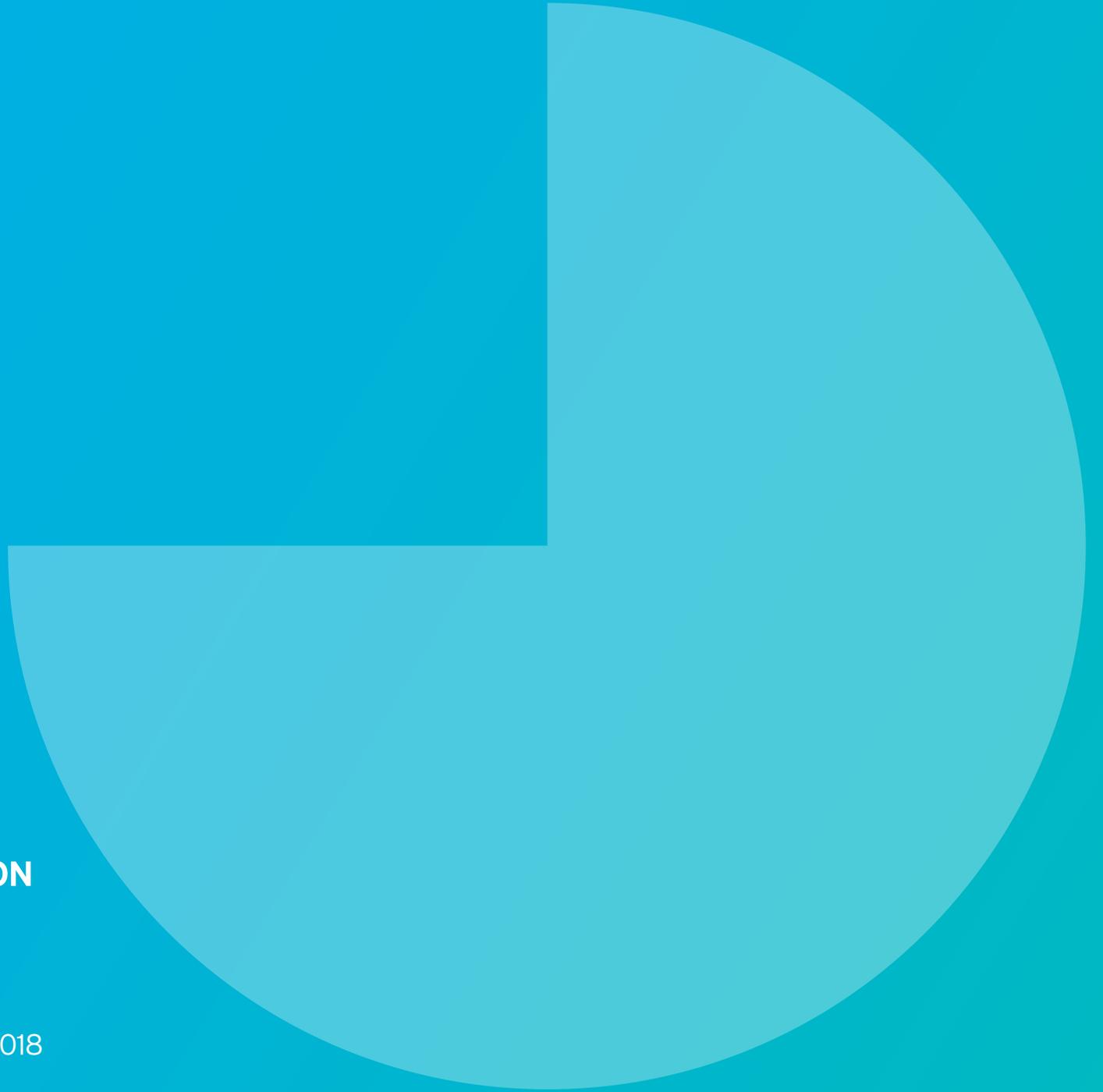


February 2018

Month in Review



Fifty Years of Property Valuation | 1968 - 2018

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Disclaimer

This publication presents a generalised overview regarding the state of Australian property markets using property market risk-ranking scales. It is not a guide to individual property assessments and should not be relied upon.

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2018 - The year ahead

As we journey into another annum, the nation's property markets are awash with transformation. The winds of change are now blowing through the various sectors throughout our piece of the globe as buyers, sellers, tenants and any other stake holding demographic all start assessing where they sit in the power pantheon that drives supply and demand in the real estate sector.

Welcome to 2018! It isn't just the square root of 4,072,324 you know!

We came off some heady results in our hugest property market in 2017. Year upon year of double digit gains for many Sydney addresses now have potential buyers scratching their heads and thinking, "Is this all there is, or is there an alternative?"

Well, actually, there is.

Our Harbour City has shown signs of a slowdown while sections of Melbourne travel from strength to strength. In the sunshiny north, Brisbane property owners have been waiting in the wings for their big capital gain year, but have had to watch their coastal cousins steal the limelight of late.

Meanwhile, way out west, Perth has been having its struggles but some observers are suggesting that could just mean opportunities are afoot this year. Hobart completed a 2017 sprint that gave it a podium finish in the Best Performance Stakes, while Adelaide made its own case for out-of-town, affordability driven buyers to get a piece of South Australia.

Regionally, everything from mining to tourism to a run on protein-providing agriculture has helped drive or dive property prices across the nation.

If the end of 2017 demonstrated one important thing, it's that our country has a diverse range of real estate markets with a variety of influences, performances and prospects. It's very difficult to sum all of Australia up in a single predictive statement - but don't worry, we have a solution.

Here at Herron Todd White, we've jumped on the unique opportunity afforded by having offices filled to the brim with exceptionally talented professionals. We've put out the call to each and every hub and asked them to reveal their market predictions for 2018. This month's emailed issue is bursting at its virtual seams with our experts' opinions on how property will track in their patch - price sectors, suburbs and accommodation types all get coverage.

And there's nothing impotent about our predictions either.

While others may fear to put pen to paper and tell you how it is, our team have toughened up. The calls

they make in this month's release will be revisited come year's end where, in our December Month In Review, the crew will be asked to stand and deliver on how their predictions played out.

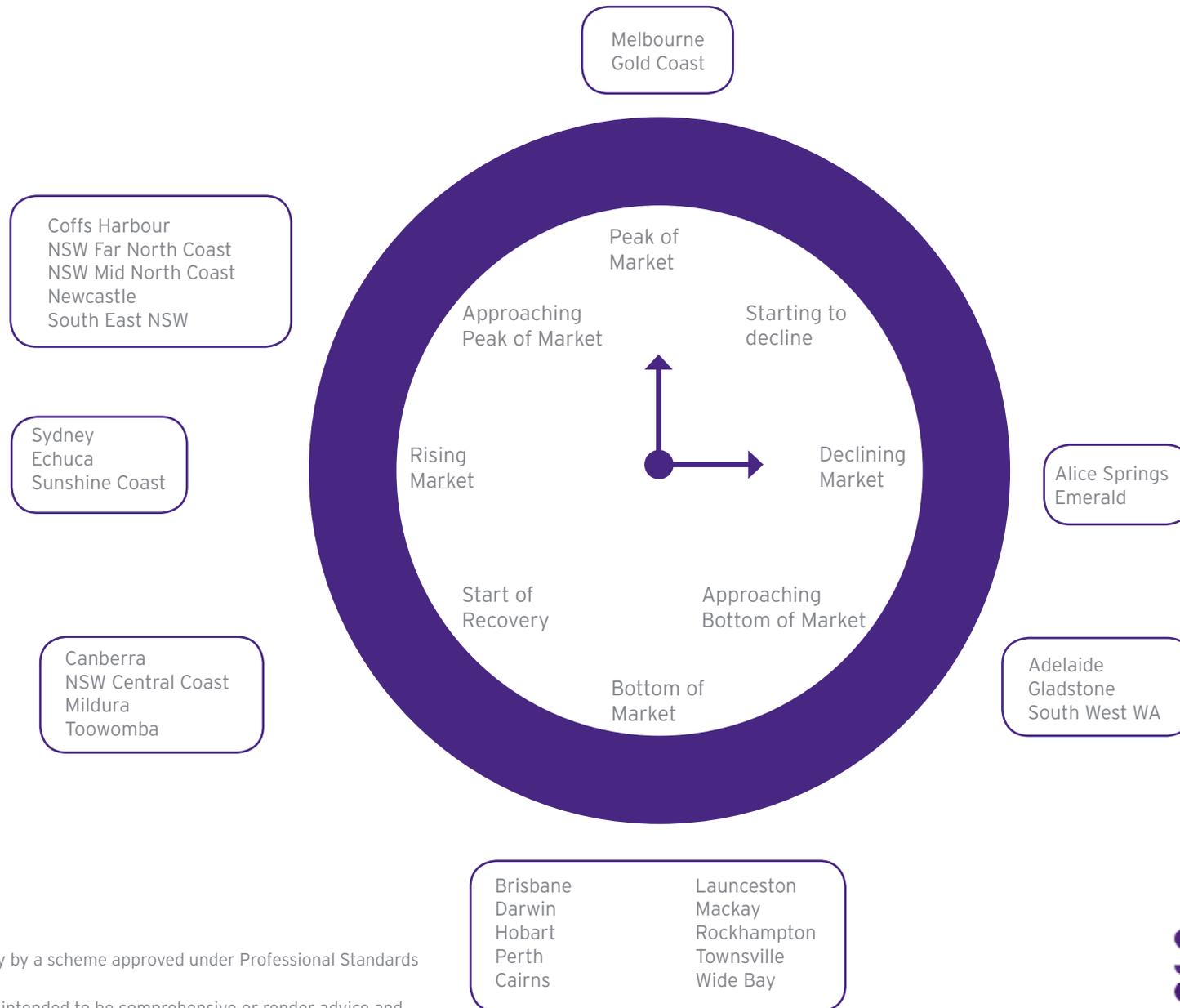
In the commercial section, we're tackling the same theme and applying it to the office sector. What can be expected from office investment this year? There are plenty of cashed up residential landlords looking to graduate into the grown up world of commercial real estate where the yield is king. Will there be opportunities for these first timers to find a way into the market? How about the big end of town? We look at all the important aspects from major projects changing the face of our cities through to the direction of rents and vacancies and factors affecting tenants and their requirements.

So there it is for another year - a chance for our ahead-of-the-game readership to stay way out in front. You're among the first to be able to draw upon our views of Aussie property this year - and quite frankly, our past performance indicates we really know our stuff.

Commercial



National Property Clock February 2018 Office



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New South Wales

Overview

We're back and breaking into a new year of commercial real estate with a look at the office sector in 2018.

Last year, commercial property came into its own across a range of types as yield-driven investors looked to make their mark, but will 2018 provide any opportunities in offices for those keen to become a commercial landlord?

We've done an region-by-region tour of the nation to spot the opportunities, pitfalls and influences that will shape up Australia's office market in the coming 12 months.

Sydney

The office market in Sydney has been through substantial growth over the past 12 months as a result of increased demand for good investment assets, growth in rental income, stock reduction and generally lower vacancy rates. The market is anticipated to continue at the strong levels seen in 2017. Increased demand from owner occupiers, self-managed super funds and developers will continue to drive the market.

There has been and will continue to be significant office stock removed either temporarily or permanently from the market. The main reasons for this are the Sydney Metro, residential conversions

and redevelopment. Office stock withdrawals are set to outweigh new supply over the next 24 months.

The Sydney CBD is currently undergoing a significant face lift, with the new light rail and Sydney Metro services aiming to improve commutes and increase connectivity to and throughout the CBD, along with the recent and continuing development of Barangaroo and associated works. This is encouraging for the CBD in the medium to long term (despite associated withdrawals). It appears that purchasers view these major works favourably indicated by the positive influence on the market. Vacancy rates are anticipated to remain very low.

Most market commentary of late seems to anticipate a continued tightening of yields through into 2018 and a continued rising of rents. Recent sale and leasing transactions indicate that this sentiment is accurate and we consider it likely that the growth in capital values will continue in 2018. However, it has to be questioned how long this will remain sustainable and what the impact of any interest rate rises will be on the viability of the investment returns currently being seen.

Opportunities for investors in the Sydney strata market are limited, with tightening yields, lack of availability of stock and rising prices. This is likely to continue and follow to some degree the movement of the general CBD office market.

In the next ten years, Sydney's population is expected to increase by an additional one million people. To cope with this growth, Sydney's transport network is undergoing major changes such as the light rail from Circular Quay to Kingsford and Randwick, the construction of the Sydney Metro and a new harbour tunnel and the first separated cycle way with a continuous connection from the north to the south of the city centre. The market appears to be viewing this favourably and as such investment in CBD office assets looks likely to continue.

In regard to the more substantial suburban areas of Sydney, we have seen an uplift in prices, an increase in rentals and a tightening of yields over the past 18 months. We expect these areas to remain buoyant in 2018 as demand remains fairly strong for good quality office space in areas such as Parramatta, Macquarie Park and Norwest.

Canberra

The year ahead looks positive for the ACT office market with a stable economic environment fostering a growing workforce, both public and private, and driving demand for quality office space. Supply levels are set to increase from historically low levels witnessed in previous quarters due to high vacancy levels, however A grade stock will remain in limited supply and in high demand from Government tenants.



Vacancy rates are expected to tighten and according to industry research are forecast to drop to 7.8% by 2020. Effective rents are expected to rise in both the primary and secondary markets as traditional incentives decline and move towards an increased demand for specialized fit outs. 2018 will see yields continue to compress for quality space showing 6.8% for prime and 7.9% for secondary markets. Elevated investor demand is emerging when comparing Canberra to other capital cities.

The continued rise of co-working spaces and buildings with shared facilities to satiate an ever growing mobile office population that demands more flexible space coupled with a move towards smarter, more energy efficient buildings will see an increased proportion of current B grade stock undergoing substantial refurbishment and modernization in order to stay competitive and garner local and offshore investment interest.

Going forward we anticipate lower grade commercial stock will experience subdued capital growth coupled with increased vacancy rates. Government charges and outgoings are also set to continue an upward trend in 2018.

South East NSW

The Wollongong office market is expected to continue on from its strong performance in 2017, a year in which record sale prices were achieved

across the board. However, despite forecasting a continuation of strong buyer demand it is our view that yields have bottomed out and there will be market resistance to lower rates of return. In essence, we expect the market to stabilise at these buoyant levels and balance moving forward.

The year ahead will be exciting given construction will commence on Wollongong's first new office building since 2013. This is a large A grade office building that will house IMB's head office. Other large scale office projects are proposed in the Wollongong CBD including Langs Corner and 25-27 Denison Street although it is our understanding that approvals and leasing pre-commitments are still being sought for both proposals. If completed it is likely that the rents achieved will set a new benchmark in the local market.

While we expect rents for B and C grade space to remain flat, upward pressure is expected on rents for A grade space due to the low vacancy rate and an increase in appetite from certain businesses to pay the required premium.

Newcastle

Market activity in the Newcastle office market continues to be strong heading into 2018. While the January 2018 PCA Office Market Report is yet to be released, we're expecting strong net absorption rates given the continuation of strong leasing activity

in office space across the board on the back of ever improving business sentiment in the area. Stage 2 of The Gateway office development at the corner of Hunter Street and Stewart Avenue at Newcastle West is a good example of the supply and demand story in the area currently. This A grade office complex with net lettable area of circa 9,500 square metres over five levels is now 100% pre-leased. With construction completion due at the end of 2018, Newcastle Council is to take a lease over half of this development, moving from the Civic precinct to Newcastle's West, a short walk from the new Wickham transport interchange.

On the other end of the market scale, we're still seeing very strong owner-occupier interest from self managed super funds in the small to mid sized strata office market in the inner city and inner suburbs. Interest around the new Wickham transport interchange remains very strong and values along the new light rail or where a retail outlet may be able to open out into the Honeysuckle Precinct from Hunter Street have been on a strong upward surge.

As valuers, we continue to identify risk in the market, particularly in a market such as this where activity has been so strong for an extended period. Risk of interest rate rises and this influence on the commercial investment market are on the horizon and investors should be wary of these and many more localised risks. However, the massive influx of



public infrastructure and private investment in the Newcastle CBD is so far proving to buffer the local market from any potential negative macro-economic environmental factors.

Lismore

The commercial investment market has experienced notable increases in activity and price levels over recent times. We consider this strong market sentiment is being largely fuelled, in part, by the prevailing low interest rate environment. If economic conditions remain unchanged, the strength of the market is likely to remain for 2018. However, there is some uncertainty within the current market associated with global and national economic conditions and a risk of increasing interest rates. In some sectors there appears an overheating component with very short sales periods and value levels being driven up by the demand versus supply relationship. Ultimately in this type of market the strength in the market can be relatively fragile and any increase in interest rates, decline in economic activity or decrease in market sentiment could see a rapid softening which could result in downward pressure on values.

If a big event was to occur it would be felt across all localities with coastal localities likely to experience a bigger percentage drop in value. However, if it is a softer decline the coastal localities are likely to stabilise and the impact will be more readily visible

in non-coastal localities as the small number of investors will disappear and owner-occupiers are likely to be conservative.

The commercial market in Lismore, being the main commercial precinct, has been relatively stable with steady to modest increases in rental levels (generally in line with CPI) since 2015. In 2017 Lismore had an oversupply of larger office space. In response to this oversupply and demand for smaller space, we saw an increase in shared offices where owners lease out individual offices with shared amenities and reception. These properties are achieving higher rents than if offered to the market as a whole.

Coffs Harbour

The outlook for office accommodation remains unchanged with limited price sensitive leasing activity likely to continue in coming months.

The overall rental levels remain price sensitive with annual rental increases linked primarily to CPI or 3% in accordance with lease terms and conditions.

Leasing incentives are common within the marketplace and there is limited activity from government departments due to restrictive budgetary constraints.

There are a couple of CBD office developments where construction has commenced. These projects were approved up to 18 months ago but had been

awaiting pre-lease commitment from prospective tenants prior to entering the construction phase.

The main focus for office development is the eastern precinct of the CBD where one entity has dominated sales and leasing activity for the past two to three years.

There has been some demand from owner occupiers for property.

Fringe locations with secondary class office space are proving hard to lease.

There are a couple of CBD development sites well suited to redevelopment that have been on offer for an extended period without success. The asking prices are generally in line with the levels of previous sales.

There appears to be increasing demand within the Jetty precinct for smaller office space, however this market is dominated by owner-occupiers frequently utilising self-managed superannuation funds.

Central NSW

Over 2015 and 2016, office rental supply in Orange was strong. In 2017 we saw a slight increase in demand, reducing the vacancy rate. It is predicted this will continue gradually through 2018. Sub \$1 million properties remain predominantly owner-occupied throughout the office market. Investment options are becoming more limited due to reduced



supply however they would still be expected to perform strongly as demand has remained stable.

Things to be aware of would be older obsolete properties which have extended letting up periods or require substantial capital expenditure in order to increase their marketability.

Southern NSW

The commercial creep into central residential areas will continue putting more pressure on those dwellings. Owner buyers have used self managed super funds to buy single residential properties and convert them to commercial properties for lease to their business without the risk of buying more expensive or older CBD commercial property that may still need renovating or have additional tenants and therefore management issues.

There is no evidence to suggest the market is heading in any direction. It would appear that capital values have increased over time. Location and type are the main considerations with shop top housing desired in central localities.

There are a number of offices for lease in the regional centres. Demand appears to be for newer or modern premises. Older premises are being offered with incentives including rent free periods and additional parking. A small number of sales indicate that vendors are prepared to offer recently leased premises to the market with yields towards the lower

end expected. Sales turnover is low which has led to lower yields.

They have become more scarce with investors and self managed super fund buyers having been dominating the market in recent times.

When purchasing property from a vendor wishing to sell on a long term leaseback arrangement, there can be little guarantee that the lease will be honoured and you must question the motives of this vendor type.



Victoria

Melbourne

According to the Property Council of Australia's Office Market Report, Melbourne CBD's office vacancy rate overall has stabilised to 6.5% over the six months to July 2017. Melbourne continues to host the second lowest vacancy rate amongst all of Australia's CBDs second only to Sydney. The stabilisation of the vacancy is mainly due to the high net absorption rate of prime Melbourne CBD office stock. The Eastern Core and Docklands precincts have the lowest vacancy rates at 2.6% and 2.1% respectively, while vacancy rates rose in the Civic and Flagstaff precincts. There is limited new prime office supply due for completion over the next two years before a large deluge of supply is forecast for 2020. Therefore, it's anticipated that vacancy rates will continue to fall over 2018 and 2019 before rising again in 2020. Correspondingly, we expect to see potential sharp rental growth over the next two years as well as a decline in incentives, before levelling back out again from 2020.

On the buy side, strong demand is continuing for good quality, smaller office properties within the Melbourne CBD, metro and St Kilda Road office markets. This is primarily due to the lack of suitable stock on the market and sheer weight of capital seeking limited investment opportunities in this segment of the market. Assets in the \$10 million to \$40 million price point typically appeal to a

broad range of private investors, syndicates and Self-Managed Super Funds (SMSF). Demand from overseas investors is very strong, particularly from Asian based private investors who are actively seeking quality assets within the Melbourne CBD. Investment grade office assets in Melbourne are relatively inexpensive from a capital value perspective, particularly when compared to Sydney and the established international markets. Opportunities are obvious for such investors who are typically observing prime grade office returns in the range of 5.25% to 6.25%.

It is predicted that prime to A-grade CBD office buildings should continue to attract strong demand from both local and overseas institutional buyers and sovereign wealth funds. Recent sales activity suggests that market yields are firming for well-located investment grade assets exhibiting sound fundamentals, such as strong lease profiles and limited capital expenditure requirements. Investor demand is particularly strong for assets in the vicinity of \$5 million to \$50 million within the CBD and inner suburban locations.

The capital values for strata office have increased significantly over the past 12 months and demand is expected to be strong over 2018, particularly for whole strata office floors within the Melbourne CBD. As there is limited supply of CBD freehold investment assets in the price range of \$5 million to

\$10 million, buyers are willing to pay premiums to acquire multiple office floors with the aim of building up controlling stakes in whole office buildings. There is also lack of supply of new strata office buildings in the CBD which further underpins the demand. For sub-500 square metre space, we expect to see continued from potential owner-occupiers and existing tenants purchasing their own office space due to the low interest rate environment.

The new statutory revaluations will be conducted as at January 2018 and valuations will be released as part of the FY2018/19 council rates notices and 2019 Land Tax assessments. It's anticipated that council site values will continue to increase across the CBD owing to strong capital growth over the past two years since the last Council revaluation in January 2016. The potential rise in site values implies higher council rates and land tax costs which may impact upon the cashflow of landlords, especially where properties are subject to gross leases.

The office market within the city fringe/inner east is expected to continue to perform well over 2018 in both sales and leasings. Tenants, especially from the creative, technology and business services sectors, are actively competing for well-located, high quality assets. Co-working office operators are also very active in this market. This has pushed the vacancy rate in the city fringe down to a record low of 2.09% as of October 2017. Boutique office space within



Richmond, Cremorne, Collingwood and South Yarra is highly sought after. Incentives are minimal for sub-500 square metres space and effective rents are expected to continue to increase over 2018.

Echuca

There is generally limited demand for larger scale office premises, with any development generally targeted at smaller tenancies or custom built for government or large scale corporations. The sale of the Medicare and Centrelink building recently reflecting a yield in the order of 7.4% demonstrates reasonable demand for government tenanted building with most demand coming from outside investors. Smaller holdings are generally sought after by local owner-occupiers and it will be interesting to see how several sites purchased in 2017 will be developed in 2018.

Ballarat

2018 will be an interesting year for the office market in the Ballarat region, with somewhat limited transactions in 2017. With government developments to be undertaken, including large office spaces for the new Vic Roads office and redevelopment of the Civic Hall, there is some question of how much A grade office accommodation might be available, which is likely to deter any prospective developers

trying to compete with a large government funded development. Further A grade space may also attract interest from government and other tenants from existing buildings, making more secondary or older office space available throughout the next two years which may see a reduction in rentals for existing space. With limited transactions throughout 2017, yields have generally remained at between 5% and 8% depending on the quality of the asset and tenants. Rents for A grade accommodation range between \$275 and \$325 per square metre, while secondary rentals range between \$150 and \$275 per square metre.



South Australia

Adelaide

The South Australian economy has endured a protracted period of poor performance typified by General Motors shutting its doors in October 2017 ending 60 years of construction in Australia. The decision by General Motors and the Federal Government's policy shift in supporting the industry exemplifies the problems facing almost all forms of general manufacturing in South Australia which are having flow on effects across the entire economy.

South Australia is currently faced with the country's highest electricity costs which are exacerbating a contracting commercial market, illustrated by the closure of the Thebarton Coca Cola plant. The state Labor government's persistence with renewable clean energy over coal fired-power is the major contributing factor. It is unknown what positive impact, if any, the construction of the world's largest lithium battery in Jamestown with tech billionaire Elon Musk will have.

A positive has been the securing of Defence construction contracts. After the completion of the Air Warfare Destroyer (AWD), the Future Frigates program will commence in 2020 with an estimated spend of circa \$35 billion. Following this in 2022 is the Future Submarine project, comprising 12 submarines at an estimated spend of circa \$50 billion. The projects are expected to provide over 2,000 jobs.

However, the question is what will change over the next 12 months?

At the time of writing it is difficult to answer that with exact numbers in the absence of the PCA office market report (release date 1 February) which is the leading provider of data in this sector.

However we anticipate a continuation of the flight to quality which has occurred over the past 18 months. This has seen the vacancy rate loaded to the lower building grades as shown below.

