Herron Todd White

Independent Property Advisors

The Month In Review

2013 MARCH

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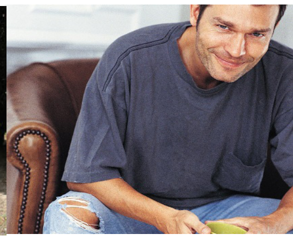


Contents

Peace of mind for your property decisions.




Are rates causing any interest?

Is there any interest in interest? Interesting!

The slow downward creep in the cost of borrowing money has progressed over the past couple of years. The Reserve Bank has been quite reserved in many respects – tauntingly really. They try and balance the issue of inflation off against a subdued economy and a minerals boom/slowdown.

That said, rates are now low and regardless of job security anyone who operates in the property industry is wondering why buyers aren't sheep-dogging over the top of each other to get a hold of some bricks and mortar while the dollars are so cheap.

Confidence has been an ongoing thing. Sure housing seems relatively affordable but what's going to happen beyond our shores in less stable economies? Who's going to save us if China no longer wants our precious elements? What magic fairy is planning to wave their jobs wand if we lose our employment? We seem to have been wallowing in our own shade of grey. As one Grammy award winning Australian singer/songwriter put it "You get addicted to a certain kind of sadness"… mind you it's hard to be sad when you've won a Grammy.

So interest rates have been low and certain sectors still can't get it together and start feeling happy about the opportunities. Have we got interest rate fatigue? A first world ailment to be sure, but are we just blasé about rate cuts to the extent we need something more to give our fiscal selves a little pep. In a few markets it feels like plaid clad members of the Seattle grunge movement are back with their rallying war cry of… "whatever…"

This month's issue asks our experts around the country whether the buyers and sellers in their area even care which way interest rates move. There's also a larger question – if not, then what? What will it take to get the buyers running hot again and start turning up and putting down their dough?

In commercial this month, we take a look at the year ahead for the industrial sector. The commercial brothers and sisters of the Herron Todd White family put on their hard hats and check out what the heavy lifting end of the commercial sector has in store for the coming 12 months.

So enjoy dear reader… or don't…. or, you know, "whatever". But remember when you do start to feel the passion for property and are ready to move ahead in your portfolio, one call to Herron Todd White will help straighten you out and get you moving lickety-split. So do us a favour, put down the Doritos, get out of the beanbag and give us a bell.

Herron Todd White
1 March 2013
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Capital works depreciation and natural disasters

QS CORNER

With the recent spate of natural disasters across the country many rental property owners will be rebuilding, replacing or repairing their properties.

And so the question of what impact does this have on existing and future capital depreciation allowances?

Where a rental property is destroyed by a cyclone, floods or other natural disaster the costs of rebuilding a rental property are not immediately deductible.

Such costs to rebuild are capital and you may be able to claim a deduction for the rebuilding costs of your property over a forty-year period. This is called a capital works deduction.

Where a rental property is destroyed and you have been claiming a capital works deduction for the property, you are able claim a deduction for the remaining amount of construction expenditure that has not yet been apportioned, however this will be reduced by any compensation you receive or are entitled to receive eg. Insurance payments.

Where repairs are made to a depreciable item this is an allowable deduction. The replacement of the depreciable items with new depreciable items is not considered a repair.

If you carry out both repairs and improvements to your property, you can only claim a deduction for the cost of your repairs if you can separate the cost of the repairs from the cost of the improvements.

It is essential in these cases that if you hire a builder or other professional to carry out these works for you, you ask for an itemised invoice to help with any claim.

Examples

Rental property was partially inundated with water due to flood. Some carpet in the lounge room and one of the bedrooms needed to be replaced, however as the style was no longer available and to have the same carpet throughout the house, it was decided to replace the carpet throughout the property.

If repairs had just been made to the damaged carpet a deduction for the repair would have been allowed. By replacing the whole carpet a claim of a deduction for the adjustable value of the carpet that was disposed of and a deduction for the decline in value of the new carpet may be made.

Similarly, damage to the vanity unit in the bathroom was also noticed. The vanity unit could be replaced and needed to be dismantled. At the same time it was decided to re-tile the bathroom while the chipboard in the sides and bottom of the vanity unit was being replaced.

The new chipboard for the vanity unit is considered a repair as it does no more than just restore the function of the vanity unit. The re-tiling is not a repair. Therefore the cost of each component of the work would be required so a claim for repairs and capital works deductions could be made correctly.

It is advisable to always consult with your accountant as to the implications regarding insurance payments and capital gains tax may have in these instances.

Commercial Overview

The year ahead is going to be diverse across the nations markets. Industrial property has been dealing with its own demons since late 2008. Will 2013 finally be the 12 months when the industrial sector starts to see a little sunshine? Take a look at our office by office wrap of what the industrial sector is doing around Australia.

Sydney

A disconnect between institutional and non-institutional grade properties continues to dominate the industrial market within Sydney. In the institutional space, strong demand from both local and overseas investors is helping to drive sales volumes at the top end of the market. In the non-institutional space however, a weaker rental growth outlook is limiting demand from investors, placing greater emphasis on owner-occupiers.

In the unit estate market rental growth has been minimal, with constrained demand limiting the potential for rental increases over the past 12 months. Despite this lack of demand, landlords have proven resilient to rental downgrades, seemingly willing to risk a long term vacancy period than to offer a rental discount.

Industrial unit estates within the south (particularly within the Alexandria to Mascot corridor) continue to command the highest rental rates in Sydney, with tenants willing to pay more in order to be located nearby the airport and Sydney CBD.

Likewise Investment demand for unit estate properties remains low throughout Sydney, with a divide existing between the price an owner-occupier is willing to pay and the price and investor is willing to pay. An analysis of recent purchases by owner-occupiers revealed that some properties in the southern and northern sub-regions have traded on equivalent yields between 5% and 6%. In comparison discussions with agents across Sydney reveal that investors of industrial properties are generally seeking yields greater than 7.5%.

Conditions within the freehold warehouse market have been sporadic for some time. At one end of the market institutional grade properties remain in demand, with properties featuring long term leases to large corporations remaining in favour with local and offshore investors alike. At the other end of the market secondary industrial properties in locations that are unlikely to benefit from urban renewal remain out of favour with investors, with yield premiums necessary to stimulate interest.

Canberra

Demand for industrial property within the ACT has improved over 2012 albeit only marginally. Since January this year we have noticed a slight increase in the number of industrial property transactions, with owner-occupiers and a select number of investors taking the plunge into the industrial market. The largest of these sales was the 3,980 square metre 11 Sheppard Street in Hume which sold with vacant possession for a reported $4.75 million. Elsewhere in the ACT sales demand appears to be focused on higher quality assets with owner-occupies seeking out newer properties and investors seeking properties with strong lease covenants.

In the leasing markets demand remains weak for industrial properties, with only minimal leasing transactions occurring since the beginning of 2012. Unsurprisingly given the lack of leasing transactions, rental growth has been minimal over the past 12 months, with landlords concerned with income security as opposed to rental growth. Industrial properties in Fyshwick remain in the greatest demand, with these properties securing the highest rental rates of the three industrial regions within the ACT. Rental rates for properties within Fyshwick range between $110 to $152 per square metre, with the upper limit of this range generally limited to properties with good exposure favored by bulky goods occupiers.

Looking forward we expect that conditions will remain much the same over the coming 12 months with weaker occupier demand limiting rental growth and the subsequent demand from investors. With this in mind we expect that owner-occupiers will continue to dominate the market, with the recent interest rate cuts having the potential to spur an increase in demand from this group.

Wollongong

The local industrial market has been subdued over the past 12 to 24 months as the industry struggles under prevailing economic conditions. The high Australian dollar has had a detrimental impact on local manufacturers with the high profile scaling back of operations at BlueScope and other large scale facilities having a negative flow on affect. The mining industry and port expansion have been the shining lights over this period and as far as major projects are concerned continue to lead the way in 2013. Besides the Princes Highway upgrades underway for the stretch of highway between the Kiama bends and South Nowra, there are no significant infrastructure projects planned in 2013, noting media reports of ongoing consulting being conducted regarding completion of the Dombarton – Maldon freight rail line, which is partially complete and ceased construction in the 1980's. If completed the line will connect Port Kembla to the Main South Line at Picton.

....the Southern Highlands industrial property market has been affected by the macro economic conditions largely since the GFC....

Industrial vacancy rates are at a medium level and there has been downward pressure on effective rents as owners look to retain and attract tenants in a competitive market. Most sales have been in the sub $1 million range to owner-occupiers with limited investment transactions. Although there are signs of stabilisation, the market remains flat and current conditions continue to favour buyers and tenants.

Southern Highlands

The Southern Highlands industrial property market has been affected by the macro economic conditions largely since the GFC. The market appears to have stabilised but remains relatively weak. Demand has reportedly slowed up in line with that of Wollongong and Sydney suburban centres. There are no substantial infrastructure projects planned for 2013 that would greatly impact the industrial market and property values in the region.

The local market is dominated by owner-occupiers that have a specific need to be located in the region with limited investment grade assets transacting. Most the sales are in the sub $1 million range with increased activity for this category of property evident in the second half of 2012. For example 10 McCourt Road, Moss Vale (a 2,590 square metre allotment with a 515 square metre factory) is reportedly under contract for $570,000, equating to $1,115 per square metre of building area and $220 per square metre of improved land area, while several strata warehouse units in Mittagong have sold over the past six months as vendors adjust to present market conditions.

The market remains relatively flat with longer letting up periods, increased incentives and longer sales periods for properties that are not priced competitively.

Central, North and West NSW

Industrial markets across regional NSW continue to remain flat with the exception of those markets influenced by mining. Mining towns such as Mudgee, Parkes, Cobar, Narrabri, Gunnedah and Orange are showing greater levels of activity and capital growth in comparison to those towns without mining.

Industrial property in these rural service towns are largely owner-occupied, very much due to their affordability, which serves to make the yields less attractive to investors. Those properties with strong lease covenants are well received in the market but sale activity is limited by supply.

There does not appear to have been any impact upon activity or values in relation to easing interest rates.

Newcastle

This month we're going to do a little bit of crystal ball gazing to see which local factors may have an impact on local industrial land values. Industrial land values have been defined by high stock levels and falling values since around 2008 and while this is slowly evening out, we don't expect to see any great leaps in industrial land values in 2013.

The most readily identifiable piece of infrastructure that may influence land values is the opening of the Hunter Expressway, due in October 2013. The Expressway will be a 40 kilometre long freeway with two lanes in each direction, running generally north west from the F3 at the Newcastle Link Road interchange to the New England Highway north of Branxton. The road will allow traffic to bypass the Maitland area, Lochinvar, Greta and Branxton. This road should cut congestion along the New England Highway and cut travel times between Newcastle and the mining areas of Singleton and Muswellbrook. This may see more industrial land users looking to utilise the cheaper land in the Singleton and Muswellbrook industrial areas. With interchanges near Heddon Greta there may also be an uplift in interest in industrial land in Kurri Kurri and the largely vacant Hunter Economic Zone (HEZ) which is currently poorly serviced with no nearby major arterials.

The Hunter Expressway is one major piece of infrastructure that has the potential to have an impact on the local industrial land market. While this market isn't currently showing any major signs of improvements, this freeway will allow easier access to some pockets of industrial land currently under the radar of major industrial users.

NSW Mid North Coast

This market remains as per our January 2013 report, with continuing high levels of vacancies across all commercial sectors. Retail vacancies appear to have increased noticeably in the smaller towns and villages and in local neighbourhood shopping centres, with some having up to 80 percent of shops currently vacant. This can be generally attributed to poor retail sector trading and it is unlikely that recent interest rate cuts will fix this in the short term, and will require consumer confidence to rise.

Commercial and industrial rents remain low with demand for sales low. We still see most average quality and lower value commercial and industrial properties being purchased by owner-occupiers. Although there is always demand by investors for high value commercial property. Hopefully interest rate cuts will stimulate retail and commercial spending which in turn may stimulate the property market in these sectors.

In summary, we think that it is too early to accurately predict the effect of low interest rates. Interest rates are as low as they have been since mid 2009 and HTW historical sales data shows that there was a slight increase in residential sale rates and values around that time, with demand and values dropping back once interest rates again started to rise.

We are hopeful that interest rates will remain low and will stimulate confidence within the residential property sector during 2013. However we consider the retail, industrial and commercial sectors will continue to remain subdued and flat, at least until the federal election.

NSW Far North Coast

The industrial market on the Far North Coast of New South Wales is historically heavily weighted by owner occupiers who wish to have a base to operate their business.

As a result, a return or yield from the real estate has been a secondary consideration as position within the local market; exposure and security of business identity have been the underlying concerns from the majority of purchasers.

....there has been increased activity for industrial strata units within Byron Bay, with five known sales occurring since the beginning of the financial year...

For industrial investors, properties have traditionally been purchased on high yields from 9 to 11%. However, during the boom period of 2004 to 2008, yields/returns as low as 6% to 7% where not uncommon. With the end of the boom, yields have now returned to more long term averages of 9% or higher.

The higher yields are reflective of risk and general market demand which has been subdued since mid 2008.

Within the industrial segments, self-storage facilities appear to be a current popular choice of investors. There have been several transactions ranging in price from $608,000 million to $2.25 million in areas including Ballina and Goonellabah. There are currently two other self- storage complexes within Ballina currently under contract. Overall, selling agents are reporting a fairly good level of interest and this is demonstrated with the recent sales activity.

Within the Ballina locality, the majority of storage shed sales over the past two years have been to investors that have not purchased on a going concern basis but more on an investment basis, with the facility managed by local real estate agents. As such, the storage facilities within Ballina have sold for yields generally lower than 7%. This is evidenced by the sale of 9 Clark Street, Ballina in July 2011 for $605,000 which was purchased holding proposition until future redevelopment occurs. The recent sale of 3 Cessna Cr, Ballina in June 2012 for $608,000 analysed to a yield of 6.08%. The recent sale of 52 Lancaster Dr, Goonellabah in August 2012 for $970,000 analysed to a yield of 8.87%.

The sale of a large, good quality storage facility located at 33 Smith Dr, Ballina in June 2012 was sold as a going concern and the sale price analysed to a yield of 13.2% which is considered to be a prudent purchase based upon recent sales of similar storage facilities.

There has been increased activity for industrial strata units within Byron Bay, with five known sales occurring since the beginning of the financial year. The sale prices have ranged from $190,000 to $340,000 and have analysed between $1,416 and $2,545 per square metre of building area. There have also been two industrial land sales which have anlysed between $442 and $607 per square metre of land area.

Lismore has also seen some recent sales activity. This activity has been more from owner occupiers rather than the investor. Sales of noted include:

- Krauss Ave, South Lismore in November 2012 1.1ha indicated $127/m2 for filled land and $45/m2 unfilled/battered land.
- Krauss Ave, South Lismore in December 2012 7388m2 for $1,470,000 adjoining industrial pair sold to owner occupier indicated $700/m2 of building area or $199/m2 of land area.
- Habib Dr, South Lismore in December 2012 for $430,000 1154 m2 site purchased by owner occupier indicated $722/m2 of building area or $366/m2 of land area.

The industrial property market on the North Coast continues to be dominated by small businesses, many of which continue to be owner occupiers.

In summary, affordability is still the key. For investors in the industrial market, it places a base level in the market where yield and return become less relevant and as prices rise there are less potential purchasers. In the current economic climate the choice available for an investor becomes significantly higher which allows them to be selective and demand a higher yield/return.

Coffs Harbour

There have been a number of sales demonstrating stable prices in recent months, despite the prevailing overall slow economic conditions. A recent sale in Coffs Harbour's premier Isles Industrial Estate showed nine percent return for a multi local tenanted modern building.

A mortgage sale of a Pacific Highway high exposure modern tilt up showroom showed $1,428 per square metre for a 1,050 square meter building.

....affordability is still the key....

There remains a reasonable supply of property available for lease with extended leasing up periods based on limited demand.

There is no identifiable industrial land bank within the city once Isles Industrial Estate is fully developed. Despite this a recent auction of vacant industrial land within a secondary estate showed $147 per square metre which is consistent with the previous sales level established some three years earlier.

Southern NSW and Northern Victoria

Industrial property in Wagga Wagga has been relatively thinly traded for an extended period. This is likely to continue through 2013. In saying this, the demand for investment industrial properties is very strong from self managed super funds for properties with good leases to good tenants. The issue is that few are put to the market with the majority of property for sale being vacant possession. We feel that yields will remain stable through 2013.

The rental market is oversupplied with vacant older and/or small properties with a few large vacant industrial properties. There is currently demand for properties that are modern and mid size e.g. 800 to 1500 square metres. Across the industrial market we are expecting rents to stay stable for most of 2013.

Regional Victoria

SALE

The Latrobe Valley industrial market continues to show signs of stagnation as a direct result of the introduction of the carbon tax. The Latrobe Valley generates most of Victoria's electricity with a number of industries and trades dependent on the five Power Stations. Continued job uncertainty and delayed or shelved construction projects have resulted in a static industrial market, with a significantly reduced volume of sales and limited owner-occupier market activity over the previous 18 months.

The outlook for 2013 is for continued contraction in the industrial sector, until more is known about the impact of a carbon tax on the brown coal power generation industry and associated trades.

BENDIGO

Investment grade commercial property continues to perform well in Bendigo on the back of a tightness in supply. Investors are chasing higher yields as a consequence of the low returns on offer elsewhere in the current low interest rate environment. Notable more recent investment sales include the sale of the Red Rooster outlet at 135 High Street, Kangaroo Flat for $1.4 million in April 2012, giving a passing yield of 8.13%. Additionally the Supercheap Auto outlet at 157-161 Lyttleton Terrace on the fringe of the Bendigo CBD changed hands in November 2012 for $1.86 million a passing yield of 6.73%

Commercial office space remains tight with limited supply, though there should be some easing over the next 12 months with an increase in supply coming on line.

The sub-$350,000 market for industrial property continues to perform well, driven by an undersupply of appropriately sized allotments and developments. Conditions are tougher at higher price points, with sluggish demand for larger lots and bigger sheds.

Conversely conditions are tougher at the lower end of the retail market, consistent with difficult trading conditions being encountered by many small operators, with an increase in vacancy levels being seen. However well located larger retail sites continue to be tightly held, with limited vacancy. Of note was the sale in late 2012 of the historic T&G building in View Street in Central Bendigo for $1.85 million with vacant possession to the local furniture manufacturer Jimmy Possum. The former Bendigo Advertiser site between Pall Mall and Hargreaves Street in the Bendigo CBD also sold, fetching $1.98 million in September 2012. It will continue to be occupied until early 2014 by the temporary Bendigo Library, after which it is expected to be redeveloped.

ECHUCA

Flat conditions locally are likely to see limited movement in this segment of the market though several industrial properties were sold on a mortgagee in possession basis during 2012. There have been several sales of sitting tenants during the same period though most potential market participants are opting to build and owner-occupy given the availability of land in both Echuca and Moama.

T & G Building

Fortuna Villa

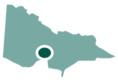
MILDURA

Mildura has a relatively diverse industrial base, servicing the local agricultural, mining, freight and construction industries. Generally there has been strength in some sectors when others are down, which has assisted with stabilising rents and generally yields with industrial property.

New building activity has been noticeably lower in the past three to four years, which has also limited supply of available premises.

....the expectation is for a slightly improved and more active 2013 industrial market.....

For many years there has been talk of a number of large scale solar power generation facilities being developed in the Mildura region, however actual development has been slower to materialise. In the past six months we have seen some positive announcements, with Silex Systems building a pilot plant (up to 2 MW capacity) approximately 35 kilometres south of Mildura. Two further power generation companies of global significance have recently announced their intentions to also build pilot plants. These developments could reignite interest in the solar industry, and in the event that the owners then decide to build full scale developments, would create additional demand for local industry, particularly during the construction phase.



Melbourne

Our expectation for the Melbourne industrial markets is for cautious growth in 2013. The steady and stabilised market that has been experienced over recent years appears to be showing signs of renewed demand in particular areas. We offer this brief outline of some of the key issues within the market.

- A lack of new office warehouse stock, particularly in the western logistics sector, is seeing renewed construction commenced and planned. Prime rentals in this market increased during 2012 due to increased demand but unavailability of stock.
- A substantially higher industrial supply planned for 2013.
- Strong industrial investment sales above $20 million during 2012 may continue based around availability of suitable stock.
- Private investors are the dominant buyers within syndicates and unlisted funds are also active. Offshore buyers were involved in major purchases of large investments up to $50 million and are said to have continued interest in the Melbourne market.
- Manufacturing will continue as a diminishing component of the industrial sector with logistics warehousing being the primary driver. Accordingly the relationship to infrastructure will only strengthen.
- The strong take up of new land estates around the expanded freeway links in Dandenong South is an example of this trend.
- The Northern Ring Road upgrade will not be finished until 2014.

The expectation is for a slightly improved and more active 2013 industrial market. The only dark cloud, as always, surrounds Australia's main trading economies. Ongoing growth in China and a more stable Europe will underpin an expanding Melbourne industrial base.

Adelaide

The South Australian industrial property market appears to be facing an extended period of consolidation that is expected to continue, at this stage well beyond 2013.

While the industrial sector has been slowly recovering post GFC there appears to be limited prospects for much further improvement in the short term. Both federal budget cuts to defence spending and the high Australian dollar are negatively impacting upon the local manufacturing industry, and the state in general is set to face further challenges ahead with little if any economic growth forecast and unemployment rates currently heading in the wrong direction.

In general sales transactions have been fairly limited and rental rates and yields have continued to soften. Leasing activity improved slightly in 2012 when compared to 2011. In the latter half of 2012 incentives noticeably increased. Capital values have remained fairly flat, although there has been some decline in value of secondary stock.

....the first stage of the Metroplex at Westgate is set to commence development later this year with the first lots being available for lease or purchase in early 2014....

Currently the southern, inner and outer industrial areas are finding the economic conditions fairly challenging, with almost no growth expected in any areas in the short term.

The industrial area located in the inner north west comprising of the suburbs of Regency Park, Gepps Cross, Wingfield, Dry Creek and Port Adelaide remains the most popular and as such the demand within these suburbs remains steady, in particular for high quality property. As with all commercial property the divide between primary and secondary assests appears to be widening.

Various infrastructure improvements currently underway include the South Road Superway, duplication of the Southern Expressway and improvements to the freight rail line, involving its separation from the passenger line, at both Goodwood and Bowden. As well as providing improved access and transport to the industrial zones of Adelaide, these projects in conjunction with the construction of the new Royal Adelaide Hospital and redevelopment of Adelaide Oval have been important in their own right in stimulating the local economy and supporting local industry. However most of these projects are due for completion by the middle of next year and at this stage it is unclear what will be there to provide the equivalent level of support to the South Australian industrial sector. There are several mining opportunities along the Eyre Peninsula and on the York Peninsula which may provide some stimulus in the longer term subject to being approved.

