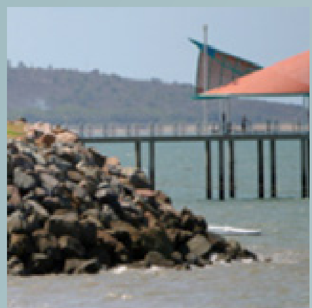
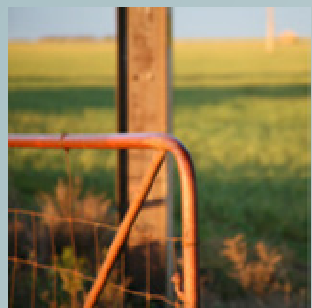
April 2018

Month in Review

HERRON TODD WHITE

Fifty Years of Property Valuation | 1968 - 2018

Contents

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.

Herron Todd White accepts no responsibility for any reliance placed on the commentary and generalised information. Contact Herron Todd White to obtain formal, specific property advice on any matters of interest arising from this publication.

The measures that matter

While it sounds like a lousy political slogan from 1994, the "measures that matter" is a catch phrase designed to highlight the peculiarities of the numbers influencing your property market of interest.

When we gaze across the landscape of available information related to real estate markets in our land of Oz, it generally falls within two camps – quantitative and qualitative.

Now there's a section of the brain that believes qualitative measures are the only way to go. It's the rustic equivalent of a wizened old bloke whittling down a birch branch while rocking on a front porch recalling how the markets ran in his day – all experience and gut feel.

At the other end of the cerebral scale are the lab coat encased quantitative neurons looking purely at the numbers and working through the machinations to form a reasonable hypothesis of what is about to occur in particular markets.

In truth, the most effective analysts seem to find a marriage of both. They can compute the figures to unearth the interesting occurrences and then turn to their internal rune stones and decipher what's next for their favourite real estate sector.

This month, we've decided to take a look at the more figurative portion of the balance and drill down into the measures that need to be watched when determining market direction across the nation's locations.

Numbers can occasionally cop the rough end of the slide rule. It's easy to fall back on the faux-intellectual call of "lies, lies and damn statistics!" when attempting to discount their importance, but this really doesn't do the digits justice.

The various ways we measure influencing factors, from interstate migration to infrastructure spend to employment and even household make up, grows more sophisticated and accurate with each passing year.

We often talk of big data and there are more than a few tech billionaires who owe their wine cellar and helipad successes to the idea that we want to capture and use information.

The flip side is this – with so much information available and easily accessible, how do you know what numbers to trust?

In addition, what might be important in one part of our nation's property markets may be inconsequential in another.

For example, employment might be a key measure for an area seeking to attract new residents to help drive property prices. In another, infrastructure spending could be the go-to metric.

This month because we're, you know, property specialists, we want to look at those measures that matter to our real estate markets across Australia.

We've asked our offices to identify and discuss what figures, statistics and benchmarks seem to flag movement in their particular service areas.

Our experts have revealed their insider musings when it comes to defining the direction of their markets by telling you what they watch when it comes to tracking performance.

On another note, the commercial pages this month see us tackle the world of retail property and how it's set to play out in 2018.

We've been letting you know how commercial markets will track by dissecting the field one sector

The measures that matter (continued)

at a time and April brings about retail's turn.

Our team address expectations right across the gamut of property, from prime blue-chip to sub-secondary and everything in between. We even give the local level run down on price points and rental returns so you remain in the know.

There you are reader - your ready guide on what to watch as values begin to move plus the rundown on how the retail sector is likely to play out in 2018.

But don't stop there – jump on the blower and ask your Herron Todd White expert some pointed questions on your macro-markets so you can stay ahead of the measures.

Commercial

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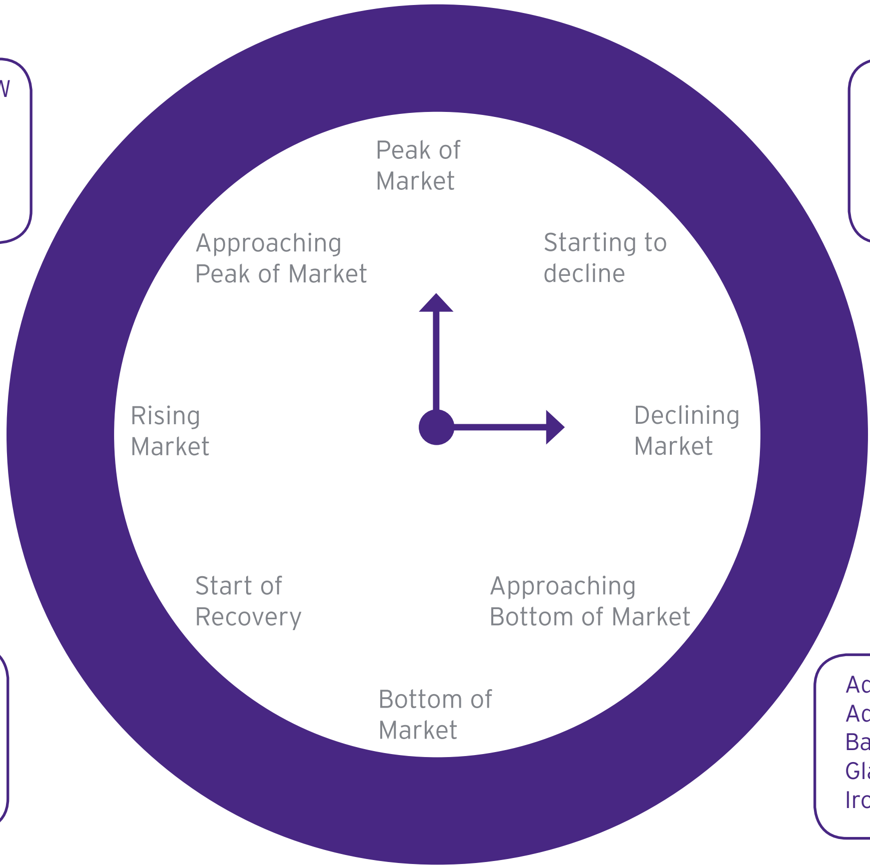
National Property Clock
April 2018
Retail

Dubbo

Canberra
Coffs Harbour
Gold Coast
Melbourne
South East NSW
Mid North NSW

Brisbane
Echuca

Ballarat
Bendigo
Burnie-Devonport
Hobart
Launceston
Lismore
Mid North Coast
Newcastle
Sunshine Coast
Sydney



Alice Springs

Cairns
Mildura
Toowoomba

Adelaide
Adelaide Hills
Barossa Valley
Gladstone
Iron Triangle
Mackay
South West WA

Darwin
Emerald
Perth
Rockhampton
Townsville
Wide Bay

Entries coloured purple indicate positional change from last month.

HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

The year is well and truly underway and our commercial markets have firmly established their directions for 2018.

It's with the benefit of a few months trading that we're able to visit the retail sector and see exactly what's in store. Yield-driven investors continue to be attracted away from residential and towards commercial and while many entry-level purchasers may look to other sectors, retail offers plenty for those willing to take the plunge.

It's with this backdrop that we present our commercial experts' opinions on the year ahead in retail property throughout the nation.

Sydney

The retail market in Sydney has seen substantial growth over the past 12 months as a result of increased demand for good investment assets, growth in rental income and generally lower vacancy rates.

The next twelve months look set to follow a similar trend. Increased demand from investors will continue to drive the market. Properties with well established retail tenants will continue to be popular this year. Late in 2017 we saw some strong sales which showed tight capitalisation rates for assets with strong lease covenants and we anticipate this trend to extend into 2018. There are no signs as yet that the market is slowing, particularly in the Sydney CBD.

Demand for CBD assets remains strong as infrastructure improvements continue and speculation about the impact continues to drive areas of the market. Some exceptionally high rates have also been recorded, including a small strata lot with a long-term tenant that achieved a rate of $75,000 per square metre.

Rents generally look likely to remain stable this year although an increase in prime locations was evident in 2017. We consider there is a strong probability of this continuing in 2018 but more likely at a more subdued rate. Food and beverage outlets are popular and sought after tenancy, with demand for these types of retail properties likely to be maintained in the short to medium term.

Suburban retail assets with good lease covenants have also seen growth over the past 12 months which is likely to continue as investors look for strongly performing assets particularly if they offer some form of future growth potential. Strip retail precincts with a history of good retail trade such as King Street, Newtown, Darling Street, Balmain and Crown Street, Surry Hills, have all seen an increase in sales activity which looks set to continue on an upward trend in 2018. Most recently, a sale of a strata retail lot on the fringe of the CBD achieved a rate of $37,000 per square metre. Oxford Street, Paddington has been plagued by issues over the years including high vacancy rates in some sections of the once very popular strip but has seen some revival of late, with an increase in sales activity.

The outlook for retail in Sydney remains positive overall for 2018. We expect prime locations to continue to perform well along with properties that are perceived to have growth or redevelopment opportunities in the future. That said, we are of the opinion that the market is reaching the peak of the cycle and any tightening of monetary policy or increase in the cost of debt will result in the prevailing investment yields not being sustainable. For the time being though, all signs are that 2018 will be a good year for retail assets.

Canberra

The Canberra retail market, like markets across the country, have experienced difficult trading conditions over recent years, although some improvement has been noted of late. Retail sale statistics issued in February by the ABS indicate growth has remained unchanged in seasonally adjusted terms in the ACT. The trend is stable for retailers. Against this backdrop of retail activity is the geography of Canberra's commercial property.

Retail areas in the ACT are structured to reflect the principles of a hierarchical system of centres, which comprises: The City Centre (also known as Canberra City or Civic), Town Centres (Woden, Belconnen, Tuggeranong, and Gungahlin), Group Centres include (Calwell, Charnwood, Chisholm, Conder, Curtin, Dickson, Erindale, Hawker, Jamison, Kaleen, Kambah, Kingston, Kippax, Manuka, Mawson, Wanniassa, Weston), and Local Centres.

Consequently, the ACT is well catered for the provision of goods and services.

Although population continues to increase, supply levels of retail premises remain high and demand generally soft especially for those smaller local shopping centres that have struggled with declining patronage given the attraction of Group Centres and the Town Centres providing competition from larger supermarkets with a greater range of products.

Rents vary depending on the location, size and strength of the centre, plus the use and attributes of the premises.

The outlook for the Canberra retail market is for slow-medium take-up levels to continue over the next 12 months, with a need for incentives to continue.

Lismore

The far north coast of New South Wales has seen strong demand for properties with a strong tenant profile at the mid to upper levels of the market.

The lower end of the market has seen increased interest from owner occupiers which reduces the need for a strong tenant profile.

The most significant changes are along the coastal strip with the stand out performer being Byron Bay. The rest of the coastal strip has also performed well. Inland, retail areas have also seen growth albeit more modest. Coastal localities have seen growth as a result of increasing rents and strengthening yields, while inland localities have tended to have little movement in rents and growth as a result of slightly stronger yields (driven by owner occupier.)

The sales evidence falls broadly within the following ranges:

Locality	Rate/m2	Yield
Lismore	$1,000 to $1,800	7% to 9%
Ballina	$3,500 to $5,500	6% to 7.5%
Byron Bay	$10,000 to $20,000	4.0% to 6.0%

Non-coastal locations have had relatively stable rents over the past two years. Retail has been adversely affected in Lismore as a result of the March 2017 flood with increased vacancies. Rents have held but there is a risk of a downturn. Coastal localities have been predominantly stable with the exception of Byron Bay, with strong demand, limited supply, upward pressure on rents, and reported incidences of key money.

The rental evidence falls broadly within the following ranges:

Locality	Rate/m2
Lismore	$100 to $300
Ballina	$250 to $400
Byron Bay	$400 to $1,600
Casino	$100 to $250

Interest rates are regarded as being at the bottom. At this stage, they appear more likely to hold than an increase in 2018. Increases are more likely in 2019. There is a level of uncertainty entering 2018 with global events and weakening of capital city markets. Despite the stable interest rate, this uncertainty is likely to place a dampener on the market. The Federal Reserve policies on interest-only loans have dampened the investor market which may create a soft landing rather than a boom bust cycle which has traditionally followed periods of strong growth. Traditionally, the market in northern New South Wales has followed the trend of Sydney to a certain extent with a time lag. Sydney and Melbourne's markets have exhibited softening in demand and uncertainty in relation to value.

The upside

The New South Wales far north coast is a great place to live (good weather, strong tourist destination, solid and stable economy). The increasing population will assist in maintaining strong growth and increased market depth. The growth in residential supply will help to underpin local industries. Funds are being invested in infrastructure and facilities. Owner occupiers and more investors are trying to secure premises to operate businesses at low-interest rates.

Expectation
Overall, the market is likely to have a steady 12 months with a slight softening in demand and stable levels of supply.

Coffs Harbour

The retail market remains soft, particularly in fringe or secondary locations. Vacancy factors are high in the CBD and lease up incentives of between one and three months rent free are common.

There is a 15% vacancy rate in the prime CBD strip due to a combination of a soft local retail market, low discretionary spending, the unwillingness of local property owners to meet the market and incentives being offered by shopping centres Park Beach Plaza and Coffs Central which are attracting local retailers. Rental rates in the prime strip centre are dependant on size and exact location but average space can be in the $550 to $700 per square metre range.

The redevelopment of the eastern end of Central Shopping Centre to offices and retail shops by Gowings should assist to increase foot traffic and provide some economic stimulus to retail shops nearby.

Retail precincts at the Jetty, Sawtell and Woolgoolga appear to be faring much better, with lower vacancy and increased appeal due to a lower rent structure plus their popular restaurant, café and entertainment establishments which are well supported by locals and tourists. Rents in these locations are generally $300 to $400 per square metre.

The Sawtell and Woolgoolga markets should continue to strengthen and there should be some increase in rental levels. Commercial yields will be determined by shifts in interest rates with investment yields likely to rise if interest rates are increased later in 2018.

Overall, investment in the retail market remains firm with historic low yields placing some risk on highly geared investors should rates rise. This is particularly relevant for properties with a low WALE given the uncertainty in the rental market.

South East NSW

We expect more of the same for the retail sector throughout the rest of 2018, which is broadly considered to be the weakest of the main asset classes at present. This is a rapidly changing industry undergoing significant change and is by no means isolated to a single location.

For the Illawarra region, rents are expected to remain stagnant while incentives and tenant turnover are generally relatively high. Investors are still active and yields are low for assets with sound leases in place although sales activity is at a low level. On the bright side, the high number of residential unit developments recently completed and planned for construction should give retailers in the Wollongong CBD, predominantly food and beverage retailers, a boost as the population grows.

Newcastle

Today we look ahead to what 2018 has in store for the retail market in Newcastle. This market sector has been robust in recent years, with a continued year on year growth in the area from 2014. We've spoken at length about the positive net affect the Newcastle Rejuvenation Project will have on the Newcastle commercial market in general once construction is complete, coupled with the current low-interest rate environment. We should now look at what risks certain negative external retail market forces may have on the Newcastle Retail market.

Recent reports indicate the Toys-R-Us brand is winding up, the entry of Amazon into the market (has had minimal effect to date), troubling profit losses at retail giant Myer, the sale of Westfield to an international buyer and reports that potentially thousands of retail outlets around the country are on the brink of collapse.

What role will these factors play in the Newcastle CBD retail market?

The Newcastle CBD is uniquely placed in that it does not have a regional shopping centre within the CBD. There is Westfield Kotara which is currently undergoing construction for expansion and the GPT owned Charlestown Square. The other big player in the area that we should mention is Stockland Greenhills (East Maitland). Servicing areas west of Newcastle, Stockland Greenhills is nearing completion of the $414 million redevelopment which will more than double the size of the centre from around 33,000 square metres to around 72,000 square metres.

On completion, Stockland Greenhills will feature David Jones, Target plus Big W, Coles and Woolworths, 12 mini-majors including Harris Scarfe, Best & Less and JB Hi-Fi and over 210 specialty and kiosk retailers. The centre will also feature a dining and entertainment precinct featuring a 7 screen 900 seat HOYTS Cinema, a strong fresh food offer and a refreshed fashion and retail services mix.

It may seem somewhat odd to not have such a retail offering in the more populous central Newcastle CBD, however, this does de-risk the retail market in the CBD somewhat given the aforementioned external retail risk factors. The CBD retail market is dominated by café spaces primarily servicing the office crowd along with small convenience and specialty shopping offerings. As the residential market continues on and as residential towers fill up, this will serve only to strengthen the retail market locally. Our prediction for the Newcastle retail market in 2018 is for continued growth, despite external negative retail market factors.

Illawarra

With close proximity to Sydney, we expect similar progression with Retail to Residential factors. The retail sector throughout the rest of 2018, which is broadly considered to be the weakest of the main asset classes at present.

This is a rapidly changing industry that is undergoing significant change and is by no means isolated to a single location. For the Illawarra region,. rents are expected to remain stagnant, while in general incentives and tenant turnover are relatively high. Investors are still active with yields low for assets with sounds leases in place although sales activity is at a low level. On the bright side, the high number of residential unit developments recently completed and planned for construction should give retailers in the Wollongong CBD a boost as the population grows with food and beverage prevalent.

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Rents vary depending on the location, size and strength of the centre, plus the use and attributes of the premises. The outlook for the Canberra retail market is for slow-medium take-up levels to continue over the next 12 months, with a need for incentives to continue.

Victoria

Melbourne

Melbourne's retail property market continued to demonstrate strong results over the past 12 months with yields remaining firm as a reflection of limited quality stock available and strengthening purchaser demand.

The current low-interest rate environment, the depreciating Australian dollar and the perception of Australia as a safe haven with stable government and transparent markets has led to increased demand from both domestic and foreign purchasers.

Notable transactions in the first three months of 2018 which have demonstrated strong results include:

185-187 Lonsdale Street, Melbourne:

- Sale Date: February 2018
- Sale Price: $10.15 million
- Purchaser: Chinese based investor
- A yield of 3.69%
- Rate per square metre of building area: $18,455
- Land: Corner site of 188 square metres, frontages to Lonsdale Street and Waratah Place
- Zoning: Commercial 1 zone, affected by a Heritage Overlay
- Building: GLAR 550 square metres, three levels, originally constructed in 1891, refurbished recently
- Tenants: fully leased to tow tenants: ground floor: bakery and café trading as International Cakes; first and second floors: nightclub trading as StoryVille Lounge
- Lease terms: both are ten years commencing November 2016
- Total net income: $374,800 per annum
- WALE: 8.7 years

The selling agent at Savills indicated that more than 100 parties, including local and overseas investors, had expressed interest in the property. Prospective

purchasers were attracted to the building's prime CBD location and long-term tenants

Coles Clayton, 1389 Centre Road, Clayton:

- Sale Date: March 2018
- Sale Price: $17.115 million
- Purchaser: Group of local private investors
- Yield of 2.57%
- Rate per square metre of building area: $6,005
- Land: Corner site of 2,833 square metres; frontages to Centre Road and Cooke Street
- Zoning: Commercial 1 zone
- Building: GLAR 2,850 square metres, freestanding, single level supermarket
- Tenant: Coles supermarket
- Lease term: renewed term of five years commencing 2018 with two further options of five years each
- Total net income: $440,552 per annum
- WALE: five years

The selling agent at CBRE indicated that the expected sale price was approximately $10 million. The buyer faced competition from other local and Asian based investors and developers.

The supermarket property has strong investment fundamentals such as a good lease covenant, a net lease structure (Coles is a subsidiary of listed company Wesfarmers and does not fall under the provisions of the Retail Lease Act 2003 so, therefore, pays the land tax), consistent trading performance and a large land holding on a corner site with longer term development potential of up to nine levels.

As evidenced by the sale of the Coles supermarket in Clayton, retail properties with large land holdings within the middle ring suburbs of Melbourne are sought after frequently. Demand for sites with development potential is considered to be strong at present as purchasers seek to secure sites with potential for redevelopment within close proximity to neighbouring retail strips, amenities and public transport.

We have noted that a number of underdeveloped sites or older style commercial buildings have been, or are currently in the process of being redeveloped into multi-level, multi-occupancy, mixed use developments within middle south-eastern and eastern suburban areas.

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

The wider retail rental market throughout many suburban precincts has experienced downward pressure in recent years and is likely to continue to do so during 2018.

As demonstrated in Bridge Road, Richmond, Chapel Street, South Yarra and some other suburban retail precincts, there is an increasing shift away from fashion and footwear retailers towards food and service based tenants.

With the increase in local population due to numerous apartment projects being constructed near these inner suburban retail strips, it is considered that tenant demand will exist for retail space which meets the changing needs of local consumers, particularly from food-based operators.

Retail property in Melbourne is expected to remain highly sought after by investors over the next 12 months. We forecast that yields will remain stable for retail properties and in some instances may firm for properties that have long-term leases, are well located and have longer-term potential for development.

Many economic forecasts indicate that the Reserve Bank of Australia is likely to increase interest rates during 2018. Given one of the major factors underpinning the current strength of the retail investment market is the prevailing low interest rate environment, we caution that any uplift in interest rates is likely to reduce buyer demand (and potentially debt serviceability), which has historically corresponded to a reduction in value levels.

Bendigo

2018 will be an interesting year on the retail front. The biggest looming question is whether Myer will survive in Bendigo in its current Hargreaves Mall store following the recent announcement of the biggest loss in the company's 118 year history, posting a half-year loss of $476 million for the first half year. The irony is that Myer was founded in Bendigo by Sydney Myer who opened his first drapery store in Pall Mall in 1900.

Myer has a very large footprint in the Hargreaves Mall and is by far the largest retailer anchoring the strip centre. If the store closed or relocated, the future for retail space in the Hargreaves Mall looks grim.

In November, Thomas Jewellers closed the doors of its Hargreaves Mall store after the property was sold in September 2017 for $1.3 million on a 6.15% yield on a lease back for three years. It is also rumoured that Officeworks is considering relocating to a Mollison Street premises at the southern end of the CBD.

A Myer closure or relocation on top of these vacancies would be catastrophic for the Hargreaves Mall.

This dilemma is a consequence of the expanding drawing power of the Bendigo Marketplace shopping centre which is at the southern end of Mitchell Street adjoining Bendigo Railway Station on the southern fringe of the Bendigo CBD. Bendigo Marketplace, owned by ISPT, is a single level, sub-regional shopping centre of 25,060 square metres gross leaseable area. It is anchored by Woolworths, Big W and Best and Less and contains over 100 specialty stores. It was built in 1995 and doubled in size in 2008/2009. ISPT purchased the centre in 2014 along with the adjoining Iceworks site which providesa significant opportunity for expansion.

One local developer and established retailer in the Bendigo CBD has acquired four sites in the Bendigo CBD over the past few years and is firmly of the view that the retail epicentre has moved away from Hargreaves Mall toward the Bendigo Marketplace. All of these purchases are located at the southern end of the CBD.

During 2017, there were six retail investment property sales over $1 million, the highest number of major transactions to occur in one year in Bendigo for many years. These sales indicated yields between 6% and 8%. There have also been a number of significant development site sales. Bendigo has been a traditionally tightly held market, dominated largely by the property portfolio owned by the Backhaus Estate associated with the Catholic Church.

Another trend in the Bendigo CBD has seen the emergence of Pall Mall as a food precinct. In recent years new stores have been opened in this attractive strip by national brands Grill'd, Zambrero and Schnitz, complementing the 15 or so established local restaurants which have been trading for many years. Other new entrants in recent times are Four Ponies Bar and Restaurant and Fos Kitchen and Bar. We expect to see this trend continue in this location.

Backhaus Arcade, sold December 2017; six tenancies sale price of $1.51 million; yield 8%.

Ballarat

Retail transactions over the past twelve months have been somewhat limited with subdued supply to the market. Most transactions are investment properties with long-term leases and national tenants sold through Burgess Rawson Auctions with yields between 5.5% and 7%.

There have been some increased vacancies in the Bridge Mall which has suffered due to the current weak retail sector. There has been an increase in cafe and restaurant uses over the past twelve months in Sturt and Armstrong Streets, which has resulted in a decrease in service providers or pure retail type tenancies.

Vacant properties have typically seen letting periods of up to six months and up to twelve months for secondary locations.

We are yet to see any decreases in the market to date and 2018 will be an interesting year for Ballarat after a somewhat subdued 2017.

Echuca

The local retail set is under some duress on account of larger retailers entering the local market and this business model appears to be outperforming the traditional local smaller retailers for many products. Consequently, it appears there are downward pressures on rents with several incoming tenants looking for some sort of subsidy–from a rent free period during fitout through to requesting complete fitout works from landlords. This dynamic has seen some fall in rentals once adjusted for the incentives offered by landlords. As a result, there may be downward pressure on some asset classes notwithstanding the main shopping precinct in Hare Street has generally been fairly tightly held and somewhat resistant to these drivers in the past.

Mildura

Further evidence of the demand from corporate buyers is the recently announced purchase by QWIL Investments of the 700 hectare Nangiloc Colignan Farms. The announced sale price of $46 million was subject to a long-term lease to Nutrano Produce Group, which, in a separate transaction, purchased the goodwill and machinery associated with the property. Developed by the Moras family since the early 1970's, this property represents one of the district's largest horticultural holdings and included plantings of table grapes, citrus and wine grapes.