Adelaide CBD Office Market Summary as at July 2017:

	Stock (sqm)	Vacancy (sqm)	Vacancy Rate (%)	Net Absorption (sqm)
Core	1,116,208	195,420	17.5	4,459 (12 months)
Frame	308,225	32,448	11.2	1557 (12 months)

(Source: PCA and Herron Todd White research)

Adelaide CBD Office Vacancy Percentage by Grade:

	Jan 2014	Jul 2014	Jan 2015	Jul 2015	Jan 2016	Jul 2016	Jan 2017	Jul 2017
Premium	6.3	11.6	10.7	9.4	7.7	8.3	8.3	10.2
A Grade	12.9	13.1	13.6	14	15.1	17	17.6	15.8
B Grade	15.2	16.2	11.7	10.8	11	14.8	16.3	17.8
C Grade	12.8	18.6	21.4	21.6	19.9	19.2	21.2	21.4
D Grade	18.1	19.5	20.8	20.9	21.9	21.6	21.9	20.3

The limited amount of proposed office space is likely to start the slow process of lower grade buildings being either refurbished or falling out of the market. Whilst the vacancy rate may be reduced if stock falls out of the market, for example, by being converted to apartments, this is somewhat of an illusion with the genuine alternatives to prospective tenants not changing.

Incentives on prime stock have been circa 35%, although this differs depending on who is reporting it; some analysts are saying as high as 40% over the past six months.

As the supply of new space to the market is expected to be low, incentive use may have begun to reduce in the later part of 2017 and more significantly over the next two years, however it is likely to remain a



lessee's market over the next 12 months or longer. We are aware of some leasing agents who are reporting incentives are so high within lower grades that the face rents have declined for ease of negotiation. This has the potential to place downward pressure on values and investors should be wary of impending market renewals and be aware of alternative uses or the potential for conversion or upgrades.

The question for the CBD office market is what will stimulate a large uptake of the space currently vacant. In the absence of significant growth in the local economy any change is likely to be small and late in the year, but in the right direction.



Queensland

Brisbane

There were high expectations of a strong recovery within the commercial office market at the commencement of 2017 after the release of the January 2017 PCA Office Market Report. Vacancy rates had fallen from 16.9% (CBD) and 13.8% (fringe) in July 2016 to 15.3% (CBD) and 12.9% (fringe) in January 2017. Three major projects had been completed, were being reasonably well absorbed and key market drivers were strong. This confidence however was somewhat short lived as vacancy rates increased to 15.7% (CBD) and 14.4% (fringe) for July 2017. As at the time of writing we are awaiting the release of the January 2018 figures which will provide a strong indicator of the direction for the year ahead.

Brisbane CBD Leasing Market

Whilst the past six months saw a rise in the overall vacancy rates in the CBD, most commentators believe the CBD office leasing market is fast approaching, if not already at, the bottom of the property cycle. It is likely that total vacancy rates will remain stubbornly high in the foreseeable future however there are prospects for ongoing improvement in the Prime and A grade sectors with the possibility that vacancy rates may fall to the landmark 10% level for the first time in some years. Gross face rents and incentives are therefore predicted to remain fairly stable for Prime and A

grade accommodation, however the secondary market (B, C and D grade) is likely to remain turbulent as tenants look to upgrade to newer, well located office buildings.

Brisbane CBD Investment Market

A number of large CBD office transactions occurred during 2017. Some notable transactions included:

Santos Place, 32 Turbot Street, sold for \$370 million reflecting an initial yield of circa 6.03% and a capital value of \$10,660 per square metre; Crowe Horwath Centre, 120 Edward Street, sold for \$142.65 million reflecting an analysed yield of circa 5.66% and a capital value of \$8,307 per square metre; and 545 Queen Street sold for \$70.5 million reflecting an initial yield of circa 6.7% and a capital value of \$5,191 per square metre.



120 Edward Street, Brisbane

Whilst there is still uncertainty surrounding the CBD leasing market, demand remains very strong for well leased, prime commercial office assets. Whilst we cautiously suggest that yields may have bottomed, there is still a strong weight of capital both domestically and internationally, creating downward pressure for high quality assets. We also highlight that the yield differential between Brisbane and southern markets, the shortage of good quality stock and the significant near city infrastructure is driving positive sentiment. By way of contrast, secondary older style investment stock is not keenly sought, given the inherent leasing risks, ongoing maintenance costs and high statutory outgoings associated with such assets. Accordingly, yields are likely to stay flat in 2018 unless there are good value add opportunities.

Major infrastructure projects including Queens Wharf, Howard Smith Wharves, Brisbane Live, Cross River Rail and Brisbane Metro will positively transform the CBD and will provide a strong base for improving confidence and economic conditions within the Brisbane market.

Brisbane Fringe CBD Leasing Market

The market is anxiously awaiting the release of the January PCA office markets report to determine whether the unexpectedly poor figures in July 2017 are carrying through to 2018.



In July, the total Fringe CBD leasing market recorded its highest vacancy rate in ten years at 14.4%. Of the principal precincts, the worst performing market was Spring Hill which recorded a 3.4% increase in vacancy (six months) from 15% to 18.4%. We are not likely to see any improvement in the foreseeable future as Spring Hill is increasingly being perceived as trending towards residential based development.

Milton is another precinct with a high vacancy rate (17.9%), even though there have been two consecutive six month periods of net absorption which reduced the vacancy rate by 0.9% in the 12 months to July 2017. A reduction in the vacancy rate has been a result of proactive landlords who have reduced rents or increased incentives in order to retain tenants or entice new tenants. Good leasing deals for tenants are still to be had within Milton however it remains vulnerable to tenant drift back to the CBD or into the Urban Renewal area.

Newstead, Fortitude Valley and South Brisbane (Urban Renewal and Inner South precincts) remain favoured areas for tenants given the close proximity to the CBD, public transport networks and high quality amenities available. The majority of the proposed office developments are within these fringe precincts. Rents and incentives are likely to remain fairly stable in 2018.

Brisbane Fringe CBD Investment Market

Demand for prime investment grade fringe CBD assets remains high and there is still downward pressure on yields for well leased assets, especially in the Newstead, Fortitude Valley and South Brisbane precincts where supply is limited.

Poorly leased commercial office assets with high vacancies will continue to perform poorly and yields will remain soft as investors look to alternatives that require passive ownership. Such assets however can provide medium term value add opportunities, especially for underdeveloped assets, for pro-active and experienced investors.

Commercial Development

On the commercial office development front, only two major office projects are expected to be completed in 2018: 900 Ann Street, Fortitude Valley (wholly leased to Aurizon); and 25 King Street, Fortitude Valley (to be anchored by Aurecon).

900 Ann Street will comprise 15 levels of A grade accommodation of approximately 18,991 square metres of NLA. Aurizon signed a pre-commitment to lease the entire premises in 2015, however, they are in the process of trying to sub-lease approximately 7,200 square metres.

25 King Street will comprise 10 levels of A grade accommodation of approximately 14,400 square

metres of NLA. Aurecon signed a pre-commitment to lease approximately 6,500 square metres.

There are a number of office projects currently in the pipeline, however they are unlikely to get off the ground without any significant leasing pre-commitments.

Suburban Office Markets

Suburban office markets are likely to remain patchy with some select locations such as North Lakes and Upper Mount Gravatt performing to an acceptable level. Leasing in mid suburban suburbs is slow and will continue to be driven by high levels of incentives. No rental growth is likely in the near future.

Sales activity in suburban markets is subdued. There is a reasonable owner occupier market for good accommodation in the sub \$3 million market, but thin depth for poorly leased assets thereafter.

Toowoomba

Leasing demand for commercial office accommodation in Toowoomba has been moderate for a couple of years with this trend likely to continue into 2018. As a result there is not expected to be a significant growth in rentals and it is possible that some lease incentives may be required to secure tenants.



Rentals can vary greatly depending on factors such as:

- Quality of office accommodation;
- Location (most popular areas are in the CBD fringes);
- Access (inner CBD properties for example can be difficult to access during peak traffic);
- Inclusion of car parking (considered a key driver); and
- PWD access (for upper level tenancies).

Rentals can vary from under \$100 per square metre gross (often poor quality inner CBD first floor tenancies with no car parking or PWD access) to \$400 per square metre gross for modern premium accommodation with good car parking. A small premium can sometimes be achieved for medical suites, especially in the precinct surrounding St. Vincent's Hospital.

There are several vacant commercial sites in Toowoomba ready to be developed. The reduced leasing demand however has delayed most projects. It is unlikely that any project will proceed in 2018 unless significant lease pre-commitments can be secured. The projects will also likely need to achieve market leading rentals to make projects feasible.

The low interest rates have resulted in strong demand for commercial properties by investors,

however with a low supply of quality, fully leased properties available, yields will likely remain strong.

Strong demand from owner-occupiers will likely continue in 2018, particularly for premises with floor areas of up to 300 square metres. There currently appears to be a reduced supply in this market segment, which may result in some sales reflecting a premium price. It appears that the inclusion of good car parking is a major factor for buyers.

Gold Coast

The Gold Coast office market had a great run during 2017, reflecting strong market conditions and several larger ticket transactions. In fact the year finished with news of the sale of the Seabank building at 12 Marine Parade, Southport for a price in the order of \$34 million.

The overall Gold Coast office vacancy level continued its downward trend and we wait with anticipation for release of the PCA data that will indicate the level at January 2018. We feel certain that it will fall below the June 2017 level of 11.3%, which was close to 100 basis points below the January 2017 level of 12.2%. Yet again during 2017 there were no new office buildings constructed, although this would appear to be changing pursuant to work that our Gold Coast office undertook during 2017 for owners considering office development options for a number of land holdings.

In terms of 2018, we generally agree with the sentiment of local commercial agents and developers that conditions within the Gold Coast office market will likely remain relatively buoyant. Whilst the criteria for loan approvals remain more stringent, the low interest rate environment will continue to assist higher wealth individual investors and/or property trusts and syndicators who can all generally tip in reasonable levels of deposit to overcome this obstacle.

The Gold Coast economy, which is particularly reliant on the tourism and construction sectors, continues to do well, having benefited greatly from all manner of infrastructure and the general hype associated with the 2018 Commonwealth games that will be held in April. It is anticipated that this sentiment will continue after the games, particularly with the extent of proposed follow on development and infrastructure projects such as Westfield's Coomera Town Centre which has now commenced construction, various current and planned upgrades of the Gold Coast Airport (\$300 million through to 2019) including a Rydges Airport Hotel, announcement of the new \$500 million Tweed Hospital and planning for Stage 3 of the light rail from Broadbeach to Burleigh Heads.

Rental rates across the Gold Coast office sector continue to indicate positive uplift, with the pendulum turning more in favour of landlords. We anticipate



this scenario to continue in 2018. The flight to lesser quality and more competitively priced secondary standard floor space appears to have changed as economic conditions have stabilised and improved over the past several years. Further, building owners resetting rental levels for A and B grade floor space so as to be more competitive have drawn higher interest from tenants looking to upgrade to better quality space. There is also the influence of continuing innovations in IT that have allowed more opportunity for work from home employees. This has allowed business owners to reduce the size of their office areas and pay higher rental for better quality space, whilst maintaining the annual quantum rental cost at a similar level of affordability. Typically, rental rates for A grade stock ranges between \$450 and \$550 per square metre gross plus car parking and B grade stock at between \$350 and \$450 per square metre gross plus car parking, whilst C and D grade stock ranges between \$225 and \$325 per square metre plus car parking. Incentives are still generally hovering around 10% of lease term rental.

In respect to sales of Gold Coast office buildings, 2017 was buoyant. The more significant transactions included: Corporate Centre, Bundall \$89 million; Seabank, Southport \$34 million; Steelx, Varsity Lakes \$15 million; 183 Varsity Parade, Varsity Lakes \$11.8 million; Bankwest House, Southport \$10.5 million; McDonald House, Burleigh Heads \$10.5 million; 130

Bundall Road, Bundall \$8 million; and 69 Laver Drive, Robina \$7.6 million. The dominant analysed yield range was circa 7.11% to 7.6%, whilst the dominant value rate range was circa \$3,500 to \$6,000 on lettable floor area.

Moving into 2018, the first test of the Gold Coast office market will be the Icon Energy building at Broadbeach currently on the market under an EOI campaign. Icon Energy Australia (ASX listed company) is taking a 3+3+3 year leaseback at \$518,000 per annum net.

The Gold Coast strata office market also exhibited strong conditions during 2017, again buoyed by owner-occupiers taking advantage of the low interest rate environment. Pundits generally expect interest rates to remain steady, with the possibility of a small rise in late 2018. On this basis, we would anticipate owner-occupiers and possibly smaller investors to remain active in this sector. Value rates may achieve modest growth above CPI, with better quality strata office space on the Gold Coast reflecting between \$3,750 and \$5,000 per square metre inclusive of car parking and secondary stock between \$2,200 and \$3,500 per square metre depending on size, location and physical attributes.

Although we have reservations that the market has become over heated, moving through 2018 we would expect the buoyant conditions to be maintained,

more particularly on the back of sustained low interest rates. Economic conditions internationally appear to be improving which is also a positive factor, although there remain various diplomatic tensions that have influences on a global scale.



Icon Energy building

Wide Bay

From a commercial perspective 2017 was a quiet year. Some significant sales included the Bundaberg Tech Park for \$7.76 million and Burnett Riverside Motel (freehold) for \$6.2 million. Contributing factors to the overall quiet year appear to be the lack of good quality investment property stock and a disparity between vendor and purchaser market yield expectations.



The industrial market is most active below the \$1 million price range with owner-occupiers dominating the purchaser profile. The industrial rental rates are generally in the \$65 to \$85 per square metre gross range. We expect the market to continue in 2018 at similar levels. The extension of Kay McDuff Drive to the Bundaberg Ring Road has resulted in increased interest in the industrial land in the Food Park industrial estate with the trend set to continue with the recent extension of Johanna Boulevard via Eggmolesse Street.

New retail development was active in 2016 and 2017 including the expanded Bunnings complex, bulky goods retail opposite Bunnings and Stocklands purchase of a subsequent redevelopment of the former Bunnings to a neighbourhood retail centre including a Coles supermarket. Aldi has also been active with a recent application lodged for an additional new supermarket next to Stockland Bundaberg. The connection of the Kensington commercial precinct with the Bundaberg Ring Road via Eggmolesse Street and Kay McDuff Drive will make the precinct more accessible to a wider catchment. We expect to see a consolidation of the retail market in 2018 rather than a significant market expansion.

The office market remains stable with the South Barolin Street office precinct and the Bundaberg West medical precinct set to remain attractive

locations for businesses throughout 2018. Office rentals have shown a broad range depending on location, size and quality of the tenancy. Generally the rentals are sitting between \$250 and \$400 per square metre gross.

Expansion of medical and office facilities has been strong and this is likely to continue with the Stage 2 expansion of the Indigenous Wellbeing Centre (\$19.8 million). Further development in the precincts surrounding the Bundaberg Base Hospital, Friendly Society Hospital and the Mater Hospital will likely continue this positive trend.

Generally commercial investments in Bundaberg have shown market yields in the order of 7% for secure national tenants on long term leases to over 9% for secondary tenants on short less secure leases. The lower yields are attractive in a low interest rate environment however are susceptible should interest rates increase.

Bundaberg has recently had its port prioritised for state development with the area surrounding the port officially being classified as a state development area. The upgrading of the Bundaberg Port facilities and new investment such as the \$20 million Pacific Tug Base are examples of economic stimulus for Bundaberg.

Gladstone

We anticipate that the office sector in Gladstone will continue at much the same pace as seen in 2017, with a continued stabilisation of market conditions. Most leases struck during peak market conditions have since been subjected to market review, with many rentals now negotiated to more affordable levels. Rental affordability is likely to continue to be a key issue for tenants in 2018 and extended vacancies are likely for tenancies not meeting the market rental prices. The market conditions and current interest rates make it an ideal time to buy, however property owners appear hesitant to sell in the current market unless absolutely necessary and as a result there are limited opportunities. Rentals for semi-modern to modern office accommodation in central locations with parking appear to have stabilised and generally fall within the \$200 to \$300 per square metre gross range (inclusive of outgoings). Older tenancies in secondary locations are likely to continue to be difficult to lease and we would anticipate rentals below \$200 per square metre gross in the current market. We do not anticipate any rental growth in the immediate term until current stock is absorbed and market conditions improve significantly. With no strong indication of a market recovery in the short term, it is possible that rentals may in fact soften slightly and incentives may increase. There has been very limited investment activity in recent years, however we consider that investors would demand



a yield in excess of 9% (even above 10%) to reflect the market risk at present. Investors are particular and very sensitive to the tenant strength and the unexpired lease term.

Rockhampton

We predict continued market growth through 2018 at a similar pace to our market improvements at the end of 2017. This renewed confidence appears to be a result of improved commodity prices and market conditions in the nearby coalfields and continued relatively strong agricultural commodity prices. In spite of this, we do not anticipate any significant upswing in market conditions but instead expect a continued stabilisation of rentals and yields. Investor activity picked up within the region in late 2016 and into 2017 and we consider this activity will remain for quality investment properties. There appears to be a yield differential between local and non-local buyers of about 1% to 2% which is likely to continue while yields remain strong in the southern markets. There have been good opportunities for investment properties and we consider this will continue through 2018. Most well priced investment properties with quality tenants and attractive unexpired lease terms have been selling relatively quickly with strong buyer competition for these assets. Given interest rates remain at a record low, we consider that there will be good levels of demand for well located, quality vacant office accommodation for owner-occupiers,

however older vacant offices in secondary locations will continue to be difficult to sell or lease.

Mackay

The Mackay economy has seen significant improvement throughout 2017 which is expected to continue into 2018 with improved market sentiment and sustained economic stimulus through projects such as the Ring Road.

We do not anticipate any significant upturn in current market conditions within the broad commercial sector, rather a continued stabilization of rentals and yields. Some improvement is likely within the accommodation sector.

During 2017 we saw increased activity for vacant industrial premises purchased for owner occupation. This is expected to continue in 2018 with a combination of low interest rates and improved trade.

Older vacant offices in secondary locations or with first floor walk up accommodation is expected to face market resistance for selling and leasing.

Investment properties in the region that have good quality national tenants and long unexpired lease terms are expected to be desirable to local and interstate investors.

Townsville

The year ahead for the office sector is likely to remain at the status quo, at least for the first half of the year. This sector has been showing high expectations for some time but is yet to budge from the bottom of the market cycle.

We are seeing positive market drivers including a relatively sustained period of business positivity, increased sentiment surrounding the mining sector and increased jobs growth and falling unemployment. Whilst not creating a break-neck speed of market acceleration, these factors will positively influence the market in the short to medium term.

Confidence is being generated by Adani's \$22 billion Carmichael coal mine and the opening of their Townsville office in June 2017 (expected to house about 500 employees). Another positive boost was the decision that both Rockhampton and Townsville will be the fly-in fly-out hubs for the mine. This project in conjunction with the \$250 million North Queensland Stadium development which commenced site works in August 2017 are likely to have a positive impact on the local economy, but the timing and extent of the tangible impact this will have on the property market remains to be seen.

We are likely to see southern investors remain active in the market over the year, given the attractive yield spread in regional areas relative to their home



locations, with the leasing market likely to continue to demonstrate high levels of leasing incentives as there remains an oversupply of office available relative to current level of demand.

Cairns

The Cairns office market is relatively shallow and experiences limited sales activity. The market has also experienced limited new development, with the last large office building constructed in Cairns being the State Government office tower completed in 2010. There are no known new developments in the pipeline.

Commercial property sales in Cairns, inclusive of retail and commercial office premises, remain well below the peak levels achieved in the 2005 to 2007 period. Prices paid for secondary strata titled premises have been relatively stable since 2010 at around \$2,500 to \$3,000 per square metre of floor area.

Most new office space leasing demand is for smaller areas and for modern, good quality green star rated premises. However there is only a handful of such buildings in Cairns. These buildings achieve high levels of occupancy and are experiencing stable rent levels typically of \$350 to \$400 per square metre per annum. Demand for lesser quality space remains limited and there is a large oversupply of good quality non-inner CBD and well exposed secondary

space in the \$200 to \$275 per square metre per annum rental range. These conditions have placed downward pressure on secondary rents and seen the emergence of incentives.

Overall the Cairns office market is expected to maintain little change during 2018.



Northern Territory

Darwin

To start the new year, the NT Government announced the successful tenderer for the new Health Department office requirements. This tender has been the main game in town at a time when there has been very limited opportunity for new office projects in the Darwin CBD. The successful tender involves demolishing Cavenagh House, an existing office building at the prominent corner of Knuckey and Cavenagh Streets in the core CBD area. It is to be replaced by a new nine storey office tower which will accommodate 660 government staff. This new building will have a minimum five star energy rating as well as features that accord with the Government's attempts to reduce the heat load in the CBD. These include an internal atrium, rooftop garden and extensive shading and greening at street level.

Energy House is located at 20 Cavenagh Street, between Knuckey and Bennett Streets. Energy House is under the same ownership as Cavenagh House and the successful tender also involves improvements on that site. These are the construction of a child care centre on the ground floor, further greening and improvements to its façade and construction of a new 320 bay public car park on land at the rear of Energy House.

The existing improvements on the Cavenagh House site add to Darwin CBD's high office vacancy rate. This new proposal will not really reduce office

vacancies in the Darwin CBD, it will merely displace those vacancies to other buildings in the CBD and Casuarina when the Health Department relocates to its new accommodation. However there will be a welcome boost to the construction industry with the expected creation of up to 250 short term jobs.

Demand for office space in the CBD remains very weak. The limited supply of A grade accommodation is still reasonably well sought after but once property falls to a B or C grade, demand quickly evaporates. It is not expected that the net amount of space required by the government will increase in the short term and confidence within the relatively small private sector is quite weak. Generally speaking, CBD office market conditions are lack lustre and it is difficult to see the situation improving in the next two to three years.



Western Australia

Perth

Approximately 21% of Perth's CBD office space is still sitting empty. In the premium sector there is 16% vacancy, 21% across the 'A' grade band and 30% vacancy in the 'B' grade space.

The Perth CBD office market currently contains approximately 1.75 million square metres of lettable space, which approximately 60% of is made up of premium and 'A' grade space.

In contrast, West Perth contains an additional 425,000 square metres of lettable space of which 138,000 square metres is A grade space. The latest Property Council vacancy rate guide by grade in West Perth is as follows: A grade 18.0%; B grade 16.4%; C grade 18.8% and D grade 23.5%, which equates to an overall vacancy reported of nearly 18%.

In West Perth, as in the Perth CBD there are very few development opportunities.

There are however, planned refurbishments in the pipeline in the Perth and West Perth office markets with landlords clambering to retain existing and attract new tenants in an ever increasing competitive market place.

Landlords are providing their existing and prospective tenants with owner provided meeting hubs, refurbished foyers, some featuring concierge

services, gymnasiums/wellness centres and some innovative landlords are looking at child care/minding facilities within their buildings, in addition to the obligatory 'end of trip' facilities, bike storage rooms and in some cases bike repair shops.

Due to a lack of supply additions, Perth's CBD is expected to stabilise with tenants adopting a flight to quality approach over the medium term. The B grade segment has experienced the largest increase in vacancy from 23.7% to 30% in the 12 months to January 2018.

Agents active in the office leasing market report a flurry of activity from tenants seeking to capitalise on the incentives on offer from landlord's (rent free, cash contributions towards fitout and rebates). Approximately 30% of enquiry is from tenants in suburban office locations looking to 'centralise' back to the Perth CBD to afford their staff better linkages to the public transport network hub, and superior amenity.

With a glut in the office leasing market and a 'flight to quality' occurring, building owners of B and C grade buildings are looking for conversion opportunities to residential, educational and even hospitality uses.

In terms of capital transactions there has been approximately \$700 million worth of office transactions in the Perth CBD to the 12 months to December 2017. This is just above the five year

average of \$670 million. We expect that both domestic and off-shore capital will continue to look to the Perth capital market for counter-cyclical opportunities over the next 12 months.

Sales transactions have however decreased within West Perth over the past 12 months. The lack of quality stock with medium to long term WALEs, combined with uncertain economic conditions has affected transaction activity. It's likely the market will see a pick-up in activity from private investors, over the next 12 months.

