal ball is telling us that the strip retail market will continue to be the weakest of the main commercial asset classes in 2019 as the industry continues to feel the effects of changing conditions surrounding online retailing and consumer spending habits.

Additionally, with negative headlines surrounding declining house prices, there is a good chance that consumers will tighten their purse strings, further impacting retailers, particularly those reliant on discretionary spending. Ultimately, this will lead to store closures.

While strip retailing will continue to experience soft conditions, we feel that strong demand will remain in the bulky goods space although the yield cycle has almost certainly reached its low point. A long-term strategy, strong lease covenants and identifying value add opportunities will be key for investors in 2019.

The local market will continue to evolve and retailers will do their best to adapt to their trading environment. The rejuvenation of the Wollongong CBD will advance as the city's population base grows and we will see more of the traditional retailers being replaced by those in the food and beverage sector. Rents will remain flat and smaller shop fronts in the range of 50 to 100 square metres will be in most demand. Incentives required to lease vacant space and extended letting up periods will remain common in some locations.

Dubbo

Forecasting market movements is always difficult given the number of variables influencing the actions of market participants.

Overall, as elsewhere, consumer sentiment, cost of living pressures, housing construction, credit availability, online sales and potential movements in interest rates impact consumer spending and therefore demand for bricks and mortar retail space.

However in the Dubbo area, another factor influencing the retail property market is the continuing drought.

While the Dubbo economy as a whole is relatively resilient, with a depth and exposure to both government and a diverse range of private enterprise sectors, the Dubbo retail sector relies on western and north-western regional New South Wales consumers for continued healthy cash flows. Drought in these areas does impact negatively on both the local areas and Dubbo. In the event that the current drought extends for a significant time into 2019, then Dubbo, being the major service centre to the region, could see downward pressure on shop revenues which would impact negatively on enquiry and demand for retail space. Further, agricultural business owners often invest surplus funds in off-farm commercial property in regional centres such as Dubbo, and their absence reduces the pool of potential investors.

6.62% - 7.00%

analysed yields for retail property in Dubbo

In the calendar years 2017 and 2018, we witnessed a tightening in analysed yields for retail property in Dubbo of circa 500 basis points to a range of 6.62 to seven per cent, although on reduced sale volumes. Given the above market factors, we consider current yields to be at a market peak in Dubbo with yields in 2019 either holding or more likely softening to reflect increased risk. Rental rates, on the other hand, are reported to be stable with tenants willing to pay current rates for suitable space. However, large floor areas of more than 500 square metres are proving difficult to lease, with extended vacancy periods, sometimes in excess of twelve months.

COMMERCIAL

Victoria

Melbourne

Melbourne's retail property investment market experienced many strong results throughout 2018, with firm yields reflecting the limited availability of quality stock and solid purchaser demand. Whilst demand for quality retail assets remains strong, particularly for well-located properties which have long-term leases and strong lease covenants, there is evidence that tighter commercial lending criteria is restricting access to funds for many potential purchasers.

Our research indicates that financial institutions are placing an increased focus on factors such as security of income, lease covenant and length of remaining lease term for assessing serviceability of debt. As a result of the reduction in the borrowing power of purchasers, we are beginning to see signs of a slowdown in the constant price rises seen over the past five-year period. When listed for sale, some retail properties are experiencing extended selling periods, particularly vacant retail assets and those in secondary locations.

During 2019, the Melbourne retail investment market is expected to see varied results across different market segments. We are of the opinion that yields will remain stable for retail properties in strong retail locations such as the major strips in the Melbourne CBD and inner suburbs such as Collingwood and Fitzroy, in addition to retail assets such as supermarkets which have long-term leases to major national retailers and properties which have longer term potential for redevelopment. It's likely that yields may soften for retail properties in secondary locations, particularly in areas with low tenant demand and high vacancy rates.

Chapel Street, Melbourne Source: Wikipedia

Although purchaser interest for retail properties has been relatively high, we are of the view that this is led by an optimistic buyer perception of the market direction and may not ultimately reflect what is actually happening in relation to tenant demand, affordability and achievable long-term investment returns on property. There appears to be a discrepancy between capital values and rental income growth as capital values within popular precincts appear to be experiencing strong growth, while rental income growth appears to be moderate, and in some cases declining, in comparison. As such, the market within these precincts tends to be influenced to a large extent by economic volatility.

During 2019, the Melbourne CBD and inner suburban retail rental markets will continue to be heavily impacted by population growth, changes in consumer behaviour and varied consumer confidence. Some areas such as Chapel Street, South Yarra and Bridge Road, Richmond are likely to continue to experience high levels of vacancies as a result of the ongoing shift away from traditional retailing towards service and food based uses.

Finally, the effects of the Royal Banking Commission cannot be overstated.

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Outer suburban retail markets, in particular those outside established retail locations, will likely be impacted by larger operators who are opting for a more centralised model of retailing that appeals to consumers demanding a more convenient and interactive shopping experience. Smaller retailers, unable to sustain the higher rental rates typically demanded within modern centres, will struggle to adjust to the larger number of vacating tenants along older retail strips unable to provide the convenient experience modern consumers demand.

Finally, the effects of the Royal Banking Commission cannot be overstated. We have already seen lenders putting the brakes on loans to most sectors, including the retail sector. Residential prices have fallen in many locations in Melbourne and thus people's confidence has dropped and "mums and dads" and small businesses seem to have less to spend. We have just witnessed one of the worst Christmas spending periods in recent times, due largely to the above. If these trends continue, tenants will find it more difficult to meet their occupancy costs, landlords will have to soften their rental demands and the ultimate result may be falling retail rents and capital values in the short to medium term. If interest rates rise in 2019 then downward pressure on retail rents and capital values are likely to be even greater.

South Australia

Adelaide

The Adelaide office market appears to be reaching a more positive perspective after a challenging 12 to 18-month period where incentives rose circa 30 to 40 per cent.

The growth of the defence, health and resources sectors locally has seen some major acquisitions occur, such as BAE securing 3,000 square metres at 80 Flinders Street and Lockheed Martin and Saab negotiating 1,500 and 3,000 square metre areas respectively elsewhere. Additionally, CBD office supply is to be boosted with 24,500 square metres of A-grade space coming on-line in 2019.

For smaller office tenancies under 500 square metres, it will be business as usual – static conditions overall, however fringe areas such as Greenhill Road and Fullarton Road (on the city's border) are struggling to retain tenants. These areas were previously more desirable to inner-city locations for national and international entities, however improved public transport and greater general amenities in the CBD has reversed this. Greenhill Road and Fullarton Road, whilst offering good on-site car parking, are now stuck in no man's land – positioned awkwardly between growing CBD office precincts with popular recreational areas and outer suburban locales which offer greater street parking and more affordable rents.

The retail sector performed well, generally speaking, in 2018 with retail volumes expanding 2.6%, however it's also been another year when the household savings rate has tumbled as income growth fails to keep up with spending growth. That has been fine while property prices boomed, but with prices now falling, consumers will be more constrained when it comes to spending on retail goods.

Locally, messages have been mixed. Bunnings continues to open stores with its $45 million development in Edwardstown currently at frame stage and set to open mid-2019, however German hypermarket retailer Kaufland has stalled construction on its 3.6-hectare site at fringe location Keswick (former Le Cornu site). It is rumoured locally that Kaufland has grown tired of negotiations with Unley Council and is attempting to sell the site which it purchased in October 2017.

For the retail sector to grow locally, there has to be some household income growth to free up discretionary spending.

With a federal election approaching in 2019 and a change in government likely, it is expected that market conditions will remain static until at least we know for certain who the next prime minister will be.

It is understood that Bill Shorten's election promises will revolve around abolishing negative gearing which the Labor party has indicated would likely commence around mid-2020. Whilst reforming negative gearing might make it easier for first home buyers to enter the market, it could also cause a significant drop in prices due to investors being less active. Coupled with tighter lending processes, this could have a detrimental effect on most property markets if not handled correctly.

Shorten also unveiled a $15 billion energy plan in November 2018 which proposes an emissions reduction target of 45 per cent across the economy and to have renewable energies achieve a 50 per cent market share of the electricity market by 2030.

The coalition stated that commitments to such targets will undoubtedly lead to the closure of existing businesses and massive job cuts in industries such as aluminium smelters, refineries, fertiliser factories and cement factories. This could also have a dramatic effect on commercial property markets.

In South Australia, retail sector rents and yields have remained static overall in the past twelve to 24 months, however arterial road showrooms appear to be the biggest hit with rental reductions dropping 20 to 30 per cent and almost eradicating their viability. The growth in rezoning the residential medium-density areas along arterial roads has also encouraged this drop in rental rates.

In terms of retail market opportunities, land remains relatively affordable in Adelaide compared to our eastern seaboard counterparts.

The Adelaide office market appears to be reaching a more positive perspective after a challenging 12 to 18-month period where incentives rose circa 30 to 40 per cent.

Queensland

Brisbane

The year ahead is likely to see a continuation and even acceleration of trends that are becoming well established: the continued growth of online retail; the fragmentation of retail markets; the continued struggles of sub-regional shopping centres; and stagnant or falling rentals across many sectors.

The Brisbane landscape is however continuing to expand with the recent addition of new boutique retail precincts including the recent opening of both the Howard Smith Wharves development and the first retail laneway at Sekisui's West Village development. Additionally, there is ongoing growth of the James Street precinct and the King Street precinct. These projects continue to expand Brisbane's dining and entertainment options, possibly at the expense of older precincts.

In established retail markets, the sentiment is varied.

CBD retail rents have softened over the past twelve months with an increase in incentives, particularly in secondary locations. The CBD will also face disruption challenges as works on major projects such as the Cross River Rail and the Brisbane Metro start to ramp up.

Convenience and neighbourhood centres have shown signs of strength with some evidence of moderate rent growth in strong population growth locations. Ongoing population growth in greenfield locations continues to drive the development of new centres and Coles, Woolworths and Aldi maintain active development programs to support new centres. The rental environment overall however remains flat.

West Village, West End, Brisbane

Source: sekisuihouse.com.au

YIELDS FOR RETAIL PROPERTIES

- Neighbourhood centre **5.5% to 6.5%**
- Convenience centre **6.5% to 7.5%**
- Sub- regional **6.5% to 7.25%**

Sub-regional and regional shopping centres remain under pressure, being most at risk from the growth of online retailing. The collapse of the Ed Harry chain highlights the difficult trading environment for clothing retailers in particular. This is putting downward pressure on rents and capital values.

Yields and capital values for retail properties are neutral at best. Whilst there is still strong demand for high quality retail properties, the quality of the lease covenants and sustainability of rents is now firmly in focus with investors. At the private investor end of the market, neighbourhood centre yields continue to lead the way with yields in the 5.5 to 6.5 per cent range. Convenience centre yields have flattened out and remain in the 6.5 to 7.5 per cent range. Sub-regional yields are showing signs of softening and are generally in the 6.5 to 7.25 per cent range. Overall transactional levels are low at present due to a shortage of good stock.

Development of service station sites is now slowing after a strong growth phase over the past four years. The availability of good new sites is diminishing and a number of localities are reaching market saturation. The trend towards fast food tenancies within new developments is continuing, but at a reduced pace.

There is limited opportunity in retail in the market at the present time other than in outer locations. Refurbishment of older centres remains an option, but it can be hard to achieve viability given the flat leasing markets.

For the year ahead, we foresee a mixed bag for Brisbane. Population growth will continue to sustain development of new centres in outer localities and boutique retail areas in inner city locations are likely to continue to expand. We consider however that rentals and yields are likely to remain flat across the board and may further decline in older non-growth areas and centres. Disruption from construction works are likely to impact the CBD in particular.

Gold Coast

The retail market on the Gold Coast has been holding a steady course over the past six months. As we sail into early 2019, the coast appears clear, however we are on the lookout for submerged rocks which may steer us off course.

It's no secret that the local commercial property market has experienced notable increases in activity and price levels over recent years. This strong market sentiment was largely fuelled by the prevailing low interest rate environment and availability of credit. The number of investors actively seeking retail property on the Gold Coast was on the rise and the number of quality investment properties was limited. The combined effect of these factors was a sharpening of investment yields across the board.

We are yet to witness any evidence suggesting downward pressure on capital values on the Gold Coast.

Implementation of stricter lending criteria by the major lenders, increased debt funding costs and domestic and international political uncertainty took the wind out of the sails in 2018, suggesting a more balanced market leading into 2019.

The NAB Commercial Property Index fell nine points to a two-year low in the third quarter of 2018, but is still well above long-term average levels. Retail sentiment dived into negative territory, with average survey expectations for capital growth over the next one to two years recorded at -1.4 and -1.7 per cent for the retail market. The survey result for retail rent outlooks has also weakened further and is expected to fall in all states.

Notwithstanding the above, we are yet to witness any evidence suggesting downward pressure on capital values on the Gold Coast. There remains a lack of retail investment stock being taken to the market which is keeping supply and demand metrics in check. Selling agents report that buyers are becoming more discerning and less rushed in their purchase decisions, however are still present and active in the marketplace.

From a valuation perspective, the biggest risk we foresee is rent sustainability. With a relatively large influx of retail accommodation across the Gold Coast over the past few years and only so many consumer dollars on offer, there will unfortunately be some retailers who will not see it through. This is expected to fuel a continuing or even strengthening preference for properties anchored by national retailers.

11.1%

spike in visitor spending, from last financial year, with a **$1.3 billion** benefit to the Gold Coast

Fortunately, international visitors are still flocking to our beautiful beachside city, which will continue to support the retail market along the beachside suburbs. Official results from last financial year show an 11.1 per cent spike in visitor spending, with a $1.3 billion benefit to the Gold Coast. Visitor spending on the Gold Coast was notably higher than that of Queensland and more than double the Australian growth of 4.83 per cent according to www.mygc.com.au.

Toowoomba

2018 saw a high level of activity in the Toowoomba retail market with completion of QIC's Grand Central Shopping Centre redevelopment and a number of smaller retail developments, including:

- **The Intersection** located on the corner of Ruthven and Alderley Streets in Kearneys Spring with a mix of tenants, including Subway, Café 63, Oporto, Burger Urge and Baskin-Robbins. The Subway and Café 63 tenancies provide drive-through facilities.
- **Coles Express** located on the corner of Ruthven and Alderley Streets in Kearneys Spring. This project included the redevelopment of a Shell service station and two food tenancies. The larger tenancy has a drive-through facility and is leased to Pump Café.

Eastside Village, Toowoomba Source: eastvilletoowoomba.com.au

- **Eastside Village** is located on the corner of Herries and Cohoe Streets in East Toowoomba. The centre is anchored by McDonald's and KFC with other tenants including Café 63, Bel Cibo Italian and the Burrito Bar.

This trend is expected to continue in 2019 with a number of retail developments in various stages of the development process. These include:

- **A new car wash in James Street** on the CBD fringe. The car wash uses the latest automatic drive-through wash tunnel and will include a small café tenancy and a digital sign board.
- **Several developments on Anzac Avenue** in the suburb of Harristown. These include two food based centres in close proximity to each other anchored by national café tenancies with drive-through facilities and a child care centre currently nearing completion.
- **Development of the Gladstone Hotel** into a five-storey accommodation and lifestyle facility with 104 motel rooms, retail shopfronts and a beer garden at a cost of $20 million. Demolition has been completed, development approval issued and construction is due to commence early in 2019.
- **Continued development of the Walton Stores** project with the popular Mexican chain Zambero recently announcing plans to open an outlet in the complex during 2019.
- **Redevelopment of the 103-year-old Longs Quarter** building in the Toowoomba CBD due for completion in early 2019. The redevelopment will include a mix of retail and office tenancies, with commitments from a café and legal firm in place.
- **A $20 million refurbishment of the Wilsonton Shopping Centre** following its sale for $50 million during 2018.

While the above suggests a high level of leasing activity for the Toowoomba retail sector, competition for tenants is likely to require increased use of incentives to attract tenants into the new floorspaces. This is expected to have a negative effect on older premises, particularly in the CBD. The end result should see rentals remain stable throughout 2019 with a slight uplift in vacancy rates for older, dated premises. A long-term CBD furniture retailer, Amart Furniture, has recently relocated to a suburban bulky goods complex, the former Masters Home Improvement site redeveloped by Home Consortium, creating a large vacant CBD floorspace with no redevelopment plans announced at the time of writing.

The low interest rates should result in continued high investor demand for retail properties with strong lease profiles, however the lack of supply of quality, fully leased properties will limit the number of investment sales with net yields expected to remain firm.

Townsville

As we head into 2019, the year ahead for the retail sector is likely to remain at status quo with interest underpinned by national investors for property offering strong investment returns with long term leases or national tenants, whilst activity from local buyers and within secondary stock is likely to remain flat.

There is positive sentiment in the market on the back of major projects underway including the

North Queensland Stadium, Haughton Pipeline duplication and the port channel widening along with recently announced projects including the $300 million Sun Metal zinc refinery expansion and improving confidence in the mining sector, however to date the reaction of the market to these developments has been relatively subdued, although is gaining traction, albeit at a very slow pace.

Fairfield Shopping Centre is currently undergoing its Stage 3 expansion at a reported cost of $32 million, which will be anchored by a Coles supermarket and is expected to be completed during 2019. Other proposed retail projects heading into 2019 include a new retail shopping centre proposed to be constructed in Rasmussen to be built over two stages.

Over the coming year, we are likely to see national investors remain interested in the market given the attractive yield spread in regional areas relative to their home locations. The leasing market is likely to continue to demonstrate high levels of leasing incentives as there remains an oversupply of retail space available relative to current levels of demand with online shopping continuing to place pressure on mainstream retail.

Sunshine Coast

Throughout 2018, the retail market on the Sunshine Coast generally reflected the overall retail markets of greater south-east Queensland. We have seen strong yield compression for national tenant holdings appealing to a larger regional style market over the past three years.

Retail confidence will continue to strengthen within the Sunshine Coast, reflected in developments such as the ongoing Sunshine Plaza redevelopment, the new Stockland Birtinya shopping centre and the extension and refurbishment of Kawana Shopping World.

The $400 million redevelopment of Sunshine Plaza will see the centre expand from 73,000 square metres to over 107,000 square meters, making it the largest retail centre north of Brisbane. Source: sunshineplaza.com

The $400 million redevelopment of Sunshine Plaza will see the centre expand from 73,000 square metres to over 107,000 square metres, making it the largest retail centre north of Brisbane. The centre will comprise new national and international tenants including David Jones department store, Big W, H&M and over 100 new specialty stores. The first stage included the refurbishment of the existing Myer department store and 40 speciality stores which opened in late 2018. The remainder is scheduled to be completed prior to Easter 2019.

Stockland Birtinya comprises a new 10,348 square metre shopping centre which commenced trade in the first week of 2019. The centre is located in close proximity to the Sunshine Coast University Hospital and Stockland's residential communities of Oceanside and Bokarina Beach. The centre comprises Coles, Aldi and 40 speciality stores with fresh food and experience-driven retailing being the main focus.

Kawana Shopping World's retail and carpark expansion was completed in late 2018 with the addition of a ten-screen cinema operated by Event Cinemas, a new restaurant precinct as well as extensive renovations to the existing centre and increased car parking.

These expansions to the shopping centre offering on the Sunshine Coast have been driven by population growth to the area from both local and interstate occupants, with a forecast of circa 2.5% annual growth or an increase of 8,300 people per year. Tourism has also seen a steady increase throughout the region over the past three years from both Australian and overseas visitors.

Tourist centres such as Hastings Street and the general Noosa region, Maroochydore and Coolum Beach are experiencing limited vacancies, with Mooloolaba still struggling with rental affordability for local retailing tenants and uncertainty surrounding proposed developments. These trends are likely to continue through 2019.

2.5%

forecast of annual growth or an increase of **8,300 people** per year to the Sunshine Coast

Secondary and service township retails strips have also improved and are likely to continue to improve during 2019. Areas such as Montville, Maleny, Eumundi and Palmwoods have seen a drop in overall vacancy levels over the past twelve to 24 months.

The Bulcock Street, Caloundra streetscape works are in the final stage and are due for completion in 2019. The streetscape works were undertaken by the Sunshine Coast Council, with the view to enhancing the look and experience of the area, improving safety and increasing foot traffic. The works undertaken have affected some retail trade along the strip which is still seeing higher overall vacancy rates than other similar areas.

Low interest rates coupled with a weak exchange rate have encouraged increased interstate and local travel which has seen the tourism localities benefit over the past twelve to 24 months. Any changes in the economy could have a greater effect on these tourism-driven areas moving forward. Due to this, local retailing strips that service larger residential localities are seen as less volatile, with the focus on refurbishment of these centres and increasing the fresh food offering.

The Sunshine Coast has seen strong yield compression over the past twelve to 24 months and moving forward into 2019, we anticipate a more stable market with yields stabilising.

Rockhampton

2019 is likely to continue at much the same pace as 2018 in the retail sector, however we are hopeful that new projects on the horizon and a general increase in market sentiment will have a positive flow on effect later in the year.

There are infrastructure and defence projects in the region that have either commenced or are in the pipeline that will be creating employment opportunities for locals and increasing market confidence. These are projects such as Clarke Creek wind farm, Rookwood Weir, Defence projects at Shoalwater Bay, Main Roads projects and upgrades to the Capricornia Correctional Centre to name a few. Some projects are still awaiting the green light, however are increasing optimism in the market.

Retail developments planned for the year include the completion of the Aldi supermarket (after a recent announcement that the project is back on

Former Bunnings site on Yaamba Road sold for $9.9M and it will be a site to watch over the next 12 months. Source: .commercialrealestate.com.au

track with a new contractor) and redevelopment of the ex-Masonic Club on William Street. This site was purchased in 2018 by a local developer and it was recently reported that the development will involve renovation of the existing improvements to a cafe / restaurant and accommodation.

The former Bunnings site on Yaamba Road sold late last year and it will be a site to watch over the next twelve months. The property was purchased for $9.9 million and comprises a substantial area of vacant retail warehouse accommodation. Plans for the site are as yet unknown to us.

As retail market conditions are still considered to be relatively flat, we do not anticipate any substantial rental growth, as rental affordability is still key for retail tenants. There are still substantial vacancies within secondary retail centres and centres where asking rentals are too high and until the vacancies tighten there is unlikely to be any significant growth.

Gladstone

The retail market in Gladstone definitely took a blow with the announcement of the closure of the Target Country late last year. Despite this, there has been some recent commentary in the press that the retail outlook for 2019 is positive, which is a nice change on the back of the declining market in recent years for the Gladstone property market.

Whilst we do not forecast any substantial changes to the retail market, we are hopeful that the improvements we are seeing in the residential market will have a flow on effect in the retail market, with improved sentiment and some renewed confidence. There are still some substantial vacancies within retail shopping centres and it will take some time for these to be absorbed. As a result, we do not anticipate that there will be any notable rental growth, as rental affordability is still key for local businesses. Additionally, incentives are also likely to play a role in new retail lease negotiations until such time as vacancies begin to tighten and supply reduces.

Wide Bay

The retail sector within the Wide Bay has demonstrated a consistent trend over the past few years in terms of rental levels, yields and vacancies. The sector has continued to attract interstate investors with relatively high yields compared to major southern localities.

Bundaberg

The Bundaberg retail sector can be divided into three main precincts, being the Central Business District (CBD), Kensington bulky goods precinct and the sub-regional shopping centres.

The Bundaberg CBD is a relatively vibrant CBD compared to other major regional localities across Queensland. A recent significant sale in the CBD is of the building formerly occupied by Best and Less, purchased for $3 million by a national pharmacy business intending to owner-occupy the property. Vacancies within the Bundaberg CBD are relatively low, particularly within the CBD's heart along Bourbong Street, between Barolin Street and Targo Street. In 2019, we would anticipate a consistent year for the Bundaberg CBD.

$170 to $200

per sqm gross rents for modern retail buildings in Bundaberg

The Kensington Park Estate has established itself as a prominent location for bulky goods retail within Bundaberg with a number of large retail brands situated within the precinct. We have seen a reasonable level of demand from national retailers to be located within this precinct, with a new complex set to host Fantastic Furniture currently under construction and scheduled to finish early in 2019.

Investor demand for modern retail buildings with nationally branded tenants on long term leases remains strong, with yields for properties of this calibre remaining quite low in the order of 7.25 to 7.75 per cent. We would expect retail yields for properties with these attributes to remain low over the short term, however would be susceptible to an increase should interest rates rise. Gross rents within this precinct typically fall between $170 and $200 per square metre depending on the size and quality of the tenancy.

The retail sector in Bundaberg is also heavily dominated by the two sub-regional shopping centres (Stockland Bundaberg and Hinkler Central). Vacancies within these centres appear to be relatively low, with both centres attracting new retailers throughout 2018. These centres are expected to maintain their heavy dominance of the local retail sector over the foreseeable future.

Hervey Bay

To some extent, Hervey Bay has a less distinguishable retail sector. The main retail locality is around the Stockland Hervey Bay shopping centre fronting Boat Harbour Drive, extending north along Main Street in Pialba. Other retail locations are scattered throughout Hervey Bay and include a number of smaller neighbourhood shopping centres.

