May 2014

Month in Review

HERRON TODD WHITE

Contents



Rumble! First home buyers' vs. investors

Are – you – ready – to...RRRRUUUMMMBBBLLEEEE!

There is tit-for-tat at the bottom end of the market. Sharks vs Jets territory where the Saturday morning defensive lines are drawn, and the weapons are bidding paddles and pre-finance. These two tribes are facing off over front lawns as they look to take some ground and send the others packing!

As property markets heat up in many established locations this year, we're seeing well positioned entry-level priced property move. Traditionally, there are two types of buyers most active in this sector. There's the first time buyers who have saved their deposits, built up their courage and are now charging head first into property ownership. It's a big decision to make the commitment and it's hard to clear the hurdles. It's also bad enough having to compete with other first homeowners for the best you can afford, without another group of buyers muscling in to make the going even tougher. Investors love entry-level priced property too – a minimal outlay means less exposure, and if it's well located with a ready tenant base, all the better.

Lower priced properties are traditionally the first to move in a rising market. We've seen detached homes within cooee of major cities snapped up, and well-priced, big-yielding units barely hit the market before they're bought. Given there are many who feel there's further strength to come in the nation's real estate, it might be time to take a breath and assess exactly where the first homeowners and investor are competing for this attractively priced property.

This month, we have the manpower to tackle the issue. From offices throughout Australia our valuers have decided to take a look and see where the first homeowners and entry-level investors are treading. We've asked our team to identify the locations and property types where these purchases play and whether there's a competition arising. Each office has considered government grants designed to give buyers a helping hand too and, in many cases, how changes to the grants have impacted this market.

For commercial players this May, we're looking at how the office sector fairing. With generally good news around the economy, operators in this sector are keen to see if there's some swagger in the market. Could predicted increases in interest rates have an impact? What are the best opportunities in the office sector right now? Is there more competition from buyers? How are vacancies?

Are rents rising? Is this computer running out of question marks?

So there it is for the merry, merry month of May – a wrap on low priced property buyers and office real estate. Just remember that rather than second guessing whether first time buyers will be keen on your space, check in with a local expert.

Herron Todd White's professional crew are only too willing and able to take on your property posers and answer them with mastermind efficiency.

Feature

EARTHTRADE
SPECIALISTS IN OFFSET SOLUTIONS
A HERRON TODD WHITE COMPANY

Australia's resources, infrastructure and property development industries are governed by environmental legislation at federal, state and local government levels. Any unavoidable, negative impact made by the development or activity, to the natural environment requires an offset to protect the biodiversity that has been affected. This is called a biodiversity offset.

If these offsets are located on either the developer's land or a third party's property (e.g. a private farm or landholder) the offset then becomes an impediment or encumbrance on the title of the property. The impact of these encumbrances pose a number of additional challenges to our valuation team as well as to our clients, as agreements to lodge the offset must be obtained from all parties involved.

Our involvement in this emerging market, and the increased risks associated with both the potential increased cost to developers and the new risks for financiers, spurred the development of Herron Todd White Environmental in 2011, which was followed by the acquisition of leading environmental broking company Earthtrade in August of the same year.

As Australia's only biodiversity offset solution specialist, we are excited by Earthtrade's rapid growth over the past three years, providing access to emerging markets, offering a unique proposition for our clients and staff and providing alignment to our broader vision to be recognised as the number one property advisory organisation in Australia. By understanding the impacts early in an assessment process we can help reduce the risk for our clients as well as our own development team.

We look forward to providing regular updates about issues being faced and successes being achieved in the environmental sector over the coming editions. Meanwhile we have included some more detailed information about biodiversity offsets, and some of the solutions Earthtrade can assist in delivering, on the following page. Furthermore we hope you enjoy the May edition of Herron Todd White's Month in Review.

Brendon Hulcombe
Chief Executive Officer

Why Herron Todd White Environmental ?

The environmental market is an emerging global marketplace currently attracting significant investment by government, philanthropic and the corporate sectors. It is this legislated market where the specialists in our environmental division, Earthtrade are concentrating their efforts. There are however opportunities to work with government and philanthropic organisations to support other environmental outcomes that sit outside of legislative approvals and leverage other work undertaken.

Earthtrade is the leading offset solution specialist in Australia. We deliver:

- offsets required by government to meet environmental approvals;
- offsets required by government to meet Development Application requirements;
- legally binding mechanisms on title to secure the offsets;
- management plans for offset areas;
- project design of offsets to ensure the property has options for other uses; and
- associated environmental technical services.

Many of our readers will also be familiar with the carbon market. Carbon offsets are another source of offset that have the same overall principle of supporting environmental outcomes which are aimed to see a net reduction in carbon emissions or sequestration of carbon. Earthtrade is working to explore carbon opportunities in conjunction with biodiversity offsets as a means of creating two benefits from one issue.

What is a Biodiversity Offset?

A biodiversity offset is an action taken to counterbalance unavoidable, negative environmental impacts that result from an activity or development. Offsets compensate for the environmental impacts that cannot be avoided or minimised.