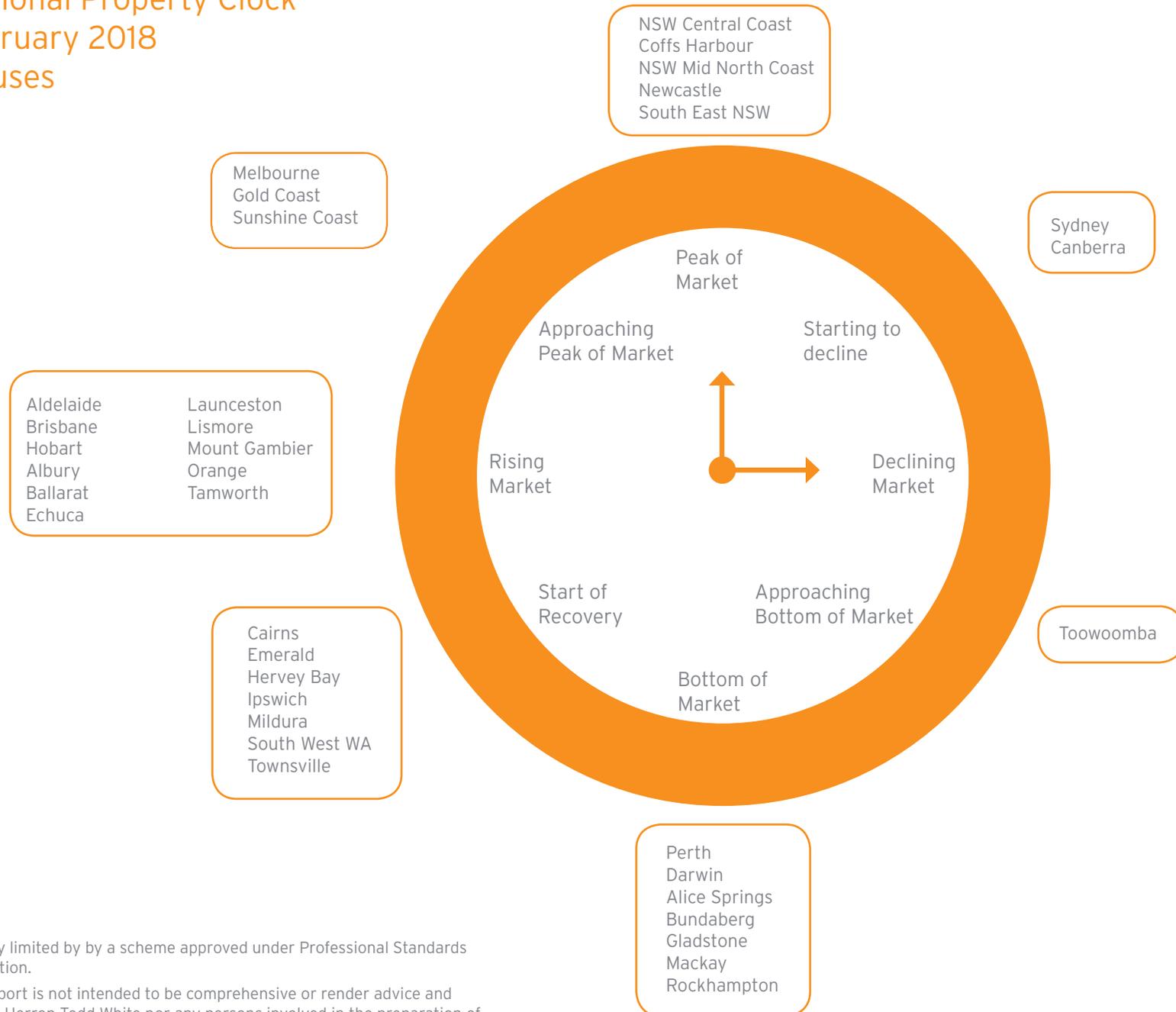
The outlook for the Perth office leasing market is to see a stabilisation in rental incentives and rents over the short term and no significant new building activity until at least 2020. We anticipate that vacancies in the Perth CBD will stabilise and that vacancies in West Perth will increase further as tenants look to relocate back to the Perth CBD.

As tenants make the 'flight to quality', a two-tier market may eventuate with less attractive, lower grade buildings increasing in vacancy and those more attractive premium and 'A' grade assets in good central locations showing a decrease in vacancy.

Residential

◐ ● ◑ ◒ HERRON
◓ ◔ ◕ ◖ TODD
◗ ◘ ◙ ◚ WHITE
◛ ◜ ◝ ◞ RESIDENTIAL

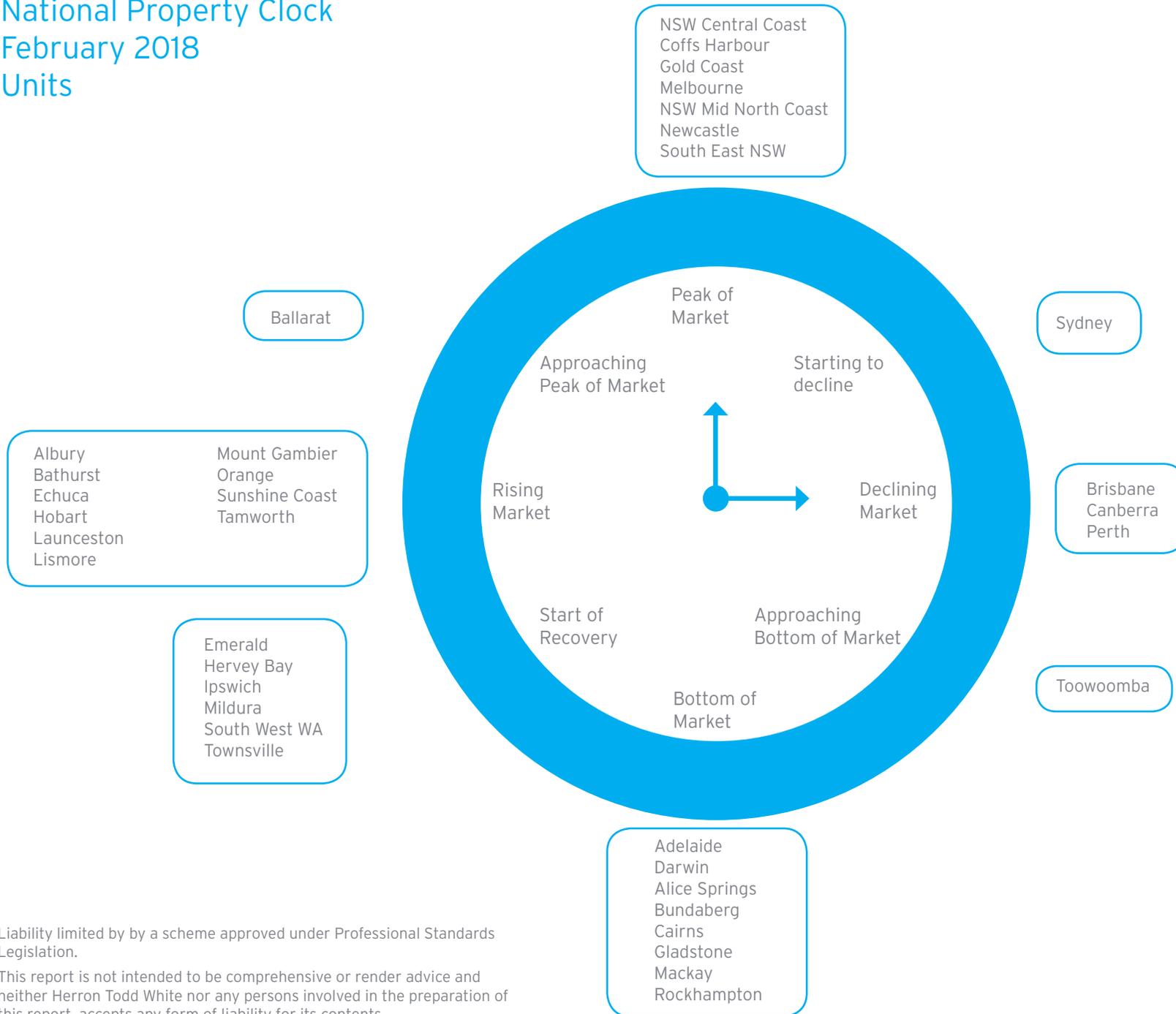
National Property Clock February 2018 Houses



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National Property Clock February 2018 Units



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New South Wales

Overview

Looking back on last year's markets reveals the diversity of performance that played out across the nation's residential real estate. It wasn't just city vs. regional either. Every capital had its own story to tell.

It's with this as a backdrop that we venture into our hit predictions for the year.

We've compiled what is arguably the most comprehensive quality document of on-the-ground knowledge about real estate performance in 2018 - location by location. Our experts reveal their expectations so you can stay many steps ahead of the competition.

Sydney

Early to mid 2017 proved to be another period of growth, albeit at a moderate level compared with previous years. The end of 2017 however saw market conditions easing across some locations. Sydney represents a diverse market with various price points and sub markets with property types performing quite differently depending on a range of factors. While auction rates and activity levels have appeared to slow recently, we have still seen healthy growth overall with houses up 2.1% and units up 5.4% over the full year according to CoreLogic.

We expect that 2018 will be a year of steady growth, particularly for properties located in highly desirable regions with limited supply, high quality products

and properties that are affordable for first home buyers and appeal to the wider market. On the other hand, there may be limited growth or slightly weaker market conditions in less sought after pockets of Sydney or areas with higher concentrations of new unit supply. If interest rates increase later in the year or APRA was to enforce further restrictions on lenders, this could exacerbate the situation and put further downward pressure on value levels across Sydney, particularly investment grade properties.

Eastern Suburbs

The eastern suburbs are expected to remain fairly stable this year with some product types and price ranges potentially showing a slight decline in values. Considered unaffordable for most, the eastern suburbs has always benefited by its limited supply of new product (particularly the harbour and beachside locations) which is considered to help maintain its stability compared to some other areas of Sydney.

The buying frenzy in 2016 and into the first half of 2017 has slowed to longer term levels. Smaller sized units (under 50 square metres) and investor style products are expected to see some softening throughout the year. Given that capital gains are expected to moderate slightly in the coming year and rentals for investment properties are showing fairly average returns, it is considered to somewhat impact this sector of the market. With buyers having more confidence and not getting carried away and

over paying at hotly contested auctions as seen in previous years, vendor expectations will have to be realistic to meet the market.

Houses are considered to continue to perform better than units in the up to \$3 million price range. Good quality homes above \$3 million performed particularly well in the eastern suburbs throughout 2017 and we consider this to continue and remain stable in 2018. The large number of off-market transactions is expected to continue particularly in the prestige sector.

While most buyers looking to enter the eastern suburbs property market would generally be more than happy with any suburb, properties located in secondary positions (busy roads, proximity to a cemetery, properties with privacy issues etc) are generally the properties that are impacted first in a cooling market. We expect to see some of these properties having longer selling periods than previously seen and if the vendors need to sell quickly, then these property types may see a slightly lower sale price achieved. Overall we see the eastern suburbs market remaining fairly stable throughout 2018 with stronger price growth for higher quality properties and more sought after positions.

Inner West/City

Auction clearance rates towards the middle to end of 2017 saw a moderate decline in the inner west with



many choosing to withdraw their properties from the market prior to auction with the hope that the market may improve again at the beginning of 2018. This was partly due to vendor expectations which seemed to remain stubbornly high as well as a tip in the supply versus demand balance in parts of the region. We expect 2018 to continue this trend with some price points affected more than others.

Restrictions on lending imposed through tighter regulation means that a large portion of investors may be less active in the market. Many suburbs in the inner west such as Marrickville, Ashfield, Erskineville, Waterloo, Zetland and Rosebery rely heavily on investor demand and we are predicting longer selling periods in some of these areas as well as reduced demand. In some areas this impact is likely to be softened with the continuation of the first home buyer concessions. Areas where unit price points fall below certain thresholds will see increased demand from first home buyers. These locations will also continue to attract demand due to being situated within very close proximity of the CBD.

A predicted oversupply of units in certain areas is also likely to put increased pressure on the market. Areas such as Bankstown and the Canterbury Road corridor in particular have had high levels of unit approvals in the last number of years with pockets of oversupply issues likely to become a reality this year. Some developments in these areas are also

considered to be below average in quality, being built and marketed towards the investor, with first home buyers perhaps wanting more for their money.

In addition to new stock, conversations with some local inner west agents indicate an increase in existing properties to hit the market early this year with many attempting to cash in close to what appeared to be the peak of the market last year for certain locations and market segments. Many of these sellers perhaps withdrew from auction at the end of 2017 and following the recent run of negative media activity, have decided now is the time to sell. With an already reduced buyer segment in some areas, this further increase in supply is likely to have an effect on the property market for the short term at least. We still feel there is good demand above the \$3 million level, with quality renovations and dwellings finished to a high standard in traditional blue chip suburbs likely to remain in high demand as oversupply is unlikely to be an issue at this price point. As this segment of the market is not traditionally investor-driven, the current demand is also likely to remain as is.

For the inner city, the market is going to remain subdued for now, similar to the second half of 2017. We will see investor properties fail to reach the results of early 2017, however good quality properties and owner-occupier properties will likely still meet expectations. If further lending restrictions

are applied or interest rates move up, we will likely see slight volume and price declines. We recommend sticking to the harbour side suburbs or areas such as Circular Quay and Millers Point as they are undergoing gentrification due to the government sell off and light rail. New precincts such as Loftus Lane are also set to reinvigorate the area. Areas at higher risk are the high density unit markets such as Green Square and similar style surrounding locations. If buying in these locations, negotiate hard, don't rush, and buy quality or unique property as this will hold value better than cookie-cutter investor stock. Furthermore, it is probably worth buying for rental yield in the short to medium term as capital growth may be less achievable.

Southern Suburbs

Our predictions for the south are that 2018 will remain stable with a few good buys this year. Properties in blue chip areas will most likely remain stable while properties in secondary positions (main roads or located near industrial areas) will notice the slower market conditions. The proposed F6 Highway will have an impact given stage one was approved in 2017.

\$2 million plus units in Cronulla are worth watching as are high quality brand new or renovated dwellings in Cronulla and South Caringbah. Downsizers are prepared to pay \$2 million plus for a high quality product within Cronulla and young families are



seeking brand new or high quality renovated dwellings in areas such as Caringbah South.

Development changes in the Sutherland Shire might come through which will impact house prices with land area below 600 square metres (already agents are seeing not as much developer interest in allotments below 600 square metres) as Sutherland Shire Council may increase the minimum requirements for land size for a duplex site from 550 to 600 square metres.

New units in large complexes should be treated with caution as oversupply is possible in the Shire. There has been a large influx of new unit complexes being built particularly along the railway line from Jannali through to Cronulla. We have recently started seeing developers offer incentives to purchasers such as reduced or no stamp duty, gift cards and guaranteed rental returns to name a few.

Overall we expect the Sutherland Shire and St George areas to remain fairly stable (in the most part) this year given that most of these suburbs are located within approximately 20 kilometres or less of the CBD and are also a short drive to the local beaches and bays.

Western Sydney

Whilst predictions are for a period of low growth, western Sydney will still be in healthy demand as it presents a more affordable option than its eastern

cousins. This is highlighted by the median price for a 3-bedroom house in Penrith being \$600,000 (source: Domain). The level of investment and infrastructure planned for outer western Sydney will lay the foundation for solid demand for years to come. This includes the aptly named Aerotropolis surrounding the second airport at Badgerys Creek, the Sydney Science Park in Luddenham and the continued expansion and development surrounding Parramatta.

Overall we feel the western Sydney market will continue to stabilise after a lengthy period of sustained growth, with certain pockets continuing to see slight increases mostly due to new and proposed infrastructure. In recent times selling periods have begun to lengthen, prices have become more stable and auction clearance rates are dropping. This trend may continue until vendors realise that times have changed slightly and meet the market. Similar to other parts of Sydney, possible speed bumps for the western Sydney market include potential RBA interest rate rises and stricter lending criteria by the major banks.

Whilst the vast majority of western Sydney comprises detached houses, the areas more at risk are new units, particularly units in areas with a high level of recent or proposed supply and new areas offering high density units for the first time. We have noticed a number of valuations for new units on

settlement not meeting their off the plan prices when purchased during stronger market conditions, mostly in 2015 and 2016. Whilst mostly occurring for overseas buyers, this could trigger a flow of sales post settlement due to difficulties obtaining finance and rental yields not meeting expectations thanks to high investor participation. Losses on these property types are currently more likely to be realised if purchased and sold within a short period of time.

Northern Sydney

A focus on the northern beaches suggests this market will continue the trend seen in the later stages of 2017, with stabilising values and extended selling periods after a period of sustained capital growth. Units in Manly performed strongly with 11.7% growth in 2017 after 17.1% growth in 2016 (source: Pricerfinder.com.au). Another popular and affordable suburb, Dee Why, performed strongly with 10.3% growth in the unit market after 9% growth in 2016 (source: Pricerfinder.com.au). Housing affordability will remain a hot topic in 2018 as financial institutions tighten their lending policies and the recent capital growth makes it difficult for buyers to enter the market, having a downward trend on demand levels.

We consider suburbs surrounding the new \$600 million Northern Beaches Hospital due to open in October 2018 will defy this trend. The NSW State Government has invested a significant amount in the new hospital and infrastructure upgrades.



The Northern Beaches Council is in the process of finalising the Northern Beaches Hospital Precinct Structure Plan. The plan involves the re-zoning of low density residential areas surrounding the hospital which will make way for a range of higher density residential styles and commercial uses. Medium density unit and townhouse developments, commercial development (including a new town centre, auxiliary medical and retail services) and recreational areas will surround the immediate area and are planned for stage 1.

Phasing Strategy



Legend					
■ B1	Neighbourhood Centre	■ R2+	Low Density Residential plus additional land uses	■ R3+	Medium Density Residential plus additional land uses
■ B4	Mixed Use	■ R3	Medium Density Residential	■ SP2	Infrastructure
■	Phase 1 (Immediately)	■	Phase 2 (0-5 years)	■	Phase 3 (10 years +)
■	Proposed new road				

Source: Northern Beaches Council

The opening of the hospital will see renewed interest in the area and should the gazettal occur as expected next year, the area will see an influx of new development and housing styles relatively uncommon for the traditional 1960s style housing that currently occupies the area. It will be interesting to see how the area adopts the new property types, as the market shifts towards higher density living to help ease housing affordability and increase supply levels.

North Narrabeen and Narrabeena have the lowest median house prices at \$1.54 million and \$1.55 million respectively (source: Realestate.com.au). The suburbs comprise typical older 1960s and 1970s style homes and offer value for individuals looking to enter the housing market at an entry level.

We anticipate that many markets across Sydney will continue to perform steadily however other pockets may look different to what we have seen in recent years. There will be more of a focus on quality property with a traditional long term view rather than buying for short term gains only. We would recommend that anyone looking at new units be very selective in the type of product and development, existing and planned infrastructure nearby, privacy and access to sunlight and the amount of existing and proposed unit supply as these are some of the factors which will likely determine how the property

performs over the next couple of years. While there may be areas of oversupply, in general we would expect that any slight declines in value levels will be short lived and purchasing with a medium to long term view will reduce the risk in these situations.

Canberra

The Canberra residential market is complex with many factors interacting to affect demand, supply and ultimately price. On a macro level, the Canberra residential market aided by historically low interest rates has a number of underlying positives including generally strong employment and a perception of good job security. There is depth in Canberra's residential market and it is seen as one of the strongest markets in Australia. A negative aspect however is the limited population growth.

At a micro level the local ACT economy remains resilient in the face of continued job losses and Government cutbacks. Negative market sentiment though is a real risk in Canberra given the dependency on the public sector both for direct and indirect employment.

In general the housing market has experienced a period of strengthening market activity over the past 12 months. Underpinned by low interest rates, limited new housing supply and the Mr Fluffy buy-back scheme, house prices have seen strong growth. The development of Canberra's light rail is also viewed



as a strong attraction for buyers to Canberra's inner north suburbs and the Gungahlin district.

Many suburb sales records were achieved throughout 2017 in the standard residential dwelling market. Notable sales include a property in Hunter Street, Deakin for \$5.75 million and a record sale in Mclachlan Crescent, Weetangera for \$1.551 million. There has been significant growth in established suburbs especially in the Woden Valley, inner north and inner south. We expect this trend to continue throughout 2018 in suburban areas of Weston Creek and Woden Valley and regions within close proximity to the light rail network.

The Mr Fluffy Asbestos Removal Scheme is continuing with all land sales likely to be completed in 2018. Overall the resale of affected blocks was strong in 2017 with the highest sales exceeding \$2 million in the inner south suburbs. As a result of these sales and zoning changes allowing dual occupancy development there will be streetscape changes to many established suburbs. 2018 will see this change continue and also the introduction of these completed developments into the market.

The number of new apartments coming onto the market has continued to build with more stock expected during the start of 2018. The threat of over-saturation is a very real one and continues to be observed in several market segments including

the Flemington Road corridor in Gungahlin and the Belconnen Town Centre. There has also been significant apartment growth in Molongolo Valley and Tuggeranong Town Centre. We have seen some value reduction in the unit market, generally in the outer locations. Well located central developments in the city centre and in close proximity to town centres are less likely to experience value reductions. Overall, minimal value growth is predicted in the unit market.

We anticipate 2018 will be a year of continued growth with demand shifting further away from the unit market in most segments and towards new and established detached houses.

Illawarra

We like to dust the crystal ball off each January and for 2018 it is looking particularly cloudy. 2017 ended with initial signs of a slowdown in the residential market, the first slowing signs for over three years. Agents were reporting lower numbers to open homes, less demand from Sydney buyers and a lower volume of transactions. Christmas and the new year have now come and gone and the big question is how will 2018 pan out.

Initial signs are that there are still buyers in the market with plenty of sales occurring so far in January, including the upper end of the market such as the recent beach front sale in Coledale for \$2.04 million and 15 other sales over \$1 million in

the Illawarra in the first three weeks of the year as reported on Realestate.com.au.

Of particular interest through the year will be the performance of Wollongong CBD units, the upper end of the market and sales of land and new homes in new subdivisions throughout the region. Our prediction is that the overall market will cool as the year progresses. Uncertainty in the Sydney market will flow down the coast and selling periods will start to increase as the market turns into more of a buyer's market.

Southern Highlands

As we settle into the new year, the market fundamentals for the Southern Highlands remain bright and strong. There are several new land releases throughout the region coming on line in the first quarter of 2018 across the main townships of Bowral, Moss Vale and Mittagong, bringing ongoing increased construction activity and anticipated retail spending. The most recent announcement by the NSW Department of Planning and Environment in November 2017 of the rezoning of rural lands on the south end of the township of Moss Vale to provide up to 1500 new homes to be progressively released brings both opportunities and civil, social infrastructure challenges.

As mentioned in earlier versions of the Month in Review, announcements over the past couple of



years by Federal and NSW Governments of Priority Growth Areas in our region to provide an additional 17,000 new dwellings, including Wilton Township, and major infrastructure projects including Western Sydney Airport at Badgerys Creek, will have medium to long term accretive benefits for the Southern Highlands.

Affordability relative to Sydney remains the foundation for demand across the Southern Highlands. As mentioned in the last Month in Review for 2017, the northern villages and townships located in the Wollondilly Shire have seen a big uptick in residential and commercial activity, with affordability and ease of access to the freeway a factor.

Generally across the Southern Highlands, the market up to \$1.5 million remains liquid. Above this point there is a wide choice of property types available: prestige residential; rural and lifestyle; and acreage properties, with purchasers tending to be discriminating in their purchasing decisions.

Newcastle

So 2018 is upon us, the Ashes are run and won and Newcastle is alive with BBQs, beaches and business. The question is will that business be property business or has the market slowed?

There is definitely more uncertainty and trepidation in the market for this year than there has been in the past few, especially with Newcastle's biggest market

influencer Sydney at the beginning of a declining market and the new restrictions implemented on the banks regrading investment loans causing a decline in the number of investors, a group which has statistically been the largest number of buyers over the recent growth period.

While we have recently seen record sales in a number of areas including Kotara South and Stockton, local agents are reporting fewer buyers in the market which generally indicates the market is slowing.

This may not be the case for long though. With reports of a resurging mining industry and Newcastle undergoing one of its biggest infrastructure developments in recent history, there is an underlying feeling that the Hunter market may buck the trend and continue the strong growth experienced over the past few years.

There are certainly a large number of inner city apartments being constructed which don't seem to be staying on the market for long and are fetching anywhere between \$600,000 and over the magic million, which indicates we aren't yet seeing an oversupply and the inner city infrastructure push is certainly attracting buyers.

Out in the valley, Singleton and Cessnock are certainly not seeing the prices they were during the mining boom, but they have climbed off the floor and there is an air of optimism that the market will

continue to improve as the mines continue to recover this year.

Further north in Port Stephens, other than the Williamstown contamination zone which was expanded 50% at the end of 2017, the market continues to show signs that indicate that the Sydney influence may not be as strong.

2018 will certainly be an interesting year for the Hunter. The Newcastle Jets are killing it, the Knights are expected to climb off the bottom and much like these local teams, the property market has the potential to do very well, but could possibly disappoint.

NSW Mid North Coast

This month we are looking at what's in store for the 2018 property market on the Mid North Coast.

Last month we reviewed 2017, which saw housing prices in the Port Macquarie area increase throughout the year, although with a slight slowing in growth towards the end of the year.

In 2018, we can see Port Macquarie and surroundings continuing to grow into the new estates with a continuation of blocks being released. These areas will mainly accommodate families moving into the area, local families upgrading to newer homes and first home buyers. We predict there will be a slowing of houses with attached flats and the like which



were popular in 2017 as the rental market weakens. We have recently seen a softening in rents in the larger towns and in Port Macquarie there has been an increase in rental vacancies mainly due to the increased construction activity bringing additional dwellings onto the market. The weakening rental market and tightening of lending policies to investors is likely to see less investors in the market in 2018.

There are a number of centrally located higher density developments underway but a lack of pre-sales has seen construction stall and it is unlikely they will be completed in 2018.

The other coastal towns and villages all along the Mid North Coast are also experiencing good demand for land and modern dwellings at present, but it is expected to stabilise somewhat over the coming months with a significant amount of vacant land and recently completed dwellings coming online and available for sale. This expanding market may not be sustainable over the long term in these smaller coastal towns and may result in an oversupply of dwellings and land if demand was to lessen during 2018.

The higher value, prestige properties and rural residential property markets in the region remain slow but steady, with slow demand combining to produce slowly increasing values.

We have been quite optimistic for the region over

the past two years and our optimism continues for the coming year, tempered with a more cautious approach for residential investors in our region.

NSW North Coast Lismore / Casino / Kyogle

The residential market for the year ahead in the Lismore area is expected to stabilise following the last three months of 2017 where the demand for good quality residential stock was heightened due to the lack of available stock and real estate agents were desperately seeking new listings. Richmond and Kyogle Shires are expected to remain relatively steady.

A key factor that could potentially influence house prices is the much touted beginning of projected interest rate increases towards the end of 2018. However, if the availability of real stock remains limited, then demand may well remain strong despite any interest rate increases.