Retail vacancies within Hervey Bay have proven to be somewhat stubborn, however are slowly decreasing. Rental rates can vary quite significantly depending on the location, size and quality of the tenancy. In general terms, retail yields can sit between 7.5 per cent for a modern building with a good quality tenant on a long-term lease to nine per cent for a lower quality or older building with a lesser quality tenant with low quality lease covenants.

Our forecast for the Hervey Bay retail sector in 2019 is a low rate of sale and limited gross rental growth potential. The higher local yields being achieved may attract some interstate investors.

Maryborough

The retail sector in Maryborough is heavily dominated by the sub-regional shopping centre, Station Square. Other prominent retail locations in Maryborough appear to surround Station Square shopping centre along Alice Street and within the Maryborough CBD along Adelaide Street.

Vacancies within the Maryborough CBD remain relatively high, however, the recent sale of 179 Adelaide Street at $1.45 million (circa 8.5 per cent yield) indicate that there is some demand for retail properties that are well located and occupied by a nationally branded tenant. Generally, gross rental levels sit between $170 and $200 per square metre within the Maryborough CBD.

Our forecast for the 2019 retail sector in Maryborough is a relatively low rate of sale and limited gross rental growth potential. The higher local yields being achieved may attract some interstate investors.

Mackay

We believe there has been a positive change in market sentiment in the retail property sector in Mackay due to ongoing economic recovery, extensive government infrastructure works, increased employment and, as a consequence, local population growth.

In recent months, large bulky goods tenancies which were vacant for years through the economic downturn are now leased. A notable example is the former Sam's Warehouse tenancy in Greenfields retail precinct at Mount Pleasant, where a 742 square metre section was leased to Ambiance Indoor Outdoor Furniture in September and a 1,675 square metre tenancy was leased to Silly Solly's discount warehouse in October last year.

Rental rates are approximately 25 per cent lower than the 2012 peak and appear affordable enough to allow tenants to successfully trade as the economic recovery continues and retail activity improves.

There has been limited retail leasing activity and limited enquiry around the city centre. The Dome Arcade in Victoria Street, originally established as a retail complex, had several tenancies available for lease which have now been partially let to medical

This has been the most active period of commercial sales activity in Mackay for many years.

and other service-based tenants. Enquiry from retail tenants has been slow. Similarly, a large tenancy on the ground floor of the former Suncorp Building in Victoria which was advertised for retail use has been leased to a community service provider.

There is very little to report in terms of retail sales activity. We believe that there would be strong demand for well anchored shopping centres and neighbourhood shopping centres if any such investments were available for sale in the Mackay region.

Moving off topic from the retail sector, we could not let this edition of the Month in Review go past without commenting on the large number of commercial properties which have sold in Mackay city since September last year.

These are summarised as follows:

- **11 Peel Street** - The former McGinns Hardware property sold at $2.85 million in September.

74 Wood Street, Mackay Central Source: ealcommercial.com.au

- **105 - 109 Victoria Street** - The former Centrepoint Shopping Centre which has been substantially converted to a nightclub complex was sold by receivers at $3 million in September.
- **74 Wood Street** - Mackay Central (Coffee Club and Coco Cubano) was sold by receivers at auction under the hammer for $2.65 million in December 2018.
- **22-30 Wood Street** - A large, modern, double-storey office building leased to State Government tenants reportedly sold at $3.5 million in December 2018.
- **8 - 10 Sydney Street and 21 Sydney Street** - The Mackay Spare Parts building is reported to be under unconditional contract dated November 2018 at an undisclosed price and awaiting settlement. This is another receivers sale.
- **Corner Sydney Street and Victoria Street** - The Palace Hotel is reported to be under contract at an undisclosed price.

This has been the most active period of commercial sales activity in Mackay for many years. These transactions indicate that the time is right to take advantage of the low point in the market cycle. With commercial listings now being readily absorbed and several receivership sales now completed, we believe that commercial value levels have now reached a cyclical low point and should begin to follow the moderate increase in values which have been observed in the Mackay residential market over the past twelve months.

Northern Territory

Darwin and Alice Springs

The calendar year 2019 promises to be challenging for all property markets across the Northern Territory and especially in Darwin. The release of an interim report into the NT Government's finances has found that on current expenditure trends, the Territory's net debt will increase from $3 billion to $35.7 billion by 2030. This is partly attributable to a decline in the Territory's GST revenue share by $500 million per annum. The NT Government will need to make some tough expenditure decisions and this will have an impact on all aspects of the economy, including the property sector.

The retail sector in Darwin is already experiencing difficult times due to population decline. A number of well-established local businesses have closed over the past twelve months and unless trading conditions improve, it is inevitable that others will join them. The recent closure of Darwin's CBD cinema complex is symptomatic of retail economic conditions, especially in the CBD.

The NT Government is intent on pushing ahead with its Derelict and Vacant Property Levy which will be introduced in July 2019. This levy will be applied to CBD property which is vacant land or has a building vacancy in excess of 50 per cent. The aim of this levy is to encourage owners to activate their properties to create a more vibrant CBD.

On a more positive note, the cruise ship season for Darwin is in full swing, with 19 arrivals scheduled for the first quarter of 2019. These visitors do swell the numbers in the Mall when a ship is in, creating retail opportunities for local traders.

Darwin cruise terminal complex Source: www.cruisemapper.com

$35.7 BILLION

The Territory's net debt will increase to by 2030

Although the current economic environment is weak, it does open up opportunities to investors. We are aware of a significant modern retail investment property in Alice Springs with a good lease profile which has recently sold for a yield in excess of 9.5 per cent.

The NT Government will need to make some tough expenditure decisions and this will have an impact on all aspects of the economy, including the property sector.

Western Australia

Perth

The retail property market in Perth continues to face challenging conditions. Demand for retail space remains hampered by restrained consumer spending coinciding with the state's sluggish economic performance. Additionally, online retail spending continues to grow rapidly and apply further pressure on the Perth retail market. Overall, despite some renewed optimism in the resource sector with the announcement of a raft of new projects, confidence in general remains depressed.

The above has translated (generally speaking) to rental rates for retail premises experiencing a downward trend over the past twelve months with incentives in the form of net rent-free periods and fit-out contributions prevalent.

Our team continues to field enquiries from tenants struggling to meet rental payments by virtue of lease agreements negotiated in more buoyant times. Landlords are being faced with the option of re-negotiating lease terms to maintain occupancy or alternatively, risk extended periods of vacancy. These conditions are more prevalent in secondary and suburban strip locations, although it appears that prime CBD mall and high street locations (Oxford Street, Leederville; Beaufort Street, Mount Lawley; and Bay View Terrace, Claremont) are now beginning to experience a similar situation with vacancies beginning to appear and not being as readily leased as perhaps twelve to 24 months ago.

Investment grade retail property (neighbourhood shopping centres for example) remains a highly sought-after asset. Yield compression is evident,

Westfield Carousel Source: Wikipedia

largely driven by the low prevailing cost of funds in the current debt finance market and despite the general malaise impacting the wider Western Australian economy including softening rentals and an increasing number of business failures and receiverships.

However, there are a certain number of key metrics that informed investors are considering relating to length of remaining lease term (i.e. WALE), financial strength of the tenants and locational attributes, as investors take advantage of the spread between the low cost of debt and large format retail investment yields. Where all or a majority of these metrics are satisfied, very tight yields are being achieved in the current market. Assets which do not possess these key criteria are however less sought after and often transact at a much higher yield reflecting the greater tenancy risk.

In defiance of the above however, sites in the aforementioned high street locations remain keenly sought after despite the level of tenancy risk, which is a function of the scarcity of sites offered to the market in these locations and the high underlying land value. Yields for similar sites below 5.5 per cent are not uncommon.

In respect to investment grade retail transactions, there were a number of such sales throughout 2018 within the Perth metropolitan area with all were hotly contested, attracting offers between five and 6.25 per cent. Interestingly, the yield differential between Coles or Woolworths anchored centres and those anchored by IGA or Metcash (or even Aldi) remains pronounced and in the order of 0.75 to 1.25 per cent.

Despite the conditions described above, considerable expansions are planned for institutional-owned major regional and sub-regional shopping centres within Western Australia following the removal of the cap on maximum retail floor space and the state government's push to create activity centres.

Expansions of Westfield Carousel, Garden City, Karrinyup, Westfield Innaloo, Midland Gate

Our team continue to field inquiries from tenants struggling to meet rental payments by virtue of lease agreements negotiated in more buoyant times.

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and Ellenbrook Central are either underway or proposed in the short to medium term.

These expansion projects will have a focus on delivering a better retail experience for shoppers with the creation of food hubs, entertainment options (such as cinemas), health care and in some cases, residential apartments. As a result, some envisage that these centres will become community centres as opposed to traditional shopping centres.

It is also worth noting the success associated with the opening of the DFO within the Perth Airport grounds in October 2018 which to date has been very popular with consumers largely due to the discount spending offered by retailers. The centre, which comprises 113 retailers, opened fully leased and provides retail shoppers with a full experience including dining precinct, children's playground and extensive parking (albeit paid). It will be interesting to see if its popularity can be maintained in the short term.

In summary, Herron Todd White sees the existing malaise in retail market conditions continuing in at least the short term as rental values come under increased pressure and vacancy levels and tenant delinquency increase. Opportunity does however exist for investors with an increased risk appetite to acquire some of those less sought-after assets in the market place at yield premiums, or assets which would benefit from repositioning or capital expenditure.

Australian Capital Territory

Canberra

In 2019, the Canberra retail market will witness both the completion of new and the reinvigoration of existing retail precincts. Retail sale statistics issued in November by the ABS indicate growth of 1.6 per cent (above the national average) in seasonally adjusted terms for the nation's capital. The trend is positive overall and can be in part attributed to generally strong employment, improved consumer confidence and consistent population growth (2.2 per cent).

The Braddon retail district is now well and truly established, with only a handful of newly completed ground floor units remaining available. The expansion of the Fyshwick Fresh Food Markets (known as the Niche Markets) has been received well, adding 40 retail tenants into the complex.

Notable major additions to the market in 2019 include the completion of Kambri located at the Australian National University. This brings 45 additional retail tenants to the area, with only ten per cent remaining un-leased ahead of the February 2019 opening. Another precinct which will be delivered in 2019 is DKSN in Dickson. The first stage of DKSN will serve as a mixed-use precinct bringing 300 apartments, pre-committed government office space and 40 retail and hospitality units to the market.

With the first stage of the Canberra light rail moving towards completion, we have seen an increase in interest in retail offerings in close proximity to the rail stops. Areas such as Flemington Road, which in the past have

Fyshwick Fresh Food Markets   Source: stewartarchitecture.com.au

experienced higher vacancy levels for both residential and commercial space, have begun to strengthen and will continue to do so after the completion of stage one.

The only downside we see on the immediate horizon is the follow-on effect on existing retail stock from the introduction of the aforementioned retail precincts. Demand for non-central, ageing stock, especially those in smaller local shopping centres that have already struggled with declining patronage, will likely see a rise in vacancy throughout 2019.

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Residential

February 2019

National Property Clock: Houses

Entries coloured orange indicate positional change from last month.

Gippsland
Lismore
Mid North Coast

Albury
Brisbane
Echuca

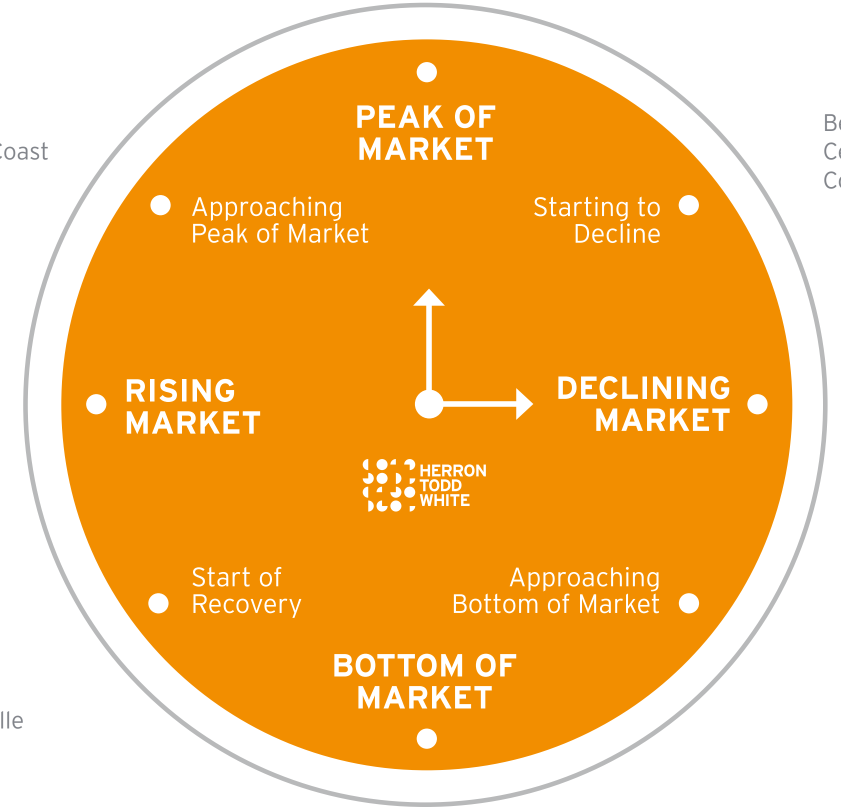
Hobart
Sunshine Coast

Bendigo
Central Coast
Coffs Harbour

Gold Coast
South East NSW

Adelaide
Adelaide Hills
Ballarat
Barossa Valley
Bathurst
Burnie-Devonport
Canberra

Dubbo
Emerald
Iron Triangle
Launceston
Mildura
Mount Gambier
Tamworth



Illawarra
Melbourne
Newcastle

South West WA
Sydney

Cairns
Gladstone
Hervey Bay

Ipswich
Mackay
Townsville

Alice Springs
Bundaberg
Darwin

Perth
Rockhampton
Toowoomba

RESIDENTIAL

National Property Clock: Units

Entries coloured blue indicate positional change from last month.

Lismore
Mid North Coast

Bendigo
Central Coast
Coffs Harbour

Gold Coast
South East NSW

Canberra
Illawarra
Melbourne
Newcastle

Perth
South West WA
Sydney

Brisbane

Adelaide Hills
Alice Springs
Barossa Valley
Bundaberg
Darwin

Iron Triangle
Mackay
Rockhampton
Toowoomba

Adelaide
Cairns
Emerald
Gippsland
Gladstone

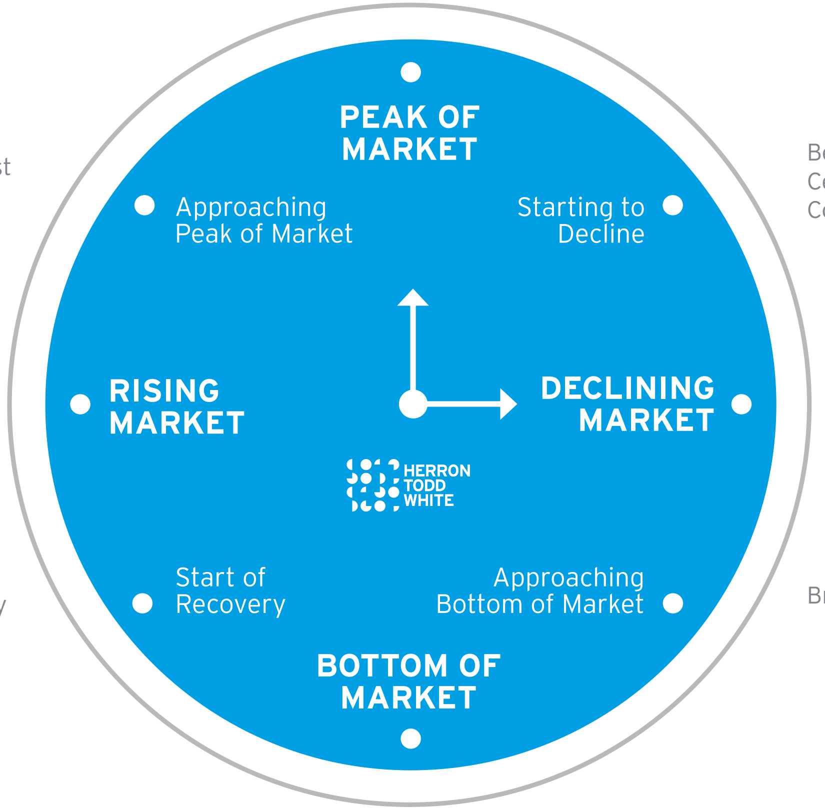
Hervey Bay
Ipswich
Mildura
Townsville

Ballarat
Bathurst
Burnie-Devonport
Dubbo

Launceston
Mount Gambier
Tamworth

Albury
Echuca

Hobart
Sunshine Coast



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New South Wales

Overview

We've come off a few years of changing market conditions in Australia, particularly given the entrenched downturn in Sydney and Melbourne.

There will be plenty of significant events in 2019 that will affect property, but studying markets on a nuanced and localised level is essential to success.

Please enjoy our views of real estate across the nation in the coming year.

Sydney

Most property professionals acknowledged that we were heading into a softening Sydney market in 2018. The most surprising aspect however, was the sheer lack of activity from a purchasing and refinancing perspective. This led to a softening in the market above predicted levels, with dwelling values dropping by 8.9 per cent over the year according to CoreLogic. The other surprising aspect was that most of the other economic indicators were relatively strong and would usually point to a steady residential market. This downturn appears to have been strongly led by negative market sentiment and tightening credit availability as a result of the banking royal commission, along with previous APRA regulation changes.

The big question as we head into 2019 is how long will the current downturn last? We expect the market will continue to be slow, with value levels continuing to fall in most locations, but generally the market should begin to plateau during the second half of this year after the upcoming state and federal elections, and as the market adjusts to new lending requirements in the wake of the royal commission. This is on the assumption that other economic indicators such as interest rates, unemployment rates, and local and global economies remain steady.

8.9%
dwelling values dropped over the year in Sydney according to CoreLogic

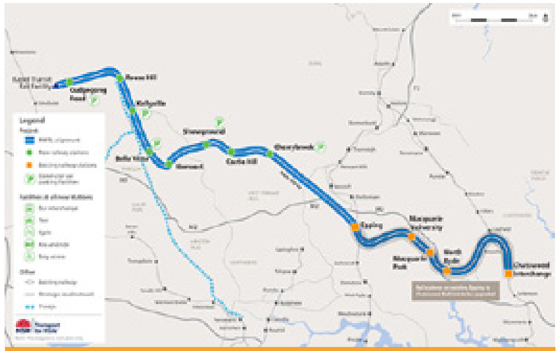
In December, APRA removed the investor lending caps introduced in 2017. We are not expecting this to have much of an impact on the number of investors entering the market given the current environment of falling prices and falling rents, along with potential changes to negative gearing and capital gains tax proposed by the federal opposition should they win this year's federal election.

Lack of investors in the market will continue to be good news for first home buyers who will face less competition in their price bracket. As a result, the lower end of the market could be one of the better performers.

The big question as we head into 2019 is how long will the current downturn last?

The fallout from the Opal Tower in Sydney Olympic Park is likely to have a flow on effect on sales of any off the plan units in Sydney, with greater concern over build quality adding to existing concerns of oversupply and values falling below contract prices. Certain suburbs have a significant number of units due for completion in 2019 which could have a significant impact on prices and rents for units in these suburbs.

The prestige end of the market, particularly for properties above $5 million in established prestige suburbs, performed the strongest in 2018, with buyers in this market less affected by tightening credit availability. We expect this market to continue to be one of the strongest in 2019, however this may still result in a slight fall in prices compared to 2018. However, any instability in equity markets, along with local and global economies, could have a significant impact



Sydney's North West rail link Source: Transport NSW

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on this market, as we saw during the Global Financial Crisis.

Western Sydney

Suburbs worth watching this year in the south-west include Austral, Leppington and surrounding new subdivisions. As the market continues to weaken with more supply of vacant land and house and land packages, will resales of completed dwellings in these new areas begin to sell below replacement cost? We have only just begun to see a number of on completion valuations come in below the combined cost of the land and the building contract.

In the north-west, the Sydney Metro Rail Link is earmarked for completion in the first quarter of 2019. This rail link will provide rapid access for residents of Sydney's north-west to Chatswood and then on to the Central Business District, eliminating the need to drive on congested motorways. Suburbs such as Cherrybrook, Castle Hill and Rouse Hill that surround the new stations saw above average growth when the project was announced and construction began. Cherrybrook saw back to back years of double digit median price growth, registering 13.5, 19.3 and 31.4 per cent growth for 2013, 2014 and 2015 respectively. Historically there is often a second strengthening of prices when a piece of infrastructure opens, so this year we are looking to see if these suburbs will buck the trend in a weakening market.

Continuing with the infrastructure theme, as the North West Rail Link is completed, the Parramatta light rail project is just beginning. This will allow access from Carlingford to Westmead via the Parramatta CBD. We will also be keeping an eye on the values of suburbs along the line, such as Carlingford, Telopea and Dundas, to see if this project has a positive impact on prices.

On the supply side, we will be keeping an eye on Blacktown which has the potential for 1,627 units in 2019 and a total of 3,945 units by 2020, creating a 128.1% increase in potential supply in the next two years (CoreLogic). Whilst not every development will commence, this shows the potential pipeline supply for the area and serves as a warning to potential unit investors that more of the same is on its way in the coming years.

This is compared to Parramatta which has potentially 2,525 units to be built in 2019 and a total of 5,996 potential units by 2020. Whilst this is a larger number, we believe the fundamentals in this area are strong and as such is not considered as high a risk. Regardless, given the large supply, price growth will be impacted in the short to medium term.

Northern Sydney

The North Connex tunnel is a much-needed piece of infrastructure, connecting the M2 and the M1 underneath the forever congested Pennant Hills Road and is slated to be completed in 2020. Relatively affordable suburbs such as Berowra and Mount Colah are worth keeping an eye on given they will benefit from this infrastructure, allowing a smoother ride into the CBD. Currently median house values are $1.16 million for Berowra and $1.07 million for Mount Colah (realestate.com.au). Will they see a boost in anticipation of its completion or will the market take a few years to realise the benefits?

On the beaches, we expect traditional blue-chip suburbs (such as Manly, Freshwater and Mona Vale) to outperform other suburbs within the area. We are seeing products that appeal to the first home buyer and downsizer markets, as well as products that are completely move–in ready, outperforming their respective sectors of the market.

The areas currently most affordable are also those that have experienced the strongest decline over the 2018 period. The largest issues affecting the Northern Beaches market are housing affordability, lending restrictions and oversupply, with areas such as Dee Why and Narraweena coming to mind.

There is greater value in these locations, but also greater risk of under-performing the market in the future. Astute buyers can purchase a property that would have reasonably cost them 15 per cent more two years ago. We would recommend being prudent when buying in these locations; make sure the property ticks all the boxes and be mindful of buying a secondary product. Location is always key, but also consider the quality of the product, view or aspect and any future issues that might affect value. Are there any developments that will directly affect the property at some point in the future? Is the wider area being overdeveloped?

On the same trend, if you have the resources and aren't afraid of some DIY, there is definite value in buying a fixer-upper and doing the renovations yourself. Buyers would much prefer to spend extra money on a finished product and have a larger mortgage than buy an older house and have to spend the time and resources renovating it themselves. Look at what un-renovated houses in your area sell for and compare them to a similar renovated product. If the gap between the two is greater than the cost of the renovation, there is opportunity and value.

Another area of interest is Ingleside. The Department of Planning and Environment has gone back to the drawing board after an independent review of the proposed Ingleside residential precinct outlined extreme bushfire risk, identifying a potential bottle-neck during an emergency evacuation at Powder Works Road as a key issue.

The draft plan has been scrapped and the plan is being revised to a much smaller scale and density. The changes will have a significant impact on current land owners and developers in the area. It will also be interesting to see if they plan (and fast track) any infrastructure upgrades (such as to Mona Vale Road or Powder Works Road) to remediate these issues.

Southern Suburbs

The south experienced some of the largest drops in dwelling values in 2018, dropping 10.9 per cent in the Sutherland Shire and 10.5 percent in the inner south-west (which encompasses Bankstown and St George) over the year according to CoreLogic. It is possible that these areas may be closer to their trough, as buyers begin to see increased value in these areas compared to areas where prices have not fallen as quickly.

Duplex sites have experienced significant reductions in value due to stricter lending on duplex construction loans along with falling completed duplex sale prices making these developments less profitable. Many builders we meet advise they are receiving dropping levels of enquiries for dual occupancy and townhouse developments.

Premium and high-quality properties will continue to perform well, particularly those that cater to the increasing demand from downsizers, while at the other end, suburbs such as Engadine and Heathcote are becoming more affordable for first home buyers, with a number of recent house sales below $800,000.