A recent glance at our sales database confirms that corporate buyers have been very active in recent years, with almost all sales over $5 million involving corporate buyers.

This demand is linked to confidence that ongoing demand from China and other Asian markets will underpin strong commodity prices. Meanwhile, many of our older farmers see now as a good time to start their retirement plans.

The wine grape harvest in the Murray Valley is winding up, with reports of lower than expected yields. This industry has been slowly improving over the past two the three years, driven primarily by significant growth in exports to China, which were reported to have increased by 63% in 2017.

A combination of increasing demand and stable supply is expected to see continued price improvement and a cessation to vine removal.

China has responded to the USA's threat of a trade war by threatening, among other things, to impose a 15% tariff on wine imported from the USA. While it is early days in this political tug of war, any such tariff on US farm products may work in Australia's favour.

A recent sale of a large scale wine grape vineyard in the Waikerie region of South Australia showed over $25,000/ha. This vineyard was purchased by an established winemaking company, evidently keen to secure supply. Meanwhile, construction of a new winery has commenced just to the south of Mildura. This development is being undertaken by Weilong Wines, (an offshoot to one of China's largest wine businesses), who have indicated their intention is to develop a facility with the capacity to eventually crush 84,000 tonnes per annum.

Sales continue to firm in the dryland cropping sector of the Mallee region. Two recent auctions in the Manangatang and Kulwin areas of the eastern Mallee grain belt (310mm rainfall) have resulted in new benchmark levels for these districts. Two of the well-improved lots on the Manangatang aggregation showed overall levels of $2,285 per hectare and $2,385 per hectare respectively with each showing approximately $2,000 per hectare for the arable cropping land.

The Kulwin property auctioned in early March which had very basic improvements showed $1,850 per hectare for the arable cropping country.

South Australia

Adelaide

Australia's retail market, specifically large format and neighbourhood centre retail, are going to face greater competition in 2018 given Australia's increasing exposure to e-commerce retail, in particular, the emergence of Amazon as a key player in the national market.

Locally, the recently elected State Liberal Government have pledged to review local retail trading hours in their first 100 days of power. Premier Steven Marshall believes a total deregulation of trading hours and giving all businesses the option to choose when they trade will benefit the retail industry, particularly small businesses. Those in opposition believe the big-end of town will benefit most, however, e-commerce retail is fast becoming the biggest threat to all parties and a change seems imminent.

With all this in mind, South Australia (together with Victoria, Tasmania and New South Wales) is outperforming the national growth rate. Annualised retail spending growth in South Australia was also the strong in Australia in November 2017, equal with Victoria (3.8%).

In regards to projects coming online, the largest new retail development planned for construction in 2018 in South Australia is Kings Junction located in Salisbury South, 20km's north of the Adelaide CBD. The project will be over several stages and is expected to span 75,000 square metres of the floor area being developed by GIC Australia. The first stage is in pre-lease with Kmart and Coles secured as anchor tenants.

Burnside Village is investigating opportunities around a future extension which is likely to be over two levels and include entertainment, dining and more speciality stores.

It is widely believed that neighbourhood centre retailers, such as Burnside Village, are eager to invest in diversifying existing assets to compete with e-commerce, such as adding entertainment and recreational facilities to previously retail-centric centres to draw in more pedestrian traffic.

Kaufland will begin construction of their $25 million, 36,000 square metre development at Forestville in 2018, bringing their first hypermarket to Australia.

The German grocery giant operates 1,230 stores in Europe and employs over 150,000 workers. Kauflands 'hypermarket' format offers a wide range of products from groceries to homewares and sells its goods in large surface area layout (like a Costco or Aldi).

In closing, the South Australian retail market will hopefully combat the growing market share of e-commerce retailers in 2018 by increasing local trading hours and diversifying existing shopping centres to include non-traditional uses (recreational, dining, entertainment) to encourage greater numbers walking through doors.

Queensland

Brisbane

The recently announced massive headline loss by the Myer Group and the troubles surrounding the Retail Food Group have intensified the focus on the retail sector and it is generally perceived as having the highest risk profile of all principal asset classes.

The continued expansion of online retailing, slowing retail spending for discretionary goods and changing consumer habits are rapidly changing the face of the retail sector across all asset classes. This is now resulting in negative rental pressure within many shopping centres and most particularly in the sub-regional space.

At the neighbourhood end of the market, there is an ongoing expansion of the sector driven by population growth in outer suburban areas and gentrification of inner-city areas. The makeup of neighbourhood centres is also changing however with decreasing numbers of specialty stores and a greater focus on fast food and health services.

On the investment side, there remains strong demand across all retail sectors, however, it is now evident that apart from freestanding supermarkets, yields have flattened out and are possibly starting to soften for more secondary or higher risk assets. Yields are now sitting in the range of 5.75% to 6.5% for good quality neighbourhood centres, whilst convenience centres in south-east Queensland are now generally achieving yields in the 6% to 7% range. For larger neighbourhood or sub-regional centres, yields are generally also around the 6% mark, however for centres in locations where there is perceived to be strong growth, yields may dip under 6%.

A recent example of this was the Warner MarketPlace which sold late last year at an analysed yield of 5.74%.

Warner MarketPlace Shopping Centre. Sold for 5.74% yield.

The demand for sub-regionals remains strong although there is an increasing level of focus on the sustainability of the income stream and concern about the long-term trading future of discount department stores where two of the three main players are experiencing shrinking sales.

Brisbane retail rents have remained flat in most locations for some time, with the exception of fast food and drive-through properties.

The CBD retailing environment is becoming more challenging as there is an increasing level of competition for the high profile tenants and concern about the sustainability of the premium rent levels which have been achieved.

The development of Queens Wharf and, to a lesser extent, 300 George Street has the potential to split the luxury shopping precincts and will certainly create a competitive environment for the major retailers.

Although Queens Wharf is not due for completion until circa 2022 to 2024, its pending delivery may already be having an impact in regard to tenants' lease renewals and negotiating these around the completion of the development. This will necessitate landlords needing to be flexible to retain their tenants.

In summary, we consider that the Brisbane retail environment will remain challenging as changing consumer patterns continue to challenge the traditional retail model. There is a limited likelihood of rental growth for many properties and potential for a rental decline in secondary properties.

Investor demand is expected to remain strong, however, buyers are becoming more discerning. Yields are expected to remain stable.

Toowoomba

Leasing activity in Toowoomba has been subdued in early 2018 following a high level of activity in 2017 which included new leases in the recently expanded Grand Shopping Centre, a new development known as The Intersection and a number of new cafés, bars and restaurants within the CBD. Rentals are expected to remain relatively static in 2018 with some lease incentives available for long term commitments.

The low interest rates will likely see a continued strong demand from investors for retail properties, however the lack of supply of quality, fully leased properties will limit the number of investment sales and net yields are expected to remain firm.

Proposed new retail developments in the Toowoomba district include:

- A new Aldi supermarket to be constructed in Highfields. The store is to be located on Highfields Road opposite the Woolworths anchored Highfields Village Shopping Centre.
- Aldi has also agreed to lease the anchor tenancy in Bridge Street Plaza, a small convenience centre that was previously anchored by an IGA supermarket. The centre is positioned on the western fringes of Toowoomba and will require construction works to modify and expand the building to accommodate Aldi.
- Construction on a new development known as South Central is expected to commence in 2018. This project is located on the corner of Ruthven and Perth Streets in South Toowoomba. The project comprises a multi-storey mixed use high rise which will contain 2,700 square metres of large format retail space on the ground level.
- A new 7 Eleven service station, convenience store and food outlet is to be constructed in the southern suburb of Westbrook. The proposed development will include a food outlet with drive-through facility.

Wide Bay

Parts of the Wide Bay retail market experienced a renewed interest in late 2017 and early 2018. Infrastructure projects in Bundaberg around Kensington have opened up new traffic routes and in turn, made existing land potentially more appealing.

Throughout 2017, the Wide Bay experienced some top end retail investment activity which included sales of small neighbourhood retail centres. The low end of the Wide Bay's retail market experienced a reasonable level of demand from owner-occupiers of small single tenancy properties. This demand was less prevalent in Maryborough than in Bundaberg or Hervey Bay.

Larger institutional investors such as Stockland have appeared to move towards a market consolidation with an extension and rebrand of Sugarland to Stockland Bundaberg and the conversion of a former Bunnings to a neighbourhood centre anchored by a Coles Supermarket. Whilst these types of projects marginally increase market sentiment, they don't result in any significant increase in demand for additional retail space.

An attractive component of the Wide Bay commercial market is the relatively high yield rates compared to other major localities. Retail market yields look set to remain stable throughout 2018, with properties leased to larger secure tenants on long-term leases ranging in the order of 6.5% to 7.5%. Properties leased to smaller less secure tenants on shorter leases achieve yields in the order of 8% to 9%. Without any significant market influence, these yields will remain achievable for the foreseeable future.

Gross rental levels have remained consistent for an extended period. Like yields, there is little on the horizon to influence a move on the rental front. The lack of rental growth has resulted in gross rentals compounding over longer lease terms to above market levels.

Mackay

The regional shopping centre in Mackay, Caneland Central, has announced plans to upgrade this year. Proposed works will include a cinema complex, seven additional restaurants, refurbishment of two main car parks and replacement of two travelators. It is not known when this work will commence.

Agents report steady enquiry from small retailers around the Mackay CBD however, vacancy rates remain fairly high and rental level are at cyclical lows.

Enquiry is strongest from retailers involved in women's accessories, women's footwear and beauty salons. A recovery in the local economy is improving retail activity.

We are aware of a recent lease renewal along the Wood Street café strip where the tenant has negotiated a moderate rental reduction.

World Gym has reportedly committed to a 1,800 square metre section of the former Bunnings building at Mount Pleasant. This building has been vacant for over two years.

The outlook for the retail sector for 2018 is generally considered to be positive as the Mackay economy makes a steady economic recovery. We expect that this will be a period of consolidation for rental levels and investment yields from retail properties.

Gladstone
Gladstone continues to experience tough economic conditions in the retail sector and we consider that 2018 will see continued levels of vacancy and bargaining power for tenants. Whilst there are some positive stories of new retail businesses opening, conditions remain volatile and rental affordability is a key issue for tenants that will continue throughout 2018. 2017 saw vacancies continue to increase in some retail centres and this appears to be continuing into 2018.

Vacancies are now occurring in the Gladstone Valley shopping centre, which for the main part of previous years maintained relatively good levels of occupancy. As leases established during superior market conditions come to an end, it is now no longer affordable to continue at the same rental levels for many local businesses. This being said, the emergence of some new local retail businesses shows some level of renewed confidence in Gladstone and an indication that some locals believe conditions are likely to improve.

For owner-occupiers it is a great time to secure premises given the stage of the property cycle we are in coupled with low-interest rates, however, existing owners are aware of the current market conditions and are hesitant to sell unless necessary. As a result, there are few available offerings in the market. This is also the case for investment properties, with very limited offerings available. Some investor activity was seen in varying asset classes in Gladstone during 2017 after a long period of very limited to no investment activity in the commercial and retail sector. It is critical for investors to have consideration for the passing rental and lease commencement date (if it was established during the peak, it's unlikely that the rental is still affordable) and the strength of the tenant going forward. In the event that the tenant vacates, it is likely that there will be a lengthy period of vacancy to follow.

Rockhampton
Conditions for retailers appear to remain relatively tough as the general economy is only just starting to improve. Slowly improving conditions for retailers will take some time to flow on to retail property values as a relatively high number of vacancies will need to be absorbed before there will be any realistic expectation of rental growth. For this reason, we expect rental rates to remain flat for the foreseeable future. Yields are also expected to remain unchanged in the foreseeable future but are more likely to be influenced by macro factors rather than the strength or otherwise of the retail sector in central Queensland.

We are aware of a neighbourhood centre with a small supermarket under contract in central north Rockhampton at a price of about $3.7 million. Other changes to the retail landscape are the recent announcement that Aldi will be building two new stores in Rockhampton soon and that Solly's discount store and Coles may take up leases in the former Bunnings warehouse after Bunnings moved into the ex-Masters site in North Rockhampton.

Townsville

Retail businesses in Townsville are doing it tough with the rising cost of doing business seeing a number of them close shop over 2017 and in 2018. Despite this, 2017 and into 2018 saw new development and expansion activity within the retail sector.

Sales of fast food outlets with drive-through capacity and service-based centres with strong anchors have been showing yields in the 7% to 8.5% range, however, there is a widening yield spread differential between primary and secondary stock including centres with vacancies or other cash flow issues.

The rental market, in general, is showing an oversupply of stock available relative to current demand and this is likely to continue to keep rental rates soft throughout 2018.

The year ahead is likely to see continued interest from out of town investors for a property offering strong investment returns with long-term leases or national tenants, with activity from local buyers and within secondary stock likely to remain at low levels.

Cairns

The Cairns retail market passed through the bottom of the cycle back in 2014, but the limited recovery thus far means that the retail property market remains relatively flat. It must also be said that retail property sales in Cairns are extremely sporadic, with most sales involving retail property of mixed-use retail and office buildings or tenant buyouts of single premises.

High exposure CBD retail space remains reasonably well occupied but vacancies are more noticeable in the lesser exposure locations and on the CBD fringe. Rents have remained generally stable, showing ranges of $600 to $800 per square metre per annum for prime CBD space, and $1,000 to $1,750 per square metre per annum in key tourist precincts such as the Cairns Esplanade.

Blue chip retail located within the main Esplanade tourist strip as well as the CBD shows reasonably low vacancies, although there is also limited demand from new businesses. There remains good investor demand for well-leased properties which rarely come onto the market.

In other words, there was little change in local retail market conditions during 2017. Similar is expected during 2018.

Sunshine Coast

The retail market on the Sunshine Coast stabilised during 2017 after some strong years of growth during 2015 and 2016. There were a number of sales that indicated the firming of yields noted previously had somewhat stabilised. This mirrored other markets within Queensland.

Overall levels of supply also have dropped with fewer offerings being taken to the market during 2017. Agents also reported that the very strong demand noted during 2016, slowed slightly in 2017.

So from looking back, what does this tell us about 2018?

The main tourist retail strips are likely to continue to see strong demand due to continued improved visitor numbers. While there are some vacancy and tenant turnover in the Mooloolaba Esplanade strip, other areas such as Ocean Street, Duporth Avenue, Coolum Beach, Hastings Street and Gympie Terrace at Noosaville have limited vacancy. Rental levels may see some improvement in these areas with the continued strong visitor numbers, though many traders indicate that there is limited ability to afford rental increases. Yields in these precincts are currently in the 5% to 7.5% range and depend on size, quality of tenant, lease term and overall pedestrian exposure.

Secondary and service township retail strips have also improved and are likely to continue to improve during 2018. Areas such as Bulcock Street, Montville, Eumundi, Cooroy and Maleny have seen a drop in overall vacancy levels over the past 24 months. We note that overall vacancy in Bulcock Street is still higher than the other areas, though this is due to its overall size and the streetscape works being undertaken, which has affected trade. Yields in these areas are generally in the 6% to 8% range.

It is difficult to predict a location or market that may be stronger than others in 2018. As indicated already, the prime tourist retail style locations are at market low yield levels with the secondary locations typically showing an appropriate yield spread.

Perhaps the best assets may be smaller retail strips within established residential markets, with the "shop local" sentiment strong on the Sunshine Coast. A number of these assets are likely to require significant renovation and repositioning to appeal to the market, though we have seen examples of this over the past 24 months in areas such as Tewantin.

A recent sale of a property such as this at Kuluin, sold for $1,250,000, which indicated a yield of circa 7.75% and less than $1,900/sqm. Rentals in somewhat similar located, though superior presented and with superior tenancy mixes see rentals of circa $250-$300/sqm, which at a similar yield would indicate a value of circa $3,000/sqm. Therefore these types of assets may prove to have some added value available, though significant research would be required and they would be property specific.

Gold Coast

By the time most of our readers are viewing this article the 2018 Commonwealth Games will be in full swing on the Gold Coast, which has been acting as a stimulus for our commercial market for the past 6 years.

It is safe to say most retailers around the Gold Coast will experience a three-week sugar hit on the back of school holidays and the Easter long weekend followed by the 10 day games period. Areas such as Surfers Paradise, Broadbeach and Southport will be the main beneficiaries of increased patronage over this time, and hospitality operators, in particular, will have their work cut out for them.

Following the games, traditional beachside and neighbourhood retail precincts are expected to see steady performance over the balance of the year, but other fringe areas may suffer a bit of a hangover.

Broadbeach through to Palm Beach has had a dream run over the past few years and these improved conditions appear to be spreading north with several new establishments popping up around Runaway Bay and Paradise Point over the past 12 months. Only time will tell whether patrons will be enticed to stay local, rather than continue their weekly pilgrimage south to Broadbeach or North to Sanctuary Cove.

There has been a particularly strong performance in the retail investment market over the past three years and 2018 is shaping up to hold true to form. Whilst there has only been some limited market activity of late, we have seen a couple of transactions that display lower than expected analysed yields in the order of 6.25% to 6.5%. This being said, the prospect of further yield compression seems unlikely, hence attention is inevitably drawn to occupancy profiles and rental rates to sure up investment decisions.

With the retail rental market being somewhat out of step with the investment market over the past 5 years, it is expected that many property owners will be keen to see rental growth beyond CPI achieved. This is likely to lead to more scrutiny of rents upon market reviews.

However, with a massive supply of retail accommodation across the Gold Coast, retail competition is high and there will be a reluctance (or even inability in some cases) for tenants to absorb rental hikes that will be eating into their already slim profit margins. The success or otherwise of retailers will be a pivotal factor for investors over the coming years, and one would be wise to ensure their tenants are positioned to succeed rather than explore options in alternate premise, or worse.

Northern Territory

Darwin

The greater Darwin retail market has undergone a period of significant change over the past 24 months. We have seen a number of new centres successfully hit the market, placing pressure on existing space and continuing the trend of turning shopping centres into entertainment precincts, increasing the level of customer experience.

The GPT owned Casuarina Square shopping centre has traditionally dominated the Darwin retail space, with the centre featuring large anchor tenants, a high number of specialty stores and over the past 5 years has re-developed an entertainment/eating precinct.

The northern suburbs of Darwin has long been the main section of suburbia, however as Darwin expands along the South-East Corridor (the Stuart Highway) out to Palmerston and the Rural area there has also been a shift of retail space.

Gateway shopping centre opened in Q4 2017, it is in direct competition with Casuarina Square, with cinemas, a tavern, anchor tenants and national grade retail it has opened successfully. Stage 2 is currently opening providing a further homemaker style option for shoppers.

The second large addition to the retail shopping experience in Darwin has been Coolalinga Shopping Centre in Darwin's rural area approximately 45kms from the Darwin CBD. The centre has become a destination with fast food outlets, a tavern under construction, and a number of specialties to support the Coles Anchor tenancy.

Other options which continue to develop and present new offerings are the Jape Homemaker Village centre in Milner which has also undergone a significant renovation and new store offerings over the past 24 months. Bakewell has a new Woolworths anchored shopping centre, IGA has anchored the new Zuccoli centre and a smattering of other small offerings are continuing to service the growing areas.

The obvious item to the market is that the customers want to enjoy the overall experience, a high level of amenity, ease of access, covered parking and air-conditioned comfort are essential to the weather conditions of the top end.

Retail leasing rates in the major centres have softened with so much new space coming to the market, it has also placed pressure on centre management in older centres to upgrade the space in order to retain the existing tenants.

So where does this leave the Darwin CBD? There are a number of good examples of existing retailers re-fitting spaces to provide a better customer experience, the increase of cruise ship visits will help retailers in the CBD and a changing face of the Darwin alleyways with street art, new bars and eateries all help in the positive step to revitalising the Darwin CBD.

Moving forward through 2018, it would appear to be a good time to be a tenant with the softening of rental rates allowing the time to consolidate in a larger tenancy or even with fit out incentives to upgrade a current shop. For owners, the key challenge will be to retain existing tenants and look at ways to keep the space fresh and attractive for every competitive retail dollar.

Western Australia

Perth

There have been improvements in the state's economy but it is segmented, with retail sales growth remaining weak in the wake of low wages growth. Continued weakness in discretionary spending habits of consumers continued throughout 2017 and looks set to stay in place through to at least the middle of 2018. Retail turnover growth in 2017 was only 0.4%. Subdued wages and employment growth and the softening housing market have all contributed to the slowdown in retail turnover growth in Western Australia.

Retail owners remain under pressure to maintain occupancy in their assets, with evidence of increasing incentives in this market. Vacancy rates increased throughout the last year across the board, however, remain lowest in the prime retail hubs of the Hay and Murray Street Mall locations, followed then by regional shopping centres. There is, however, an increasing trend towards tenants on short-term leases, holding over and pop-up style shops. Given the significant potential supply pipeline, competition in the leasing market is expected to increase as owners seek to secure new international retailers within their developments.

Two retail construction projects reached completion in 2017, adding 32,750 square metres of retail floor space. The largest completion was ISPT's new Lakelands Shopping Centre (21,170 square metres). Also completed over the June quarter was the 11,575 square metre extension to Charter Hall's Secret Harbour Square. Supply additions over the past 12 months totalled 84,700 square metres. There are currently 136,700 square metres under construction at 11 locations. The new 10,900 square metre Butler Central neighbourhood centre began construction in the second quarter of 2017.

In the Perth CBD, Charter Hall is redeveloping its Raine Square retail centre through a $240 million project, including construction of a new hotel tower and cinema. Forrest Chase, owned by ISPT, is undergoing a $100 million redevelopment and upgrades have just been completed at Plaza Arcade to accommodate a two-level tenancy to house Uniqlo, a Japanese retailer making its first foray into the Perth market.

At the lower end of the retail spectrum, retailers along strip shopping locations are doing it the hardest with many smaller, non-branded retailers feeling the pinch of a tightening in discretionary spending. Many of these smaller retailers are giving the game away and it is evident that landlords have to re-base their rental expectations. Franchise style food operations (think of the myriad of themed Asian style, Mexican, juice and coffee operations) are concentrating their expansion in the state to shopping centre locations as a priority and towards prime strip shop dining and entertainment locations such as Oxford Street, Leederville; Beaufort Street, Mount Lawley; South Terrace, Fremantle; and Rokeby and Hay Streets, Subiaco.

Recently rising neighbourhood centre space combined with subdued demand has caused rental rates to deteriorate. In neighbourhood shopping centres, rents declined by approximately 10% in 2017 to average around $600 per square metre. The downward trend is continuing into 2018.

There were four retail transactions (greater than $5 million) in the Western Australian market in the second quarter of 2017, totalling $55.6 million and all in the bulky goods category. The largest transaction was the sale of 5 Clayton Street, a bulky goods centre in Midland, for $30.8 million. Over the past 12 months, transaction volumes reached approximately $460 million including CBD, neighbourhood and bulky goods centres. There were no regional or sub-regional centre transactions in the past 12 months.

Retail as an asset class remains on the radar for many investors as it provides a relatively secure cash flow or upgradeable investment options. This has resulted in investors accepting lower internal rates of returns which is flowing into tighter yields for quality assets. We have noted a marked increase in eastern states based private investors who are willing to accept far lower yields for assets than local investors are prepared to accept. At the entry level, we have noticed that strata or stand-alone lower end value retail units are being acquired by the sitting tenant in a majority of reported sales.

The focus of the Western Australian government needs to be on continued investment in infrastructure which will support the shift from Perth being a mining headquarters to it becoming a bona fide tourist destination. With that investment from the government will come private development opportunities in the form of hotels and tourism-based centres. This will in turn drive demand for world-class retail opportunities which will be the impetus to trigger retail expansion. We are seeing this with the redevelopment at Scarborough Beach, further redevelopment in the Joondalup Town Centre, The Stadium development at Burswood and in the future, Elizabeth Quay in the Perth CBD.