Whilst not at the same demand level as residential, the rural residential real estate market is likely to remain steady this year, with the possible exception of increases for the more well presented properties with highly valued features such as expansive views, creek or river frontage and high quality improvements.

Generally, properties within the \$250,000 to \$350,000 price bracket are likely to see most of

the activity within Lismore City for 2018 although superior quality product within the \$400,000 to \$600,000 has improved markedly of late and will likely have the same amount of interest well into 2018, assuming current interest rates level remain low.

Casino and Kyogle houses in the \$200,000 to \$300,000 price range will still appeal to first home owners as they are very affordable at the current interest rate level.

The most affordable property type will continue to be older stock of the typical circa 1970s and 1980s 2-bedroom brick and tile units of which little sold in 2017. This is likely to continue throughout 2018, however at price levels of \$125,000 to \$175,000 depending on whether they are renovated or not, they generate a reasonable rent return in areas close to the CBD and major educational facilities such as Southern Cross University. Good buying opportunities may present themselves, providing the body corporate fees are kept in check and to a minimum.

We expect the larger rural lifestyle and rural residential property market in Lismore, Kyogle and Richmond Valley to be subject to the vagaries of distance and accessibility as well as maintenance of the land as determinants in the type of buyer. However, there is a continuing trend of real estate



agents outside of the general area, such as Byron Bay based agents, bringing in potential buyers to the outer limit of the Lismore City Council area and achieving improved sale prices for well presented rural residential properties. As the more traditional sought after areas have become increasingly expensive, these outlying areas of the Lismore City area become attractive.

In summary, we expect the residential property market for Lismore, Richmond Valley and Kyogle Council areas for 2018 to stabilise overall with some assurance of stability. Whilst unlikely to see major growth, quiet confidence should remain while couched in the hope that a low interest rate environment remains, even if there are modest rises in bank lending rates.

Ballina /Byron

After strong increases in value throughout 2017 across the majority of areas within the Ballina and Byron Shires, value levels appear to have somewhat stabilised, however extremely low stock levels across most market segments may result in some further increases in value in the short to medium term. Demand within the highly sought after areas of the Byron Shire appears to have slowed off the back of slowing Sydney and Melbourne markets, however again stock levels remain low. The amount of vacant residential land scheduled for release within the

Lennox Head and Skennars Head localities will likely place a cap on any significant increases in value in the short to medium term in these locations. If market conditions soften, this may result in an oversupply of land in these locations.

During the end quarter of 2017, the market within Byron Bay remained strong with limited supply and strong demand from interstate buyers. Towards the very end of the year (close to Christmas) however, there were signs of the prestige market slowing with agents advising limited new enquiry over the \$1.8 million mark.

Moving into 2018, things have remained somewhat steady with little change. This however, could be purely a sign of people holidaying in the northern NSW region without the thought of buying or securing a property. Moving into February as people filter back to work, we should have a good indication of whether the market will continue to steady as agents indicated close to Christmas or continue to surge ahead as was the case for the majority of 2017.

The coastal town of Lennox Head is expected to remain a place of interest during 2018 across all price points and property types. As the coastal resort town of Byron Bay saw a big increase during 2017 from interstate buyers, investors and occupiers alike, people are looking to Lennox Head as an alternative with a more affordable price point with many of the

same desirable features that Byron Bay offers, such as beaches and restaurants.

During 2017, Lennox Head saw a number of long term Byron Bay residents sell in Byron to purchase in Lennox because of its village atmosphere compared to that of the changing pace of Byron Bay. If that sort of money continues to come from Byron Bay and interstate purchases as well, Lennox Head remains in a strong position for price growth.

It would seem that Byron Bay has become nearly unaffordable for everyday purchasers looking to buy a home for a principal place of residence, especially within walking distance to town, unless they have come from some sort of generational wealth or a strong interstate income based job.

Mullumbimby has seen massive growth over the past two years on the back of the strong prices being achieved in Byron Bay and the neighbouring suburb of Brunswick Heads. Given its inland locality five to ten kilometres from the coast, it remains an area of concern that average value levels of \$900,000 plus may not be able to be sustained if the market changes direction. If the Brunswick Heads and Byron Bay markets have some form of correction, purchasers may look back to the coastal areas which could see values fall in Mullumbimby.



Job stability and low interest rates remain key to all of these markets in 2018. Should either of these market forces be impacted, we could see markets in these coastal resort towns cool.

The Clarence Valley

The Clarence, in particular Grafton, Maclean and Yamba, is looking set to perform positively in 2018, however, we may see some stabilisation in capital growth and sales volumes.

Vacant land looks set to be in high demand with residential land lots across the area continuing to be taken up by owner occupiers and investors alike. Similarly, properties with the capacity for good rental returns will continue to be popular with rental price increases across the market due to the continuing Pacific Highway upgrade.

New product (i.e. new dwellings and house and land packages), often with premiums being paid for new quality in peaking markets, should be treated with caution as any market softening conditions is likely to affect this segment of the market first if any oversupply or over-capitalisation occurs.

Overall looking forward, the market looks to remain steady with slight possible increases if market conditions continue with the upward trajectory recorded in 2017.

Coffs Harbour

2017 realised significant growth throughout most market sectors due to increased demand and diminishing supply fuelled by continuing low interest rates, a strong rental market and infrastructure upgrades.

2018 has forecasters predicting interest rate rises which are expected to be moderate off the back of recent record low levels. January as always has started slowly however initial feedback from local selling agents indicates good levels of demand, however there is a feeling that the phone is not ringing as often as it was. There is still a lack supply in many market sectors which will continue to prop up the high value levels being achieved.

The one location where prices still appear cheap for a beach side property is Sandy Beach where you can purchase an esplanade position (opposite the beach reserve) starting at \$575,000 to \$700,000. This locality is traditionally considered a lower socio-economic area with little infrastructure, however a large 200 lot development is planned for the area and this coupled with good access and increased services offered in the nearby township of Woolgoolga, six kilometres to the north, make this a suburb to watch.

To the south of Coffs Harbour the townships of Macksville and Nambucca Heads have received a

shot in the arm by way of the completion of the Pacific Highway upgrade, considerably reducing commuting time to the nearest major town of Coffs Harbour. Average prices range between \$250,000 and \$450,000 in these localities which offer good lifestyle benefits within small town communities.

The rural residential market has also recorded considerable increases in values, typically for well located properties close to Coffs Harbour in areas such as Boambee, Bonville, Karangi, Moonee Beach, Emerald Beach, Upper Orara and Bucca and typically within the \$600,000 to \$1 million price range. It should be noted that in our experience with this rural residential market, it is the last market sector to increase and the first to decrease when market conditions decline.

Vacant land has become scarce which has seen significant increases in land values and this coupled with normal building cost increase is seeing premiums paid for new homes. Typically new homes are at their peak of value upon completion and usually require upward market movement to maintain their value as the property ages.

Sales evidence within new estates such as Sapphire Beach Estate, Mariner Cove (Safety Beach), North Sandy Beach Woopi Beach Estate and Seacrest Estate reflect premiums being achieved for new homes above cost, however should market sentiment



and conditions soften over 2018 and supply of spec homes increase, we may see these premiums deteriorate.

In summary, we do not see any major correction in the market in the short to medium term, although there is a sense we are at the top of the wave and waiting for it to break. Any lift in interest rates would only add to this expectation and may see consumer confidence waver.

It is reported that banks are clamping down on higher risk loans with reduction in interest only lending and higher deposits required for investors in line with regulatory recommendations. These restrictions may limit some potential investors' options and soften investor demand.

It is no surprise that it is the affordable end of the market sector (sub \$600,000) that will experience the most activity with prices remaining strong and shortened selling periods. The prestige market has seen increased sales activity for residential product over \$1 million within the greater Coffs Harbour locality, although property over \$1.5 million is still thinly traded with limited sales and extended selling periods generally expected. Local agents are reporting the majority of this activity is from out of town purchasers coming from the metropolitan areas, who were notably missing from the market over the GFC period.

We caution that this is a more volatile market with the most likely buyer being a high net wealth individual, these buyers being limited in the local market and dependent on greater economic market conditions at the time of sale.

Albury / Wodonga

The Albury property market is in good shape as it enters 2018. Since 2013 the market as a whole has been on a gentle incline, however it is difficult to discuss the market as a whole in Albury as there are many different housing stock options and sub-markets to consider. Regional Australia is poised to continue capitalising on the housing affordability crisis in Sydney and Melbourne. Progressive regional cities such as Albury-Wodonga have been investing in infrastructure and development, securing an advantageous position for 2018. As a border town, the achievements of one side of the border benefit both cities, and both Albury and Wodonga have had major projects completed in 2017: Albury with the Regional Cancer Centre, two new child care centres, a public fitness station at River Park, upgrade to Murray High School in Lavington and the near-complete relocation of Bunnings and Total Tools to much larger sites near the existing homemaker centre in East Albury.

From new to old, Albury is alive with activity. New land releases were a feature of 2017; to that end we expect the influx of dwelling construction to continue

with new housing stock in Thurgoona, Lavington, Hamilton Valley and Springdale Heights. Out of town investment in this new housing market cooled somewhat in 2017—we think this trend will likely continue in 2018. Investors and banks will be training a watchful eye on any softening in rental returns and the cost to build, which increased as did vacant land allotment prices. We think residential land may not run as hard in 2018 due to supply and the inability of market evidence to support higher values from the land, as well as the build dilemma when it does not add up for the customer. The more established areas, with stock ranging from mid-1980s to mid-2000s will continue to hold or slightly increase in value, with location and presentation factors maximising sale prices.

East Albury is a very popular suburb; the stock in old East Albury will continue to achieve similar results as its counterparts in highly sought after Forest Hill and Monument Hill. Many will opt to buy and undertake extensive renovations to attain a property within walking distance of the CBD. Over the hill in new East Albury, proximity to the hospital, IGA, Lauren Jackson Sports Centre and Bunnings will continue to attract interest for home owners and investors alike. In the middle to the north, the cheap seats of East Albury are already being discovered as good buying for townhouse development.



Albury often impresses property seekers (locals and newcomers) most with its tree-lined streets, showing off beautiful character dwellings a stone's throw from the CBD, Botanic Gardens and Murray River. Central Albury is the strongest sub-market in this regional city; agents' overuse of terms such as "sought after" and "tightly held" in this area, along with high demand and rising prices, leave one wondering just how much steam this sub-market has left in 2018.

There has been solid investment in renovation and extension of these character dwellings and the area may have been undervalued a few years ago. It will be an interesting area to watch this year, with many consumers priced out and heading north or south to acquire proximity and character at a more affordable rate.

Overall, the Albury property market reflects the depth and breadth of the region; we have a broad and diverse employment base, the Murray River and Lake Hume at our doorstep, mountains, rivers and wineries and heritage surrounding. It is a great place to live and work with a variety of housing stock and an affordability which means turnover of stock. Choosing a house to suit a purpose at any life stage is achievable for many.

Bathurst / Orange

Property values increased in 2017, although the start of the increase was a delayed kick-off in comparison to metropolitan areas. Likewise, the slowdown is

expected to be delayed and 2018 is not expected to see a fall in prices until perhaps very late.

Positive employment conditions in the area, continued affordability, a weekly spending pledge from the local member, lifestyle and aged care options mean the economic fundamentals are good for 2018 and a soft landing late in the year is a worst case scenario.

The construction of new houses is expected to continue in suburbs such as Kelso, Llanarth and Windradyne. Recent land releases by the local government have been popular and will continue to be so for developers and land bankers.

The median house price will increase towards the \$500,000 mark as the number of residential properties sold above this figure increases.

Tamworth

The Tamworth market is expected to continue its steady growth throughout the different segments in 2018. With the continuing low interest rates it is expected that interest from owner occupiers and investors alike will remain strong. The overall cost of property in Tamworth compared to larger metro areas 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. Tamworth continues to grow in all sectors with strong agricultural, industrial, commercial and professional sectors providing good opportunities for employment.

Last year, our suburbs to watch were the emerging suburbs of Calala and North Tamworth as they provided the opportunity for well priced new construction, enticing both first home owners and upgraders alike. This year, with the introduction of the stamp duty exemption for first home buyers we expect this trend of construction to slow slightly and that the houses that will be built to be of a slightly higher value than in previous years at around \$400,000 plus. This expected shift will mean that the established parts of North Tamworth and the suburbs of East and West Tamworth will be the suburbs to keep an eye on. As competition increases for the lower end of these suburbs (\$300,000 to \$450,000), we expect values to be driven up by this competition.

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 more aimed 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 in a non-desirable location with much of the new and surrounding development consisting of housing commission. While high rental yields can be achieved, the risk of damage to property is high and the potential for capital growth is limited.



Victoria

Melbourne

This year is set to be another busy one for Melbourne's residential property market, which is expected to remain generally stable across most market segments. While we expect to see some market softening, there will be some suburbs still experiencing median price growth, albeit at a slower pace than previous years. Population growth in Melbourne is expected to continue to be a major driving factor, with Melbourne set to overtake Sydney as the nation's biggest city by 2036 if the current trends continue. In the 2016-2017 financial year, Melbourne's population grew by 126,175 people and for the 15th consecutive year, showed the largest growth rate for an Australian capital city (source: Australian Bureau of Statistics).

Residential estates in the outer suburbs (25 plus kilometres from Melbourne's Central Business District) in the north, south-east and west are continuing to expand, with house and land packages remaining a popular choice for first home buyers and families. In the middle ring suburbs located within 10 to 25 kilometres of the CBD, such as Keilor East, Preston, Box Hill, Clayton and Bentleigh, we are seeing redevelopment of older dwellings on large sites into multiple townhouses and small scale apartment complexes. In the inner city, apartment buildings are in various stages of completion and

concerns remain around off the plan apartment purchases.

Inner Suburbs

We expect the inner suburban ring property market to stabilise throughout 2018 in suburbs such as Port Melbourne, South Melbourne and South Yarra. We expect Melbourne's inner city apartment sector to flatten and potentially face a slight decline due to the wave of off the plan apartment complexes coming to completion in the early part of 2018, as there are concerns that supply will outstrip demand in some areas.

The price gap between housing and apartment markets is expected to become increasingly larger, with many younger first home buyers looking to the apartment market as a more affordable option.

High rise apartments should be treated with caution, as the off the plan apartment market seems to be heavily reliant on a strong interstate or overseas purchaser and prices are heavily driven by these purchasers.

Northern Suburbs

The outer northern suburbs are viewed as a relatively affordable option for owner occupiers and renters alike. These suburbs have experienced steady price growth over the past 18 months for detached houses, townhouses and vacant land. There are a number

of new developments scheduled to be released throughout the year to satisfy demand for more affordable housing options. We expect a continued and stable price growth throughout 2018.

The outer northern suburb of Mernda, located approximately 27 kilometres north-east of Melbourne's CBD will continue to be worth watching in 2018. According to REIV, median house prices in Mernda have increased by 31% in the past two years, with a median of \$590,000 in the December quarter. We expect to see further growth and development of Mernda and surrounding suburbs, due in part to their increased accessibility as a result of the railway line extension.

We have also seen a steady increase in median house prices in developing suburbs, such as Mickleham with a 40% increase from the December quarter of 2016 (REIV), and we expect these suburbs to keep a steady growing pace throughout this calendar year. While infrastructure within these suburbs is still developing, they are located within close proximity of established residential suburbs such as Craigieburn, providing residents with a compromise between convenience and affordability.

Melbourne's middle and inner northern suburbs have remained strong throughout 2017, experiencing a slower growth rate compared to the outer ring,



but greater capital gains. For the past two years, price growth has led to high vendor expectations which may be moderated in 2018. We believe that new legislation around foreign investment as well as tighter lending policies introduced in July 2017 have led to lower clearance rates, especially for the apartment market, which may put downward pressure on prices in 2018. As a result, vendors may see extended marketing periods, especially for secondary stock.

South Eastern Suburbs

As with the outer northern suburbs, new land estates in the outer south-east experienced high price growth and strong demand throughout 2017. Our expectation for 2018 is that these estates will continue to be in strong demand, however price growth is likely to be at a much slower rate. These markets are quite sensitive to any changes in economic conditions and should interest rates rise or economic conditions decline, it is likely to slow the market considerably.

Pakenham will be one of the suburbs to watch in 2018. Pakenham is located approximately 56 kilometres south-east of the Melbourne CBD within the Cardinia Local Government Area. According to the REIV, median house prices in Pakenham have increased by 27% over the past year and reached a median of \$520,000 in the December 2017 quarter.

We will be observing the performance of developing suburbs such as Clyde North, Cranbourne East and Officer over the coming year as new land releases and subdivision projects become available on the property market.

We expect there to be steady activity and growth within the inner south-eastern suburbs. These suburbs performed well in the past and are expected to continue to grow in 2018. Throughout 2017 we saw a continuing trend of redevelopment. The outer bay side suburbs of Melbourne such as Chelsea, Carrum and Seaford are popular areas for investors and developers to look for the property that has potential to be subdivided and redeveloped. This sub market appeals to potential buyers due to its bay side location, proximity to amenities and competitive price.

North Eastern Suburbs

Outer suburbs such as Bayswater, Kilsyth and Mooroolbark are continuing to supply affordable living for first home owners whilst being accessible to necessary amenities. These suburbs are either supplying new townhouses on smaller allotments or older weatherboard and brick veneer homes that younger generations seek to improve through gentrification. Furthermore, dual occupancies with 400 square metre blocks appear to be particularly desirable to the younger generation as it provides

the privacy and open space they seek for their new families.

The middle east Melbourne suburbs of Ringwood, Heathmont and Mitcham have exhausted their supplies of potential redevelopment sites and are approaching values of over \$1 million. Locations such as Nunawading and Blackburn appear to have an oversupply of apartments situated close to railway stations and other forms of public transport.

Throughout 2018, we predict that the proposed development of the old Lilydale Quarry and the David Mitchell Estate will progress steadily through the planning and implementation stages. The property located on the corner of Hull Road and Melba Avenue is proposed to include a multi-lot subdivision (approximately 200 lots), releasing a new range of available properties varying from vacant land to townhouses, with allotment sizes varying from less than 400 square metres to over 600 square metres upon completion.

Western Suburbs

The inner north-western apartment market should be treated with caution due to the large amount of supply coming on stream, particularly in the suburbs of North Melbourne, West Melbourne, Travancore and Parkville. This concern may be contributing to softening values. While Parkville had unit capital





growth of 1.5%, there was negative capital growth in unit prices in North Melbourne of 0.7% (REIV). We will be watching the performance of this sub market over the coming year as more supply is released on to the market.

The middle ring western suburbs of Albion and Ardeer will be interesting to watch in 2018. In 2017, median prices for a 4-bedroom house increased by almost 27% to \$658,750 and by 32% to \$595,000 respectively (REIV). Although less popular than the neighbouring suburbs of Sunshine and Sunshine North, the proximity to the city, relatively low median price and local amenities make these suburbs ones to watch in 2018.

The outer western suburbs of Kurunjang, Melton, Wyndham Vale, Werribee and Tarneit all ranked in the REIV's most affordable suburbs in December 2017. As with previous years, affordability will be a driving factor of demand in the outer western suburbs as Melbourne's investors and owner-occupiers continue to grapple with affordability and shortage of supply. These suburbs are dominated by first home buyers and families looking for larger living space and amenities close by. We expect this rapid growth to continue in 2018 with demand remaining high and a number of new estates to come onto the market with land pre sales.

Echuca

Building demand and tight supply continue to dominate the conversation at a local level with most local and bulk builders busy. This is consistent with continued gains in almost all market segments from the mortgage belt through to the higher end. Reasonable conditions in the rural sector will likely feed through to general buoyancy in the local economy and coupled with the construction of the second bridge, is likely to result in ongoing buoyant conditions for 2018.

Ballarat

Happy new year to all our valued customers.

The sun is blazing, the grass is yellow, the pubs are busy on school nights, many cafés are closed and many people are away with sand between their toes. It must be January in Ballarat.

As the Sturt Street set slink reluctantly back to their desks, we are to give our predictions of what will happen in the Ballarat bricks and mortar game this year.

Although unspectacular, our general prediction for the Ballarat residential property market is that it will continue to hasten slowly. The strong underlying economic fundamentals of the area are such that any downturn or deflation would be extremely surprising.

We consider the sweet spot of the market will again be renovated period properties in good locations. These locations include Ballarat Central, Lake Wendouree, Soldiers Hill and even Buninyong. The main driver of growth will be the demand for properties in these suburbs due to their location, street scapes and access to infrastructure such as the train station, Lake Wendouree, Parkland and the Ballarat CBD.

The new green field estate properties will again generally feel pressure to maintain their values due to ongoing over supply issues. Two estates which we feel could buck the trend will be Insignia and the new section of Lucas, known as Lucas Platinum. These estates border already established and well regarded areas and most importantly the supply of the land within the estates is finite.

Suburbs that seem affordable at present include Ballarat East, Golden Point and to a lesser extent Black Hill. We consider there to be a significant chance of positive price movement in these areas due to gentrification and an increase in the capacity and speed of the train to Melbourne.

We would advise buyers considering off the plan investment properties in most areas to use the utmost caution. Experience has shown us these often promise much but deliver little.



Mildura

The Mildura market played out as expected in 2017, ticking along steadily, with modest growth in particular for family homes in the \$300,000 to \$550,000 price bracket.

We expect 2018 will see a continuation of this trend. The Sunraysia region is currently benefiting from some significant investment in local horticultural industries, resulting in higher employment and stronger business activity. The strongest demand is likely to continue to be for good standard family homes in town and also for rural residential properties with plenty of room for larger sheds or swimming pools. These larger properties are predominantly between 2,000 and 5,000 square metres in size and located within a 10 kilometre radius of Mildura.

There are a number of traditional residential subdivisions currently underway in Mildura and we expect that demand will remain firm for serviced lots. Vacant building blocks in Mildura are expected to continue to increase in value as developers try to recoup ever increasing subdivision costs.

The release of land in some recently completed subdivisions in the outlying towns of Irymple and Gol Gol will help to satisfy demand from families and first home buyers able to avail themselves of first

homeowner grants from state government. Prices in Irymple and Gol Gol are similar to Mildura, however the average lot size tends to be bigger, which is attractive to many buyers.

The rental market is expected to continue to be reasonably evenly balanced and rental growth is likely to be modest.

There are number of initiatives currently being proposed by Mildura Council, including the Mildura South Sporting Precinct, Mildura Motorsports and Community Precinct and stage two of the Mildura Riverfront redevelopment. These are big projects, reliant on funding from state and federal governments. While it is unlikely that the first two projects will commence in the short term, it is hoped that at least one may come to fruition in the next few years. These projects have the potential to drive tourism growth and have been eagerly anticipated for some time.

Finally, as Mildura endures a scorching week of high temperatures, we expect buyers to continue to look more closely at the energy efficiency of homes. One of the weaknesses of the current state-based energy rating scheme is that it does not differentiate between winter heating and summer cooling, so we occasionally still see houses being built in Mildura which are more suited to a cool climate and

consequently require substantial energy to cool in summer. Builders and home owners need to be better educated to look at more than just whether a home achieves a 6 star energy rating.

SHEPPARTON

The Shepparton property market (including Mooroopna and Kialla) has had a ten year median price increase of just 1% (CoreLogic). Yet the region has seen increased sales volumes with overall average days on market falling. Local agents have reported increased activity from all buyer types, with a noticeable increase in interest from metropolitan investors being attracted to the higher yields that the area offers. Mooroopna is starting to see an increase in the \$350,000 plus market, which is considered to be 'top of the market', while good quality established stock in Shepparton and Kialla above \$450,000 is becoming more fluid. Generally, new constructions with basic upgrades (cooling, appliances, benchtops etc.) are in line with market parameters, however overcapitalised builds are becoming more common.

Residential vacancy rates are sitting around 1.5% with approximately one third of the Shepparton population being renters. Investment yields in the area are hovering around the 6%, however it's not unusual to find properties with tenants in place being sold with yields of above 7%. Hence the increased investor activity.



The major infrastructure project for 2018 is the Goulburn Valley Hospital redevelopment. \$168 million has been pledged by the State Government which will see a four storey tower, three new operating rooms, 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 sometime 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, however is now starting to gain some traction).

The relatively low property values, the planned infrastructure upgrades, the increase in buyer activity, and the regions proximity to Melbourne should bode well for an increase in residential property values over the coming 12 to 24 months.



Queensland

Brisbane

Brisbane is ready for 2018.

It feels like this should be our year, with any number of observers convinced a great boom of capital growth is certain to hit. It's been always the bridesmaid, never the bride for our city's real estate since 2010 as we've watched the southern capitals enjoy value growth at a staggering pace.

Of course, Brisbane's market is more nuanced than this. A scatter-gun approach to property investing in our town - buying whatever, wherever - won't automatically result in a capital gains bulls eye. Purchasers need to consider all the relevant data before they buy this year if the plan is to own a winning prospect in this property market.

We believe that, on the whole, Brisbane property will see 2018 play out in a similar fashion to 2017. We are a traditionally steady market with few surprises.

You can be certain that detached housing within the inner ring will continue to find favour with buyers. How could it not? Supply is limited and demand for quality homes shows no signs of abating. This is the circle that performed best in 2017. Most owners within five to ten kilometres of the CBD appeared eager to hold tight. Many chose to upgrade their homes and enjoy their plumb positions within the confines of our city's most desired markets.

The really interesting value moves this year could well be just a step further out.