Offsets are not intended to make the proposed activity with unacceptable environmental impacts acceptable. They simply provide another tool that can be used during project design, environmental assessment and implementation to achieve the principles of ecologically sustainable development on the basis of a zero net loss objective with regards to the environment.

An offset is an arrangement that, over time, guarantees to maintain the extent, structure and function of:

1. terrestrial ecosystems;
2. habitat;
3. vegetation associated with watercourses and natural wetlands;
4. marine habitat; and
5. individual species.

Environmental offsets can be:

1. Direct (or land-based): taking action to protect existing good or better quality habitat, the rehabilitation of existing vegetation in poor condition or the revegetation of environmentally degraded land;
2. Indirect: contributing to research or education programs.

There are various policies for environmental offsets at local, state and national government levels. The policies all have a similar provision stating that all land-based offset areas must be legally secured. The federal policy on koala habitat is one example of a biodiversity policy.

Earthtrade supports all parties in the process; from the developer to the landholder and finaciers. Our specialist knowledge spans across the highly technical and legal aspects and implications providing a commercially viable solution for today and in to the future.

Commercial

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COMMERCIAL

New South Wales

Overview
Commercial markets have copped plenty of bumps in the past few years, but more stable international economic conditions bode well for property in the sector. Prime offices always seem to find an audience, but how are secondary offices looking to perform? Is there optimism in local markets and, if so, is it justified over the long term? Our commercial professionals take a look at the office sector to see if it's beginning to fire on all cylinders again.

Sydney
The global economy has shown notable improvement over the past year, and if the recent improvement leads into a genuine recovery, it is expected to positively impact the Sydney office market.

Sitting within arguably Australia's most globalised city, the Sydney office market is anticipated to improve following a global economic recovery in terms of leasing demand, supply and investment. Improved business confidence on a global scale should translate into the re-emergence of demand for expansion space from international companies that have considerably tightened their operating budgets post ther global financial crisis (GFC). Namely, economic recoveries in the United States and Europe should drive positive net absorption in the Sydney office market down the track, as companies based out of these regions already have a significant presence in the market, albeit with office footprints that have considerably shrunk over the past few years. However, we are yet to see a recovery in the Sydney office leasing leasing, with vacancy rates increasing in the majority of Sydney's office sub-markets in the second half of 2013.

On the other hand, the investment market for Sydney's office sector has recently shown some very positive results. The volume of sales that took place in 2013 reached a historically high level with activity coming from a broad spectrum of buyer types. While buyer demand from unlisted funds and offshore groups remains prominent, the recent strengthening of investment activity from A-REITs is instilling confidence into the sector. Increased demand from A-REITs is adding to the already significant level of demand coming from a wide range of buyer types seeking office investment opportunities in Sydney.

Lack of available investment stock that fits within the core asset criteria, such as prime grade CBD located assets containing strong lease profiles, has led to institutional investors expanding their scope to cover a broader range of potential investments. As a result, a number of significant sales have recently occurred in non-CBD metropolitan office markets.

These signs that these large institutional investors have begun moving up the risk curve, is creating confidence across the broader investment market for office assets in Sydney.

Canberra
The market remains slow but we are aware of some significant interest from the private sector in leasing in the A or B stock in the City. The market is in over supply as reported in the latest Property Council of Australia figures as at the end of 2013.

In summary (PCA Office Market Report January 2014) the current office market statistics for Canberra are noted in the below table.

The result is a very competitive market which will benefit tenants who are prepared to commit for a long term.

We have seen deals offered in the market based on 15 year leases which suggest that tenants can secure space with many advantages. These incentives include capital allowances taken as either rent free periods or as a fit out allowance, and fixed reviews for the period of the lease - a typical figure is 3.75% but we have noted also 3.5%.

Stock	Direct Vacancy	Sub-lease vacancy	Total vacancy	Direct vacany factor	Sub-lease factor	Total vacancy
2,349,097	278,235	23,919	302,154	11.8%	1%	12.9%

Another incentive noted in the market is "no make good" at lease termination. The total of these incentives can be in excess of 30% for a long lease of 15 years and circa 20% to 25% for a shorter term or for a smaller area.

Typically the lessor is keen to hold the face rent as high as possible and we have noted for a significant lease area in excess of 2,000 square metres in an A grade building in the city, a rent of in excess of $420 per square metre is quoted and for a refurbished building circa $380 per square metre. The reality is that the face rents must be adjusted for incentives to derive an effective rent. Based on the examples noted above the effective rent for an A grade building for a 15 year lease in the city would appear to be circa $300 per square metre and for a smaller area in a lesser building for a shorter period a similar effective rent is achieved.

South East NSW

The south east NSW office market encompasses the Local Government Areas of Wollongong, Wingecarribee, Shellharbour, Shoalhaven, Wollondilly and Goulburn-Mulwaree with Wollongong the largest CBD in the broader region and generally seeing the most level of activity.