Residential

HERRON
TODD
WHITE
RESIDENTIAL

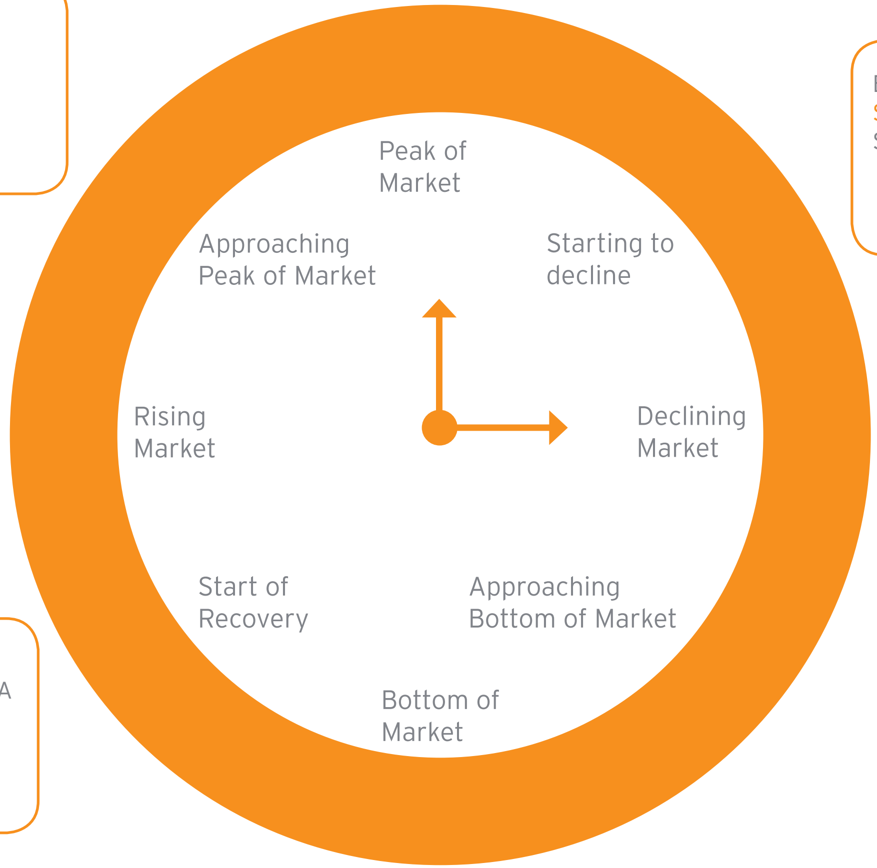
National Property Clock
April 2018
Houses

Central Coast
Coffs Harbour
Mid North Coast
Newcastle

Bathurst
Gold Coast
Melbourne
Orange
Sunshine Coast

Bendigo
South East NSW
Sydney

Adelaide	Echuca
Adelaide Hills	Gippsland
Albury	Hobart
Barossa Valley	Iron Triangle
Ballarat	Launceston
Brisbane	Lismore
Burnie-Devon-port	Mount Gambier
Canberra	Tamworth



Cairns	Mildura
Emerald	South West WA
Gladstone	Townsville
Hervey Bay	
Ipswich	
Mackay	

Alice Springs	Toowoomba
Bundaberg	
Darwin	
Perth	
Rockhampton	

Entries coloured orange indicate positional change from last month

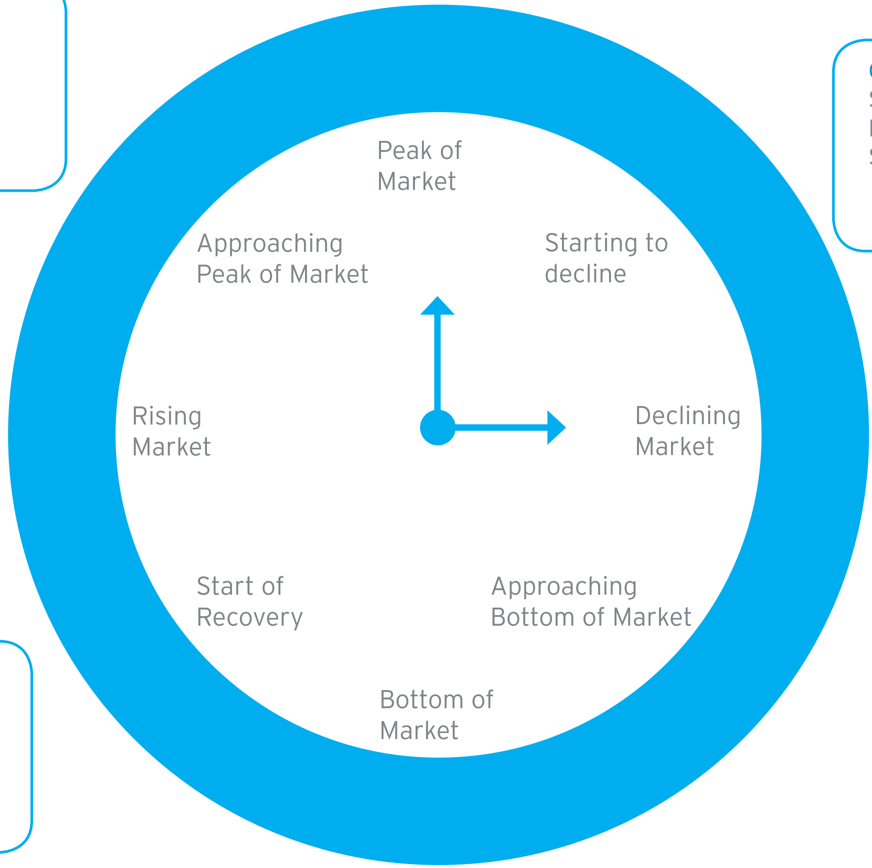
HERRON TODD WHITE RESIDENTIAL

National Property Clock
April 2018
Units

Central Coast
Coffs Harbour
Mid North Coast
Newcastle
Gold Coast
Melbourne

Ballarat
Bathurst
Orange

Canberra
South East NSW
Bendigo
Sydney



Perth
Brisbane

Burnie-Devonport
Echuca
Gippsland
Hobart
Launceston
Lismore
Mount Gambier
Sunshine Coast
Tamworth

Emerald
Hervey Bay
Ipswich
Mildura
South West WA
Townsville

Adelaide
Adelaide Hills
Albury
Alice Springs
Barossa Valley
Bundaberg
Cairns
Darwin
Gladstone
Iron Triangle
Mackay
Rockhampton
Toowoomba

Entries coloured blue indicate positional change from last month.

HERRON TODD WHITE RESIDENTIAL

New South Wales

Overview

When it comes to analysing markets, one key ingredient for success is knowing which numbers to watch.

While there is a wealth of information available across the public domain, it's important to ensure you're tracking the right measures. These are the metrics that are particular to your property type, price point and location. This month, our experts give you their local area micro-view of the measures that matter most in their markets.

Sydney

In a market as large and diverse as Sydney's, there are quite a number of influencing factors which play a part in driving the residential property market. Some factors are more relevant to specific sub-markets, be the location or price point, while others are more likely to influence the market as a whole. While political and economic factors are the significant contributors, media coverage also plays a part in influencing buyer and seller sentiment which can fuel property market movements, particularly in a rising or falling market.

Interest Rates

Interest rates have historically played a large role in the fortunes of property markets. In Sydney, it is generally the lower and middle markets which are more sensitive to interest rate movements. Over the past few years, the greater western Sydney property market has witnessed a sustained period of positive growth, with only recent times beginning to show signs of cooling. This growth was as a result of a sustained period of low-interest rates, demand outstripping supply in many areas, overseas buyers entering the market, tax incentives, media interest and an increase in values in the entry level pushing up the middle and upper levels of the market.

Certain numbers played a big role in the growth. Amongst other things, one key number contributing to the success of this market was the interest rate figure. Investors and first home buyers have flocked to the western suburbs, like many other areas, to buy more affordable investment properties and first homes. The current cash rate of 1.5% since September 2016 has given potential buyers the ability to enter the property market for the first time and has also incentivised investors.

We do note that any significant increases in the cash rate may have flow-on effects to the home loan market leading to the potential for more distressed sales as homeowners and investors alike may struggle to meet larger repayments on highly geared mortgages. This could lead to pockets of Sydney experiencing a sharp decrease in values in the short term.

Investor Lending

In recent years, the banking regulator APRA brought in specific measures which made it more difficult for borrowers, particularly investors, to get approval for a loan. This was an attempt to cool a number of heated property markets throughout the country, particularly in Sydney and Melbourne.

In March 2017, APRA informed all lenders to curb new interest-only loans to 30% of total residential mortgage lending and tighten limits on loan-to-value ratios. The banks were also instructed to keep investor lending comfortably below the 10% annual growth rate as per instructions are given in December 2014. In both cases, the announcements by APRA appear to have corresponded to changes in the Sydney housing market.

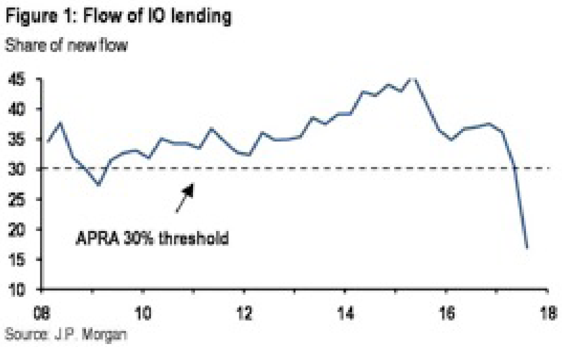
The graph below shows the level of investor housing credit growth, with a gradual to sharp increase noted between 2012 and 2015 and the post-announcement fall evident in early 2015.

Figure 4: Investor housing credit growth

Source: RBA, J.P. Morgan

Data from the Australian Bureau of Statistics show a modest decline in the quarterly growth in the Sydney housing market which fell from 3.4% growth between the September to December 2014 quarter to 3.1% growth between the January to March 2015 quarter. This growth rebounded to 8.9% in the following quarter.

The following graph highlights the level of interest-only lending with a sharp fall noted following APRA's March 2017 announcement.



On this occasion, data from the Australian Bureau of Statistics shows a clearer pattern. Over the January to March 2017 quarter, Sydney had a quarterly growth rate of 3%. The following quarter this reduced to 2.3% growth and by the July to September 2017 quarter, there was a decline of 1.4%.

It would appear that the APRA restrictions have had the desired effect in Sydney, cooling a market which is more exposed to investors.

Infrastructure

There is a significant amount of infrastructure under construction or to commence in the short to medium term, including WestConnex, the CBD and South East Light Rail, the North West Rail Link, the Northern Beaches Hospital and the Western Sydney Airport just to name a few.

The $8.3 billion North West Rail Link has seen suburbs in the north-west such as Cherrybrook, Castle Hill and out to Rouse Hill benefit from stronger capital growth than surrounding suburbs. Whilst considered long overdue, this investment has been a large factor in the popularity of these suburbs. When major tunnelling began in 2014, the median dwelling value for Cherrybrook was $1.05 million. Now four years later, the median value for dwellings is $1.55 million (realestate.com.au).

For the northern beaches suburbs, the now $2.1 billion (according to the Sydney Morning Herald) Northern Beaches Hospital currently under construction has seen surrounding suburbs enjoy strong growth over the past few years. Originally announced in 2013, contractors were only revealed in 2014 and since then the area has seen extraordinary growth. In Frenchs Forest, the median dwelling value in 2014 was $1.1 million. Four years later the median value for dwellings is now $1.65 million (realestate.com.au). Whilst this growth can't all be attributed to the new hospital, it has shown once again that sorely needed infrastructure can contribute to the growth of local areas.

The Western Sydney Airport to be built at Badgerys Creek is expected to cost around $5.3 billion. This infrastructure commitment as part of the planned western Sydney growth precinct has ignited the south-west of Sydney with a boom in house and land packages, as well as strong acreage sales over the past few years, thanks to newly rezoned areas and land earmarked for future rezoning. Areas such as Austral and Leppington have had large areas rezoned and subdivided. Three-bedroom houses on 300 square metre blocks are now selling for around $630,000 in Leppington.

This is a huge change to the area which was once only rural lifestyle and market gardens. With the Badgerys Creek site formally announced by the federal government in 2014, the area surrounding the airport has been recently named the Aerotropolis due to the substantial investment planned, particularly with technology, education and advanced manufacturing all linking up with these new residential areas.

Supply

While there has been a significant increase in the supply of new units and new housing estates in Sydney over the past five years, in many cases it did not make up for the significant shortfall which had built up in previous years. According to an article in the Huffington Post, the lack of supply of housing in Sydney may have pushed house prices up by as much as 70% over the past five years. This is more apparent in the inner ring and coastal suburbs where the opportunity for new land releases is few and far between.

It is expected that Sydney's population will grow by 1.74 million people by 2036 *(source: www.planning.nsw.gov.au)*. This will only add pressure to the available supply across Sydney.

Whilst there have been a number of new land releases in recent years, particularly in the south-west and north-west, these are not meeting the current and expected level of demand. The state government has forecast that 664,000 new dwellings will be needed by 2031 to cope with the additional population growth (www.abc.net.com.au).

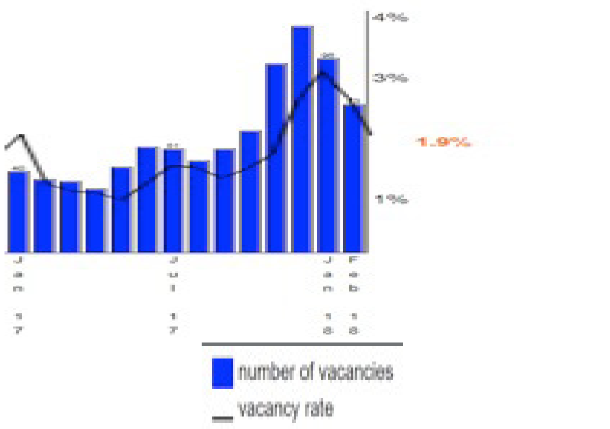
The lack of supply has seen some councils approve redevelopment and zoning changes to allow for higher density development to meet the current demand. This has been evident in councils such as Sutherland Shire and Canterbury Bankstown where minimum requirements for duplex subdivisions have been eased, while other councils are allowing smaller allotments in new land releases or increased floor to space ratio and height limit allowances for unit towers.

Vacancy rates, supply and rental price levels

Some of the key factors to consider when looking at investing in property include vacancy rates and supply levels, which may have a significant impact on the potential rental price achieved and overall performance of the property.

Rosebery is a city fringe suburb, located six kilometres south of the CBD. Older style 2-bedroom units or modern 1-bedroom units rent for approximately $600 per week, with modern, higher standard 2-bedroom, 2-bathroom units usually commanding around $700 to $800 per week depending on overall size, position, views and quality of the development.

Rosebery has seen multiple new unit developments completed in recent times and as such, supply levels are increasing. This has been reflected in the slightly increasing vacancy. SQM Research shows that there were approximately 73 vacant properties in February 2018 with vacancy rates at the end of February of 1.9%. Vacancy rates even spiked at around 3% during the later months of 2017. While still at healthy long-term averages, this indicates an increased amount of vacant properties since January 2017 when there were approximately only 40 vacant properties.



Rosebery Residential Vacancy Rates - (Source: sqmresearch.com.au)

Another example is Wentworth Point which is located approximately 16 kilometres from the CBD and has had an influx of high-density apartment buildings within recent years. Vacancy rates peaked above 6% during some months of 2017 and as at the end of February 2018 vacancy rates were at approximately 3.5% according to SQM Research.

While vacancy rates and supply levels appear to be trending slightly higher, certain pockets and property types are above long-term averages for Sydney.

The Real Estate Institute of New South Wales (REINSW) issued vacancy rates as at January 2018 which indicates inner Sydney is at 2.1% and middle and outer regions are at 2.9% and 2.2% respectively.

Residential vacancy rate %

	Jan 2018	Dec 2017	Nov 2017	Oct 2017	Sep 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017
SYDNEY												
Inner	2.1	2.0	2.1	2.0	2.2	1.9	2.1	2.2	1.9	1.5	1.6	1.7
Middle	2.9	2.6	2.2	2.2	2.4	2.3	1.5	1.4	1.6	1.2	1.4	1.6
Outer	2.2	2.3	2.1	2.0	1.8	1.8	1.6	1.7	1.8	2.2	2.1	2.2
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: REINSW

Given the amount of existing, under construction and future unit supply within Sydney, we consider vacancy rates and supply levels to be a key market indicator of property performance. Anyone looking at buying into this market segment should consider such factors, particularly when purchasing for investment purposes given that any vacancy period will have a direct impact on overall returns in the short term at least.

Vacancy rates are likely to continue at similar trends based on the amount of supply currently available and we expect the supply of new unit developments to slow over the next 12 to 18 months. However, if construction of high-density developments was to continue at record levels then there is likely to be an increased risk of further oversupplied pockets of Sydney which could put further downward pressure on value and rental levels until demand catches up. On the other hand, unique or quality properties within sought after locations are still in high demand and therefore likely to continue to demand premium rents with little or no vacancy periods.

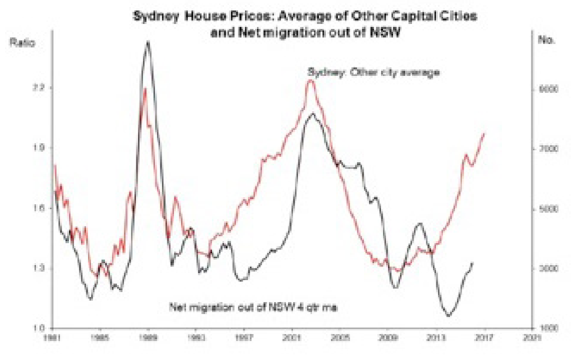
Net Migration

It is well known that both overseas immigration and interstate migration can have a major impact on property prices. This has been clearly evident in Sydney, with overall population growth resulting in the undersupply of housing and consequently higher property prices. There are many reasons for this increased population, with Sydney's extremely strong job market being the main pull factor.

Looking at interstate migration, it has been well publicised that affordability of the Sydney housing market is at a historic low. It is starting to become evident that although the Sydney job market remains extremely strong, affordability has started to lead to an increase in net migration out of Sydney.

There is also the added factor that during a peaking property market, Sydney homeowners are taking the opportunity to cash in and move to more affordable locations.

The graph following shows that historically, net migration out of New South Wales increases as Sydney house prices increase in comparison to other capital cities.



Source: Macquarie Bank

Although it appears there is a trend of increasing interstate migration out of New South Wales, it is expected that overseas immigration and natural growth will lead to a continued overall strong growth in population. If this expected population trend does continue, it again comes back to the fundamental issue of demand and supply, something Sydney has struggled to get right in recent times. This is also the main argument as to why most researchers don't believe that we will see any major housing collapse in Sydney anytime soon.

Unemployment

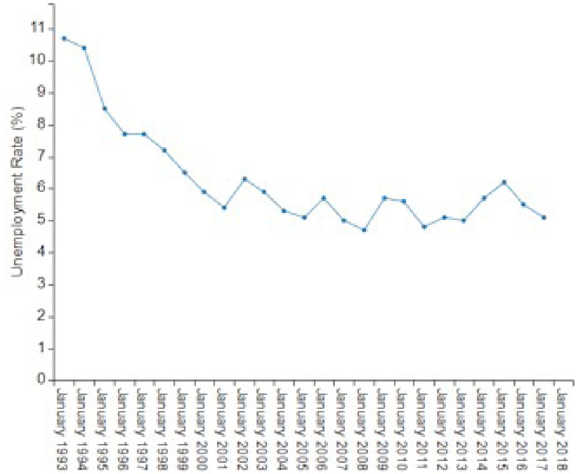
The unemployment rate has been fairly steady in New South Wales since the year 2000, sitting within a range of 4.7% to 6.3%. The highest recent peak was in January 2015 with an unemployment rate of

Residential

6.2% at a time when the Sydney median property price was undergoing significant growth. There is little doubt that if the unemployment rate was to rise to similar levels as the early 1990s it would have an effect on property prices. However, when the unemployment rate sits within the band it has since the turn of this century, it doesn't appear to have much impact on property prices.

New South Wales

Unemployment Rate (15+), January 1993 - January 2018 (%)



Source: Labour Market Information Portal

Prestige Market

The prestige market in Sydney has received global attention and Sydney is certainly on the radar of the world's elite for its stable economy, proximity to Asia, world-class health care and education and year-round climate.

The demand from overseas purchasers appears to have softened over the past 12 months. Some factors that have contributed to this include the increase to the New South Wales stamp duty surcharge for foreign purchasers (from an additional 4% to 8%) and an increase in the Land Tax surcharge (from 0.75% to 2%) for the 2018 tax year.

Despite this, the 2017 Global Wealth Migration Review showed that Sydney is currently the world's number one hot spot for millionaire immigrants and more of the uber-wealthy are buying second homes here. Australia is attracting more high net worth individuals as migrants than any other country according to an analysis by consultancy New World Wealth in its 2018 Global Wealth Migration Review.

The prestige market is considered less dependent on affordability and instead, the market is driven by global flows of wealth and a supply versus demand balance.

In summary, the factors that will help stimulate the prestige market include the Australian dollar, domestic and international share markets, business performance, business confidence, company profits, Chinese interest in trophy homes, buyer activity from ex-pats and migration interest under the Significant and Premium Investor Visa Program.

Canberra

It is a well known fact that the ACT property market, like most other ACT industries is heavily reliant on the presence of the public service. This means that the property market is not as susceptible and reacts differently to events in the national property landscape. While the ACT market is still affected by interest rates, migration and unemployment rates, the reaction is normally less dramatic compared to other capital cities.

With a large percentage of the population employed by the government, there can be peaks and troughs in the property market which correlate to political cycles. For example, in the lead up to a federal election, buyers may be more tentative as they are unsure of job security. This can lead to a lull before the election and then a flurry of activity afterwards. New policies to decentralise government departments outside of Canberra can also spark hesitation in the market with buyers unsure of their futures in the ACT.

On a more local level, town centres such as Woden, Belconnen and Tuggeranong are heavily reliant on the presence of government department offices. All these town centres have large numbers of public servants working in or nearby which has helped absorb some of the many apartments that have recently been completed in these areas. Despite this, the apartment market continues to be sluggish as more developments are introduced to the market.

The high percentage of public servants in the ACT means the average household income is relatively high compared to other cities. This is represented in the cost of detached housing in Canberra. Although the ACT has not seen growth quite as strong as Sydney or Melbourne over the past few years, it has still been profitable for many homeowners. The start of 2018 has seen a very slight decrease in capital value growth which may be a sign of the market correcting itself although there are still signs of a strong robust market. There has also been a lot of market activity over the first few months of 2018 in all regions of the ACT.

Illawarra

With approximately 215,000 residents, Wollongong City is the third largest City in NSW and the population of the entire Illawarra District tops 400,000. Although it has the population and local microeconomic factors of its own, the geographic proximity to Sydney is the key measure when determining the main influence on the residential property market.

When Sydney is hot, it flows on down the coast. When Sydney dries up, so do things down here. As the State capital has become more and more unaffordable, Sydney residents are looking further afield and the Illawarra is a go to.

Buyers are faced with the decision of paying over $1,000,000 to live in a suburb close to the Sydney CBD or to consider outer suburbs. With the commute from Campbelltown and surrounds into the CBD being over an hour, this compares favourably with catching the train from Thirroul (1 hour 15 minutes) or Helensburgh (50 minutes). If proximity to family is not a relevant factor, the decision to pick the Illawarra is an easy one. RP Data reports the median sale price for December 2017 in Helensburgh as $911,000; in Woonona as $920,000; in Corrimal as $800,000.

Lismore/Casino/Kyogle

The main Northern Rivers town centres of Lismore City, Casino and Kyogle each have their own primary economic bases (with subtle differences) which influence the residential market.

As a regional centre, Lismore City is considered to be the commercial hub of the Northern Rivers as well as having the benefit of the surrounding rural and horticultural industries such as grazing and macadamia growing. Therefore, employment opportunities are available within the service industries, finance industry (all banks are pretty much represented in the CBD), shopping centres, educational facilities (primary and secondary schooling and Southern Cross University). The Lismore Base Hospital is another major player in the employment sector, particularly with the significant upgrade and renovations carried out.

Other opportunities also exist within the engineering and industrial sector thanks to the growing industrial estate in South Lismore and ongoing infrastructure development in the general area along the highway.

As smaller residential centres, both Casino and Kyogle are predominantly dependent on the surrounding agricultural based industries such as grazing and dairying with a particular emphasis on the large abattoir based in Casino which is a significant employer in the Casino and Richmond Valley and Kyogle area.

This confidence in the area is bolstered somewhat by recent announcements of pending new projects in the locality, including the $14 million upgrade of the Northern Rivers Livestock Exchange sale yards, refurbishment of the Casino Drill Hall site with a new visitor centre, amphitheatre and riverside precinct for close to $1.75 million.

Possibly the most positive (and provocative) announcement is the establishment of a major medical cannabis facility near Casino.

Combine the strong, livestock-based influences with new industry and Casino could be advertised as follows!

All of these industries and announcements are pertinent to the security of employment for local residents and naturally, have an influence on the consumer confidence in real estate, either as first home buyers, investors or upgraders and across pretty much all sale price brackets.

At present, we are experiencing a strong demand in new build development in the suburb of Goonellabah (part of Lismore City) due to the increased supply of land within developing residential estates and spurred on by infrastructure bonds and discounts to encourage housing development (particularly for those looking to upgrade).

Hence, local builders and building companies are in strong demand and likely to remain so for the short to medium term. It has been noted, particularly within the past 12 months, a number of sales breaking the $600,000 plus price ceiling.

Rental accommodation demand continues to strengthen with Lismore City, Casino and Kyogle still experiencing significant enquiry and tightening the availability of rental space. The reason for this is new people coming into town for work-related purposes. Try finding a house to rent in Evans Head - good luck competing with Pacific Highway construction workers! The biggest concern is what happens when interest rates start to inch upwards and lenders apply more stringent measures to counteract the possible increase in risk.

So far, market performance (sales activity and price levels) has remained relatively steady in Lismore, Casino and Kyogle and although the threat of possible interest rate increases is always foremost in the minds of most owner-occupiers, renters and investors, there does not seem to be any panicked urgency. A review of one's loan situation is possibly one simple task to carry out, with some lenders offering reasonable fixed rate options.