As inner-ring housing has gained popularity, prices have risen. With young households feeling the inner-city price pinch, many are beginning to favour a more conservative approach. The well-considered buyers are looking to the middle ring. Suburbs such as Wavell Heights, Kedron, Stafford, Stafford Heights and Chermside are all providing options on the north side while Carina Heights, Carina, Camp Hill, Coorparoo, Holland Park and Holland Park West look good south of the river.

And a good thing it is to see these areas start jumping! Town planning and infrastructure has resulted in these suburbs becoming better serviced and effectively closer to the CBD. Ask any long term resident and they'll tell you tunnels and bus ways might have been an inconvenience during the construction phase, but now that they're done, the convenience is priceless. We might be just at the start of this mid-ring surge so keep your eyes peeled for bargain property in these addresses - particularly holdings where a little renovation might go a long way to boosting equity and lifestyle.

When it comes to areas of concern, it should surprise no one to hear us say be cautious of investor-style attached housing in oversupplied localities close to town. We've been talking about our concern for this

market for years now. If there is any upside worth mentioning, it's that most developers can see the error of their plans to keep building towers. Many have chosen (where possible) to mothball projects or sell off their sites to avoid financial strain. As a result, supply of this new stock has abated to some degree.

The concern now is that many of the larger projects are completing and there's every chance a few of the off-the-plan investor buyers will look to offload their holdings. Some will know what to expect and others could be in for a rude shock. We're already seeing resales at a loss in this sector and if there's heavy listing by out-of-town owners looking to get out, the rise in supply can only be bad for prices.

In addition, investors can expect to take another knock as financiers tighten up their lending criteria, particularly around interest-only loans. Tenants are in the driver's seat too. They're spoiled for choice and don't mind exerting their power when it comes to signing a lease.

This recipe of oversupply, softening prices, falling rents, higher vacancy and tighter lending looks a bit dire for these landlords.

The caveat here is around owner occupier holdings. Quality home-style units are finding appeal, particularly those being built by well-known, high-profile developers with a reputation for building apartments with a prime position and high-end fit



out. Demand for these units is good and should continue in 2018.

Finally, there have been a lot of column inches dedicated to the idea that a surge of Sydney owners will wash across our Brisbane real estate landscape, sucking up all the affordable properties and leaving local investors in their wake with rising house prices keeping them at bay. While we have a recipe for price gains here in Brisbane, there are more ingredients to be sourced. We have to deal with economic growth and the current unemployment rate for a start. Also, infrastructure builds need to take hold.

In this respect, there are some promising developments - the Queens Wharf project, Cross River Rail, the airport and port upgrades, the Howard Smith Wharfs project are all doing their bit to raise the city's profile and boost job numbers. These projects are still long-term prospects, so don't expect their impact to have city changing outcomes this year.

While we're seeing the first signs of Sydney buyers coming to town, most are definitely at the higher-end where they can afford to sell up down south, head up here and buy a home plus an investment property. Many are also lifestyle buyers, meaning they are coming to Queensland but deciding to settle on the coasts. These buyers are a beacon of what can happen as net interstate migration heats

up in Queensland, but the drive of southern money prices is in its early stages and may not become fully entrenched in 2018.

Toowoomba

2018 looms as an interesting year for the Toowoomba market. 2017 saw a continuation of 2016 trends 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 2018.

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

In terms of the residential housing market, it is expected that values may remain relatively stable on the whole throughout 2018 despite these projects. The rental market is in a balanced situation with vacancy rates of around 2.7% as at December 2017

keeping investors interested in the region, albeit to a lower level than that observed from 2013 to 2015. The infrastructure projects are believed to have assisted in holding vacancy rates low with many employees living in the Toowoomba area through the construction phases. Vacancy rates are expected to remain relatively low throughout 2018.

Key development areas continue to include the suburbs of Glenvale, Cotswold Hills, Torrington, Kleinton, Highfields, Cambooya and Westbrook with a mix of owner-occupier and investor orientated estates under development or planned.

Smaller lots than the traditional 600 to 1,000 square metre parcels are being developed within Toowoomba. The acceptance of this small lot product appears to be growing and is expected to increase in popularity in the future.

There are concentrations of small lots, units and duplex buildings in some of the above mentioned development areas which could result in an oversupply of product as infrastructure projects come to a close and workers vacate.

West of Toowoomba, towns within the Surat Basin following the decline of the construction phase of the mining and gas boom have experienced significant declines across the board. These towns are all either regressing currently or have reverted to levels which are more aligned with their predominantly rural



based economies. This stabilisation is expected to continue in 2018 with a remaining over supply situation in the unit sector, improving interest for dwellings from owner-occupiers, the relatively inactive Roma market, and stabilising Chinchilla and Miles markets. Dalby is showing good signs of stabilisation with a strong occupancy rate currently being enjoyed leading to positive movement in rents.

Gold Coast

The Gold Coast, Tweed, Scenic Rim region is presently a two speed market - coastal versus fringe.

At a high and simplistic level, the majority of recent sales activity is heavily in favour of owner-occupiers as investors are being impacted by loan and lending issues for both resident and overseas buyers.

The past three calendar years has been just short of a frenzy for beachside and canal front housing from Surfers Paradise right through to Cabarita Beach. The flow on has dragged prices up in all suburbs east of the M1 (what most locals call central Gold Coast) and some to the west of the motorway. As a result, there are not too many areas that we see as being good value or affordable at present.

Statistics are already showing price declines or very slow growth plus falling auction clearances in the Sydney and Melbourne markets which has usually been a leading indicator for the Gold Coast. The historical "sell our house in Sydney for \$X

million and buy a waterfront property on the Gold Coast, plus a boat and have \$300,000 plus in the bank" is probably no longer a reality as Gold Coast prices have increased dramatically. Add to that the measures targeting overseas ownership and we are less likely to have Chinese or interstate buyers pushing up our market. The current rate of interstate migration, strong tourism numbers, rising rents, low vacancy rates and relative affordability will prop up the local market enough to offset the reduced investor activity and avoid slipping into a decline for at least the first half of 2018. That is, provided there isn't an influx of locals listing homes to hopefully cash in on the Commonwealth Games boom (Is there such a thing? Some seem to think so, but not us).

Other than the departure of Chinese mainland investors, the restrictions on domestic investor and interest only lending appear to be having a significant impact with lower transaction volumes evident. Unless the APRA policies change, we expect this trend to continue with increased scrutiny on lenders around loan serviceability making it more difficult for borrowers to secure credit. This is most evident in the outer housing estates where valuation volumes of house and land packages have fallen by circa 40%.

Aside from the legacy of the Commonwealth Games new and upgraded sporting precincts, light rail stage 2 is up and running, connecting heavy rail to

Southport, Surfers and Broadbeach. The Games Village is complete and the unit sell down process, whether in-one-line to an institution or as individual lots, will be have an impact on supply and prices.

Other new, large infrastructure projects that are going to have a strong influence in 2018 are described below:

- Jade and Spirit highrise developments are very high end and sales prices and volumes are a closely guarded secret. The level of success achieved will be under the microscope.
- Queen Street Village on the old Gold Coast Hospital site will commence in the first half of 2018 by the developers responsible for James Street and The Barracks urban renewal projects in Brisbane. The mixed use development with retail, retirement, student and residential accommodation based around the light rail station has the potential to be a boon for the area if executed to the same standard as the projects they have completed in Brisbane.
- Hope Island Marketplace has also broken ground and will give the large and growing suburb an additional retail hub that is likely to be well received.
- Coomera Town Centre is also under construction to service the northern corridor.



- Tweed Heads has a new hospital on the drawing board and the lucky location of the three proposed (Cobaki Lakes, Kings Forest or Chinderah) should see immediate benefit in the housing market.

While the pace of growth will be nothing like we have seen over the past two to three years, the Gold Coast will still be considered a relatively strong performer when compared to some other major markets in Australia that seem set to continue a gradual decline over the first half of the year. Our prediction is flat to maybe 2% growth over the first six months before a decline late in 2018 or early 2019.

Sunshine Coast

The Sunshine Coast property market finished 2017 on a strong note, with good levels of activity and increases in values experienced across the coast in most sectors. Once again and much like 2016, the past 12 months have exceeded expectations with growth in values across the board. Capital growth in the residential property market on the Sunshine Coast is expected to continue, however we're expecting it to ease over the coming year.

Dwelling sales within the coastal corridor between Maroochydore and Caloundra, particularly the sub \$700,000 price range, are expected to continue with increased demand as a result of the growth in infrastructure around the Sunshine Coast University Hospital. Stock levels continue to remain very low.

Stocklands' Aura development located to the south of Caloundra and the Harmony Estate at Palmview are continuing to generate strong interest from both owner-occupiers and investors. These developments will provide the Sunshine Coast with large scale residential land subdivisions within relatively close proximity of the new hospital and the centres of Caloundra and Maroochydore. Earthworks continue at Oceanside, which is the only significant undeveloped greenfield site remaining between Maroochydore and Caloundra. Once completed, this development will comprise a mix of single unit dwellings, medium density residential units as well as a retail and restaurant precinct.

The majority of residential development particularly in the new larger estates is primarily targeted towards the entry level market with residential lots getting smaller to improve affordability. 2017 has continued to see the emergence of dual key dwellings comprising of an attached 1- or 2-bedroom unit targeted at investors, however this type of product has seen the impact of APRA's policy changes to investor lending. These changes have effectively limited the number of interest only investor loans. This is probably the area of concern for 2018 as there are early signs of over supply of investor product and an easing in rents in some areas. The resale market for this type of product is still relatively untested through local agents with the majority of these properties constructed by interstate investors.

The northern coastal areas of the Sunshine Coast and the prestige market in the Noosa area are expected to continue to see some growth throughout 2018. The strong markets and confidence of Sydney, Melbourne and more locally, Brisbane, are having a positive impact in the area. This is due to the perceived bang for your buck here compared to the capital cities. The lack of vacant land and new subdivisions in the Noosa region is also helping to underpin values in these areas.

Units lagged behind the housing market through most of 2017 however agents have been reporting good levels of interest in units, particularly owner-occupier units within smaller complexes with low body corporates. This swing to permanent unit living has been reflected in the number of new unit complexes under construction or proposed that directly target this market.

The lifestyle and rural residential market has also improved with upgraders being active in the area. The railway townships have also improved with affordability being the key and also lot sizes being greater.

Overall, 2018 is expected to continue in much the same way as 2017 finished and it is predicted to be another good year for the residential property market on the Sunshine Coast. Will it be as good as the past 12 months? We will have to wait and see.



Hervey Bay

2018 is likely to be a gradual continuation of last year for the residential market on the Fraser Coast with slow capital growth and stable rent returns. Supply and demand for house and land packages is expected to remain fairly balanced with house prices still very competitive and reasonable in this sector. The supply of vacant land is rising in Hervey Bay with the completion of a few smaller in-fill estates and it will be interesting to see how quickly these sell in the short term. There is a risk of oversupply however this will depend on the volume of lots and the timeline which developers release each stage. The construction of new homes for mostly local residents is expected to be on going and will continue to provide steady employment for local tradespersons and businesses. The increase in 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 are likely to remain flat to stagnant overall, however demand for townhouses and on ground style units will continue to remain steady with selling periods of up to three months.

Bundaberg

We would expect the 2018 Bundaberg residential market to continue with a stable rate of sale and median sale price. There is little evidence to suggest a market movement whether it be positive or negative which has been the case over the past few

years. Bundaberg is a relatively compact residential market with its main advantage being its generally low cost of housing compared to other regional cities.

Emerald

In 2018, we expect to see more firming in the market similar to 2017. Better quality houses in the Emerald market experienced a 5% increase in the second half of 2017. In 2018, it's possible we will see a 5% to 15% firming by the end of the year. The resource sector is positive with increased employment, large capital expenditure projects happening, wages increasing, rents increasing and sales starting to push the upper end of the current market range. While coal prices remain up, the positive trend will continue. If we revisit the boom days of a labour shortage, this has the possibility to see the market firm sharply. We are noticing motel occupancy, job advertisements and skills shortage all coming into play. A house in Emerald which sold right at the peak of the market in April 2012 for \$462,000 is now under contract for \$359,000 which is still back 22.5% from the peak, but up from the general market fall of 30% to 35% at the bottom in 2016. We have a positive outlook for 2018 and hope for a sustained steady firming.

Gladstone

The Gladstone market saw many positives over the course of 2017 with increased sales volumes, declining vacancy rates, reduced days on the market, multiple offers being made and an increase in new

dwelling construction. In the later stages of 2017, rents also began to rise. Taking all this into account, the only conclusion is the Gladstone residential market should see some increase in values in 2018.

There are still negatives associated with the Gladstone market. Much like Mackay and Emerald, there are harsh lending policies from several major banks on the 4680 postcode. The downturn from 2012 to 2017 saw sharp declines in values (up to 50% for dwellings and 80% for units) resulting in a general lack of equity for potential purchasers. While the local economy is slowly recovering, employment markets remain tight and there are no major confirmed infrastructure projects on the horizon.

We believe the positives outweigh the negatives and that there are many green shoots throughout the market heading into 2018. We expect to see minor price growth (probably around 10%) over the course of 2018.

Rockhampton

After almost four years of continual decline in the local Rockhampton and surrounding residential markets, it is with a renewed feeling of confidence and optimism that we anticipate that 2018 will be the year of the regions. Yes, that's right - a feeling of change is in the air, primarily on the back of people's attitudes and an increased level of confidence amongst buyers and sellers.



Towards the back end of 2017, we saw the Queensland election play out with a renewed majority government sworn in. Central Queensland has since seen an improvement in coal prices, continued strong performance across most agricultural and rural sectors, vacancy rates have reduced in most markets, rental prices have seen a slight improvement and sales activity, albeit still at historically low prices, is on the increase. These factors combined with a number of major infrastructure projects currently on the cards including Adani Coal, Rockwood Weir, Mount Morgan Mine and Great Keppel Island will hopefully come to fruition during 2018 providing a major boost for employment across the region which in turn will lead to an improved economy and hopefully some long awaited growth in our residential markets.

Mackay

It's that time again when we grab the crystal ball and try to predict the year ahead. I have been thinking about what to write in this column for some time now and it's actually been a bit tricky!

On the positive side, we saw the market stabilise during 2017 with increased sales volumes, less time on market for sales and general optimism returning to the market. The general consensus seemed to be that the worst was behind us and it was onward and upward from here. Economically speaking, Mackay is definitely on the improve with greater confidence in

the resource sector and major capital infrastructure projects in the Bowen Basin given the green light, resulting in increased employment opportunities. In Mackay, large infrastructure projects continue with the Mackay Ring Road construction to ramp up, general construction increases as well as a number of other projects. Interest rates continue to be at historic lows. Weigh all this up and the only conclusion is that the Mackay residential market should increase in 2018.

However, on the negative side, as stated in our yearly wrap up last year, there are still a number of hurdles the Mackay market will need to overcome before we see any material or substantial growth in values. Firstly, harsher lending policies of the major banks for postcode 4740 are still in effect. Also, the downturn in the market saw significant value loss, with the average loss in value of dwellings being around \$100,000 and higher. This in turn has eroded a lot of equity for potential purchasers. A common theme from local agents and punters is they would love to buy in this market, however due to the drop in value of their existing house, don't have the deposit or ability to purchase.

Overall, we think the positives will outweigh the negatives and the Mackay residential market should see a modest increase in value throughout 2018.

Townsville

The year ahead is likely to see improving economic conditions in Townsville, which in turn is likely to see the residential property market continue to consolidate with increased market sentiment.

Major projects already underway include the Townsville Stadium, Ross River Solar Farm and Haughton pipeline duplication with a score of other projects mooted to commence during 2018. We are seeing the trending rental vacancy rate continue to tighten from an oversupplied market at the beginning of 2017 of over 5.5% to a trending vacancy rate at the end of December 2017 of just over 3%. This trend is likely to continue as people move to the region on the back of these major projects.

The inner city 4810 postcodes are showing signs of starting to pulse again and this is likely to continue throughout 2018. Historically with an improving residential market, these inner city locations are the first to see movement before it ripples through to the outer suburbs. Whether we see this ripple effect take place this year will be highly reliant on factors such as unemployment, job security and population growth.

Overall our feeling is that 2018 will see an increased level of activity in the residential market with prices remaining stable and the rental market continuing to consolidate within a more balanced market range.



Cairns

The Cairns economy made significant advances during the course of 2017, but wavered towards the end of the year as tourism and employment growth both came off the boil. However there are prospects for tourism growth to return as new international flights start up, while job advertising rates continue to gain strength. These are positive signs for employment and economic growth to regather during the start of 2018.

In our view, strong employment growth is expected to occur in 2018 in the key areas of:

1. Medical and healthcare: ongoing demand for medical and healthcare practitioners heightened by NDIS demands.
2. Construction: three new hotels now being built will progressively move from formwork to finishing stages during the year, plus Nova City startup is expected in mid-2018. These will create jobs for carpenters, concretors, steelfixers etc at the formwork stages, moving to electricians, plumbers, tilers, plasterers, carpetlayers, painters, cabinetmakers etc as they progress to finishing and fitout.
3. Tourism and hospitality: instigated by the first of the new Crystalbrook hotels (Riley) opening in 2018, together with extra jobs arising from additional tourism generated by extra flights.
4. Mining: from regional Cape York mining projects such as Amrun.
5. Professionals: as business and the economy continue to pick up this should flow through to professions such as planning, engineering, legal and accounting.

Technically, the median house price in Cairns increased about \$2,500 for sales during the 12 months to December 2017, while the median unit price reduced by about \$1,000. These represent price changes during the year of 0.6% and 0.5% respectively, indicative of only extremely mild change. Indeed our own in-market assessment is that individual property values over the past 12 months have been mostly flat.

Our expectation is that the Cairns property market will finally gain some traction during 2018 as a result of economic gains. The proviso though is that the Australian dollar needs to stay at reasonable levels so as to not jeopardise tourism growth, otherwise property in 2018 will be more of the same. The range of plausible outcomes for Cairns property prices during 2018 could be anywhere between -1% and +10%.



South Australia

Adelaide

I think we will see continued growth at a slow and steady rate through the next 12 months. We have come through some quite negative times from a business point of view and while this has had some impact (e.g. closure of Holden) it has hurt sectors of the market rather than the market as a whole.

Prospect is situated 4 kilometres to the north of the CBD. We should continue to see activity in the \$1 million plus price range, however there are still properties available in the \$500,000 to \$800,000 price range which provide entry level purchases for buyers seeking character dwellings and larger allotments.

Flinders Park is situated 5 kilometres west of the CBD and offers older housing on larger allotments. Properties under \$600,000 in this area deserve attention given the continued popularity of this suburb.

Glenalta is situated in the Adelaide Hills to the south of the CBD. This area still provides entry level options for first home buyers seeking detached housing.

Prospect Ongoing changes to Prospect Road and the recent completion of a cinema continue to provide local residents with a convenient and vibrant shopping and café hub. Demand within this suburb should continue to remain solid.

Flinders Park Continued in-fill development is fuelling good demand for older, detached housing. The suburb is situated between the city and the coast as well as being adjacent to Linear Park. Completion of the Torrens-to-Torrens Roadway by the end of the year will also improve access within the inner western suburbs.

Glenalta This suburb offers a hills lifestyle, convenient shopping and community facilities all within 10 kilometres of the CBD.

Royal Park is undergoing increasing in-fill development and provides lower cost entry into the market than the neighbouring suburbs of Seaton and West Lakes. Hectorville in the north-east still provides affordable units allowing first home buyers entry into the suburb.

There have been a couple of CBD apartment buildings which have been finished during 2017 as well as a couple which are nearing completion. While the State Government is encouraging more people to live in the CBD, we believe that it might take some time to absorb this supply. It often takes a year or so for a resale market to become established to determine whether or not the sale prices from developers are sustainable.

Similarly, changes in zoning in areas such as Campbelltown, Plympton and Hectorville, which allow higher density development, have increased

prices over the past couple of years for potential development sites. In these areas there have only been a small number of dwellings completed, however we are aware of a number of approvals which have been obtained. While there is currently demand for these newer properties, we are unsure of the markets depth and whether this future supply will be absorbed. Therefore this could result in an oversupply. We will need to monitor this over the short term.

The fallout from the closure of the Holden Plant is likely to play out through 2018. While the government is attempting to encourage employment in the north, this may take some time and people may need to move away to find work. This may influence demand for properties.

Adelaide has been mentioned in the media in the latter stage of 2017 as an 'affordable' capital city option when compared to the likes of Sydney and Melbourne. This type of media discussion may result in some increased demand within Adelaide, particularly to the city fringe.

The end of 2017 saw the completion of the O-Bahn Busway which has been touted as a solution to traffic congestion adjacent the city as well as improving travel times from the north-eastern suburbs. 2018 will see the completion of the Torrens-to-Torrens roadway project and further enhance access for



the North-South corridor. This may also influence demand for properties. We will be continuing to monitor the market in light of these projects.

O-Bahn Busway tunnel completion:



(Source: Adelaidenow.com.au, abc.net.au)

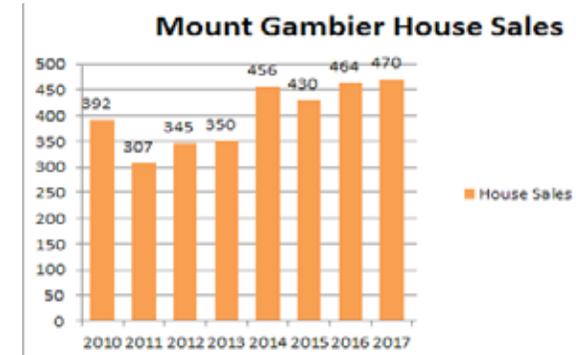
Work on Torrens to Torrens project continues to progress:



(Source: adalaidenow.com.au)

Mount Gambier

In Mount Gambier, the outlook for 2018 is for the housing market to 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 2017 were at similar levels to where they have been since 2014 and it is expected that this will continue throughout 2018. 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.



The graph below shows the number of house sales that sold within the \$400,000 to \$500,000 price range for the past ten years. There was a significant decrease between 2009 and 2011 when the market dropped back, however there has been a steady incline 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.





The \$200,000 to \$250,000 price range is affordable and it's where the most number of sales are occurring. A house within this range appeals to families and first home buyers and is generally of good quality, includes 3- to 4-bedrooms, 1- to 2-bathrooms, a garage and a pergola area and is 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 2-bedroom, 1-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 relatively similar to last year with no major fluctuations in the local market.



Tasmania

Well can 2018 match the performance of 2017 in the land south of Bass Strait?

Pondering the coming year it's hard not to feel confident looking over the Hobart CBD skyline with cranes in the air!

As has been well publicised, Hobart lead the nation in terms of percentage capital growth during the past year. What was less publicised was the fact the city also had the highest rental cost growth. These factors actually meant that many investors to the market were able to maintain yield levels.

So what is going on?

The tourism market is as they say, booming. Many dwellings are being withdrawn from the rental pool or purpose bought for the sole purpose of Airbnb style accommodation.

The population is growing (yes slowly) but extra people require extra houses.

And the economy has regained the confidence and momentum that was lost post GFC.

These factors are placing pressure on housing availability.

With ongoing near full vacancy applying continued upward pressure on rents and pressure on housing availability, we expect another stellar year for the Apple Capital in 2018 and would not be surprised to

see double digit growth in house prices again.

What could go wrong?

The following factors would appear to be the short term risks:

a) A State Election has been called for early March. Without getting political, the election of a minority government or a government in coalition with the 'The Greens' could place some uncertainty into the market.

b) Any reduction in the First Home Buyers/Home Builders Grant may do the same (not proposed to our knowledge). Conversely if a newly elected government 'improved' the package, it may add further impetus to the market.

c) Negative media on cooling Sydney and Melbourne markets may dampen local enthusiasm.

d) Finally, a sharp upward movement in interest rates (again considered a low side risk).

Outside of the capital, Launceston is also continuing the march forward. Capital projects such as the Silo's, University relocation and new hotel in Tamar Street are providing local confidence. Again near full rental vacancies and capital growth are providing encouragement for the residential investor.

Devonport, while not enjoying the capital growth of the larger two centres, is certainly moving in the right

direction. The CBD redevelopment and new tourism expenditure again providing local confidence.

Many regional coastal centres we consider are likely to continue to benefit from the ripple effect as people buy that holiday home with new found equity or the 'mainlander' buys that holiday/investment property.

In short, we remain confident for 2018!



Northern Territory

Darwin

2018 is shaping as a difficult year for the Darwin residential property market. A number of factors are at play which all will have differing impact on the market. The obvious overhanging point in the market is the completion of the construction phase of the \$34 billion Ichthys Gas Project, second is a slowing of construction within the area, third we look to tightening lending practices enforced from APRA to lending institutions, particularly towards Investors and last is the continued supply of residential land.

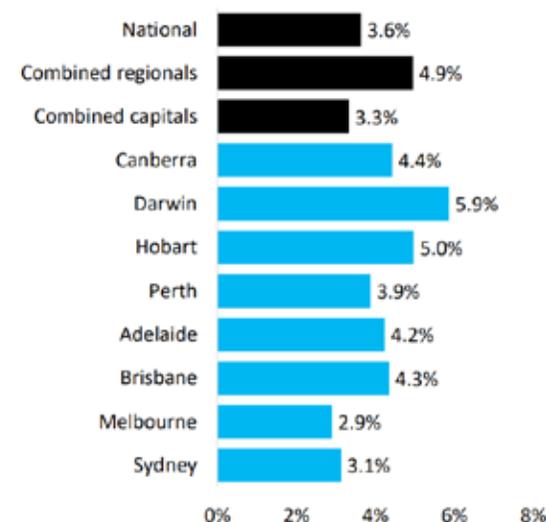
The jury is still out whether the Ichthys gas project has been good for the Darwin residential market. The latter part of 2018 will see a large wind down in the number of workers on site, many of these have been FIFO and residing at the Howard Springs Worker's camp, however many have taken permanent occupation in local suburbs. As the workers leave town there will be a need to back fill the large numbers of CBD apartments, and the dwellings which are occupied in suburbia. Without another large infrastructure project on the immediate horizon it's expected that this will place downward pressure on the existing rental market, and increase vacancy rates (currently sitting at 5.9% Darwin).