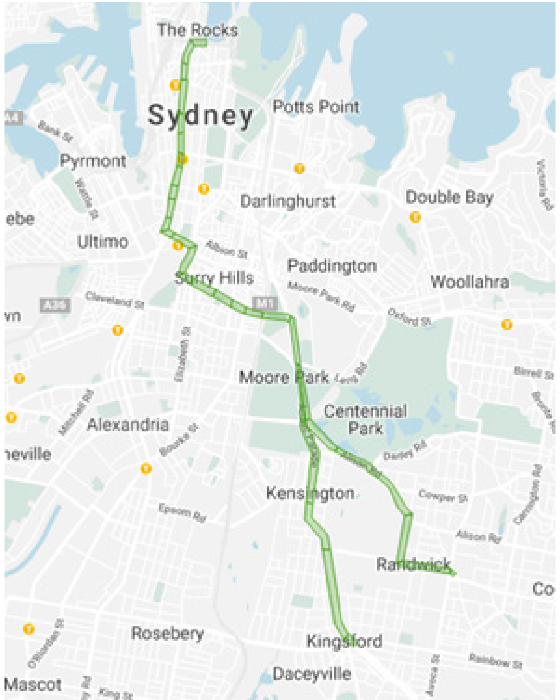
There is a strong potential for an oversupply of new units in Miranda and Kirrawee with a large number of units due for completion in 2019. We are already seeing a large number of units where the current value is falling well short of the purchase price paid

The CBD will be an interesting market to watch in 2019, provided the light rail gets within reach of completion. This will change the face of the city.

two or three years ago. This is likely to result in an increasing number of these units hitting the market as purchasers struggle to complete settlement. There is also a high likelihood of an oversupply of rental properties in these suburbs which will place downward pressure on rental prices.

Inner City and Eastern Suburbs

These areas only experienced relatively small decreases in median prices during 2018 compared to other areas of Sydney, with buyers still attracted



CBD and South East Light Rail Map Source: Transport NSW

by the proximity to the CBD, harbour, beaches and highly regarded schools.

The CBD will be an interesting market to watch in 2019, provided the light rail gets within reach of completion. This will change the face of the city, with George Street becoming more user friendly, businesses and cafes able to trade as normal, and (hopefully) decreased congestion. Moreover, developments around the Barangaroo precinct and Circular Quay area will further refresh the city centre.

Whilst most places are relatively affordable compared to 18 months ago, some areas do appear to be bridesmaid, but never the bride suburbs, such as Chippendale on the city fringe of Sydney. This area has been blacklisted by many lenders due to high supply volumes around the Central Park precinct, however the final complex, known as Wonderland, has just settled and therefore the supply pipeline in the area is largely depleted. This suburb, in close proximity to popular educational institutions, Central Station, China Town and the CBD, makes it an attractive investment or home - provided you have a 20 to 30 per cent deposit.

Suburbs along the South East Light Rail line including Surry Hills, Centennial Park, Randwick, Kensington and Kingsford may see increased demand as the line nears completion.

Homogenous investor stock in highly supplied and secondary areas should be treated with caution in suburbs such as Waterloo, Rosebery, Mascot, Botany, Ultimo and Forest Lodge.

Furthermore, properties that are treated with more caution by lenders such as those with living areas under 50 square metres or company title properties have been impacted significantly by increased lending restrictions and are therefore seeing their potential buyer pools shrink, leading to less competition and lower pricing.

Given the higher proportion of investors, proposed amendments to negative gearing legislation if Labor wins the federal election could impact these areas more than others, particularly as Labor's current policy outlines that negative gearing will remain on newly built properties. This could cause an increase in the uptake of the currently oversupplied new unit market.

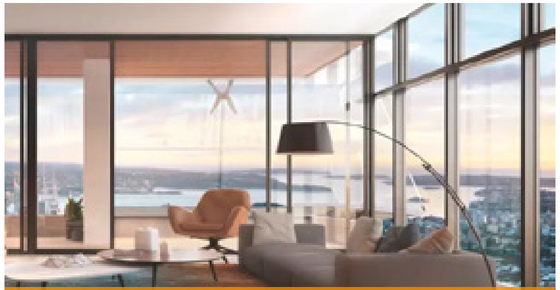
Prestige

On the back of a relatively strong 2018 which saw suburb records fall in many prestige suburbs, there are expectations that the prestige market will hold up well again in 2019.

Generally speaking, we would expect the prestige sector (above $5 million) on the Lower North Shore and within the eastern suburbs and inner Sydney to continue to stabilise throughout 2019. These markets bucked the trend for the majority of 2018, experiencing continued buoyancy up until late in the year when we started to see some stabilisation, but no significant decline in values.

The lower north shore market saw suburb records broken multiple times in 2018, even in the face of decreased overseas buyer demand. We would expect this market to stabilise in 2019 and certainly don't expect to see such a heated, record breaking year.

Vaucluse had 18 sales recorded above $10 million in 2018, while Bellevue Hill had 15 sales above $10 million, according to PriceFinder. These suburbs



Artist's impression of penthouse within Greenland Centre Source: AFR

are particularly popular amongst locals looking to upgrade and should perform well again in 2019.

The inner Sydney prestige market will be an interesting one this year, with several high-scale projects under construction or earmarked for the Circular Quay precinct and surrounds. The reported $5 billion transformation of Circular Quay is expected to revitalise the area with greatly improved ferry wharf facilities, a luxury hotel, restaurants, retail and a large increase in the supply of prestige level apartments coming to the market.

Further south within the Sydney CBD is the Greenland Centre, positioned on the corner of Bathurst Street and Pitt Street and marketed as Sydney's tallest residential tower. It is set to be completed in late 2019. It has been reported that the king penthouse is tipped to sell for $30 million, although this has yet to be confirmed. (source: Australian Financial Review).

Lismore

With the arrival of a new year, there is always an element of excitement, new goals, moving on from challenges experienced in the previous year and the prospect of opportunity ahead.

Residential real estate in the Lismore market is no different.

Lismore remains a relatively affordable area and is fortunate to benefit from some strong employment drivers including the upgraded hospital, university and a robust agricultural sector. Compared to the southern and western districts of the state, the Lismore area has managed to avoid the worst of the crippling drought affecting other areas of the country. Based on these factors, the expectation for the Lismore market is that it will hold ground with price increases unlikely but significant falls unlikely as well - a steady as she goes 2019.

Towards the end of 2018, discussions with agents indicated that supply was starting to increase. Increased stock combined with fewer eligible purchasers due to credit restrictions will provide purchasers with greater choice. It is likely that properties will be on the market for extended periods, with some discounting likely to secure a sale. The market for properties under $400,000 is expected to remain resilient due to its relative affordability, however in this sector, secondary areas, flood affected locations such as north and south Lismore, and certain areas within Goonellabah with perceived social issues are more likely to experience downward price pressure.

The market for vacant land has been steady in the Lismore area up to this point. Prices for level

Discussions with builders and agents indicate that obtaining credit for construction loans is proving to be difficult compared to previous years.

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blocks are expected to continue to remain steady, however more steeply sloping blocks requiring significant foundation works and increased construction costs may require some discounting from developers to shift.

The market for properties between $400,000 and $650,000 is likely to experience longer marketing periods, however properties in this market range typically provide good value for money and, based on this, are likely to hold firm.

Properties north of $650,000 are likely to have some downward pressure as there are fewer potential purchasers in the area and longer selling periods are likely.

The expanded Lismore Base Hospital is the most recent significant infrastructure build in the Lismore area. Properties in close proximity to the hospital continue to prove popular with investors and owner-occupiers, as do properties conveniently located to the university.

Girrards Hill, with its period cottages, was a strong area in 2018, with interest from Brisbane and Sydney purchasers. As these metropolitan markets soften, Girrards Hill may experience some downward pressure based on 2018 values.

Discussions with builders and agents indicate that obtaining credit for construction loans is proving to be difficult compared to previous years. There is a possibility that this reduction in credit availability may place downward pressure on construction costs as the major builders compete to secure the reduced work available. This competition is likely to provide those looking to build with increased bargaining power and the potential for some good purchases from builders who have secured land to sell house and land packages, especially those on sloping blocks.

Lismore is a quiet achiever - its proximity to some of Australia's best coastline and a strong employment base from government, education and rural sectors combined with its relative affordability is likely to insulate the Lismore market and maintain prices. However in a market where the expectation is that supply is likely to increase, secondary properties are most likely to experience some downward pressure and extended selling times.

In short, 2019 is not expected to be a year of growth, nor is it expected to be a year of large falls, with the market expected to fall slightly due to some softness in certain market sectors.

Casino / Kyogle

The residential market for the 2019 year ahead in the Casino and Kyogle area is likely to experience some softening, continuing on the heels of the last six months of 2018 where sales activity started to subdue following a rather strong first six months.

Key factors to potentially influence house prices include the continuing threat of projected interest rate increases in 2019, however it is the reluctance of lenders to make finance available being of most concern.

Following a tumultuous 2018, banks and lenders are now under much more scrutiny in their financing decisions which could lead to more restrictions to lending application criteria, particularly for first home buyers and property investors. We saw evidence of this in the last few months of 2018 and this is likely to continue well into 2019. Even with limited stock available, as oft repeated by local real estate agents, if prospective purchasers are dependent on mortgage finance and cannot satisfy the lender's criteria, then whatever housing stock is available is still going to be difficult to sell. This is likely to affect the majority of residential real estate property in Casino and Kyogle below $400,000.

The more well-heeled prospective purchaser who is not dependent on mortgage finance will possibly keep the market buoyant for well-presented residential and rural residential properties of above average appeal in the $500,000 plus price bracket Therefore, the coming year of 2019 for the upper end of the residential and rural residential real estate markets is likely to remain steady with possible increases for the more well-presented properties with highly valued features such as expansive views, creek or river frontage or high quality improvements.

It is interesting to note that in both Casino and Kyogle, there is very limited supply of vacant residential lots available for sale. This concern has been addressed by the Richmond Valley Council taking the initiative to acquire one of the very few residential en globo lots available for sale in Casino. The Council has some good form on this initiative, having recently completed the sale of all available vacant residential lot stock in the Settlers Estate on the eastern fringe of Casino. It is expected that due to the limited supply of vacant residential land, the demand for such a product is likely to be relatively strong, especially since the prices are still considered to be reasonable for flat land... think sub-$150,000.

The demand for rental accommodation in Casino and Kyogle is therefore likely to remain rather

It is interesting to note that in both Casino and Kyogle, there is very limited supply of vacant residential lots available for sale.

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strong, particularly if first home buyers cannot secure finance and must therefore look to rent.

Ballina /Byron Bay

The coastal areas of the Ballina and Richmond Valley Shires have been relatively immune to the downturn in the market experienced throughout 2018. This can be predominantly attributed to the low levels of stock available for sale throughout these areas. As the market softens it will be interesting to see how these localities fare as local agents active in the area have generally reported reduced overall activity since early 2018. Subsequently, any increases in supply coupled with media reports of easing market conditions within the capital cities could have a significant effect on the local market. Stock levels of vacant land throughout Lennox Head could be a concern in the short to medium term and has the potential to negatively impact the wider area should supply be greater than demand.

In relation to the overall feel for the Byron Shire market and surrounds, we believe it will track steadily, with a possible slight correction in prestige property prices above $1.5 million. As 2018 ended, lack of stock was still driving the market and properties were being matched with remaining purchasers (mainly interstate). The stock level seems to be on the increase in the first two weeks of 2019 as agents advise of a drop in buyer demand.

We think that the market above $1 million throughout the Byron Bay, Suffolk Park and Lennox Head suburbs is the one to be treated with caution. Previous years have seen strong interest in these properties from interstate buyers and local buyers trading up as the local market steadied and if capital city markets continue to fall, this market could become under pressure.

There are areas that seem comparatively affordable in the market right now. The surrounding areas of Ocean Shores and Ballina would be considered more affordable than the coastal resorts style towns.

An interesting and unusual element likely to unfold during 2019 in this market is the ripple effect of newer subdivisions. These developments are likely to provide higher stock levels of land available which may put pressure on land values and the existing market. Another interesting element coming to this shire in 2019 is the commercial development in the form of a new shopping complex development with a new Woolworths.

The Clarence Valley

The Clarence Valley is expected to perform similarly to 2018 - positively with market momentum fuelled primarily by the Pacific Highway and Grafton Correctional Centre upgrades. Whilst these works and their associated workforce influx continue, it is predicted that the volume of sales occurring and rental rates will remain solid, with demand outweighing supply in most areas.

In 2018, the coastal township of Yamba saw a median house price of between $520,000 and $540,000 which remains affordable compared to similar nearby locations. This relative affordability, combined with Yamba's desirability and quaint beachside appeal, is likely to see sale prices remain steady or even increase.

$520,000 - $540,000
Yamba median house price 2018

$310,000 - $330,000
Grafton median house price 2018

Further south in Grafton, the median price in 2018 ranged between $310,000 and $330,000 with a steady increase observed throughout the year. A point of note for Grafton is that the rental market and high returns being achieved due to the workforce influx is a driving force for the increase in sale prices, with some properties being leased to workers occupying properties from Monday to Friday for up to three times their usual market rental value.

Whilst some primary influencing factors behind the positive property market trends of 2018 have been identified and are set to continue into 2019, it would not be unusual for the intensity of enquiry to ease as the Pacific Highway upgrade is set to be completed in 2020. This easing may see the market stabilise and the rate of increase slow.

Coffs Harbour

It has been a slow start to the year, which is normally expected over the holiday period when the majority of the public are not thinking about their property fortunes, however we are seeing a somewhat slower start to the year than normal which may be a hangover from the market surge experienced over the past few years. This surge has been predominantly underpinned by the record low interest rate environment, increase in consumer confidence, strong interest from interstate capital city buyers seeking second homes, lock-up holiday properties or good quality investment properties and the major infrastructure projects commencing and announced for the region.

However, we are now seeing some negativity creeping into the market. Buyer urgency and consumer confidence have softened somewhat as a result of continuing negativity in the media over easing market conditions due to the fallout from the Royal Commission into banking practices, plus noticeable reductions in the capital city markets, especially the greater Sydney market which traditionally represents a significant proportion of out of town buyers in this region.

We feel that the market is in a transition stage with a wait and see attitude from buyers and vendors alike. We don't think that the sky is about to fall in, but there is definitely a feeling that the market pendulum is swinging towards buyers, having been firmly on the seller's side over recent years. Good news to cashed-up buyers waiting in the wings.

The market which typically suffers the most when the pendulum starts swinging down is the prestige market (above $1 million) which is largely attributed to reduced interest from out of town (capital city) buyers who traditionally target these areas for discretionary lifestyle purchases, coupled with vendors being resistant to adjust price levels to meet changed buyer expectations.

Another sector to watch is the new estate markets to the north of Coffs such as North Sapphire Beach and Sandy Beach which have mushroomed over the past two years. We expect to see an increase in spec homes hitting the market which may cause an oversupply in the short term and if demand falls, then prices will follow accordingly.

Against the backdrop of all this doom and gloom, the region is underpinned by its endless lifestyle opportunities and major infrastructure projects in the works, especially anticipating the start of the Pacific Highway bypass of Coffs Harbour possibly by 2020.

The year is generally expected to remain steady with some possible wobble in the wheels for some market sectors, however this will remain to be seen.

Port Macquarie Town Centre Source: Hasting Council

Mid North Coast

Throughout 2018, we saw stable housing prices in the Port Macquarie area, with houses and units returning to the norm of a three to six month sale period.

This looks set to continue in 2019, with the aid of some national forces affecting our local market, such as tighter lending, weak wage growth and affordability constraints, which have affected the majority of Sydney and Melbourne markets.

However, the major influence on the housing market at the moment is the upcoming New South Wales state election and the federal election. With Labor being returned to government in Victoria in November, investors are anxiously awaiting the outcome of the federal election as this result may impact the property market further if negative gearing and capital gains tax legislation changes. This has stalled investor activity in our local region and will keep the property market subdued and values remaining stable, at best.

We predict that the local property market will remain slow and recent declining house prices being felt elsewhere may not be as severe in our local region. The assistance of major development in Port Macquarie, together with job creation, will hopefully even the keel and weather us through the predicted price decline for the first half of 2019.

New infrastructure projects include:

- **Charles Sturt University** $40 million construction of Stage 2 to commence, providing for an additional 1,800 students;
- **Pozieres Retirement Village and Age Facility** at Ocean Drive Port Macquarie, featuring 105 homes;
- **Sienna Grange Retirement Community** is near completion and will offer a 68-bed aged care facility, scheduled to open March 2019;
- **New 126 bed aged care facility** planned at Ocean Drive, Lake Cathie due to commence construction in early 2019;
- **Port Macquarie Airport Terminal** - $9.875 million upgrade which commenced in late 2018; and
- **Bunnings Store** which is soon to be completed and opened.

Due to its beachside lifestyle and facilities, Port Macquarie is still receiving influxes of families relocating to the area. Together with the added advantage of being a tourist destination and therefore prone to out of town sales, this will also assist in stabilising our real estate market. A flow on effect should occur as a result of the new aged-care facilities coming onto the market, by increasing the stock levels of local real estate agents of older or original type dwellings located within close proximity of town and in good locations and supporting the construction industry further by providing renovation work.

Unit sales within the area have also stabilised with unit development being affected by the slowing market. There were a number of centrally located higher density unit developments underway that stalled in 2018 due to a lack of pre-sales and finance options and it is unlikely that construction of these developments will recommence this year.

The higher value, prestige properties and rural-residential property markets in the region remain slow with limited demand and stable to slow falling values.

We feel that other coastal towns and villages all along the Mid North Coast that do not have infrastructure growth may be more vulnerable to declining house prices and the flow on effect from the metropolitan areas.

Central Coast

The past several years have proven to be a bountiful period for the local Central Coast region's real estate market with more success stories than we can count. This of course, is a similar scenario to many parts of the state, particularly the Sydney and Newcastle markets which the Central Coast region sits between.

We experienced some very good times indeed throughout most of 2018, but a sober review of the last quarter indicates that the market was slowing and that the year ahead will be a less prosperous one than those preceding it.

This outlook has been formed after listening and seeing the events of the past few months as they unfolded. Real estate agents report a decrease in attendees at open houses, negotiations on price and terms are leaning toward purchasers and a higher level of diligence and less urgency on the purchaser side of the market. These are confirmed from our own study.

Building activity is such that the Central Coast region has been listed on the Rider Levett Bucknell Crane Index with 18 cranes "in the air".

At a more operational level, our interaction with lenders increased toward the latter part of 2018 and we see this continuing into the year as the bite of revised lending practices is felt.

Although a reasonably good level of market confidence is present, the foregoing comments indicate to us that this confidence will wane in some segments as the year progresses and if previous cycles repeat themselves, we can expect to see a period of reduced buy and sell activity. Obvious determinants of this will include the cost of financing, stock availability and of course, the presence or absence of buyers and sellers. Less obvious, but perhaps more effective will be the role of the media.

We see the 2019 year as proving to be an interesting one for the local real estate - yes, we are saying the market has finally peaked in most segments. We say interesting because the normally reliable and predictive market indicators have or are likely to be different to those seen in previous, fairly predictive cycles. The activity and rises seen until very recently occurred over an extended and sustained period as opposed to previous cycles.

The strong local market has seen a number of new residential unit developments occurring. Although dominated by two main development companies, the opportunities available saw a few non-local developers secure development sites. In fact, building activity is such that the Central Coast region has been listed on the Rider Levett Bucknell Crane Index with 18 cranes "in the air".

This is an indication of the level of building activity occurring. A majority of these new developments have occurred within and around the Gosford CBD. So far as we can ascertain, most of the units have been sold, but there are still some available. Apart from the generally strong market experienced, we consider one of the underlying reasons for this level of activity in Gosford is a result of governmental focus to revitalise the city centre over the past several years.

In accordance with current practices, many of the units were sold off the plan for prices that both reflected the newness of the project and the current market under professional marketing campaigns.

The strong market has seen a number of suburbs experience value growth. Perhaps due to their close proximity to the M1 Motorway and appeal to young families, Woongarrah, Hamlyn Terrace and Wadalba are among these suburbs. We are now regularly seeing prices into the $700,000 to $800,000 bracket. These suburbs fit the classic mortgage belt areas of the coast and will prosper while ever confidence is high, living standards are maintained and finance is affordable. Without these factors continuing, we see affordability and retention issues arising.

While these suburbs fared well during the busy period, we think some of the less popular adjoining suburbs have yet to gain the same attention, but hold promise of potential rises yet to be realised. These include Kanwal, Gorokan, Charmhaven and Toukley. These are older suburbs populated for the most part by


Gosford CBD Source: Ray White

similarly older dwellings with good opportunity for renovation. It's suburbs such as these that may prove to provide good opportunity and we recommend they be monitored. Prices vary of course across these suburbs, but depending on the age and condition, purchases can still be made within the $300,000 to $350,000 bracket.

Other peripheral suburbs worth monitoring include Narara, Niagara Park and Wyoming. These are close to the Gosford CBD and while somewhat popular of late for first home buyers and renovators, there are still some good opportunities available. Again, prices vary depending on the individual property, but there are still purchases available for around the $500,000 mark. These suburbs have the potential to leverage off the revitalisation of the Gosford CBD mentioned earlier.

After a period of high market activity, there will be areas that may now need to be carefully considered before diving into a new purchase. The peninsula suburbs of Umina Beach, Woy Woy and Ettalong Beach have exceeded all expectations so far as values are concerned, with increases much greater than the regional average. Much of the activity appears to have been fuelled by buyers seeking to exit the unaffordable Sydney market while remaining relatively close - these areas are a little over an hour away from Sydney.

From a valuation perspective, maintaining and sustaining the existing values is likely to be a challenge as we move into the next phase of the property cycle.

We expect that a similar level of caution needs to be exercised in the unit market in and around the Gosford CBD. As mentioned earlier, there has been much activity in this segment of the market. Whilst the take up of new units has been good, there are more units under construction and if the demand weakens or lenders look to reduce their level of exposure in this space, then an oversupply situation will likely emerge.

Newcastle

2018 was marked as a year of transition for the Newcastle and Hunter Valley residential markets. That transition, from a bullish and fast-moving market early on to a soft and increasingly brittle market by the end of the year, was always going to occur at some stage. It just happened to be 2018. This year of transition followed many years of strong and sustained growth, largely unprecedented in its length.

When writing a predictions column on the perennial "where will the market go from here" question, it is always approached with a fair degree of trepidation for the writer, especially if that writer is a valuer who deals mainly in historical data. It is even more daunting this year and the answer to that question can be likened to where the selectors of the Australian cricket team currently find themselves.

The First XI enjoyed many years of unparalleled success but there has been a growing period of sub-par performances, which have become more frequent and obvious as times passes. Whilst on the face of it this decline appears to have happened quite suddenly, warning signs had been readily apparent for a significant period if educated onlookers are being truthful.

In the previous environment, ongoing success wasn't hoped for but expected. Hard times at present are a stark reminder that nothing stays the same for ever and failure and success cycles occur in real life and sport alike. Those who deal with the new reality the swiftest will likely be the major beneficiaries.

When the market is ever growing, it's not a stretch to predict further growth, in line with the well-established trend. This year however, the market is at a point where a set of scales is a superior visual tool for predictions over a trend line; it could go in either direction - it could pick back up after Christmas and start increasing again, it could stay balanced in the middle and not move much either way or it could sink quickly downwards. If we were told to place percentage outcomes on the likelihood of each scenario, we would go ten per cent chance of a rebound and increase, 30 per cent chance of balance and equilibrium and whatever maths is left over for further downward property values across the board.

The smart money is on further consolidation of the market with fewer transactions occurring and property prices most likely dipping down from present levels. We have started to see prices come back in and around Newcastle recently; not so much with verified and quantifiable data but more anecdotally. By this we mean properties

It's more likely that the market will further soften than stay the course or improve in the next 12 months.

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advertised for prices similar to boom levels which don't sell after a period of months and are quietly removed from the market. This type of anecdotal data, whilst frowned upon in analytical circles, is a valuable tool to gauge rough temperature. It's a little like licking your finger and raising it high in the air to judge wind direction - not the most accurate tool but more than adequate to know where to light your campfire so you aren't engulfed in smoke when your holiday snags are incinerated.

Predicting market direction and, probably just as importantly, strength and length of the trend, is a fool's game. It has to be noted however that many smart developers and investors have made significant fortunes by accurately predicting future trends. As an aside, we would also argue that more have lost fortunes by gambling on market trends and getting the timing horribly wrong. Anyone currently building units in and around Newcastle presently may fall into that category given that current demand is weakening and supply is still increasing.

We don't have all the answers, we can only relay what we see and conclude on evidence that it's more likely that the market will further soften than stay the course or improve in the next 12 months.

Southern Highlands

As we kick off 2019, there is a degree of uncertainty across the Southern Highlands as to how the market will track after peaking early last year following a period of strong growth.

As we have observed for the past six months, the residential market up to $1.5 million for properties close to the main townships of Mittagong, Bowral and Moss Vale remains steady with access to infrastructure being the main driver of that growth, together with an increasing catchment of buyers from Sydney.