Brisbane

Over the course of the past six months there has been softer pricing levels recorded in the resource sector, in particular the coal industry. This slow in the mining sector is predicted to remain at these levels well into 2013 with improvement not expected until late 2014. This will likely have an effect on businesses which service the resources sector and as a result inquiry for new development or upgrading existing facilities is likely to be subdued.

Gaining approval by the Brisbane City Council in 2011, the first stage of the Metroplex at Westgate is set to commence development later this year with the first lots being available for lease or purchase in early 2014. The former Sananada Army Barracks site at Wacol is a 93 hectare site and is expected to supply over 250,000 square metres of industrial space and 6,000 square metres of retail and business accommodation. The development is expected to create hundreds of jobs in the construction phase, support up to 10,000 workers once complete and is expected to accommodate 350,000 residents by 2026. The project will be developed in stages over the next ten years and will be almost double the size of the Metroplex Gateway in Murarrie. The site is well positioned being 15 kilometres from the Brisbane CBD and 20 kilometres from Ipswich. Furthermore it is located in proximity to the Centenary Highway and Ipswich Motorway providing direct connections to the north of Brisbane. Being extremely well placed in the south western corridor, the Metroplex precinct will be well received in a market with limited vacant land over the two hectare mark available for sale, and will have major impacts on the industrial market over the next ten years.

The Australia TradeCoast Precinct consists of 8,000 hectares of industrial land on the north and south banks of the Brisbane River, incorporating the Port of Brisbane and Brisbane Airport. Its strategic location is enhanced by the Gateway Motorway, which provides ready access to the Gold and Sunshine Coasts and via the Ipswich and Logan Motorways to Brisbane's south western corridor.

A freight study commissioned by the Australia TradeCoast has projected a 97% increase in road freight movements to the Port of Brisbane by 2026. This highlights the importance of the recent infrastructure projects in the area, including the duplication of the Gateway Bridge;

the upgrade of the airport roundabout, the 12 kilometre upgrade of the Gateway Motorway south of the Brisbane River and the 6.7 kilometre Airport Link tunnel/road to connect Brisbane city with the airport precinct.

....The Port is subject to continuous expansion over the next ten years with wharf capacity set to increase with Berths 11 and 21 due for completion in mid 2013....

The Port of Brisbane is the major port in south-east Queensland and is Australia's fastest growing container port with more than 83% of all port trade being moved by road. In order to meet the expected transport needs and improve freight efficiency, the $300 million upgrade of the Port of Brisbane Motorway known as the Port Connect Project was opened in late 2012. The Port Connect is a three kilometre, two-lane motorway extension from the existing Port of Brisbane Motorway to Pritchard Street. Heavy vehicles wishing to access the Port can now bypass Lytton Road. The upgrade also includes a new interchange at Pritchard Street, with an overpass between Lytton Road and Export Street.

The Port is subject to continuous expansion over the next ten years with wharf capacity set to increase with Berths 11 and 21 due for completion in mid 2013. The investment into improving connectivity between the TradeCoast and outer northern and southern suburbs coupled with the extra trading capacity will allow this region to handle expected growth.

Gold Coast and Tweed Coast

After the usual pre-holiday activities, the new year has started on the quieter side for the industrial market. The 'kickstart' program (reduced infrastructure charges) initiated by the Gold Coast Council has resulted in some new construction activity, but may not be enough to provide the catalyst for a chain reaction. Perhaps it is still premature to judge the success of the program as applications for new projects could still be in the pipeline.

There were no great results in the public auctions held during the last quarter of 2012. Firstly there were hardly any outstanding properties for sale and as anticipated, the interest was low and only a limited number were successfully sold.

Within the industrial segments, self-storage facilities appear to be a current popular choice for investors. There have been several transactions ranging in price from $1 million to $2.4 million in areas including Southport, Burleigh Heads and Tweed Heads. There are currently at least two other self- storage complexes on the market, one in Miami and another in Nerang. Overall selling agents report a fairly good level of interest, demonstrated by the number of respondents actually making submissions.

Among all the central Gold Coast suburbs, Southport has been a winner for industrial property sales. From Nerang to Burleigh Heads, there were several significant properties on the market, but the agents reported very low interest.

Further to the south in the northern NSW city of Tweed Heads, there have been a few notable transactions, albeit the majority have been at the behest of receivers and managers.

Back to the northern part of the Gold Coast, a low level of buying activity has followed after the buying spree of some vacant sites in the third quarter of 2012. Another vacant site sold for $280 per square metre at Access Business Park while a site on Christensen Road in Stapylton went under contract for $203 per square metre. Another investor is keen to buy another site in Access Business Park with the intention to building a factory for a blue chip tenant. Receivers have placed a large multi-million investment property in Stapylton on the market for sale. If sold, this could be the most significant sale in this region.

As far as we know, there were a handful of industrial sales in the $500,000 to $1 million bracket. There were two sales in Arundel, one being a 407 square metre strata unit that sold for $1216 per square metre of floor area. Two sales in Burleigh Heads, one of which is a factory with some cold storage that sold for $910,000 reflecting a low market rate of $1,006 per square metre. A Nerang investment property had a change of ownership for the price of $650,000. This high clearance concrete block warehouse of 580 square metres yielded 8.08% for the investor. A lower yield of 7.6% was reflected in the sale of a strata workshop unit in Tweed Heads that sold for $825,000.

There were not many small properties that sold in the market during the last quarter of the year. Generally, they were strata units that sold for between $215,000 and $410,000, reflecting analysed rates on the floor area between $1,210 and $1,550 per square metre. The lower end was a mortgagee sale with the general private treaty sales supporting between $1,300 and $1,400 per square metre.

For this year, the Gold Coast Rapid Transit infrastructure project would be the main engine driving the market. The wind of change is hoped to come from the much debated Gold Coast cruise terminal and the mayor's cultural precinct. But at this point in time, the industrial market can only wait, see and hope for more infrastructure and building constructions, crucial factors that provided the fuel for the rapid growth in the past.

Sunshine Coast

The year ahead for the industrial market on the Sunshine Coast will be predominately impacted by the large level of oversupply of industrial land that is developed and available for sale. Approximately 160 lots are available for sale with the State Government holding the majority of stock.

Recently the State Government have repriced the majority of their stock which is located at Caloundra, Yandina, Cooroy and Coolum. The private developer of the Centra Park industrial estate at Coolum has also repriced their 2,000 square metres lots from $150 per square metre. This has lead to some increased sales, though sale rates are still limited, due primarily to lack of demand rather than pricing.

We understand that the State Government is looking at a range of options to start take up of their stock including freeholding leases, which were used approximately 20 years ago in areas such as Caloundra West, Gympie and Noosaville.

....the industrial market on the Sunshine Coast will be predominately impacted by the large level of oversupply of industrial land that is developed and available for sale....

We have noticed that there has been some increased activity in the Kawana Industrial Estate, mainly on the back of the Sunshine Coast University Hospital, which is located within approximately three kilometres. A number of local investors are looking at existing buildings that could house potential tenants that may need to service this health precinct.

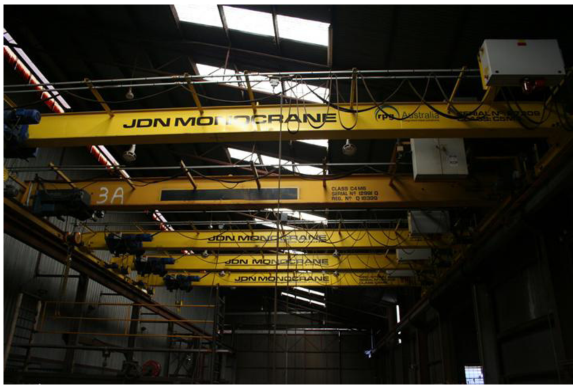
Southern Queensland

Within Toowoomba, commercial agents are reporting increasing interest from local and national companies in leasing quality industrial properties, largely due to activity in the Surat Basin energy province. The increase in demand combined with relatively limited supply has placed upward pressure on rentals, particularly for properties with overhead gantry cranes and the provision of good hardstand areas. In turn, new industrial complexes are now becoming more viable and we anticipate an increase in new industrial development to occur over the next 12 months.

The Charlton - Wellcamp industrial zone is likely to cater for the bulk of the industrial expansion in Toowoomba into the future. A large industrial estate is well underway in this precinct, with several large industrial warehouse and factory buildings planned and recently completed, including two poly pipe manufacturers servicing the Surat Basin coal seam gas sector.

A development application was recently submitted for a private airport at Wellcamp, capable of accommodating larger aircraft than the current Toowoomba airport. The proposal is to also include a large quantity of industrial land to be developed over multiple stages.

Within the Surat Basin itself, market leading rentals are being achieved in the towns of Dalby and Chinchilla. The new tenants are a combination of locally based fabrication businesses requiring additional factory floor space with gantry cranes and national and international companies servicing the energy sector, establishing a base within the Surat Basin. Many of the new leases are at levels significantly above those being achieved in Toowoomba and are unlikely to be sustainable in the long term.



Former RPG Fabrication Shed, Dalby

Osmac International Chinchilla

Central Queensland

ROCKHAMPTON

The industrial market in Rockhampton and surrounding areas remains steady. Stocks continue at very low levels for properties both for sale or for rent. Agents report plenty of enquiry from both potential buyers and tenants.

Additional industrial land which had been allocated for industrial use in Gracemere is now under review. Previously, the Rockhampton Regional Council sought approval from the State Government for a Temporary

Local Planning Instrument, resulting in allotments between Somerset Road to Boongary Road, from Capricorn Street to the Gracemere Overpass (currently under construction) being zoned industrial. Some sites are zoned industrial under the existing Fitzroy Shire Planning Scheme. The planning instrument was met with much opposition from land holders in the area. Council has since revised the plan and the Amendment to the existing Planning Scheme is now open to public consultation.

The major amendment to the Fitzroy Shire Planning Scheme 2005 is to change planning scheme provisions relating the precincts B, C, D, J and K. These precinct boundaries have been amended to create a new clearly defined low, medium and high impact industrial precincts. The amendment includes:

1) updating the zone mapping (Maps A2, A8, A9 and A17);
2) changes to the Gracemere – Stanwell zone tables of assessment;
3) changes to the Gracemere – Stanwell zone code intent statements; and
4) changes to the Gracemere – Stanwell zone code performance outcome provisions; and
5) changes to other relevant codes of the planning scheme.

Source: Rockhampton Regional Council.

Sales of existing industrial land in Gracemere continue at a steady rate with additional stock now available in existing industrial areas.

The most recent investment sale in the Rockhampton industrial market is 41 Johnson Street which sold in November for $4 million. This is a one hectare parcel located in a predominately industrial area. The property is subject to a ten year lease with five years remaining to a national company. The sale reflects a yield of approximately 9%. This is the highest sale to occur in the Rockhampton industrial market for many years.

We anticipate the industrial market will remain steady through 2013 and availability of quality stock will continue to be an issue. The sale of Johnson Street demonstrates that there are buyers in the market for quality properties with good cash flows.

HERVEY BAY

Most activity for the year ahead is likely to be focused on much needed local infrastructure projects and rebuilding after the January flood event hit the region.

The year ahead in the industrial sector is likely to reflect the past year with low levels of activity being experienced across all industrial asset classes; land, leasing and sales.

Supply of industrial land continues to increase with a new stage within the Hervey Bay Airport Industrial Park nearing completion. Other industrial locations still contain high volumes of land which heightens the risk of easing asking rates. Some vacant sites are now asking in the range of $70 to $75 per square metre being about $30 per square metre below 2007/2008 rates.

Rental demand is slow however those properties with tenants in place are appealing to the market if offered for sale at realistic levels. Property priced below $1 million with a strong tenant in place can still achieve a yield between 8% and 9.5%. Leasing activity remains slow with the market still requiring good incentives to commit. In the current market and with the pressure on rental rates, landlords should be willing to negotiate with sitting tenants at lease renewal. If they vacant due to a rental increase, it is likely to be difficult to re-let within a short period.

MACKAY

The industrial market in Mackay is heavily influenced by the Bowen Basin coal industry and to a lesser extent, the local sugar industry. The slowdown in the coal industry through the latter half of 2012 and into early 2013 has impacted on the confidence of local business. As a result of a higher Australian dollar, increasing coal royalties and softening commodity prices, major miners in the Bowen Basin are reporting reduced profits, leading to some companies closing poorer performing mines, deferring expansion plans and rationalising staffing numbers. Due to high production costs, the Australian coal industry is becoming uncompetitive against lower cost international rivals.

....supply of industrial land continues to increase with a new stage within the Hervey Bay Airport Industrial Park nearing completion....

The local market is thinly traded in comparison to the capital city areas and larger regional centres throughout Australia. Therefore there is yet to be definitive evidence in sale prices to ascertain any significant softening in the market. However anecdotal evidence indicates this may be a likely occurrence through 2013.

Further development and/or expansion of mines in the Bowen Basin, as well as the expansion at BMA's Hay Point coal loading facility is still a driving force behind business in the industrial sector and will help to maintain some confidence in the area.

We consider the industrial property market in the year ahead will be influenced heavily by the direction of the coal industry which itself is subject to continued volatility in the world economy. While the market may slow, there still remains significant demand for industry in the Mackay region to service existing mines in the Bowen Basin.

GLADSTONE

The industrial market in Gladstone has seen the biggest increase in activity of all the commercial sectors over the past 12 to 24 months. There were 18 industrial sales in the Gladstone region in 2012, down from 27 in 2011. These volumes still far outweigh the volume of sales in other commercial sectors.

Despite sales volumes being down from the 2011 volumes we have witnessed a steady rise in demand resulting in increased rental levels and a tightening of yields.

Investors are likely to be attracted to the strong population and potential capital growth prospects for Gladstone which are tied to the Gladstone LNG projects.

There is evidence that the residential market in Gladstone has started to decline. We have not seen any evidence however of the decline in residential values passing onto the industrial sector. We anticipate a steady volume of sales in 2013 with rental levels and yields also remaining fairly steady.

Cairns

The industrial sector in Cairns is relatively small with areas close to the CBD showing the stronger demand. The status quo has remained so far this year with the market having come back from its peak of early 2008. There has been a slowing in the rate of sales and yields have eased back by about 10% to 15% from the record low levels observed at this time.

....due to the downturn in the local economy and reduced demand from tenants and purchasers, rents reduced after the GFC but have recently begun to claw back some lost ground as the economy has slowly improved....

We believe yields for industrial premises at present analyse in the 8% to 9% range, from the 6.75% to 7.25% range evident at the market peak, though an industrial warehouse sale late in 2012 for $775,000, with a five year lease in place to a national tenant, analysed to a yield of 7.6%. Commercial agents advise limited availability of good quality stand alone warehouse stock with reasonable demand for these types of premises. Strata titled industrial warehouses are also limited in numbers to both sell and lease.

Industrial land is more than adequately supplied with about 30 lots available in the State Government subdivision at Woree, albeit they are at ambitious asking prices. In addition these lots are sized from 2,000 to 3,000 square metres, larger than the typical small owner-occupier requires which is more in the 1,000 square metre range.

Due to the downturn in the local economy and reduced demand from tenants and purchasers, rents reduced after the GFC but have recently begun to claw back some lost ground as the economy has slowly improved.

There is limited quality investment stock available for purchase in the Cairns market. This will tend to support values over the short to medium term. The outlook for the next 12 months is for similar conditions, though a lack of new stock should see availability tighten as we move through the year. A recovery in the vacant industrial land market in Cairns may depend upon a more widespread recovery in the local economy.

Townsville

Infrastructure and Development

A recent report compiled by Townsville Enterprise confirms that investment is strong in the region with approximately $59 billion worth of projects underway and in the development pipeline. This is an increase of $4.2 billion over the September quarter 2012 which, according to the report, is due to the release of costs from proponents of major mining projects within the region.

Mining continues to be the highest contributor to projects within the region valued at $25.5 billion. Industrial infrastructure is also a significant contributor, with $13.3 billion worth of projects underway, approved and proposed.

New additions this quarter include the Clyde Park coal project valued at $330 million and a number of new Townsville City Council projects valued at $45 million.

Property market comment

Sales of developed commercial and industrial properties are currently tracking at around 60% of the volumes achieved at the peak of the market in 2007. There was a distinct increase in activity during the first half of 2012 but then declined over the remainder of the year. The March quarter 2013 is showing subdued sales volumes, but anecdotal evidence suggests that sentiment in this sector remains.

Yields for prime commercial and industrial property have increased by 100 basis points since 2007 to 8.5%, with secondary properties now achieving around 9% to 9.5%.

Demand stems from a broad range of businesses including those engaged in logistics, manufacturing and services, reflecting the diversity of business located in this region. Prime accommodation with good tenancy profiles and long lease terms are likely to sell in the current market.

Conversely, vacant possession property or property with under market rents and/or poor tenancy profiles as well as property requiring capital expenditure are considered to present a high level of risk and are most likely to languish in the current market.

Entry prices for near new industrial units start at around $500,000 with sizes ranging from 250 square metres to 800 square metres. The current owner-occupier market is around the $600,000 to $700,000 price bracket, with small scale investor product (approximately 1,000 square metres shed area) priced from around $1 million. Industrial property priced outside of the owner-occupier range and below the investor price band (i.e. $750,000 to $1 million) is the market currently experiencing the most volatility particularly when being offered to the market in vacant possession.

There is limited new supply of industrial stock in the development pipeline, primarily due to difficulties in obtaining finance and achieving sufficient rental returns. Development viability remains a challenge and we are now seeing more purpose built 'design and construct' facilities with very little speculative building.

New vacant industrial land

Our latest Herron Todd White Industrial Land Survey indicates that there are 111 developer allotments available for purchase at the end of September 2012. The survey shows an uptake of six allotments in the three months to September equating to approximately four and a half years of supply, a level we consider an oversupply given the current slow rate of consumption.

Owner-occupiers continue to drive the market for smaller lots (sub 2,500 square metres) whereas demand for larger lots is primarily driven by larger tenants and owner-occupiers that have specific operational requirements.

Values appear to have stabilised at about the $130 per square metre to $160 per square metre (gross) mark. This is a significant decline from the peak of the market when sales reflected rates of $250 per square metre for similar sized lots – a drop of approximately 40% to 50%.

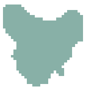
Reduced cash flow and an oversupply of developed vacant land are largely contributing to the general lack of demand and reduction in values. A recovery in the vacant land market in Townsville may depend on a more widespread recovery of the local economy.

....entry prices for near new industrial units start at around $500,000 with sizes ranging from 250 square metres to 800 square metres....

Outlook

Overall the industrial market remains more balanced than the general commercial market. We consider that mining has again influenced our manufacturing and engineering support service, along with other factors including affordability, lease terms and funding.

Economic circumstances will continue to dictate the state of the Townsville commercial and industrial markets over 2013. Nonetheless, we see the current downturn as a temporary setback in activity rather than a trend due to Townsville's strong economic drivers and the overall diversity of its industry. $59 billion worth of major projects underway and planned will result in a large amount of construction activity going forward. In addition, Townsville's strong population growth, the relatively low interest rate environment and the relatively low level of available prime improved stock are factors that will, in combination, assist in underwriting demand for industrial floorspace going forward.



Tasmania

Here in the apple isle we are expecting the next 12 months to be very much like the last.

The recent announcement by the Federal Minister for the Environment, Mr Bourke that the 'Tarkine' will not be heritage listed will encourage the mining sector and those industries that feedof it; especially in the west and north west sectors of the state. The continuing under lying weakness in the state economy does not bode well for the short to medium term.

The contractionary state government budgetary position, historic high value of the Australian dollar and cost of shipping to the 'big Island' (and consequently the hub for national and international markets) is putting pressure on many industries.

While not trying to be too negative a broad brush example of the industrial market weakness can be gained from comparing the calendar years of 2008 (year of the GFC) and 2012. In 2008 there were 332 industrial property transactions in the state, with a maximum price of $7.5

million. In 2012 there were just 106 industrial property sales with a maximum sale price of $3.12 million.

We envisage 2013 will bring a continuation of a flat property market. The supply of vacant sheds to the market across most of the main population centres would suggest rental levels will come under pressure with rent incentives to become more prelevant.

That said a continuation of historic borrowing costs may encourage some tenants to purchase a premise and perhaps give some stimulus to the market; especially if the SMSF sub $500,000 price bracket.

Darwin

Industrial property in Darwin is the sleeping giant which may very likely be woken in 2013. The heavily publicised and previously mentioned $34 billion Inpex gas project has increased the labour force in Darwin quite considerably. The increased labour force is heavily made up of civil workers at present as the build phase for the gas plant is swinging into its second year. As well as seeking high numbers of employees these companies are now securing land and improvements to house much of their machinery and operational equipment.

At present local Industrial agents are recording enquiry at the highest levels for some 24 to 36 months. Interest is flowing across the board from vacant parcels of land, to improved, turn key style warehouses. With current uptake it is expected that there will be next to no vacancies of larger industrial facilities by mid 2013.

Design and construct (D&C) deals are still proving hard to come by and the commercial viability of these projects with current land prices is being hindered by the market rentals. We would assume that rental rates will need to increase by a minium of 15% from currently achieved levels to allow these projects to get out off the ground. We note that the market rentals have remained fairly stagnant for some 24 to 36 months. It appears that the pain for the tenancy market will extend from the residential sector into the industrial sector as the squeeze for space from Inpex related companies continues.

With so much of the Inpex project still ahead of the Darwin market we consider that the industrial property sector will experience a sound 2013. With more vacant land being released in well designed pockets, it is quite likely that we will see increased market rental rates and some newer facilities hitting the market.

Perth

The outlook for 2013 remains positive for the industrial sector as the primary driver in growth continues to rely on the performance of the energy and resources sector.

With a major focus on iron ore in Western Australia, fluctuations in its commodity price have a strong bearing upon future investment decisions by associated companies, as well as general consumer and business confidence. However despite these fluctuations along with prolonged global economic uncertainty, Western Australia is still going from strength to strength and experienced 14.7% growth over the previous financial year.

....with a major focus on iron ore in Western Australia, fluctuations in its commodity price have a strong bearing upon future investment decisions....

Based on the strength of these resource projects, infrastructure and construction markets will continue to thrive and demand for industrial space that supplies these projects will remain stable across 2013. Additionally, there is over 120,000 square metres of pre-lease enquiry in the market reported at present, particularly by logistics companies and those businesses servicing the resource sector.