Conditions are stable with 2013 seeing several high value transactions in a clear sign the market has bottomed and investment confidence in the region has improved. Investors are attracted to the yield arbitrage opportunities provided by commercial office assets in the region. Agents are reporting good level of interest from local and Sydney based private investors with funds also active in seeking out office assets. The challenge across 2014 will be keeping a steady supply of product to the market.

Rents and vacancy rates are generally stable with the PCA Office Market Report citing an overall vacancy rate of 9.7% for Wollongong. The A grade market is the tightest of the classes with a vacancy rate of 7.8%, a large increase from 2013 due to the ATO relocating to its newly completed building along Kembla Street (Wollongong) and its former premises now available for lease. Rents for A grade space typically sit in the high $300 to low $400 per square metre gross range with incentives of up to 10% still common. Moving forward we forecast vacancy rates and rents to remain unchanged over the next 12 months.

Coffs Harbour

There appears to be increasing confidence in the local real estate market for office accommodation A recent auction sale at 30 Gordon Street (a double story, strongly leased office building) attracted sound and informed purchaser interest. The sale at $4 million on an adjusted 5.83% initial yield was considered to be well above market predictions. The local purchaser is a prominent developer with existing investment in the central business districts of both Coffs Harbour and Grafton.

There remains a reasonable level of vacancy within fringe CBD for office accommodation. However there are a number of new developments under construction or planned for commencement which reaffirms the perception of increasing market confidence.

There has been steady demand, principally from owner-occupiers, against low supply of smaller strata title office suites.

Sales rates for these suites tend to be between $3,000 per metre square and $4,000 per metre square for new well located strata suites.

Generally, government tenants are requiring high specification standards for any lease which has increased the quality of new supply with associated escalation in rents for prime quality space to between $390 per metre square to $440 per metre square.

Secondary older office accommodation is leasing for rates between $220 per metre square to $330 per metre square depending on size and location.

Parking within the city of Coffs Harbour is starting to to attract a premium, which could be associated with leasing. Market rates range between $65 per calendar month to $110 per calendar month for parking ranging from open to secure.

There remains price sensitivity and low demand within the CBD for first floor older offices which lack adequate parking. The west Coffs Harbour CBD precinct (west of Pacific Hwy) has also lost favour with the market as new development focuses on the eastern precinct.

Lismore

The office market remains weak with limited demand and enquiry through much of the north coast of NSW.

Larger good quality office space is limited in all centres across the region and this sector of the market tends to be dominated by government tenants. The space tends to be well held with long term leases and as a result there tends to be limited

evidence to indicate trends. The evidence available tends to be inconsistent; ranging from slightly weaker to slightly stronger over the past three years. This variation will depend on rent level initially achieved and position and quality of space.

The reflective cost to develop new office accommodation would be insufficient to justify acquisition of a site and construction. Consequently there is likely to be limited new product come onto the market and supply will remain static.

Government, semi government and non-profit organisations are the dominant players in the market. Any reductions in these authorities as a result of amalgamation or government cost cutting could quickly create oversupply in the north coast office market.

Newcastle

The past 12 months has seen an increase in vacancy in the A grade office sector in Newcastle. This could be attributed to the impact of reduced coal prices as indicated by our research and reflected by local agent comments. The large scale renovation of the Watt Street Commercial Building has seen approximately 7,000 square metres of previously ungraded space recently put onto the market recently as B grade space. While interest has been good, the property is not yet fully let.

Although there is the possibility of future commercial requirements at the upper end of the spectrum, there is zero in the pipeline that is confirmed. We note previous PCA publications have indicated the development of 22 Honeysuckle Drive, known as Honeysuckle Central which was to comprise 21,300 square metres of net lettable area. This development, however has been cancelled and will not be going ahead. The most likely location for any development is centred on Honeysuckle with several sites identified as possible candidates for future development. There has recently been a sale of the adjacent land at 18 Honeysuckle Drive for an undisclosed sum. There are no DA's current or pending on the land at this stage, however this is zoned B3 commercial core zone and would appropriately be developed into office space under the planning guidelines.

The NSW government has announced funds to revitalise the CBD of Newcastle through the introduction of light rail to replace heavy rail trains. The rail corridor will remain as public space and eight new links across it will be created to connect the inner city to the waterfront. There is also the progression of the University of Newcastle's 'NeW Space' city campus, which will develop a 10,800 square metre campus on the corner of Hunter and Auckland Streets and bring approximately 3,000 students and 200 staff members to the city centre. It is planned to open in 2017. There is potential for a real boost in investment in the local commercial market from these developments, however this is a medium to long term proposition with a 25 year timeline and the impacts of this announcement is not expected to influence the market in the short term.

Recently 36 Honeysuckle Drive, Newcastle has been listed on the market with expressions of interest closing on 15 May 2014. of May. This property is 5,379 square metres of A grade office building with a new ten year lease to Hunter Water Corporation, a NSW government owned corporation. We would expect to see smaller listed and unlisted trusts interested in the property.

Central West NSW

The commercial property market remains slow in central NSW with a widening gap emerging between owner-occupiers and investors. Those towns with mining influence have softened over the past 12 months with increasing vacancies and downward pressure on rental levels.