Ballina/Byron

First home buyers, growing families and people relocating to the area are the driving forces behind the market. Families wanting to build a new home are keeping the vacant land market buoyant, while the older established properties in sought after locations such as East Ballina are being picked up by cashed-up out of town buyers from Sydney and Melbourne. An interest rate rise probably will not affect the market as such due to the area being popular. The market slowing in the major cities of Sydney and Melbourne may impact the higher end properties over $800,000 as the profit on possible sales in the cities may impact how much a buyer is prepared to pay for a beach or near beachfront property in East Ballina.

The residential market throughout the Byron Shire is not driven by local employment figures. The predominant influence on the residential property market throughout the Byron Shire has been the strong residential property markets in Sydney and to a lesser extent Melbourne. The prestige residential property market is particularly influenced by the strength of the Sydney and Melbourne markets. With improvements in technology, ease of access to both Gold Coast and Ballina airports and flexible working conditions, we have seen an increase in people relocating from capital cities whilst still maintaining their current employment.

Any interest rate increases would likely see an immediate effect on the wider Byron Shire property market, however, the lack of supply across most price brackets would likely lessen the immediate effects of an interest rate increase.

The Clarence Valley

At present, the Clarence Valley has seen a surge in rental demand due to the increased workforce for the Pacific Highway upgrade. This influx has seen rental prices climb in line with, and in some areas even outperform, capital growth over the past few years and with years of sustainable rental demand predicted, this looks set to continue.

While this increased workforce has ensured a quick take-up of stock entering the market, particularly in the sub $500,000 price bracket, it has also likely contributed to a positive shift in vacant land prices with vacant land sales increasing in price and volume since the highway upgrade was announced.

Aside from this key driver, Yamba and surrounding beachside localities are still driven by the beach lifestyle which lures a vast demographic range. Yamba has a shortage of land and limited developed stock available sub $500,000 which is showing signs of increasing the level of demand for affordable properties and even resulting in bidding wars in some instances. This, in turn, has driven up the price of more a affordable stock. On the other hand, the prestige market remains steady, with slight increases noted but really quite limited turnover.

The market looks healthy across the board, however, with the highway upgrade completion drawing nearer, the medium term predictions indicate a stabilising or even slowing market.

Mid-North Coast

The larger regional centres of the mid-north coast, especially Port Macquarie, have historically seen an influx of retirees from Sydney and other larger centres cashing in and moving to the area looking for a sea change and the small town feel. However more recently, as the area grows and a wider variety of work opportunities arises, younger families and couples are also relocating due to the area's natural attractiveness, climate and less expensive housing opportunities.

There are many developing areas and subdivisions on the mid-north coast, most noticeably around the major regional centre of Port Macquarie and its surrounds (Sovereign Hills, Wauchope, Bonny Hills and Lake Cathie) as well as further down the coast around Harrington, Old Bar, Forster, Red Head and Tallwoods. These areas have seen surges in new housing development over the past two years and are popular with couples and first home buyers wishing to purchase a new, modern dwelling generally close to the beach. During the first few months of 2018, we saw this development start to catch up with demand, with selling periods slightly extended and resale prices in some areas showing only slight gains.

In Port Macquarie, Charles Sturt University has continued to grow in building infrastructure and course diversity, which has encouraged builders, investors and homeowners to the area. However, completion of major infrastructure works at the hospital and completion of the Pacific Highway dual lane upgrade has meant itinerant workers are starting to leave town and we are seeing an increase in rental properties coming onto the market, with higher rental vacancies and decreasing rents.

Considering the above, we also need to look at the overall influences on the local market, which include:

Positive drivers:

- Interest rates remaining low
- Reduction in foreign investment.
- Negative drivers:
- New regulations limiting lenders' borrowings
- Supply of new dwellings catching demand
- Wage increases behind inflation growth.

Taking all the above into consideration together with the flow on effect of a slowing Sydney property market, the mid-north coast, especially Port Macquarie, has started to stabilise and we are seeing the beginnings of what looks like a return to a more normal and balanced property market.

Central Coast

The central coast region is broadly broken into two parts, the northern and southern ends, with a third part loosely defined as the central part. Each part has a mixture of established, emerging and re-emerging beach, lake and rural residential areas within them.

Drilling down into what influences the performance of each part can sometimes be helped by two seemingly innocuous questions often heard asked by coast residents: what part of the coast are you from and how long have you lived on the coast?

Listening to the answers to these questions coupled with the data we obtain ourselves through our everyday work provides a reasonably solid feel of where the market has been and where it might be going.

Much is being said of the influence that lenders' interest rates have on the coast's real estate market and rightly so, but at present, we are finding little conversation out there on this subject. With lending rates so low, it might be the case that owners and purchasers have little to worry about at present, so little consideration is given to current lending rates. No doubt though, that as lenders introduce new, higher rates, this will be a topic raised more often. Right now, lenders are very competitive in securing new business and we wonder what is in store for us at the end of this competition cycle.

The central coast sits on the shoulder of the Sydney real estate market and perhaps the greatest influencer at present is the affordability level between the two markets. It seems the peak of the real estate cycle has been playing out for an extraordinarily long time in the current cycle (and it has according to data).

Some parts of the coast's market – the peninsula suburbs of Umina Beach, Woy Woy, Ettalong Beach immediately come to mind - have seen significant rises in values over the past several years. The peninsula has no better or inferior features, services or housing found in suburbs elsewhere across the region, so the question asked by many is what is the reason for the area's popularity?

The popularity of the peninsula may pass or stay - we don't know. What we have heard and seen though is that purchasers priced out of the Sydney market are seeing the peninsula as an affordable alternative and not too far away from work and family in their former Sydney base. In the meantime, statistics indicate a rise in the median dwelling values of around 25% over the past two years.

Meanwhile, the Gosford City Centre is undergoing somewhat of a re-emergence and revitalisation. The reasons for this include the major expansion of the hospital and medical related uses around the hospital increasing in tandem. Property developers are seizing the opportunity to develop sites for higher density housing within the hospital precinct and to date, demand for new units has been very good with stock availability remaining low. This is more than a little encouraging for the city centre with occupant levels increasing. Accordingly, there is a very real possibility of it becoming a real hub of life and activity. The new Australian Taxation Office within the city centre has also added to the demand for housing as employees have relocated from elsewhere to Gosford.

We say that demand for new units thus far has been good and this is evidenced by the level of pre-sales occurring within new developments. Marketing of the new developments has been beyond the levels of professionalism seen in the area in previous cycles and coupled with the exodus of Sydney buyers to the coast, acceptance and take up of the new developments have been highly successful. This has also had the effect of values for older units increasing as overflow demand for stock increases. According to Core Logic RPData, the median value of units in Gosford rose by 10% during 2017. We note the data stops in December 2017 and we think a higher percentage increase is likely for the beginning of 2018 as new data begins to filter through on settlements of new year purchases.

While the southern end of the region is mostly centred on infill development and the now emerging renovate and extend phase, the northern end of the region holds the key to new development and infrastructure. It is within the northern end that most of the available raw land is located.

Specifically, we are talking about the Warnervale Release Area, which includes Wadalba, Woongarrah and Hamlyn Terrace. New housing is the main type of development occurring and there has been action aplenty here. New builds are predominantly project-style housing and this has proven popular with new entrants to the real estate market, young families, the odd upgrader and investors.

Pricing levels are thought to be slightly behind to comparable to that found in the outer western and south-western suburbs of Sydney. Keeping up with the movement in values in these areas is as challenging as in other areas no doubt, but we regularly see ourselves doing a double take at some of the prices being paid, although in the context of rising values generally, we are not really that surprised. We are now seeing prices regularly exceeding $800,000 for a well presented two storey, 4-5 bedroom home with good garaging, undercover outdoor entertaining areas and pool. According to sales statistics, a rise in the median dwelling value of just over 21% in the past two years has occurred.

Of course, demand for housing creates demand for services and infrastructure and much of the responsibility of this rests with local and state governments in response to the wishes and needs of the electorates. Forward planning information suggests that the need for services and infrastructure has been recognised, but the challenge for authorities will be delivering before social issues disrupt the quality of these suburbs.

These are working-class suburbs where long daily commutes to Sydney for work are commonplace. While accepted as a small sacrifice (according to those doing it) for living here, we suspect one of the biggest challenges facing these newer suburbs will be maintaining a comfortable lifestyle while meeting commitments made in the pursuit of gaining it. To this end, we see the current low-interest rates providing affordable loan repayments for mortgagors. But again, as new lending rates are introduced, this has the potential to change quickly. If the balance shifts and some of the events seen in previous property cycles return, mortgage stress will become a real issue. Noting the perceived number of vulnerable or at risk property holders in these areas, if mortgage stress takes hold, then values would most certainly be affected.

Newcastle

Conveniently located two hours north of Sydney by car, Newcastle has seen property boom over the past three years and in fact figures show it has been the fastest growing regional city for the past two years.

Once perceived as a gritty and undesirable industrial town dominated by BHP and coal, Newcastle has transformed into a desirable coastal regional city, thanks in part to some major urban renewal projects.

Traditionally, the Newcastle property market has been dictated by the Sydney market due to its close proximity. Newcastle's average house prices are still under half that of Sydney, attracting a large number of investors looking for an affordable alternative close by.

However, there are a few factors at play to suggest that while the Sydney market obviously has a strong influence, it is not the only measure influencing the local market.

Newcastle still has its industrial roots and with the Hunter Valley coal mines on the doorstep, the city is the largest coal exporting port in the world.

During the global financial crisis of 2008, while the major cities saw property values suffer negative movement, Newcastle and the Hunter Valley property prices were experiencing the effects of one of the biggest mining booms in history, avoiding any negative movement.

Perhaps the biggest influencer in the current Newcastle market is the amount of urban development occurring in the city. With a $90 million refurbishment of the city's largest shopping centre along with the largest infrastructure development the city has undertaken in decades, Newcastle is fast losing its industrial stigma and becoming a desirable and affordable sea change destination.

Illawarra

With approximately 215,000 residents, Wollongong City is the third largest city in New South Wales and the population of the entire Illawarra district tops 400,000. Although it has population and local microeconomic factors of its own, the geographic proximity to Sydney is the key measure when determining the main influence on the residential property market. When Sydney is hot, it flows on down the coast. When Sydney dries up, so do things down here. As the state capital has become more and more unaffordable, Sydney residents are looking further afield and the Illawarra is a go to.

Buyers are faced with the decision of paying over $1 million to live in a suburb close to the Sydney CBD or to consider outer suburbs. With an over one hour commute from Campbelltown and surrounds into the Sydney CBD, catching the train from Thirroul (one hour 15 minutes) or Helensburgh (50 minutes) compare favourably. If proximity to family is not a relevant factor, the decision to pick the Illawarra is an easy one. RP Data reports the median sale price for December 2017 in Helensburgh as $911,000; in Woonona as $920,000; and in Corrimal as $800,000.

South East NSW

The Highlands property market is heavily influenced by what is happening in Sydney and historically lags that market by six to twelve months. Accordingly, we would expect to be observing a flattening of demand and that has been observed in isolated pockets across the region. The demand is strong though, for properties close to the townships of Bowral, Moss Vale and Mittagong at price points up to $1.5 million.

The announcement by the New South Wales Department of Planning that Wilton Junction has been designated as a priority growth area to accommodate up to 16,500 dwellings across the 4,175 hectare site located off the M5 East Freeway, combined with the recent announcement of up to 1,500 new land lots at South Moss Vale (Chelsea Gardens and Coomungie) has seen an uptick in asset transfers, positioning forward of major scale development activity across the region.

Tamworth

Tamworth is a city not reliant upon any one industry, allowing it to expand and grow even when certain industries are stagnant. Its good mix of industries ranging from commercial, agricultural, education and health allows Tamworth to be less susceptible to fluctuations due to its large spread of employment. The most recent statistics from the September quarter 2017 show the city sitting at an unemployment rate of 6.06% which is down 1.39% from the same quarter in 2016. This drop has been driven by the recent expansion of the hospital, growth within the city as well as increased spending on infrastructure within the area.

The increase in employment and city growth has led to an increase in investor interest in the area. Given that there is no one industry fuelling the fire, this flow on investment ranges from sub $200,000 dwellings in West Tamworth up to $500,000 plus executive townhouses in East Tamworth to provide the accommodation required for newcomers to the town. The rental market in Tamworth provides solid returns with the average around a 5% gross return. This level of return allows investors to buffer against interest rate rises providing strong market confidence within this market segment.

Interest rate rises will have a stronger impact within the owner-occupier market, particularly first homeowners who may have purchased with only a 5% deposit. This will particularly affect the $250,000 to $450,000 market as this is the market first home owners predominantly operate within. The growth of Tamworth is encouraging higher paid professionals to move to town, which has resulted in an increase in prices and competition within the higher end market ($700,000 plus). In the past six months, there have been seven sales over $900,000, with more than half being on the market less than a month.

The outlook for Tamworth is a positive one. With the unemployment rate dropping and jobs and spending on infrastructure increasing, it is understandable that we believe that the city will continue to grow. This growth will encourage further investment and migration to town providing the drive for increased property values as already seen over recent years.

Central West

Dam levels in the central west seem to be the neatest and most comprehensive measure of the fortunes of the area, with consequences for the real estate market. Dams in the central west include Burrendong Dam, Windamere Dam, Carcoar Dam, Oberon Dam (or Lake Oberon), Chifley Dam (Bathurst) and Wyangala Dam.

Dam levels may seem innocuous enough, however, one only has to consider the developing situation in Cape Town to understand how important water security is and how this can have flow-on effects to the health of an area, figuratively and literally.

Percentage dam levels can be a snapshot of current and future conditions, if not in an actual sense, then at least in a perceived sense, and what can be more important in an age of confidence surveys? Dam levels are a regular with local television and newspapers.

Dam levels are not just an indicator of how much rain there has been, but also of how much is being used which can indicate population change. Dam levels can indicate the future price of commodities and incomes. Calculations are made by producers with different water security dynamics as to their ability to continue production and at what cost. Dam levels can also correlate with how green or brown the paddocks are which goes to a general element of attractiveness of the area for potential purchasers.

Victoria

Melbourne

Melbourne is Australia's fastest growing capital city and experts have predicted it is likely to surpass Sydney as the largest city of Australia by as early as 2031. While the national population grew by 1.6% in the year ended 30 June 2017, the highest growth was in Victoria, with a 2.3% increase in population. The majority of the Victorian population resides in Melbourne with approximately 75% of the total state population calling Melbourne, home. The growing population coupled with low-interest rates and low unemployment is continuing to keep the Melbourne property market relatively stable with modest to strong capital growth.

The current cash rate as at 7 March 2018 was 1.5% which has remained unchanged at a record low since August 2016. The Reserve Bank of Australia has left the cash rate low to encourage lower interest rates, stimulate the economy and consequently, increase inflation. Low-interest rates are a driver for demand and property market growth as more people are able to afford higher mortgage loans. In January 2018, the overall unemployment rate was 5.6% in Melbourne, a slight rise from 5.5% in September 2017 which was the lowest unemployment rate since March 2013. These figures are an indication of the strength of employment growth (source: Australian Bureau of Statistics).

However, while the low cash rate and interest rates coupled with low unemployment have been positive for purchasers, there are concerns over stagnating wage levels. While the cost of living continues to increase and a prediction for interest rate rises continues to loom, there are concerns of affordability given wage growth has remained sluggish. While many outer areas remain more affordable, there are concerns that if wage growth doesn't come close to matching the increase in the cost of living there will be a softening of these residential markets. Those with more modest household incomes will feel the greatest impact of trying to cover the escalating cost of living.

Population growth is one of the major driving factors of the outer Melbourne suburban residential markets in the west, north and south-east as new residents are looking for affordable housing options and these areas are particularly popular with newly arrived overseas migrants. Additional factors driving these outer markets include the availability of residential land, infrastructure and amenities, size of allotments and the first home owners grant and stamp duty exemptions or concessions. Located within the growth corridor plans as designated by the Victorian Planning Authority, these areas have been identified to provide new housing for the expanding population. Local councils and the state government are investing in new infrastructure and amenities to provide for these fast-growing suburbs and their accelerated population growth. The development of new estates is ongoing, with regular releases of land coming onto the market and thousands of new homes being built each year. The availability of land in these areas, coupled with competitive building contracts and house and land packages provide affordable options for owner occupiers and investors alike. Although being located further from the city can result in a longer commute on oftentimes congested roads or crowded public transport, the ability for many to afford their own home is worth the trade-off, particularly for those looking for a detached dwelling rather than an apartment or unit.

The outer eastern Melbourne market is similarly driven by the aforementioned factors, with a strong influence from affordability as well as locality. Young families understand the significant trade-off between house prices and commute time when compared with inner eastern suburbs. The mentality of saving several hundred thousand dollars for an extra ten minutes of travel time is appealing to the younger generation as house prices steadily rise. Under the local municipalities planning schemes, there are design and development overlays in place where the current infrastructure can support the growth in the supply of housing without creating an immediate demand for an upgrade to the infrastructure. The focus points of supply are seen by proximity to public transport as well as access from major arterial roads such as the Maroondah Highway or Burwood Highway.

According to the ABS 2016 census, the occupation with the highest percentage of employed individuals was professional and the second highest was technicians and trade workers, at 22% and 15.5%, respectively. The highest percentage industry of employment was hospitals at 3.6% and the second highest was supermarket and grocery stores at 2.5%.

Strong migration, combined with low-interest rates, have been drivers in all markets, especially the apartment market as investors look to achieve strong yields from apartments and take advantage of reduced interest rates. Until interest rates tighten, the property market will continue to have a strong buy-in from the investment sector.

The apartment market is vulnerable to many external factors. The legislation is either a key driver or barrier in this market, with recent legislation exempting investors from stamp duty savings for off the plan apartments, which has put pressure on both investors and the down-sizer market. Also, the new "ghost tax" comes into effect from 1 January 2019, targeted at owners (primarily overseas) who leave investment properties vacant. These parties will be taxed at 1% of a property's capital improved value. It will be interesting to see how significantly the apartment market is affected by this new legislation in 2018 and beyond. This could potentially put downward pressure on prices, as investors are less inclined to invest with the additional tax on their investment properties.

Echuca

One of the key drivers which underpin demand for local residential property has to be the tree change phenomenon in Echuca and Moama given their proximity to Melbourne. Local agents report that these buyers generally put a floor in the market with some estimating they might account for as much as 40% of enquiries. This enquiry level is considered a strong barometer or lead indicator for local property markets. Melbourne buyers typically participate in the $500,000 plus price bracket and are particularly attracted to riverfront properties in excess of $1 million. For mortgage belt property, local employment is considered to be one of the key drivers and this is heavily linked to the agricultural output of the local region given the related manufacturing businesses in town.

Ballarat

Ballarat is a city in transition - a teenager of sorts, moving from a relatively sleepy and sedate regional centre to a vibrant educational, commercial and cultural hub that is rapidly becoming a satellite city of Melbourne.

The demand for residential property, at its quintessence, is derived from the population. People need a place to call home. More people generate more demand for what is effectively, at any point in time, a commodity with a fixed supply.

The population of Ballarat in 2008 was approximately 80,000. It is now approximately 110,000.

With this in mind, if the population doesn't have a shekel to its name, its capacity to drive demand and in turn drive a market is limited.

So, that said, what brings people to Ballarat? Employment. The employment market in Ballarat is strong and there is significant demand for skilled and unskilled labour driven by sectors such as agriculture, manufacturing, construction, education, health services and tourism.

The increase in population has created a buoyant professional services industry with strong demand for accountants, solicitors, valuers etc. There is affordable, quality housing with good access to required community facilities such as public transport, schools, health care and sports facilities.

There is a current state government strategy to decentralise its workforce away from Melbourne. Ballarat has been earmarked as a place to base government departments. The affordable space appeals to the government and the lifestyle opportunities appeal to the employees.

Certain industries are also re-considering where its manufacturing bases need to be. The recently on line Ballarat West Employment Zone, a large scale industrial land subdivision, saw 80% of its first stage sold within the first 12 months. Purchasers who will employ around 100 people each advise the time to port for a truck from Ballarat is similar to that from Dandenong South but the land is exponentially more affordable.

However, Ballarat is not an island. Any macroeconomic downturn or a material increase in interest rates would impact the local residential market. However as the industries which drive the market are sustainable and in the case of education and health, subject to almost inelastic demand, the market is insulated as much as is possible.

Warrnambool

The market for all residential property types has generally remained steady and affordable for purchasers at all price ranges. This is due to the continued supply of new residential land on Warrnambool's periphery with the typical 650 to 700 square metre parcel of vacant land selling for $140,000 to $150,000.

Local agents are reporting an increase in demand for Central Warrnambool, with a small snapshot of sales showing growth of approximately 10%. The lack of supply in Central Warrnambool is a key driver of this increase.

Historically, Warrnambool has been somewhat removed from outside influences such as interest rate rises, as the majority of properties are owner-occupied. Investors active in the Warrnambool area generally operate in the sub $300,000 space and are generally not heavily geared. This generally gives investors some room to move if interest rates rise.

Warrnambool's key industry sectors, healthcare and dairy product manufacturing, are likely to remain strong with the continued expansion of public health infrastructure. Warrnambool has sustained a steady decline in its unemployment rate, a rate that has been lower than the state average since 2016. Low levels of unemployment have yet to translate into a genuine market movement of increased values.

Smaller surrounding towns, in particular, Koroit, have yet to suffer any negative movement in values or rent levels caused by the sale of Murray Goulburn.

Queensland

Brisbane

Southeast Queensland real estate is just the sort conservative, long-term market investors adore-traditional, predictable and relatively affordable.

Brisbane property is accessible to a variety of demographics as buyers can easily become real estate owners in our city, and many are happy to wait for the eventual long-term gains. In comparison to our big southern cousins, Brisbane also sees decent gross yields, so it's nice for landlords to know tenants will help cover a large chunk of their loan servicing costs while they wait for values to skyrocket.

Our market responds fairly predictable to movements in the metrics too. A change in certain measures can make some Brisbane buyers and sellers react in a knee-jerk fashion, but history tells us the smart money looks beyond micro-movements and plays a long game.

Interest rates are certainly a universal shifter of confidence and Brisbane buyers can cool quickly when the Reserve Bank announces a rise in the cost of money. After the initial announcement, buyers can often become be a little coy, and if rises continue over a sustained period, there is usually a slowing in general price growth and demand levels.

Over the last decade or so this hasn't been a problem, however, it's a measure worth watching as future increases in the cash rate are fairly certain.

When there are sustained interest rates rise they are felt most substantially in our investor, first homebuyer and low-priced markets initially, with a flow on slowdown to middle ring family markets.

The sector that seems least affected in Brisbane is normally the prestige and ultra-prestige buyers. Many appear to carry enough reserves to purchase regardless of interest rates.

Another all-important measure for Brisbane is net interstate and overseas migration. We aren't a huge population compared to Sydney or Melbourne, so when new residents start calling our River City home, we feel it with force.

In the early part of the millennium, our State enjoyed a bumper net interstate migration number reaching well above 20,000 per year as mining booms and lifestyle appeal brought in a plethora of new Queenslanders. This was a time of 20 to 30 percent annual capital gains across many real estate markets and property types.

Fast forward to 2012 and our migration numbers were floundering well below 10,000. This was the period where Brisbane housing just couldn't catch a break. At present, our migration number is sitting around 16,000 per annum which is a very healthy base on which to build. There are plenty of commentators out there watching the figure carefully to see if we can create more momentum.

Going hand in hand with migration is employment. Our current unemployment rate of around six percent is not something to be proud of. As such, we continue to see relatively subdued value growth during a period where Queensland's net migration is on the rise.

While we are attracting new residents, many are cashed up southerners heading to lifestyle centres on the Sunshine and Gold Coasts. A rise in our employment prospect will help boost the Brisbane region's appeal, so homeowners can see long-awaited gains. Rising migration plus falling unemployment will be part of the magic formula for Brisbane property price growth.

Along with the growth in population and jobs will need to come infrastructure spending. The benefits are twofold. Firstly, we have our own difficulties with rush-hour gridlock, so infrastructure helps alleviate the stresses of our growing city.

The second part is a boost to employment and expenditure. Infrastructure development creates jobs thereby decreasing unemployment and boosting cash flow in our southeast Queensland economy.

Viola-population growth, jobs growth and infrastructure spending is like a perpetual motion machine for Brisbane region value gains.

A number of infrastructure projects are proposed for Brisbane such as Cross River Rail, Queens Wharf, Brisbane Live, Brisbane Metro, Brisbane Airport upgrade, Millennium Square, Brisbane Quarter, Howard Smith Wharves, Brisbane Showgrounds and Northshore Hamilton

Vacancy rates and rental returns are already important numbers that have been hit by the oversupply of investors grade high-rise units in the central suburbs.

Investors want high yields to help service the debt but a growth in unit numbers has seen returns soften. If owners continue to lose confidence in landing a tenant who will pay a decent rental, then prices will continue to trend lower in this sector.

Fortunately, established housing in the inner and mid rings has proved price resilient, which demonstrates how housing that appeals to owner-occupiers is somewhat immune to falls in the rental metrics.

So, what are the numbers telling us about Brisbane and the surrounding councils? We are at a tipping point… and it's in a good way. Our population is growing and if job numbers and infrastructure spending continue to rise, then it bodes well for our region's property. The oversupply of units is a concern, but there are signs that absorption of the stock and repricing in the sector is underway.