Signature Wollongong Source: signaturewollongong.com.au

Moss Vale continues to appeal to a broader market of first home buyers and young families, with the ongoing transformation of the Argyle Street retail strip and opening of further boutique retailing, cafes and bars and new infrastructure, including the new Southern Highlands Local Area Command Police Station coming on line in quarter four of 2018 and Aldi commencing construction of its third supermarket in the Southern Highlands to come on line in the second quarter of 2019.

The fourth quarter of 2018 saw an oversupply of residential land sub-division projects throughout the region coming on line across the main townships of Bowral, Moss Vale and Mittagong such as Renwick (Mittagong), Darraby Estate and Throsby Views (Moss Vale) and Retford Park (Bowral) which has resulted in some vacant lots being discounted to achieve a sale within a normal selling period. At the other end of the spectrum, properties in the higher-end rural acreage and rural lifestyle market segment (above $3 million) have historically been subject to higher market volatility. Sale prices (and selling periods) within this market segment are heavily influenced by individual buyer preferences and specific property attributes. Indeed, over the past twelve-month period, there has been demonstrable signs of volatility in the more isolated rural residential areas with purchasers tending to be highly discriminating in their purchasing decisions.

With the Sydney market expected to continue to soften over the current period combined with the impact of tighter credit conditions, we foresee a broadening purchaser catchment discovering the Southern Highlands region.

Illawarra

The tide has well and truly turned in the Illawarra residential property market, with 2019 shaping up to be a buyer's market. We have identified four factors that have led to the market weakening throughout 2018:

- Tighter lending practices;
- Weaker Sydney property market conditions;
- Oversupply; and
- General negative sentiment and media coverage.

We expect these factors to remain relevant in 2019 and the market to continue the softening trend of 2018 with the possibility of stabilising at the lower level later in the year.

Property types to watch in 2019 include two of the hardest hit areas - vacant land in the 2527, 2530 and 2526 post codes along with residential units in the Wollongong CBD.

Release of new land will continue in Calderwood, Tullimbar, Horsley, Wongawilli and Kembla Grange.

As at January 2019, realestate.com.au showed approximately 185 residential vacant land lots listed for sale in the above post codes. Developers are competing head to head with those who have previously purchased and are now trying to re-sell. We expect supply to outweigh demand throughout 2019 and as a result, prices for land in these areas to continue to drop. The entry price into the Calderwood and Tullimbar subdivisions has dropped back to under $300,000.

The Wollongong CBD had a huge transformation on the back of the property boom from 2013 to 2017 with an unprecedented amount of residential unit construction throughout this period. Despite the slowdown in off-the-plan and general sales, development has continued into 2019 with a number of large scale developments commencing construction including Avantè, ParQ, Signature and Skye, developments which total 544 units between them. We expect the high supply of new units to continue to affect both the newer and older style unit markets and prices. Purchasers now have more and more choice and on the back of media exposure of construction failures such as Sydney's Opal Tower, we believe they will become more informed and diligent with investigations into who is building these new unit complexes. Experienced local builders with a proven track record will remain in demand, while new builders or those who can't provide evidence of past work, may find purchasers being wary.

Work is on track to have the Marina at Shell Cove completed with the first berths anticipated to open in 2019. The Shell Cove market took a hit similar to all other residential markets recently, however continued positive construction news such as the recent Woolworths anchored Town Centre first stage along with the opening of the marina will provide a shift in market sentiment that may be able to stir up a bit of life in 2019. Other major infrastructure projects under construction or in the pipeline that will provide positive market sentiment as they progress include the West Dapto Access, Albion Park Bypass, Berry to Bomaderry link, Shoalhaven River crossing and Shoalhaven Hospital upgrade.

There will be good opportunities throughout 2019 to purchase properties at good prices. Finding a vendor who is motivated to sell can benefit a purchaser, particularly if they are the only party to have shown any interest in the listing.

Tamworth

And away we go for another year!

2019 is shaping up to be a year of steady growth in the Tamworth region, with continued interest across all sectors of the market from both investors and owner-occupiers. While we feel that the market is likely to continue strengthening, it's expected to be at a slower rate than previous years due to the ongoing drought as well as the cooling markets elsewhere in New South Wales. The enduring low interest rates and comparatively low cost of property in Tamworth continues to attract those looking for a lifestyle change from the cities as well as investors looking to capitalise on the good rental yields and low costs.

The suburbs to watch in Tamworth are the Central West area and the established parts of North Tamworth for their proximity to the CBD and their old style charm. For newer builds, Calala and the developing parts of North Tamworth are showing strong sales as recently completed homes (two to five years old) are coming onto the market as home owners begin to sell. Our number one pick would be Central West as buyers looking for older federation style homes are being priced out of East Tamworth and are beginning to look elsewhere.

Despite the relentless drought, rural residential properties (one to 20 hectares) in the areas surrounding Tamworth (such as Moore Creek, Daruka, Tintinhull and Timbumburi) are all performing well with properties selling quickly and strong growth noted. The suburbs of South Tamworth, Hillvue, Oxley Vale and Westdale all offer affordable housing without having to sacrifice a good neighbourhood. While patches of these suburbs have historically been aimed more at investors, this is slowly changing to include owner-occupiers.

The area of West Tamworth known as Coledale continues to provide reason for concern with an increase in new development located within a non-desirable location as much of the new and surrounding development consists of Housing Commission properties. While high rental yields can be achieved, the risk of damage to the property is high and the potential for capital growth is limited.

Our number one pick would be Central West as buyers looking for older federation style homes are being priced out of East Tamworth and are beginning to look elsewhere.

Victoria

Melbourne

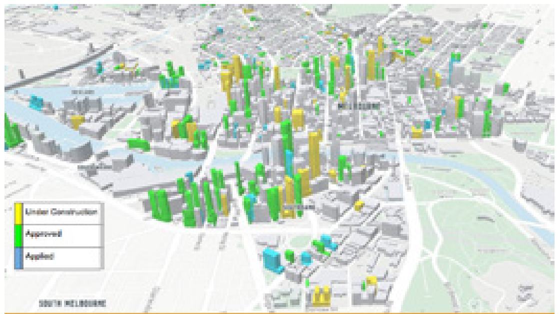
As another year passes by, it's safe to say that we are looking forward with anticipation to what 2019 will bring in the property sector.

Last year turned out to be a turbulent year. In the latter half of the year, the property market started to cool after six years of solid growth and it was quick and dramatic. Virtually overnight, all banks tightened their lending requirements, reducing buyer competition.

It is not all doom and gloom forecast for 2019. Australia is in a good economic position. Interest rates remain at historically low levels, unemployment is down and there is strong population growth, so 2019 should be an interesting year.

CBD

We expect the inner-suburban ring property market to marginally stabilise in the second half of 2019 in suburbs such as Port Melbourne, South Melbourne and South Yarra. We expect Melbourne's inner-city apartment sector to face a slight decline, due to the large wave of off-the-plan apartment complexes coming to completion in 2019, as there are concerns that supply will outstrip demand.



Development Activity Model Source: City of Melbourne, Jan 2019

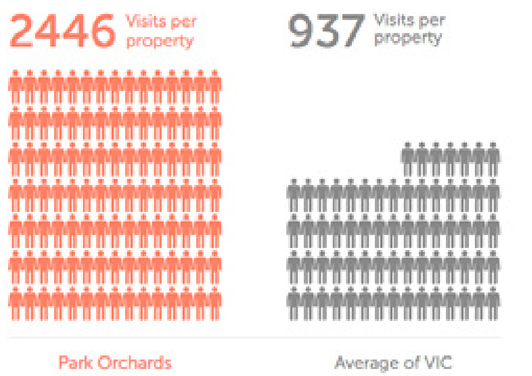
East

The property market is currently in the midst of a housing price correction. Real estate agents advise that they are suggesting to their clients to undertake longer marketing campaigns to encourage a transaction. Many are also resorting to private sales rather than auctions and approaching clients one-on-one rather than executing a market-wide marketing campaign.

Buyers in the market now have the time and opportunity to complete their due diligence and market research without the pressure of a seller's market. We predict that properties in the $700,000 to $900,000 range will have adequate demand. Values in the blue chip eastern suburbs of Hawthorn, Kew, Balwyn and Glen Waverley value fell approximately 20 per cent in 2018, though there are still pockets with demand in the greater eastern suburbs. Park Orchards and Warrandyte were the high in-demand spots, scoring the highest property views on realestate.com. The Park Orchards median as at 2 January 2019 was $1,527,280.

$979,360 - 4 Bed 2 bath 2 car Source: Kinley, Jan 2019

AVERAGE NUMBER OF VISITS PER LISTING PER MONTH OVER THE LAST 12 MONTHS



Source: Realestate.com, Jan 2019

In the outer east, we expect demand to increase as the Kinley development at the former Lilydale

$716,000 - 4 Bed 2 bath 2 car Source: Kinley, Jan 2019

Quarry was released to buyers in late 2018. It's expected that the $2 billion project will create 3,200 new homes for 8,000 people and a 70 per cent increase in Lilydale's population. House and land packages range from $700,000 to under $1 million.

Inner & Outer West

The Melbourne inner-city market slowed over the past twelve months with both the dwelling and apartment markets seeing negative growth in the latter half of 2018. Looking forward into 2019, we believe the market will stabilise however this will be heavily influenced by the findings of the Royal Commission which are to be released in February 2019. The reaction by the banks may affect the market moving forward with relation to lending criteria for both owner-occupiers and investors.

To the middle and outer western suburbs, Point Cook, Williams Landing, Tarneit, Truganina, Wyndham Vale and Werribee experienced moderate value growth in 2018 driven by a strong population boom. Vacant land and brand new homes continue to be a popular choice for purchasers with good demand coming from first home buyers and recently arrived migrants. We expect this to cool throughout 2019, however in order to counteract the negative shift in the market, developers and builders alike will be offering greater incentives to purchasers than reduced purchase prices to entice buyers throughout 2019.

Inner & Outer North

The property market has shone in the past six years, showing extraordinary growth in property prices in the northern suburbs, however after continued growth, it seems that this trend has now halted and is likely to detract going forward. Yearly median house prices have dropped significantly

19 Horne Street, Brunswick Source: RP Data

in areas such as Brunswick East (7.94 per cent), Carlton (13.49 per cent) and Abbotsford (6.72 per cent), demonstrating the downtrend (Property Value, 2019).

For example, 19 Horne Street, Brunswick sold for nearly $200,000 less in two years, dropping from $1.55 million to $1.365 million from 2016 to November 2018, demonstrating the declining prices.

Development orientated areas such as Craigieburn, Kalkallo and Mickleham may prove to be the only true affordable option for the inner and outer northern suburbs. By offering generous land areas for affordable prices, these areas may still be the choice of selection for international families moving to Melbourne or country Victorians wanting to move closer to Melbourne.

Areas going to be hit hardest will be the prestige suburbs of the inner north such as Abbotsford and Carlton. After six years of substantial growth, the inner north-eastern suburbs are predicted to drop 11.2 per cent in 2019 (realestate.com, 2019).

Overall, we expect to see inner northern property prices drop harshly and predict that the outer northern suburbs will plateau in 2019.

Inner & Outer South-East

Trent Wiltshire, an economist at Domain suggests that property prices will fall further in the first half of the year, however will moderately grow in the second half of 2019.

In the south-east region, secondary properties such as those in poor condition, located on busy roads or impacted by power lines, will struggle more as buyers have greater choice. Areas likely to perform include the usual drivers such as those close to amenities, public transport, cafes and schools such as Bentleigh, Malvern East and Caulfield. In addition, properties with longer term development potential could entice individuals as developers have slowed in the current market place, allowing for good opportunities there.

Last year, Pakenham hosted Melbourne's most active housing market with 1,114 dwellings transacting, 91.5 per cent being houses, with a median price of $522,000 (realestate.com.au). Although it is believed the market will not see such figures this year, we predict a softening in the first half of the year with a stabilising in the second half of 2019.

Geelong

Geelong has been going against the downward trend of Melbourne. Affordable in comparison to the greater Melbourne market and with recent injections of major government asset and infrastructure spending, Geelong recorded some of the highest capital growth in percentage terms in Victoria over the 2018 year. Looking forward in 2019, we expect to see a levelling off.

Geelong's northern suburbs such as Geelong West, Hamlyn Heights, Herne Hill, North Geelong and Corio have seen recent solid growth but unfortunately there has not been the injection of key infrastructure projects as seen in the south. Furthermore, with the tightening of lending credit legislation, particularly investment grade properties, we can expect to see a decrease in value as a market correction occurs before stabilising in the latter part of the year.

Similar trends are being observed in Geelong's eastern suburbs, however areas located closer to the city centre will provide good opportunities to those willing to undertake small renovations and updates with the area showing signs of gentrification. We expect these areas to increase in demand with the completion of large commercial developments such as NDIA's Malop Street project in mid-2019, increasing employment opportunities and commencement of construction for the Franz development.

The outer southern suburbs of Belmont, Grovedale and Waurn Ponds are still being perceived as providing good value. These suburbs offer larger allotments providing future development potential within close proximity to Waurn Ponds Shopping Centre, university and the Waurn Ponds train station. This area is proving to be popular with first home buyers taking advantage of stamp duty concessions and reduced competition to get a long-awaited foothold in the market.

The Surf Coast and Bellarine have softened over recent months. Agents are reporting fewer numbers through doors and longer days on market. It's the cheaper secondary areas that are proving to be popular with affordability still the key driver as buyers look for value. We expect these markets to stabilise over the coming months as vendors wait to see how the year unfolds.

Mildura

The Mildura market is expected to remain reasonably buoyant over the coming year. While there are corrections currently underway in some capital cities, the market fundamentals in Mildura do not point to any impending correction here.

We still have population growth of around one per cent per annum and our economy is growing on the back of a buoyant horticultural sector. We expect to see continued demand for both existing and new housing and anticipate that our market will grow, but most likely at a slightly lower rate than the five per cent rise experienced in 2018.

The main clouds on the horizon relate to the availability of credit and concern around whether the region will experience a shortage of irrigation water during 2019. With respect to credit, agents report that some buyers have had greater difficulty securing finance in recent months and that selling periods have lengthened as a result.

On the water issue, catchment dams are currently holding below average volumes of water. The last time we had serious issues with water availability was in the period from 2007 to 2009. During that period, buyers turned away from larger rural residential properties which require more water to maintain gardens. It's too early to predict whether this will occur in 2019, however the risk is real.

In the event that the Murray River catchment remains dry during 2019, we would also expect to see some contraction in local horticultural activity, which in turn would flow through to a weakening in our economy.

The increased cost of buying serviced lots in Mildura, combined with a limited supply, is expected to see demand improve in some of the newer subdivisions in satellite towns, including Red Cliffs and Gol Gol. Subdivisions in these locations have larger lot sizes and cheaper prices and for some buyers this will be attractive.

With regard to the top end of our market, which has grown considerably over the past few years, we expect to see some levelling out during 2019. The noise around slowing activity in city markets is likely to be picked up more by buyers contemplating spending over $1 million in our region.

Shepparton

The Shepparton property market (including Mooroopna and Kialla) has had a ten-year median price increase of just 1.5 per cent (CoreLogic), yet the region has continued to see increased sales volumes with overall average days on market falling.

Local estate agents have reported increased activity from all buyer types with a noticeable increase in interest from metropolitan investors being attracted by the higher yields. Some areas of the market (particularly the sub-$300,000 sector) have seen a price jump of up to ten per cent. Mooroopna is starting to see an increase in the $375,000-plus market, which is considered to be

The main clouds on the horizon relate to the availability of credit and concern around whether the region will experience a shortage of irrigation water during 2019.


Goulburn Valley Hospital redevelopment Source: blp.com.au

top of the market, whilst good quality established stock in Shepparton and Kialla above $475,000 is becoming more fluid. Generally, new constructions with basic upgrades (cooking appliances, bench tops etc) are in line with market parameters, however over-capitalised builds are still common in some estates.

Residential vacancy rates are sitting at around 1.5 per cent with approximately one-third of the Shepparton population being renters. Investment yields in the area are hovering around the six per cent, however it is not unusual to find properties with tenants in place being sold with yields of above seven per cent, hence the increased investor activity.

The major infrastructure project for 2019 is the continuation of the Goulburn Valley Hospital redevelopment. The state government has pledged $168 million which will see a four-storey tower, three new operating rooms, a refurbished and extended maternity ward, plus other upgrades. The hospital currently employs some 2,200 staff and is one of the largest employers in the region. Preliminary works have commenced, with an estimated completion date in 2020.

Other infrastructure upgrades on the horizon are the passenger rail upgrade which will deliver more than double the number of services to and from Melbourne and the Shepparton bypass project (which has been on the cards for 21 years and counting, but is finally starting to gain some traction).

The relatively low property values, planned infrastructure upgrades, increase in buyer activity and the region's proximity to Melbourne should bode well for an increase in residential property values over the coming twelve to 24 months.

Queensland

Brisbane

"Brisbane??? Why would you live up there?" they said. "Too humid, too hot... Couldn't stand so much sweating!"

Well, it has been a touch tepid up here since the start of the year but we've seen nothing like the 40 plus degree scorchers inflicted on other capital cities in more moderate climes.

As if the weather weren't reason enough to love us, Brisbane in 2019 looks set to offer a little more to its property buyers. We're a city with excellent potential for growth. If you've been considering a move to this, the nation's best city, perhaps 2019 should be your year.

Brisbane in the coming twelve months will, generally speaking, see a stable market across most locations. We aren't historically prone to mighty price movements in either direction. We Queenslanders and our real estate tend to take a more laid-back approach.

As mentioned in Month in Reviews past, Brisbane has been on the cusp of substantial price rises for about six years now. While there are plenty punting on the idea that 2019 will bring big gains, we prefer to think our real estate values will strengthen in a more measured way.

Like most other markets around the nation, Brisbane was affected by macro financial changes instigated by Australian regulators that resulted in constrained credit availability. Buyers were keen but if they couldn't lock down a loan approval, what was the point?

Investors in particular were hard hit. This group was dealing with restriction to interest-only lending as well as tougher rules from the banks. All in all, many decided it was all a bit too hard and got out of the way. Conversely, there were plenty of first home buyers willing to take up some of the slack with participation in this cohort on the rise.

This is the platform upon which 2019 has launched itself and while noises are coming out of the halls of power suggesting credit policy needs to be loosened, it might take some time to bring the confidence back.

Enough of the bad stuff – what are some of the positives on the horizon for our River City?

Also, our city's comparatively affordable real estate is a draw card. We are the third largest capital and have the joys of brilliant coastline, hinterland and rural lifestyle on our doorstep. To many from the south, our housing must look incredibly cheap.

Of course, we are being rediscovered, with our net interstate migration number shooting up over the past two years. It looks to have set into a positive trend and is a key leading indicator of property price growth.

Add to this the ongoing low interest rate environment. We realise that getting the banks to say "yes" has been a bit tougher, but if you do have a loan approval, the decent yields achieved through real estate investment in Brisbane will offset much of your ongoing borrowing costs.

We are the third largest capital and have the joys of brilliant coastline, hinterland and rural lifestyle on our doorstep.

Well, we are heading into a period of strong investment in infrastructure that only bodes well for Brisbane. It feels like it's been a long time coming. Apart from the obvious benefits of boosting our liveability, infrastructure drives employment and that's an area sorely in need of improvement in Queensland.

In addition, some of these major projects will have national and international appeal – the Howard Smith Wharves project and the Queens Wharf complex in particular – which have a flow on for boosting our tourism and services sector.

On to our picks for 2019. We're not going to go out on any limbs because, frankly, we don't need to.

Solid fundamentals will continue to reign. While demand is always steady for near city suburbs, property seems fully priced at present. We don't expect you'll jag any bargains within three kilometres of the CBD, but long-term gains are highly likely.

Our pick would be to shoot for some of the inner- and mid-ring addresses. This is solid real estate

RESIDENTIAL

HERRON TODD WHITE RESIDENTIAL

where our population likes to live and play. For example, this would include Enoggera out to Stafford in the north and Annerley through to Moorooka in the south.

Our tip here is to seek out specific property elements that can boost your chances of growth. Look for renovatable homes on decent size blocks, or larger allotments with good, long-term redevelopment potential.

Entry level priced property in these locations is another way to better your chance of gains. Buying below the median price provides room to grow in the value stakes.

Also, if you have the opportunity to jag vacant land, or better yet, do a small subdivision, then there is upside for you. Flexibility in these well-populated locations pays dividends for property.

If you're thinking of places to avoid, you might want to move with caution in outer lying locations along our northern and western corridors in estates that are being pitched towards investors rather than homeowners. If there's a predominance of dual occupancy and duplex structures or generic townhouse designs on offer, tread warily if your goal is capital gains. Credit restrictions have not helped the demand side of the equation in this sector either and with plenty of supply on hand, the result seems to be subdued growth if any for this real estate.

While the well-documented oversupply of apartments, particularly in inner city suburbs, has continued to dominate commentary, we do note that there has been a turnaround in fortunes. Those apartments pitched primarily at homeowners have done well of late and much of the supply expected to come through the pipeline has slowed. Savvy developers could see the writing on the wall and

Stafford Source: realestate.com.au

either reconfigured their stock or land-banked or sold their sites. We aren't recommending anyone rush back into this type of investor accommodation, but the future is looking less dire than it did a couple of years back.

2019 will be a year to watch in Brisbane. If we can accentuate the positive and eliminate the negatives, then property owners should do fine by annum's end.

Gold Coast

North West Region

Over the next twelve months, a slow easing in the market with reduction in price levels and investor activity is anticipated. We have already seen this occurring in the past six months in the north-west

Source: HTW

Source: HTW

region which consists of a large number of modern developing estates across all property types and a high proportion of investors. The royal commission into the banking sector has made investment borrowing much more difficult and has had an obvious effect on market activity.

The suburbs of Yarrabilba, Flagstone, Holmview, Ormeau and Bahrs Scrub will be the main areas to watch and with affordable price points between $400,000 and $500,000, these will hopefully appeal to both first home buyers and investors.

The construction happening in this region has most definitely slowed although there is still quite an oversupply in investment housing which is gradually getting better but still affecting investment and rental returns.

Central North Region

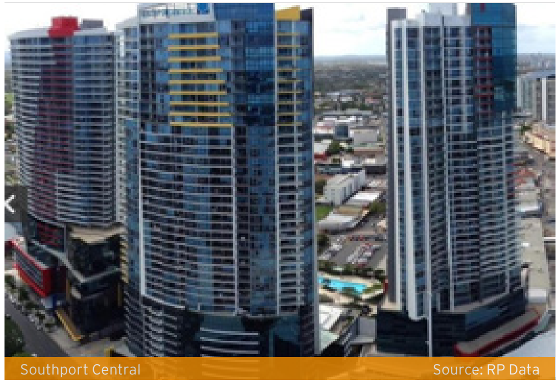
The overall feel of the property market is set to continue on from the later part of 2018. Property prices will continue to ease, with an extension of selling periods. Properties will need to be priced right in order to sell as the market has pulled back in most of the central north region since the start of 2018.

The effects of the royal banking commission that has led to tighter lending regulations, coupled with the negative media coverage on the property market due to price falls in Sydney and Melbourne has resulted in a reduction in demand within our property market too. We will continue to see poor unit performance across the region, in particular Southport, Labrador and Hope Island, with a clear focus on off the plan purchases. Construction has been slowing in the unit market due to lack of pre-sales, however there are still units available and prices have been dropping to meet demand.

A clear example of a poor performing unit is within the Southport Central Tower 2 complex. A recent contract for $378,000 in February 2019 was negotiated for a fully furnished unit. The property had a previous sale price of $390,000 in April 2015, and was purchased off the plan in September 2008 for $475,000.

Properties with good owner-occupier appeal have also seen slight price reductions and this is expected to continue into 2019. An example is a property in Pebble Beach Drive, Runaway Bay that sold in June 2017 for $750,000 and was re-sold in November 2018 for $735,000.

Properties over $1.2 million are experiencing longer selling periods and reductions in sale prices. Motivated sellers are being forced to meet the market if they wish to sell, which is resulting in a



Southport Central Source: RP Data

Pebble beach. Runaway Bay Source: RP Data

Coomera. Helensvale. River Links. Source: RP Data

clear reduction in value, consequently affecting surrounding property values. A clear example is a property in Coomera Court in the River Links Estate in Helensvale, where a property was previously purchased in December 2007 for $1.8 million and re-sold in November 2018 for $1.35 million.

The next twelve months will see good buying opportunities for those able to obtain finance approval and focus on good quality owner-occupier appeal dwellings that provide unique qualities, whether it be location to schools, views or convenient surrounding development. With an increasing population and low unemployment levels, property prices within the Central North region are expected to grow over the next ten years, however purchasers should keep in mind that the market will continue to experience weaker prices over the next twelve to 24 months.