Construction has visibly slowed in the greater Darwin market. As we write this article there are no tower cranes in the Darwin CBD, and as we understand there is little planned high rise or large scale

residential construction projects in the pipeline. In a small market such as Darwin, the presence of cranes has a strong impact on the market. Driving passed construction sites provides strong sentiment of good times, building means jobs, investment and economic spin off. Planned for 2018 in the Darwin CBD is the 6 star hotel at the Darwin Waterfront to be constructed by Land-Bridge group, and a new headquarters for the Department of Health. These projects will provide jobs however will not add to the supply of long term residential accommodation.

Investors take up a large proportion of the Darwin market. CBD and inner suburb apartments have long been a safe bet for investors, RPData shows that gross yields for the greater Darwin market are at 5.9%, which is the highest for any capital city in the country. The publicity around investor lending has been strong and loud, the push back and tightening of lending policies for the Australian lenders will have an impact on the Darwin market. With a population of c130,000, the greater Darwin market has relied upon interstate investors to drive demand for the transient population. As funds for investment lending continue to dry up, we suggest that off the plan sales and unit sales will be quite difficult to come by.

Gross rental yields as at Dec-17



The fourth factor for the Darwin market in 2018 as we see it is residential land supply. North Crest is the newest master planned suburb to hit the Darwin market, the old Berrimah farm located in Berrimah, half way between the Darwin CBD and Palmerston. North Crest is a brand new, 168 hectare green filled site which will provide up to 2,000 single lots and 1,000 other accommodation types in an expected 13 year project life span. North Crest includes open space, one government school site and very good



access to public transport. First titles will be issued in quarter one 2018. This site will have a positive impact on jobs and construction of new dwellings and continued government incentives for first home owners will drive demand on the small allotments.

In Palmerston, land supply will continue in Zuccoli. There are a number of years supply available there, and with infrastructure, neighbourhood centres and population increasing, it's likely to continue to develop into a thriving location.

2017 was a tough year in the Darwin residential property market, unfortunately this writer doesn't have a magic wand to turn the market around. Without doubt there will be green shoots in the market place, the northern suburbs already appear to be bouncing back with increased volume and buyer activity and the inner suburbs just keep keeping on. In any market there are always opportunities and right now there are very good buying opportunities in the Darwin market.



Western Australia

Perth

We start 2018 with a cautious but optimistic view, with a general feeling that the worst is behind us in most market segments. The most common term used to describe current sentiment is “green shoots”, however we believe that some market segments are already blooming, whilst others are still waiting for the storm to pass. Confidence levels are improving, reflected in price stability and increase in activity, particularly over the past two quarters. Our research indicates that over a quarter of Perth suburbs recorded positive sales growth in 2017 - a significant improvement from the previous year.

At the same time, the overall state economy has remained steady with positive signs of future improvement, although we await more information on critical Federal government contributions to arrest the decline in GST contributions. Western Australia is still encumbered by heavy debt levels created by significant infrastructure contributions required to cater for the mining boom, which did little but remove funds from WA and send them into Federal coffers. Key indicators including employment, one of our biggest state challenges from 2015 to 2017, has shown signs of growth again. The only indicator likely to slow overall state performance from its potential in 2018 is the continuing weak population growth, although the next wave of mining development appears to be well underway. It is a

little understood phenomenon at present within the wider community - the previous construction boom in the mining industry has significantly expanded mining output and the challenge now is to maintain that output with mines depleting at more rapid rates. It's no easy feat to replace multi billion dollar mines and the forward planning required is already having positive effects on the WA economy.

The December quarter brought us promising news. Perth's median house price remained steady and increased in three out of five sub-regions. The central sub region took the lead with an 8.1% increase from the September quarter. The overall median house price is currently sitting at \$507,000 but is expected to increase to \$525,000 once all sales have settled according to the Real Estate Institute of Western Australia. The estimate would represent a 2.6% increase from the previous quarter and an equal figure to last year's median price.

465 house sales were transacted in the week ending 9 January 2018 in comparison to 386 in the same week the previous year. Listings are down to 13,134 from 14,502 listings in 2017- another healthy sign of recovery. It is commonly believed that a balanced housing market is reflected when listings hover around 12,000 to 13,000 properties.

Properties are also selling quicker at present in comparison to 12 months ago, with the December

quarter reflecting a ten day reduction in average selling days to an average of 60 days.

Speculations in a future lithium boom along with spikes in commodity prices, in particular high grade iron ore, seem to have boosted confidence in the Western Australian mining sector, likely to be reflected in the state's property market. In response to the optimism, the Pilbara region appears to be in full recovery mode. In great contrast to recent years, we have seen significant increases in sales volume and examples of price recovery over the past six months. Port Hedland house sales jumped from 41 in the year to September 2016 to 64 in 2017, representing a 59% increase. South Hedland experienced a further increase from 113 to 207 while Newman surprised us with a whopping 120% increase from 35 sales in 2016 to 77 in 2017. We expect this performance to stabilise throughout the year and generally balanced market conditions are anticipated, although as we have seen in the past, such predictions can be affected by various project announcements and the rumour mill is rampant at present!

As previously mentioned, this will be a patchy year with mixed performance among our regions, subregions and even suburbs. Not all areas will do well. Outer developing areas such as Ellenbrook, Baldivis, Byford and the far northern coastal strip are still struggling and we expect to experience a peak in



mortgagee activity later in 2018 in such areas, with prices unlikely to recover. Despite the affordability in the more distant areas, house and land packages should be treated with caution. Current funding restrictions prevent first home buyers entering the established housing market which is fuelling demand for house and land packages, however there is limited demand for such properties from the minute they have been lived in. Hence once a period of difficulty is experienced, it can be difficult for first home buyers to recover, which has been fuelling the mortgage in possession rate in such areas.

The good news is that 2017 offered upgraders a discounted entry to the million dollar market. The significant discount from previous years gave the market a very successful kick start, with a continuous rise in demand following the “once upon a time” incentive to take advantage of the double bonus of discounted prices and cheap money. A further improvement is expected to flow through 2018, with increasing prices due to rising demand in areas already suffering from declining stock levels, such as Cottesloe, Mount Pleasant, Dalkeith, Rossmoyne and South Perth. Bull Creek, Padbury, Balcatta, Stirling and other secondary suburbs are also expected see further activity and rising prices.

Older units and apartments in good locations are selling at a significant discount to historical

transaction levels due to high volumes of new supply. House prices are rising while unit prices are drifting. The overall demand for apartments is expected to remain low in 2018 unless we see a significant uplift in either house prices or rental returns (which is not expected). Home buyers and investors tend to prefer detached dwellings over apartments, especially at this point in time when housing is still very affordable. Older apartments in North Perth, Mount Lawley, Wembley, Victoria Park and Northbridge are definitely worth watching in 2018 and the rental returns on offer could look very attractive in comparison to other segments of the market. The new price point in sought after locations provides great odds for capital gains in a recovering market. Modern, small units in oversupplied areas such as the City of Belmont should be treated with caution, as demand appears to have plummeted and there is no current indication of an increase in demand.

On a more granular level, Melville is worth watching in 2018. You can get a foot in the market at sub \$500,000 for a fairly basic but decent home. \$1.2 million gives you views and a more prestigious dwelling. The suburb is well located with close proximity to Fremantle, the freeway, beaches, schools, shops and recreation activities. Developers have soaked up parts of the suburb in response to recent zoning changes. We are now seeing a number

of modern units being built. Some new products are already listed and it will be interesting to see how well the market absorbs the new offerings.

Down south, Mandurah struggles to meet its seasonal target. Pre-summer, Mandurah’s peak selling period, started well with increased sales activity but activity plummeted to well below average in late December. Our prediction is that Mandurah will at best remain stable during 2018, but the likelihood of a slight price drop is greater, according to our local valuers. The beach front in suburbs north of Mandurah may however take an interesting turn. At present, the area seems to have been forgotten, with prices appearing to be very good but we believe the bargain hunters may be disappointed soon as declining stock levels are likely to push prices higher.

In terms of overall affordability, Perth is offering very good value for money in comparison to other capital cities. There are many suburbs within ten kilometres of the CBD where you can purchase a liveable home on a full sized allotment for under \$500,000 and the options increase significantly if you extend your search outwards by two or three kilometres. Parkwood, Ferndale, Bibra Lake, Craigie and Padbury are all on our watch list.

Something to keep in mind is that buying near new products in establishing suburbs is often significantly





cheaper than purchasing land and building, but be careful of areas where high volumes of new supply are still coming through. House and land packages are marginal at best when compared to near new housing prices, despite discounted building costs and incentives galore.

In summary, 2018 is likely to be reasonably stable, but with some opportunity for growth and most importantly changes in attitude among investors and speculators. The overall economy is experiencing recovery with increasing employment providing opportunity for greater investment and expenditure in the state. We have seen a very patchy performance, although an overall improvement, in the property market over the past two quarters. Prices are rising and properties are selling quicker, particularly in more sought after suburbs. Growth is expected to continue throughout the year. Now could be the time to snap up a decent residential property in a decent location before the rest of the market catches on. On the downside, mortgagee activity is likely to peak in outer suburbs with declining prices and activity. Overall, 2018 will serve as a confidence booster, bring us stability in the market and prepare Western Australia for a big turn in 2019. We predict that 2018 will end with a median house price of \$540,000.

Esperance

Before looking at the crystal ball for the year ahead, a quick recap on the year just passed may assist in providing some indications for the months to come.

2017 just didn't seem to want to get started. The whole year seemed to be in a holding pattern, waiting for that next big thing that would give the market a kick start and allow some momentum to build. Market activity came in fits and starts but didn't really achieve any consistency although values themselves were reasonably constant. Values over all price ranges and property types in the broader Esperance town site have remained reasonably consistent however selling periods have lengthened compared to previous years.

Vacant land sales remained stable with supply slowly diminishing. Values have remained consistent with the preceding year and shown some minor improvement in the localities now seeing a shortage in supply.

So, to the year ahead. At the risk of sounding like a broken record, much of the same is the prediction for 2018. A number of properties over all price ranges and property types are available for sale however demand is also relatively stable within all markets and sales are occurring, albeit at a slower pace with a reasonable consistency in values. As with all areas, accurately priced property is attracting sound

demand and typical selling periods are still less than six months.

The market prediction for the smaller centres in the broader Esperance region are more difficult to gauge. Hopetoun, 200 kilometres west of Esperance, has seen a substantial decline in values over the past five years with a combination of excessive oversupply of land, very low sales volumes and uncertainty of employment in the region all being contributing factors. The land is slowly beginning to be absorbed and improved residential values at present appear to have stabilised within a typical range of between \$220,000 and \$350,000. Sales volumes are still very low and there is a large amount of property available on the market. It is likely that if sales volumes do not improve, there may still be some downward correction to come as vendors who have had property listed for an extended period become more anxious to quit this market.

The small mining town of Norseman, 200 kilometres north of Esperance, has had an interesting past couple of years and will likely have an interesting 2018. Norseman gold mine, the main employer in the town, went into a care and maintenance program in June 2014 with most staff laid off and the town largely emptied. This is on the back of massively declining values since 2012 due largely to uncertainty over the future of the mine.



Since July 2014 however, the volume of sales in Norseman has been particularly strong, especially noting the overall size of the market. Values are very low, however seem to have had some consistent improvement over the preceding 12 months. A 4-bedroom home in a generally good condition could likely sell for circa \$60,000 to \$70,000, but would have been less than \$50,000 twelve to 18 months ago. Typical sales for older homes in varying conditions range between \$20,000 and \$40,000. It has been suggested that Norseman provides the most affordable housing in the country and this could well be correct and be a reason sales volumes are reasonably strong for such a small market. As to whether any capital growth may occur, it is unlikely until the local economy can stabilise with either the current mine reopening or new publicised mining ventures in the region gaining some momentum.

South West WA

In 2017, the number of house sales in the South West's regional centres gradually fell. This was expected following the continued downturn and low levels of sales in the Perth market. Significant reductions in value were expected to flow into the South West market, however in general these have only been minor. The better performing suburbs were the coastal suburbs in the Busselton, Dunsborough and Margaret River regions.

The Bunbury locality had the greatest reduction in value with a sharp drop in the median house price in February. While it has recovered somewhat since then, it is still sitting below the previous five year average.

Agents across the region are noting a drop in the number of listings with many suggesting that this could be as a result of vendors picking the bottom of the market and holding off selling for the time being.

Vacant land values have seen some minor reductions in value and the number of vacant land sales is decreasing in most areas with the exception of Australind.

There has been some movement in the top end of the market, however these have generally been for very well presented prestige properties above \$2 million. There continues to be limited demand in the \$1 million to \$2 million section of the market.

The rural residential market has been active with a higher number of sales towards the end of 2017. While there has been no significant shift in value to date the number of rural residential listings are currently very limited which could place upward pressure on value. The trend in the rural residential market has been towards cleared lots over bush lots.

The rental market is very weak with an increasing number of vacancies which has seen rental values reducing.

Moving forward we would expect the market in the South West to stabilise and slightly strengthen. This is on the back of the general consensus that the Perth market has now bottomed and is expected to improve. If this eventuates, the South West would see an increase in investor activity as Perth property owners would contemplate leveraging or liquidating their properties to secure a holiday home or investment down south. In addition, the property market would continue to be fuelled by the region's population growth. The South West population grew in 2017 and we would expect this to continue in 2018.

Opportunities for capital growth would lie with established coastal suburbs along the Geographe Bay. As the region continues to grow at a strong rate, this well located section of land will continue to grow in desirability and affluence as the urban sprawl continues to be pushed further away from the coast line. This consequently will result in good capital growth over the medium to long term as an increase in population will lead to stronger demand of a product that has limited scope to increase in supply. However, it is the outlying urban sprawl around Bunbury that we would expect to weaken in values. Whether or not it has reached the bottom remains unclear. Overall we expect the majority of the market to be level and stable with some well-located regions having potential to grow and other outlying fringe suburbs to reduce.

Rural





Overview

Welcome to 2018 and I hope our readers have enjoyed a nice festive season.

How this year pans out on the back of a second very strong year in the agriculture sector will be interesting to see. Normally over the break we see activity slow down and transactions not really start to kick in until February, but such is the sector at present that there have been some people clearly working over the holiday season and there are new sales being reported already this season. The horticulture sector is the current flavour of the month with almost anything of scale and permanent crop related attracting strong buyer interest. This could be grapes, avos, citrus, etc. Strong underlying commodity prices, positive demand outlooks and relatively consistent input costs are helping the sector deliver strong earnings and hence attracting the interest.

On the broader acre grazing and cropping there has been a drying off again in many regions. Western Queensland has still has not broken to a good wet season and time is fast moving past when this may occur. Fingers are crossed that the current build up in the north can trigger much needed state wide rain. The winter crop program was down on the 2016 crop and some of the big money in the chick pea market has come out with tariffs imposed by India. So in short, there are a few emerging headwinds in this

sector. Beef prices are stable but down from highs, yet the sheep and wool sector remains very strong and not too affected as yet by the strengthening dollar.

This year is shaping as one where the trend line for values may start to waver in many regions and commodity classes. The team reports that in most areas around the country, sale values are now at all-time highs. How high they will go is the question for many market players this year.

As in prior years, we will endeavour to address this question in our annual market updates held in Melbourne on 28 February and Brisbane on 2 March. If you are interested in attending either event and have not received an invite as yet, please get in touch with me at rural@htw.com.au. This year we have Mick Keogh, Chairman of the Australian Farm Institute, as a keynote speaker. He will discuss the current opportunities in the sector and what needs to happen to help capture this nationally.

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Southern Queensland

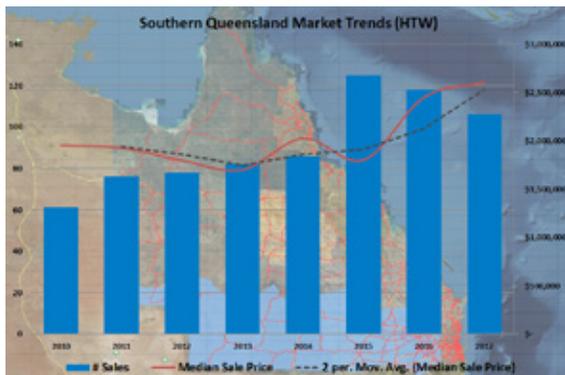
Well, another year has passed and generally the past 12 months saw continued strengthening within the agriculture marketplace of south-east Queensland. Strong beef prices at the beginning of the year primarily continued to drive demand. Similar levels

of property value growth were also reflected on the Inner Downs for broadacre dryland and irrigated farming country. Broadly some of the key points observed for 2017 were:

- Significant strengthening in land values for good quality assets for both quality finishing cattle country and also farming assets that demonstrate scale, quality and water;
- Bulk of the market purchases were by existing family operators acquiring additional country. The corporate market appears to have been dragged along and required to compete strongly for country with those near neighbours;
- Significant premiums over and above that previously demonstrated in the market for near or adjoining owner purchasers;
- Continuation of drought conditions in western Queensland has to a large degree hampered the market recovery;
- Significant capital expenditure on cluster or exclusion fencing in the southern and western part of the State;
- Some volatility in cattle pricing towards the end of the year has softened beef confidence, although from a high base;
- Evolving water market (surface and ground) in Queensland with trading of water rights increasing.



Looking at the southern part of the state from the Brisbane Valley through to the Northern Territory border for country greater than 1,000 hectares, there has been an increase in the median sale price of 7.5% from the previous year and 31% for the past two years. When considering the liquidity of the market, the number of sales has however decreased by about 10% each year. In part we consider this has been caused by the lack of quality listings available but also for country west of Charleville many landholders are holding off listing until seasonal conditions improve. On the other hand within the mixed farming area from Surat to Condamine and south to Moonie, sales in 2016 increased by 10% but notably appear to have weakened over the past six months. The 2017 year is likely to show a 10% reduction in sales from the previous year. Below is a graph showing the market trends since 2010 for the broader southern Queensland rural market:



Overall and just simply looking at the market data, with the continued weakening in sales volumes, are we approaching the top end of the market cycle? The volatility in commodity markets and the strengthening Australian dollar now trading at US\$0.80 (with some economists advising the Australian dollar is also currently undervalued) will ultimately impact on farm returns. On the other hand, the broader outlook of the agriculture industry is very positive with significant interest shown by corporates wanting to either secure consistency of supply, fully integrate into the supply chain or simply invest in agriculture as a passive investor underpinned by strong farm returns.

Now we are in a new year the market has been slow to kick off with agents advising limited enquiry for early January. The big hurdle at present on how the market evolves is the current extreme dry and hot seasonal conditions. Some storm rainfalls were received over the Christmas and new year period that provided some relief east of Roma but also some heavy rain and large hail caused crop and infrastructure damage east of Dalby. With no follow up rain to date for January, the country has dried off significantly and crop stress is also now evident broadly across the region. Graziers in western Queensland near Blackall and Augathella have been required to reduce numbers and are therefore sending large numbers of cattle to sale

as meat works reopen after the Christmas period. There is no doubt the present dry conditions are hampering market activity but unfortunately the current seasonal conditions are becoming more common than not. With some local authorities now in their fifth year under drought declared status, some graziers are at the point of thinking that it's now beyond a joke and it's got to rain one day.

Let's hope the seasonal conditions have changed for the better by the time this goes to publication and is old news and agriculture in 2018 enjoys a wet and prosperous year for all involved.



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North Queensland

Now that the monsoonal trough is active and in the area, let the rain fall!

These past three months have been so dry. Many cattle station green dates have either just passed or are nearing.

A paradigm of selling down quickly and restocking slowly is emerging in the north. It is positive to note the shift and is further explored in the Wambiana trial updates (worth printing out for your wet season reading!).

The selling down quickly and restocking slowly strategy is growing and evolving from the old wait until Easter to see if it rains and then sell down. This proactive business leadership is a positive sign for the strength of the industry and its stewardship.

Also, it's a good strategy for land and pasture condition management. More and more graziers have been doing more with less in the past year.

Another emerging trend at present is to challenge the mindset of heavy stocking pressure to meet financial commitments. The result has been a degradation of pasture composition and land condition. By backing off the emphasis of loading up

country, the business performance indicators (gross margins and kilos per hectare) have been improving.

This trend in evolving the industry paradigms is likely to continue to change in the next year, either by leadership choice or as a result of the reduced herd inventory because of the good prices in the last couple of years.

Not only is the link between pasture condition, stocking pressure and business performance likely to continue to evolve in the year ahead, so too is the likelihood of property sale prices reflecting the land condition.

During the last year, we worked with various purchasers in their due diligence processes. In doing this, examples arose whereby pasture composition and land condition were very much factors in the eventual property purchase price.

Some business people have no intention at all of selling down. The business strategy behind this is to maintain and grow the enterprise scale even in the face of adverse seasonal conditions. These graziers know that they have to get bigger. They are confident in the long term outlook for cattle businesses.

Graziers who are looking to maintain or grow their numbers have been on the search for agistment country. Unfortunately, due to the general lack of spare grass, there aren't many options available. Agistment rates may rise substantially this year on the back of short supply. The same goes for country becoming available to lease.

Depending on how much and where the monsoon delivers the rain, this situation can be positive for the property market.

This is often a good phase of the property market cycle for the northern forest country, where southern graziers look north for the reliable rainfall. Watch these market areas this year for increased activity in the next year.

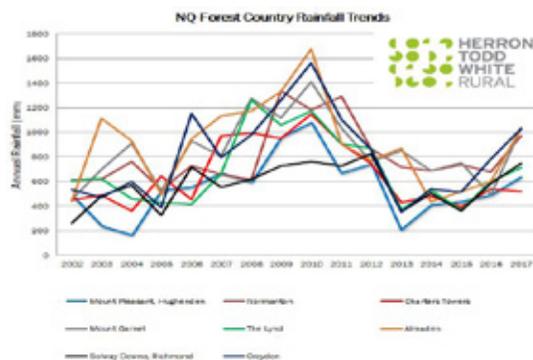
The wet season has started already north of the line from say Chillagoe and Mount Garnet west to Normanton. There has been a narrow band of rain events south along the ranges from Georgetown towards Hughenden.

It is interesting to note that there is quite a lot of variation in rainfall reliability in this area. The general market thinks that these higher rainfall areas have high seasonal reliability. As a point of interest, we



have sought to model this and test the detail from say the 2002 drought to now (16 years).

There are general seasonal macro patterns of 2005 (low rainfall), 2010 (substantial rainfall) and recent drought years. Take a closer look at which areas have the greatest range of variability.



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Echuca

Average yields and prices have done little to slow down the rural market in almost all markets save for dairy which continues to struggle under the weight of softening global commodities. While the cropping sector has been particularly bullish in 2017, graziers appear ready to join the party with several relatively

strong sales in the Riverina and central Victoria. Notably there has been a real depth in the market with corporate buyers and private owners competing to varying degrees across almost all segments.

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Central Tablelands / Southern Tablelands NSW

There may be a slowing of sales activity at the moment but this could be just that it seems slower because of Christmas, so, it's too early to say that sales activity is slowing.

I am currently about to value two properties for mortgage purposes that are sales and both of these show very strong rates per hectare. They both benefit from being located very close to (on the very fringe of) their towns of Orange and Young. I'm thinking that with the 2018 year off to a start in the Central Tablelands, with these two very strong sales being the starters, we can be saying that the market is still strong and isn't showing signs of steadying.

I see that in The Land article of 11 January 2018, "Strong Market For Locals", several well-known agents were quoted as saying the market has been showing quite unprecedented strength, at levels one may see only once in their career. I'm thinking this isn't overstating it and is fairly accurate for this market ending 2017 and starting off 2018.

Seasonal conditions: Relatively very dry at the moment.

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Central and Western NSW

The rural property market across all areas of central and western New South Wales appears to be continuing in a very bullish manner. Regardless of seasonal tightness the market demand continues to outstrip supply. We are analysing sales that are continually breaking records and well in advance of market expectation.

The cotton crop is developing well in the Macquarie and Lachlan Valleys. Yield expectations are sound and with cotton pricing well in advance of \$500 per bale many producers are selling forward with confidence. Tighter seasonal conditions are advancing sell off of livestock and increased numbers have put some pressure on returns.

Recent sales of note include:

Roadview, Narromine: 1,252 hectare cropping property located approximately 22 kilometres south of Narromine. Sold for \$4.2 million.

Edithville, Gin Gin, Trangie: 1,511 hectare flood irrigation and dryland cropping property located approximately 30 kilometres north-east of Trangie.



2,600 mega litres of Macquarie River general security water entitlement. Sold for \$8.45 million.

Old Narwonah and Myall, Narromine: 1,288 hectare flood irrigation and dryland cropping property located approximately 22 kilometres south-west of Narromine. 1,220 mega litres of aquifer water and 1,469 mega litres of Narromine Irrigation Board of Management Scheme entitlement. Sold for \$8 million.

Contact:

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Western Victoria and South East South Australia

Following on from 2017, 2018 is likely to be another exciting year in the rural sector for much of the south-east of South Australia's and Western Victoria's land owners, farmers and investors. The market remains heated with demand significantly outstripping supply in most areas. Recent large scale transactions include Mt Shank near Mount Gambier (circa \$50 million WIWO) and Corinella's purchase of SAF's Lake Bolac cropping assets (circa \$14 million). Warakirri's purchases around Boort and Hassads Assets in northern South Australia continue to be the focus point for many conversations. Local and corporate sales continue to break price barriers and grazing sales above \$500 per DSE are becoming more common.