Keep an eye on us Australia. While 2018 might not be our boom year, the right metrics will reward long-term buyers of South East QLD property.

Gold Coast

North West Region

The numbers affecting the property market are difficult to determine. In recent months, investors have started to come back into the market with increased sales. The consensus among valuers and agents alike is that the pick up is due to some relaxation in investment lending by the banks where previously they tightened up significantly on their lending policies.

By far the most popular property option is a new build on a small residential block. The people buying these properties mainly comprise of two types - interstate investors and owner occupiers working in the Gold Coast or Brisbane area or both. With this in mind, the employment sector and industry types have minimal impact on this market.

We note that the entire north-west has a number of developing estates and with the rate at which they have been developed in recent years there is now a large oversupply of new properties in the market. This makes finding tenants an issue which in turn is having a direct impact on rents and investment property returns. As you go further west the oversupply becomes worse until you reach Yarrabilba, then further west at Flagstone is not as bad. This oversupply situation also shows that whilst you pay a premium for a new house, the second-hand market is more severely affected, with sale prices for a second hand home heavily discounted from the original new house and land cost.

Given what we've seen in this market, the more sound investment option for an owner occupier who expects their property value to grow would be the second-hand option.

Southern Region

The southern Gold Coast and northern New South Wales property market have remained strong during the first quarter of 2018. Local agents have continued to report strong levels of demand with shorter selling periods, reduced stock availability and upward pressure on sale price levels. We note an increase in buyer interest in the area, particularly in the lower price ranges for units and houses. We notice an increased presence of younger owner-occupier families in some areas of the Tweed Shire which can provide a more inexpensive alternative to some central Gold Coast suburbs nearby. This may see the area become less susceptible to volatility from interest rate movements. With new estates emerging around the Terranora and Cobaki Lakes area, we will begin to see a further influx of investors which may negatively impact rental returns as a result of increased supply. With continuing population increases in our coastal localities, the southern Gold Coast and New South Wales area look set for continued growth amongst owner-occupiers and investors alike.

Central Region
Examples of the numbers that influence this region are employment, migration, vacancy, interest rates and credit availability. Upgrades to infrastructure (public and private hospitals, light rail and Commonwealth Games and tourism-related construction) have increased demand from both potential buyers and tenants in the central region. Suburbs well located to access these employment hubs have seen strong growth in rents and prices across all market segments. Some instances have seen rental properties jump 10% plus from the previous lease when placed on the rental market. Large groups and multiple applications are common at most open homes.

Vacancy is currently very low and it is likely due in a large part to migration to the area driven by employment opportunities.

The strong and growing rental returns for properties in the central region make them attractive to the investment market, however, tightening of credit availability and potentially higher interest rates on investment loans have begun to restrict the number of investors in the attached dwelling market in the area. Anecdotal evidence from agents notes that owner occupiers and first home buyers have increasingly featured in the buyer profile for this type of property.

Currently, numbers published show higher and increasing levels of interstate migration. Many may be attracted to the employment opportunities and perceived competitive property prices. This currently still ensures that reasonably priced homes in the central region will generally sell in less than three months and often less than one month.

The limited available vacant land for new home construction has seen two recently released land estates in the area experience strong sales.

The main employment sectors in the central region, tourism and construction, as well as health and education, should continue to attract migration to the area in the immediate future. The completion of the Commonwealth Games in April may pose a risk as the directly related employment comes to an end.

Another risk to continued growth is potential interest rate rises. Recently published figures have highlighted that mortgage stress is beginning to increase on the Gold Coast. Any upward change in interest rates is likely to increase both mortgages under stress and general demand.

North East Region
The key numbers that influence the north-eastern Gold Coast region are upgrades to infrastructure, employment opportunities and cheap rent or housing compared to other regions of the Gold Coast. The continuing development of new dwellings and infrastructure has had the effect of increasing demand for vacant lots and new product, as a new house and land package, duplex unit or townhouse is proving a more attractive option to some sections of the market, particularly first home buyers who want to benefit from the increased incentive programs.

The recent new and proposed infrastructure includes upgrades to the motorway exit 54, two new schools at Coomera, sports precinct at Pimpama, Coomera indoor sports centre used for the Commonwealth Games, aquatic centre, Pimpama Junction shopping centre, Pimpama Village shopping centre, tavern, fast food outlets, service stations, proposed hospital and a Westfield shopping centre. The ongoing investment in the area has been able to create new jobs in many different fields with housing still affordable. The market for this class of property is still underpinned by strong investor buying activity with the majority of new land and house packages in certain estates being sold to investors. The ongoing supply of new investment properties into the market has kept the rental rates steady for the past 12 to 18 months and reduced rental yields for investors in the area.

Sunshine Coast

There are a number of measures that matter to the Sunshine Coast residential property market.

Interstate migration and the strength of the southern markets affect our market, particularly the higher end beachside and prestige hinterland properties which appeal to retirees and sea change buyers making the move north. Market sentiment in the Sydney and Melbourne markets is generally a good indicator and interstate migration to the Sunshine Coast increases as these markets reach the top of the property cycle. Prestige beachside areas such as Noosa and Sunshine Beach are influenced by demand from southern buyers as are some prestige hinterland areas including Maleny and Doonan.

Employment levels also influence demand for local property and, generally speaking, when the tourism and construction industries are strong, the local residential market follows. The injection of employment around the Sunshine Coast University Hospital has also been great for the local economy. There is increased demand for the more affordably priced properties up to $700,000. Strong employment also increases the demand for rental properties which is positive news for investors but not so good for tenants.

The Sunshine Coast has always been a popular investment location for both dwelling and units alike, with many holiday let units owned by intra and interstate investors. Like most areas, any significant interest rate rises will likely impact many investors and we may see an increase in the supply of investor stock hit the market, which is what has happened in the past.

This may also be a similar issue for some of the newer affordable estates which have a higher proportion of investment properties as opposed to owner-occupied stock.

The Sunshine Coast is still rolling along well on most fronts. Land prices, as well as established housing, are continuing to increase with demand remaining strong. Currently, stock levels across the coast are low and we are seeing multiple offers becoming more common again. Units are also improving although not to the same extent as traditional housing. With a number of local infrastructure projects still to be delivered, we're expecting another good year for the residential property market on the Sunshine Coast.

Toowoomba

Toowoomba's economic drivers are quite varied and diverse in comparison to other localities around Queensland. This is most likely due to its central hub location being within close proximity to the state's capital and being the major regional centre servicing the agricultural sectors of the Darling Downs to the west and the Lockyer Valley to the east. Traditionally, Toowoomba has not been subject to volatile market movements given the diversity and relatively stable workforce underpinned by large government employers including numerous schools, the University of Southern Queensland, TAFE College, three large hospitals and the Oakey and Cabarlah army bases.

The major industry sectors by employment in Toowoomba include healthcare and social assistance, education and training, with manufacturing and agriculture also being significant employers. Toowoomba has also proven to be a popular location for retirees from the broader south-west Queensland area. At the last census, the proportion of 60 plus year olds in Toowoomba was 23.6% versus 18.8% for Queensland and 19.6% for Australia. This demographic mix supports the health sector which, along with the education sector, is forecast to enjoy continued strong growth in the region.

With a strong health sector, it is no surprise that medical professionals have dominated the prestige market in recent years and this trend is likely to continue. Professional workers tend to occupy areas such as the eastern suburbs while manufacturing workers and retirees tend to be widely spread throughout all suburbs of Toowoomba. The majority of new investment tends to be concentrated in the western suburbs.

Vacancy rates across Toowoomba are approximately 2.6% as at February 2018. The Toowoomba Second Range Crossing project under construction appears to have assisted in maintaining low vacancy rates, with many workers residing in the region. Vacancy rates and the impact on the investment market will be closely monitored when the Second Range Crossing nears completion at the end of 2018.

West of Toowoomba, the coal seam gas sector heavily influenced the main Surat Basin centres including Chinchilla, Miles and Roma. When the industry transitioned from the construction to production phase, many workers exited the region and a subsequent oversupply of accommodation emerged, with a major downward effect on property values and rents. These towns appear to have stabilised and returned to historic levels which are more aligned with their predominantly rural-based economies.

Hervey Bay

Stable employment for the Fraser Coast region is a major factor in maintaining residents moving from other areas of the country. The three main areas of employment in Hervey Bay are tourism, medical (including allied health) and construction. According to the ABS (labour force data) and Department of Employment, the unemployment rate was 10.11% for the September 2017 quarter, with the rate rising slowly over the past six years.

Tourism has improved for the Fraser Coast region over the past three years, with domestic visitors increasing by 1.1% and business travel up by 15.9%. Travel for holidaying and visiting friends or relatives was stable over the same period. The intrastate market increased by 2.5%, underpinned by a rise in Brisbane visitors who made up 76% of the overnight visitation to the Fraser Coast region. Interstate visitors declined by 3.1%. International visitation grew by 10.7% and was predominantly from western countries for holiday purposes (Tourism and Events Queensland, 2017). The busiest time for the Fraser Coast is generally between August and November each year when whales migrate to the calm waters off Fraser Island, whale watching being a very popular tourist event.

Construction continues to increase for the area, with the majority of builders reporting very steady to busy schedules. We have seen an increase in higher priced building contracts for locals that can range up to $650,000. There are still additional stages of estates being developed, as well as the smaller infill developments. Land prices for these estates are typically stable and range between $150,000 and $220,000, however some higher prices for land in established older areas have been achieving above $200,000 for sites below 1,300 square metres. Building approvals have been steadily rising since 2013 and have been similar throughout 2015 to 2017 at just over 22,000 per year according to the ABS (8731.0). Rental vacancy rates remain very low and typically range between 1% and 2%.

The increase in medically related employment for the area is a very welcome addition to the local economy, bringing stable, higher incomes to the area. The new emergency department for the public hospital is currently under construction with more medical staff required on completion.

Emerald

Emerald is now predominantly a major regional centre servicing the coal mining sector. Having originally been an agricultural community, it has seen significant growth due to the Bowen Basin coal mining fields. Currently the resource sector is picking up and in turn has created more jobs which has tightened the rental market, pushing rents up and values are now starting to firm. We also have some solar farm projects underway and the Fairbairn Dam Spillway is under repair. While coal prices enjoy a better period, so will our residential market.

Whitsundays

The Whitsundays market's primary driver is tourism. The secondary driver is farming (sugar cane and beef in Proserpine, crops and beef in Bowen).

The Whitsundays was affected by Tropical Cyclone Debbie which hit the area on 28 March 2017. A year on and there is still significant repair work to be completed including to Daydream Island, Hayman Island and Hamilton Island along with the smaller resorts on the other Whitsunday islands. The surge of tradesmen coming to the area combined with the number of locals made homeless due to Tropical Cyclone Debbie have put pressure on and have made a noticeable increase in rents in the current market. It is unknown how long this demand will be in play. It is expected that the insurance work will continue for the next six to twelve months.

(Source: RP Data)

The Whitsundays is showing early signs of improvement in the current market. With fingers crossed that there are no more cyclones and with islands opening up again, we look forward to the next 12 months.

Mackay

When thinking about the numbers that matter, we thought we would look at the roller coaster that has been the Mackay residential market over the past five or six years and compare some interesting statistics and measures. A simple snapshot of these measures is contained in the below graph.

Measure	2012	2015	2018
Vacancy Rates	1.9	9.8	3.0
Median Rent 3-bedroom	$480	$290	$300
Unemployment Rates %	3.2	8.4	4.4
Coking Cole price/tonne	$252	$90	$192
Medium House Price	$426,000	$345,000	$325,000

The Mackay residential market is heavily influenced by the mining activities associated with the Bowen Basin. One of the main measures relating to mining is the price of metallurgical or coking coal. During the peak period in 2012, coking coal prices sat at around the $250 per tonne mark. The price then fell significantly to around $90 per tonne during the mining downturn in 2015.

On the back of falling coal prices and the major downturn in the mining sector, we saw the flow on effect to other measures in the economy. For instance, the unemployment rate in Mackay was at 3.2% during 2012, before rising significantly to 8.4% at the height of the mining downturn in 2015.

What did this mean then for the Mackay residential market? Well, vacancy rates in Mackay were around the 1% at the peak of the market in 2011/2012. Vacancy rates then blew out significantly to 9.8% during the mining downturn in 2015. This weakening demand led to the median rent for a 3-bedroom dwelling to fall significantly from around the $480 per week mark in 2012 to $290 per week in 2015.

It wasn't only the rental market that experienced the full force of the mining downturn. The median sale price of dwellings also fell significantly from $426,000 in 2012 to $345,000 in 2015 with sales volumes virtually halving during this period.

So how does the current Mackay economy and residential market stack up against these historical figures? The good news is that on almost every measure, the Mackay market has improved, with a stronger mining sector, increased employment opportunities and significant infrastructure projects.

The price of coking coal has increased significantly (albeit is volatile) since the downturn (around $90 per tonne) to around the $190 per tonne mark at the end of 2017. Due to a stronger resource sector and expanded infrastructure projects, the unemployment rate for Mackay has also fallen (from 8.4%) to currently stand at 4.4%.

On the back of a stronger economy and increased employment, vacancy rates for residential dwellings have fallen significantly over the past few years (from a high of 9.8%) to currently be at around 3%. This increased demand has led to the median rental of a 3-bedroom dwelling increasing to $300 per week with further upward pressures on rental values. With regard to sales, the median house price has remained stable over the past 12 months and currently sits at $325,000, albeit with increased demand, shorter time on the market and renewed buyer confidence. While this has not led to increased prices yet, it is anticipated that some growth in values will occur over the medium term.

Gladstone

The one measure that historically has most affected the Gladstone market is employment.

It is widely known that Gladstone has always been a big boom and bust town and the market has always been driven by major industrial projects in the area, resulting in demand or lack thereof for accommodation for workers. While there have been a few possibilities of new projects thrown into the ring over the past several months, nothing is set in stone. The market, however, has seen a changing of the guard over this time, with increased confidence surrounding the local economy and jobs. The market should continue to improve on the back of increasing business confidence and more job opportunities.

Vacancy rates are another measure that has typically driven the market in Gladstone. The vacancy rate in the Gladstone region currently sits at 4.3%. The rate has hovered around the 4% to 5% mark over the past six months and while not yet a balanced market, the market has acknowledged its tightening trend and rental levels have started to rise. Most agents have reported around $10 to $20 increases on existing housing as they come up for renewal.

Rockhampton

Rockhampton and region property markets are typically influenced by a number of factors including employment, mining and cattle industry trends and interest rates.

Currently, historically low-interest rates do not seem to be having any major effect on the local property market. It is considered that interest rates would have to skyrocket to be an influencing factor in the region.

Job security has been the main driving factor behind our residential market. Notably, jobs within the mining sector and associated industry have had the most significant influence in recent years, more so than that of education, health and agriculture, which are the region's other major contributors to the employment sector.

There are a number of infrastructure projects in the pipeline for the region, most notably Rockwood Weir and upgrades to the Base Hospital car park. Rockhampton Regional Council has also heavily invested in upgrading the riverfront which is now complete and there are further plans to integrate this area with the CBD. Another large-scale infrastructure project on the horizon is the Rockhampton Ring Road, however, this remains in the early planning stage at this time. Each infrastructure project will have an influence on the housing market as a direct result of the employment opportunities each project is capable of creating.

Being a regional area, migration (international and interstate) is not a massive influence on the housing market. Having said this though, the meatworks has become an employer with a large multicultural workforce in recent years. A significant number of these employees are renting locally which improves the rental market.

As we move through the first half of 2018, more positive indications have crept into the local mining industry which has helped to stabilise the residential market in Rockhampton and surrounding regions.

October 2017 saw the announcement of 1,100 FIFO workers to be located in the Rockhampton region for the two year construction period of the Adani Carmichael coal mine commencing in early 2018. After construction is completed, the number of FIFO workers located in the Rockhampton region will reduce to approximately 625. Since this announcement, there has been mounting speculation regarding Government support and financial backing of the project which is likely to delay any progress in the short term.

In addition to this, Rockhampton vacancy rates have dropped to approximately 4.6%. This tightening trend will lend itself to an improvement in the investor market. RTA quarterly statistics show slight increases in new rents between the September 2017 and December 2017 quarters. Should this momentum continue, Rockhampton investors may start to see some minor capital gains and improved returns. The owner-occupier and first home buyer market sectors continue to remain relatively stable.

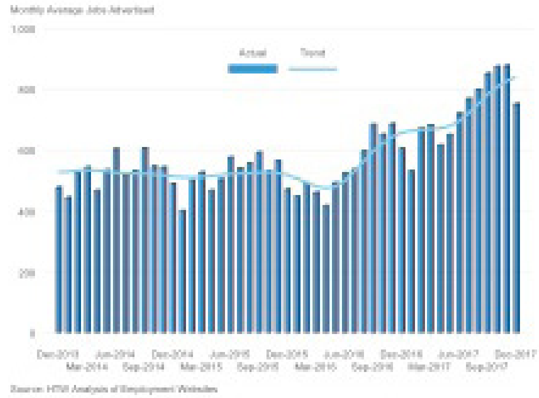
One final influence of note on the local market is the performance of the capital city markets. Once investors looking to the major centres for strong capital growth start to see signs of slowing in these areas, they have historically looked to regional centres such as ours. These investors often then notice solid returns and good potential for capital growth in the long term along with affordability (some investors choose to purchase multiple properties for the same or a lesser outlay than one property in a heated southern market). With the current rental vacancy trend, this is starting to put Rockhampton in an attractive position for this type of investor once again.

So, how will these measures influence the market in the Rockhampton region? The outlook for the short term is considered to be a continuation of the current stable market and if current trends continue, we may even see some slight growth which would be welcomed across all market sectors.

Townsville

Jobs, jobs, jobs are the measure that matters in Townsville's residential property market at present. This measure affects population growth, unemployment rates and ultimately the property market.

The trend in the number of jobs being advertised on employment websites for the Townsville region has continued to flourish over recent months and has been maintaining record trend levels. The number of jobs advertised in December 2017 increased by a very healthy 30% compared to December 2016 and this bodes well for a continuation of net employment creation during the coming twelve months.



The number of persons employed in the region reached 107,500 in December 2017 and indicates a net employment recovery of 10,000 persons since December 2016. Most of the growth so far has come from increases in part-time employment.

The unemployment rate in the Townsville region has nudged higher in recent months as the perverse result of even more job seekers (not previously regarded as unemployed) now starting to look for work due to the improved economic conditions. Despite this, the region's trended unemployment rate has still seen a significant reduction from the thumping 12.6% in June 2016, down to the latest reading of 9.2% in December 2017.

These encouraging statistics are helping to build positive sentiment in the local property market. Vacancy rates during the course of 2017 reduced significantly and the pipeline for future works and therefore jobs growth is positive. Whilst these factors are having a positive influence on the property market, it remains fragile and real jobs need to continue to be created to help strengthen the market.

Cairns

Cairns is not just a tourist city - there are other industries including mining and agriculture that play a large role in the Cairns economic base - but it is nevertheless tourism that provides its primary growth and development impetus. There are normally very strong correlations between tourism growth, jobs growth and property market health, but it is tourism growth that is largely the initiator. On the property front, it's not so much interest rates that matter, it's the tourism drivers that count most such as the value of the Australian dollar.

With Cairns being largely a fly-in tourist destination, Cairns airport passenger figures are closely watched indicators. On this front, over the twelve months to January 2018, airport passenger numbers have shown a trend increase of 1.4% overall, consisting of a 0.7% trend increase in domestic flights and a 6.1% trend increase in international flights. These patterns will be further reinforced by new and increased airline services being introduced during 2017-18, providing additional flight capacity increases into Cairns.

Trend employment in the Cairns region increased by 7.9% over the period from January 2016 to January 2018. Also noticeable has been a distinct move to full-time job creation (or job conversion from part-time to full-time) as opposed to the creation of part-time and casual jobs, and a sizeable reduction in unemployment.

Recent tourism and jobs growth have yet to connect to the current property market, which remains steadfastly in a steady-state position. That said, our prediction is that 2018 should be the year that the Cairns property market at long last starts to sparkle.

South Australia

Adelaide

Over the past decade, the South Australian jobs market has undergone significant changes with a move away from traditional manufacturing-based industries. This has included a number of well publicised closures, in particular the Holden manufacturing plant in the northern suburb of Elizabeth, the announcement by Tenneco that jobs will be lost at the Monroe shock absorber plant in the southern suburb of O'Sullivan Beach and an announcement by Coca-Cola Amatil that their Thebarton bottling plant will be closing in 2019.

Consequently, the South Australian unemployment rate has risen to the second highest in the nation at 6% as at January 2018 (source: Australian Bureau of Statistics). This has affected populations in the middle to the outer ring, particularly the northern, southern and western suburbs which have the largest proportion of those employed in the manufacturing industry. Within these regions, Seaton to the west, Morphett Vale to the south and the greater area of Elizabeth to the north provide a good snapshot of general market parameters given their large volume of annual turnover.

Seaton is a large western suburb located approximately 11 kilometres from the Adelaide CBD. The suburb comprises a north and south section with Royal Adelaide Golf Club situated in the centre of the suburb. Data from the December 2017 quarter indicates the median dwelling price to be $505,000 (source: Real Estate Institute of South Australia (REISA)) which is a 3.8% increase from the same period in 2016. The majority of dwelling transactions during 2017 occurred within the $400,000 to $600,000 price range (source: CoreLogic). The recent sale of 10 Raymond Avenue, Seaton for $510,000 provides an indication of what can be purchased within this bracket. This is a circa 1960s, 3-bedroom, 1-bathroom dwelling situated on an allotment of 757 square metres. The property has been partially updated internally and features a large pergola, carport and vinyl in-ground pool. Seaton provides greater affordability than the similarly located suburbs of Fulham, Fulham Gardens and Kidman Park.

10 Raymond Avenue, Seaton (source: RealEstate.com.au)

Morphett Vale is located approximately 26 kilometres south of the Adelaide CBD. Development consists of mainly 1970s housing with further development occurring during the 1990s. Morphett Vale has shown gradual year on year price growth since 2013. In 2017, there were 440 dwelling transactions in Morphett Vale. With the current median house price being $312,500 (source: REISA), Morphett Vale had a 1.54% increase in the median house price from the December 2016 quarter to the December 2017 quarter (source: REISA). Having such a high turnover of sales provides a reliable indicator as to how the general market is faring in the middle and outer southern suburbs.

Dwelling values within the northern suburbs, particularly those surrounding Elizabeth Central, approximately 28 kilometres north of the Adelaide CBD, have historically fluctuated. It's noted that Elizabeth East, Elizabeth Park, Elizabeth Grove, Elizabeth South and Elizabeth Vale have all recorded reductions in their median house prices in the past 12 months. Rental yields remain strong in these areas with gross yields hovering around 6% to 7%. An example of this is 38 Ballard Street, Elizabeth East which settled in December 2017 for $181,000. This property is now let for $275 per week indicating gross yield of 7.1%.

38 Ballard Street, Elizabeth East (source: CoreLogic)

The middle to the outer ring has historically had a higher number of first home buyers and investors who are typically mortgage holders. At the March meeting of the Reserve Bank of Australia, the cash rate was left at a continued record low of 1.5%. There has been continual speculation as to when the cash rate will be lifted, with some lenders taking their own measures through 2017 and lifting their lending rates. Media coverage of doom and gloom scenarios surrounding interest rate rises has put this issue in the forefront of mortgage holders' minds. If this scenario was to play out, the middle to the outer ring could be the first market segment to show signs of stress.

Despite these market pressures, Adelaide's median house price reached a record high of $465,000 in the December 2017 quarter. Agents have indicated that there has been significant interest in the inner ring from local, interstate and overseas purchasers. The $500,000 to $1 million price bracket is considered to have had the most upwards pressure through the back end of 2017 and into early 2018.

Comparatively to the surrounding suburbs, good buying can be found in Linden Park which is located approximately six kilometres south-east of the Adelaide CBD where the median house price currently sits at $989,444. This suburb is characterised by early to mid-1900s dwellings on allotments of 600 square metres plus with a mixture of more recent infill development. The surrounding suburbs of Tusmore, Toorak Gardens and Beaumont have similar characteristics and have median prices at December 2017 of $1.32 million, $1.507 million and $1.012 million respectively.

The CBD apartment market has shown significant growth over the past 12 months, rising from a median of $434,000 in January 2017 to $505,150 in December 2017. Data supplied by Core Logic indicates that 2017 had the largest number of CBD apartment transactions on record with 646 transactions. We note that a large proportion of these transactions have come from off the plan sales contracted throughout 2014 to 2016 which have now settled on completion of construction. There has been a significant amount of foreign investment in this market. The CBD apartment market will be monitored as the government enforces increased regulations on foreign investment.

Many have mixed feelings about the 2018 outlook for the South Australian property market. The increase in the median price appears to be underpinned by the inner ring whilst the outer suburbs maintain slow growth and in some instances negative growth. We will be paying close attention to the labour market, foreign investment and interest rates as these appear to be the issues which will have the biggest bearing on the South Australian property market in 2018.