Investment yields for office buildings generally range from 7.5% to 9.5% depending upon the location, lease covenant and condition of the property. We are also noticing that as the value increases then yields are also softening with a greater risk perceived on the higher valued properties.

Those properties, underpinned by strong lease covenants are in good demand from investors with sale activity limited by supply. Properties that are vacant and/or requiring capital expenditure are difficult to sell.

We would expect yields to tighten over the next 12 months however value levels may not increase with rents likely to remain static or even fall.

> There is a widening gap emerging for rents being paid between government agencies and private/ local business.

The requirement of government agencies to occupy 'green energy efficient' buildings adds significantly to the build cost and developers are commanding and achieving higher rents.

Victoria

Melbourne

The Melbourne CBD has seen a decrease in vacancy rates with the Property Council of Australia reporting a total vacancy of 8.7% in its January 2014 office market report, below the national average of 10.4%. The PCA reports that a significant amount of space will come online over 2014 (106,519 square metres with 42% pre-committed) and 2015 (a further 115,624 square metres with 64% ppre-committed). The decrease of 1.1% in the vacancy rate over the six months to January 2014 was primarily due to withdrawal of office stock.

Net leasing incentives remain high, currently approximately 30% + for office space within A and B grade buildings with reports of up to 40% for such buildings with relatively high levels of existing vacancy.

Demand for top-end office space remains high with tight vacancy levels in premium grade buildings such as 8 Exhibition Street and 101 Collins Street.

Landlords are continuing to find it difficult to secure tenants within B and C grade buildings due to the sheer volume of competitive stock on the market, particularly in precincts situated on the fringe of the CBD. Effective rents are under increasing pressure due to the level of incentives offered which are at historical highs in an attempt to counteract the vacancies in these lower grade buildings.

Net absorption was relatively weak across the CBD in the last year and, had it not been for the withdrawal of office space from the market place, the overall vacancy rate would have likely increased. An example of this is the ongoing residential redevelopment of 35 Spring Street and the subsequent withdrawal of office space from the Melbourne CBD market.

Developers have taken the opportunity to buy older office buildings with the aim of converting them into residential apartments. Inner-city office stock in Melbourne that can be converted into residential use has been reported to attract a premium of between 15% and 20% on sale transactions.

St Kilda Road

St Kilda Road office market showed signs of a weaker market with an increase in vacancy rates recorded for the six months to January 2014. The overall vacancy rate in the St Kilda Road precinct increased in January 2014 to 11.4% from 10.8% in July 2013. A number of buildings have been refurbished along St Kilda Road although there are no new major office developments or refurbishments forecast in the near future. Over the past decade the St Kilda Road precinct has increasingly become more residential in character, particularly along Queens Road, and appears to be losing its prominence as an office precinct.

Newer office space located closer to the CBD in Southbank and Docklands have also been an influence in this shift. St Kilda Road's overall vacancy rate is expected to peak in mid 2014 at 11.43% according to Colliers International. A number of buildings are proposed to be converted/redeveloped into residential use such as 499 St Kilda Road (Fawkner Centre) and 20 Queens Road. An increase in the popularity of activity-based working for businesses however has the potential to put an upward pressure on office vacancy rates in the medium to long term across all office precincts.

Grade	Indicative net face rentals ($/m2)		Indicative Incentives (net)		Indicative Capital Value ($/m2 p.a)		Indicative Market Yeilds	
	Low	High	Low	High	Low	High	Low	High
A grage	$300	$340	22%	28%	$3,300	$4,700	7.14%	8.75%
B grade	$230	$280	25%	30%	$2,900	$3,500	9%	9.5%+

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The market indicator table below reflects our opinion of current investment parameters within the St Kilda Road office market.

A major player in Melbourne's office market – China

In recent times there has been a strong involvement from Chinese investors into Melbourne's office market.

Offshore investors in general, and Chinese investors in particular, have been the most active and dominant in the local office investment market, focussing on the St Kilda Road and Southbank precincts where stock appears to be readily available compared to the more tightly held assets situated in the Melbourne CBD.

All major office sectors, with exception of the Melbourne CBD, have recorded major increases in sales turnover. This is largely due to offshore purchasers looking for assets with sufficient rental income which require minimal levels of capital expenditure. Investors appear prepared to accept lower initial yields for the opportunity of longer term reversionary income when the leasing market firms.

Local investors are being forced to compete with offshore buyers and in some instances are effectively being priced out of the market. This has seen a resultant firming of investment yields for quality assets and an overall increase in capital value rates.

A number of assets are continuing to change hands via off market transactions however the strongest results which have been observed have occurred where the market has been fully tested by comprehensive marketing campaigns targeted towards a large pool of local and offshore purchasers.

Murray Outback

The office market remains subdued. Vacancy rates are reasonably low for good standard, modern offices, however have increased for second grade properties. Rents have been stable, and are not expected to increase in the short to medium term. Many tenants are established in their existing premises, and reluctant to move. At the same time, businesses have generally not increased their staff numbers in recent times, and so there has been little pressure to move to larger premises. And finally, many local businesses tend to acquire suitable premises in their self managed super funds, which creates greater stability.