New development around the Perth metropolitan area has mainly been focused on land releases in the industrial areas of Henderson, Bibra Lake, Wangara and Neerabup. However the supply of land ready for development, particularly larger lots, still remains the biggest inhibitor to expansion in Perth.

This lack in supply for industrial land across the Perth metropolitan region remains relatively subdued due to the lack of incentive to release large lot developments due to the high infrastructure costs associated with land release in the outer Perth regions. As a result this has seen land values across the eastern corridor increase marginally and new development primarily driven by pre-commitments due to tighter financial conditions. Jandakot airport is one of the few locations that can cater for large scale investment and it is anticipated that 40,000 to 50,000 square metres of new industrial stock will be completed annually over the next five years in this precinct.

With new development limited, as owners are seeking pre-commitment prior to the construction, it is anticipated that capital values will remain relatively stable, with prime-grade assets remaining the main investment focus and hence out performing the broader market.

Rents are anticipated to remain stable over the next 12 to 18 months as companies appear to begin consolidation of multiple premises. It is anticipated that as pre-lease buildings currently under construction are completed, backfill space in secondary grade buildings will become available in the next 12 to 18 months potentially easing supply pressure in the market.

At present the industrial sector is outpacing the release of land and the necessary infrastructure is not in place to cater for large industrial developments across Perth. As a result demand is likely to continue for premises' and land situated in more traditional and well connected industrial areas as these areas show the most growth potential.

Land values are generally expected to remain stable across 2013, although due to supply restraints demand led growth may emerge in tightly held traditional industrial markets that are well serviced by infrastructure. These factors as well as the ongoing resource sectors growth means the industrial outlook remains positive yet stable for 2013, however economic conditions, commodity prices and the impact on business confidence have the potential to impactthe local industrial market.

....the industrial sector is outpacing the release of land and the necessary infrastructure is not in place to cater for large industrial developments across Perth....

South Western WA

There are many infrastructure projects planned in the South West of Western Australia to cater for the above average population growth in the region.

Projects in the greater Bunbury region include:

- The expansion of the Kemerton industrial area by some 995 hectares with appropriate buffer zones.
- The Bunbury Port Access Road (completed).
- Stage 2 (the central section) of the Bunbury Outer Ring Road has already commenced and is due for completion mid 2013.
- Plans have been submitted for a 175 hectare industrial development known as the Quadrant Industrial Area 7 kilometres south east of Bunbury and adjacent to the new Bunbury Outer Ring Road.
- While it is still a long way off there are plans for a Fast Passenger Rail Link between Perth and Bunbury along the median strip of the Perth to Bunbury Highway which will eventually continue onto Busselton.

These projects are sure to have an impact on industrial development going forward and to further establish Bunbury as a major centre and the gateway to the south west of the state.

Projects in Busselton include:

- The expansion of the Busselton airport to interstate and international status. This is likely to see a significant increase in the number of tourists flying directly to the region, as well as allowing for expansion of fly-in-fly-out services to the mining areas.
- Adjacent to the airport there is a proposed industrial area.
- The Busselton bypass is proposed to be continued onto Dunsborough.
- An outer ring road is also proposed for Busselton.

The projects in Margaret River include:

- A bypass road diverting heavy traffic out of the town centre.

While there is currently considered to be more than adequate industrial land available in the South West the above infrastructure jobs are likely to facilitate access to the existing industrial areas as well as providing for future development of industrial land to cope with the potential future population growth to the region.

Esperance

The market in the Esperance commercial and industrial area has indicated a very stable level of consistency now over the preceding two to three years. A regular turnover of property for both investment purposes and owner-occupation has occurred providing some confidence in this market. The market will in our opinion remain sound due to the stability of the surrounding district and extent of development planned for this region over the following years.

The driver for this demand is a large amount of infrastructure development in the region with, among other things, the ring road and rail realignment in progress and due for completion within the next 18 months. From there, the port is to undergo further expansion and completion of an iron-ore facility. An extensive foreshore redevelopment has just commenced, the local primary school has been rebuilt and the hospital is to undergo extension and redevelopment with a further medical centre constructed. The relatively strong rural and tourism sectors in this region should also assist in maintaining a stable market over the longer term.

CBD Commercial

The tightly held nature of property within the Esperance town centre has resulted in only a handful of sales over the preceding three years. An example of the consistency however is 11 Andrew Street selling for $1.2 million in

2009 and the adjoining, nearly identical property at 9 Andrew Street selling for the same amount in March 2012. For those interested, the latter sale was purchased by one of three sitting tenants with a passing yield of 5.21% and analysed yield after adjustments of 6.84%. Typically, yields within the town centre vary around 7.5% over the longer term.

As with most country towns, owner-occupied premises tend to attract a lower yield or alternatively a bit more of a premium over straight investment properties. The low volume of sales is largely a factor of limited supply with little to no properties available for sale within the town centre.

Industrial

Chadwick is the industrial precinct of Esperance with predominant usage for mainly light industry or retail industry such as motor vehicle and machinery sales and repair, agricultural sales and light manufacture. Properties along Norseman Road attract the premium values for their exposure and accessibility to our main arterial road with capitalisation rates typically between 7.5% and 8% in the area.

Of particular note is the steady volume of sales that has occurred over the preceding two to three years for what is a relatively small market. The consistency in values and yields for the few investment properties sold (the majority of this market is for owner-occupation) has underscored the stability within this region and suggests a confidence in the broader Esperance region from the strong local industry that is not necessarily being replicated in other parts of the state.

Residential Overview

Interest rates are just one component of most investor considerations when it comes time to acquire property, but they are the universal component that impacts anyone who borrows. At a time of very low interest rates, why is it taking so long for investors to dig into their pockets and start purchasing? In this month's issue we ask our offices to take a look at whether interest rates are affecting their buyer's sentiments, and the bigger question, what is the missing component that would bring confidence back to their markets?

Sydney

The south-west and north-west sector of Sydney traditionally have a large working class, lower income sector centred around the local government areas of Campbelltown, Liverpool, Fairfield, Penrith and Blacktown. We consider that there is a large percentage of property owners within these areas who anxiously wait on the news regarding interest rate movements on a monthly basis. But are the current low interest rates fuelling increased activity?

Many local real estate agents in these areas are reporting January 2013 as the busiest in years. Mortgage brokers are also reporting they are quite busy, with both new loans and refinancing. So there is some evidence that lower interest rates are fuelling more activity in the market, although it is unrealistic to think it is the sole reason.

The current low interest rates combined with incentives provided by the government are seem to be having a big impact on buyers of house and land packages throughout Western Sydney. Also small investors are taking advantage of the low rates, buying property in the west between $250,000 and $400,000. The low rates, coupled with a tight rental market means many investors are able to positively gear there investment.

The acreage/prestige market in the north west has seen an increase in sales activity above $2 million in the past 12 months. Buyers in this market would take into consideration interest rates prior to buying but they are possibly taking a wider look at the economy and what may lie ahead in the next two to three years.

In summary, interest rates absolutely have an impact on the market in western Sydney for many reasons, however it is just one of the many factors that can affect the market and its cycle.

Botany

Interest rate movements can often have a large impact on the level of valuation work received in the Sydney area. We see trends of higher job numbers for lenders who have cut their rates more than others, and this has obvious reasoning behind it. In the past year however, such a clear trend is no longer visible, with market sectors and price levels behaving differently to rate movements.

It is generally agreed that properties up to $1 million in the Sydney area are more heavily influenced by a rate movement. Owners in this price bracket tend to have lower incomes compared to the higher-end market owners, thus any savings in interest payments is more influential to them. When interest rates first started their decline we saw plenty of movement in this price bracket with the result of a strengthening property market. This price bracket also incorporates first time home buyers who jumped at the opportunity of lower interest rates and we saw a rush in this sector of the market also. Investors were also lured back into the market. Rising rents with lowered interest rates are certainly attractive to any investor in the market and there has been evidence of this, especially when rates first started to move.

In the past six months further lowered interest rates have had minimal impact on the market. It appears that interest rates may have reached a point where any potential purchasers have either jumped into the market already, or simply just can't afford a deposit to take advantage of the rates. It could be said that any further rate cuts are not likely to have any dramatic affect on the real estate market. Rather people may have a little extra savings to help buoy other parts of the economy.

It would be very bold to say that there is a price point or market sector where there is no regard given to interest rates. Sydney's higher value property markets probably show the least evidence of strengthening/weakening when rates move. This is due to a variety of reasons but essentially comes down to disposable income. Generally speaking, small movements tend not to make a difference to higher income earners. This being said, you can guarantee that there is always some regard to rates, it may just take larger rate fluctuations before we see movement in the market.

Now that interest rates appear to have minimal impact on the market, other factors, such as infrastructure, are being pushed as reasons to enter the market. The inner west light rail nearing completion and the proposed light railway to the Randwick area are two examples of infrastructure currently being put in focus. Selling agents are using these projects in marketing material for properties within the vicinity.

Overall, for the market to significantly improve there needs to be an improvement and regaining of trust in the global economy. If this occurs throughout the year and with improved stability after the elections occur, we may see that historically low rates have more of a positive impact on our markets in Sydney.

Canberra

The question of whether interest rates matter to property purchasers is a complicated one in which there is much debate. There is evidence to suggest that in the Canberra market the cash rate cuts did have some minor impact on certain parts of the market. However any significant effect on the market is yet to be seen.

Given the nature of the Canberra market, being highly influenced by first time home buyers working within the government sector, many had predicted that the interest rate cuts would have a positive impact on the market. In particular, developers had hoped that the high amount of new developments going on within the northern region of Gungahlin would be snapped up quickly with the introduction of the cuts.

There was reason to be optimistic after the ACT had experienced the highest rise in home loan approvals in the country at the backend of last year and beginning of 2013. Home loans rose 9% to its highest in five years in the ACT with further incentives being introduced by local government targeting new home buyers. The hope was to push potential buyers towards new homes in place of existing dwellings in older suburbs which in turn would stimulate growth. The response of first home buyers to the cuts was observed, but nothing significant was recorded.

....for the market to significantly improve there needs to be an improvement and regaining of trust in the global economy....

Historically the property market has reaped the benefits of higher consumer confidence. With the cash rate cuts we can expect to see higher consumer confidence. Add that to the lowest loan costs in 23 years and you can be forgiven for expecting an increased demand for property in 2013. However the uncertainties of the upcoming federal election and the decision by financial institutions not to pass on the full interest rate cuts has minimised the impact seen by the RBA's decisions to reduce interest rates.

The most positive impact we have seen as a direct result of reduced interest rates is the opportunity for existing property owners to refinance and restructure their loan arrangements. With some lenders now offering fixed rates as low as 4.99% it gives existing debtors a good chance to secure their home loan at an affordable rate.

Wollongong

Located 90 kilometres south of Sydney, Wollongong feels any affects of the Sydney market albeit slightly delayed. So whatever market trends are occurring throughout Sydney, the Illawarra is about six to 12 months behind. This includes the interest rate climate and how it impacts housing demand and values.

Now this isn't to say that the Illawarra doesn't have its own indicators, it's just that the proximity of Sydney and its commutable distance is a telling factor.

Although interest rates are a big factor and market determinant, local indicators such as unemployment rates, infrastructure projects and the regional economy also drive the Illawarra market.

Generally in the Illawarra we see that in a rising market with low steady interest rates there is an initial movement in the low priced suburbs - the fibro belt. When there is a sustained increase in prices for the lowest priced commodity there is a push along to the middle and eventually the higher price brackets.

Going the other way - when times get tough and interest rates rise, the upper end is the first to notice the market trend down. This eventually filters down to the lower end but takes some time as people will shift their buying preferences down to the next level if the upper end vendors hold on to higher price expectations and remove their properties from the market.

Older units in Wollongong and North Wollongong are a good market indicator of trends in values affected by interest rate movements as there is plenty of stock, they are well located in the CBD and near the beach and university. In this sector 2- bedroom units are generally priced from $250,000 to $400,000 depending on attributes.

In the upper end bracket we generally see the far northern suburbs close to Sydney and Kiama in the south start to feel the pinch first when interest rates bite.

Market revival can be shown by investors re-entering the market accompanied by government grants to assist first home buyers. For example towards the end of 2011 we saw a flurry of activity in the $300,000 to 450,000 price range as the NSW First Home Owners Grant drew to a close. Competition among buyers was hot and houses sold quickly in this range.

The market in the area is driven by a mix of owner-occupiers and investors. With a diverse range of market sectors the value range within the region is similarly divided.

One of the more affordable suburbs in the area is Cringila where the buy-in price is approximately $220,000. This gets you an older style dwelling on a standard size block of land (500 square to 700 square metres).

The higher end of the market place is primarily based in the northern suburbs of the region (e.g. Thirroul, Austinmer, Coledale, Scarborough) where $1.5 million ro $2 million range generally represents the top of the market, and buys you a substantial property with direct ocean views.

This diverse range of property values allows for a wide range of demographics and socioeconomic groups that have varying earning capacities.

This higher echelon of the market place, as in most areas, is driven by dual income families, many of which have one or both parents working in Sydney and commuting on a daily basis.

This group of property owners is less affected by interest rate rises and the escalating costs of living. Within the market place we are seeing very few mortgagee in possession sales at the higher end of the value range.

Although there has been limited capital growth at the higher end there seem to be few distressed vendors at this level. Most property owners in this market sector have been able to hold onto their properties until the market recovers from the low phase of the cycle and once again sees some capital growth. Steady, low interest rate trends are essential to this 'holding pattern'.

The investor driven market in the Illawarra area is still fairly steady. Although the cost of funds is steady at the moment, rental returns have remained strong.

....after experiencing good growth over 2009 to 2011, the regional city of Goulburn is stable....

Overall the continued impact of interest rate cuts are slowly starting to increase activity in the housing market. "The slight pick-up in housing finance indicates that conditions in the housing market may be showing signs of improvement, although annual growth remains soft," St George Bank senior economist Jo Heffernan said (Illawarra Mercury, October 2012).

Southern Highlands

As with all property markets, interest rate movements do impact on the fortunes of the Southern Highlands residential property market. Buyers and sellers are both sensitive to interest rates. The property market has been generally soft and interest rates have been steadily dropping over the past 12 to 18 months. One would expect with these lower interest rates, there would be increased confidence, buyer activity and increasing prices. This has not eventuated. The ongoing influence of world economic uncertainties have impacted confidence across the share and property markets. While favourable, these lower interest rates have just supported the market and kept things ticking over.

The most sensitive buyer types to interest rates are the first home buyers and families. For the Southern Highlands market, this value band is sub $700,000. Government grants and low interest rates have assisted in keeping this market sector steady. This is also the case with new home construction activity at the lower end of the market.

From $700,000 to $1.5 million the market is still soft with extended selling periods. The prestige market is similar. This market has weakened in recent years, with extended selling periods. With the exception of high net worth individuals, interest rates impact on most buyers and sellers across all sectors of the property market.

Southern Tablelands

After experiencing good growth over 2009 to 2011, the regional city of Goulburn is stable. The main active buyer types have been first and second home buyers, investors and retirees. Decreasing interest rates over this time have assisted in the increased buyer and seller activity.

Central, North and West NSW

DUBBO

Although the Reserve Bank of Australia (RBA) did not move rates at its February meeting, rates remain at 3%

which is currently the lowest since April 2009 during the height of theGFC. The last round of cuts was in December 2012 when the RBA reduced rates by 25 basis points. Analysts expect two further rounds of cuts by the middle of this year, potentially putting rates at 2.5%.

What does this mean for our local real estate market? Agents are reporting a shortage of listings in the low to mid cost price bracket (up to $400,000) due to strong demand from investors in the market. The low interest rates coupled with Dubbo's recent publicity as an investor hotspot in a number of media reports has resulted in a shortage of stock across town with agents unable to keep up with demand from buyers. The shortage of stock is resulting in bidding wars between buyers pushing the value of low to mid cost houses upwards.

The low interest rates have also helped turnover some prestige high cost properties which had previous been on the market for extended periods of time. A recent sale of a residential property in Dubbo's well regarded Regand Park Estate for $770,000 has been the highest residential sale since January 2010 when a property in Delroy Park Estate sold for $920,000 (still Dubbo's highest ever residential sale).

Newcastle

It's notable that the interest rate decreases have had a mixed degree of success in the Newcastle region, but it's always difficult to monitor that actual effect on the economy as it's simply too early to tell. In our experience it takes a minimum of six months for an interest rate decrease or increase to filter through to the economy in a measurable way for Valuers. This allows for purchasers to source a property, negotiate the purchase, settle the purchase and then for those stats to filter through the official channels. Considering the last raft of cuts occurred in October and December and there has been effectively a month in December and January where things shut down, there simply isn't enough time to gauge the changes that may have occurred.

....good indicator of confidence is the emerging shift in sales of higher value properties....

The beginning of the year has started off in a steady fashion with transactions occurring and many purchasers bemoaning the rising cost of purchasing property. This is not really coming through in statistics as of yet nor is it being borne out by the valuations conducted by this office for purchase purposes. What it possibly highlights is the high price some vendors are placing on their property and what it is being advertised at. Many of the asking prices appear at best optimistic and in many cases quite insulting. Of course purchasers don't see what these properties eventually sell for, they only see the high asking price and equate that to the value. In many cases this is to their detriment.

As a valuation department we have some concerns over the feverous building activity occurring at Gillieston Heights and in that general location. Many properties that are being purchasedin this location are house and land packages, with the sole intention of the purchaser to rent that property as an investment. That's all fine and dandy, especially in a market where rentals are in short supply. However talking to property managers in the area, they now have a large surplus of stock available for rent and the existing high rental rates are falling and the supply is outstripping demand. Purchasers that are relying on a rental return quoted 12 months ago when they embarked on their investment might be disappointed that this return is not achievable today. The decrease in interest rates might assist here with lowered repayment commitments, but the moment interest rates increase again, some of these owners could be under stress.

Many of the houses that are being purchased in these locations off the plan are basic in design and finish, with minimal landscaping and in general limited appeal. They are designed for investment purposes with very few frills. Once these houses age a little, their appeal will be significantly less than at present and whether they hold their present value is an unknown factor. There is an appeal in living in a brand new house; there is less appeal in living in a basic ten year old house which marks easily and shows wear and tear.

Overall interest rate reductions are always good for purchasers and it's generally hoped that the market is stimulated accordingly. As it's too early to tell statistically, anecdotally activity levels are still fairly subdued across the board.

NSW Central Coast

As we know, interest rates have been coming down and we wonder whether this is having an effect on the real estate market. Let's look at several performance indicators on the Central Coast.

The first and perhaps one of the more significant indicators is that the phones have been ringing with recognisable voices (that we have not heard from for some time). Starting just before Christmas 2012 we have seen developers cautiously take their first step forward steps in years, entering back into the local Central Coast market with enquires for villa/townhouse and unit development sites. With this increased activity, we detect a sense of confidence coming back into the Central Coast property market. We attribute the reduction in interest rates over the past 12 months playing a role in this. The most interest from developer enquiries for unit sites include the prosperous suburb of Umina Beach and Gosford with talk of a more units proposed in and around Gosford.

Another good indicator of confidence is the emerging shift in sales of higher value properties. It's only early days yet and data confirming this should be coming through in the next month or so. Sales of higher value properties, more than anything is where the prosperity begins and ends for the real estate cycle as buyers upgrade and sellers move on to something better again. The segments below the high value have no choice but to go with the flow.

With the New South Wales government winding back the First Home Owners Grant Scheme to now only include grants for the construction of new homes, we have seen a decline in activity from first home owners buying existing homes since the grant ended. The reduced interest rates are considered to be the key factor for first home owners continually entering the market on the Central Coast, particularly at the northern end. Over the past 12 months the sub $400,000 market segment has performed relatively well with known increases in sale volumes from 2011 to 2012. Stand out performers include Long Jetty, Lake Haven and Noraville, having all shown markedly increased median values. To us, this reflects confidence is seeping back into the market and we can only speculate that a large percentage of the buyers are from the Gen Y first home owners taking full advantage of some of the lowest interest rates in decades.

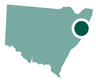
With recent declining interest rates, buyer confidence on the Central Coast has increased and is trending towards a competitive buyers market. Local real estate agents are at the front line when it comes to noticing these spikes and have commented on more numbers at open houses and general enquiries as well as evident decreases in listing times over the majority of the property market, most notably for entry level properties. It is interesting to note that a large portion of interested parties are coming from 'mum and dad' investors who are taking advantage of rate cuts.

To illustrate the stabilising effect that interest rate cuts have had on the Central Coast it is interesting to look at sale volumes and median prices over the past 12 months. Suburbs showing positive increases in sale numbers and median prices outweigh those with a neutral or negative effect. Good median price increases have been noted for Chittaway Point, Koolewong and Summerland Point with the traditional steady performer suburbs trending to the same effect. As an example constant volume of sales in Umina Beach on the Central Coast's southern peninsula averaging 304 sales per year over the past three years.

Perhaps as a temper to all this, is the less than expected new home starts. We would have expected the revised first home buyer incentive being offered for new homes to spark an increase in this very important sector. But not so. Our in house records show that as yet, a tangible increase here has not occurred yet. This may be putting the region at odds with other developing regions, such as Western or South Western Sydney and parts of the Hunter, and we can only guess that the situation will remain so until more land is released.

....the uncertainty of the full interest rate decreases being passed on by the banks have tempered buyer's interest....

Have rate cuts caused any interest? Our records and observations would suggest it has, but at a slower and more cautious level to precursors seen in previous cycles that ultimately led to bull markets.



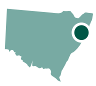
NSW Mid North Coast

For the Mid north coast the answer is both yes and no. For residential properties we consider that there is some renewed interest, however the retail, commercial and industrial markets remain soft with little renewed interest or change since our January 2013 report.

The decreases in interest rates have historically resulted in a slightly renewed interest in residential properties. However the uncertainty of the full interest rate decreases being passed on by the banks and the impending, yet distant, federal election have tempered this interest. In the commercial sector, businesses are still finding trading exceedingly difficult.

We have seen a slight increase in sale rates and demand for the lower residential properties in the larger towns of the region, including Port Macquarie, Wauchope, Kempsey, Taree, Forster and Tuncurry to date in 2013. Those properties showing some renewed interest are generally at the lower end of the residential market and include sub $400,000 (for dwellings) and between $200,000 and $250,000 (for units). However we are yet to see any major increases in values for these types of properties. Increases in values may start appearing once current stock is sold with new stock entering the market at slightly higher asking prices.

For the mid to upper value properties, demand has generally remained, at best, static with slow sale volumes and extended selling periods still the norm, unless the property is priced competitively (compared to other similar quality properties) and considered 'a bargain' by potential purchasers.