Yorke Peninsula

The market on the Yorke Peninsula has remained stagnant over an extended period of time with a number of the major townships showing negative growth. The majority of the larger townships are showing current transaction prices in line with 2013 data. The December 2013 median house price in Kadina was $255,000 whilst for the same period in 2017 the median price was $227,000. Similarly, in December 2013, Moonta Bay had a median house price of $301,750 compared to a median price of $289,000 for the same period in 2017. In 2009, 25 Letcher Street, Kadina was purchased for $270,000. This is a 3-bedroom, 1-bathroom renovated character dwelling situated on an allotment of 1,135 square metres. This property was recently withdrawn from sale after a five-month marketing period with an asking price of $270,000. The property presents in a similar condition to when it last transacted in 2009.

The market away from coastal locations is driven by locals with the largest proportion of dwelling transactions falling within the $200,000 to $400,000 price bracket. Household income in this region is at a lower level than metropolitan Adelaide, which is a driver of prices within this price bracket. Properties priced above this range typically require extended selling periods to achieve a sale.

At the other end of the scale, the market typically hits a ceiling in the $750,000 to $850,000 bracket. Prices at this level are typically achieved by properties with water views, close proximity to the beach and access to boat ramps.

This is a thinly traded market segment which is driven by holiday-makers from Adelaide and retirees. An example of a sale in this price bracket is 975 Old Coast Road, Port Vincent which settled in January this year for $820,000. This is a two-level dwelling of HardiPlank construction with 4-bedrooms and 2-bathrooms. The property is situated on 3,413 square metres of land having direct beach frontage and unrestricted ocean views. Port Vincent is located approximately 193 kilometres from the Adelaide CBD.

975 Old Coast Road, Port Vincent (source: RealEstate.com.au)

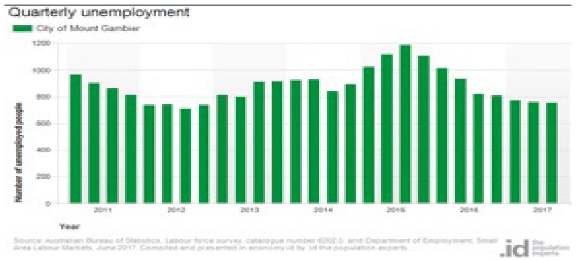
There remains a steady supply of vacant land over the greater Yorke Peninsula area. Many of the larger townships have had one or more residential land divisions occur over the past decade. The Dunes in Port Hughes, Patricks View in Moonta Bay, Wallaroo Heights in Wallaroo and The Sands in Marion Bay have all led to a surplus of available land. Many of these land divisions remain partially built out with vacant allotments requiring significant price reductions and extended selling periods to achieve sale. Land in Patricks View was transacting in the mid to upper $100,000s when initially offered to the market in 2009.

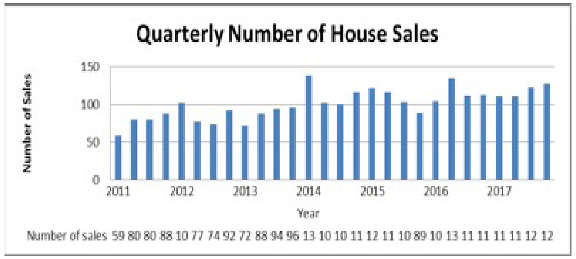
Recent sales evidence has indicated allotments are transacting within the $60,000 to $90,000 price bracket.

The Sands, Marion Bay (source: RealEstate.com.au)

Given its geography, the Yorke Peninsula provides a multitude of differing market segments and property types. Each of these segments is driven by a number of different market factors causing them to fluctuate separately from one another. Overall, the peninsula remains over supplied with increased stock and a limited level of demand.

Mount Gambier





The graph above shows the unemployment rate (per quarter) for Mount Gambier from 2011 to 2017 and it has remained relatively steady. When we compare this unemployment graph to the number of sales that occurred during the same period, it can be seen

that unemployment rates have not had a significant effect on the number of sales. For example, in 2015 when unemployment rates were at their highest, sale numbers were still higher than they were in 2012 and 2013 when unemployment rates were lower. However, as unemployment has remained relatively steady we would not expect the number of sales to fluctuate significantly based on the relatively small changes in unemployment.

Employment, however, particularly in the forestry sector, is one of the main factors impacting the strength of the Mount Gambier property market. Currently talk about employment in Mount Gambier is generally positive and in addition interest rates are low, which probably explains why the median sale price in the city has continued to increase since 2014.

The forestry sector is the largest employer in the south-east region with nearly 3,500 directly employed and more than 9,000 indirectly employed. This equates to around 35% of employment for the region. Many of the smaller regional towns, in particular, are heavily reliant on this industry and a large number of job cuts in previous years caused the market to slow down in these towns.

Smaller towns are generally more susceptible to higher unemployment rates or job cuts as they are reliant on one main industry, exposing them to danger. Larger centres such as Mount Gambier are less exposed as they have a number of larger employers, however, they are still impacted.

Within Mount Gambier, higher unemployment rates are most likely to have an effect on the lower end of the market or for first home buyers looking at entering the market. However, it is the number of sales that occur that is impacted, not necessarily particular price points.

The economy in Mount Gambier is currently well positioned and there is positivity in the marketplace. The Mount Gambier median house price for 2017 was $265,000 which has continued to increase since 2014. Considering the market within the region has been relatively stable in the past three years, we believe that a growth in employment would help to improve the market further.

Tasmania

Hobart

The Tasmanian residential market remains divided in terms of "haves" and "have-nots".

The Have - Hobart continues to lead the country in capital growth. The vacancy rates continue to be sub 0.5% reflecting in effect a full vacancy. The city has even seen "homeless tent city" pop up at the show grounds due to the lack of housing. So why?

Population growth certainly has played a major role. Much of Tasmania's population growth has occurred in the south of the state.

The pull factor of employment has been the attraction. While state unemployment is 5.8% we suggest in the city it is well less. Jobs mean income and equates to lifestyle. Much of the public service is based in this centre and the tourism boom has benefited the city the most with at times two cruise ships tied up at the wharf.

We have also seen housing shortage due to Airbnb's sucking some rental stock from the market. This results in further pressure on pricing/rental levels.

Launceston

The flip side is the "Have Nots". Unemployment in parts of the north-west coast such as Burnie has seen a population drain. This creates excess housing stock.

While the market is showing signs of recovery in this region without some population growth there is little "heat" to start a housing price fire. The north-west coast also has higher unemployment with some centres above 10%

Given the general lower housing costs in the state possible future upward interest rate, movements are not top of mind in most centres.

Infrastructure spending such as the impending relocation of the University Campus in Launceston is likely to place upward pressure on pricing and rentals in the CBD/Invermay regions while conversely may place a dampener on Mowbray/Newnham as the students move to be near the campus.

Northern Territory

Darwin

The Darwin property market, like most small markets in Australia, is primarily driven by employment opportunities in the main industries such as mining, tourism and government. The latest growth phase of the Territory market can be largely attributed to the two major gas projects in the form of Conocco Phillips in 2006 and more recently the Icthys Inpex Gas Plant commencing in 2011. Unfortunately, such is the age-old story, small towns can't boom indefinitely, and Darwin is no different. Residents and business owner's experienced a significant downturn in 2014 with the worst market performance since 1974's Cyclone Tracy levelled the tropical city.

It doesn't take a property expert to see the Darwin market is close to or at the bottom of the market, with capital values and transactions down considerably from 4 years earlier. This is no more evident than in the over-saturated unit market in both the Greater Darwin and Palmerston areas. Recent REINT analysis for the end of 2017 has posted a substantial fall in the weekly median rental rate by almost 20% from the previous quarter and down 30% from a year prior. The median rent for an average 2 bedroom unit can be rented for approximately $360 per week. (REINT: Dec 2017)

Whilst capital values have experienced a significant decline, rental yields remain somewhat steady, with limited decreases in this respect, hovering at around a 5% gross yield. These market characteristics are quite attractive for investors, and with prices skyrocketing in the large southern markets of Sydney and Melbourne, Darwin may be the next profitable investment. Tightened lending practices on the back of Royal commission investigations may stem the tide of potential interstate investment, however.

With regards to standard dwellings in the Greater Darwin region, overall figures have indicated a slight stabilisation in the market, posting a 4.8% increase in sales volumes for the final quarter of 2017. Palmerston has also felt positive effects towards the end of 2017, up 11% from the previous quarter. These figures are positive signs however the market is still in a considerably weaker state from the same period in December 2016.

The Northern Suburbs represents a large proportion geographically of Darwin, located approximately 10 kilometres from the Darwin CBD. This segment of the market is dominated by owner-occupiers and a sizeable portion of first-home buyers. Those who weren't able to afford a house in earlier times have now the purchasing power, with a 3 bedroom 2 bathroom in an average 1980 built Northern suburb house recently selling for $360,000. This region is littered with ex-government dwellings, perfect for those looking to enter the housing market.

In terms of rentals, an average 3 bedroom dwelling in this area can be rented for approximately $490 per week. (REINT: Dec 2017) Historically low-interest rates have had limited direct effects on this segment of the market, with general population growth and employment opportunities proving the crucial factors.

Despite fairly tough property market conditions, the unemployment rate in Darwin has stayed below the national average at 4.6%, and population levels have steadied with a slight increase of 0.2%. These figures, coupled with an improved vacancy rate of 6.8% and a slight increase in house sales indicates the Top End property market may be stabilising, if at a significantly lower level.

Dwellings in the inner Darwin area reflect this improvement with an 8.3% increase in median capital values from December 2016 and a jump in sales volumes by almost 30%. This can't be said for inner-city units, unfortunately, which appear to be still decreasing. The segment dropped another 25.8% a year on from December 2016 in terms of sales volumes and a 12.9% decrease in median prices, now at $460,000. (REINT: Dec 2017).

We consider the overall residential market to remain relatively flat throughout 2018, with no confirmed substantial projects on the horizon to boost employment opportunities in the Territory, and in turn the property market.

Western Australia

Perth

As Western Australia's economy is predominantly influenced by the performance of the mining industry, we have seen some extreme fluctuations over the past few years. The post-peak period is often compared to the boom time, which is bound to disappoint in every measure. By disregarding significant outliers, keeping in mind the countercyclical nature of the local market in comparison to national trends and instead of looking at the longer term, Perth is not doing too badly. In fact, many measures have improved.

Like most marketplaces, Western Australia's population trend has a significant impact on the overall performance of the property market. The state's net migration can be significantly affected by the mining industry, as the scale of some projects results in a significant demand for skilled labour in relatively short periods of time.

We are currently sitting at an unemployment figure of 5.7% which reflects a 0.7% decrease over the past 12 months and is now only slightly above the national unemployment rate of 5.5%. Over a ten year period, Western Australia's unemployment rate averages a quite reasonable 4.8%. On a similar note, the Australian Bureau of Statistics reported employment growth of 1.9% in Western Australia last year. The state's net migration is increasing as a result of uplift in employment opportunities, with those relocating doing so with employment already in hand. This is also likely to be having a positive effect on the rental market. The Real Estate Institute of Western Australia recorded stable rental prices, a declining number of listings and a vacancy rate at 5.3% - the lowest rate in two years.

Recent improvements in commodity prices and economic state measures have boosted confidence levels among business owners and investors, resulting in long-awaited employment growth. Contractors to the mining industry, who form a large part of the state's employment pool, have responded according to the mining sector's performance. The Reserve Bank reported investment growth in the mining sector over the past year, as projects developed during the mining boom either required replenishment or simply a far larger scale of ongoing maintenance programs.

Western Australia's rich lithium supply is partly responsible for the rise in investment. The increased international demand for electric cars using lithium batteries is increasing the positive outlook for many new mining developments. The world's largest lithium mine happens to be located in Western Australia, along with numerous other projects which are yet to be developed.

Despite the mining industry's strong influence on state performance, mining is only the fifth largest employer in Western Australia. Health care and social assistance have become the leading industry in the state. Construction, retail and education are close thereafter.

The Murdoch Health and Knowledge Precinct are a $200 million, mixed-use development expected to commence in late 2018. The development will be located in the heart of Murdoch's medical and educational area and is set to be the second largest employment centre in Perth. The centre will provide commercial and medical spaces, offices and residential apartments. We expect this to have a strong influence on the performance of the local market, particularly given its already sought after locality. The area features good accessibility to both the CBD and Fremantle, a wide offering of housing types and entry level pricing remains within the reach of first home buyers in some of the surrounding suburbs.

In terms of construction, the oversupply of residential housing has been a hot topic over the past few years. Construction commencements and commitments peaked as the mining boom was already waning. The current, sometimes significant, oversupply is slowly getting soaked up by the market although only after seeing the inevitable price corrections. However, current first home buyer demand, although lower than traditional rates, is still increasing the supply in already chronically oversupplied localities such as Baldivis and Ellenbrook.

According to our recent analysis, Baldivis has 628 properties listed for sale with only 30 of those being under contract. This reflects a current market activity rate or absorption rate of 5%. Similarly, Ellenbrook, our second most oversupplied suburb, has 259 listings and a market absorption rate of just 11%.

Based on our analysis, Baldivis has two years' worth of supply sitting on the market – without any further supply being added – which it is. The market is largely driven by first home buyers and the majority of activity is still house and land package purchases. First home buyers are often known to push the cost of their house and land package to the upper end of their borrowing capacity, therefore interest rate movements can have significant effects on the suburb. There are likely to be many homeowners in similar suburbs thanking their lucky stars for the stable interest rate environment we have experienced!

Properties in such localities are often transacting at heavy discounts in comparison to just two years ago, due to oversupply and significant market competition for the limited buyers around. Established properties have taken the hardest hit as the price difference between existing and new is affordable. The problem with new dwellings is that once lived in, the value depreciates at a very high speed as the pool of buyers for a used dwelling is very small in comparison to the demand for a house and land package. Buying a brand new house in Baldivis can be compared to buying a brand new car. Once you drive it out of the garage, the car instantly drops in value. Our valuers have reported several examples where near new product is transacting at a 15% discount to brand new products.

In the inner metro area, things are rosier and the market is predominantly driven by upgraders who are taking advantage of their chance to get in cheap. Affordability with a sprinkle of confidence is, without doubt, the measure that matters the most in today's market.

Upgraders have already pushed the prices up in sought after suburbs such as the Cottesloe. Shelly and Waterford, situated along the Canning River, have also experienced uplifts in median prices. The two suburbs are seen as upgrade targets to those in secondary areas and prices are attractive on historical measures.

Cannington is one of the very few secondary suburbs that have experienced an improvement in the past couple of years. Prices are on the rise as the $350 million redevelopment of Westfield Carousel shopping centre progresses. The expansion is expected to create additional employment when it opens in late 2018.

In summary, the overall residential performance is heavily influenced by the performance of the mining industry, amongst many other sectors. Increased hiring has resulted in a return to positive net migration in recent times. The predominant dependence on the one industry is something the state is trying to move away from by diversifying economic reliance into other industries. Health care, construction, retail and education are the industries responsible for the majority of Western Australia's employment. Several large developments within these industries are currently being built, pushing the sectors for further improvement.

Attractive lending rates have a huge impact on today's activity, especially in prestige suburbs. It is mainly upgraders taking advantage of the opportunity however we have seen some increase in investment activity as well.

Oversupply is also a measure that has caused many headlines in the newspapers. Outer suburbs have taken the hardest hit while inner metro suburbs are slowly absorbing the excess stock.

We are currently seeing a patchy performance as each suburb has an individual response or sensitivity to changes in economic factors. Some suburbs are booming whilst others are declining.

Overall, the market is tracking in the right direction and we have confidence in the short-term performance of the majority of Perth's inner and secondary suburbs.

South West WA

The South West is one of the fastest growing regions in Western Australia. As the rest of the state is slowing in population growth, the South West is continuing to grow and expand.

So what are the drivers of the market in the South West? The region is a very desirable place to live as it boasts amazing beaches, surf, a good climate, a relaxed lifestyle and world-renowned wineries. Because of these characteristics, people want to live in the region. The demographics of the people moving into the locality range from young adults who love the beaches and work in hospitality, young families who want their children to experience a relaxed and outdoor upbringing and of course the baby boomers who have reached or are getting close to retirement and want to live the golden years away from the hustle and bustle of Perth.

The increasing population has helped the property market. The Perth market has been weak for an extended period of time and values have been declining because of a slow down in the state's resource sector, continued weakness in the Perth economy and general economic uncertainty. The South West has traditionally followed the highs and the lows of the metro market, however, for the first 24 months the region bucked this trend and was more resilient and generally stable. It has only been in the past twelve months that the South West market has started to weaken but nowhere near the levels of the Perth market. The strong population growth has been a reason for this resilience.

The South West could potentially benefit from the Perth market improving. There are signs that the Perth market has bottomed and has started to stabilise. Historically a strong Perth market flows into the South West as many mum and dad buyers and small-time investors look at investing in a holiday home in the South West.

Another driver of the South West market is the tourism industry. With the Australian dollar steady and lower than in previous years, we have seen significant numbers of interstate and international tourists visiting the region. These numbers have increased considerably in recent times which has also helped underpin the overall local economy.

On a local level, the region would benefit from the expansion of the Busselton/Margaret River airport. The airport is looking at attracting more interstate flights and in the medium term potentially some international flights. This could fuel the tourism industry and have a positive effect on job creation.

On a national level, the continuation of low-interest rates is paramount. If the interest rates were raised it would take some prospective purchasers out of the marketplace and also restrict homeowners trading up. If this occurred, we would expect the South West property market to weaken.

Therefore drivers in the South West property market hinge on an increasing population, a strong tourism industry, performance of the Perth property market, local development such as the Busselton/Margaret River airport and continuation of low-interest rates.

Rural

HERRON TODD WHITE RURAL

Overview

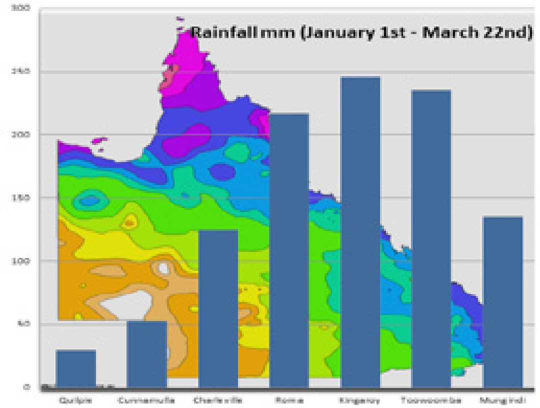
Activity throughout the rural market has predominently stayed the same, however, recent substaintial rain has lent a helping hand to certain areas.

Darling Downs

The Southern Queensland market continues to exhibit strong market signals broadly across the region. The demand has been exceptionally strong for assets that demonstrate quality country, scale and position. The golden triangle between Roma, Taroom and Wandoan has continued to show strong demand from broader market interests but particularly local graziers seeking additional country. The locality was one of the first to show the firming in market trends post the 2008 downturn, demonstrated by the likes of Windrush which sold to a neighbour in mid-2015 reflecting $2,655 per hectare. In the past month we have seen the two strong auction results being:

- Two Up, a 1,054.65 hectare mostly Brigalow scrub holding with five kilometres of frontage to the Dawson River. The property contracted under the hammer to a local grazier for reportedly $3,935 per hectare ($1,592 per acre);
- Myola, a 1,409.24 hectare holding to the south of Wandoan within the Gulugaba district, being a dominant Brigalow, Belah with softwood scrub influence, was contracted under the hammer for reportedly $3,760 per hectare ($1,522 per acre).

Both blocks were considered to appeal to a wide market segment of landholders wanting to move into better quality finishing country. Alternatively, the holdings were of a scale that could be absorbed into an existing local grazing operation.



The rain prior to the auctions has no doubt improved their saleability given the significant dry periods prior. The rain over the past month has the potential of creating sub area markets have given we are now leading into cooler and traditionally drier periods. This is because the rain was not as widespread as some may think. With most seasonal events there are winners and there are those who miss out.

Unfortunately, the south-western area of the state has not shared in the same volume of rain, especially in comparison to their northern neighbours. Rain has been particularly patchy in the districts generally west and south of Charleville.

For those thinking there was going to be a rush of listing for country in the west, we don't expect to see any significant run of country hitting the market. We are aware there have been some potential vendors waiting for an improvement in seasonal conditions that may now take the opportunity to list. An interesting trend for 2017 actually saw a 350% increase in the sales rate within the Paroo Shire, albeit from a low base.

In the area, we have seen a number of larger corporate companies exiting the market and these properties primarily acquired by local and interstate grazing operators.

In this market, we have also observed a number of speculative special interest purchasers who have acquired country at a premium with the sole intention of establishing a carbon project. Within the Paroo Shire alone there have been some 1.055 million Australia Carbon Credit Units (ACCUs) issued by the Australian Government Clean Energy Regulator through 39 projects. The projects in the Shire are all registered under the permanent native forests through assisted regeneration from in-situ seed land use modelling. The methodology effectively promotes the revegetation of the lands by reducing stocking pressure. In most cases, the existing grazier has opted to encumber part of their property (circa 10% to 30%) to access cash flow through the sale of

ACCUs over normally a contracted term of ten years. On the other hand, we have seen cases where the country has been purchased by specialist interest purchasers who want to fully realise the cash flow benefits by registering a project over a larger area and some encumbering the whole property. Whilst the contracted sequestration of carbon is achieved, there is the significant financial benefit. However, by registering such agreements, there is a legal liability incurred plus ongoing management of the carbon project over its permanency period which can be either 25 or 100 years. The question that should be considered when either entering into these agreements or buying a property with a project is what impact the project has on the asset. There is likely to be a reduction in the productivity but there may also be liability risks incurred as well as the cost to manage the carbon area or project over the permanency period.

How the market treats encumbrances created by a carbon project on a grazing business is currently uncertain and won't be fully qualified until the contract period expires. When this occurs there will be less focus on the short-term financial benefits and a greater consideration of the ongoing impacts and costs to the business operation without a financial return. In this modern age, there is no such thing as free money.

Contact:
Stephen Cameron - ph: 07 46 397 600

Darwin

The first pastoral sale in the NT for 2018 has occurred with "Maryvale Station, 3,244 square kilometres, settling late in March. Located approximately 120km south of Alice Springs with good access via Maryvale Road, "Maryvale" has around 5.5 percent Hugh and Finke river (ephemeral) frontage country, around 35 percent undulating stony/clay/limestone country (oat grass, short grass etc) and the balance mainly desert country (Mulga, spinifex etc).

The deal settled late in March for $15M WIWO with around 9,500 to 10,000 head (Brahman/Hereford) and was acquired by an established local pastoralist whose continued pastoral expansion over the last decade or so indicates a strong faith in the reportedly increasingly profitable Alice Springs cattle industry which appears to be consolidating on its growing reputation for lower cost operations, compared to the northern half of the NT, and diverse choice of markets to most points on the compass.

Also, the Bohning cattle yards just south of Alice Springs (first saleyard in Australia to be certified under both the National Certified Organic and USDA National Organic programs) is attracting pastoralists who want to go organic in order to capture significant sale premiums (20 percent +) and this also appears to be underpinning sustained demand for Alice Springs pastoral country.

While current asking prices for a fair proportion of pastoral country in the north of the NT appears to be attracting less interest (ie. perhaps vendors may need to be a bit more price realistic in order to achieve a sale) land in Alice Springs remains as tightly held as ever.

In the north we note the new listings of "Mt McMinn" (809.6 sqkm: Roper District) and "Margaret Downs" (607.7 sqkm, Sturt Plateau district) which now add to the following list of stations for sale in the northern half of the NT including:

- *"Kalala" (3,760sqkm, Daly Waters)*
- *"Tarlee" (586sqkm, via Mataranka, Sturt Plateau)*
- *"Legune" (1,789sqkm plus 1,063sqkm under grazing licence, northern Victoria River District)*
- *"Middle Creek" (602sqkm, Sturt Plateau)*
- *"Flying Fox" (895sqkm, Roper District)*
- *"Kiana" (3,318 sqkm, Tablelands/NT Gulf region),*
- *"Sturt Downs" (Perpetual Crown Lease, 678 sqkm, Katherine/Sturt Plateau)*
- *"Tanumbirini" (5,001 sqkm Roper Gulf Shire)*
- *"Forrest Hill" (593 sqkm, Sturt Plateau)*
- *Consolidated Pastoral Holdings (Northern Territory/Kimberley):*
- *"Argyle Downs" (702 sqkm, East Kimberley)*
- *"Carlton Downs" (4,757 sqkm, East Kimberley)*
- *"Kirkimbie" (2,304 sqkm, VRD)*
- *"Newry" (2,467 sqkm, VRD)*
- *"Auvergne" (4,142 sqkm, VRD)*

- *"Bunda" (1,788 sqkm, VRD)*
- *"Manbulloo" (3,791 sqkm, Katherine)*
- *"Dungowan" (4,454 sqkm, Sturt/Central Plateau)*
- *"Newcastle Waters" (10,331 sqkm, Barkly Tablelands)*
- *"Ucharonidge" (2,455 sqkm, Barkly Tablelands)*

A combination of slowly declining live export steer price (ex Darwin now looking like stabilising around 310 - 320c/kg for the foreseeable short term), along with potential station purchasers who are becoming increasingly more discerning about the type of station they buy – and for a BAV that aligns in some way to productive capacity, and with the significant amount of northern pastoral land now on the market, the next couple of sales are likely to be more telling of whether the pastoral property market (in the north of the NT at least) has peaked.