Livestock prices remain above longer term averages and grain prices appear to have passed the bottom of the market. Coupled with the current low interest rate environment and the global economic climate, the rural market appears to be only going one way in the short term. Despite many market participants' view that the market is heated and close to correction, supply and demand characteristics do not appear to agree, with demand significantly outstripping supply in these regions. As a result, 2018 is likely to shape up to be another big year.

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Mildura

It is hard to see any reasons for the current buoyant rural property market not to continue throughout 2018. The current property cycle is remarkable for the fact that virtually all local commodities are enjoying above average returns, with the outlook for most commodity prices currently being very favourable. At the same time, there is a large pool of corporate buyers targeting Australian agriculture.

Buyers are actively chasing most types of horticultural property as well as cropping and grazing enterprises and appear prepared to pay historically high prices for properties that provide good economies of scale and have a good standard

of improvements. There also continues to be large scale greenfield development of almonds, olives, table grapes, citrus and to a lesser extent dried fruit, however the pool of available land for such development is getting smaller.

Some of the trends we expect to see during 2018 include:

- A large number of sales continuing to be negotiated in off market transactions, with both buyers and sellers willing to by-pass real estate agents. In most cases, buyers are directly approaching owners of properties deemed to suit their requirements.
- The price gap between highly improved and just average standard properties will narrow. It will get harder to find highly improved properties and buyers will likely become more pragmatic as a result.
- There will continue to be sales of wine grape vineyards where the purchaser intends to redevelop to a higher returning crop.
- As the market moves through the current cycle, there will be some properties purchased for prices that are subsequently viewed as being at above market levels.



The foundations for the current good export returns for commodities such as citrus, table grapes and almonds date back to many years of patient market development combined with the signing of free trade agreements with key Asian countries. The ability of growers and marketers to ensure all market protocols are met will be the key to maintaining these lucrative markets. Maintaining a competitive exchange rate will also be important.

The other main factor affecting the horticultural sector will be the irrigation water outlook. There was above average winter rainfall (and snow fall) during 2016 and 2017, which contributed to high allocations in the Murray Valley and readily available temporary water on the leasing market. The cost of leasing water has been mostly below \$130 per megalitre for the past 18 months. Forecasting future rainfall is beyond my brief, however history suggests that there will be a drier winter during one of the next few years and that at some stage, irrigators will have to face the prospect of paying more for temporary water.

One of the more noteworthy recent sales is of Petro Station, which is a large scale cropping and grazing property located in south-western New South Wales, approximately 60 kilometres north of Mildura. This property, held under NSW Western Lands lease, included approximately 8,400 hectares of good standard cropping country. The sale shows over \$900 per hectare for well regarded arable land, but

located in an area with an average rainfall of around 290 millimetres

Meanwhile, the purchaser of this property sold an 1,130 hectare parcel of mostly arable land adjoining the Robinvale irrigation district for approximately \$4,500 per hectare, which showed a healthy 240% capital gain in the three years they owned it. The purchaser of the Robinvale property is an established table grape growing family, who intends to complete a large scale horticultural development. This last sale highlights how quickly market sentiment in the horticultural sector can shift.

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Northern Territory

2018 in the Northern Territory and Kimberley dawns with another sale in the Alice Springs district reflecting continued strong demand for central Australian pastoral land. (The property is under contract and details remain confidential at this stage.). Conways Station (1,392 square kilometres) in the Roper region has finally settled for \$5.795 million (assessed bare), up from the \$3.2 million purchase price in March 2006 (a few water and fencing improvements were made plus a new homestead developed in the interim - we note that the sale was actually negotiated back in mid 2017). There have been no more sales to report over the Christmas

period which is historically a quiet time for property inspections.

Presently, pickings are a little slim for cattle stations in the NT or Kimberley. The following list (not exhaustive) includes stations that are being actively marketed for sale:

Kalala (3,760 square kilometres, Daly Waters)

Tarlee (586 square kilometres, via Mataranka, Sturt Plateau)

Legune (1,789 square kilometres plus 1,063 square kilometres under grazing licence, northern Victoria River District)

Middle Creek (602 square kilometres, Sturt Plateau)

Flying Fox (895 square kilometres, Roper District)

Kiana (3,318 square kilometres, Tablelands/NT gulf region),

Sturt Downs (Perpetual Crown Lease, 678 square kilometres, Katherine/Sturt Plateau).

There may be other properties out there that are quietly testing the market without any formal advertising (in fact, the recent Alice Springs transaction mentioned above was negotiated in this manner) and we have recently become aware of two cattle stations scheduled to come to the market within the next month and one of them has significant scale.



Given the generally widely held view within the industry that pastoral values must be somewhere near peak levels, it will be interesting to see how many other pastoralists head to the market over the next six months to take advantage of the historically high property values. Potential property purchasers and vendors will be weighing up how the weaker demand from Indonesia for export steers (heading closer to 300c/kg, currently around 320c/kg ex-Darwin due to the strengthening Australian dollar, competition from cheap buffalo meat imports etc) and weaker demand from Vietnam, versus the potential growth in the China live cattle market will impact on demand for pastoral land in the foreseeable future. It appears that many are also waiting to see if the domestic cattle market will also weaken if the drought affecting two-thirds of Queensland doesn't break (we note that the Queensland Government's seasonal outlook for the Queensland summer indicates a slightly higher than normal probability of exceeding median rainfall across much of Queensland).

Meanwhile in the NT, the wet season has been a little patchy to date, but still, our rainfall map looks a lot healthier than Queensland's. The northern rainfall onset for the NT (ie. the accumulation of at least 50 millimetres after 1 September when enough rain has fallen to stimulate plant growth after the dry season) began in late October for much of the Alice

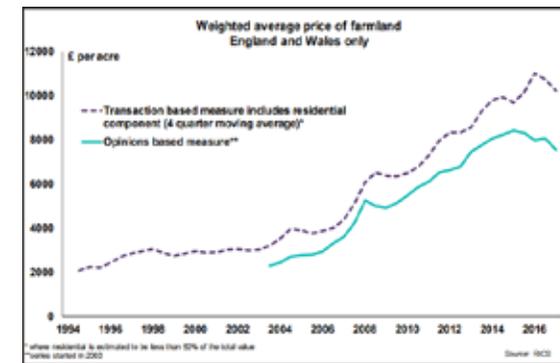
Springs region (much earlier than average), parts of the Plenty district, the eastern part of the Barkly Tablelands and the pastoral country north of the Sturt Plateau. The Top End has had total rainfall ranging from around 600 to 1200 millimetres, while total falls for the balance of the Territory to date amount to between 150 and 250 millimetres but there is a chunk of the western Barkly (north and south of Elliot) that has still not received much rainfall for grass at all to date. However, it is generally not until around mid-January that the southern inland regions of the NT typically reach the 50 millimetre onset benchmark.

South West WA

After a slow and dry start in 2017, the year was shaping up to be a hard one for cropping regions, however late winter rainfall helped lift expectations and confidence with above average yields recorded in some but not all regions. As we enter 2018, confidence across many of the West Australian cropping regions is high however these tend to be in the medium to high rainfall areas with some of the marginal and low rainfall areas continuing to face difficult conditions. The high to medium rainfall areas continue to perform well and land supply has started to dry up with land values on the increase as farms expand and corporate and international purchasers continue to invest in the region. It appears that the perception both locally and

nationally or internationally is that Western Australia is still relatively cheap when considering yields and potential returns.

Originally coming from the UK where values from cropping land can be upwards of 10,000 pounds (AU\$17,500) an acre (demonstrated in graph and table below) you can see why the impression of land being cheap is a valid one.



	Farmland prices England and Wales										
	Bare land opinion based			Farmland transaction based - g				Farm - weighted average - £ per acre		Yield	
	Wg price	Wg sale	Wg price	Wg price	Price index	No. of sales	AUC (acre)	Wg sale	Wg price	Wg sale	Wg price
£ per acre	£ per acre	£ per acre	£ per acre	1995=100	reported	1000 acres	Wg sale	Wg price	Wg sale	Wg price	
H1-2016	1,062	1,062	1,143	11,559	80	254	123.3	75	130	53	94
H1-2017 (p)	1,241	1,270	1,704	9,501	473	176	128.1	75	146	53	94

Source: https://www.rics.org/Global/RICS_RAU_Rural_Land_Market_Survey_H1_2017_Summary.pdf





There are however other factors at play in the UK including European subsidies and very low interest rates.

On a domestic front, I was asked the question early in 2018 during an inspection “do you think WA arable land is cheap?” when cropping land in the Green Triangle South Australia is valued at \$7,400 per hectare for land that yields similar to land that is valued at \$2,500 per hectare in Western Australia. This is probably due to a number of factors including rainfall, soil type and population however it is a valid point when making a comparison across the country. So when taking into account that confidence is high and with some areas being considered cheap, it is likely that we will see continued demand and increases in land values throughout 2018, although most likely in the better performing regions.

Living in the South West, I have witnessed first hand that the rumour mill is working overtime regarding the 2017 reported \$180 million sale of Jasper Farms Avocado business located in Busselton’s surrounding rural localities. This business has been developed over a number of years and is the largest in West Australia with a significant water supply. It is unlikely that this year or in the years to come we will see another sale of this magnitude however this is already reportedly giving a significant boost to the confidence of the West Australian avocado breeders, growers and plantation owners.

The dairy industry in general continues to remain subdued with milk prices remaining around the 50 cents per litre mark. On a positive note though the new owners of Brownes are reportedly looking to re-start cheese production in the South West which is likely to give a boost to producers’ confidence and potentially will help with some over supply issues.

The north-western pastoral regions continued to see station sales activity in 2017 on the back of strong cattle prices, however prices are now starting to level off or dip. It is likely that we are at or just past the peak, with 2018 likely to see a slowing in pastoral property sales activity and values levelling off.

Overall in 2018, the rural property market is considered to have a positive outlook with market confidence being high across some market sectors. Demand is likely to continue to outstrip supply in many of the reliable cropping regions with values continuing to increase. There is however one factor that can change confidence very quickly and if I could predict it accurately I would be a very popular person - rainfall. The current BOM prediction for 2018 is that February to April will be wetter than average which is another contributing factor to the positive outlook for 2018.

Contact:
David Abel - Ph: 08 9388 3274

Property Market Indicators

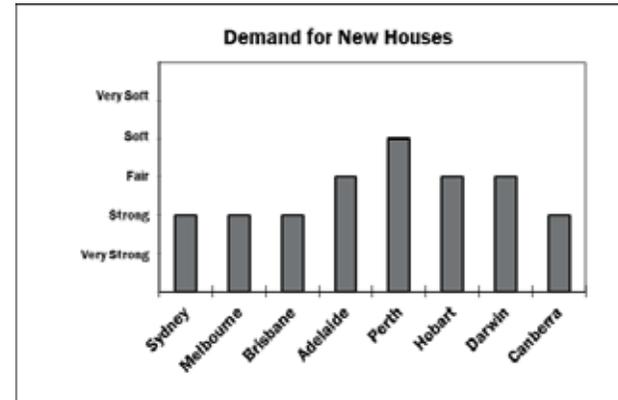
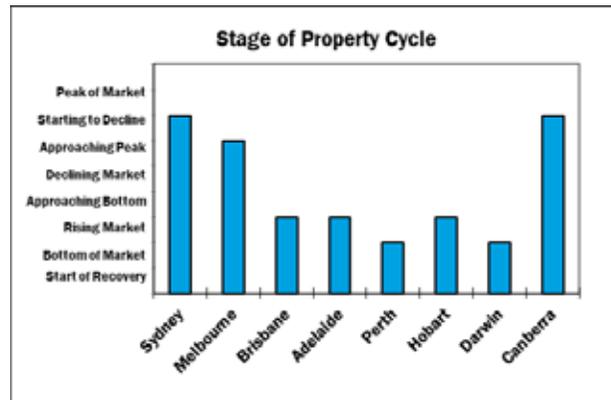
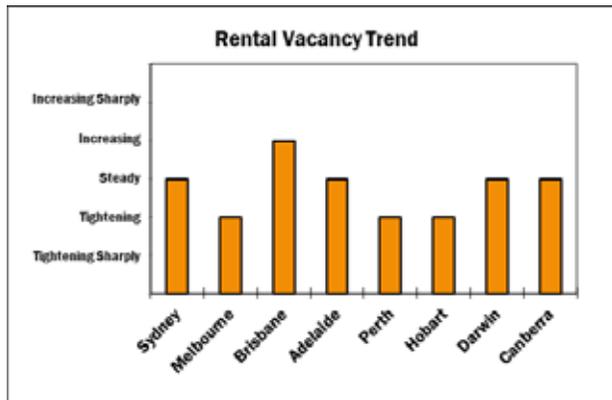


Capital City Property Market Indicators – Houses

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Tightening	Increasing	Steady	Tightening	Tightening	Steady	Steady
Demand for New Houses	Strong	Strong	Strong	Fair	Soft	Fair	Fair	Strong
Trend in New House Construction	Steady	Steady	Increasing	Increasing	Declining	Declining	Declining	Increasing
Volume of House Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Increasing
Stage of Property Cycle	Starting to decline	Approaching peak of market	Rising market	Rising market	Bottom of market	Rising market	Bottom of market	Starting to decline
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	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



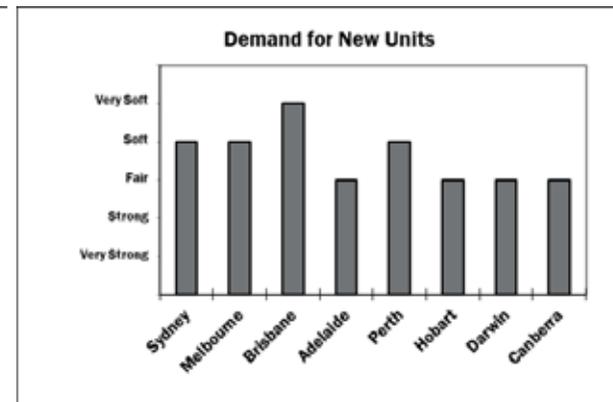
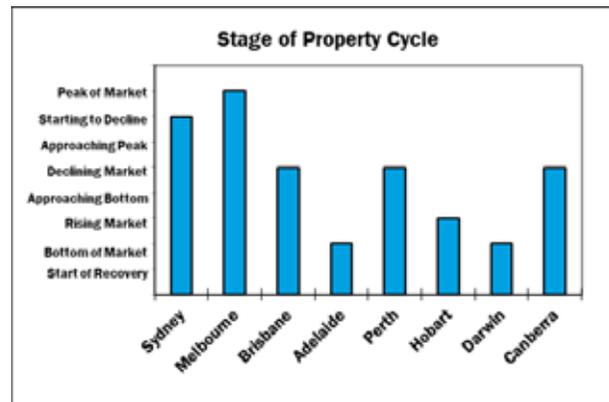
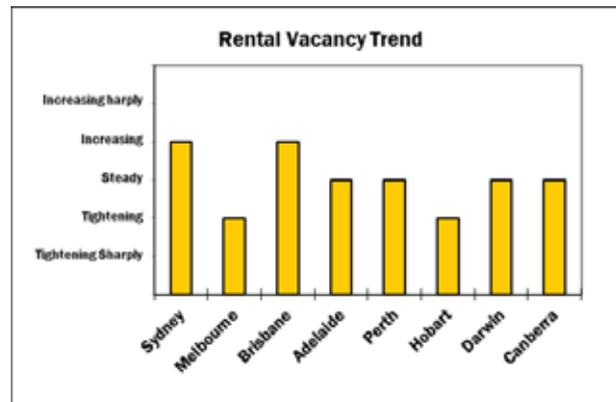


Capital City Property Market Indicators – Units

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	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	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Tightening	Increasing	Steady	Steady	Tightening	Steady	Steady
Demand for New Units	Soft	Soft	Very soft	Fair	Soft	Fair	Fair	Fair
Trend in New Unit Construction	Steady	Steady	Declining significantly	Increasing	Declining	Declining	Steady	Increasing
Volume of Unit Sales	Steady	Declining	Declining significantly	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Starting to decline	Peak of market	Declining market	Bottom of market	Declining market	Rising market	Bottom of market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Very frequently	Occasionally	Occasionally	Almost never	Almost never	Almost always

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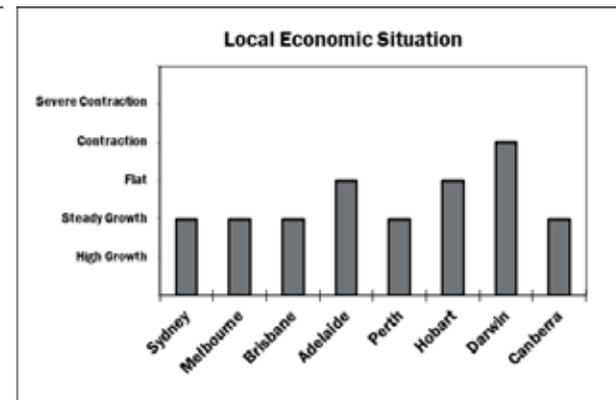
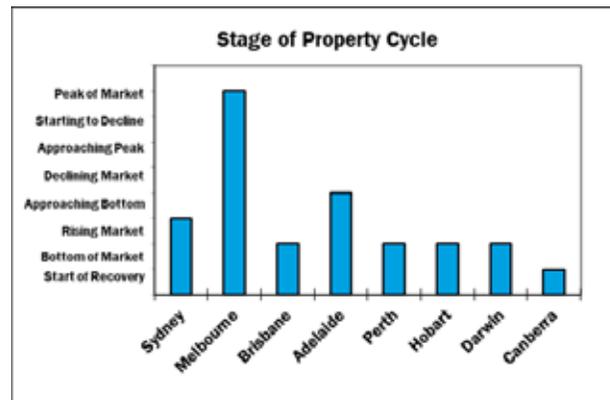
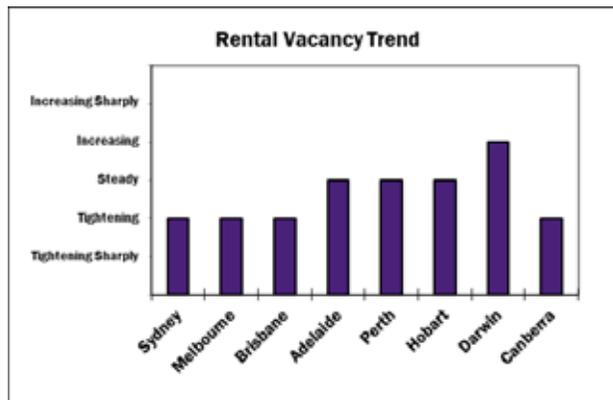


Capital City Property Market Indicators – Office

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

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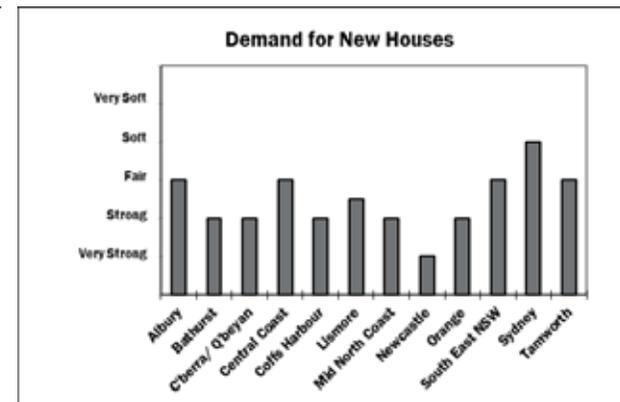
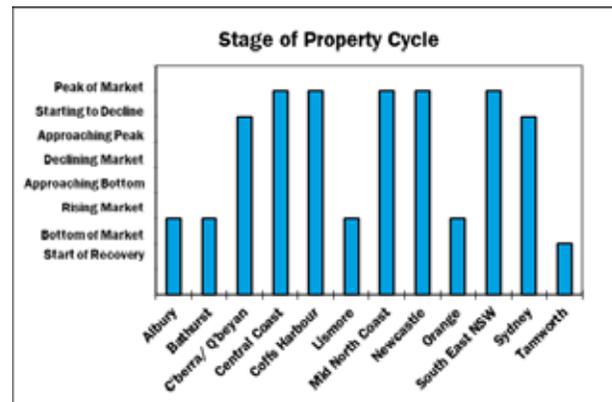
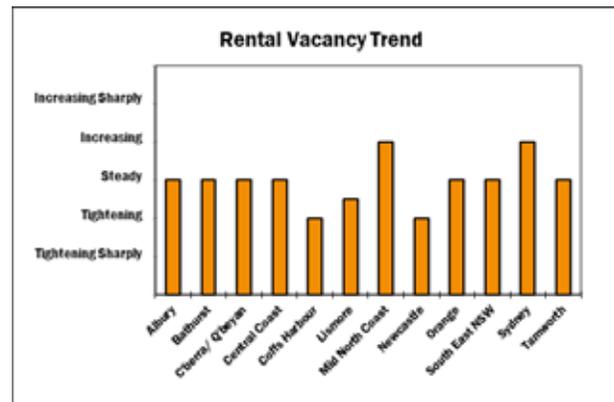


New South Wales Property Market Indicators – Houses

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

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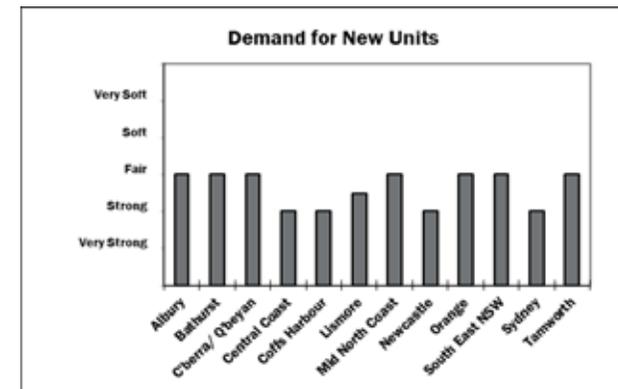
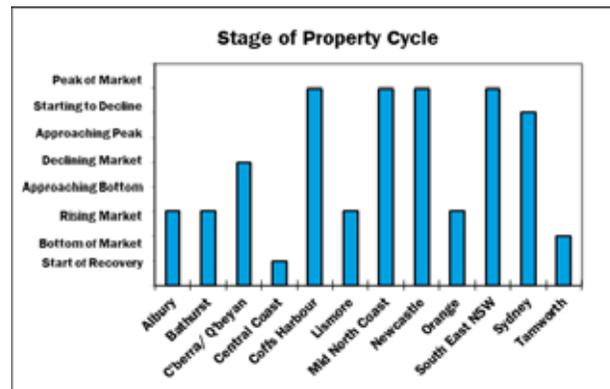
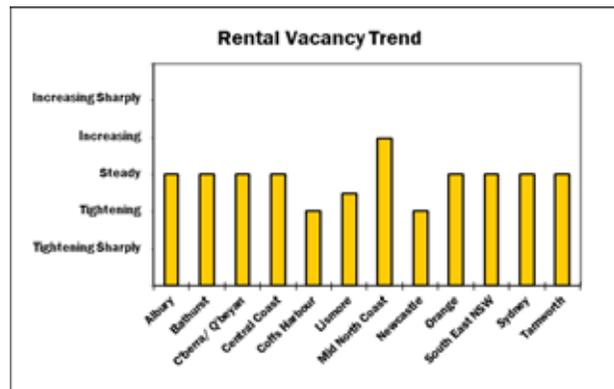


New South Wales Property Market Indicators – Units

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

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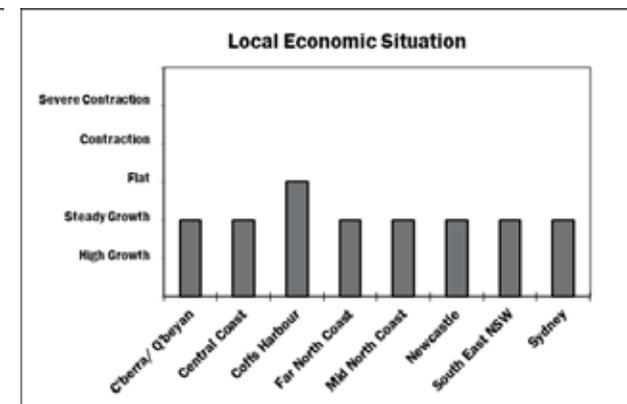
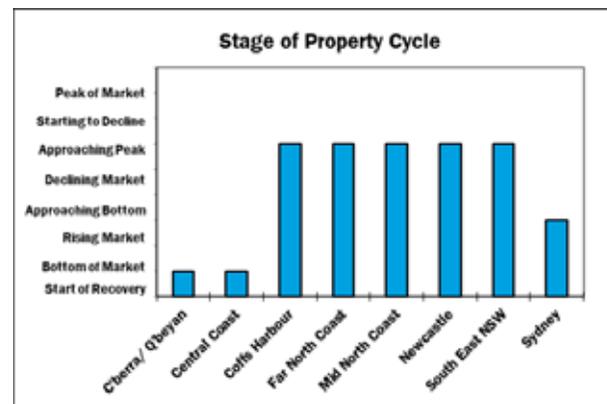
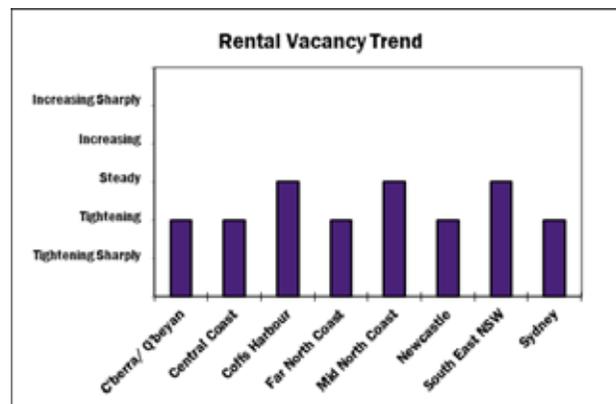