NSW Far North Coast

Interest rate movements have traditionally played a role in the buying/decision making process for the residential market on the NSW north coast. However, there are also other issues to take into consideration when assessing the impact that rate movements have on the property market.

Sensitivity to interest rate movements was evidenced during the period of mid 2010 to mid 2011 when the RBA cash rate increased a total of 1.75%, bank standard variable interest rates increased 2.05%, risk policies continued to tighten and additional rate margins of up to a further 3% were being charged to some bank customers. Since this time demand for property on the NSW north coast has slowed and values have softened.

However, it has been evident since the beginning of 2012 that fiscal policy is not the sole controller of the buying/decision making process for the residential market on the NSW north coast. Since April 2012, the RBA cash rate has been cut a total of 125 basis points (1.25%). Although interest rates reduced, the residential market continued to soften over the 2012 calendar year.

There is some argument that market confidence has been affected by the hesitancy of lenders to pass on the full RBA cash rate reductions (as noted in the recent 25 basis point reduction in October 2012 and December 2012 which takes the official cash rate to 3%).

....within most regional centres there is a barrier for most vendors selling properties over the $350,000 level....

However we consider that it is a combination of these funding issues, the potential of interest rate increases, reduced consumer confidence, a sluggish performing local economy (which relies heavily on tourism, rural industries, retail and construction), continuing uncertainty in the global economic market (i.e. the recent US 'fiscal cliff') and increasing unemployment which have impacted buyer's appetite for purchasing real estate.

In summary, interest rate movements have not had a large impact on the north coast residential property market. The key attraction for buyers over recent times has been more affordable price points. There is a general perception that property prices are currently at their lowest. It is this perception with a combination of low interest rates, settling global and local economies and most importantly increased buyer confidence, that stability should re-enter the north coast residential property market.

Coffs Harbour

There is a low level of building activity and low turnover of vacant land sales due to the lack of demand in Coffs harbour. There is limited profit incentive for 'spec' builders due to increasing building costs and easing prices for new product. The falling interest rate climate has not stimulated market activity to date.

There is a number of mortgagee sales still being registered. Some real estate agents are reporting increased purchaser enquiry with steady sales volume up to $700,000. However over $700,000, there is high supply against poor demand. There have been a number of sales in the premium million dollar price bracket which reflect discounts of between 16% to 30% from previously established price levels. There remains very limited demand for unit development sites.

Rural Residential

Sectors of the rural residential market in Grafton environs are being confronted by coal seam gas exploratory drilling. There is a degree of emerging market resistance to these locations as the various issues are publicly canvassed.

Southern NSW and northern Victoria

ALBURY

The Australian Reserve Bank's official cash rate has stood at 3% since the beginning of December, dragging down real borrowing costs below their long-running average rates. However as most households are still heavily in debt it is not surprising that on the whole they are not responsive to low interest rates and further borrowing a fact reflective of the current property market in southern New South Wales and northern Victoria.

Regional markets usually lag behind their metropolitan counterparts and any movement in the Melbourne market has yet to be reflected further afield. House prices on average have yet to reach their pre-GFC heights and high end properties outside of the main regional centres, being particularly sensitive to slow markets, are experiencing longer selling periods. Purchasers are seeking refuge in low to mid end properties and residential units sales also remain robust.

Within most regional centres there is a barrier for most vendors selling properties over the $350,000 level. This phenomenon has existed throughout 2012 and into 2013 and has persisted through interest rate cuts as potential purchasers are not prepared to breach a borrowing threshold in the current economic climate.

The one exception within the southern New South Wales and northern Victoria region is Albury city, which has experienced increased demand in primary locations close to the town centre and the family friendly suburb of Thurgoona. Although interest rate cuts passed on the by the major lenders may influence certain sectors of the market, it is complimented by Albury's robust micro-economy and positive perception amongst the city's residents. For the other centres to follow Albury's lead an increase in public confidence is necessary accompanied by a general reduction is household debt. For local exporters to become more competitive internationally a weaker Australian dollar would assist to this end.

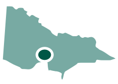
Within the region the low Official Cash Rate (OCR) has on the surface had little effect on the residential market as a whole, highlighting that monetary policy should aim to influence public perception rather than encouraging them into actual action.

LEETON / GRIFFITH

What makes the biggest difference in our little patch is confidence. Buyers need to feel optimistic about the future of their local economy and in particular their employment stability and prospects. Low interest rates are not enough to entice people into a long term commitment as people understand they are going to fluctuate over time and they need to feel comfortable with the bigger picture. The first home buyer market is the most sensitive, young players find it hard to commit and it does not take much to make them defer their purchase decisions and continue flirting with alternatives such as renting, travelling or upgrading their motor vehicle instead.

The biggest impact on our property markets is the agricultural sector. Our region is heavily relient on agriculture and the outlook for our property markets is influenced by what is happening in our agricultural market place.

For markets to improve in the Murrumbidgee Irrigation Area people need to feel positive about the future of economy in the longer term. Instability surrounding water entitlements and its impact on the economy needs to settle.



Melbourne

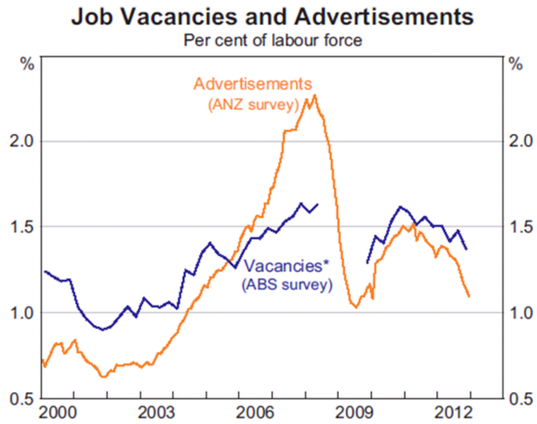
Purchasing a home will be the most single expensive purchase in a life time for most Australians and their families - 'The Great Australian Dream".

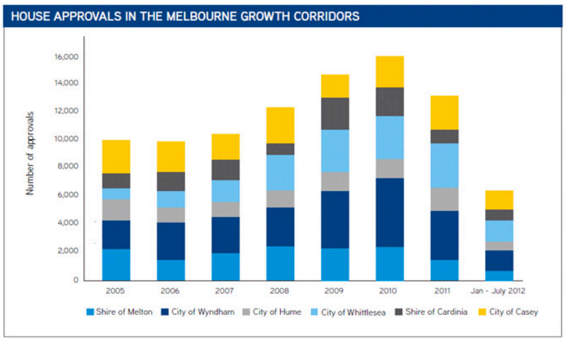
While there is no argument about the overall impact on the long term cost that interest has on a mortgage, it can not be said to be the only factor when considering a home purchase. In the past 12 months we have seen an unusual event where multiple interest rate reductions do not appear to have spurred on the residential market in the same way they have overprevious times.

Efforts of the RBA to stimulate the home finance sector in 2012 appear to be having a mixed effect on home loan approvals within Victoria while also considering incentives (first homebuyer reduction and stamp duty savings) being added and removed during the year.

The tightening of credit controls by the banks, and the uncertainty around medium to long term job security, are likely to be at the heart of buyer resistance to be enticed by the offer of cheaper money……… for the moment anyway.

The impact of consumer sentiment / job security is clearly reflected in the decline in approvals for home loans for properties located in the growth corridors of Melbourne and the first home owner markets. Job security is a major influence and the subdued property markets can have a strong correlation as perhaps evidenced by the graphs below.





Source: Australian Bureau of Statistics

The growth suburbs (first home owner markets) are among the most sensitive when it comes to changing interest rates due to the uncertainty of rates matched with the fixed incomes of residents in such areas. In these markets families are usually borrowing to their maximum capacity and interest rates changes can correlate directly to the families weekly expendable income amounts and impact day to day living standards.

Mid-tier ($1 million to $2 million) residential markets in Melbourne have also failed to react strongly to the lower interest rate environment. These markets have been traditionally less sensitive to interest rates in comparison to the first home owner market. Examples of this can be summarised below

- 5 Orion Street, Balwyn North which sold for $1.7 million to an overseas purchaser and re-sold again for $1.48 million in November 2012.

- 27 Duggan Street, Balwyn North which sold for $3.125 million in December 2011 and re-sold again for $2.8 million in June 2012.

Mid-tiered suburbs such as Balwyn and Balwyn North have experienced a steeper reduction in value over past years in the order of 10% to 15% in some instances. Factors contributing to this include reduced consumer confidence, tightening of foreign investment regulations, high exchange rates and uncertainty with the up coming election.

Regional Victoria

SALE

Wellington Shire and Latrobe Valley

Unlike previous years the current interest rate cuts have had minimal to no impact on the property market in the Latrobe Valley and Gippsland regions. Even though we have had several interest rate drops in recent times the property market has remained slow to stable. People are remaining more cautious with their money with a drop in housing demand more specifically at the top end $400,000 plus.

With interest rates having minimal impact, the things that are affected in today's climate are job security, future growth and supply and demand.

Overall we are of the opinion that further interest rate cuts will have minimal impact in the next 12 months, with the market anticipated to remain stable with minimal movement.

Baw Baw Shire

In the mid Gippsland/Baw Baw region the impact of interest rate cuts in recent months is uncertain. There are mixed signals within the various sub markets throughout the general area. The uncertainty surrounding economic conditions has had the most impact on sales activity over 2012. The lower end of the market, in the sub $200,000 area, while slower has not been dramatically affected. The mid, more aspirational price range is where there has been the most buyer resistance. The top end of our market has showed mixed signals. Some higher priced property has not sold, while others have sold very quickly.

Discussions with clients indicate buyer hesitation among those who need to take on a large loan to upgrade their home, where those who are financially secure are seeing opportunities to purchase. Anecdotally it would appear that economic uncertainty is having more impact than interest rates. Over the past two months there has been an upturn in sales activity, but any push from rate cuts has taken quite awhile to materialise.

Throughout the region major construction work has slowed and large numbers of trades people are working interstate. These people are generally high income earners, and the subdued local conditions have caused some reluctance to make major purchases.

East Gippsland

Interest rate cuts have had minimal impact on the East Gippsland market. Buyer hesitation and economic uncertainty made for a slow to steady 2012, and this is expected to continue into 2013. Any increase in sales tends to be from vendors expectations coming into line with market conditions rather than lower interest rates. This is particularly evident in coastal areas around Lakes Entrance and Paynesville.

The Bairnsdale region has remained reasonably stable, with little to no increase in sales evident after interest rate cuts. Construction work has slowed somewhat, and properties above the $400,000 mark generally experience extended marketing periods.

BENDIGO

With regional unemployment remaining below the national average, relatively low mortgage interest rates, continuing strong population growth within the region and optimism about the economic flow on effects of the forthcoming $800 million Bendigo hospital project, the residential market has held steady after growing by around 5% in 2012. Turnover however declined by roughly 25%. Homes in the sub $300,000 range in established suburbs with good access to schools and services remain in demand, although there has been a slackening in the new home segment.

....any increase in sales tends to be from vendors expectations coming into line with market conditions rather than lower interest rates....

Of note was the failure to sell Fortuna Villa, a circa 1850s 60 room mansion which may be the most tangible example of the enormous wealth generated by the 19th century gold rush. Offered for sale by tender by the Department of Defence, six tenders were rejected, with a further three tenders received after the deadline. It had reportedly been valued at $3 million (although not by us). It is expected that a fresh tender process will commence later in the year.

ECHUCA

The low interest rate environment and expectations for them to remain low in the short to medium term appears to have spurned significant interest in the local market with most agents reporting good levels of enquiry and strong sales numbers. In particular there appears to have been more confidence for buyers to push into the higher price brackets given the lower repayment rates associated with lower rates. Given the historical lows it will be interesting to see how much of the take home income of buyers is now being committed to mortgage repayments and what impact an increase would have were it to occur, as the cyclical nature of the interest rates dictates it must (eventually). Nevertheless buyers appear to be taking the opportunity as it has presented locally - particularly with improved interest from Melbourne providing come bouyancy for the market.

MILDURA

Interest rates have declined substantially during the past 18 months however market sentiment in the Mildura region has remained weak. Concerns about job security and the lack of confidence in the national economy seem to be outweighing the historically cheap interest rates on offer, and anecdotal evidence suggests existing home owners are choosing to pay down debt, rather than trade up to more expensive housing.

....the cheaper money and relative affordability of our property is seeing dividends for agents in 2013....

We have seen significant interest from investors in new housing during the past 12 months, and continued low interest rates are likely to have assisted this. Anecdotal evidence in January and February suggest that there may be more confident outlook in the property market, which is long overdue in this region.

Adelaide

We believe that the interest cuts over the past nine months have started to have a positive impact on sections of Adelaide's residential property market. Towards the end of last year and continuing this year there appears to have been an increase in the volume of sales transactions, with agents also reporting noticeable increases in foot traffic at open inspections and an overall increase in interest in the property market. Although at this stage we don't have the statistics to back this observation up, it appears that there may be a slight improvement in the number of settled sales since November last year.

There have been no significant increases in capital values as yet however the excess stock that has remained on the market during the period of the downturn needs to be absorbed before capital values will begin to show any sign of improvement.

Buyers remain cautious, however interest rates are at all time lows and the general feeling is that they are unlikely to increase significantly in the short term, in fact there is speculation that the Reserve Bank may cut them further. So in conjunction with housing being more affordable than it has been in recent years, and speculation that the property market reached the bottom of the cycle last year, maybe 2013 is the year to consider purchasing a property before values start to increase again?

The lower end of the market is the most sensitive to changes in interest rates and in Adelaide this is the outer northern and southern suburbs. In the current economic climate job security also has a significant impact on this sector and at the moment this is offsetting the low interest rate to a fair extent.

In general property worth less than $800,000 is sensitive to interest rate movement, and second and third home owners that have been concentrating on paying down debt may find themselves in a good position to upgrade to a better property in the current market. For this reason we believe that this is the sector that will be active during 2013.

The upper end of the residential market above the $2 million mark appears to have very little sensitivity to interest rate levels especially around the historically low levels that prevail. If interest rates were to rise significantly then that may have some impact on sales at this price point, however interest rates are not expected or predicted to increase to anywhere near this level in the foreseeable future.

Brisbane

We in Brisbane have been wondering why the flaunty little number that lower interest rates are hasn't tempted more people into our market before now. We came off a horrible 2011 and into a mediocre 2012. Toward the end of last year there were some glimpses that things were getting better but everyone was stalling a little over the Christmas period as always.

Well February has brought back the regular market and interest rates have a part to play.

The cheaper money and relative affordability of our property is seeing dividends for agents in 2013 – particularly for the entry level stuff in prime locations. Areas such as Ashgrove and Auchenflower are enjoying a resurgence and, as one of our valuers found out from a local agent, listing times are often less than a day. The advice is if you are in the market to buy a starter house in one of the blue chip areas, its best if you arrange your finance early and get on with the job because buyers have come out of the woodwork for this stock, particularly in detached housing.

Entry level in less prime areas is still garnering some appeal but with less desperation. Mortgage belt localities such as Stafford Heights are seeing better numbers at open homes and are more likely to achieve multiple offer situations, but vendors must still be prepared to avoid getting over-excited. There is probably some price movement on the horizon in these areas but not just yet.

If you head further out, buyers are spoilt for choice at this price point. The high level of stock and high proportion of mortgagee in possession sales means that buyers still have the pick of the bunch in areas like Narangba. Sellers who are willing to bow their head and accept what the market is telling them should get a sale but the greedy ones will be left begging.

In the mid priced family buyer market there is a more discerning air to the purchasers. They still want to get some value for money. Lower interest rates do mean a little more money in the pocket but they will have a tick list of must have features and this desire may override any impetus seemingly created by cheaper money.

As usual, the Brisbane prestige sector cares not for interest rate movements. The majority of these buyers are not in a position of being highly leveraged and highly risky. Most of those operators have been sorted through in the past few years so at these rarefied heights, buyers will be highly discerning and expect plenty for their dollar.

A further fallout from the lower interest rates is that financiers seem keener than ever for business. There has probably been better opportunity for first home owners and those trying their hand at property investment to get attractive terms on their finance and play off banks against each other. With the help of their brokers, these purchasers are able to take advantage of the lower interest environment in order to kick start their portfolios.

Gold Coast and Tweed Coast

The northern corridor has traditionally been seen as an ideal area to buy property for both first home buyers and investors. Affordable price points in this area have generally been the key attraction. Interest rate movements still play a role in the buying/decision making process, however, there are also other issues to take into consideration. Overall, the market has been fairly static over the past six months, and if interest rates were to significantly increase in 2013, it would be difficult to see any improvement in sales activity.

Property priced above $500,000 within suburban areas such as Pacific Pines, Oxenford, Upper Coomera and Ormeau appear to be most affected by good/bad news within the northern corridor of the Gold Coast. Traditionally we see most sales activity within this region range between the $200,000 and $400,000. When there is negative sentiment within the local market, this $500,000 plus sector can withdraw very quickly.

....at present, we are witnessing signs of slow improvement of market activity so far in 2013....

Over the past 12 months it appears the interest rate cuts by the Reserve Bank of Australia have had limited impact on the state of the property market within the northern corridor of the Gold Coast. There has been slow to steady local and interstate investor activity, however first home buyer activity has been much more subdued. we would have expected much more first buyer activity in this area due to recent rate cuts over the past six months, however from our personal view we have not witnessed any significant trend.

Discounting interest rate movements, positive/negative media, soft/tight lending criteria and the obvious factors such as supply/demand are just some of the things which have caused movement in the market over the past few months.

To improve the market within the northern corridor of the Gold Coast, buyer confidence is imperative. At present, we are witnessing signs of slow improvement of market activity so far in 2013 but we think the market could possibly be boosted if lending positions were less stringent, and if there was less negative sentiment in the media.

Southport to Paradise Point

There has been a big sigh of relief from home owners but overall interest in the residential market does not appear to have improved as a result of the movement in interest rates over the past 12 months. From what we have seen, property owners are treating this time as an opportunity to renovate or update their home now that they have a little extra cash in their pocket at the end of each month.

A welcome relief - yes, but there is still a dark cloud over the Gold Coast. The unemployment rate figures released by the Australian Bureau of Statistics for December 2012 confirm, with no surprises, that unemployment on the Gold Coast remains high at 5%, and despite local newspaper hype, development construction is yet to take off again.

To further dampen the situation, two Gold Coast regions were recently ranked as the worst performing regions for mortgage delinquency, according to the latest Fitch Ratings Australian Mortgage Delinquency report for the six months to September 2012. Previously ranked at 5th and 6th in the March report, these regions are said to have improved in line with the national trend - but not at the same pace as other regions.

Although we have definitely seen a decline in mortgagee in possession sales in the past six months, there are still a number of unit developments on the Gold Cost in the hands of receivers. These developments are setting the price levels for resale units and will continue to do so until all developer stock is sold out. Due to the large volume of unsold and unsettled developer stock across this market segment, it will be some time before we see a recovery in the apartment market.

The Ephraim Island development at Paradise Point is just one example. Developed in stages since 2005, Ephraim Island is located on, and comprises of, an exclusive, security gated manmade island located with the Broadwater, containing a total of 384 units in addition to a marina and a high standard of common facilities.

During 2012 the developer released 60 unsold units under fire sale circumstances further compounding on very fragile market conditions.

Details of the reduced value levels of resale units within this development since January 2012 are below:

Lot	Previous Sale Rate	Sale Price	Recent Sale Date	Recent Sale Price	Percentage Decrease
2103	03/03	$990,000	10/12	$650,000	35%
2501	03/03	$2,350,000	10/12	$1,360,000	42%
2508	03/05	$1,080,000	07/12/	$830,000	23%
5504	02/08	$1,250,000	10/12	$650,000	48%
6502	09/07	$740,000	01/12	$480,000	36%
7104	03/03	$1,160,000	04/12	$700,000	40%
7403	10/04	$1,190,000	06/12	$620,000	48%

We are aware that a handful of units within Ephraim Island were placed under contract this year at less than 40% of their previous sale price.

It is not so much the recent drop in interest rates as what's happening on the ground that seems to be creating more interest, particularly in Southport and the surrounding localities of Labrador, Parkwood and Arundel.

The new Gold Coast University Hospital (GCUH), which neighbours Griffith University, is nearing completion and is anticipated to be in full swing by September this year. Marketing agents of the Sphere Master Planned Community which is being developed on a large infill parcel just to the east of GCUH, report that demand and enquiry in the first quarter of 2013 is the strongest it's been in the past 24 months. With a poor sales performance over the past three years, receivers and managers were appointed to this development in April last year; however, it now appears it is turning around with recent reports of a couple of units re-selling for prices within 5% to 10% of those paid for them "off the plan" in 2007. Further, 100% occupancy is reported for those units managed in the letting pool.

Like the new GCUH development, the Gold Coast Light Rail System appears to be creating interest. Although we are yet to see commencement of construction on the stations, laying of the tracks is now well and truly underway and property located in proximity to the track is spending less time on the market and selling near to, if not at, their list prices.

Although we probably won't see any definite uplift in the market as a result of this infrastructure spending for another 12 months, it is welcomed positively in an otherwise dreary looking market.

Central to southern Gold Coast region

With the RBA cutting the official cash rate to 3% the property market on the Gold Coast has experienced more sales activity, especially in the early part of 2013. In this current market real estate agents are advising that properties that are priced right have an average selling period of one to two months. With the fall in interest rates potential buyers are acting early and believing that it is a great time to buy and more competition among buyers is becoming more common.

We also note that any positive change in consumer attitudes as a result of the late 2011/2012 interest rate reductions have been tempered by the moves of the major banks to independently raise interest rates in February 2012 and/or not pass on the full percentage decrease to consumers.

First home buyers and investors are the most sensitive to the good and bad news in the market, therefore the cut in interest rates has caused more activity from the first home buyers and investors looking for properties in central locations for under $500,000. The rise in activity and sales (there has been no increase in price levels) could be an early indication of the market turning around before prices start to increase. The sector that has no regard to the most recent interest rate movement is the segment of the population who do not have to enter into a mortgage to buy property; these are often middle aged couples and retirees.

Other factors that have impacted market movements in the past is the number of mortgagee in possession sales (MIP sales). The number of MIP sales appear to be declining and we should see a steady reduction of MIP properties which should increase price levels in most sectors.

....with the RBA cutting the official cash rate to 3% the property market on the Gold Coast has experienced more sales activity....

The investor market for highrise units in the Broadbeach and Surfers Paradise region continue to fall due to the large developments (Hilton, Soul and Oracle) falling in the hands of the receivers therefore resetting price levels for that whole sector. Until the remaining stock is sold off, this sector will continue to decline.