Echuca

It's generally more of the same at the moment with a gap in the traffic while growers in the dryland cropping and grazing regions prepare for the autumn break. Supply is tight and properties continue to achieve relatively good prices including two dryland cropping parcels sold in Diggora at a recent auction for $6,454 per hectare and $6,926 per hectare respectively with an analysis demonstrating rates of $6,778 and $7,390 per arable hectare respectively for well managed lighter soils in a 450 mm rainfall zone. There are also green shoots emerging for the horticultural and viticultural sectors with improved demand for wine grapefruit and several significant transactions of citrus orchards in progress at the time of writing. We further hear through the grapevine that there has been significant corporate activity in the horticultural and dairy space in recent months though limited details are available at the time of writing.

Contact:
David Leeds ph: 03 5480 2601

South West WA

Some good news for West Australian dairy farmers as Brownes new international owners are proposing to increase cheese production at the Brunswick cheese factory. The factory has been dormant for a number of years and is now going to be given a new lease of life with a proposed development and upgrade project. This will help with the domestic milk oversupply situation which has been occurring in West Australia for a number of years and will no doubt give those in the industry (especially the Brownes suppliers) some boost in confidence to invest in the future.

It is unlikely that this will have an impact on the local property market in the short term due to the reported hardship faced by some dairy producers over the past decade. This may, however, have a short-term effect on the leasing market for grazing land and could result in an increase in annual rental rates as producers take a cautious approach to investing in capital.

For those looking to invest in the dairy industry, Dunmore at Scott River is currently on the market with an asking price of $10.6 million. The property is currently milking 550 cows with 450 followers. The 845 hectares of land is developed with a number of centre pivot sites supplied with a water licence and is located in a 1000 mm rainfall region. Structural improvements include a 60 stand rotary dairy, three residences and sheds including fertiliser storage.

In the wheat belt regions, most producers are getting ready for seeding with what seemed to be a cooler than average summer and summer storms providing good levels of subsoil moisture across a number of regions.

Contact:
David Abel - ph: 08 9388 3274

Central Tablelands

We see that recent sales include properties at Bylong, Greenthorpe and several at Canowindra that indicate continued strength in the market. These sales show values in line with sales occurring in their respective districts over 2017.

Market activity doesn't seem as intense as it has previously been, however we see a good line-up of listings throughout the area, including at Blayney, Canowindra, Cowra, Crookwell and several at Grenfell which will help provide a guide to the market's direction.

Contact:
Craig Johnstone - ph:1300 784 899

North Queensland

Demand is heating up for forest breeding country in the Burdekin River Valley from the Belyando in the south to Mount Garnet, Einasleigh and Georgetown in the north.

There is a shortage of forest breeding country on the market and there is a market disrupter in the room in the form of the Department of Defence.

As this year progresses, the property clock for this region of North Queensland is likely to rise from the nine o'clock position towards twelve o'clock.

Depending on how the Defence negotiations play out, this market may see record values later in the year. There is a distinct possibility of vendors re-entering the market as buyers with significantly enhanced cash and reduced debt to acquire replacement cattle stations for the ones that they may have just sold to Defence. It will be interesting to see if any of the deals break the springs of the property clock!

There may be some overflow of demand in neighbouring market areas. These may include the Desert Uplands and the Hughenden basalts and the Georgetown, Einasleigh and Mount Garnet areas.

If you can recall the peak of the last property cycle, vendors could sell anything and quickly. Market absorption rate was high, marketing periods were being measured in weeks and the newspapers wrote about standing room only at the auctions.

These market selling conditions may well occur later this year in this particular market area. It may be that the expression of interest marketing strategy replaces the auction room though.

During the peak of the seller's market conditions, the market starts to become naïve as to how hard the country is, what condition the land is, weed status and the economic profitability of the property.

Vendors know this and perhaps there are property owners who will seek to market their property while the opportunity for good prices is around.

The following table provides a run around the ridges of the north and north-west Queensland grazing property market areas:

Market Area	Season / Comments	Market Liquidity	Property Clock Position	Current market value sales rate bechmarks
Coastal grazing	Initially dry, substantial recent rain. *Recent years has seen stable market conditions with stable sale values. There does not appear to be an over supply or increase in demand to fuel reasons for change in values.*	Initially dry, substantial recent rain.	7 to 8 O'clock	$500/ha ($202/acre) for forest country with no improvements. $1,000 ($404/acre) to $7,400/ha ($3,000/acre) depending on the split of forest to improved pastures.
Burdekin Valley - Belyando, Charters Towers, Pentland, Greenvale to Einasleigh and Mount Garnet	Initially dry, patchy recent rain. Looks like more on the way. Better season in the northern area. *There have been few sales since a spate to the south of Charters Towers in 2015.* *There has been a steady volume of basalt sales to the north of Charters Towers in recent years. There is a lack of forest breeding country on the market. Potential Vendors will be selective as to when they list and how they will market their stations.* *There is existing buyer demand. Positive increases are being talked about once the Defence acquisitions occur.*	Lack of property listings. Liquidity is expected to increase throughout the year.	10 to 12 O'clock	South of Charters Towers - $165/ha ($66/acre) to $470/ha ($190/acre) bare improved. North of Charters Towers -$51/ha ($20/acre) (Granite type eucalypt forest country), $186/ha ($75/acre) (mixed average type basalt and some granite forest), to $374/ha ($151/acre) (good open basalt).
Desert Uplands	Late, patchy. Good falls in areas. *Quiet market area that is often overlooked (produces fat cows with great tasting corned Briskets), yet provides a low operating cost enterprise option with better productivity on the broken country types and creek systems.*	Thinly traded market area.	8 to O'clock	$73/ha ($29/acre) to $96/ha ($38/acre) for desert type forest and up to $338/ha ($136/acre) bare improved occurred n the Prairie area with broken black soils mixed with the forest)

Market Area	Season / Comments	Market Liquidity	Property Clock Position	Current market value sales rate bechmarks
Basalts north of Hughenden	Great season. *Infrequent market listings in this area.* *Market eyes are on the offering of Fairlight with good market interest.*	Steady with good enquiry at present.	9 to 11 O'clock	Excellent seasonal conditions. Listings are infrequent in this area. Established sale rate range is from $119/ha ($48/acre) (mixed basalt and forest grazing country) to $345/ha ($140/acre) for good basalts.
Richmond forest	Late and patchy season, light in areas. *Listings are infrequent in this area. Reliable rainfall area that also produces great tasting corned briskets.* *Local demand is strong.* *Market interest is on Strathpark at present.*	Close to Richmond - good demand. Slower market towards Croydon.	9 to 11 O'clock	Last sales were a mix of forest, and downs country at a range from $227/ha ($92/acre) improved to $276/ha to ($112/acre). No current arms length pure forest sales evidence.
Georgetown, Croydon and Normanton forests	Late season. Patchy - better in the eastern areas. *Reliable rainfall area. Market interest in this area increases when southern areas are dry. Demand was strong prior to the recent sell off of cattle and the recent rain events.* *Demand in the eastern area may stay firm as a spill over of demand from the Burdekin Valley short supply.*	Demand was increasing prior to the recent rain events. Demand may have dissipated for the short term.	7 to 9 O'clock	Lighter, sandier Croydon forest ranging from $41/ha ($16.50/acre) bare improved to $215/ha ($87/acre) bare improved for a mix of basalts, granites and frontage country in good condition.
Richmond/Julia Creek northern downs triangle	Initially dry, patchy recent rain has been of benefit to those who were lucky. *Reliable rainfall. Tightly held golden triangle type market area where market listings are rare. Sales are generally privately negotiated. Local demand is high.*	Golden triangle. Strong demand.	11 to 12 O'clock	$308/ha ($125/acre) to $326/ha ($132/acre) to a peak of $494/ha ($200/acre) bare.

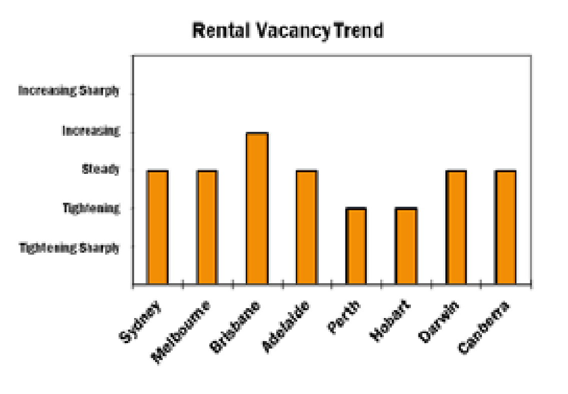
Market Area	Season / Comments	Market Liquidity	Property Clock Position	Current market value sales rate bechmarks
Downs south of the Hughenden / Cloncurry Tick line	Late and moderate Has been a thinly traded market area. Stable pricing for some years now. Market has priced in the seasonal risk and soil type variations at a discount to the area north of the line since 2009. During the boom the market priced this area up near and equal to the country to the north of the line, however the market rates rationalised quickly after the peak. Late winter rain in 2016 served the northern area well with good herbages and roly ploy as a natural response to prepare the ground for the next rain event. Recent rain has resulted in mixed response. Those who had their paddocks in good condition have had good response. Latest listings are Ardbrin and the Thornhill aggregation. There will be more in the next month prior to the northern weaning muster.There are some quiet negotiations taking place off market for other stations. Because the north of the line country is so tightly held, northern forest breeding graziers have to look to this area for their options for backgrounding country.Expect some good sales activity in the area this year to complement existing value rates.	Has been a low volume market area	7 O'clock to 10 O'clock	$172/ha ($70/acre) to $308/ha ($125/acre) with a peak at $331/ha ($134/acre) bare improved
Gulf	Initially very dry. Some recent showers have been of benefit.	Lack of property listings	9 to 12 O'clock	Tightly held market area where market listings are infrequent. Local and investment grade interest in possible opportunities is strong.
Cloncurry	Late and wet *Tightly held market area where market listings are rare. Sales are generally privately negotiated. Local demand is high.*	Lack of property listings	10 to 12 O'clock	Tightly held market area where market listings are infrequent. Local demand for acquisitions is strong.
Boulia	Late and wet *Thinly traded market. Good season. Stable, long held country. Overlooked market area. Fatten a T bone and chips on a Gidyea Burr.*	Lack of property listings	7 O'clock to 10 O'clock	$38/ha ($15/acre) to $106/ha ($42/acre) bare improved.

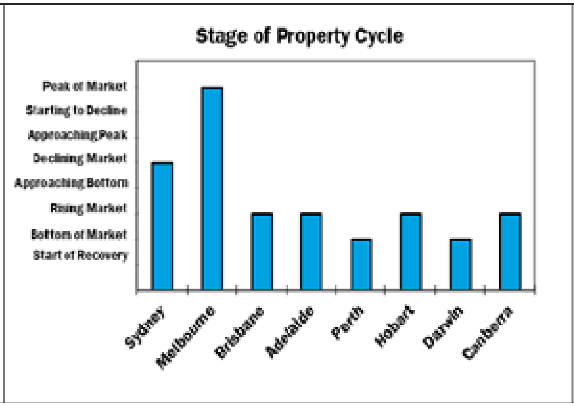
Property Market Indicators

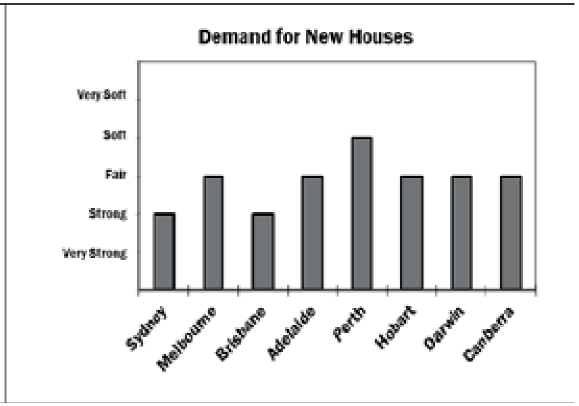
Capital City Property Market Indicators – Houses

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

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







Market Indicators

Capital City Property Market Indicators – Units

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market
Increasing	Steady	Increasing	Steady	Steady	Tightening	Increasing	Steady	Increasing
Soft	Soft - Fair	Very soft	Fair	Soft	Fair	Soft	Fair	Soft
Declining	Declining	Declining significantly	Increasing	Declining	Declining	Declining	Steady	Declining
Steady	Steady	Declining significantly	Steady	Steady	Steady	Declining	Steady	Steady
Declining market	Peak of market	Declining market	Bottom of market	Declining market	Rising market	Bottom of market	Declining market	Declining market
Occasionally	Occasionally	Very frequently	Occasionally	Occasionally	Almost never	Frequently	Occasionally	Occasionally

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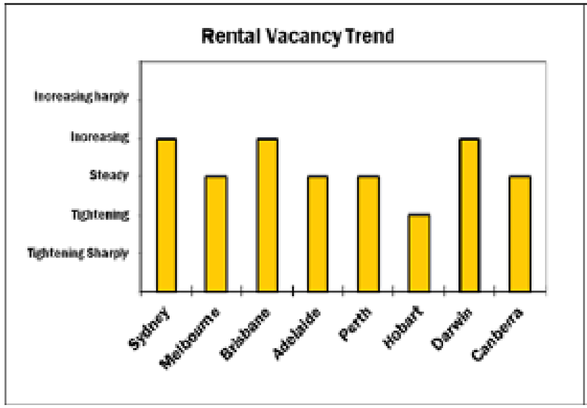

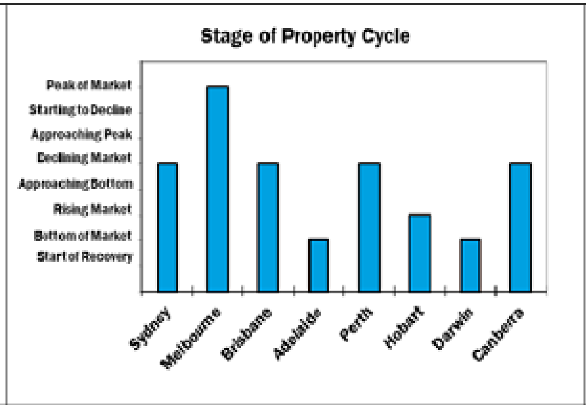

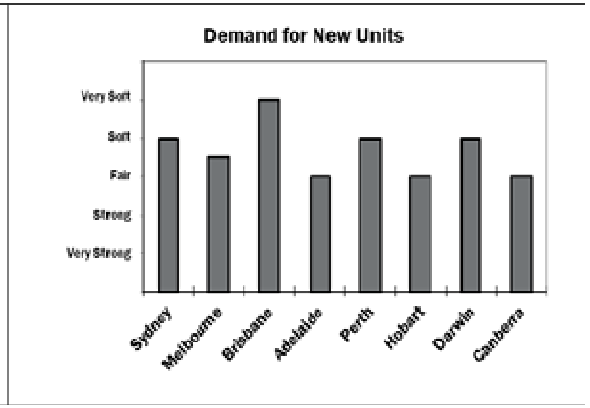

Market Indicators

Capital City Property Market Indicators – Retail

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

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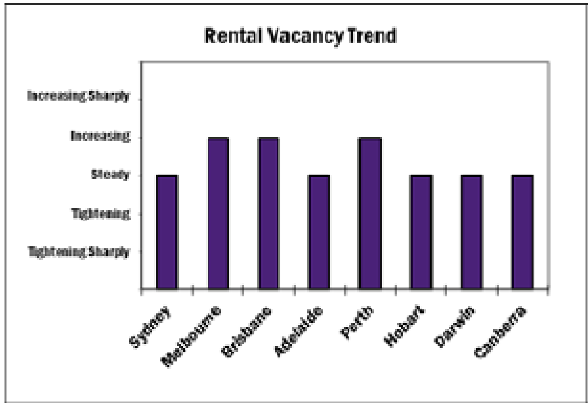

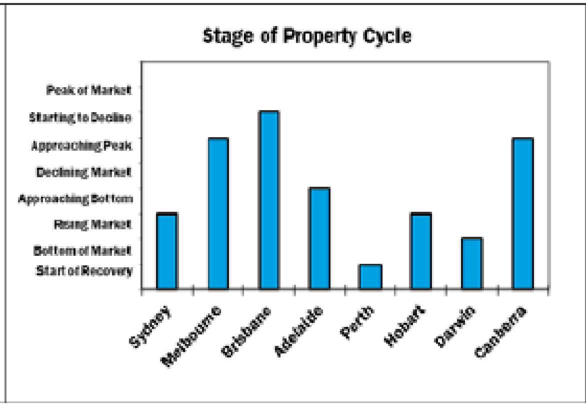

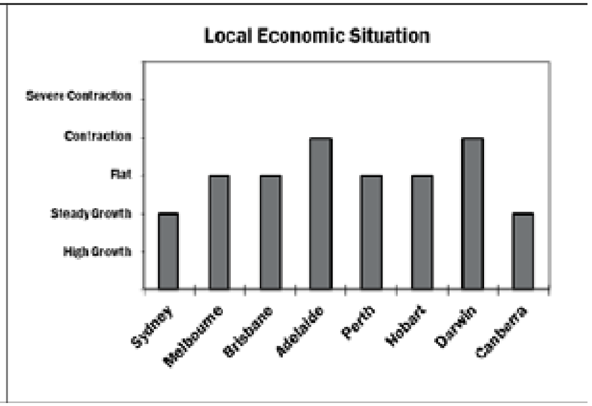

Market Indicators

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 - Balanced market	Severe shortage - Shortage of available property relative to demand	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	Tightening	Steady	Steady	Tightening - Steady	Tightening - Steady	Increasing	Tightening	Tightening	Steady	Steady	Steady
Demand for New Houses	Fair	Strong	Fair	Fair	Strong	Fair - Strong	Strong	Very strong	Strong	Fair	Strong	Fair
Trend in New House Construction	Steady	Steady	Steady	Steady	Increasing	Steady - Increasing	Steady	Steady	Steady	Steady	Steady	Declining
Volume of House Sales	Steady	Increasing	Steady	Steady	Steady	Increasing - Steady	Declining	Declining	Increasing	Declining	Steady	Increasing
Stage of Property Cycle	Rising market	Approaching peak of market	Rising market	Peak of market	Peak of market	Approaching bottom of market	Peak of market	Peak of market	Approaching peak of market	Starting to decline	Declining market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Almost never	Occasionally	Almost never	Almost never - Occasion-ally	Occasionally	Frequently	Occasionally	Frequently	Almost never	Occasionally

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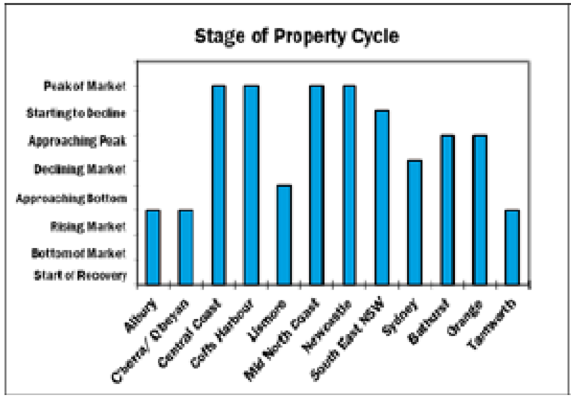

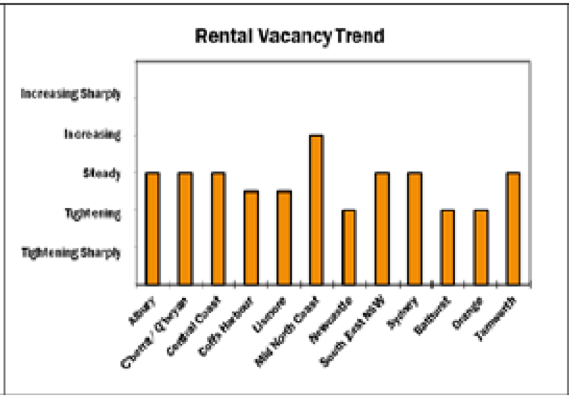

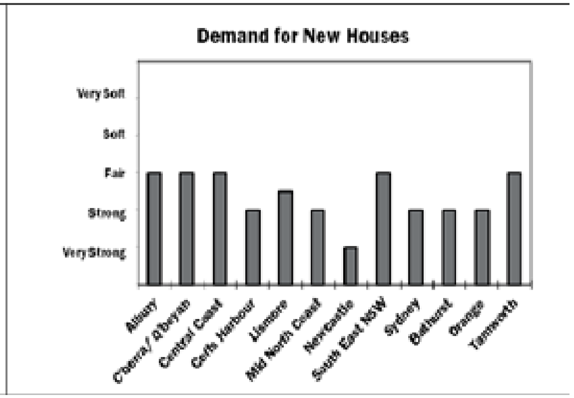

Market Indicators

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	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Tightening - Steady	Tightening - Steady	Increasing	Tightening	Steady	Steady	Increasing	Steady
Demand for New Units	Fair	Fair	Fair	Very strong	Strong	Fair	Fair	Strong	Fair	Fair	Soft	Fair
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Increasing	Steady	Steady	Declining	Declining
Volume of Unit Sales	Steady	Steady	Steady	Increasing strongly	Steady	Increasing - Steady	Declining	Declining	Steady	Declining	Steady	Steady
Stage of Property Cycle	Bottom of market	Approaching peak of market	Declining market	Peak of market	Peak of market	Approaching bottom of market	Peak of market	Peak of market	Approaching peak of market	Starting to decline	Declining market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Frequently	Occasionally	Frequently	Occasionally	Occasionally

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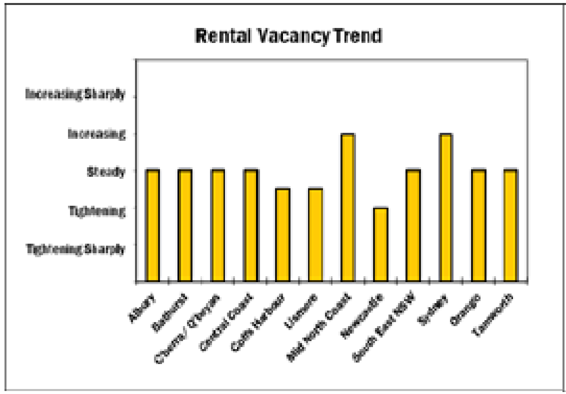

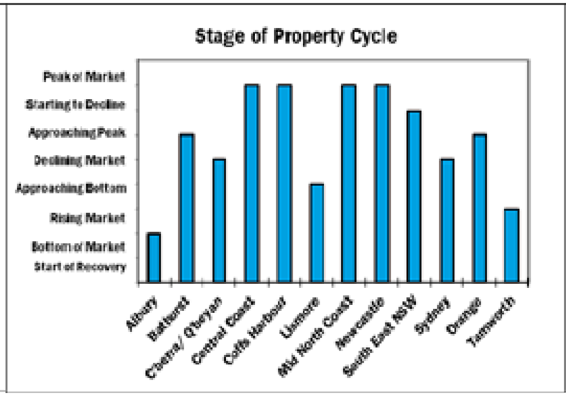

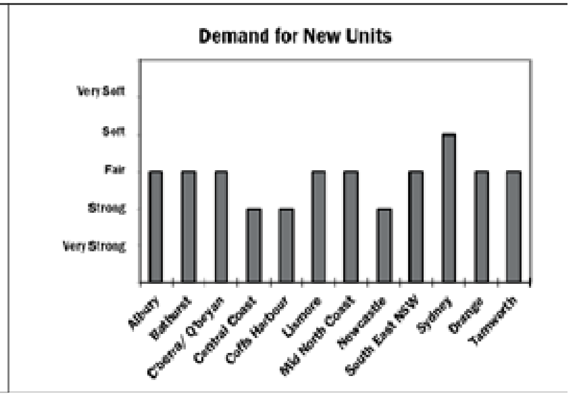

Market Indicators

New South Wales Property Market Indicators – Retail

Factor	Sydney	Lismore	Mid North Coast NSW	Coffs Harbour	Dubbo
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
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady
Rental Rate Trend	Increasing	Stable	Stable	Stable	Stable
Volume of Property Sales	Steady	Steady	Steady	Steady	Increasing
Stage of Property Cycle	Rising market	Rising market	Approaching peak of market	Approaching peak of market	Peak of market
Local Economic Situation	Steady growth	Flat	Steady growth	Flat	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Significant	Significant

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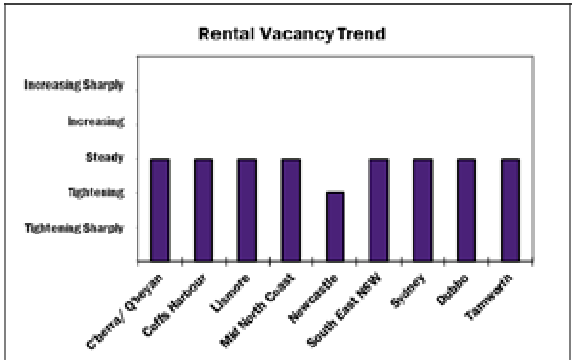