New South Wales Property Market Indicators – Office

Factor	Canberra	Central Coast	Coffs Harbour	Far North Coast	Mid North Coast	Newcastle	South East NSW	Sydney
Rental Vacancy Situation	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	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Steady	Tightening	Steady	Tightening	Steady	Tightening
Rental Rate Trend	Increasing	Stable	Stable	Stable	Stable	Stable	Stable - Increasing	Increasing
Volume of Property Sales	Steady	Increasing	Declining	Steady	Steady	Increasing	Steady	Steady
Stage of Property Cycle	Start of recovery	Start of recovery	Approaching peak of market	Approaching peak of market	Approaching peak of market	Approaching peak of market	Approaching peak of market	Rising market
Local Economic Situation	Steady growth	Steady growth	Flat	Steady growth	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	Large	Small - Significant	Small

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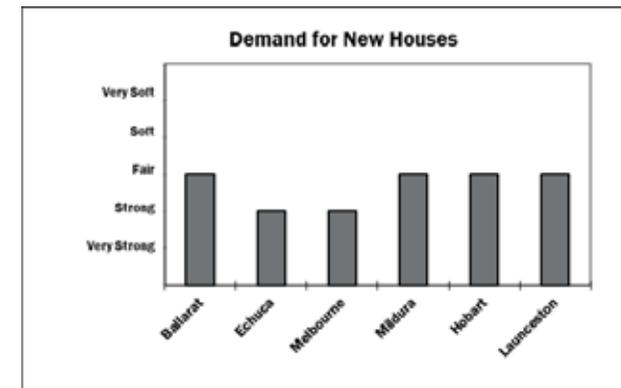
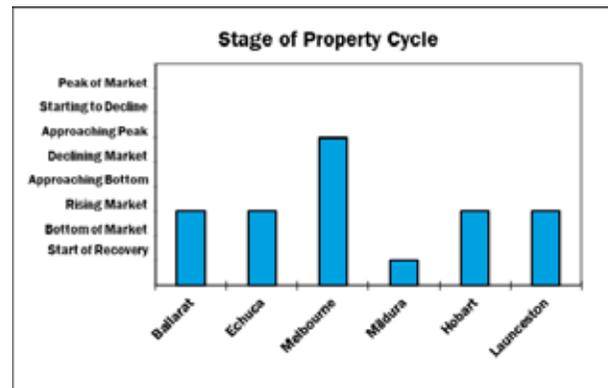
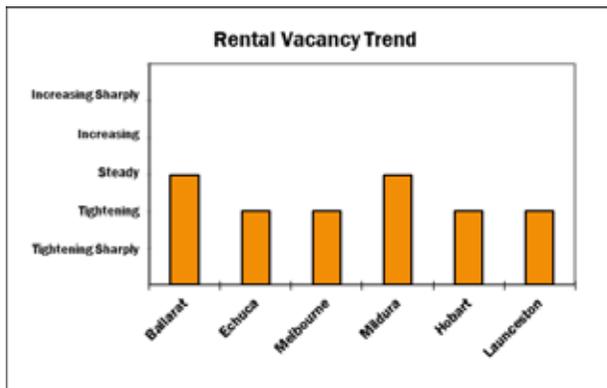


Victorian and Tasmanian Property Market Indicators – Houses

Factor	Ballarat	Echuca	Melbourne	Mildura	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Tightening	Tightening	Steady	Tightening	Tightening
Demand for New Houses	Fair	Strong	Strong	Fair	Fair	Fair
Trend in New House Construction	Steady	Increasing	Steady	Steady	Declining	Declining
Volume of House Sales	Increasing	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Rising market	Approaching peak of market	Start of recovery	Rising market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Almost never	Almost never	Almost never

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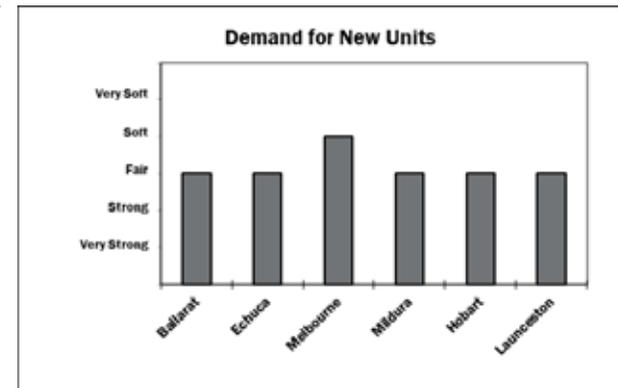
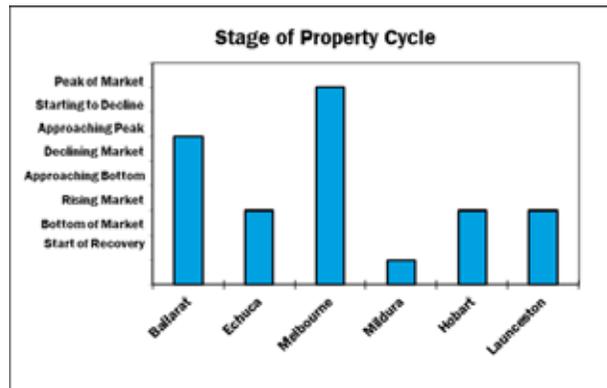
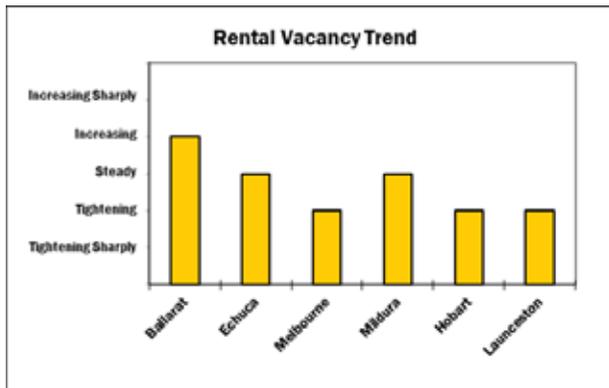


Victorian and Tasmanian Property Market Indicators – Units

Factor	Ballarat	Echuca	Melbourne	Mildura	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Increasing	Steady	Tightening	Steady	Tightening	Tightening
Demand for New Houses	Fair	Fair	Soft	Fair	Fair	Fair
Trend in New House Construction	Steady	Steady	Steady	Steady	Declining	Declining
Volume of House Sales	Steady	Steady	Declining	Steady	Steady	Steady
Stage of Property Cycle	Approaching peak of market	Rising market	Peak of market	Start of recovery	Rising market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Almost never	Almost never	Almost never

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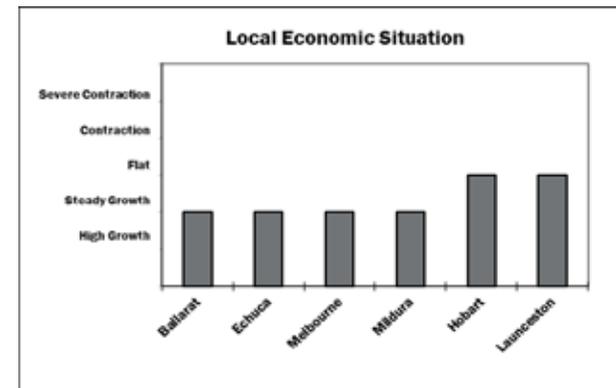
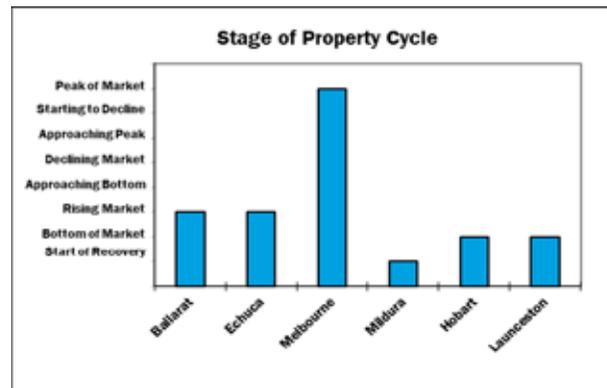
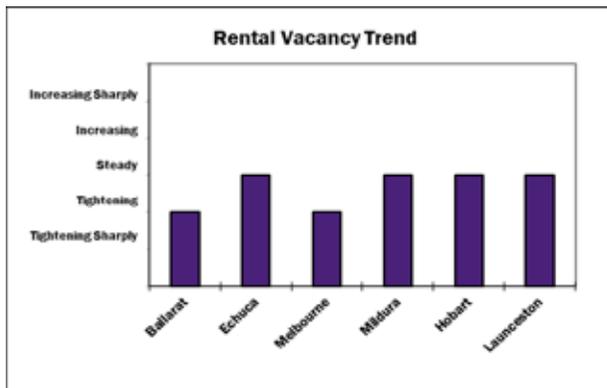


Victorian and Tasmanian Property Market Indicators – Office

Factor	Ballarat	Echuca	Melbourne	Mildura	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Tightening	Steady	Steady	Steady
Rental Rate Trend	Increasing	Stable	Increasing	Stable	Declining	Declining
Volume of Property Sales	Increasing	Steady	Steady - Declining	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Rising market	Peak of market	Start of recovery	Bottom of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Steady growth	Steady growth	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Small - Significant	Significant	Significant	Significant

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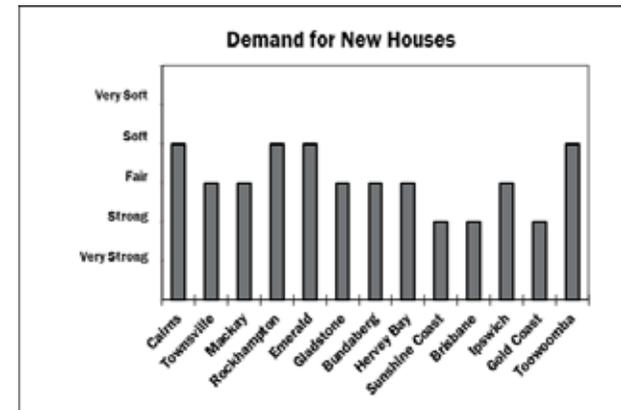
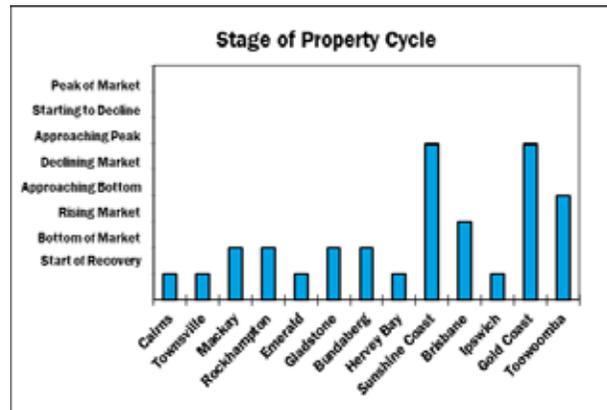
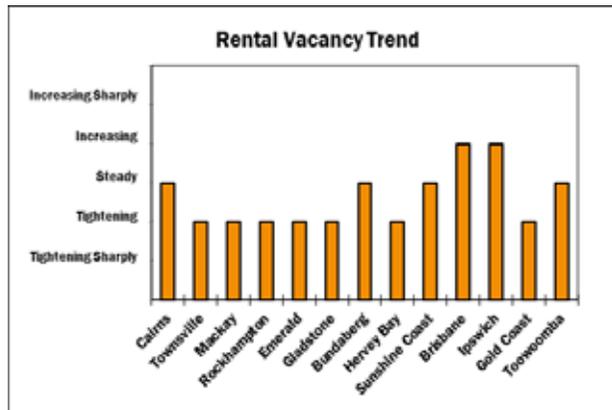


Queensland Property Market Indicators – Houses

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



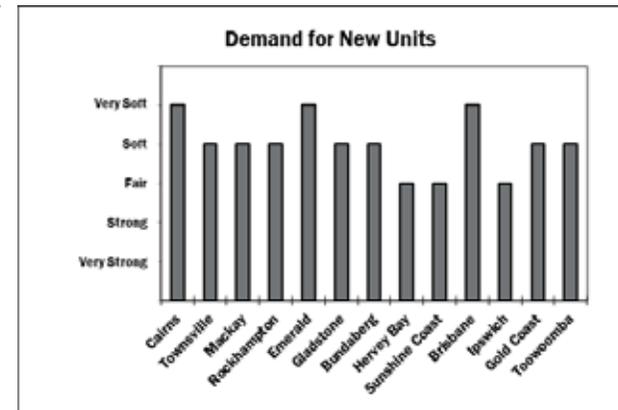
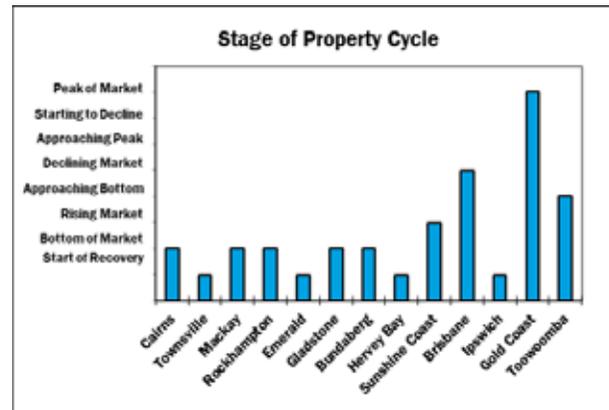
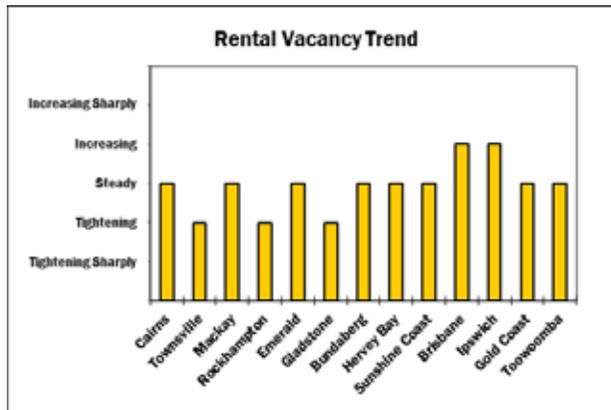


Queensland Property Market Indicators – Units

Factor	Cairns	Townsville	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Tightening	Steady	Tightening	Steady	Tightening	Steady	Steady	Steady	Increasing	Increasing	Steady	Steady
Demand for New Units	Very soft	Soft	Soft	Soft	Very soft	Soft	Soft	Soft	Fair	Fair	Very soft	Fair	Soft
Trend in New Unit Construction	Declining	Steady	Declining	Steady	Declining significantly	Steady	Steady	Steady	Steady	Increasing	Declining significantly	Increasing	Increasing
Volume of Unit Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Increasing - Steady	Steady	Declining significantly	Steady	Steady
Stage of Property Cycle	Bottom of market	Start of recovery	Bottom of market	Bottom of market	Start of recovery	Bottom of market	Bottom of market	Start of recovery	Rising market	Declining market	Start of recovery	Peak of market	Approaching 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	Frequently	Occasionally

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

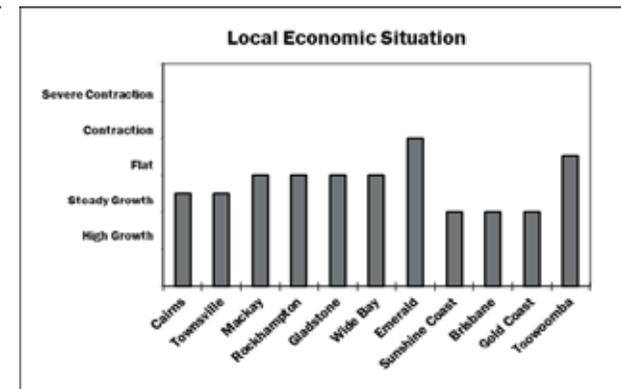
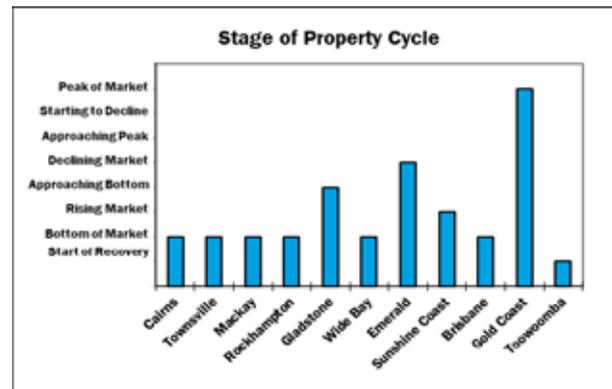
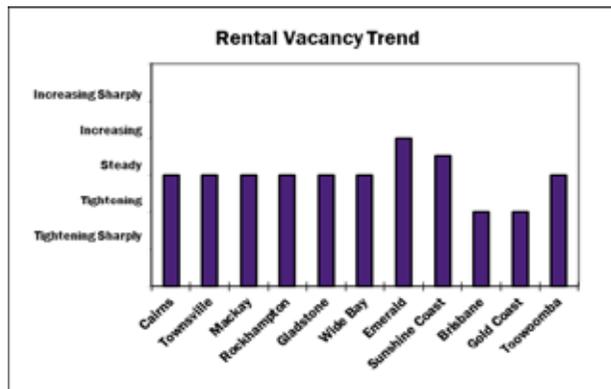


Queensland Property Market Indicators – Office

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

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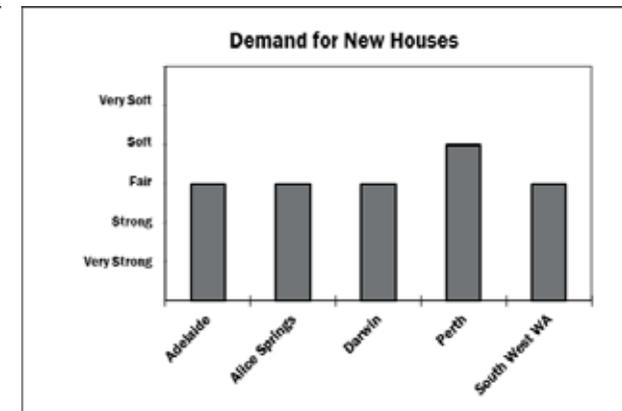
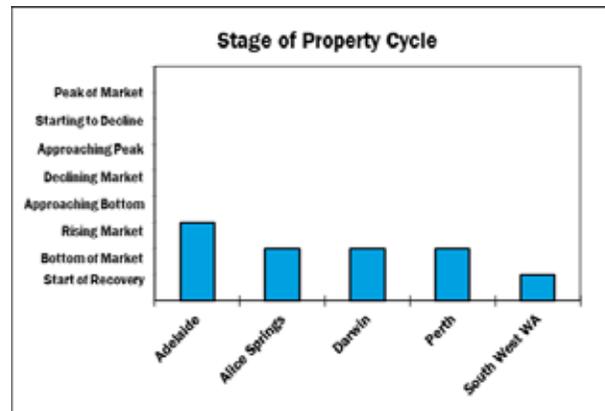
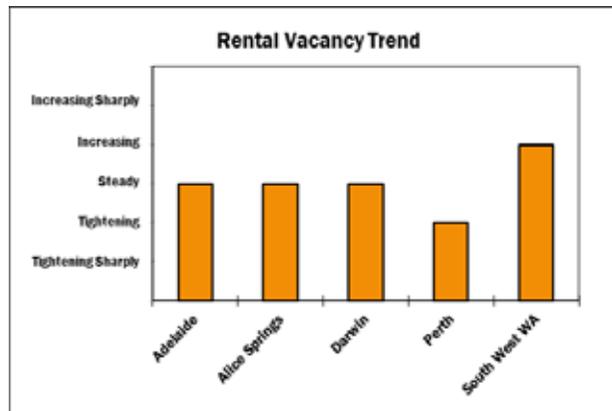


SA, NT and WA Property Market Indicators – Houses

Factor	Adelaide	Mount Gambier	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Shortage 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	Tightening	Steady	Steady	Tightening	Increasing
Demand for New Houses	Fair	Fair	Fair	Fair	Soft	Fair
Trend in New House Construction	Increasing	Steady	Steady	Declining	Declining	Increasing
Volume of House Sales	Steady	Increasing	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Rising market	Bottom of market	Bottom of market	Bottom of market	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Almost never

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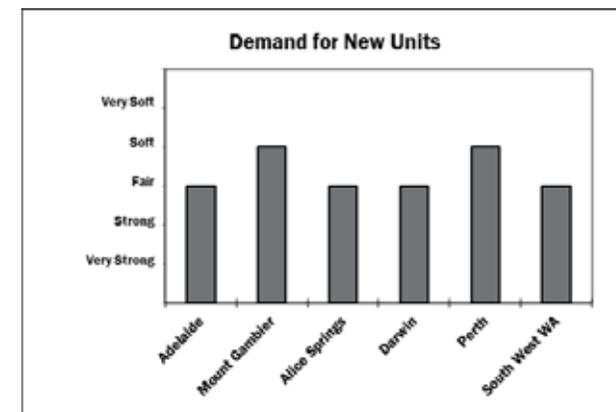
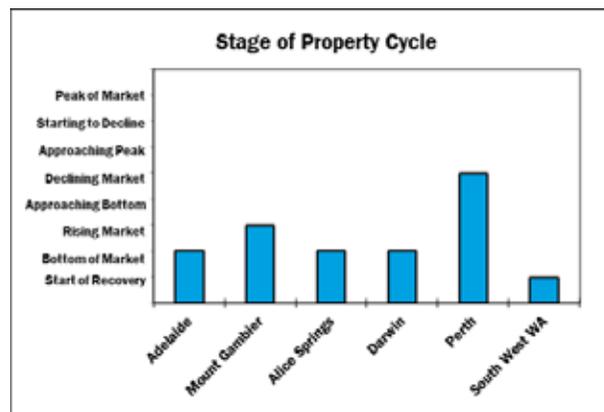
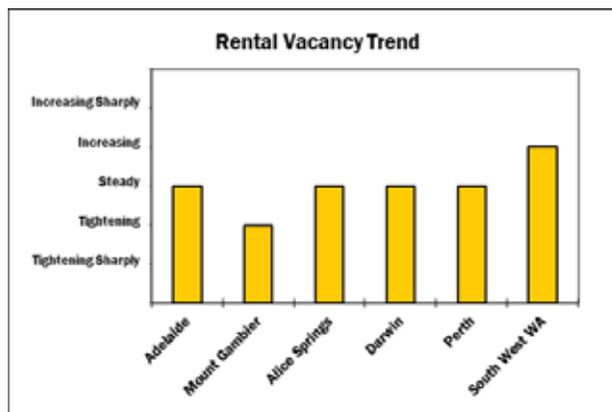


SA, NT and WA Property Market Indicators – Units

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

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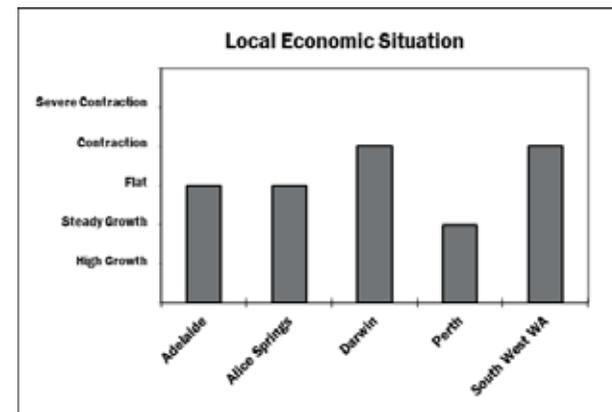
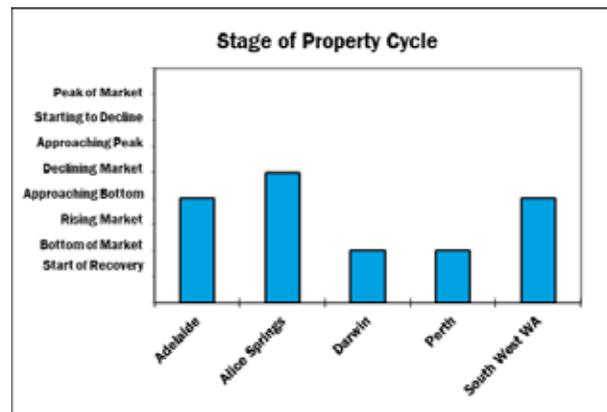
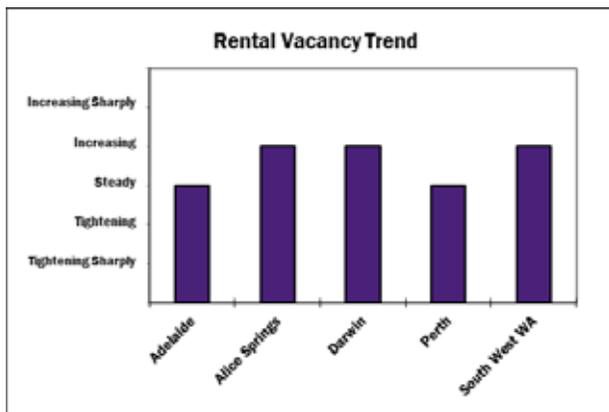


SA, NT and WA Property Market Indicators – Office

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

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