On 1 July 2012, the Queensland State Government introduced stamp duty concessions for both first home buyers (no stamp duty for purchases up to $500,000 and a reduced rate up to $600,000) and for non-first home buyers who are owner-occupiers (reduced stamp duty for the first $350,000 and normal rates thereafter). This initiative may act to improve activity in some market segments over the last quarter of 2012.

We believe the property market on the Gold Coast will continue to stay stagnant until half way through the year and improve throughout the second half. Seeing a shift from a buyers market to a sellers market should happen before 2014.

Sunshine Coast

Every little bit helps. In the new world where the costs of living has risen, we have seen people not only tighten their collective belts, but also really take their time when making decisions. So in this climate of downward trending interest rates, home owners have been given a bit of a breather. That is certainly so for the existing home owners. What about potential new home owners and investors?

We have witnessed increased activity and the effect of the lower interest rates in the sub $500,000 housing market. With the rental market being quite strong, the gap between the rental payments compared to the home loan repayment is not as great as it used to be. For example a $400,000 home would rent broadly speaking for $420 per week to $450 per week. For the same property, if you had a deposit and the loan was around $350,000 with a rate of 5.45%, your repayments are approx $500/pw. A difference of $50 per week to $70! This calculation is also working the same way for investors. They are seeing these good returns (and the opportunity to buy in at or near the bottom of the market), so have started to become more active in the market.

Another sector that has also benefited is the sub $300,000 unit and townhouse market. Its not uncommon to see townhouses selling for $220,000 attracting a rental of $280 per week – over 6.5% gross return. There is resistance in the market to units with high body corporate fees as they impact on returns – holiday let units in managed complexes are therefore harder to sell.

The impact of lowering interest rates on the prestige market is minimal with 'other factors' such as business and consumer confidence playing a much bigger part. A strong local and national economy tends to drive the prestige market.

....we have witnessed increased activity and the effect of the lower interest rates in the sub $500,000 housing market....

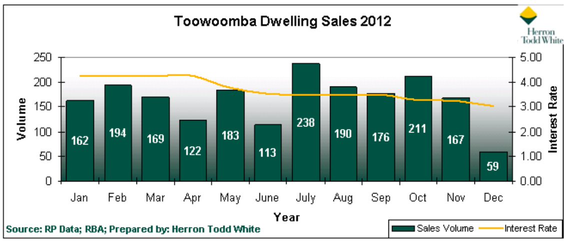
When you think about it, this is the same for all the market sectors. The current increase in activity hasn't just happened after a few interest rate drops. If we don't have confidence in our jobs with solid incomes, then it doesn't matter what level interest rates are at!

The markets need to be driven from the ground up, not the top down. We are seeing this by the optimism and confidence that is being created by the new Sunshine Coast Hospital and health precinct. This major infrastructure project has started the ball rolling and for the first time will put our region ahead of the game. Not only from the jobs created but also the people that will move to the area because of high quality health services. This injection into an economy that has been struggling has to be good.

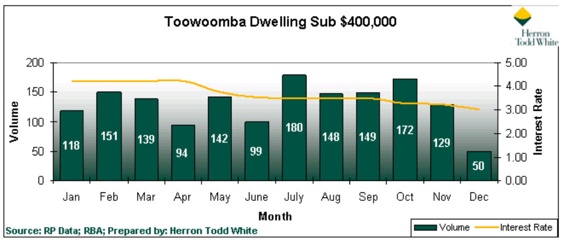
Southern Queensland

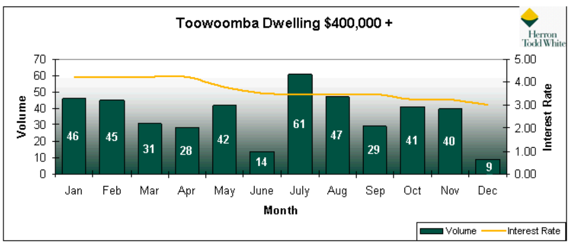
TOOWOOMBA

Dwelling sales volumes within the Toowoomba postcode (4350) for 2012 together with the monthly interest rates are illustrated in the graph below. Sales activity appears to have been influenced by a cut in interest rates. In May 2012, an interest rate cut has prompted an increase in sales volumes and further reductions in the interest rate throughout the year encouraged sales activity particularly in the third and fourth quarter of 2012. The completed December 2012 statistics are still to be compiled.



Further analysis of sales activity verses interest rates has been narrowed to less than $400,000 and above $400,000 price brackets, as evidenced in the following graphs:





The sub $400,000 price bracket would appear to have been more influenced than the above $400,000 price range by the recent reductions in interest rates.

The Toowoomba economy is more closely aligned to general market confidence than interest rate movements. Local economy factors such as agriculture and mining and their associated impacts on local employment have traditionally underpinned price movements in this region.

The towns of Chinchilla, Miles and Roma continue to experience increases in values on the back of strong employment and high incomes associated with the mining and gas boom throughout the Surat Basin. This is in contrast to other areas in the region such as Toowoomba, Dalby, Warwick, Stanthorpe, Gatton and Kingaroy, which have all experienced a downturn in sales activity and values since late 2010.

The investor market remains strong in towns influenced by the natural resource boom given the strong rental demand and high returns currently available.

While interest rate cuts are expected to encourage sales activity, broader consumer confidence is considered a more influential factor that will determine sales activity throughout the next 12 months in this region.

Central Queensland

ROCKHAMPTON

Do interest rate movements matter in the Rockhampton region residential market? Over recent years the interest rates have been relatively low, and movements up or down at this lower end of the interest rate range do not appear to have a significant impact on whether or not a buyer enters into this market.

The residential market in this region is dominated by investors. These buyers are attracted to the region due to a number of factors including affordability, low vacancy rates and increasing rental returns. The majority of the sales activity is in the sub $450,000 price range, with the median sale price remaining fairly steady at about $290,000 since late 2009.

A number of local industries draw people to this region including mining; rural; state government; and education. History has shown that if one of these industries falters it does not have a major impact on the residential market. However, if a number of these industries are negatively impacted, the market will suffer. Such was the case with the GFC. This impact was minimised by the fact that the mining industry remained strong through this period.

Another factor that will have an influence on the local market is the fact that over recent years there has been considerable new construction of homes in the region. The fact is that this will only be sustainable until such time that supply meets demand. Once there is an over supply of homes, vacancy rates will increase and sales and construction activity will slow.

GLADSTONE

Within the Gladstone area we feel the bottom end of the market is most susceptible to good or bad news. History has shown these properties tend to have the strongest correlation to market conditions whether good or bad and market conditions in this area are primarily driven by industrial projects. The current low interest rates have encouraged spending and enabled enhanced borrowing capacity, bringing first home buyers back into the market. The combination of the expected peak construction workforce for the LNG projects (mid to late 2013 / early 2014) and increase supply of housing and units appears to be negatively affecting confidence in the market.

HERVEY BAY

Interest rates have been easing for some time with some economists seemingly perplexed as to why they have not had a greater stimulus on demand for residential property and consumer spending. The Fraser Coast region appears to be typical of many non mining regional areas in which this has been the case.

....the current low interest rates have encouraged spending and enabled enhanced borrowing capacity....

The region relies on agriculture, tourism and manufacturing along with employment by government services. These sectors have been stagnant at best in recent years impacting both owner/managers and employees. Consequently economic and employment uncertainty has been heightened and general confidence has been affected. Easing of interest rates is appreciated by owners but does not directly address the issues affecting home buyers. Some would argue the easing of rates has had an impact – limiting the level to which prices have fallen.

All local sectors appear sensitive to rate movements. The lower and mid price ranges (under $300,000 and $300,000 to $450, 000 respectively) appear to be the most impacted by employment uncertainty and financial insecurity. The upper end of the market is subdued, indicating a lack of demand, possibly due to a reduction in out of area buyers and the reality that many local business owners are struggling in the economic climate.

The largest proportion of sales in recent times has been at the lower end of the market which must indicate that at least a proportion of these buyers appear confident to take advantage of lower rates to buy a primary place of residence or investment property. Local and some out of area investors seem to be gradually returning to the market attracted by affordability, gradually rising rents and falling interest rates. Together these are contributing to increasing returns.

The mid and upper price sectors are likely to remain less sensitive to interest rate cuts for the foreseeable future. Market activity will likely only increase for these sectors once employment growth returns to the region and broader buyer confidence improves.

MACKAY

The main driver for the Mackay residential market is not interest rates, but the state of the mining industry located in the Bowen Basin. Notwithstanding this, every interest rate cut is celebrated, and with Mackay having one of regional Queensland's highest median house price every little bit helps!

The Mackay residential market mirrors the sentiment and confidence of the mining industry located 'over the hill'. 2012 is a great example of how the fortunes of the mining industry are mirrored in the residential market. At the start of 2012 we had market movement, with large increases in rental values, tightening vacancy rates and greater volume of sales to both owner-occupiers and investors. The investors were chasing the lure of high rentals with virtually no vacancies on the back of strong employment in the mining industry. However, during 2012 the price of coal fell dramatically. Volatility and reducing coal prices led to some uncertainty in the coal industry, resulting in confidence job losses throughout the Bowen Basin and cancellation of some expansion projects. Coal companies were highly concerned about the high cost of production and were reducing costs, where possible, due to the low coal prices. This in turn had a flow on effect to the mining service industries located in Mackay. These job losses, coupled with some mine closures and cancellation of some expansions definitely took the heat out of the rental market, with vacancy levels rising and rental levels falling toward the end of 2012 and early 2013. Sales volumes also fell, with the general optimism from the start of the year waning by the end of the year.

....vacancy rates for rental properties have tightened considerably during 2012 and are potentially pushing some people into purchasing rather than renting....

EMERALD

The Central Highlands market which includes the major towns of Blackwater, Emerald, Springsure, Capella, Clermont, Moranbah and Dysart are still softening as the resource sector continues to slow. This is having a much larger impact than any change in interest rates. History has shown over the past five years that interest rate changes only modestly affect markets in this area as the impact from the resource sector is much larger both when its booming or slowing. Generally speaking the purchasers are high income earners so most market segments are not driven by interest rate changes.

WHITSUNDAY

This month's MIR has the theme of interest rates and their effect upon the property market. Over the last year the Whitsunday property market has seen a slight improvement with more activity in house construction and dwelling sales and a take up of cheap land mostly by builders. Towards the end of the year there were more dwelling sales over $500,000, however during the year unit prices eased. While there was a little more optimism in the market it was still a soft or buyers' market. The property market has had shallow improvement along with the falling interest rates, however, this may be attributed to the general stabilisation of the economy thanks to the falling interest rates.

Cairns

The primary driver of property market confidence in Cairns is the perceived state of the local economy, with affordability and the cost of finance being secondary considerations.

The good news is Cairns is continuing to rebound from the tough economic conditions it has been experiencing over the past five years. The tourism industry in particular has benefited from a significantly improved tourist season during 2012. The commencement of direct flights from Shanghai and Guangzhou has contributed to this improvement. The Cairns residential building industry has begun to revive, with a lift in building approvals for new houses. Together with improved business confidence these factors have led to employment increasing strongly over the past twelve months.

However it is taking a long time for the improved economy to filter through to the consumer confidence that is needed to resurrect the local property market. Cairns residential property still persists at the bottom of the property cycle. Property sale volumes have risen over the past 12 months by about 12% but the prices being achieved are still slipping. The November 2012 Cairns median house price came in at $339,000, which is 2% below November 2011, while the median established unit price reduced further to $176,000 in November 2012, 3% below November 2011.

Vacancy rates for rental properties have tightened considerably during 2012 and are potentially pushing some people into purchasing rather than renting. The trend vacancy rate for houses stood at 1.3% during December 2012, while units displayed a trend vacancy rate of 1.9%. The overall market vacancy rate stood at an unprecedented trend low of 1.6%. Rental housing shortages have resulted in escalated rents across all categories of housing, potentially making purchasing a more attractive proposition.

Townsville

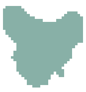
As confidence continues to rebuild in the Townsville residential market, interest rate reductions have not caused any significant increase in building approvals, construction numbers, volumes of property sales or retail spend. Sentiment in our market is driven by local and global market news along with news on the mining industry.

With the market currently at the bottom of the cycle and interest rates low, now is the time to buy, with astute buyers building portfolios and some renters looking to enter the owner-occupier market. This being said however, it would appear that the drivers behind these scenarios are lower median price levels and changing dynamics in the rental market rather than low interest rates.

The rental market over the past 12 months has seen an upwards trend in vacancy rates up from around 2.15% in January 2012 to around 2.96% in January 2013. Early in 2012 vacancy rates where extremely tight and rentals were on the rise. This scenario combined with the building boost grant, first home buyer incentive and low median house values made some renters turn to the owner-occupier market.

Astute buyers remain in the market building portfolios at the bottom of the cycle. These buyers are 'bargain buying' with the ability to lock in loans while interest rates are low, on a fixed term ensuring continuity of repayments over a certain term. These astute buyers expect that when the fixed term expires, the market should have improved and the asset can then be disposed of in a better market.

Vacancy pressures are starting to ease and with the scrapping of the first home buyers grant for existing homes. This may take the lower tier renters out of the owner-occupier market. Overall market sentiment based on local and global good news is what will continue to drive positive confidence in our market.



Tasmania

The stimulative effect of interest rate drops on the Tasmanian property market since the advent of the GFC. Although the RBA has continued to cut the cash rate since November 2011, the Tasmanian property market has recorded some of the lowest sales volumes in 20 years. Rather than being a permanent shift away from the influence of this fiscal policy measure, this appears to be temporary as a result of the current market circumstances. While continued low or reducing rates will have some impact on the market, for now it appears that the two-speed economy, state economic uncertainty, hangover from the GFC and conservative lending by financiers are having a greater restrictive effect.

It has become evident that some market participants are adopting a more conservative approach to their purchasing decisions. For others this conservative approach has been enforced by the lending policies of the banks. Those that have most obviously been affected by these lending policy shifts have been first homebuyers. While many would argue "it is the way it should always have been" first home buyers are now being expected to find a substantial deposit before financiers will consider them for mortgage security finance. Anecdotal evidence has suggested this may be as high as 10% of the purchase price. Investors appear to be adopting the cautious approach to the market. Together these two market participants form the majority of the entry-level market. The performance of this market segment underpins the performance of the wider market more generally.

....the Northern Territory is evolving into a gas hub of international significance. It began with the establishment of the Conoco Phillips LNG plant six years ago....

It appears the development market segment has also been restrained by more conservative lending policies. Those developers who lack the equity position to fund their developments with reduced loan to value ratios have been tempered in the number of projects they are able to undertake, contributing to a lack of demand in the market place and contraction in the capital values of suitable sites. This demand has also been further impacted by the lack of demand for completed development products.

Interest rate movements have previously, and likely will continue to play a role in the purchasing decisions of the market. However under the current circumstances these reductions are having a more restrained impact on the market. In Tasmania a declining market and restricted availability of funds appears to have offset the stimulative effects these reductions would have previously had. The upside is for those who are in the position to be able to obtain funding, the market still remains in their favour.

Darwin

This month we are asked the question: Do you think movements in interest rates have had any impact in the Darwin area? As you might know Darwin has continued to be the standout among the capital cities, with low vacancy rates, increasing rental demand and strong buyer interest. The Northern Territory is evolving into a gas hub of international significance. It began with the establishment of the Conoco Phillips LNG plant six years ago and now the first stage of the $34 billion Ichthys gas project is well underway. So have the interest rate movements had any effect on the Darwin area?

As we can see the main driver for the Darwin market is on the back of the Inpex project. We therefore, believe recent interest rate movements have had a minimal effect on potential investor/purchasers decision making when investing in the market. Although different sectors have responded differently to such news with Palmerston's modern/developing areas including Bellamack, Rosebery, Farrar, Durack & Johnston considered to have had the strongest growth during 2012 then anywhere else in Darwin. Local and interstate investors are considered to make up a significant portion of home ownership within these suburbs. With interest rates at historically low levels, this is just another incentive to the overall appeal to invest in this market. In 2011, a particularly lean year for the market with most market sectors contracting, Palmerston was the area to suffer the most seeing a 10% to 15% decrease in overall value. Palmerston can be seen as the mortgage belt of Darwin being more sensitive to good or bad news.

On the other hand owner-occupier (particularly nuclear families) make up a significant portion of the Northern suburbs as well as those areas close to the city including Parap, Fannie Bay and Stuart Park, which are the more established areas of Darwin. These markets are considered to be less volatile compared to Palmerston due the dominance of owner-occupiers. Albeit these suburbs have had their fair share in market increases due in part to the announcement of the Inpex project.

.... a key measure in the Perth property market is the sentiment of sellers, based on data produced from REIWA....

Darwin's economy is performing well above other states and territories in Australia. With some huge projects starting to get underway like the Inpex gas project, we are seeing an influx of workers and residents moving to the Territory. According to 'Propell, January 2013', Darwin has had the largest house increase (8.9%) out of any area of Australia for the past 12 months. With expectations for further rate cuts for 2013, we believe that although this is considered to have a minimal impact on investing in the Darwin market it will be a further incentive to purchase a piece of property in a currently growing residential market.

Perth

The tide is turning for the Perth property market, with investors slowly returning to the market, a reported increase in consumer confidence, supply cost pressures and an increase in demand in the new build market; 2013 is looking like a year of steady growth.

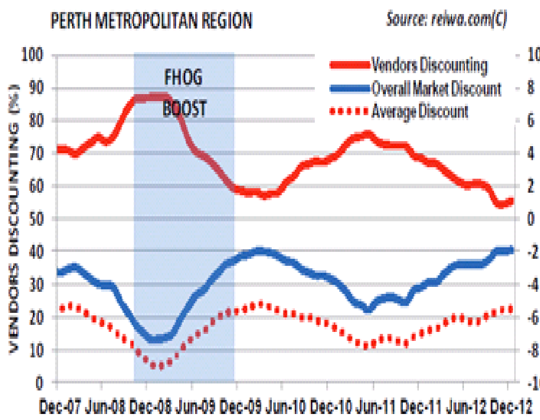
Based on finance data from the ABS there were a total of 80,239 loans (including refinancing) or 53,009 (excluding refinancing), meaning that 34% of home owners made adjustments to their property finance portfolios across 2012. The RBA's decision to drop the cash rate from 4.5% in November 2011 across the 2012 year to 3% may have had some influence on this proportion of home loans, however it seems that there are many factors at play in regards to the Perth property market and what triggers buyers and sentiment.

As HTW Perth has previously mentioned, the housing supply storm clouds have been brewing for some time and it seems that the previous December quarter and the beginning of 2013 have started to feel these constraints. Listings are currently at 9,400 (2,600 below equilibrium) and the rental vacancy rate has been operating below 2% since early 2012 resulting in some supply cost pressures in both the home ownership and the rental market. With rental figures experiencing double digit growth across 2012, the pendulum swang for many first home buyers to take the leap and purchase rather than possibly experience another year of double digit growth.

This increase of first home buyers has been felt in the new build market with a projected 40% increase in land sales across 2012 according to the Real Estate Institute, with a projected 25% increase in the Perth's established central region. Consequently industry commentators and major builders are expecting this rise in demand will push construction costs and times upwards and outwards as they have lost at least 15% of tradesmen to the resource and energy sectors and anticipate further tightening of the home building labour force over the next six to 12 months.

Furthermore, the brittle consumer confidence over 2012 has moved back into optimistic territory based on the latest reading of the Westpac-Melbourne Institute Index which also indicates a strengthening in the "Time to Buy a Dwelling" measure, which reveals that confidence is slowly returning to the Perth property market.

Additionally, a key measure in the Perth property market is the sentiment of sellers, based on data produced from REIWA. With listing stock falling the market is swinging back to a sellers market, as all measures of seller sentiment continue to improve illustrated in the graphic below. The proportion of vendors discounting fell 13% since the same time last year and now sits at 55%, indicating that just over half of sellers are accepting contract prices below their asking. The amount of vendor discounting also continues to fall from 7% in December 2011 to 5.5% in December 2012, this continuing fall in vendor discounting has also pulled the overall market discount from 4.2% to 1.9% in December 2012, indicating than less than 2% of all sellers are discounting from their initial asking price.



Source: Reiwa.com(c)

At this point in time, confidence has appeared to return to the Perth property market however, buyers still edge on the side of caution. While interest rates are a predominate factor in buyers decisions and always will be, it appears that economic stability and confidence as well as supply cost pressures are the current key drivers in the Perth market.

South Western WA

Interest rate cuts do have an impact of the south westen WA market. This was really obvious when the interest rates were consistently climbing, month after month after month. We were witnessing a regular pattern; every time interest rates went up, sales would stop while potential purchasers evaluated their financial position. If it was found that it was still possible to buy a property then sales activity would resume. Some purchasers would, of course, decide that it was no longer possible to buy which impacts on the number of potential purchasers in the market.

The unusual thing in this particular scenario was that interest rates never actually went all that high in historical terms. What was being impacted was the confidence to proceed with a potential purchase on the basis of not knowing where the interest rates would settle and even if repayments could be afforded today, would it still be possible to cover them in the future?

We are now in a position where the converse is true and confidence has started to return to the market. This, again, is not in pure dollar terms, but more in the sense that purchasers can be reasonably confident that interest rates will not be rising significantly in the near future.

....every time interest rates went up, sales would stop while potential purchasers evaluated their financial position....

The bottom of the market (locally up to $400,000) is the most sensitive to these changes, as small movement in mortgage repayments can have a large impact on the household budget. It is the area where we have seen most sales with first home buyers and investors, possibly as a consequence of increases in rents payable encouraging first home buyers to buy and providing better return to the investors.

Locally, the over $2 million price level has also seen renewed activity and this is possibly due to the purchasers in this price bracket being better able to weather any interest rate fluctuations.

The market between the top and the bottom is the one that has been slow to react, possibly due to the owners of this type of property seeking to pay down debt rather than move on to the next step in the property chain with a significant increase in mortgage.

So the short answer is yes, interest rates do have an effect on the market in this part of the world, but it would be fair to say that often it is the effect on confidence rather than the strict dollar terms that are impacted.