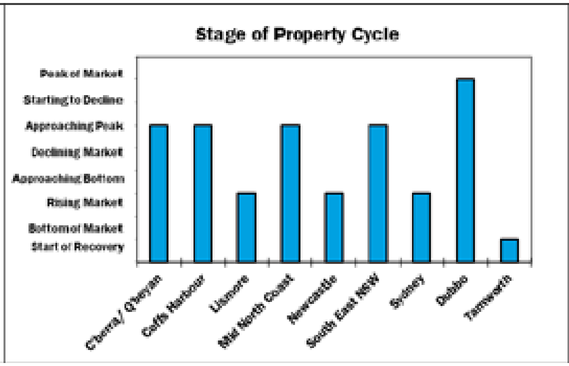

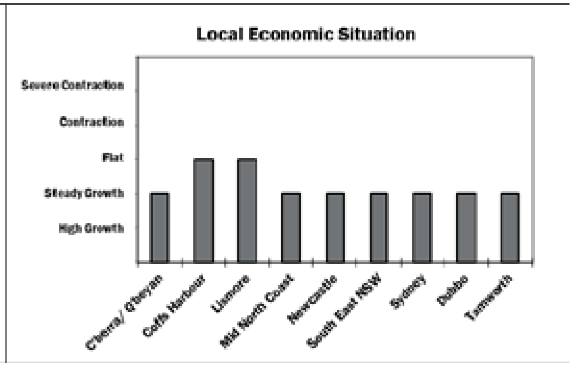

Victorian and Tasmanian Property Market Indicators – Houses

Factor	Ballarat	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Burnie-Devonport	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	0	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Tightening	Tightening	Steady	Steady	Steady	0	Tightening	Tightening
Demand for New Houses	Fair	Strong	Strong	Strong	Fair	Fair	0	Fair	Fair
Trend in New House Construction	Steady	Increasing	Increasing	Steady	Steady	Steady	0	Declining	Declining
Volume of House Sales	Increasing	Steady	Steady	Steady	Increasing	Steady	0	Steady	Steady
Stage of Property Cycle	Rising market	Starting to decline	Rising market	Starting to decline	Peak of market	Rising market	0	Rising market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	0	Almost never	Almost never

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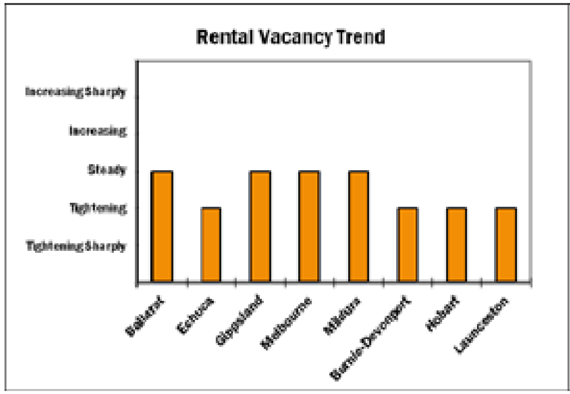

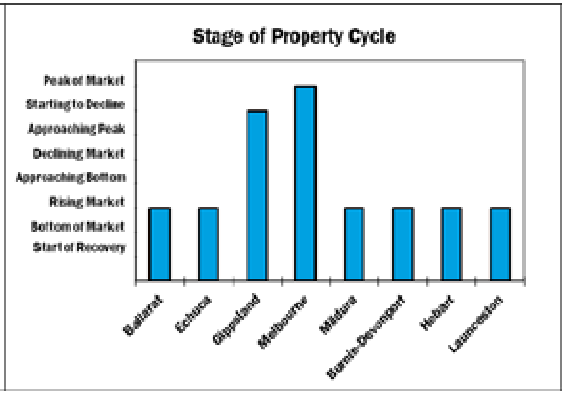

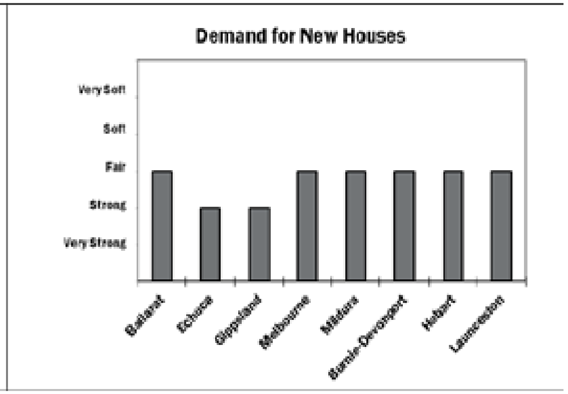

Victorian and Tasmanian Property Market Indicators – Units

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

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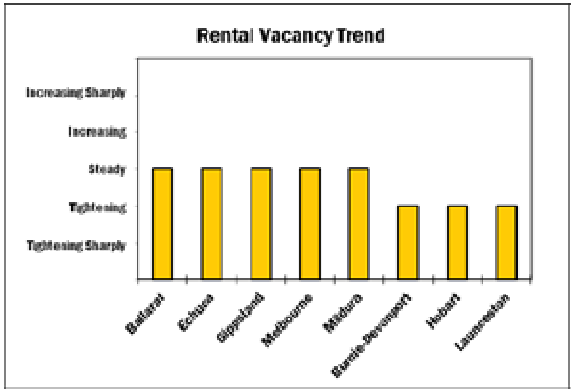
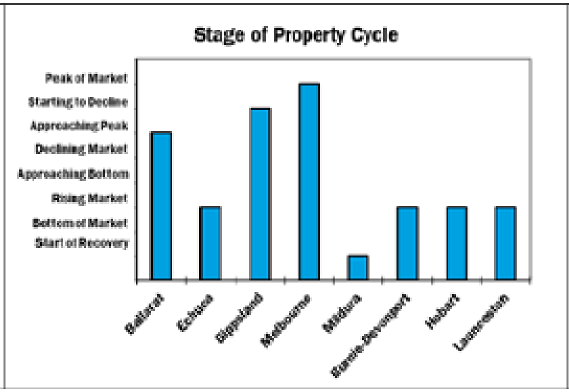
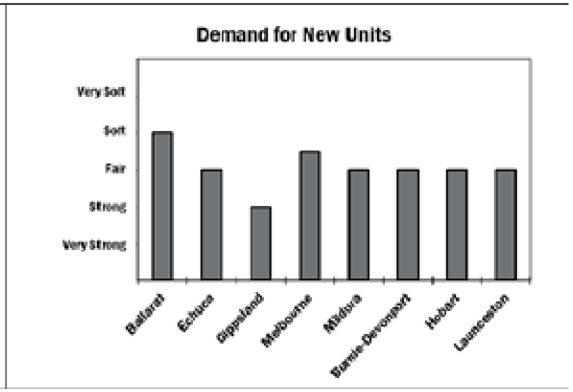


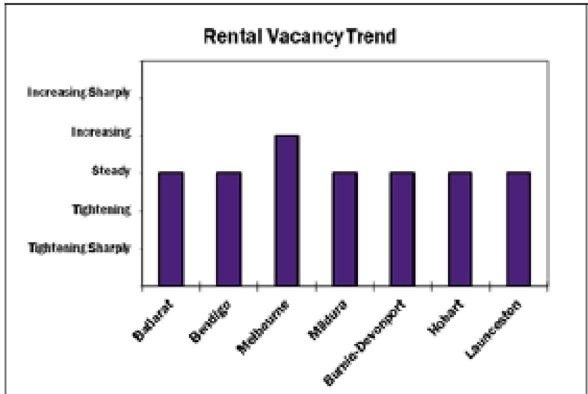


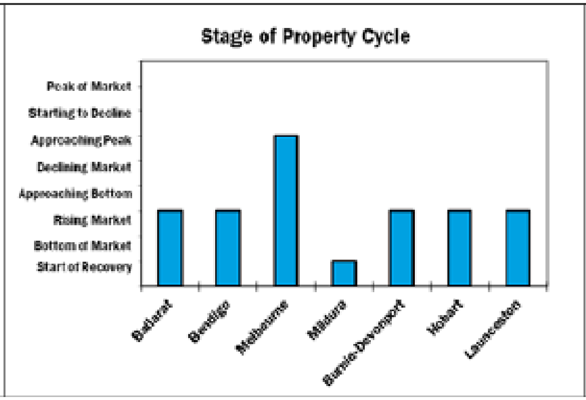


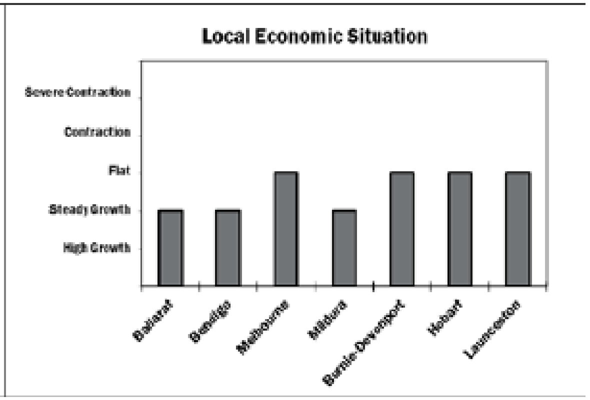
Victorian and Tasmanian Property Market Indicators – Retail

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

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





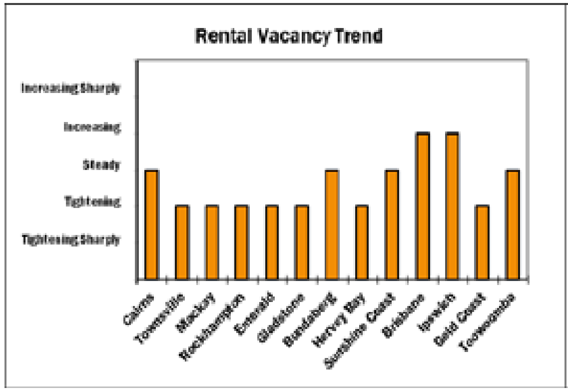


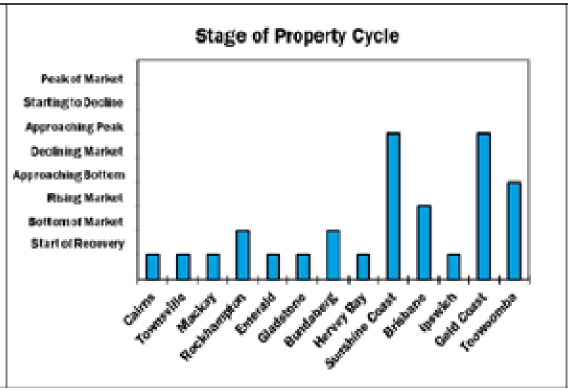
Queensland Property Market Indicators – Houses

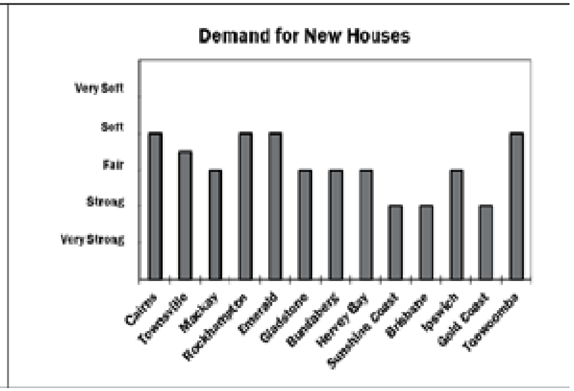
Factor	Cairns	Townsville	Mackay	Rock-hampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Too-woomba
Rental Vacancy Situation	Severe shortage - Shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand	Balanced market	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	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	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	Steady	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	Start of recovery	Bottom of market	Start of recovery	Start of recovery	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







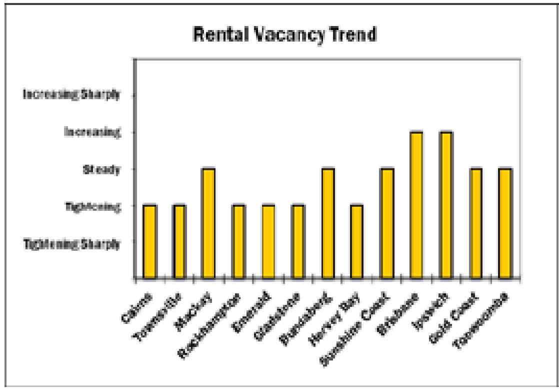
Market Indicators

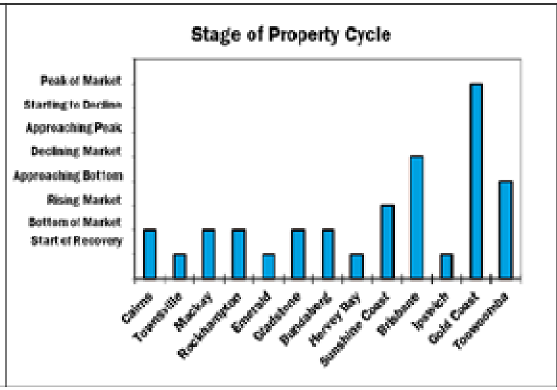
Queensland Property Market Indicators – Units

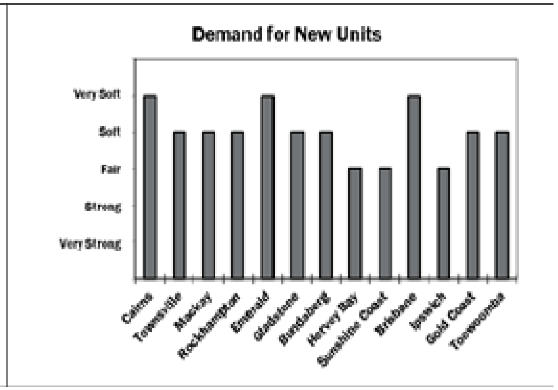
Factor	Cairns	Towns-ville	Whitsunday	Mackay	Rock-hampton	Emerald	Gladstone	Bunda-berg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Too-woomba
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	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	Steady	Tightening	Tightening	Steady	Steady	Steady	Steady	Increasing	Increasing	Steady	Steady
Demand for New Units	Very soft	Soft	Very soft	Soft	Soft	Very soft	Soft	Soft	Fair	Fair	Very soft	Fair	Soft	Soft
Trend in New Unit Construction	Declining	Steady	Declining significantly	Declining	Steady	Declining significantly	Steady	Steady	Steady	Increasing	Declining significantly	Increasing	Increasing	Steady
Volume of Unit Sales	Steady	Steady	Increasing	Steady	Steady	Increasing	Steady	Steady	Steady	Steady	Declining significantly	Steady	Steady	Declining
Stage of Property Cycle	Bottom of market	Start of recovery	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	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Almost never	Occasionally	Almost never	Occasion-ally	Occasionally	Almost never	Occasionally	Occasion-ally	Very frequently	Frequently	Frequently	Occasionally

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

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







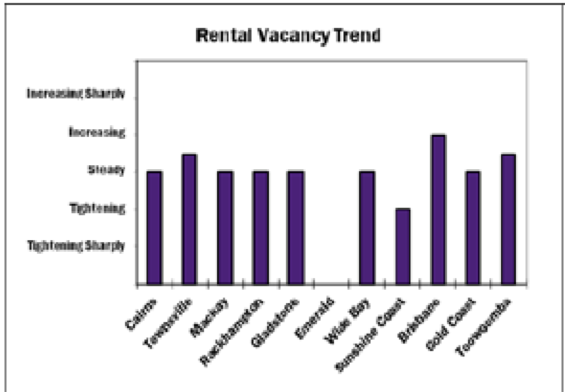
Market Indicators

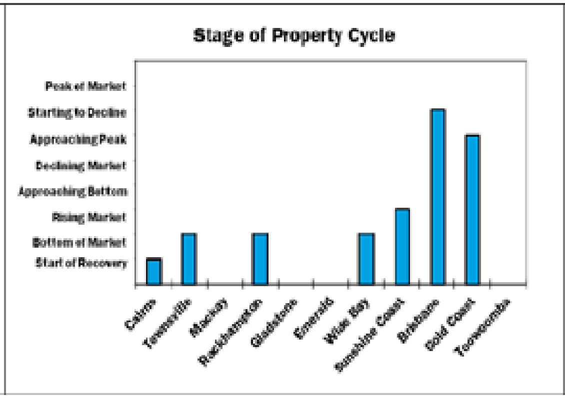
Queensland Property Market Indicators – Retail

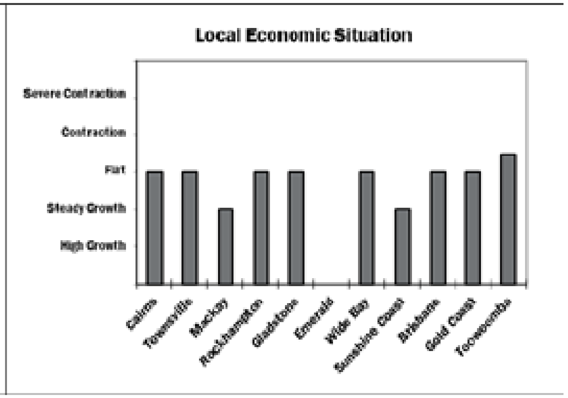
Factor	Cairns	Townsville	Mackay	Rockhampton	Gladstone	Wide Bay	Sunshine Coast	Brisbane	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market - Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to 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	Balanced market	Balanced market	Balanced market - Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady - Increasing	Steady	Steady	Steady	Steady	Tightening	Increasing	Steady	Steady - Increasing
Rental Rate Trend	Stable	Declining - Stable	Stable	Stable	Stable	Stable	Stable - Increasing	Stable	Increasing	Stable
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Declining	Declining	Steady	Steady - Declining
Stage of Property Cycle	Start of recovery	Bottom of market	Approaching bottom of market	Bottom of market	0	Bottom of market	Rising market	Starting to decline	Approaching peak of market	0
Local Economic Situation	Flat	Flat	Steady growth	Flat	Flat	Flat	Steady growth	Flat	Flat	Flat - Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant - Large	Large	Significant	0	Significant	Small - Significant	Small	Small	Significant - Large

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

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







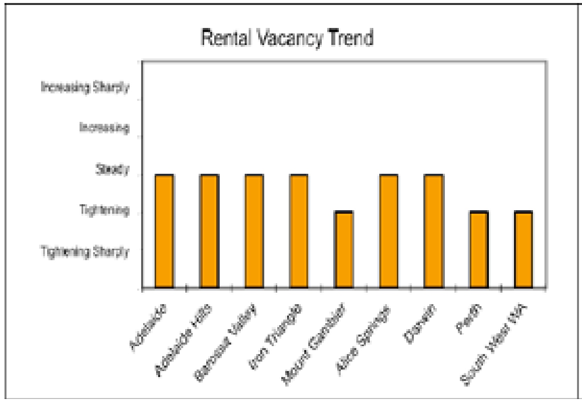
Market Indicators

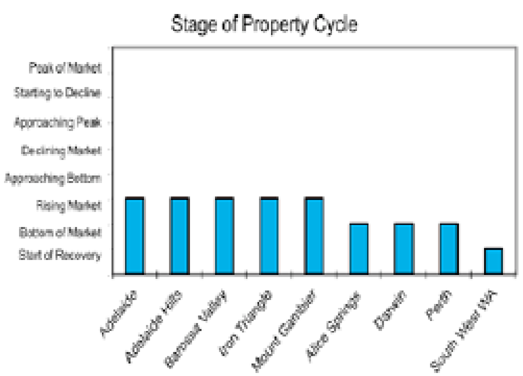
SA, NT and WA Property Market Indicators – Houses

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Tightening	Steady	Steady	Tightening	Tightening
Demand for New Houses	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Strong
Trend in New House Construction	Increasing	Increasing strongly	Increasing	Increasing	Steady	Steady	Declining	Declining	Increasing
Volume of House Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Increasing
Stage of Property Cycle	Rising market	Rising market	Rising market	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	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Almost never

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

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





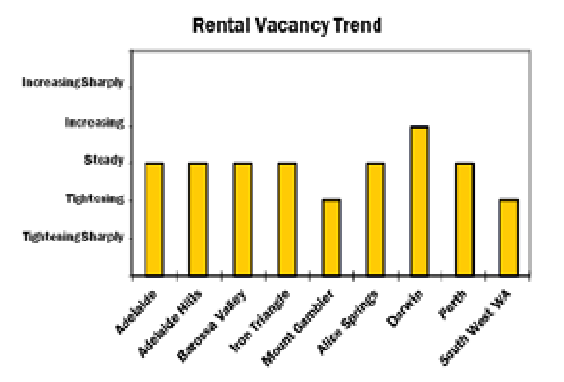
Market Indicators

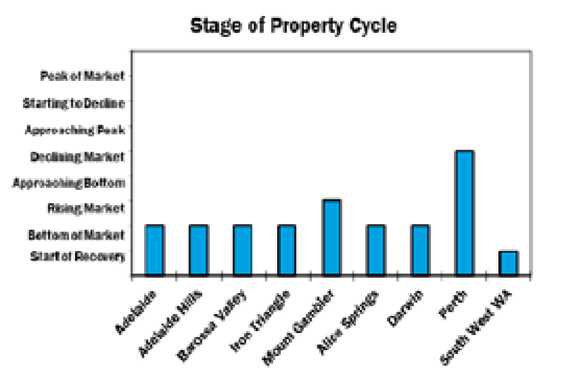
SA, NT and WA Property Market Indicators – Units

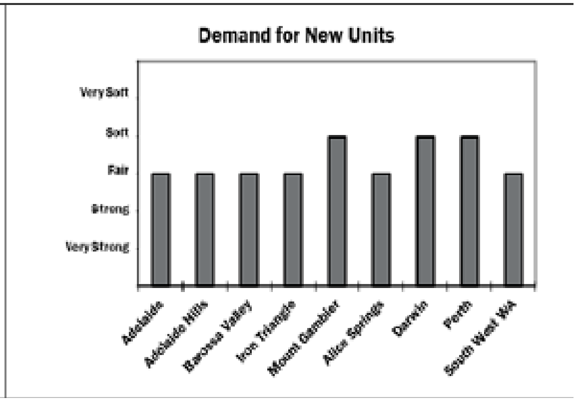
Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Tightening	Steady	Increasing	Steady	Tightening
Demand for New Units	Fair	Fair	Fair	Fair	Soft	Fair	Soft	Soft	Fair
Trend in New Unit Construction	Increasing	Increasing	Steady	Increasing	Steady	Steady	Declining	Declining	Increasing
Volume of Unit Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Declining	Steady	Increasing
Stage of Property Cycle	Bottom of market	Bottom of market	Bottom of market	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	Occasionally	Occasionally	Occasionally	Almost never	Frequently	Occasionally	Almost never

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

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







Market Indicators

SA, NT and WA Property Market Indicators – Retail

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

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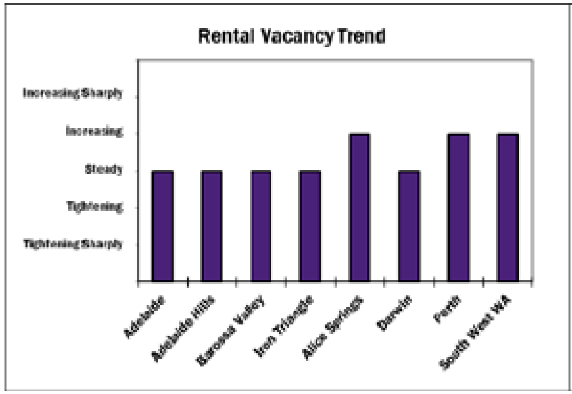
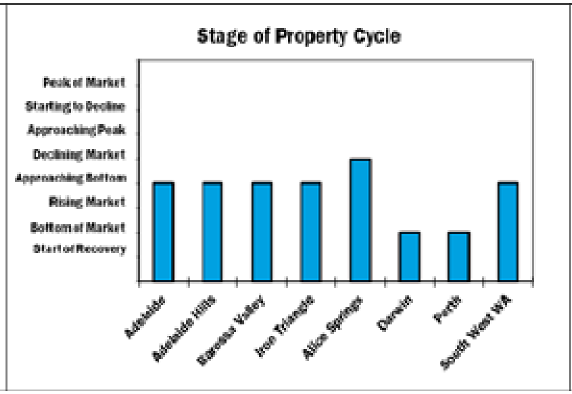
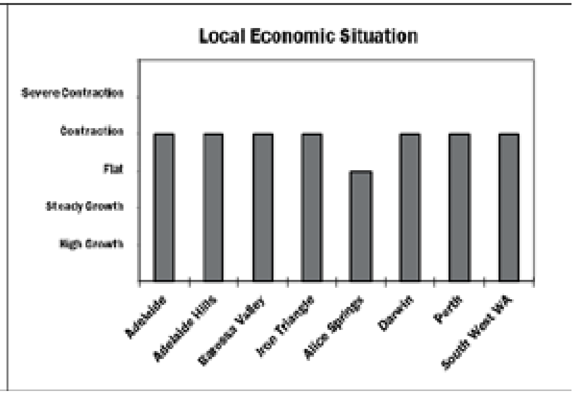
Blue entries indicate change from 3 months ago to a lower risk-rating







Market Indicators

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Telephone 1300 880 489
admin@htw.com.au
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