Murray Riverina

Local office markets appear relatively steady with commercial property generally flat. There do not appear to be any major indications that this segment will move dramatically in either direction in the foreseeable future.

Commercial

South Australia

Adelaide

Adelaide's office sector remains much the same as discussed at the start of the year.

The Property Council of Australia has released its latest Office Market Report (January 2014) and as predicted CBD vacancy has increased slightly up from 12.1% to 12.4%.This increase in vacancy has been forecast to continue over the short term due to a construction phase during 2010 to 2012 when numerous high rise office buildings were completed. The backfill created by relocation of tenants to the new buildings has been slowly re-entering the market over the past 18 months, putting upward pressure on the vacancy rates. With more refurbished office space to come on line during 2014 the vacancy rate is expected to continue to increase slightly in the short term.

There is currently only one office building under construction. Almost fully pre-committed to People's Choice Credit Union and Santos, 50 Flinders Street is not due for completion until the end of 2015.

With limited supply forecast over the next few years as the current excess space is slowly absorbed, vacancy rates are expected to start to recover.

Leasing activity has remained fairly subdued with a noticeable trend of tenants choosing to consolidate or even reduce leasing areas as they continue to face difficult economic conditions. Rising state unemployment levels, including loss of white collar jobs in both the finance industry and within the government sector, are also impacting negatively upon tenant demand.

Investment activity has improved significantly with interest across the board from the smaller private investors to the large overseas institutions. However lack of quality stock is proving to be a problem and it is expected that with this increased demand some yield compression may occur over the second half of 2014 for prime grade assets. Primary yields are currently around 7.5% to 8.5% with secondary yields around 8% to 9%.

Rental rates for primary stock have remained fairly stable at around $350 to $500 per square metre gross, however as vacancy has increased it is expected that primary rents will start to reduce this year. Incentives for primary stock are around 15%. Secondary stock has already experienced some correction to rental rates with incentives increasing to around 25%. Secondary rental rates are expected to face further reduction throughout 2014.

Adelaide CBD Market Summary as at January 2014

	Stock (m2)	Vacancy (m2)	Vacancy rate (%)	Net Absorption (m2)
Primary grade	569,515	60,432	10.6	17,198
Secondary grade	809,021	110,824	13.7	-23,336
Total	1,378,536	171,256	12.4	-6,138

Adelaide Fringe Market Summary as at January 2014

	Stock (m2)	Vacancy (m2)	Vacancy rate (%)	Net Absorption (m2)
Primary grade	37,297	1,640	4.4	1,637
Secondary grade	182,871	15,895	8.7	393
Total	220,168	17,535	8	2,030

Adelaide CBD Office Vacancy Percentage by Grade

	July 2012	January 2013	July 2013	Janury 2014
Premium	2.4	3.2	4.4	6.3
A grade	3.3	6.4	9.9	11
B grade	6.5	10.8	13.6	14
C grade	12.1	11	11.9	11.5
D grade	15	15.1	18	17.2

(Source: Property Council of Australia and Herron Todd White)

Queensland

Brisbane

The Brisbane CBD office market comprises approximately 2,187,123 square metres of net lettable area with 10,255 square metres being added to the total supply in the past 12 months. Total vacancy rates as of January 2014 are approximately 14.2%, an increase of 4.9% since January 2013. The impacts of the continuing resources and mining sector slowdown, tight monetary policy, pressure on profits and weak business confidence have continued to impact the CBD market vacancy rates.

Over the past 24 months total vacancies with the Brisbane CBD have risen within premium, A, B and C grade properties. Interestingly, D grade commercial office properties have shown a decrease in vacancy rates, reducing from 19.4% in January 2013 to 16.10% in January 2014. Of particular note is the increase in A and B grade vacancy rates in the past 12 months. A grade vacancy rates have increased from 7.3% in January 2013 to 10.6% in January 2014, while B grade vacancy has increased from 10.10% in January 2013 to 18.7% in January 2014. The increase in A and B grade vacancies has had a notable impact on the overall Brisbane CBD vacancy rate with an overall vacancy rate that has now surpassed post GFC highs in which rates reached 11.3% in January 2010. With vacancy rates at 20 year highs, landlords are offering substantial rental incentives to attract tenants to their properties.

Additionally, while net absorption of office space in the Brisbane CBD was positive for the period between January 2010 and January 2013, there has now been a net retraction for the second consecutive half year period, with the six months to January 2014 recording a net retraction of 34,698 square metres or 1.8%. This retraction can be attributed to a continued effort by the Queensland Government to decrease their lease space in the CBD, the impact of the mineral and resource sector and the cautious market in general.

New and refurbished supply for 2014 is projected at approximately 13,092 square metres, up from 2013 when 4,278 square metres of new and refurbished supply entered the market. 2015 is forecast as providing an additional 60,465 square metres of new construction with the major addition being 180 Ann Street (57,465 square metres) and 2016 is expected to see a greater increase in construction activity. Further refurbishment projects are expected to emerge within B and A grade buildings due to the recent increase in vacancy.