Central Gold Coast

The Gold Coast property market started to cool off in 2018 and we expect it to continue to soften slightly throughout 2019. Sales volumes in the central suburbs of the Gold Coast have eased and agents have reported that selling periods have lengthened over the past six to twelve months. Whilst we have generally seen a recent trend of property prices softening across the Gold Coast, sale prices for the central coastal suburbs (those suburbs within a few kilometres from the beach) have been relatively stable so far.

Canal views are highly saleable Source: HTW

New construction finds appeal Source: HTW

HERRON TODD WHITE RESIDENTIAL

Going into 2018, the residential property market was getting quite heated in suburbs such as Burleigh Waters, Broadbeach Waters and Mermaid Waters. These suburbs have become highly sought after in recent years with properties offering good owner-occupier appeal at a broad price range and there have been great opportunities for builders to renovate or redevelop old homes into prestige dwellings or even duplex pairs. It will be interesting to see if these Gold Coast hot spots will remain resilient over the course of 2019.

Despite the recent drop in confidence in the local market, we have seen a healthy level of construction activity between Mermaid Beach and Main Beach, with many small and large scale residential developments recently completed or now underway. The Ruby on Norfolk highrise development at Budds Beach in Surfers Paradise was completed prior to Christmas and other large scale highrise projects due for completion in 2019 include Qube Broadbeach at Broadbeach, Northcliffe Residences and the three-tower beach front residential and hotel project known as Jewel Residences at Surfers Paradise.

With the anticipation of tougher market conditions ahead, we understand that sales rates have been a growing concern for developers. The unit market, particularly within Surfers Paradise and Broadbeach, is heavily reliant on investors from interstate and overseas. We expect that developers will be offering various incentives or rebates for their balance stock to attract buyers as the investor market begins to shrink. The volume of new unit stock to be introduced this year on the central Gold Coast may cause an oversupply. In declining conditions, we have noticed in previous cycles that the highrise unit market, particularly in Surfers Paradise, is often the hardest hit in a depressed market. There may be some volatile

Highrise construction continues Source: HTW

times ahead for this market sector. Watch this space.

It is unlikely that we will see any significant price growth in the central suburbs in 2019. The question is "Which suburbs will hold their value well in the next twelve months?"

Suburban housing in the central suburbs of Benowa and Ashmore (both east of the M1) and Mudgeeraba (west of the M1) have been fairly strong over the past couple of years with buyers seeking affordable detached housing with close proximity to various schools and amenities. A typical price for a three-bedroom brick house in Benowa is currently $625,000 to $675,000, $575,000 to $625,000 in Ashmore and $500,000 to $550,000 in Mudgeeraba. We are expecting property values to remain stable in Benowa and Ashmore, however buyers should perhaps be cautious buying in Mudgeeraba as house prices have had a very strong run with the market becoming quite heated.

The question is, "Which suburbs will hold their value well in the next 12 months?"

In late 2017 and the first half of 2018, it was not uncommon for an entry level detached house in Mudgeeraba to sell within a two-week period. Agents have now reported signs of this market definitely cooling off and selling periods have lengthened considerably going into 2019.

The prestige end of the housing market is likely to struggle in 2019. The market for properties priced above $2 million has been historically volatile. Agents have noted that there has been a strong reliance on interstate and foreign buyers (mostly from Asia) of late. The tighter lending regulations will test both buyers and sellers in this sector in the upcoming months. We wouldn't be surprised if prices for prestige properties fell ten per cent or greater if we continue to experience similar market conditions into 2020.

Far Northern NSW

The Far Northern New South Wales coast became a very segmented market towards the end of 2018 with mixed results. Across the majority of the market, agents have advised more stock levels and longer selling periods, but relatively stable prices.

Although there's been no clear evidence that prices have eased, we believe discounts will become more evident throughout 2019 and will particularly hit properties over $1 million on the Tweed Coast. It was becoming more apparent towards the end of 2018 that the Sydney and Melbourne buyers are not as abundant as they were six to twelve months ago and this, as well as tighter lending policies courtesy of the Royal Banking Commission, will affect overall market values. Investors have also disappeared with most purchasers in the Tweed Shire being owner-occupiers.

A segment that may buck the trend and continue to stay steady throughout 2019 is rural residential properties under $1 million. There is limited stock and high demand for this property type and not only is this property type popular with local purchasers, it is also popular with Brisbane buyers looking for a tree change or a weekender.

Another segment that may buck the trend and remain steady over 2019 are properties located in prime and tightly held locations, including properties on Kingscliff Hill and Murwillumbah's Hospital Hill. These locations offer views, close proximity to town and amenities and character dwellings. In the case of Kingscliff where the new Tweed Valley Hospital is being built, agents have advised of an increase in buyer interest in the area due to the new infrastructure and job creation with the new build over the coming years.

Sunshine Coast

2018 was a good year for the Sunshine Coast property market with good levels of activity and increases in values across most sectors.

We are predicting it will start to ease over the coming year. This is not to say we are expecting a year of negative growth, however the coast market is expected to slow over the coming year and return to what could be called a normal market.

Whilst there appears to be some headwinds coming, there are so many positives for the coast.

Headwinds - Negatives

The first quarter of 2019 will be a good indicator of how the year will unfold with the continued slowing of the major southern markets of Sydney and Melbourne and to what extent that may impact the coast market. In addition, 2019 is a federal election year, so the uncertainty that generally follows an election will present a challenge. The effect of the election will be magnified given a possible change in government and potential changes to negative gearing.

Tailwinds - Positives

The massive infrastructure projects underway should attract new investment to the coast. The Maroochydore CBD and Sunshine Coast Airport expansions have been moving along with the Sunshine Coast International Broadband Submarine Cable project dovetailing in beautifully. Providing Australia's fastest telecommunications connection to Asia and the second fastest to the United States is an unbelievable opportunity for a regional centre.

It is expected that the larger estates of Aura located to the south of Caloundra and Harmony at Palmview will continuing to generate good interest from owner-occupiers and investors. We are also expected to see good interest in hinterland subdivisions in the railway townships, such as Habitat in Palmwoods, with larger land sizes being the driver.

As always, proximity to the beach given the coast lifestyle is a driving factor for purchasers and this is expected to continue. The coastal strip from Noosa to Caloundra in the sub-$800,000 price range is expected to continue to be in demand.

The northern coastal areas of the Sunshine Coast and the prestige markets in the Noosa area are expected to continue to see some good activity

Aura, Caloundra Source: realestate.com.au

throughout 2019 on the back of some record sales in 2018. However, this may be an area to watch as the prestige Noosa market is heavily impacted by the confidence of Sydney and Melbourne markets as these continue to slow.

Anecdotally we have been advised that some ex-pat and international buyers have helped fill some of the void on the back of the weak Aussie dollar.

There are a number of unit complexes under construction or proposed for 2019 which will see an increase in supply, particularly in the Maroochydore area. There are good levels of interest in owner-occupier style units within smaller complexes with low body corporates. This swing to permanent living units has been reflected in the number of new unit complexes under construction that directly target this market.

2019 is expected to see some good activity across the residential market however maybe not to the same levels achieved in the past 24 months. We will just have to wait and see.

Darling Downs/Toowoomba

2019 looms as an interesting year for the Toowoomba market. 2018 saw a continuation of the trends in 2016 and 2017, with slowing levels of sales activity and some value stabilisation following the boom period from 2014 to mid 2015. Although sales activity has been steady across the board, the market has continued to be multi-speed and property specific. There has been little consistency with variations in sale prices and buyer interest making it difficult to establish well-performing suburbs and specific property types. This is expected to continue throughout 2019.

Toowoomba is currently a hub for major infrastructure projects including the Toowoomba Second Range Crossing road construction expected to be completed early this year and the recent completion of QIC's Grand Central Shopping Centre extension. Also in the imminent pipeline benefiting the Toowoomba area will be the Inland Rail Project.

These infrastructure projects are believed to have assisted in holding vacancy rates low with many employees living in the Toowoomba area through the construction processes. This is expected to continue throughout 2019.

The key development areas for new housing included the suburbs of Glenvale, Cotswold Hills, Torrington, Kleinton, Highfields, Cambooya and Westbrook. Demand for vacant land has slowed significantly as a result of reduced investor demand and limited local buyer enquiry for lots less than 500 square metres in size. Sales rates for land in new housing estates are very slow, especially compared to recent years when projects often sold out off the plan. Developers are starting to look at buyer incentives to attract interest in their respective projects.

Toowoomba is currently a hub for major infrastructure projects.

West of Toowoomba, towns within the Surat Basin have experienced significant declines across the board following the decline of the construction phase of the mining and gas boom. These towns have reverted to levels which are more aligned with their predominantly rural-based economies, and as such, local employment factors are now contributing to the trends witnessed in each of these towns. This stabilisation is expected to continue in 2019 with enhanced interest for dwellings from owner-occupiers as affordability has returned and a significant over supply situation in the unit market which will continue to place downward pressure on the sector. The Roma market is relatively inactive and downward pressure appears to continue, while Dalby is showing good signs of stabilisation with a strong occupancy rate currently being enjoyed leading to positive movement in rental values.

Cairns

Wet season rain came early in Far North Queensland and the year in property ended with more of a whimper than a roar.

Early January is quiet with most people concerned about what 2019 might bring. The optimists amongst us are still hoping 2019 might be our year with a return of southern buyers and a counter cyclical wave as in the early to mid-2000s, discovering the great value and strong returns available up here, driving our market out of the stagnation of the previous three years.

Unfortunately, the pessimists have a fairly strong counter view with falling markets in the southern states, tighter credit and a negative sentiment for property in general.

Our best guess is more of the same with 2018-like conditions of patchy markets, some good results and other results being fairly soft. We may even end 2019 a little below where we are now in terms of median price and activity levels. We would, however, be happy to be proven wrong.

Rockhampton

2019 has all the potential to be a solid year for the Rockhampton region.

A number of new infrastructure projects are due to start construction in the short to medium term including Rookwood Weir, the Rockhampton Ring Road, duplication of the Capricorn Highway between Rockhampton and Gracemere and the South Rockhampton Flood Levy. Each project is anticipated to provide an economic benefit across a number of sectors, including employment. This, together with the stabilisation of the market throughout 2018 and the consistent tightening trend of the rental market (currently between two and three per cent) provides a sound start for the property market in the year ahead.

The sectors to watch in 2019 are expected to be the lower end of the market (up to $250,000). This sector has been sluggish for some time, however with vacancy rates tightening and some agents reporting $20 to $30 per week rent increases starting to be accepted by tenants, this sector will become more enticing to investors, particularly given the major southern markets are now starting to cool. These rent increases may see more first home buyers becoming active also.

The upper end of our local market has remained reasonably consistent over the past few years and is expected to continue this trend.

On the Capricorn Coast, 2019 is expected to see a continuation of improved market activity which really started to take hold in 2018, with some modest price rises noted for very well-presented and well-located properties. Steeply sloping vacant allotments are expected to remain slow to sell given the difficulties arising from the practicality of living on a sloping allotment and to a lesser extent, the cost of construction on such sites.

The coastal prestige market (price points over $750,000) is expected to be sporadic in 2019 after an active period in 2018.

Great Keppel Island has also provided renewed focus with the lease changing hands to an international investor and plans to start construction in late 2019.

Local agents acknowledge that there is an increase in confidence in the market with many reporting limited stock available. Further, vacancy rates on the Capricorn Coast are at their lowest point in twelve months, currently sitting at between one and two per cent.

Of course, it's prudent to consider the risk that some (or all) of these projects may become delayed or not come to fruition as expected and what effect this will have on the property market. For quite some time now, the region has been pushing for major infrastructure projects to boost employment as this appears to be our missing link to a vibrant local economy.

As we have seen with other major projects such as Adani, it can become a very long road between approval and shovels in the ground. Funding, elections, the greater economic climate and severe weather events all have the potential to delay start dates for any major project. Should there be a delay in any projects forecast to provide the economic boost the region has been searching for, it is anticipated that our local markets would remain stagnant for the course of 2019.

We are without doubt looking forward to seeing a number of these factors providing a positive influence on the property market before year's end after a period of decline over the past few years.

Gladstone

2019 is likely to be a gradual continuation from last year for the residential market in the Gladstone region with slow capital growth predicted for the year ahead. By the end of the year, we predict that all market sectors will have shown signs of recovery. The market is still being driven by affordability and we will likely see further value increases across 2019.

We expect rental levels to continue to incrementally increase on the back of a downward trend in vacancy rates. The construction of new homes for mostly local residents is expected to be ongoing and will continue to provide steady employment for local tradespersons and businesses. The supply of vacant land should remain stable, however a number of developers are in early planning stages for future lots.

Near level, 800 square metre plus allotments are in greatest demand. There is still an oversupply of small lots in Gladstone. We have seen a recent trend of developers combining two or more smaller allotments to create larger lots which suit the current demand. We expect to see more of this in 2019.

Bundaberg

The latter part of 2018 saw a softening in values in the established lower end of the market and quite the opposite in vacant land sales, with construction of new homes in both new estates and rural residential estates exceeding expectations. We forecast this will continue in 2019.

The increased scrutiny by lenders in the lower end of the market will continue to have an impact, however the recent lifting of regulations by APRA on investment loans may bring investors back into the market.

Mackay

Welcome to 2019! We hope all our avid Mackay readers had a fantastic Christmas break and are looking forward to the year ahead. With that in mind, we will give our predictions on the year ahead for the Mackay residential market.

So, what does the future hold? Well, the best indications for future events are by analysing the past.

2018 was definitely a turning point, not only for the residential property market but the general Mackay economy. During 2018, we saw the residential market gain momentum due to a buoyant resource sector and increased large infrastructure projects which caused increased employment, population growth and a more positive market sentiment. We witnessed increased demand across most sectors of the residential market, decreasing time listed for sale and modest capital growth.

On the rental market, we saw a significant tightening of vacancy rates, falling below one per cent, the lowest in regional Queensland. We saw rental values start to increase due to the increased demand.

All in all, 2018 was considered a positive year for the Mackay residential market.

So, where does that leave us heading into 2019?

We think the residential market will continue its momentum throughout 2019, following through from 2018. There appears to be no slowdown in employment opportunities related to the resource sector and infrastructure projects throughout Mackay and the adjoining Bowen Basin. These increased employment opportunities, coupled with (relatively speaking) cheaper cost of housing and rentals (compared to boom time levels) has seen many people move to the Mackay region. The tightening of the rental market will see increases in weekly rentals, which will have the two-fold effect of:

1. **Bringing investors back** into the Mackay market based on increasing yields and potential for capital growth; and

We think the Mackay residential market will go from strength to strength during 2019.

2. **Increasing demand** for owner-occupier purchases as cost of rents increase and become more difficult to secure.

Notwithstanding any major economic crisis associated with world trade and the market for our most valuable export (metallurgical coal), we think the Mackay residential market will go from strength to strength during 2019 with growth predicted in both rental values and market values.

The difficult part is predicting the extent. Momentum is a funny thing in real estate. At the moment, there is a definite shift in sentiment, both in the general economy and residential market, with all the momentum on the positive side of the ledger. We are quite optimistic about the year ahead and after the downturn we experienced between 2013 and 2017, that makes a refreshing change!

Hervey Bay

2019 is likely to be a gradual continuation from last year for the residential market on the Fraser Coast with slow capital growth and generally stable returns.

Supply and demand for house and land packages is expected to remain fairly balanced with some package prices showing signs of lifting from last year's levels. Competition between estates to attract buyers is however likely to remain strong which can limit this capital growth. The supply of vacant land appears to be rising in Hervey Bay with in-fill and balance land of estates so it will be interesting to see how quickly these sell in the short term.

Land prices are potentially going to stabilise after some improvement over the past twelve months due to supply levels. There is a risk of oversupply however this will depend on the volume of lots and the time at which developers release each stage. The construction of new homes for mostly local residents is expected to be ongoing and will continue to provide steady employment for local tradespersons and businesses.

The increase of sales of dwellings over $500,000 is expected to continue with the expansion of medical facilities and allied health providers relocating to the area.

Unit prices may see some improvement as there is very limited new stock and returns for investors are attractive. In the short term, property priced appropriately is achieving one to two month selling periods so buyers are active.

Emerald

We should see Emerald and the Central Highlands region in general continue to firm throughout 2019. The resource sector continues to demand an increased workforce through current mine expansions, closed mines reopening and proposed new mines starting to pop up again.

We are seeing wages rise and working conditions change to benefit workers in efforts to maintain workforce and to attract or poach workers from elsewhere as there continues to be a high skilled labour shortage.

This is all having a positive impact on property values with our vacancy rate low and new housing construction increasing. The level of increase in values will largely depend on how quickly the skilled workforce can be found to continue to fill job vacancies and the coal price remaining high.

South Australia

Adelaide

Negative market hysteria has been a cause of concern for many South Australian property owners over the past six months. The east-coast-dominated media attention around the state of the market has been hard to avoid for South Australians. The positive for South Australia is that we haven't had the significant highs, which should shelter the market from major downward pressures.

Agents have been reporting a reduction in open inspection viewings. The consensus is for properties which would have had 50 groups through in mid 2018 are now having 20 groups through. This coupled with the downward trend in clearance rates provides a good indication of the current demand in the market. This trend is common over the peak summer months, however could be being doubled down by the tighter lending conditions. The 2019 first quarter data will be telling in how we will track for the remainder of the year.

Suburbs in the middle ring with price points of $300,000 to $500,000 will be the ones to watch throughout 2019. These suburbs provide affordability for first home buyers and also a price point for cashed up investors who are not having to rely solely on a lending institution. Fitting this profile are the suburbs of Hope Valley, Dover Gardens and Ingle Farm.

Hope Valley is located 16 kilometres north-east of the Adelaide CBD. This suburb is characterised by 1950s to 1970s brick dwellings on 700 square metre allotments. Hope Valley has proximity to the Adelaide foothills whilst being serviced by Tea Tree Plaza and the Hope Valley shopping centre. Hope Valley has a current median house price of $397,500 and provides a more affordable price point than neighbouring Dernancourt and Highbury. An example of what can be purchased at this price point is 13 Citrine Street, Hope Valley which has an asking price range of $395,000 to $415,000. This is a well-kept original 1980s home, providing three bedrooms and one bathroom on a 600 square metre allotment.

13 Citrine Street Hope Valley Source: realestate.com.au

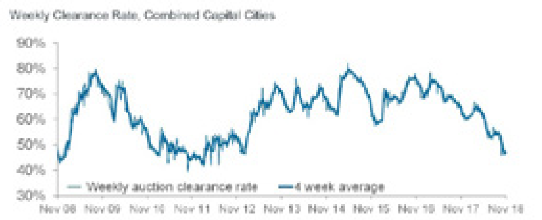
Located 14 kilometres south of the Adelaide CBD is Dover Gardens which provides a mixture of 1950s dwellings with an abundance of recent higher density infill development. Dover Gardens is serviced by Marion Shopping Centre and the South Australian Aquatic Centre and is located within 1.5 kilometres of Brighton Beach. Dover Gardens has a median house price of $470,000 providing it with a more affordable price point than those suburbs immediately adjacent to the beach. A recent example of a sale at this price point is 1B Rugby Street, Dover Gardens at $470,000. This is a circa 2016 semi-detached dwelling disposed as three bedrooms and two bathrooms on a 262 square metre allotment.

1B Rugby Street Dover Gardens Source: realestate.com.au

Ingle Farm is located 14 kilometres north of the Adelaide CBD and is characterised by 1960s and 1970s brick dwellings on 500 to 800 square metre allotments. In recent years there has been a move towards higher density living within Ingle Farm with infill development beginning to occur. The suburb is serviced by the Ingle Farm Shopping Centre and provides an abundance of parks and reserves. Ingle Farm has a median house price of $334,000 which is one of the most affordable price points within the middle ring north of the CBD. The recent sale of 15 Stuart Avenue, Ingle Farm at $324,000 provides an indication of what can be purchased at this price point. This is a traditional 1970s home which has been well kept and provides original fixtures and fittings.

15 Stuart Avenue Ingle Farm Source: realestate.com.au

The inner ring suburbs which have traditionally seen larger volumes of properties sold by auction should be treated with some caution in 2019. These suburbs typically have a price point of $700,000 to low $1 million. This price point requires borrowers to have increased reliance on lending institutions. Agents have indicated that numbers at auctions have reduced with many potential purchasers indicating difficulty in arranging finance. This coupled with the reduction in clearance provides an indication that this market may soften in 2019.



15 Stuart Avenue Ingle Farm Source: CoreLogic

Other areas to watch in 2019 are the Campbelltown Council area, Port Adelaide and Mount Barker. In recent years, the Campbelltown Council has had one of the highest development application approval rates for medium density residential development. The zoning changes produced a sharp increase in both the prices being paid for traditional homes and the number of townhouses being constructed. The council is now in the process of increasing minimum land areas from 150 square metres to 250 square metres to combat the number of townhouses being constructed. This is expected to cause a softening in development sites and townhouses within the council area. Currently townhouses can be purchased for between $450,000 and $600,000, whilst traditional homes are ranging between $500,000 and $700,000.

Campbelltown Townhouses Source: realestate.com.au

After years in the doldrums, Port Adelaide began to gain traction throughout 2018. With the backing of Renewal SA, gentrification began to occur with a number of historic buildings being renovated and restaurants popping up in the heart of the Port. The area will act as a residential hub supporting the Osborne Naval Shipyard which is under construction. The rejuvenation of Port Adelaide is expected to have a flow on effect, helping increase the profile of the surrounding suburbs of Exeter, Rosewater, Ethelton, Glanville and Queenstown.

Mount Barker is one of the fastest growing suburbs in South Australia. Located 40 kilometres from the CBD and accessed via the South-Eastern Freeway, the suburb provides a country setting with all the typical metropolitan services and facilities. The Australian Gas Network has announced a $30 million gas mains pipeline from metro Adelaide to service the growing area whilst the local council has announced a $38 million sporting hub and expects to begin construction in early 2019. Prices fluctuate within each development with new builds available for purchase for between $350,000 and $600,000. Demand for new homes in this region has remained strong however caution is advised given the abundance of available land in the region.

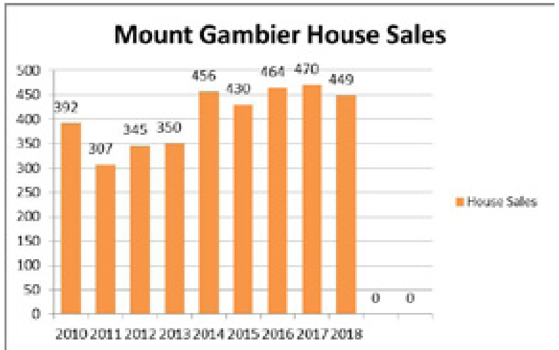
Mount Barker Development Source: realestate.com.au

So, there we have it. The crystal ball has been peered into. With a sluggish start to the year, we will eagerly await the first quarter's data which will provide an indication of where we are heading for the remainder of 2019.

Mount Gambier

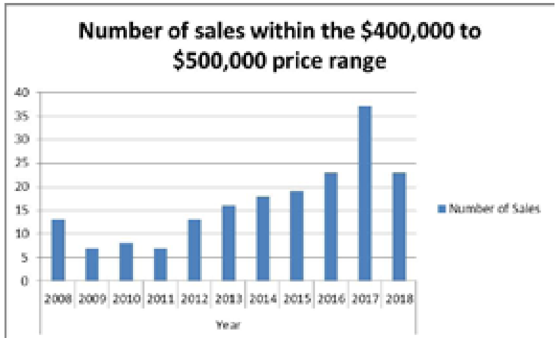
For Mount Gambier, the outlook for 2019 is that the housing market will remain stable throughout the year. We are not aware of any obvious indicators that will have a significant impact on the local economy and the property sector.

As seen in the graph below, house sales for 2018 were at similar levels to where they have been since 2014 and it is expected that this trend will continue throughout 2019. The median housing price has increased slightly in recent years, however there is still a large supply of housing and land for sale, which does impact on growth in the region.



Source: RP Data

The next graph shows the number of house sales within the $400,000 to $500,000 price range for the past ten years. There was a significant drop between 2009 and 2011, however there has been a steady increase in sales since then, with sales within this range now the highest they have been in the past ten years. This may be something to watch this year to see if sales within this range continue to increase or if we start to see a few more house sales above $500,000.



Source: RP Data

The $200,000 to $250,000 price range is affordable and it's where the most number of sales are occurring. The houses within this range appeal to families and first home buyers and are generally of good quality, including three or four bedrooms, one or two bathrooms, a garage and a pergola area, situated on 600 to 800 square metres. This is affordable compared to other cities such as Adelaide, where $250,000 will generally get you a small two-bedroom, one-bathroom unit or house situated on a small allotment of around 200 square metres.

Small regional towns are heavily reliant on a small number of industries. These towns should therefore be treated with caution as they are dependent on local employment. History has shown in these regions that decreases in employment will impact negatively on the property market.

Overall, we are expecting this year to be fairly similar to last year with no major fluctuations in the local market.

Tasmania

Hobart and Launceston

While Hobart remained strong in 2018, there is evidence that the historic high levels of growth are slowing.