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Roma, QLD	07 4622 6200	admin.roma@htw.com.au
Sale, VIC	03 5143 1880	admin.sale@htw.com.au
Southern Highlands	0412 141 100	admin.southernhighlands@htw.com.au
Sunshine Coast (Mooloolaba), QLD	07 5444 7277	admin.ssc@htw.com.au
Sydney, NSW	02 9221 8911	admin.sydney@htw.com.au
Tamworth, NSW	02 6766 9898	admin.regionalnsw@htw.com.au
Toowoomba, QLD	07 4639 7600	admin.toowoomba@htw.com.au
Townsville, QLD	07 4724 2000	admin.townsville@htw.com.au
Tralagon, VIC	03 5176 4300	admin.tralagon@htw.com.au
Tweed Heads, NSW	07 5523 2211	admin.nc@htw.com.au
Wagga Wagga, NSW	02 6921 9303	admin.wagga@htw.com.au
Whitsunday, QLD	07 4948 2157	admin.mackay@htw.com.au
Wollongong, NSW	02 4221 0205	admin.wollongong@htw.com.au
Young, NSW	02 6382 5921	admin.regionalnsw@htw.com.au

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Rural – Market Directions

As this newsletter goes to print, Herron Todd White will have completed the annual rural breakfast presentations in Melbourne, Sydney and Brisbane. For those that are attending these functions thank you for your ongoing support and we look forward to seeing you on the day. For those unable to attend the presentations will be uploaded to our website for access the week commencing 4th March.

This month we have a few storm clouds on various horizons brewing. In the West the storm is of the financial kind as reflected by Tim Clark and David Abel where seasonal outcomes and commodity prices have not come together for many to gain support from financiers.

To the far north in Queensland Roger Hill reflects on the late start to the wet season and the impact this is having on those who have successfully increased herd numbers over the past few seasons and now will need to make decisions as to how to best manage this risk.

In southern New South Wales the heat and dry conditions have seen a reduction in activity after a few good months. Water is being traded across all classes and the folks there are praying for early autumn rains.

Herron Todd White is also proud to announce commencement of specialised rural valuation services in the Pilbara and Gascoyne region of WA Herron Todd White rural valuer Roger Hill who is based in Townsville, but who also has five years aerial mustering and station experience in the Pilbara, Gascoyne and Goldfields regions, has recently undertaken valuation and market analysis in the area.

Roger's feedback about the market is that at present the Pilbara/Gascoyne is showing good, steady property sales activity, however the prices of pastoral country are down and reflective of the negative Indonesian live export issues. However, Roger also points out that the live cattle export business to Israel is a positive aspect for pastoralists in the region with flat-back cattle generating some good margins. The domestic market for feedlot cattle in Geraldton and Esperance is also assisting to prop returns up for pastoral properties in the region, but overall values have contracted significantly since the peak of the market circa 2009. For further news from Roger please refer to the Rural Review for North Queensland in this issue of the MIR.

Tim Lane Ph: (07) 3319 4400

1 March 2013

Northern NSW

Mostly hot, dry summer conditions for January before ex cyclone Oswald arrived in late January. This rainfall event with strong winds caused extensive flooding in the Tweed and Clarence River valleys and significant wind damage across the region. Rainfall recordings for January were Murwillumbah 492 millimetres (Numinbah near the top of the Tweed Valley 1,231 millimetres), Ballina 319 mm, Lismore 278 mm, Casino 198 millimetres, and Grafton 289 mm. Wind gusts measured up to 91 kilometres per hour at Ballina and 131 kilometres per hour at Byron Bay on 28 January.

Sugar Cane

Significant crop damage from flooding in the Tweed and Clarence Valleys. Plant cane in particular has been damaged. Varieties Q208 and KQ228 appear to have suffered the least damage. The NSW Sugar Milling Co-operative Limited has reopened its sale process after previous negotiations with a potential purchaser stalled.

Macadamias

Strong winds have caused some crop damage. It is a little early to know the full extent of the damage.

Cattle

Rainfall conditions will improve pasture conditions. 'Hanging Rock Station' on the Mann River near the junction of the Clarence River has sold. This is a 600 cow breeding capacity property and indicates around $4,000 per breeding cow. This sale indicates that breeding cow land values have declined over the past two years. A number of other grazing properties have sold which reflect the decline in district land values.

Summer crops

Soya bean crops in the Clarence and Tweed valley flood plains will be mostly destroyed from flooding. Richmond Valley did not suffer the same flood damage and soya bean crops present in good condition.

Contact:

Dave Sullivan Ph: (02) 6621 8933

Southern NSW

The 2013 year has kicked off in southern New South Wales and north eastern Victoria more in line with the summers that we used to have. Hot, dry, flies, dust and smoke from fires. That is the way most of us like it (other than the flies and smoke). Generally the growing season in this area is between about mid March until late November/early December, and our pastures and animals are designed to cope with these conditions. If we get too much summer rain it just brings all the weeds up and causes parasite problems in livestock and fly strike problems with sheep. We are better to have dry summers and a good early break in autumn in around mid March. There are exceptions to this of course, such as irrigated country and most of the valleys in the mountains of north eastern Victoria that have a milder summer climate and often receive good summer rainfall.

....spring rainfall usually creates a bulk of feed to carry stock through the dry summer months, but the lack of spring rainfall failed to create the feed and many livestock operations are starting to hand feed....

The property market has slowed again. Our usual selling period in this area is during spring when rural properties look their best - and we anticipate that we are not likely to see many properties come on to the market until after the autumn break.

Properties in our region are starting to look a bit parched as the usual spring rainfall did not eventuate. Spring rainfall usually creates a bulk of feed to carry stock through the dry summer months, but the lack of spring rainfall failed to create the feed and many livestock operations are starting to hand feed. Most operators anticipate this and have feed on hand, but the prolonged dry has affected stock prices as fatteners are not purchasing stock to utilize spring/summer feed. The early January weaner sales in Wodonga saw most prices for young stock down $150 to $200 per head on the same time last year and most of the fattening stock were purchased by northern NSW operators as they have received rain and have surplus feed.

The irrigation season is well under way and storages are dropping as water is released for irrigators to the west of Albury. The water market has been very active for both high security/reliability and low security/reliability water in most water zones. Water value levels have been fairly static at around the $1,500 to $1,550 per megalitre mark for high reliability Zone 7 Victoria, around $1,600 to $1,700 per megalitre for Zone 11 NSW Murray high security, and around $1,850 to $2,000 for Murrumbidgee high security water. Most temporary or allocation water is selling between $35 and $40 per megalitre.

Not much else to report from Southern NSW. We will wait to see what autumn break brings and hopefully we can look forward to good seasonal conditions throughout 2013.

Contact:

David Shuter Ph: (02) 6041 1333

Regional Victotia

SALE

Sales activity in the Macalister Irrigation District has been slow over the previous 18 to 24 month period, and is expected to continue that way despite the interest rate cuts. Corporate investors are the most likely purchasers of dairy farms, with price levels remaining consistent over the previous two to three years.

LEETON/GRIFFITH

The summer irrigation season is coming to an end with grape harvest underway and rice, cotton and corn not far away. I can already hear the dryland farmers starting to complain about a lack of rain. But as it is still officially summer and autumn being just around the corner rain may not be too far away.

The rural property markets are overall very steady and have slowed further since last month. There remains stock on the market across all property types. We are beginning to see another wave of mortgagee influenced sales hitting the market. A number of these go to auction in late February through March. These will test the waters once again and given the frequency of these over the past year, they are starting to have an impact overall on values.

Another trend we are seeing is the re-marketing of properties sold in the past 12 months. Following a less than average winter season last year some purchasers appear to have over extended themselves and are having to dump recent purchases to keep the wolf from the door. Overall we are now in the lull period between summer and winter seasons and we do not normally see many sales occur during this time of year.

Contact:

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MILDURA

Dry conditions throughout the latter part of the growing season adversely affected winter crop yields with cereal growers in the Millewa and Mallee region of north-west Victoria and south-west New South Wales recording average to below average yields. It is interesting to note that ABARE has reported an approximate 22% fall in total winter crop production to 35.8 million tonnes across Australia. The main contributors being wheat down by 26% to 22 million tonnes, barley down 15% to 7.1 million tonnes and canola down only 1% to just under 3.1 million tonnes.

Farmers remain optimistic for a better season in 2013 with the latest El Niño–Southern Oscillation (ENSO) indicators remaining at neutral levels which are expected to persist well into the 2013 autumn. It is hoped the region receives a good autumn break in the next three to four weeks.

The number of 2012 sales of dryland cereal cropping land in the region has fallen again for the second year in a row however sales that have occurred show that value levels have remained stable to slightly firmer in some cases compared to sales of similar country in the preceding 12 months.

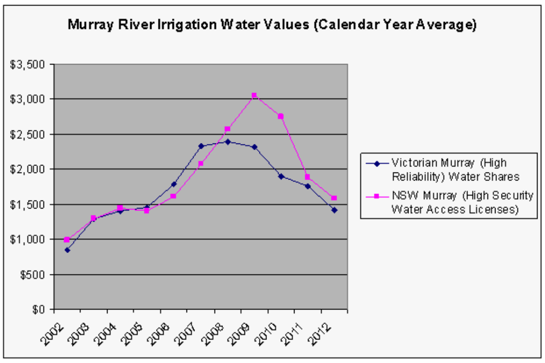
The grazing/pastoral sector of south western New South Wales has also experienced fewer sales activity, however again value levels have remained relatively firm even though the season has been much drier than the preceding two seasons.

....dry conditions throughout the latter part of the growing season adversely affected winter crop yields, the Millewa and Mallee region recording average to below average yields....

The wine and table grape harvest is in full swing in the region and so far the weather has been very kind with most areas missing the recent isolated storms in the area. Reports filtering in are that yields and quality are quite good. Wine grape prices have remained at similar to slightly firmer in comparison to the 2012 vintage prices.

In the February 2012 edition of MIR we reported that Victorian High Reliability Water values being trading around $1,450 per megalitre and $1,700 per megalitre for NSW High Security water. These levels eased further throughout 2012 on average and are presently trading for around the $1,420 per megalitre (Vic) and $1,650 per megalitre (NSW).

The following graph paints a picture of the fluctuating nature of annual average water values over the past decade (data source: Sunraysia Water Exchange). The 2012 average levels almost mirror the 2004 and 2005 levels. It is reported that over recent months value levels have firmed in NSW.



(data source: Sunraysia Water Exchange)

The temporary water prices 12 months ago were below $20 per megalitre, however irrigators have used more water this summer than they would have expected (high temperatures and little to no rain), and this has put pressure back on the temporary water market to finish crops like rice, cotton, almond, grape crops etc. Temporary water levels are now firmed to around $60 per megalitre with an expectation that they will rise further the longer it remains dry.

Water storage levels in the Murray–Darling Basin (MDB) are reported to be at 70% of total capacity. This is 11 percentage points or 2485 GL less than this time last year. All areas for the current season have a 100% allocation.

Central North and West NSW

Market activity in the central west area of New South Wales continues to be steady at low levels with the recurring comments from agents indicating that potential purchasers are looking at achievable returns on properties as the significant attribute for purchasing decisions. While this may seem a natural way to value property, there have been times in the past 12 to 24 months where purchasing decisions were made due to the proximity of a particular holding or the level of other competing interests for a particular property.

Generally we see the market settling to a situation where appropriately priced properties are receiving moderate to good levels of interest. Where vendors have indicated that they are prepared to listen to what the market is offering, the interest levels are generally good. An example of this was the recent offering of the large Catombal Park Aggregation near Cumnock which comprises approximately 4,000 hectares overall; being 3,600 hectares of good quality arable red loam country and 400 hectares of steep shale hill. This property was offered via Expressions of Interest and had 19 inspections and approximately 12 Expressions of Interest lodged. This was seen as an extremely positive result in terms of interest level. While all details remain confidential, our understanding is that this sale equates to approximately $2,000 to $2,100 per arable hectare.

Contact:

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Southern Queensland

The recent rainfalls have generally been welcome throughout the Downs and especially in south-east Queensland. Up until late January to annotation, with the seasons we have experienced the term 'drought' wasn't too far from our thoughts. The low pressure system from ex-tropical cyclone Oswald dumped large amounts of rain over the eastern ranges and Inter Downs. Those highest recording were in the Lockyer Valley and Southern Ranges near Killarney where reports of up to 700 millimetres were received over the three days. The majority of the effects to farming operations were contained to those properties mainly adjacent to those creek and river systems. The effects of the floods will be greatest on those producers that have incurred multiple flooding damage over the past two years. Some broadacre growers on the Downs are nervous given harvesting of those summer cereals isn't far off.

Further west towards St George, irrigators are now breathing a sigh of relief given Beardmore Dam was approaching 10% of its capacity prior to these rains. Cotton irrigators were looking down the barrel of a poor finishing to those crops. The dam is now at full capacity with the Balonne River supplemented by those waters feeding in off the Condamine River. On the grazing front post the floods, the Roma sale yards headed some 7,000 cattle in late February with the general feeling of improved values overall, which is positive given that it was likely some of those western graziers would be destocking for the winter and thus saturating the cattle yards.

On the property market front activity has remained flat. On the property listing front, there is no shortage of supply - thus impacting on sales rates from a limited buyers pool. Some resent sales include the property "Earlwood" west of Glenmorgan comprising a 4133 hectare grazing holding sold for $3.05 million in December last year. Another sale is that of the property Dalkeith comprising a 15,409 hectare holding to the north-east of St George sold for $5 million neat. Both properties were marketed by receivers.

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Northern Queensland

North Queensland still awaits the commencement of the typical wet season. Many a comment is being made that it will come in the last week of February. Some thought the season was with us in the week prior to the Goldfield Ashes Cricket Carnival in Charters Towers over the Australia Day weekend. Often that weekend creates a heavy precipitation! There was rain about in the week prior to the Ashes, with many people asking if the weekend would still be on. Unfortunately Oswald did fail to evenly distribute the rain across the north of the state.

Coastal sugar cane and horticultural areas needed the rain too. They certainly received it, in truck loads!

The central and western areas of our region are still dry. Clouds are building, teasing then disappearing as quick as a flash. Some areas around Einasleigh and Greenvale appear to have been right on the fringe of Oswald's rain. Three inches of gentle grass rain fell in areas around Einasleigh and Greenvale. Some of the dams there did not even get a run into them, it was such gentle rain.

Out west the people who manage their seasonal risks using 'rain day' counts have either sold or are finishing their selling programme. Others are adopting a wait and see for the end of February.

....North Queensland still awaits the commencement of the typical wet season....

Unfortunately demand for stock down south is weak and there are only a few buyers. The lack of a store market at present is one of the larger storm clouds on the horizon. After a couple of tough years trying to generate cashflow to reduce highly leveraged debt positions, there are some that will be finding it tough right now. Especially after the fires that ravaged areas of the Etheridge Shire late 2012.

Graziers affected by these fires are looking to recover infrastructure and cashflow from this blow; as if things weren't already tight enough! Cattle continued to die after the fire once there was some green pick around due to their chasing the pick.

Many people would recall the dry in the Western Gulf and Barkly Tablelands in 2008. This forced many cattle breeders to make decisions to sell their breeders, agist them, or buy grassed country in another district to protect the years put into selecting and developing their breeder nucleus.

At that time the balance sheets had some 'fat' on them, allowing grass purchasing to occur. Hopefully those who have a good working relationship with their bank will have this option up their sleeve this year.

The last few years certainly have been tough for the grazing sector. A handful of graziers last year became proactive in their balance sheet management and either offloaded a property (or two) to reshape their position or continue to work with their bank manager to come up with a collaborative solution and perhaps even trade out of a tight spot.

The auction marketing season has started with the joint listing between Ruralco and Topx for the auctions of Essex Downs and Baroona on March 14 at Jupiters Casinon, Townsville. There are many stations still on the market from last year, however that is not to say last year wasn't a bad year for property sales at all.

A similar number of Downs blocks sold as in 2008 - just at 2012 values not 2008 ones. Even the forest breeding block market saw some country change hands. Not as many forest breeding blocks changed hands in 2012 as in 2011 though. The value rates there appear to have softened before the Downs did.

This year has many challenges ahead be they the dry, reduced store cattle prices or recovering from fires. Even with these challenges at foot, North Queensland graziers are experienced and skilled at negotiating these conditions.

....northern pastoral agents are reporting increasing enquiry throughout January but also that many potential buyers still need to be convinced of secure markets for cattle in the region....

Hopefully the bull selling season gets underway in Charters Towers (as this goes to press) with good clearance rates, despite the BJD issues impacting the cattle industry at present. There are mixed messages arising from the management of this biosecurity issue. It is difficult to ascertain the effect on the market (or degree there of) at this stage of this issue. It is certainly an issue that many of our clients are commenting on.

Hopefully the storm bird that is calling for late February brings on a good body of grass to put this years weaners onto, then there will be a turn for the better!

Contact:

Roger Hill Ph: (07) 4724 2000

Central Queensland

The season across Central Queensland was looking pretty grim until cyclone Oswald bought relief from an extended dry spell, however it did not make it far inland, petering out west of Emerald. The weaker seasonal conditions across the vast majority of Queensland has caused the cattle market to collapse from the relatively buoyant 2011/12 prices. This is likely to impact on the rural property market as the burden of high debt levels tightens its grip on the industry, possibly leading to further rural enterprises falling below the required lending ratios.

Market evidence is very limited across Central Queensland, especially at the higher end of the market above $3 million. The well know Emerald irrigation and grazing property "Kingower" (3,262 hectares – 20 kilometres north-west of Emerald) was put to the market late in 2012 under instruction from appointed receivers Ernst & Young. After passing in at auction in November for $4.6 million, reports have surfaced in the Australian Financial Review in early January that the property had sold for around $5 million. Despite it including nearly 550 hectares of irrigated land, this figure equates to values not far above grazing values.

The renowned Dawson Valley holding "Brigalow Research Station" (3,300 hectares – 45 kilometres south-west of Moura) is being offered for sale at auction on the 6th of March, after being run by the government as a agricultural research station since the 1960s. The property comprises of top quality developed scrub country and extensive structural improvements including nine residences. This property has had good market exposure and is expected to set the benchmark for scrub grazing values in this locality.

Contact:

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Will McLay Ph: (07) 4927 4655

Northern Territory

The end of January yielded the first sale of a freehold farming block in some time. "Tortilla Farm" near Adelaide River sold for $900,000 to a local buyer after an extended marketing period. The 1,594 hectare property with 5 kilometres frontage to the Adelaide River 115 kilometres south of Darwin was a mortgagee in possesion sale. The farm features several hundred hectares of good levee soils which can be irrigated via river pumps under 1,050 megalitre surface water licence. But the irrigation and cultivation country has succumbed to significant Mimosa infestation which impacted on the dollar value per hectare for that country. Overall, although the sale shows a significant fall from the peak values prevailing in 2009/10, it may also indicate a levelling out of values for freehold agricultural land. It may prove encouraging for other potential purchasers who are still sitting on the fence, deciding whether the bottom of the market has been reached.

Northern pastoral agents are reporting increasing enquiry throughout January but also that many potential buyers still need to be convinced of secure markets for cattle in the region. Meanwhile pastoral agents in 'the Alice' are reporting continuing subdued enquiry, but that there is increasing enquiry for some of the better located, quality cattle stations. This is despite a current fall in cattle prices (for central Australian cattle) as slaughter numbers escalate in eastern meatworks. Most of central Australia is also praying for rain after one of the driest winters and one of the hottest summers in many years.

Contact:

Frank Peacocke Ph: (08) 8941 4833

South Western WA

Having just returned from Karlgarin which is located in the southern part of the Western Australian wheat belt, I have witnessed how Mother Nature can, without warning, cause inconceivable damage, creating work and cost to areas already under labour and financial pressures. With trees down over fences, feeders smashed into pieces and scattered across paddocks and roof sheets being peeled off like a lid on a can of baked beans, it is difficult to understand why anyone would want to be a farmer. The evident changes in weather patterns and the increase in freak weather events makes producing food a more difficult task than ever.

While we can sympathise with those across the country affected by floods, high winds and drought conditions, there is another type of storm brewing in the WA wheat belt. This is not the same as those which are generated by high and low pressure cells coming in from the ocean, but the rural property market storm being generated by poor seasons, fluctuating commodity markets, exports bans, high margins and financial pressures.

What will be the effect of this storm? Like those created by mother nature, it can be predicted, but the impact will only be seen when it has passed and the dust has settled. It is no secret that for the past couple of seasons many areas have had a significant increase in properties being put on the market which, like many storms, has created flood conditions and is likely to see values washed away. It is reported that WA Grains Group Chairman, Doug Clark, said "there were 30% increase in farms on the market than is historically normal in March" making this season possibly the start of the storm. The main hurdle for the industry to weathering the storm is purchasers and the shift in the purchaser profile.

....pastoral agents in 'the Alice' are reporting continuing subdued enquiry....

Many Western Australian producers are not in the position to purchase properties with a number of districts having the majority of producers in the same 'boat' financially. It is apparent, speaking to a number of sources, that they consider the foreign or corporate investors the only purchaser option, which is backed up when looking at sales activity in many areas. With all this uncertainty in the property market it leads to three main questions –

1. Do you have to sell in 2013?

2. Who will buy your property?

3. What is the likely price they will pay?

If the answer is a resounding yes to Question 1 from a significant majority of farmers; restricted purchaser pool to Question 2; the likely answer to Question 3 is probably going to be, less than what you consider fair value and previous district averages.

This is being compounded by the financial pressures being faced by many farmers and their ability to obtain ongoing finance for the 2013 growing season. With the average price for some wheatbelt districts likely to reduce, the equity of all the farms in these areas is eroded, placing even more farms in a vulnerable financial position. This then becomes a self-perpetuating cycle and potentially the start of a perfect storm. Some careful management will be required for the welfare of all in this circumstance. We also note that a number of the next generation of farmers have left the industry with the current generation looking to retire, but with limited family succession taking place, the over supply situation is further increased.

If we continue the weather analogy to its logical conclusion, the clouds hopefully will part and blue skies will return. There are a number of predictions around the rising standard of living in many Asian countries and the corresponding rise in demand for high-quality food; all of which will be of benefit to those that can provide these products, but that is of little comfort today when you have bills to pay. The problem at the moment is looking for an Ark to navigate the stormy waters, and as governments seem to be uninterested in agricultural problems, placing one's faith in this institution seems unlikely to be the solution and to be more like a leaky boat than a life raft.

So where does this leave the farmers of Western Australia's wheat belt? Ironically praying for rain, a good season and strong commodity prices to ease the financial pain as they have done since farming started in this part of the world.

Contact:

David Abel

Tim Clarke Ph: (08) 9754 2982

Comparative Property Market Indicators - February 2013

The following pages present a generalised overview of the state of property markets in Capital City, New South Wales/ACT, Victoria/Tasmania, Queensland and South Australia/Northern Territory/Western Australia locations using financing risk-rating scales. They are not a guide to individual property assessments.