As per the Brisbane CBD, the Brisbane fringe CBD commercial office market has seen an increase in vacancy rates with the total vacancy rate for the fringe at 12.7%, as of January 2014, up from 9.6% in January 2013. The urban renewal precinct, Milton precinct and Spring Hill precinct all saw vacancy rates increase while the inner south precinct saw

vacancy levels fall from 8.1% in January 2013 to 4.3% in January 2014, following an extremely active leasing period for this area while the Toowong precinct saw vacancy rates fall from 9.9% in January 2013 to 8.4% in January 2014.

The overall vacancy increase has been considerably impacted by the Spring Hill precinct with a current vacancy rate of 21.7% that has increased from 13.1% in January 2013. This increase can be attributed to the precincts evolution towards residential, short term accommodation and the medical sectors with the precinct having less occupied office Qstock now that it had 20 years ago.

Overall, the outlook for the Brisbane office market in the short to medium term would indicate that the rental market is shifting further towards a

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tenant's market as vacancy rates increase along with leasing incentives. However, growth in white collar employment is anticipated to lead to solid growth in office demand over the long term with key future growth led by legal services, accounting, other business service, technology, education and health sectors.

Toowoomba

Local commercial agents are reporting increased enquiry from investors, a likely result of the current low interest rates. A low supply of good investment stock may result in a firming of yields. This was evident in the sale of a building in Hume Street (leased to Centrelink) at a passing net yield of 7.69%. Overall however, passing net yields have fluctuated depending on factors such as quality of tenant, length of tenure and price point, with other transactions reflecting yields as high as 9%.

Owner-occupiers are active in the market place, especially in the sub-$750,000 price bracket. The majority of this activity relates to converted residential dwellings located in fringe CBD precincts. These properties have proven to be popular due to their smaller floor areas, affordable sale prices and central location with ease of access. Self managed super funds have also become a more prevalent buyer in this sector.

Leasing activity in the Toowoomba office market is considered moderate with little movement in rental levels over the past two years. The recent surge in business activity in the nearby Surat Basin energy sector has not significantly impacted the Toowoomba office market to date. The major energy companies appear to have established large head offices in Brisbane with smaller branches located close to the activity in locations such as Dalby, Chinchilla and Roma. Toowoomba, which is geographically positioned between these locations, has yet to benefit significantly.

Gold Coast

Vacancy levels remain the big 'talking point' within the Gold Coast commercial office market. While the total vacancy level is trending downward, it remains above long-term average levels. The Property Council of Australia (PCA) undertakes a biannual survey of the Gold Coast office market and analyse vacancy levels in the office precincts of Southport, Surfers Paradise, Bundall, Broadbeach and since January 2003 for Robina (includes Varsity Lakes).

The vacancy level across the total market as at January 2014 was 16.7%. In terms of geographic specifics, the total vacancy rate for Southport was 13.7%, Surfers Paradise 29.2%, Bundall 21.5%, Broadbeach 11.7%, and Robina/Varsity at 11.8%. In terms of the various building grades, the market wide vacancy for D grade stock was 28.1%, C grade at 16.8%, B grade at 12.8% and A grade at 20.3%. It would appear from these figures that tenants are seeking to move from D and C grade stock to B Grade stock in order to take advantage of reduced rental rates and high incentives that are on offer in this sector.

A positive within this high vacancy environment is the Robina sub precinct. A recent article in the Gold Coast Bulletin suggests the vacancy numbers for the Robina/Varsity precinct are somewhat skewed. The article indicates a total vacancy for Robina of only 6.1%. This is significantly lower then the Gold Coast's overall vacancy level of 16.7% and the Robina and Varsity Lakes precinct of 11.8%. We attribute this to the availability of quality infrastructure within

Robina, which is establishing this area as a rare success story within the Gold Coast office market.

As a result, the Robina Group is pushing forward with plans to construct a four-storey tower on land next to the successful The Rocket office development on the corner of Laver Drive and Robina Town Centre Drive. It has initiated a leasing campaign for the building with construction mooted to commence later this year. Upon completion, the building will provide 4,221 square metres of A grade office floor space. The building will have extensive views across Lake Lido and to the Surfers Paradise and Broadbeach skyline and will also provide a ground level communal linkage to The Rocket.

Additional activity on the office development front is the recently completed A grade Elkhorn Centre East at Elkhorn Avenue in Surfers Paradise. Developed by Maylake, who own several quality office buildings within the city, the building constitutes the first office building to be developed in Surfers Paradise in over 20 years. Progressing with the development shows significant confidence in the market from Maylake. Maylake have also achieved a 5-Star Green Star Office Design v3 accreditation for the building which we are advised is the first of its kind on the Gold Coast.

Notwithstanding, the addition to the market of the above two buildings will add further supply of floor space to the vacancy plagued A grade sector. In our opinion this may continue to keep a ceiling on A grade rent levels across the board. Although, as economic conditions recover, we anticipate this sector to perform well as businesses seek to upgrade space from C and B grade stock.