We saw eight per cent growth in 2018 compared with around 13 per cent in 2017 (admittedly off a lower base). Tightening of lending requirements appears to be biting in the investment market with our own in-house observations noting a fall in interstate buyers.

The inner-city suburbs that led the charge from 2016 to 2018 appear to be flattening in price growth however those in the middle (such as Claremont) to outer ring (such as Brighton) continue the march forward as they are at a more affordable price point.

Simply due to the strength in the local economy, population growth, near nil vacancy rates in the rental market and ongoing housing shortage, we feel that 2019 will deliver softer growth and perhaps a less active market in Hobart but certainly we remain positive with regard to overall pricing.

In the north of the state, it would appear that Launceston is about twelve months behind the Hobart market. 2018 was this city's standout year (not 2017). Again, for all the same reasons stated above we are expecting Launceston to be softer in 2019 but certainly positive with regard to pricing. Double digit growth might be a bit optimistic but we are expecting in the five to ten per cent.

The north-west coast has its own economic challenges and in some regions continues to struggle. We are expecting Devonport to continue with the momentum of 2018. Burnie has no doubt turned the corner and the upper end has shown some recent activity, however we are predicting softer growth for 2019.

The areas to watch for 2019? Look out for the coastal towns especially those that offer medical or close by medical facilities such as St Helens (has medical facilities) and Orford (one hour from Hobart). We are expecting to see the sea-change effect to continue, especially from Queensland, as buyers seek to relocate to a milder climate. Cashing in the family home, buying a very nice holding on the Tassie coast and having dollars left over in the bank to play with - what more could you want?

Wishing all our readers the best for 2019.

Cashing in the family home, buying a very nice holding on the Tassie coast and having dollars left over in the bank to play with - what more could you want?

RESIDENTIAL

Northern Territory

Darwin

To echo the comments of our Director, Terry Roth, in this month's commercial column, due to the Territory's current financial position, tough expenditure decisions are going to have an impact on all aspects of the economy – the residential property market is unlikely to show much growth under these conditions and, critically, sentiment will likely remain weak across many aspects of the economy.

The residential property market is likely to track in a similar state to that experienced through the back end of 2018. What we have seen is fluctuating transaction numbers month to month with limited to no capital growth.

An analysis of month to month figures can be somewhat deceptive, potentially showing only seasonal changes, rather than whole market movements. Critically important to monitoring change in the market is the year-on-year results that provide a greater degree of comparability, having a larger sample from which to draw conclusions. Yes, a recovery is generally shown in the first instance by a greater number of transactions occurring in a given period and that's what makes predicting the peaks and troughs of the property market difficult.

In the case of the Darwin residential market, there appears to be some reluctance on the part of prospective purchasers to buy now, for fear we have not reached the bottom – typically this can only really be determined in retrospect. By the time you've realised the market has bottomed out, it's already shifted.

The most important aspect at this point in time and when faced with a market such as this is to do your homework. It's most certainly a buyer's market considering where the market was at during the peak of 2014. Consider your own personal circumstances, do the market research and be realistic in your expectations for capital growth. You are unlikely to yield much growth in the short to medium term.

Alice Springs

The residential market in Alice Springs is generally more active over the spring and summer period, however overall sales activity for the quarter to 31 December 2018 did see a decline of 9.4 per cent in transaction numbers from the previous quarter. Demand continues to be somewhat soft and the market historically quietens from early to mid-December through until late January when people begin returning to town, preparing for the new year. The searing heat may also deter people from leaving their air-conditioned sanctuaries in search of new abodes. Relocations and defence force postings are common in January and it is expected that the current quarter will show an increase in activity.

The market has shown mixed results in recent months, which is likely to continue. The Old East Side market has been less active, with Gillen and rural residential properties proving popular with purchasers.

Units continue to be generally soft, with an abundance of stock on the market and a number of development projects underway which will further saturate the market. House prices remain steady, with some encouraging sales pointing towards a levelling out of the recent declining market.

As locals return from their Christmas breaks and settle in to another year, it is expected that activity will ramp up in the residential market although it remains to be seen what negative outcomes there might be from banks reviewing their lending policies in the wake of the Banking Royal Commission.

9.4%
decline in transaction numbers for the quarter to 31 December from the previous quarter

RESIDENTIAL

HERRON TODD WHITE RESIDENTIAL

Western Australia

Perth

With 2018 behind us we can focus on what the new year has in store for Perth. For the past few years, stories have been told of both significant gains and significant losses and we are possibly writing a similar narrative in 2019, just with a touch more confidence this time around. We are currently running on a two-speed property cycle with vast differences between Perth's inner and outer suburbs.

The median house price in Perth increased 5.2 per cent to $510,000 during the February 2019 quarter. Real Estate Institute of Western Australia (REIWA) President Damian Collins's outlook for 2019 is stated as follows: "While we don't expect to see rapid growth in the Perth property market in 2019, REIWA's outlook suggests sales volumes could start to increase this year. With house prices in Perth remaining relatively affordable and consumer confidence levels on the incline, this could translate into increased activity in 2019."

REIWA statistics show that Perth's median unit price settled at $385,000 for the December quarter – down 1.3 per cent from September. Suburbs that saw big increases in the median price of units were Mount Lawley, Yokine, West Leederville, Victoria Park and Mandurah.

Perth is currently the most affordable city for housing in Australia according to a new study by the Real Estate Institute of Australia (REIA). The REIA recently released a report outlining that Western Australia's average proportion of income required to meet loan repayments improved to 22.7 per cent in the September 2018 quarter. That is a 1.2 per cent decrease compared to the June 2018 quarter. The average loan size has also reduced 4.6 per cent to $339,943, likely due to low consumer confidence, tight restrictions on finance and Western Australia's high proportion of first home buyer activity. Damian Collins said: "By comparison, in New South Wales, the proportion of income required to meet loan repayments is 36.6 per cent, while the average loan amount is $469,589 – significantly higher than Western Australia. In addition, Western Australia continues to have the highest proportion of first home buyers in its owner-occupier market at 35.1 per cent, compared to 23.2 per cent in New South Wales."

We are currently running on a two-speed property cycle with vast differences between Perth's inner and outer suburbs.

As shown on the Herron Todd White Property Clock, Perth Inner is currently situated at the bottom of the market cycle and arguably moving much closer towards the start of recovery. This has been the case going as far back as 2016 in some localities as the prestige and upgrader market has been a strong performer. This has kept Perth's median house price afloat over the past three years.

Perth Outer, however, is still on the decline. First home buyer locations suffering from chronic oversupply are continuing to struggle. Suburbs such as Ellenbrook, Baldivis, Alkimos, Byford and Wellard aren't being given any breathing space. A lack of demand as a result of population reduction coupled with constant supply driven by government and private sector incentives and once-in-a-generation low pricing on land and construction costs is driving values downwards.

It's not all bad news for these areas though. Rental prices have not declined at the same rate as house values and this is producing very lucrative yields. Our research shows that gross yields are drifting towards seven per cent in some areas. Mix this with the current affordability of housing around Perth and it creates a real opportunity for investors to re-enter the market. On top of this, the recent changes to lending criteria is going some way towards freeing up the availability of finance as the Australian Prudential Regulation Authority (APRA) has removed the cap on interest-only loans for residential property. This was long overdue for struggling markets such as Perth and hopefully in the future we see a targeted, state-to-state approach to lending criteria instead of the current national blanket approach which helps some states but hinders others.

Perth has seen a stable median rental price for more than five quarters now, however the median house rental (not including units) has actually risen through the February 2019 quarter to $360 per week. This is a good sign for things to come and an indicator that population growth may be on the rise. Mr J-Han Ho, Property Researcher and Senior Lecturer in the School of Economics, Finance and Property at Curtin University said, "the State Government's International Education Strategy and Graduate Skilled Migration list that was introduced in 2018, along with changes to immigration policies by both State and Federal government in 2019, could be the catalyst for an increase in demand for housing". The resources sector has also claimed to be securing 20,000 employment opportunities over the next few years. This demand for skilled workers may give a boost to Western Australia's net migration figures in the near future, which should also increase dwelling commencements significantly.

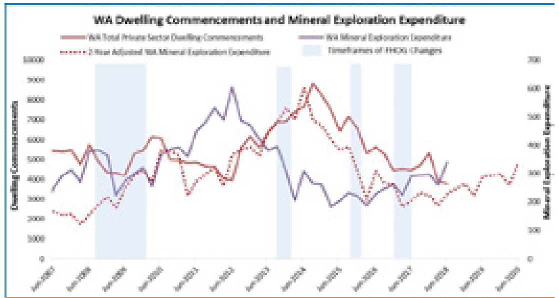


Figure 1 - WA Dwelling Commencements and Mineral Exploration Expenditure
Source: UDIA, 2019

The graph above shows the relationship between Western Australia's mineral exploration expenditure and dwelling commencements. As we can see, the peaks and troughs of the two figures shows an average period of just over two years between our expenditure in the mining sector and private sector dwelling commencements. With a number of resource industry project announcements occurring and BHP's $4.8 billion South Flank iron ore project being well under way, we may see an increase in construction activity within the coming years.

Developers may be a little more cautious this time around though, as there is still an abundance of vacant land available on the market in Perth's newer suburbs and adding to this oversupply will only extend the negative impact on values.

In 2019, we expect to see improving market conditions for some regional centres. Investment in the resources sector has increased significantly and we hope to see improved demand as a direct result of this. Damian Collins said recently that "Port Hedland, Karratha and Kalgoorlie are areas to watch, with the new mining projects going a long way to restoring confidence in these regions. These projects are expected to create thousands of new local jobs, which should continue to support population growth, improve demand for housing and aid recovery." However, REIWA cautions against expectations of a rapid recovery over the next twelve months and our predictions align with this caution.

To summarise, we are currently concerned that the gap between value growth and therefore wealth creation in the inner suburbs versus the outer suburbs will continue to widen. Perth inner has passed the bottom of the market and will continue a slow and cautious rebound driven by upgrade buyers identifying the opportunity to move from their existing residence to a superior location. In many cases, the upgraders understand that the value of their existing dwelling has bottomed out or recovered slightly and they see good value for money in superior locations. The message for inner suburbs is cautious optimism. As consumers begin to understand that the market has bottomed out, they will become more confident in making purchase decisions. This will coincide with the APRA changes to lending criteria surrounding investment and interest only lending freeing up liquidity in what has been a very tight market over the past six months.

The outer suburbs will continue to struggle for traction throughout 2019. As a result of current economic forces, our valuers continue to see home prices drifting downwards every day in a large number of outer and in particular new suburbs. We shouldn't see much change in this market until Western Australia's net migration figures rise with employment and wage growth.

The best positive news for the market is the clear commencement of the rebound in the rental market. Rents across Perth look to have bottomed out with slight increases demonstrated across a wide range of suburbs. With the APRA changes to lending criteria, investors should get excited about being able to buy at record low prices. Coupled with a decreasing vacancy rate and certainty of rental income, the capital value decreases have made yields look very attractive. The key in this market is the smart money, early decision makers, most of whom have already made their move. It will be interesting to see what this year will bring for Perth, but for now our predictions show that we will have a fairly stagnant beginning to the year, with 2020 being the time for growth in the Perth market and economy as a whole.

Rural

February 2019

Overview

It is a happy new year to all our readers and I am sure the majority are looking towards the skies to see what rainfall may eventuate in the early part of this season.

Rain in the next two months will, in my opinion, be the biggest factor to influence the rural land market in 2019. A return to sound seasonal conditions would support and possibly see some increased market activity on the buy side; no rain two years in a row in New South Wales and Victorian regions currently doing it tough could cause other financial pressures which may bring supply of property to the market. Financier support for those who require carry-on finance and the terms of such support will be interesting to observe in the coming months.

As the 2019 year kicks off and memories of beaches and good waves fade, we will deliver our annual rural land market review in Melbourne on 26 February and Brisbane on 1 March to look at how the 2018 year closed out and provide our view of what we expect to see in the current year. Invitations have been issued to those on our list, however if you are interested in attending either event, please contact rural@htw.com.au and if there are places available we would love to accommodate you.

ANNUAL RURAL LAND MARKET REVIEW

Melbourne: 26th February

Brisbane: 1st March

To look at how the 2018 year closed out and provide our view of what we expect to see occur in the current year.

As for the current market activity, there are not a lot of new sales to report given the time of year however the team has some observations this month that are well worth a review.

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Tim Lane Ph: 0401 998 648

NSW North Coast

The macadamia nut tree farm industry has been very strong in recent years off the back of a strong commodity price which, to a significant degree, is a result of strong Chinese demand.

Growers will be eagerly awaiting the 2019 harvest pricing from local processors. Anecdotal evidence suggests there may be a slight softening in the 2019 harvest price although it is noted that the China and Australia Free Trade Agreement (ChAFTA) has progressively reduced tariffs on macadamias exported to China since 2015 and we understand that as of 1 January 2019, the final 10 per cent tariff for macadamias has been eliminated.

There are very few listings of macadamia farms for sale and apparent continued strong demand from purchasers. The limited supply of macadamia farms and vacant land suited for planting macadamias for sale in the traditional flood free plateau areas will likely see the continuing trend of macadamia farmers purchasing flood plain sugar cane farms to plant macadamia nut trees.

Macadamia Orchid — Source: Herron Todd White

Sugar cane farmers have found it difficult to compete with macadamia farmers as the world sugar price has been depressed, in part a result of subsidised Indian sugar. The world sugar price is currently around US 13.1 cents per pound which is an increase from the lows of 2018. The Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) free trade agreement came into effect on 30 December 2018 and this may have some positive effects for local sugar producers.

All local agricultural industries including blueberries, avocados, beef and dairy will no doubt be watching closely the impacts of the trade agreements on market access and commodity prices.

Contact:
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Mildura

Low interest rates, a competitive exchange rate and good demand from Asian export markets are keeping smiles on the faces of most local horticultural producers. There is nothing to suggest that these conditions won't continue throughout 2019, which would result in four successive years of strong commodity prices for citrus, table grapes and almonds. Wine grape prices are also expected to continue their improvement in the coming season.

However, the region is currently vulnerable with respect to irrigation water security and producers are looking nervously at their water budgets and wondering what the cost of leasing water will be. Up until the middle of 2018, the cost of leasing temporary water had been fluctuating at between $45 and $140 per megalitre, which is a pretty attractive price.

In the past six months, this cost has quickly escalated to $430 per megalitre and with the catchment very dry, there are concerns that if water allocations stay low in 2019, this cost could go higher. The majority of larger irrigators in our region rely to some degree on leased water.

Fortunately, the strong commodity prices being received are expected to make this cost affordable for most producers, however it will reduce enthusiasm for anyone contemplating expansion. We also expect to see buyers becoming more cautious when considering any purchase of irrigation properties.

The biggest impact will likely be felt in the wine grape sector, where profit margins are lower, and also for greenfield development sites. Much will hinge on whether rainfall in the catchment areas is above or below average during the coming year.

A similar theme is expected to play out in the pastoral and cropping sectors. Commodity prices are forecast to remain strong, however many producers require at least average rainfall to enjoy the benefit. Despite the currently very dry conditions, we expect to see solid demand continue for both grazing and cropping land, with only a limited number of properties expected to be offered for sale.

The demand for rural and pastoral holdings has not waned, with some strong sales recorded in late 2018 across the Western Division of New South Wales and outback South Australia, including Rosewood Station between Wilcannia and Ivanhoe, along with the reported sale of Netley Station (approximately 75,700 hectares) just south of Broken Hill at well above previous levels.

A significant sale in the South Australian pastoral region in December 2018 is that of Clifton Hills Station, regarded as the second largest holding in Australia (behind Anna Creek), which has been purchased by well-known Alice Springs based operators. The property comprises 1.65 million hectares, located on the Birdsville Track about 820 kilometres north-east of Adelaide and is reported to have sold on a walk-in-walk-out basis at close to $40 million.

Agents report that rural property, even during the current dry conditions, continues to generate strong interest from a variety of investors including Australian families, institutions and existing pastoralists, and this demand is expected to continue throughout 2019.

Contact:
Graeme Whyte Ph: 0427 210466

North and North-West Queensland

True to form, as the Batters faced up at Charters Towers for the 2019 Goldfield Ashes Cricket Carnival, the Monsoon Trough turned up to play ball.

Charters Towers (and to the north) had already enjoyed some earlier falls of rain. Further west, there had been no such luck.

In the last month, western graziers started planning their sell down of stock. As the threat of an uncertain wet season appeared on the horizon, proactive risk management and hard decisions were made.

This shows the positive evolution of risk management in North and North West Queensland.

Having endured varying inferior seasonal conditions since 2013 there is little grass in reserve. Lessons have been learnt about grass budgeting and short selling livestock. Careful selection has gone into what cattle have been kept on country to ensure heard recovery is as quick as possible.

This is not doom and gloom. This is smart risk management. If a late wet season arrives, then the country will have a chance to recover. Also, cattle that have been sold down early have become money in the bank.

A dry landscape Source: Herron Todd White

The property market for 2019 has started off with surprising levels of activity. There are off-market negotiations and contracts being exchanged for a number of cattle stations. This will enable respective parties to restructure their businesses for the future. Despite the dry, pricing appears to be reasonable and in line with existing parameters.

Naturally, the cattle station marketing period will not start for another month or so.

There is also a surprising amount of infrastructure development occurring. Fencing, new cattle yards and water improvements are underway, particularly in the north-western districts. This really is a positive sign and a demonstration of industry confidence.

Common goals for fencing programs are for land type management and investment to lower operating costs. This is typically for that first or second split of the larger paddocks in accordance with country type. The return on investment at that level of intensity appears positive for those landholders.

Exclusion fencing is making its way into the region. These are certainly a positive development with many good stories regarding return on investment from southern areas. The larger, compounding returns on investment are consistent with the land condition within the fenced area. These fences are not a band aid for poor land management practices. The progressive land condition managers are reporting superior returns and are excited for the future.

Capital development programs are not the only positive sign in the industry. Despite the softening in cattle prices in recent years, there are some strong fundamentals at play this year. The Australian dollar and interest rates are both low at present. For an export orientated economy, the low Australian dollar is good for competitive commodity pricing in the global marketplace. The continued low domestic interest rates are of benefit to northern property owners. You can thank the slumps in the residential markets in capital cities for helping out with this situation.

As a side comment, one thing to keep an eye out for is inflation of farm foods as a result of the drought. That being said, the coastal areas of North Queensland have had some good rain from the two cyclones that failed to deliver widespread rain to inland areas. This may mark the start of the change in the interest rate cycle.

Either way, these two key fundamentals are in favour to help move the north and north-west through the year.

Taking a look at property markets round the ridges:

Contact:
Roger Hill Ph: 07 4724 2000

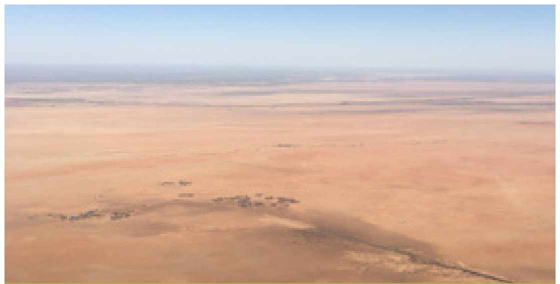
District	Season	Property Clock	Comment
Charters Towers (say from the Bellyando north to Mt Garnet)	Northern areas have had the better rainfall to date from the two cyclones. Southern areas have had some patchy rain. Good rain around Burdekin Dam/Collinsville.	10 to 12 O'clock with demand strong for good quality country.	Recent market activity in Basalt areas has seen some solid market pricing. Nearby and neighbours are active. Potential for increased demand on the back of the military acquisitions.
Desert Uplands - Pentland to Prairie and south to say Aramac	Very patchy falls so far. One strong fall at Prairie itself (stopped at the garden fence) earlier in the season.	9 to 11 O'clock.	Quiet achiever. Often overlooked.
South of the line -(Hughenden to Julia Creek)	One or two very small showers here and there. Stock numbers being lightened off.	10 to 12 O'clock.	Depending on what rain falls in the next month or two will determine how this year goes in this region.
Frontage band - Hughenden to say Nelia	Again, one or two showers so far. Stock numbers being reduced.	11 to 12 O'clock.	High demand area. Good number of settled sales in the Hughenden area in the past year. The materialising of irrigation developments may give rise to changes of use and increased value rates.
North of the Frontage band	Earlier rain to the north of Hughenden was welcome!	11 to 12 O'clock.	Moderate to high demand area.
Georgetown / Croydon / Normanton	Not the greatest start from the two cyclones, clouds are starting to form though	9 to 10 O'clock.	When it rains up here and not down south, demand increases. There could be some healthy demand in these areas this year.
Gulf of Carpentaria	Dry at present. Some good grass south of Burketown.	12 O'clock.	Strong demand, investor driven market area. Tightly held.
Western Gulf down to Boulia	Northern area starting to see some clouds. Rain orders are in.	9 to 10 O'clock.	The Barkly has been very dry and Boulia the same. Depending on the rain order being received on time will determine property market activity this year.

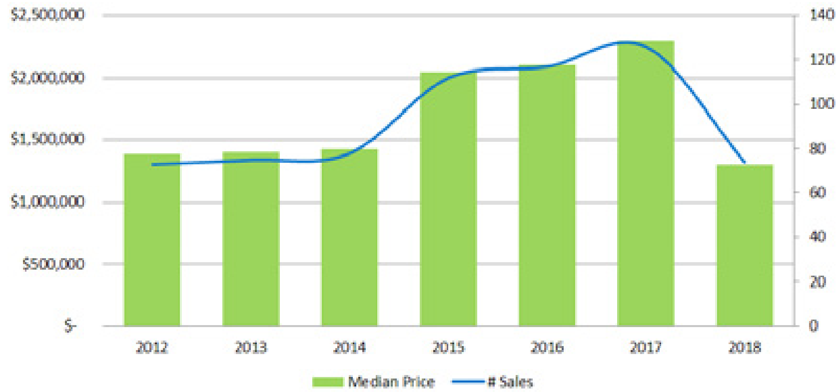
Darling Downs

The start of 2019 has been hot and dry for much of southern Queensland. The low-pressure system from ex-Cyclone Owen unfortunately was a disappointment for many hoping it would bring some rainfall reprieve.

The dry westerly conditions have again dried off pastures and crops planted on sub-optimal moisture profiles are showing signs of crop stress. For many in western Queensland, this will now be the sixth year of drought for the likes of the Murweh, Maranoa, Balonne and Quilpie Shires. It was evident in mid-January that many producers have taken the opportunity to further reduce stock numbers with large numbers of cattle going through the Roma and Toowoomba markets even prior to processors opening up after the Christmas break. For the mid-January sales, some 10,153 head were sold through the Roma store sales which highlights the present dry seasonal conditions.

Despite the seasonal conditions, property values remain strong throughout most market areas. We are aware of further pending sales in the Roma locality which are indicating that land values are remaining strong. Further to the south we are also aware a contract of sale to purchase The Homestead after it passed in at auction for $3.8 million ($355 per hectare) in mid-December. The holding is a 10,695 hectare (26,427 acre) aggregation about 50 radial kilometres south of Surat. Generally containing Red Box, Ironbark and Sandalwood block with a small area of opportunity cultivation and having reticulated water, adequate fencing and a portion contained within a cluster.


Open Downs Source: Herron Todd White



Source: Pricefinder

Within the northern New South Wales New England area, transactions of larger scale grazing holdings are few and far between. We are aware of a pending sale of Isla, a 1402-hectare aggregation to the east of Tenterfield offered by expressions of interest that closed on 14 December 2018. The details of the sale remain confidential however it does demonstrate that demand for larger, well positioned holdings is strong.

In summary for the year ending 2018, values across both grazing and farming markets reflected a firming in trends. In some instances, the market appeared to pay over and above either by near or adjoining owners seeking scale. Grass buyers were evident in the market towards the later part of the year.

The most notable trend though is the weakening sales volumes. Most agents are indicating they have a large list of buyers seeking country however are finding it difficult to obtain listings. With the simple fundamentals of supply and demand, these factors are undoubtedly driving values; demand is assisted through buyer confidence within the agriculture industry as a whole.

Above is a graph of sale trends within southern Queensland from the Brisbane Valley through to Birdsville for country above 1,000 hectares. The graph identifies that sales rates are now as low as they were in 2012. The graph however shows that the median value has declined which is a statistical representation of the data, created by the reduced number of high value assets that have transacted, hence reflecting a contradiction to our interpretation of the market. Overall it's expected that 2019 will remain steady for country east of say Mitchell, however should good rain be received in the next month or two, it's likely we will see an increase in the number of listings in western Queensland. In saying that, it's also likely that demand may also increase on the back of improved seasonal conditions. Alternatively, should a break in the season not occur, this will likely have the opposite effect and has the potential for some anxious vendor properties being offered to the market.

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HERRON TODD WHITE RURAL

Western Victoria and South East South Australia

2018 displayed a continued strong market for rural land in most of western Victoria and south-east of South Australia, with a number of large transactions occurring at maintained strong value levels. These transactions included the sale of Fernleigh, Cairn Curran, Woolbrook, Mokanger/Lewana for $15 million and Mount Fyans for $37 million. All sales displayed a strong improvement in value trends from the previous twelve months and the re-sale of Mt Fyans displayed a real increase in value of circa eight per cent over the two years it was held by Harmony Beef, with little capital improvement.