For further information contact Rick Carr, Research Director, Herron Todd White, on (07) 4057 0200, or by email on rick.carr@htw.com.au

Comparative Analysis of Capital City Property Markets

To discuss the applicability of the Capital City indicators to individual properties or situations, contact your local Herron Todd White office:

Sydney	(02) 9221 8911
Melbourne	(03) 9642 2000
Brisbane Commercial	(07) 3002 0900
Brisbane Residential	(07) 3353 7500
Adelaide	(08) 8231 6818
Perth	(08) 9388 9288
Hobart	(03) 6244 6795
Darwin	(08) 8941 4833
Canberra	(02) 6273 9888

Comparative Analysis of New South Wales/ACT Property Markets

To discuss the applicability of the NSW/ACT indicators to individual properties or situations, contact your local Herron Todd White office:

Albury	(02) 6041 1333
Bathurst	(02) 6334 4650
Canberra/Queanbeyan	(02) 6273 9888
Dubbo	(02) 6884 2999
Gosford	1300 489 825
Griffith	(02) 6964 4222
Leeton	(02) 6953 8007
Mudgee	(02) 6372 7733
Newcastle/Central Coast	(02) 4929 3800
Norwest	(02) 8882 7100
Sydney	(02) 9221 8911
Port Macquarie	1300 489 825
Tamworth	(02) 6766 9898
Tweed Coast	(02) 5523 2211
Wagga Wagga	(02) 6921 9303
Wollongong	(02) 4221 0205
Young	(02) 6382 5921

Comparative Analysis of Victorian/Tasmanian Markets

To discuss the applicability of the Victorian/Tasmanian indicators to individual properties or situations, contact your local Herron Todd White office:

Gippsland (Sale/Traralgon/Bairnsdale)	(03) 5143 1880/ 03 5176 4300/ (03) 5152 6909
Bendigo	(03) 5480 2601
Melbourne	(03) 9642 2000
Murray Mallee (Swan Hill)	(03) 5032 1620
Murray Outback (Mildura)	(03) 5021 0455
Murray Riverina (Echuca/Deniliquin)	(03) 5480 2601/ (03) 5881 4947
Wodonga	(02) 6041 1333
Hobart	(03) 6244 6795
Launceston	(03) 6334 4997

Comparative Property Market Indicators - February 2013

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Comparative Analysis of Queensland Property Markets

To discuss the applicability of the Queensland indicators to individual properties or situations, contact your local Herron Todd White office:

Brisbane Commercial	(07) 3002 0900
Brisbane Residential	(07) 3353 7500
Bundaberg/Wide Bay	(07) 4154 3355
Cairns	(07) 4057 0200
Emerald	(07) 4980 7738
Gladstone	(07) 4972 3833
Gold Coast	(07) 5584 1600
Hervey Bay	(07) 4124 0047
Ipswich	(07) 3282 9522
Mackay	(07) 4957 7348
Rockhampton	(07) 4927 4655
Sunshine Coast (Mooloolaba)	(07) 5444 7277
Toowoomba	(07) 4639 7600
Townsville	(07) 4724 2000
Whitsunday	(07) 4948 2157

Comparative Analysis of South Australia/Northern Territory/Western Australian Property Markets

To discuss the applicability of the South Australian/Northern Territory and Western Australian indicators to individual properties or situations, contact your local Herron Todd White office:

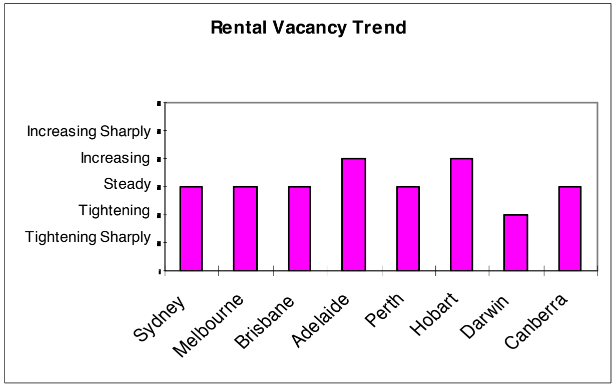
Adelaide	(08) 8231 6818
South West WA (Bunbury/Busselton)	(08) 9791 6204/ (08) 9754 2982
Perth	(08) 9388 9288
Darwin	(08) 8941 4833

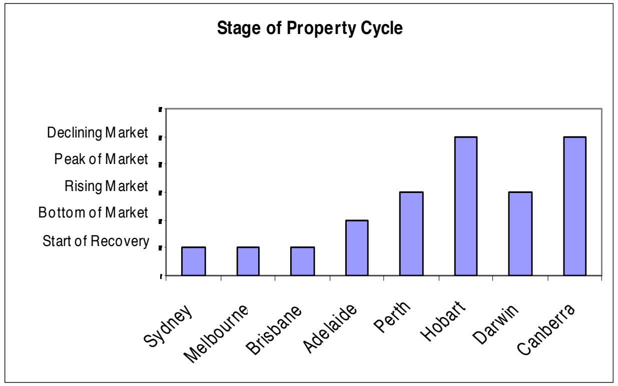
Capital City Property Market Indicators as at February 2013 – Houses

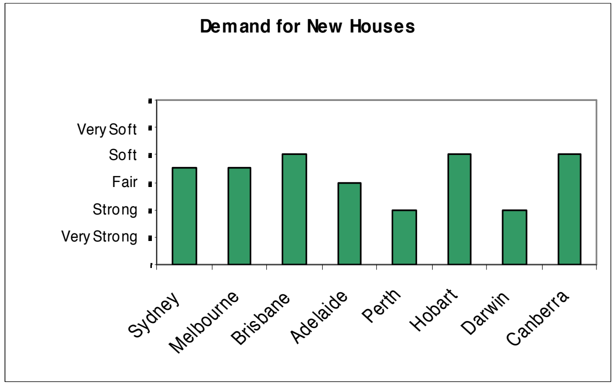
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Severe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

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

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



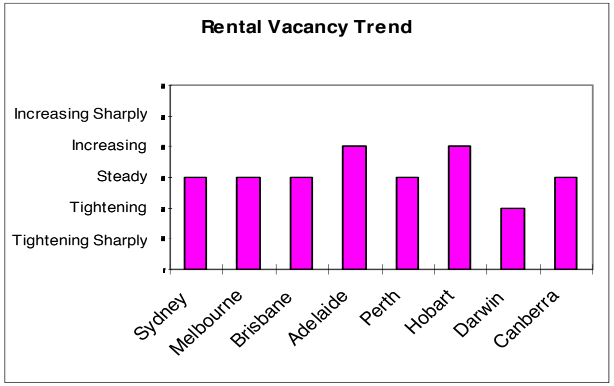


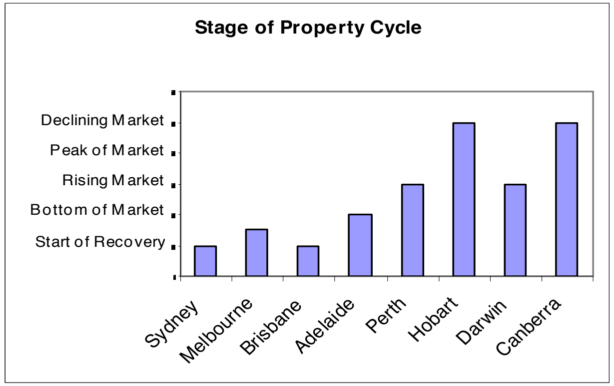


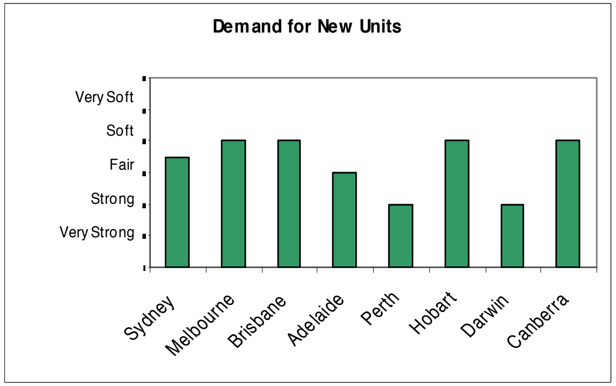
Capital City Property Market Indicators as at February 2013 – Units

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

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





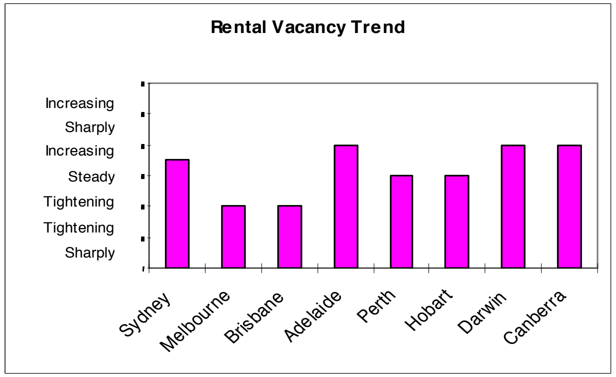


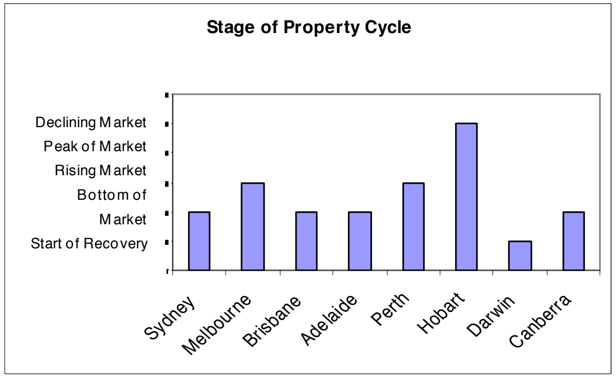
Capital City Property Market Indicators as at February 2013 – Industrial

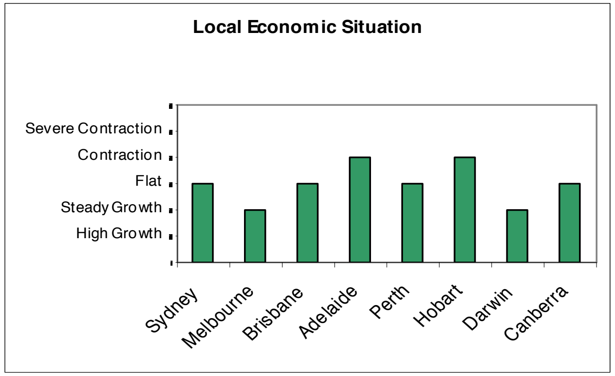
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand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







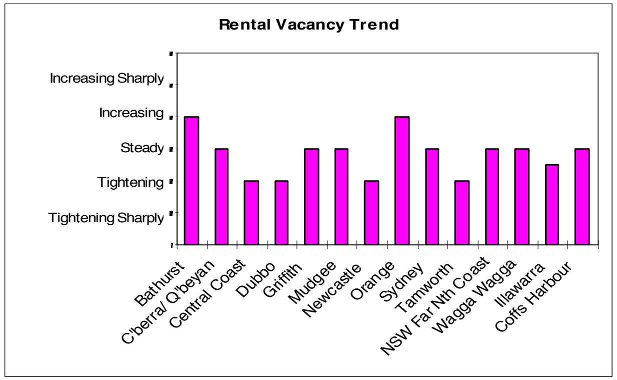
Herron Todd White
Independent Property Advisors

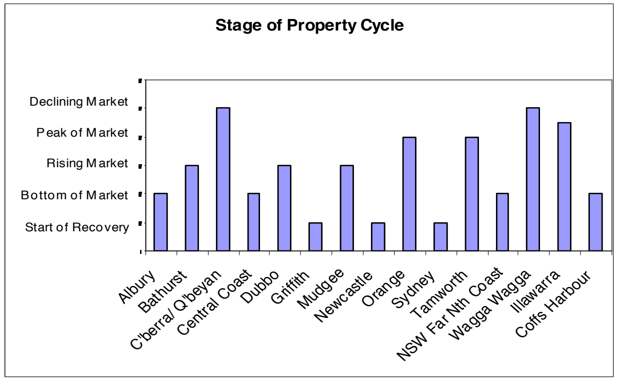
New South Wales Property Market Indicators as at February 2013 – Houses

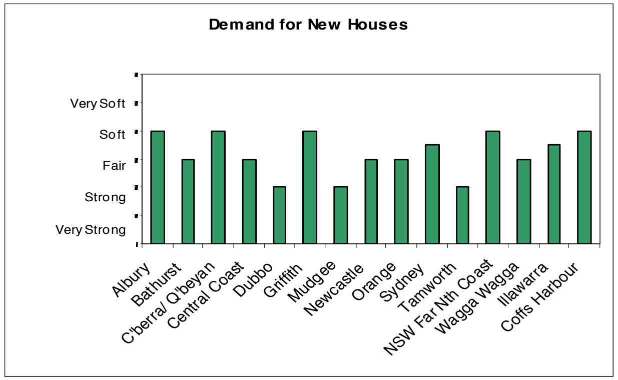
Factor	Albury	Bathurst	Canberra/ Q'beyan	Central Coast	Dubbo	Griffith	Mudgee	Newcastle	Orange	Sydney	Tamworth	Tweed Coast	Wagga Wagga	Wollongong	Coffs Harbour
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Increasing	Steady	Tightening	Tightening	Steady	Steady	Tightening	Increasing	Steady	Tightening	Steady	Steady	Tightening - Steady	Steady
Demand for New Houses	Soft	Fair	Soft	Fair	Strong	Soft	Strong	Fair	Fair	Soft - Fair	Strong	Soft	Fair	Soft - Fair	Soft
Trend in New House Construction	Declining	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Steady	Steady	Increasing	Declining - Steady	Steady	Declining - Steady	Declining
Volume of House Sales	Steady	Steady	Steady	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	Steady	Increasing - Steady	Declining	Steady	Steady
Stage of Property Cycle	Bottom of market	Rising market	Declining market	Bottom of market	Rising market	Start of recovery	Rising market	Start of recovery	Peak of market	Start of recovery	Peak of market	Bottom of market	Declining market	Peak of market - Declining market	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	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







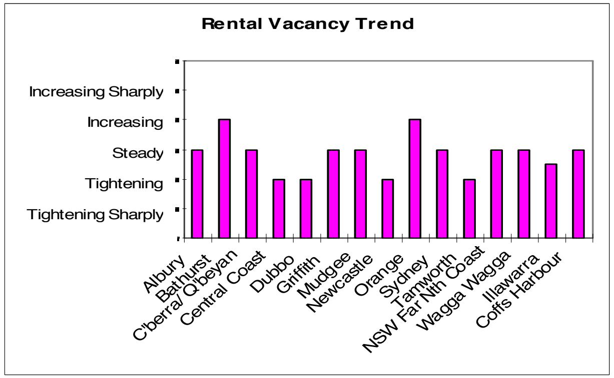
Herron Todd White
Independent Property Advisors

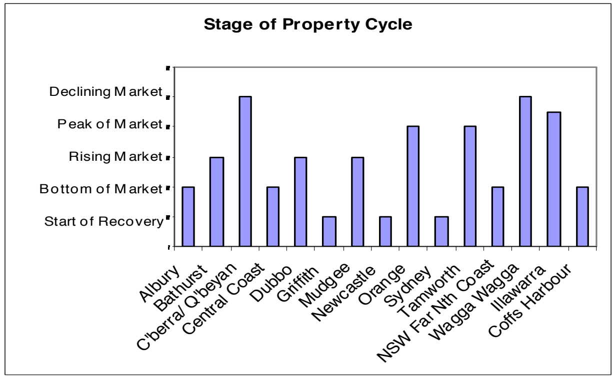
New South Wales Property Market Indicators as at February 2013 – Units

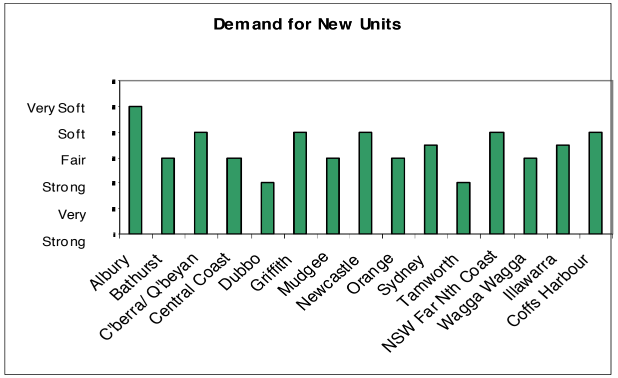
Factor	Albury	Bathurst	Canberra/ Q'beyan	Central Coast	Dubbo	Griffith	Mudgee	New-castle	Orange	Sydney	Tam-worth	Tweed Coast	Wagga Wagga	Wollon-gong	Coffs Harbour
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Increasing	Steady	Tightening	Tightening	Steady	Steady	Tightening	Increasing	Steady	Tightening	Steady	Steady	Tightening - Steady	Steady
Demand for New Houses	Very soft	Fair	Soft	Fair	Strong	Soft	Fair	Soft	Fair	Soft - Fair	Strong	Soft	Fair	Soft - Fair	Soft
Trend in New House Construction	Declining	Steady	Steady	Steady	Increasing	Declining	Steady	Declining	Steady	Increasing	Increasing	Declining - Steady	Steady	Declining - Steady	Declining
Volume of House Sales	Steady	Steady	Steady	Steady	Increasing	Increasing	Steady	Steady	Steady	Steady	Steady	Increasing - Steady	Steady	Steady	Steady
Stage of Property Cycle	Bottom of market	Rising market	Declining market	Bottom of market	Rising market	Start of recovery	Rising market	Start of recovery	Peak of market	Start of recovery	Peak of market	Bottom of market	Declining market	Peak of market - Declining market	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Frequently	Occasionally	Occasionally	Occasionally	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







New South Wales Property Market Indicators as at February 2013 – Industrial

Factor	Albury	Bathurst	Canberra/ Q'beyan	Central Coast	Dubbo	Griffith	Mudgee	New-castle	Orange	Sydney	Tam-worth	Tweed Coast	Wagga Wagga	Wollon-gong	Coffs Harbour
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	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	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady - Increasing	Steady	Steady - Increasing	Steady	Steady - Increasing	Steady
Demand for New Houses	Declining	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Declining - Stable	Stable	Declining - Stable	Stable	Declining - Stable	Stable
Trend in New House Construction	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Increasing - Steady	Declining	Steady - Declining	Steady	Increasing - Steady	Steady
Volume of House Sales	Bottom of market	Declining market	Bottom of market	Declining market	Rising market	Bottom of market	Rising market	Declining market	Rising market	Bottom of market	Peak of market	Bottom of market	Bottom of market	Bottom of market	Bottom of market
Stage of Property Cycle	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Steady growth	Flat	Steady growth	Flat - Contraction	Contraction	Flat	Flat
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Significant	Significant	Very large	Large	Significant	Large	Significant	Large	Small - Significant	Significant	Significant	Significant	Significant	Significant	Small

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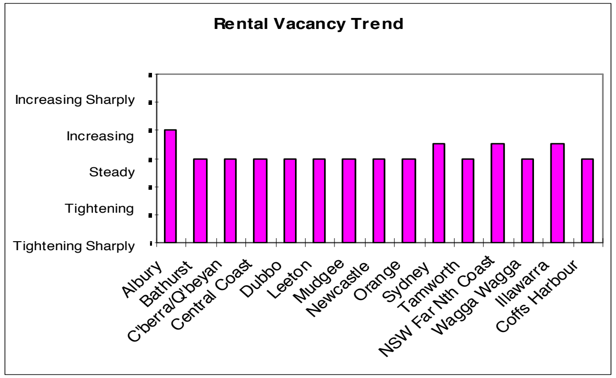

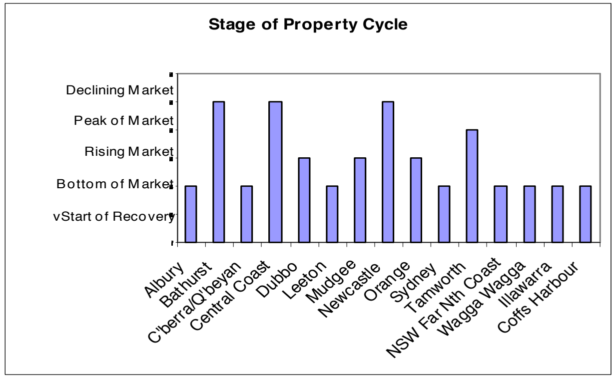

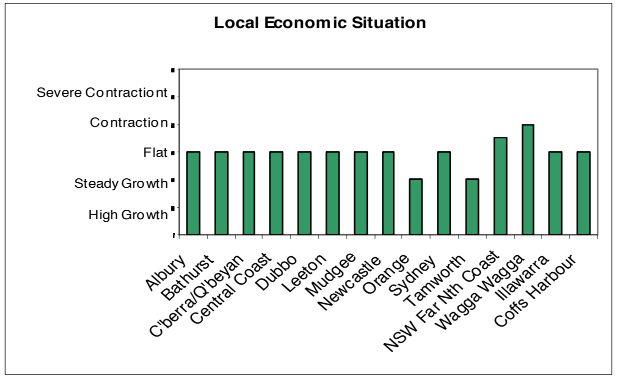

Victoria/Tasmania Property Market Indicators as at February 2013 – Houses

Factor	Bendigo	Echuca	Ballarat	Gippsland	Melbourne	Mildura	Shepparton	Latrobe Valley	Wodonga	Burnie / Davenport	Hobart	Launceston
Rental Vacancy Situation	Shortage 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	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Increasing	Increasing
Demand for New Houses	Strong	Fair	Fair	Soft	Soft - Fair	Fair	Soft	Soft	Fair	Soft	Soft	Soft
Trend in New House Construction	Declining	Steady	Steady	Declining	Steady	Declining	Declining	Declining	Steady	Increasing strongly	Increasing strongly	Increasing strongly
Volume of House Sales	Declining	Steady	Declining	Steady	Steady	Steady	Declining	Steady	Increasing	Declining	Declining	Declining
Stage of Property Cycle	Declining market	Rising market	Declining market	Bottom of market	Start of recovery	Bottom of market	Declining market	Start of recovery	Bottom of market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

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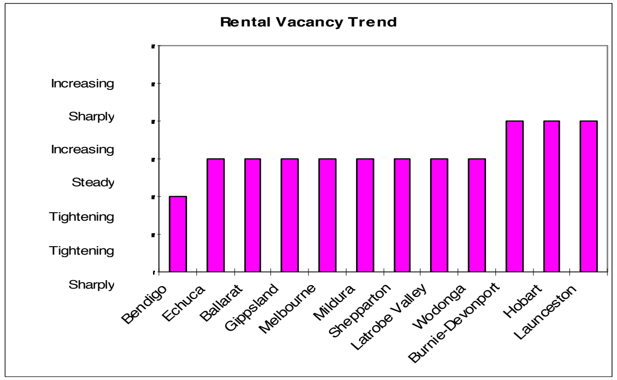