In addition to the recent development activity within the city, there have also been several sales of quality office buildings. One example is a two level, B grade building at 23 Main Street Varsity Lakes. A Brisbane private investor purchased the fully occupied, 1,867 square metre building for $5.125 million dollars. The sale reflects an analysed yield of 8.18%, a passing yield of 8.03% and a value rate of $2,745 per square metre. An additional purchase of note was by the Zupp Group at 64 Marine Parade Southport. This ten level, 4,758 square metre, B grade building has extensive views across the Broadwater and is in close proximity to the Australia Fair Shopping Centre and light rail. We are advised the building sold with approximately 37% vacant for $10.7 million. The new owner is undertaking an extensive renovation of the building in an attempt to reposition the asset and fill vacancies. Our analysis suggests the sale reflects an analysed yield of 9.4% following adjustments for letting up, incentives and refurbishment; and a value rate of $2,236 per square metre.

The dichotomy between these two sales sums up the disparities currently evident in the market. Properties that tick all the boxes are proving to be in high demand, with purchasers seemingly paying a premium. Consequently, where assets have vacancies and or downward reversionary risk, purchasers are seeking discounts to offset these unknowns.

Overall, we still view the Gold Coast office market as being at the bottom of the property cycle. While there is evidence coming through of a slight resurgence in some pockets, the evidence is not consistent across the market as a whole. We see the remainder of 2014 continuing along this path before a possible uplift in 2015.

Sunshine Coast

The Sunshine Coast office market has begun to show some signs that the bottom of the market has been reached. We have noted some increased turnover of smaller stratas to the owner-occupier market over the past six months, which has typically been the forerunner to overall market sentiment in this sector.

As an example of this confidence, a new office building is currently under construction in Buderim with good ocean views available. The complex has two levels of accommodation with basement parking and a total of circa 1,450 square metres of space. The complex has the lower level of circa 650 square metres under option to an intending owner-occupier for circa $4,400 per square metre with the upper level of circa 800 square metres leased to a national company for circa $375 per square metre net per annum.

However, apart from the above example there are few other complexes currently under construction.

There have been limited sales in the current market of good quality buildings, as the majority with good lease covenants are being held by owners.

We have noted some sales of good quality stratas up to about 200 square metres with sales being noted up to around $4,000 per square metre in the central Maroochydore area.

Overall leasing conditions are still being reported as relatively difficult by most agents with a range of space available and lessors having to offer increasing levels of incentive to get tenants to take longer leases. There is still a preference by a number of local tenants to take short term leases.

Gladstone

The Gladstone office market is intrinsically linked to the ongoing activity within the major liquefied natural gas (LNG) projects being undertaken in the region. Volatility and potential price vulnerability is expected in the next 12 months due to peak workforce numbers relating to the construction of LNG projects being reached.

Office rents in Gladstone have increased substantially and are now at record high levels. These levels can be attributed to the significant LNG related activity in Gladstone. Much of the demand for office accommodation has come from businesses associated in some way with the LNG projects. Since the construction workforce peaked in mid 2013 we have started to see an increase in vacancies mainly in the CBD. A decline in rental levels is expected if the vacancies further increase.

History has shown that after a period of significant growth in prices/rents in Gladstone, the market experiences a period of low demand and price reductions. This causes volatility and increases the risk for property values in Gladstone.

Hervey Bay

Since the beginning of the year, demand for new premises appears to have remained steady. Most interest is currently for off the plan strata unit medical space around the new St Stephens Hospital with owner-occupiers the most active. Units that are leased with good terms and tenancy profile are achieving on average around the 8% to 8.5% range for the sub $1 million stock.

A recent transaction of a strata office has however resulted in a 7.5% yield which is showing signs of confidence in the market. Good quality strata unit stock is declining which may help to lift appeal for the secondary stock which has been difficult to lease/sell over the past twelve months.

Incentives in the form of rent free periods one to three months or lower initial rental rates for a one year period with fixed increase for the next two or three year options are common for this secondary stock. A clear differentiation in rental rates between new and secondary product is likely to remain until the new stock levels are fully depleted. Once this begins to occur, we may start to see some lift in leasing rates and a shortening in lease-up periods.

Mackay

The office market in Mackay is currently facing an oversupply of accommodation. There is a large volume of office/retail accommodation available for lease, with the total current vacant space estimated to equate to approximately 15,000 square metres.

The state government recently vacated a number of large office tenancies, following the completion in August 2013 of a new building providing for approximately 7,000 square metres of lettable space, which was purpose built for the state government.

In addition to the vacancies created through the movement of the state government tenants, Centrelink recently vacated their city heart office space, to relocate to a new building in the northern suburbs of Mackay. The now vacant building, located in a prime position in the CBD, provides for approximately 1,300 square metres of floor space, and is available for lease.

The new building, which Centrelink partially occupies, provides a total of approximately 3,682 square metres. First level office accommodation is available for lease in this building.