The year ahead is likely to see a slower demand for rural property with much of the A-grade farm stock already having changed hands. Whilst supply should remain relatively tight, reduced demand is expected to slightly soften competition and values towards the later part of 2019.

Values in the deep southern dairy belt are envisaged to improve slightly from a low base and the remainder of the cropping and grazing market is likely to experience limited to static growth.

Movements in interest rates and commodity prices remain the most critical impacting factors for the year ahead despite the drier than average season in many parts.

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Western Australia

2019 is shaping up to be another interesting year for agriculture in Western Australia.

Whilst the eastern states are suffering from severe droughts, Western Australia has reportedly experienced its second largest grain crop in history, together with high grain prices resulting in a record $6.5 billion boost to the state economy.

The live sheep export matter continues with plans afoot to halt live sheep trading during the northern hemisphere summer months. The Department of Water Resources has also proposed implementation of Heat Stress Standards changes which is in consultation with industry bodies. Northern pastoralists are likely to be watching the situation carefully as fears mount that the live sheep export restrictions may flow on to other live exports including cattle and goats.

2018 was another tough year for the Western Australia dairy industry. Uncertainty over contracts and industry structure continued and low autumn and winter rainfall resulted in diminished feed stores across much of the great southern and south-west zones. Depleted bottom lines have seen as many as eight farmers retire or leave the industry in the past twelve months.

Cropping regions continue to see strong demand from local purchasers following a number of above-average growing seasons and reduced debt levels allowing for expansion opportunities. Corporate demand has continued with investors looking to diversify portfolios across the country.

In 2019, the result of the above noted agri-economic and political situation is likely to see a reduction in demand for grazing properties as uncertainty over the future and financial pressures are front of mind.

In the cropping regions that have had a good year, we are likely to continue to see strong demand for land both from the local and corporate sectors. Values are likely to be strong as demand surpasses supply, however I'm sure purchasers will be mindful that along with good years, bad years can also happen and therefore the link between investment in land and average returns continues to be fundamental in the acquisition of property.

We are also likely to see an increase in investment in land improvement and farm infrastructure in 2019 with a view to improving productivity and operational efficiencies.

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HERRON TODD WHITE

Property Market Indicators

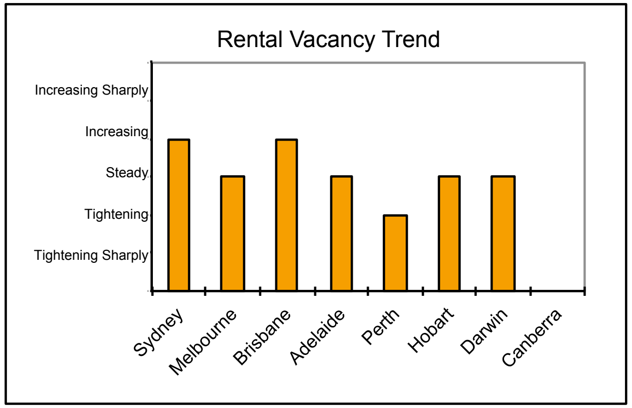
February 2019

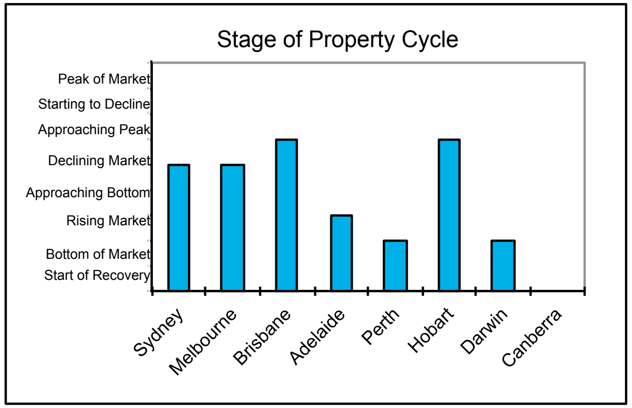
Capital City Property Market Indicators - Houses

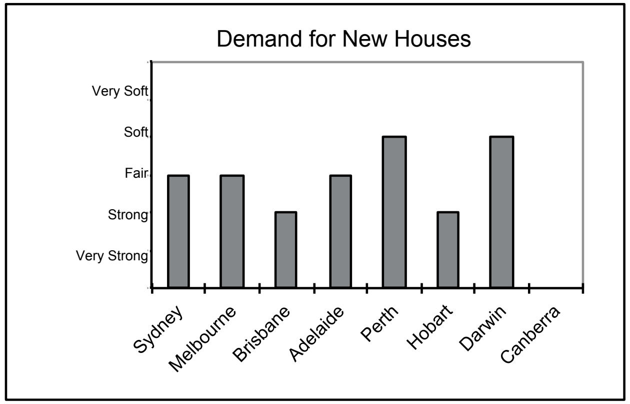
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Severe shortage of available property relative to demand	Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Steady	Increasing	Steady	Tightening	Steady	Steady	Steady
Demand for New Houses	Fair	Fair	Strong	Fair	Soft	Strong	Soft	Strong
Trend in New House Construction	Declining	Steady	Steady	Increasing	Steady	Steady	Declining	Increasing
Volume of House Sales	Declining	Increasing	Steady	Steady	Steady	Steady	Declining	Increasing
Stage of Property Cycle	Declining market	Declining market	Approaching peak of market	Rising market	Bottom of market	Approaching peak of market	Bottom of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating







Capital City Property Market Indicators - Units

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Severe shortage of available property relative to demand	Large over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Steady	Increasing	Steady	Steady	Steady	Increasing	Steady
Demand for New Units	Soft	Soft - Fair	Soft	Fair	Soft	Strong	Soft	Fair
Trend in New Unit Construction	Declining	Declining	Steady	Increasing	Declining	Steady	Steady	Increasing
Volume of Unit Sales	Declining	Steady	Declining	Steady	Declining	Steady	Declining	Declining
Stage of Property Cycle	Declining market	Declining market	Approaching bottom of market	Start of recovery	Declining market	Approaching peak of market	Bottom of market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Frequently	Occasionally	Very frequently	Occasionally	Occasionally	Occasionally	Occasionally	Frequently

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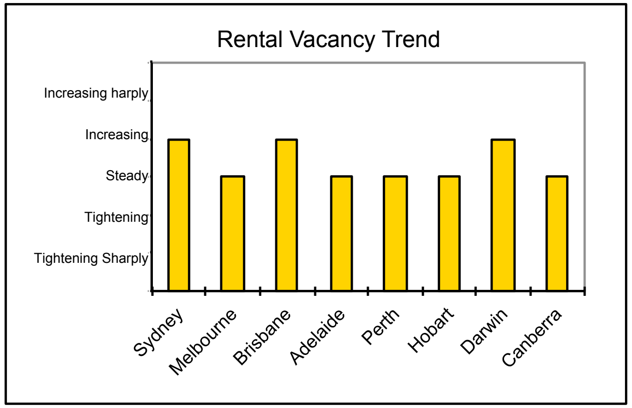

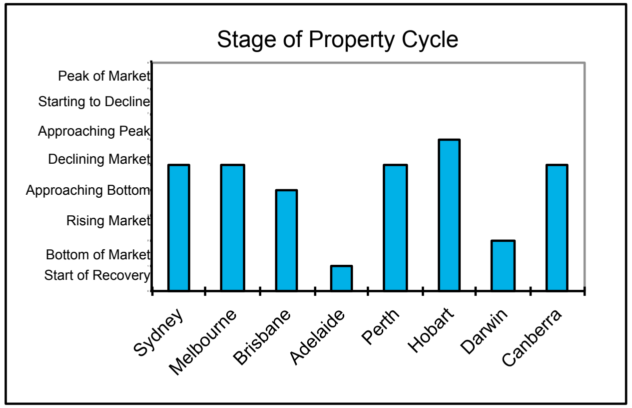

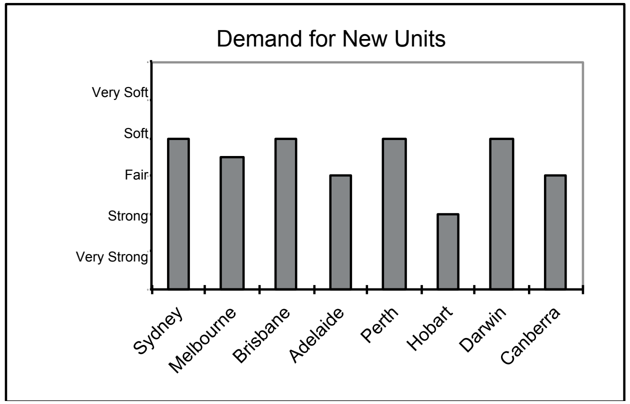

Capital City Property Market Indicators - Retail

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Increasing	Increasing	Steady	Increasing	Steady	Increasing	Steady
Rental Rate Trend	Stable	Declining	Stable	Stable	Declining	Stable	Declining	Increasing
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Approaching peak of market	Starting to decline	Peak of market	Bottom of market	Bottom of market	Approaching bottom of market	Bottom of market	Declining market
Local Economic Situation	Steady growth	Contraction	Steady growth	Flat	Contraction	Contraction	Contraction	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Small	Large	Significant	Large	Large	Significant

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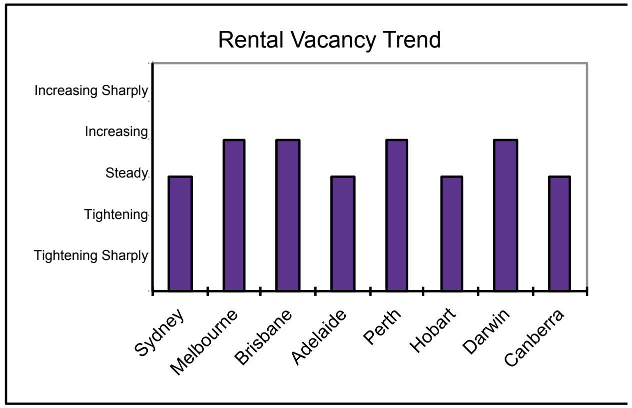

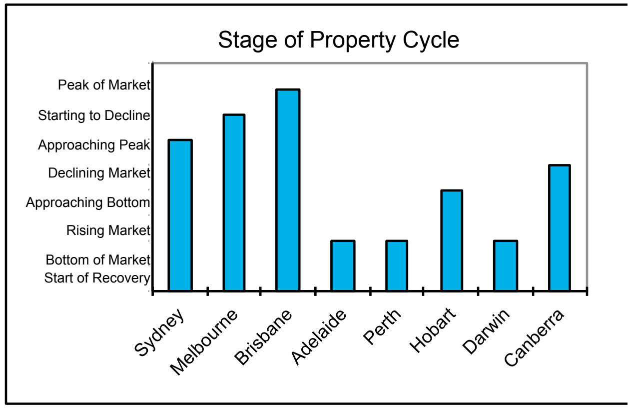

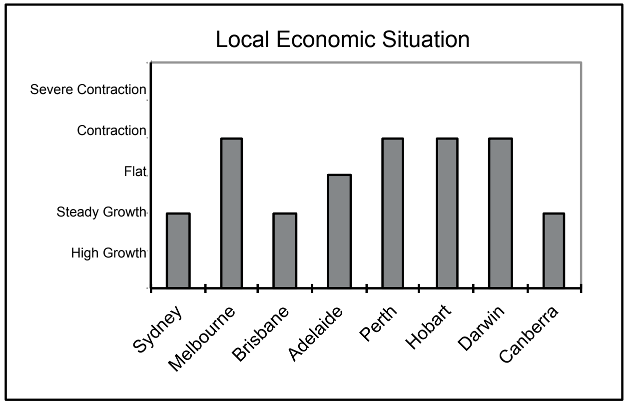

New South Wales Property Market Indicators - Houses

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Mid North Coast	Newcastle	South East NSW	Sydney
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Tightening - Steady	Increasing	Steady	Tightening	Increasing
Demand for New Houses	Strong	Fair	Very strong	Fair - Strong	Fair	Fair	Fair	Fair
Trend in New House Construction	Increasing	Steady	Increasing	Increasing	Steady	Steady	Steady	Declining
Volume of House Sales	Increasing	Declining	Steady	Steady	Declining	Declining	Steady	Declining
Stage of Property Cycle	Rising market	Starting to decline	Starting to decline	Peak of market	Peak of market	Declining market	Starting to decline	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

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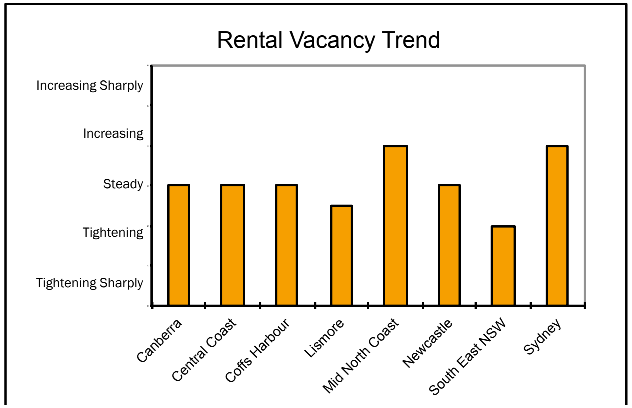

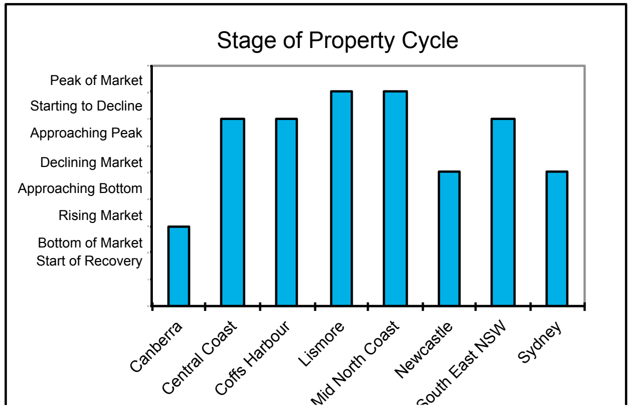

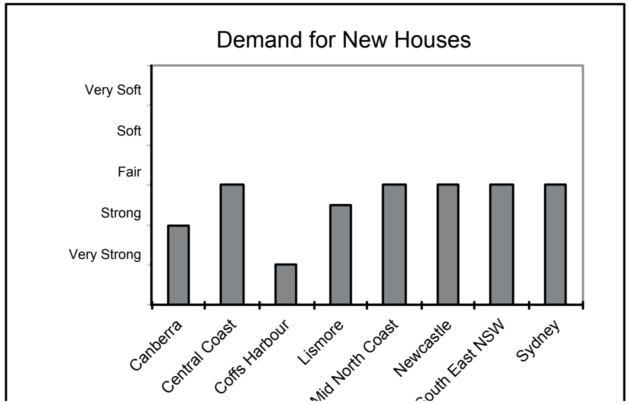

New South Wales Property Market Indicators - Units

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Mid North Coast	Newcastle	South East NSW	Sydney
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Tightening - Steady	Increasing	Steady	Tightening	Increasing
Demand for New Units	Fair	Strong	Very strong	Fair - Strong	Fair	Soft	Fair	Soft
Trend in New House Construction	Increasing	Steady	Declining	Increasing	Steady	Steady	Steady	Declining
Volume of House Sales	Declining	Steady	Steady	Steady	Declining	Declining	Steady	Declining
Stage of Property Cycle	Declining market	Starting to decline	Starting to decline	Peak of market	Peak of market	Declining market	Starting to decline	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Frequently	Occasionally	Almost never	Occasionally	Almost never	Occasionally	Occasionally	Frequently

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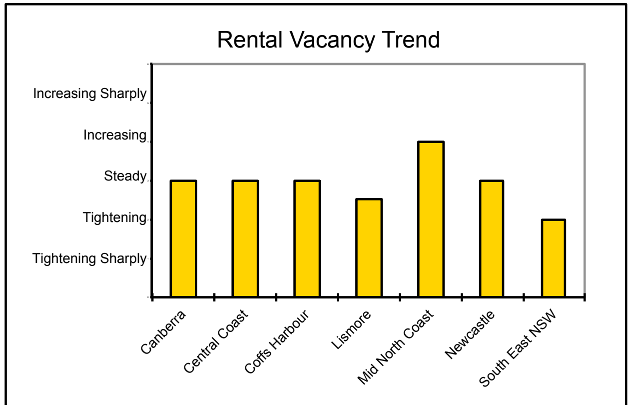

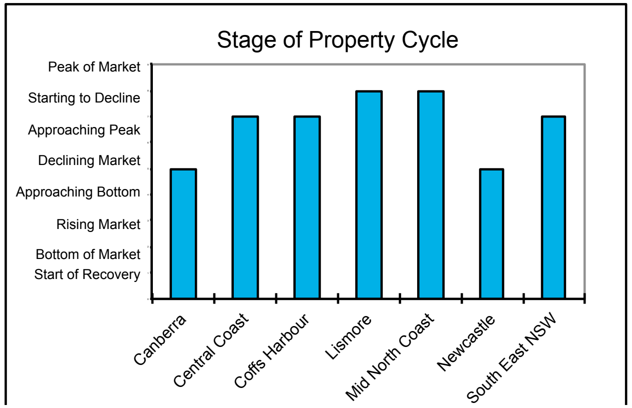

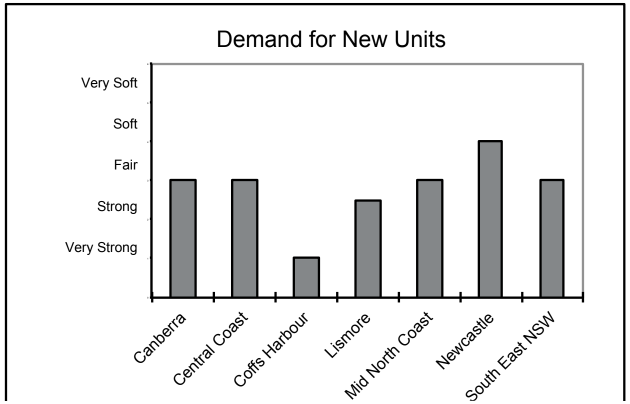

New South Wales Property Market Indicators - Retail

Factor	Canberra	Coffs Harbour	Lismore	Mid North Coast	Newcastle	South East NSW	Sydney
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady - Increasing	Steady	Steady	Increasing	Steady	Steady
Rental Rate Trend	Increasing	Declining - Stable	Stable	Stable	Increasing	Stable	Stable
Volume of Property Sales	Steady	Steady	Steady	Steady	Declining	Steady	Steady
Stage of Property Cycle	Declining market	Starting to decline	Peak of market	Rising market	Starting to decline	Peak of market	Approaching peak of market
Local Economic Situation	Steady growth	Steady growth	Flat	Steady growth	Steady growth	Steady growth	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Significant	Significant	Significant - Large	Small

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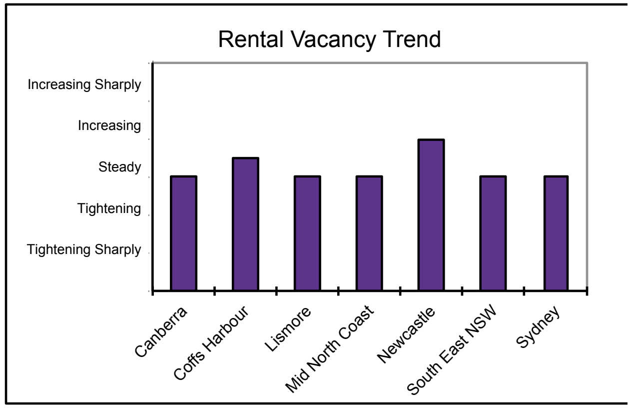

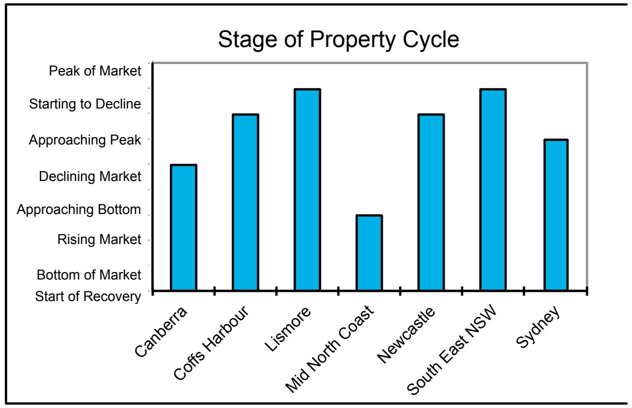

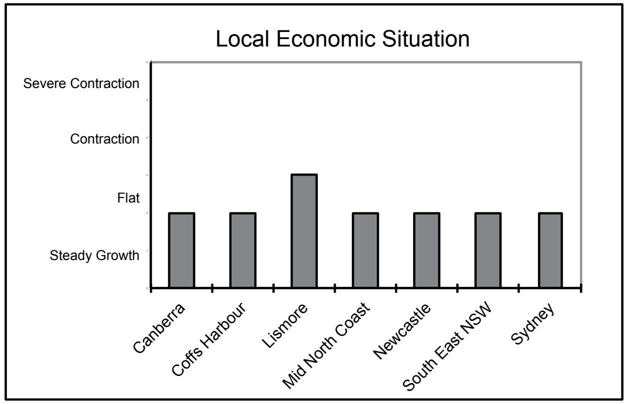

Victorian and Tasmanian Property Market Indicators - Houses

Factor	Ballarat	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Burnie/ Devonport	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Tightening	Tightening	Tightening	Steady	Steady	Steady	Tightening	Steady	Tightening
Demand for New Houses	Strong	Strong	Strong	Strong	Fair	Strong	Fair	Strong	Fair
Trend in New House Construction	Increasing	Increasing	Steady	Increasing	Steady	Steady	Declining	Steady	Declining
Volume of House Sales	Increasing	Steady	Steady	Increasing	Increasing	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Starting to decline	Approaching peak of market	Peak of market	Declining market	Rising market	Rising market	Approaching peak of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Frequently	Occasionally	Almost never	Almost never	Occasionally	Almost never

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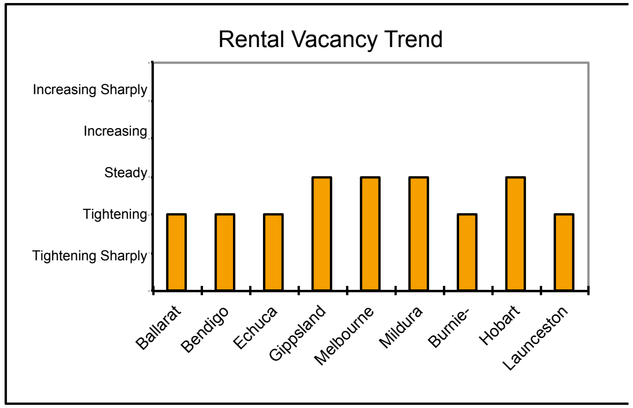

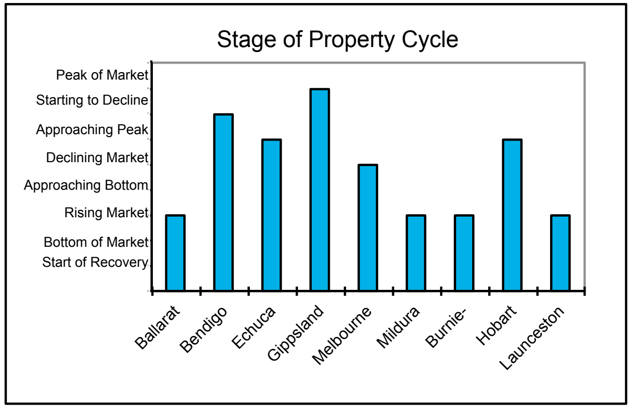

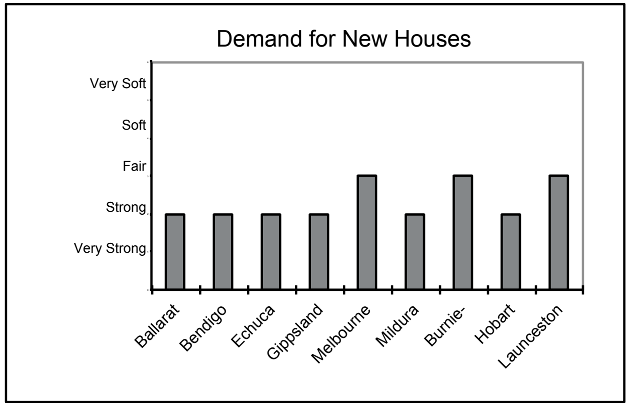

Victorian and Tasmanian Property Market Indicators - Units

Factor	Ballarat	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Burnie/ Devonport	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Steady	Tightening
Demand for New Units	Fair	Strong	Fair	Fair	Soft - Fair	Fair	Fair	Strong	Fair
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Declining	Steady	Declining	Steady	Declining
Volume of Unit Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Starting to decline	Approaching peak of market	Start of recovery	Declining market	Start of recovery	Rising market	Approaching peak of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Almost never	Almost never	Occasionally	Almost never