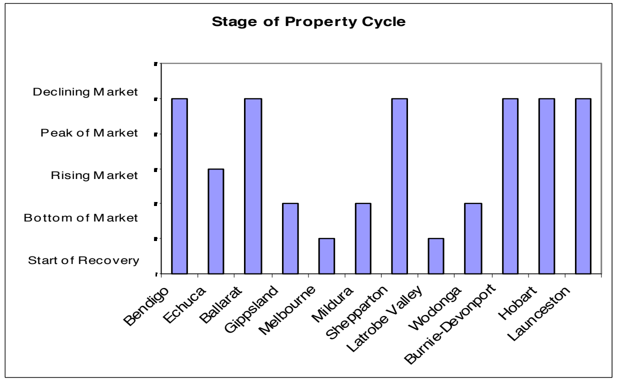

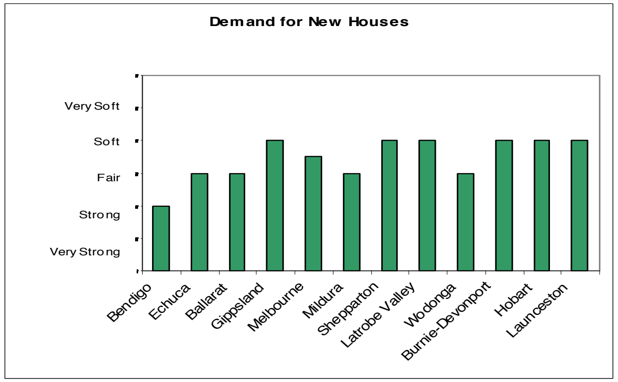

Victoria/Tasmania Property Market Indicators as at February 2013 – Units

Factor	Bendigo	Echuca	Ballarat	Gippsland	Melbourne	Mildura	Shepparton	Latrobe Valley	Wodonga	Burnie / Davenport	Hobart	Launceston
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	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	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Steady	Steady	Tightening	Steady	Steady	Steady	Increasing	Increasing	Increasing
Demand for New Houses	Very strong	Fair	Fair	Soft	Soft	Fair	Soft	Soft	Very soft	Soft	Soft	Soft
Trend in New House Construction	Increasing	Steady	Steady	Declining	Steady - Increasing	Declining	Declining	Declining	Declining	Increasing strongly	Increasing strongly	Increasing strongly
Volume of House Sales	Steady	Steady	Declining	Steady	Steady	Steady	Declining	Steady	Steady	Declining	Declining	Declining
Stage of Property Cycle	Declining market	Start of recovery	Declining market	Bottom of market	Start of recovery - Bottom of market	Rising market	Declining market	Bottom of market	Bottom of market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasion-ally	Occasion-ally	Occasion-ally	Occasionally	Occasionally	Almost never	Occasionally	Occasion-ally	Occasionally	Occasionally	Occasion-ally	Occasionally

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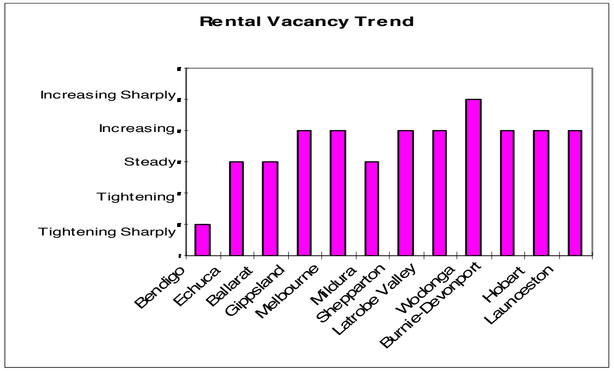
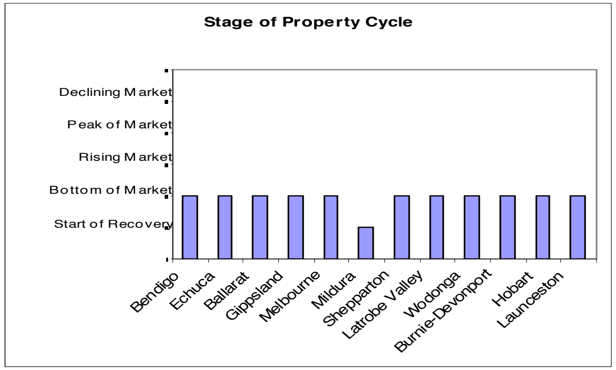
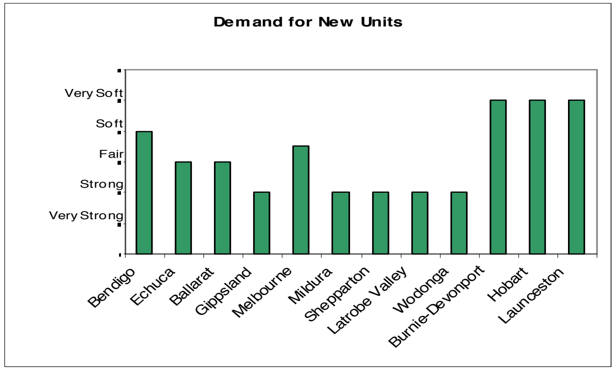


Rental Vacancy Trend



Stage of Property Cycle



Demand for New Units

Victoria/Tasmania Property Market Indicators as at February 2013 – Industrial

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Latrobe Valley	Wodonga	Burnie/ Davenport	Hobart	Launceston
Rental Vacancy Situation	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	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Increasing	Tightening	Steady	Increasing	Increasing	Steady	Steady	Steady
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Stable	Stable
Volume of Property Sales	Steady	Steady	Declining	Steady	Steady	Declining	Steady	Steady	Steady	Steady
Stage of Property Cycle	Rising market	Bottom of market	Bottom of market	Rising market	Bottom of market	Bottom of market	Bottom of market	Declining market	Declining market	Declining market
Local Economic Situation	Flat	Flat	Flat	Steady growth	Flat	Flat	Flat	Contraction	Contraction	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Small	Small	Small	Small	Small	Significant	Small	Small	Small

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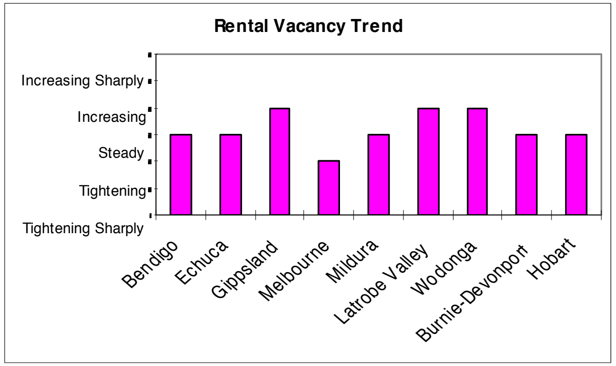

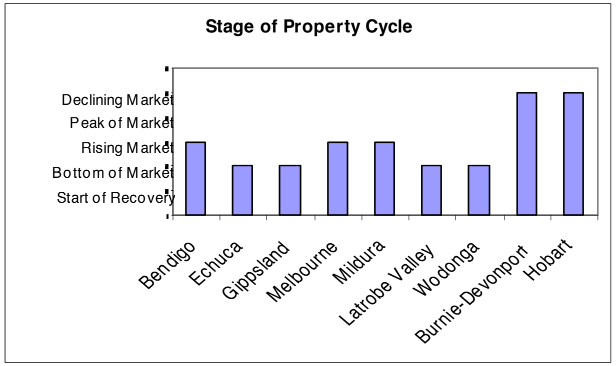

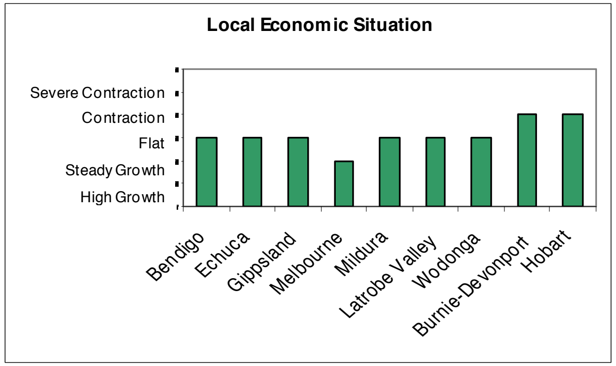

Queensland Property Market Indicators as at February 2013 – Houses

Factor	Cairns	Towns-ville	Whit-sunday	Mackay	Rock-hampton	Emerald	Glad–stone	Bunda-berg	Hervey Bay	Sun-shine Coast	Brisbane	Gold Coast	Ipswich	Too-woomba
Rental Vacancy Situation	Severe shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Shortage of available property relative to demand - Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Increasing	Steady	Steady - Increasing	Steady	Steady	Increasing	Steady	Tightening - Steady	Tightening	Steady	Increasing	Steady	Tightening
Demand for New Houses	Soft	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Soft	Fair	Fair	Fair
Trend in New House Construction	Increasing	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Declining	Steady	Steady	Steady	Declining
Volume of House Sales	Increasing	Increasing	Steady	Steady	Steady	Declining	Declining	Steady	Increasing - Steady	Increasing	Steady	Increasing	Declining	Declining
Stage of Property Cycle	Bottom of market	Bottom of market	Bottom of market - Rising market	Bottom of market - Rising market	Bottom of market	Declining market	Declining market	Bottom of market - Rising market	Start of recovery - Bottom of market	Bottom of market	Start of recovery	Declining market	Bottom of market	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasion-ally	Occasion-ally	Almost never - Occasion-ally	Occasion-ally	Occasion-ally	Occasion-ally	Frequently	Almost never	Occasion-ally	Occasion-ally	Occasion-ally	Frequently	Almost never	Frequently

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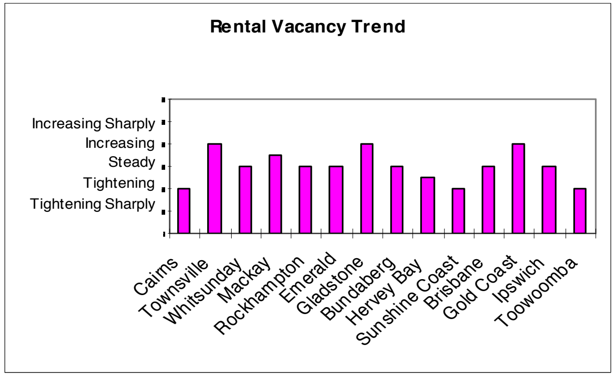
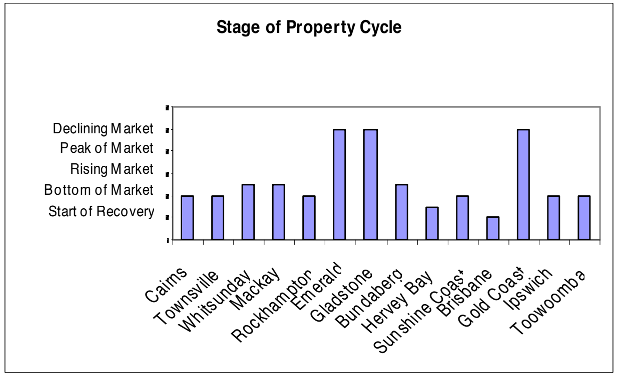
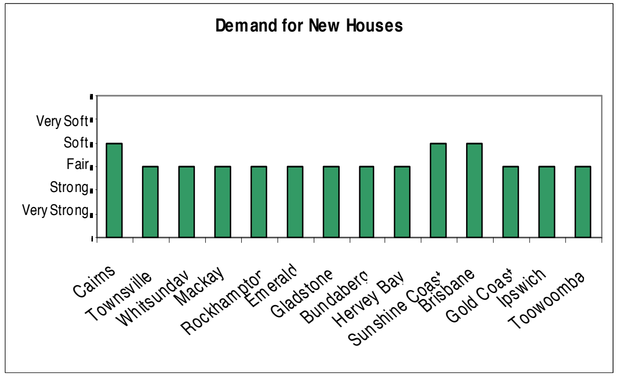




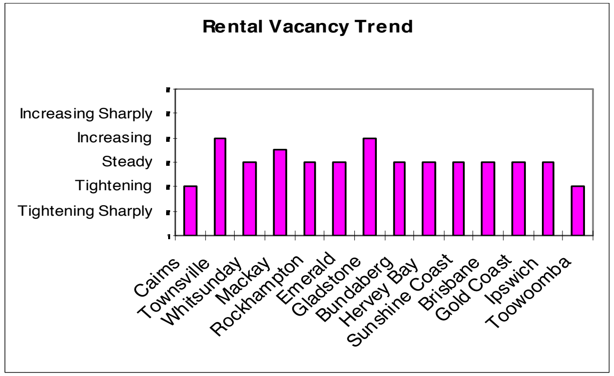


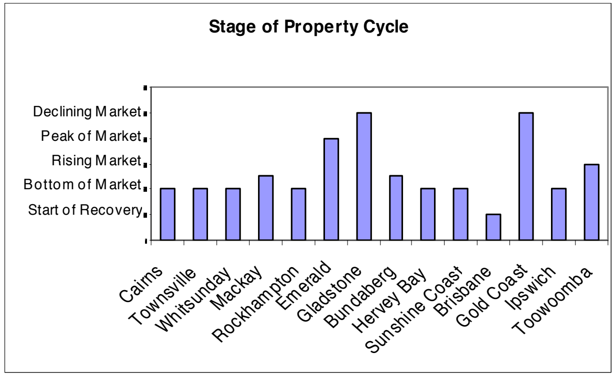
Queensland Property Market Indicators as at February 2013 – Units

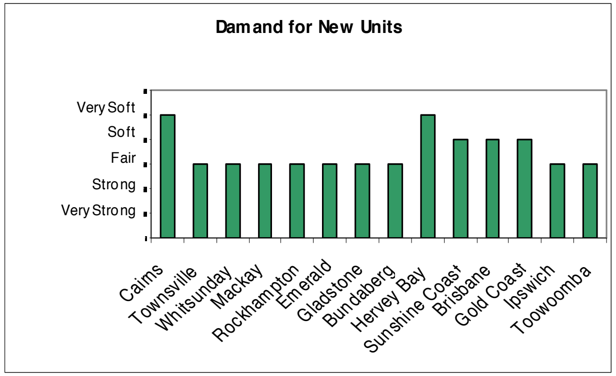
Factor	Cairns	Towns-ville	Whit-sunday	Mackay	Rock-hampton	Emerald	Glad-stone	Bunda-berg	Hervey Bay	Sun-shine Coast	Brisbane	Gold Coast	Ipswich	Too-woomba
Rental Vacancy Situation	Severe shortage - Shortage of available property relative to demand	Shortage of available property relative to demand - Balanced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







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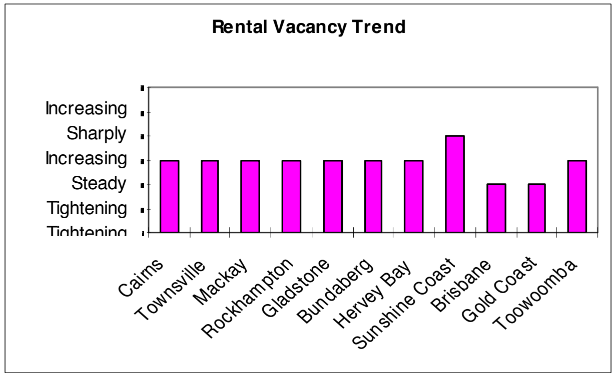
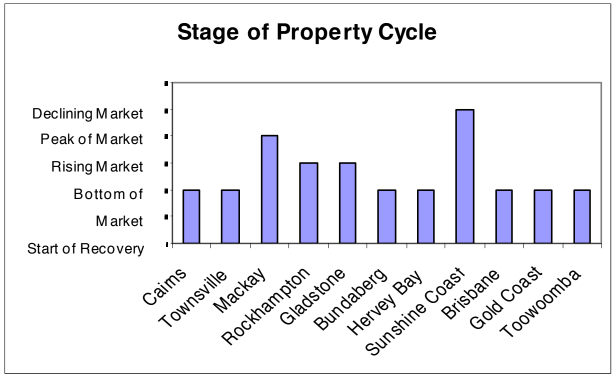
Queensland Property Market Indicators as at February 2013 – Industrial

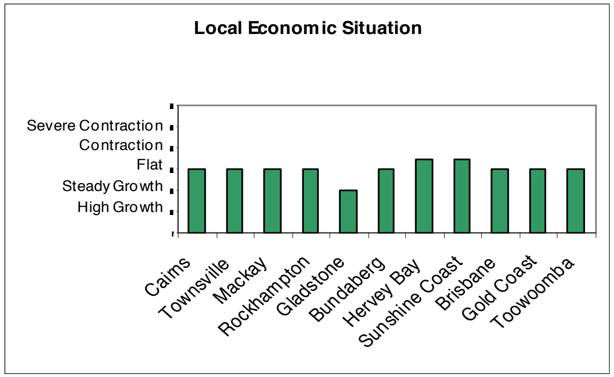
Factor	Cairns	Townsville	Mackay	Rock-hampton	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Too-woomba
Rental Vacancy Situation	Balanced market - Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available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





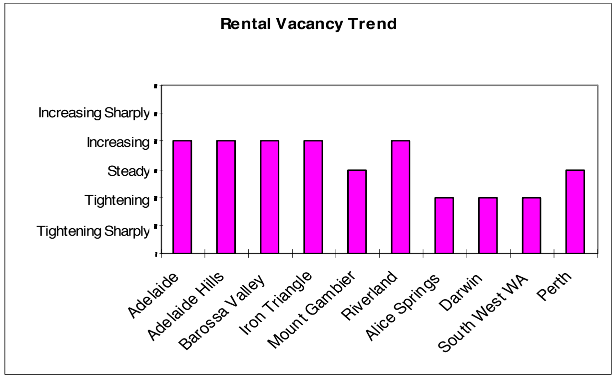


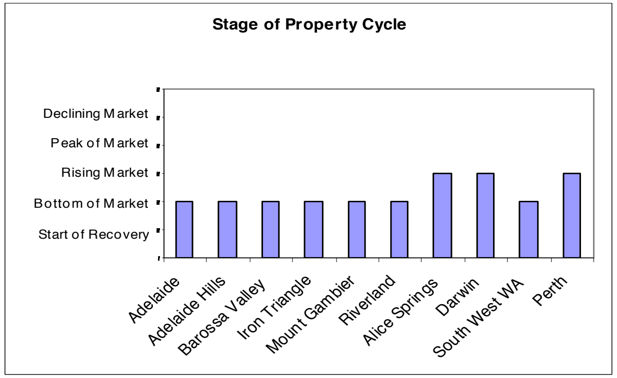
Northern Territory, South Australia & Western Australia Property Market Indicators as at February 2013 – Houses

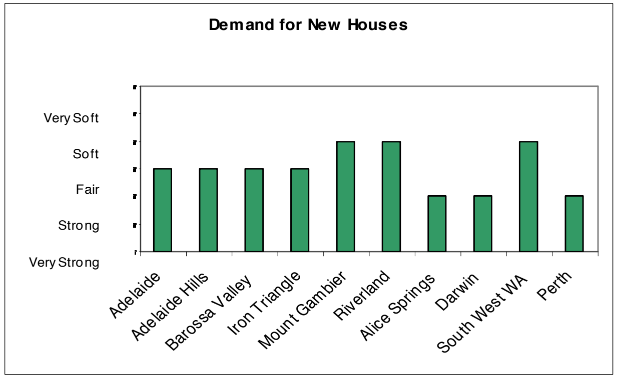
Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Riverland	Alice Springs	Darwin	South West WA	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative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

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







Herron Todd White
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Northern Territory, South Australia & Western Australia Property Market Indicators as at February 2013 – Units

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Riverland	Alice Springs	Darwin	South West WA	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Increasing	Increasing	Increasing	Increasing	Steady	Tightening	Tightening	Tightening	Tightening	Steady
Demand for New Units	Fair	Fair	Fair	Fair	Soft	Soft	Strong	Strong	Soft	Strong
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Increasing	Steady	Increasing
Volume of Unit Sales	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Increasing	Increasing	Increasing
Stage of Property Cycle	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Rising market	Rising market	Bottom of market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasion-ally	Occasionally	Almost never	Almost never	Occasionally	Occasionally	Almost never	Frequently

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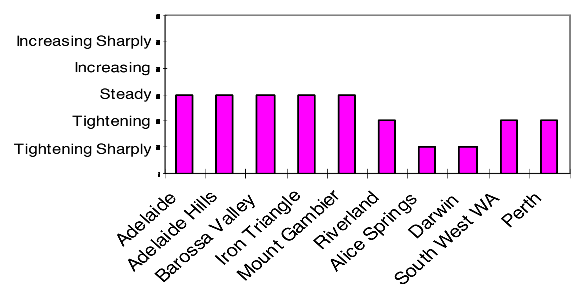
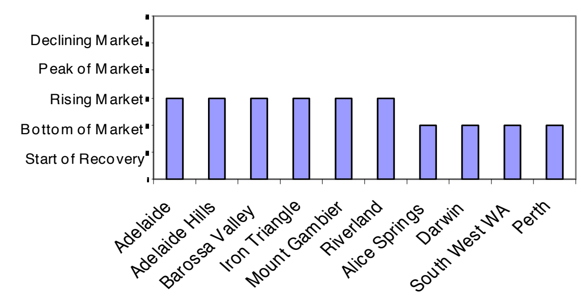
Blue entries indicate change from 3 months ago to a lower risk-rating

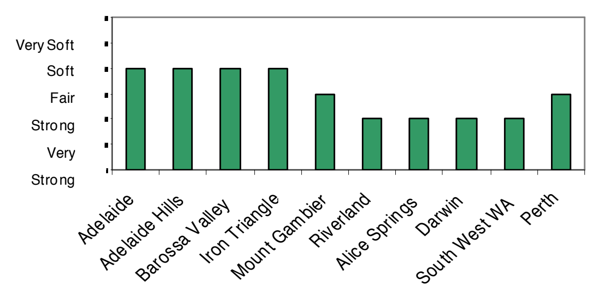
Rental Vacancy Trend



Stage of Property Cycle



Demand for New Units



Northern Territory, South Australia & Western Australia Property Market Indicators as at February 2013 – Industrial

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

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*