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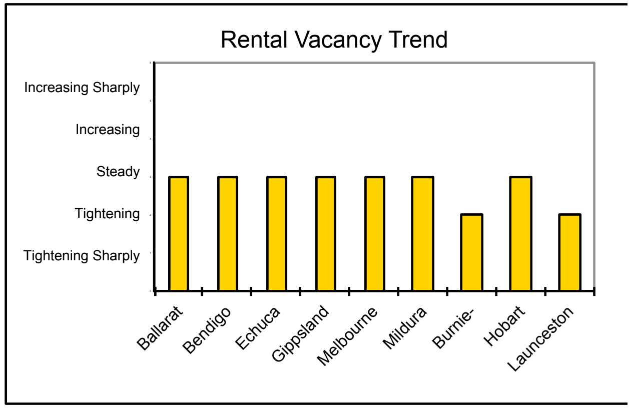
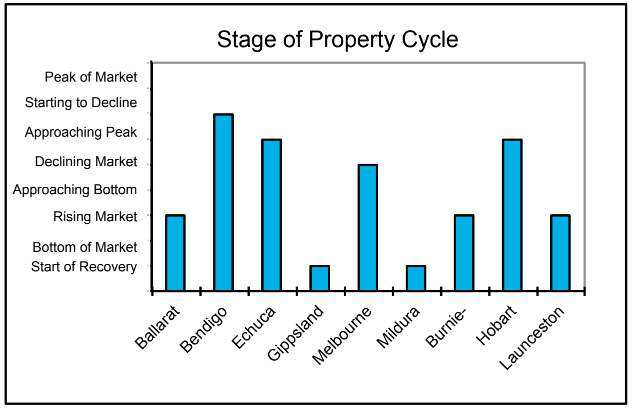
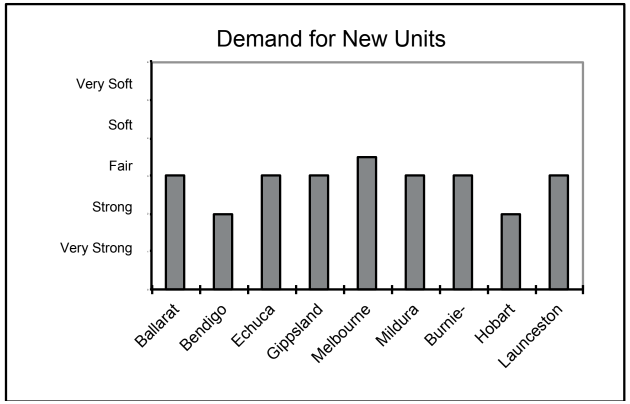




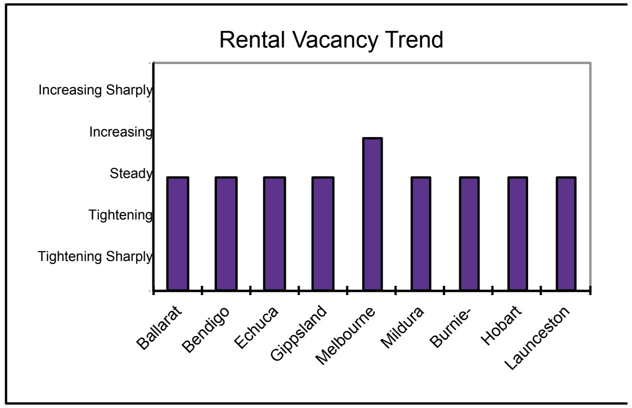


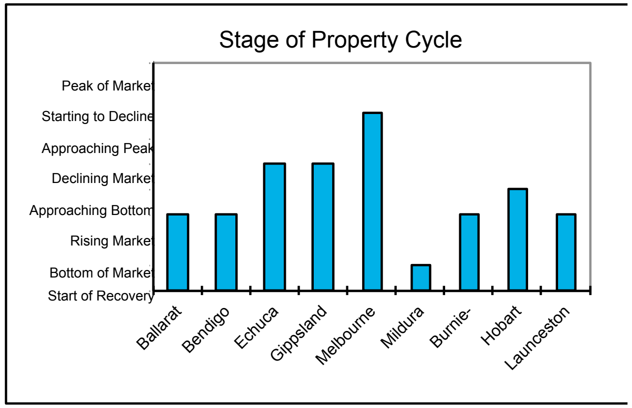
Victorian and Tasmanian Property Market Indicators - Retail

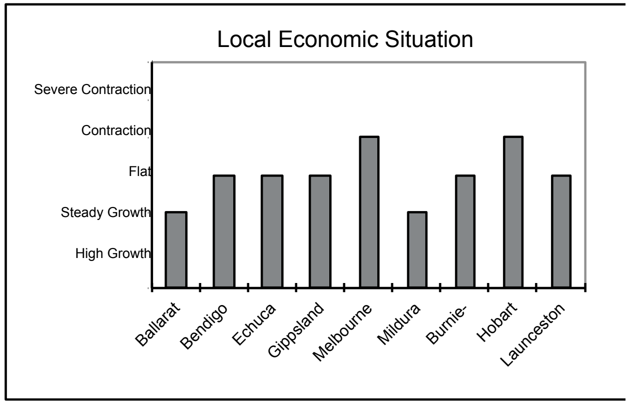
Factor	Ballarat	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Burnie/ Devonport	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Steady
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining	Stable	Declining	Stable	Declining
Volume of Property Sales	Declining	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Rising market	Declining market	Declining market	Starting to decline	Start of recovery	Rising market	Approaching bottom of market	Rising market
Local Economic Situation	Steady growth	Flat	Flat	Flat	Contraction	Steady growth	Flat	Contraction	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Small	Significant	Significant	Large	Significant	Large	Significant

Red entries indicate change from 3 months ago to a higher risk-rating

Blue entries indicate change from 3 months ago to a lower risk-rating





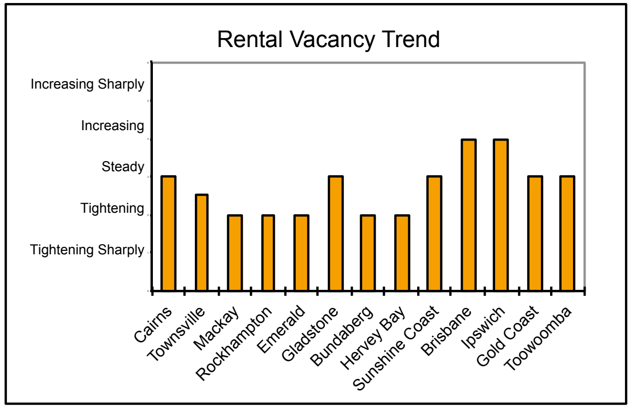


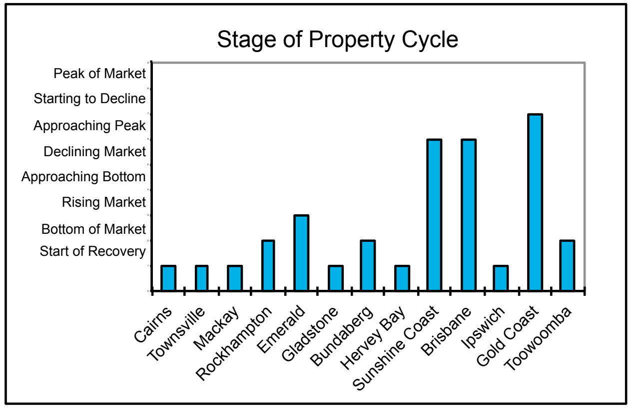
Queensland Property Market Indicators - Houses

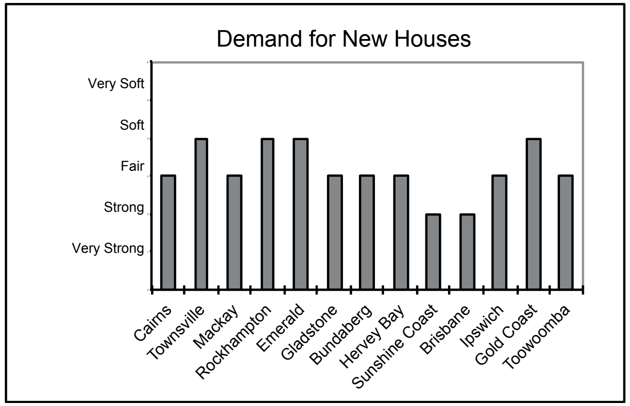
Factor	Cairns	Townsville	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand - Balanced market	Shortage of available property relative to demand - Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Steady	Tightening - Steady	Tightening	Tightening	Tightening	Steady	Tightening	Tightening	Steady	Increasing	Increasing	Steady	Steady
Demand for New Houses	Fair	Soft	Fair	Soft	Soft	Fair	Fair	Fair	Strong	Strong	Fair	Soft	Fair
Trend in New House Construction	Steady	Declining	Increasing	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	Increasing	Declining	Steady
Volume of House Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Declining	Declining
Stage of Property Cycle	Start of recovery	Start of recovery	Start of recovery	Bottom of market	Rising market	Start of recovery	Bottom of market	Start of recovery	Approaching peak of market	Approaching peak of market	Start of recovery	Starting to decline	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Almost always	Occasionally

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating





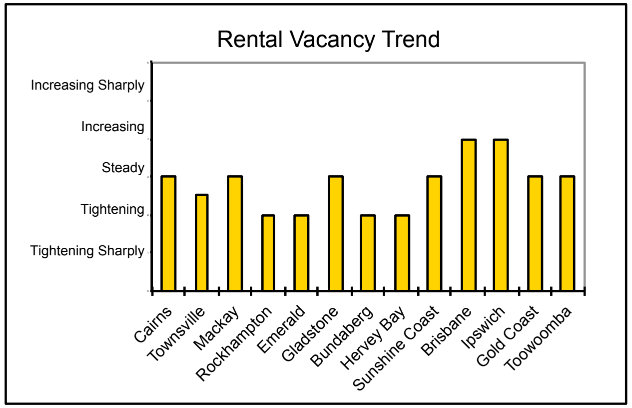


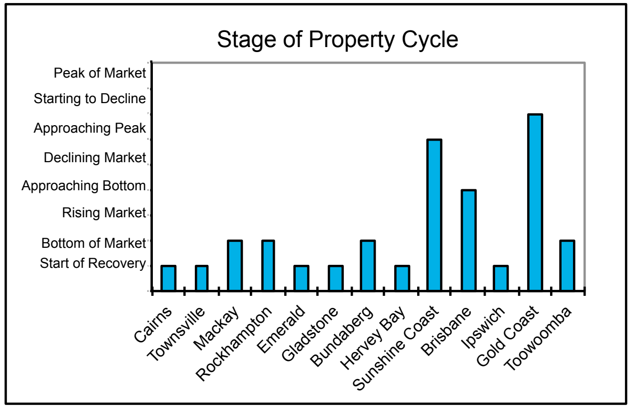
Queensland Property Market Indicators - Units

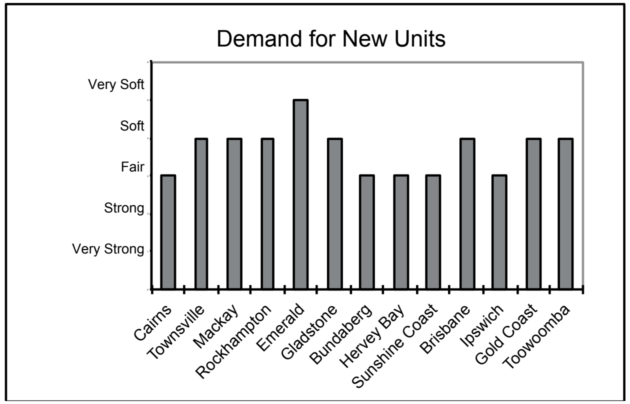
Factor	Cairns	Townsville	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Tightening - Steady	Steady	Tightening	Tightening	Steady	Tightening	Tightening	Steady	Increasing	Increasing	Steady	Steady
Demand for New Units	Fair	Soft	Soft	Soft	Very soft	Soft	Fair	Fair	Fair	Soft	Fair	Soft	Soft
Trend in New Unit Construction	Steady	Declining	Declining	Steady	Declining significantly	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Declining
Volume of Unit Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Declining	Steady	Declining	Declining
Stage of Property Cycle	Start of recovery	Start of recovery	Bottom of market	Bottom of market	Start of recovery	Start of recovery	Bottom of market	Start of recovery	Approaching peak of market	Approaching bottom of market	Start of recovery	Starting to decline	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Almost never	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Very frequently	Frequently	Almost always	Very frequently

Red entries indicate change from previous month to a higher risk-rating

Blue entries indicate change from previous month to a lower risk-rating







Queensland Property Market Indicators - Retail

Factor	Cairns	Townsville	Mackay	Rockhampton	Gladstone	Wide Bay	Sunshine Coast	Brisbane	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market - Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Increasing	Increasing	Steady - Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Rising market	Peak of market	Peak of market	Start of recovery
Local Economic Situation	Flat	Flat	Steady growth	Flat	Flat	Flat	Steady growth	Steady growth	Flat	Flat - Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant - Large	Significant	Small - Significant	Small	Significant	Significant	Small	Small	Significant - Large

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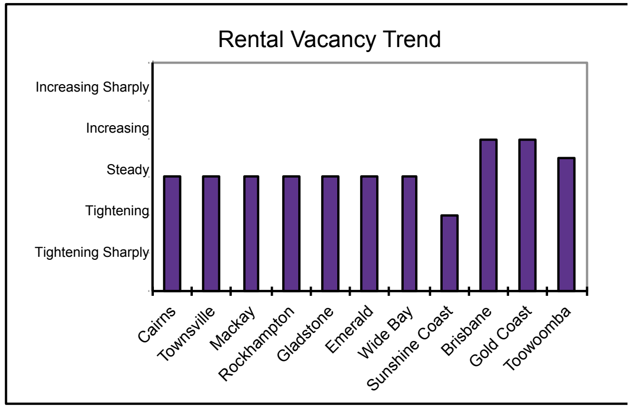
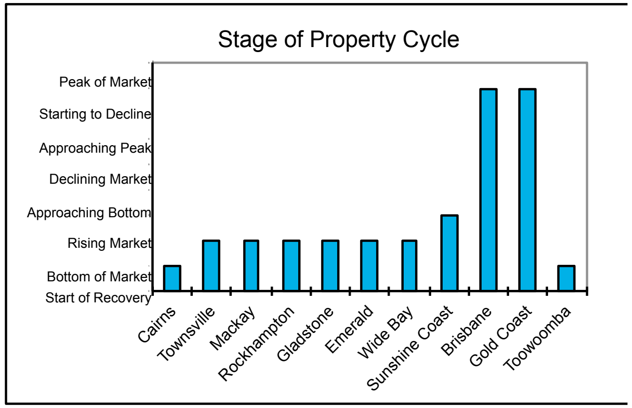
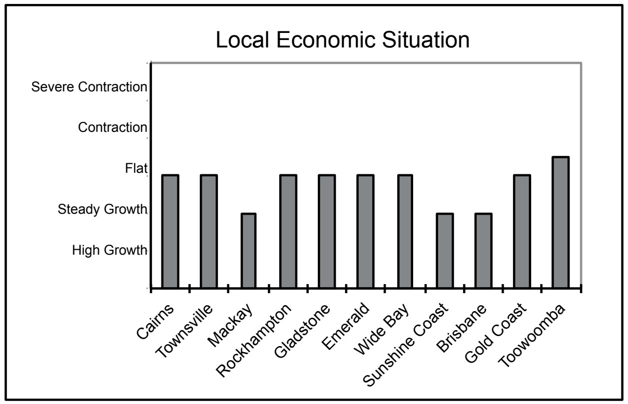
Blue entries indicate change from 3 months ago to a lower risk-rating







SA, NT and WA Property Market Indicators - Houses

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Steady
Demand for New Houses	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Soft	Soft
Trend in New House Construction	Increasing	Increasing strongly	Increasing	Increasing	Steady	Steady	Declining	Steady	Steady
Volume of House Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Declining	Steady	Declining
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Rising market	Bottom of market	Bottom of market	Bottom of market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Almost never

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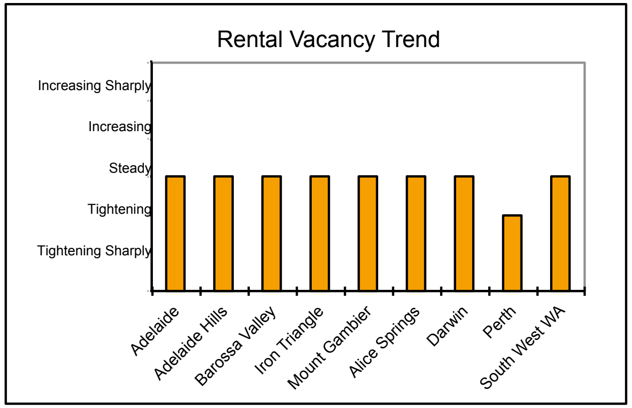
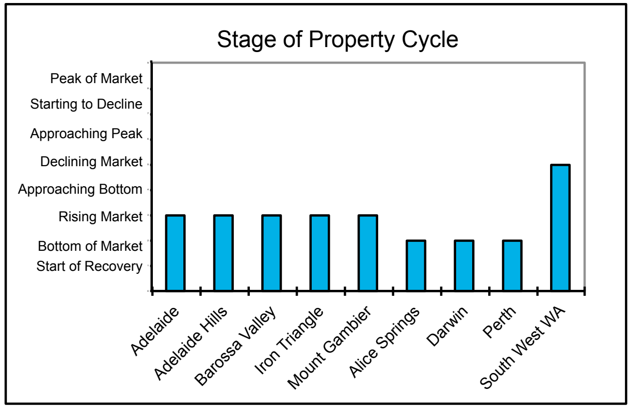
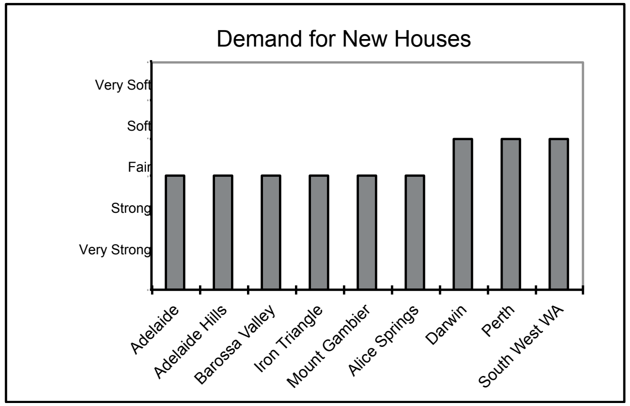
Blue entries indicate change from 3 months ago to a lower risk-rating







SA, NT and WA Property Market Indicators - Units

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Steady
Demand for New Units	Fair	Fair	Fair	Fair	Soft	Fair	Soft	Soft	Soft
Trend in New Unit Construction	Increasing	Increasing	Steady	Increasing	Steady	Steady	Steady	Declining	Steady
Volume of Unit Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Declining	Declining	Declining
Stage of Property Cycle	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Rising market	Bottom of market	Bottom of market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Almost never

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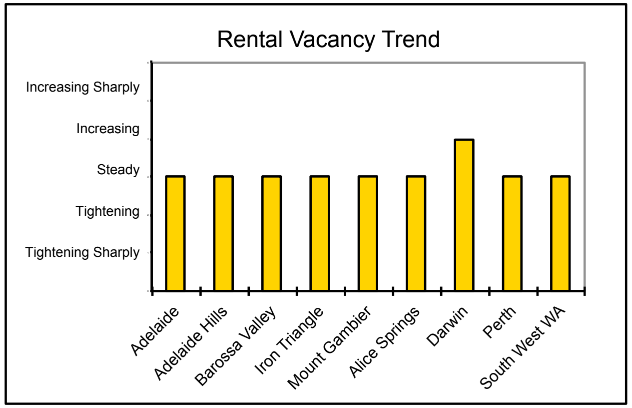
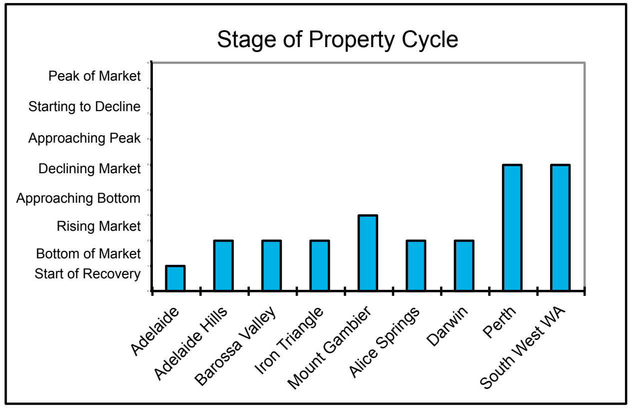
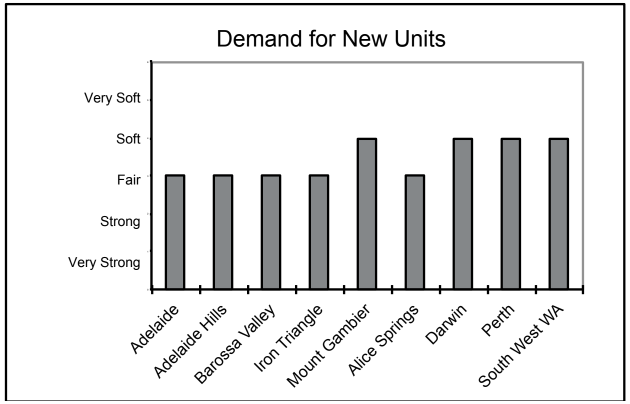
Blue entries indicate change from 3 months ago to a lower risk-rating







SA, NT and WA Property Market Indicators - Retail

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Increasing	Increasing	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining	Declining	Declining	Declining
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Bottom of market	Approaching bottom of market	Approaching bottom of market	Approaching bottom of market	Declining market	Bottom of market	Bottom of market	Approaching bottom of market
Local Economic Situation	Flat	Contraction	Contraction	Contraction	Flat	Contraction	Contraction	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Large	Large	Large	Significant	Large	Significant	Small

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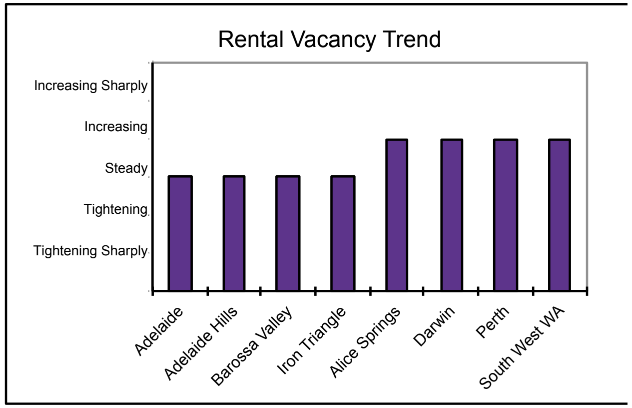
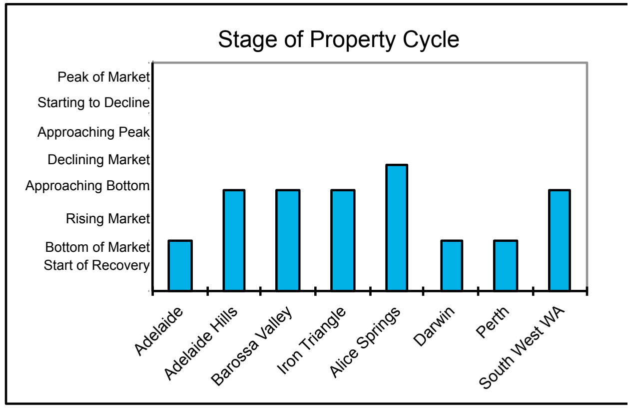
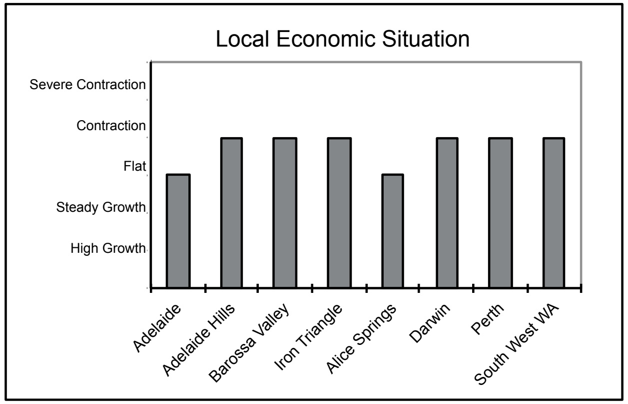
Blue entries indicate change from 3 months ago to a lower risk-rating







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