Despite this oversupply, rental rates have remained stable and there have been limited new lease agreements to our knowledge which show any significant decline. We anticipate that the full impact of the change in the supply and demand dynamic will be felt in the market through 2014.

The news isn't all negative. The availability of vacant office accommodation is a positive for local businesses that, over the past five years, have faced a shortage of good quality office accommodation.

A number of local businesses have recently relocated to better quality accommodation around the CBD. The recent purchase of a $3.75 million commercial office premise which is reported to be part owner-occupied, and the purchase of a $3 million commercial office premise which is undergoing refurbishment, indicates there remains some confidence in this market.

Rockhampton

Rockhampton's office sector has been relatively flat in recent times. Sales activity has been predominantly to owner-occupiers in the sub $1 million bracket as they see opportunities with the current higher vacancies, low interest rates, and the relatively affordable price point.

Generally vacancies have remained elevated after a rationalisation by some state government tenants and some movement of owner-occupiers to their own premises. With an over-supply of office accommodation in the current market, investment buyers are likely to remain subdued.

However investors are still active in the region, but sensitive to occupancy, WALE and tenant profile. Quality office accommodation is still attracting investors, and the most recent significant office sale was in December 2013, for $7.5 million which reflected an analysed market yield for 9.25%. The property was fully occupied to government tenants with a WALE of 5.45 years by income. The majority of office accommodation currently on the market for sale is vacant, or part tenanted, with few investment opportunities that fit the criteria of the buyers available in this sector.

Rents are unlikely to rise in the short term, and incentives are still being required as part of negotiations to secure tenants. Some recent office leasing has seen rental incentives of up to nine months rent free.

Townsville

Confidence in Townsville's office market remains flat with activity best described as patchy.

Our latest Herron Todd White CBD office survey revealed an overall vacancy rate of 23.8% however this survey only covers office vacancies that are available for immediate occupation. We are also aware of office space being advertised for lease in several future developments which if included, would push the vacancy rate above 30%.

The CBD office market remains fragile with ongoing down sizing and a general weakening in demand for office space. Rental rates as a result are a touch softer and leasing incentives have increased from around 10% of lease value to up to 25% in some cases.

While the vacancy rate in the CBD is high, it is not an accurate reflection of the situation across the entire Townsville area, since there is a significant difference between vacancy rates in the CBD and those in the outer suburbs.

There are a number of office buildings currently on the market both in the CBD and in suburban locations, with good assets still attracting interest from investors. If properties have strong tenant profiles and a high WALE (weighted average lease expiry) then there remains interest. There are also local buyers in the market looking for bargains, while the market remains flat.

Cairns

The Cairns office market underwent a considerable period of expansion from 2007 through to 2010 when several new office buildings were constructed, resulting in the addition to the market of a number of quality buildings with green star ratings. These buildings are now all fully let and have addressed the undersupply situation that previously existed in regard to prime space. A state government office tower with 9,500 square metres of leaseable space was the last to be completed in September 2010.

Gross effective rents for good quality office space in Cairns have remained stable since the market peak, when prime rents reached the high $300s per square metre per annum, up from around $275 per square metre per annum in early 2007. Since the state government office tower has been occupied vacancy levels in secondary backfill space have risen. This has placed downward pressure on secondary rents, and seen the emergence of incentives, but modern, good quality green star rated office buildings have sustained existing rental levels. While demand for office accommodation is slow at the present time, the slowly improving economy should flow through to some increased demand for office space over the next 12 months.

We are not expecting great change in the Cairns office market during 2014. Although the general real estate market has been gradually consolidating over the past 12 months, we still perceive the Cairns office market to be at the bottom of the cycle. The commercial markets typically lag the residential by 12 months or more, and given that we officially moved our assessment of the Cairns residential market to the start of recovery phase late in 2013, we would expect (in the normal course of events) to do the same for the office market at some stage in late 2014 or early 2015. A lack of new stock should also see availability tighten as we move through the year.

Northern Territory

Darwin

We have continued to watch with interest in recent years the emerging strength of the Darwin suburban office market as it represents a very real and viable alternative to the CBD. Tenants and owner-occupiers are attracted by the lower rentals, increased and cheaper staff car parking, near city locations and easy access for customers.

The Waterfront project was well received by the market as it offers a mixed use environment of commercial, retail and residential set in landscaped gardens with water views.

Recent resales of commercial office stratas have set new higher price levels and we expect this will continue as the adjacent university campus becomes operational attracting more activity to the precinct.

The nearing completion of the Avenues project at Parap will, in our opinion establish a new Darwin suburban office benchmark for amenity and quality. The commercial portion will be developed in two stages and consist of 88 strata title units over two levels akin to the size of a shopping centre. We are impressed by the level of amenity including a child care centre, basement and street level carparking, communal board room facilities, on site management, retail service tenants and the opportunity to reside in one of the residential units above. Its near city location and ease of access from Stuart Highway and Goyder Road are sure to be attractive features for tenants, staff and customers. This level of amenity is consistent with some of the higher quality developments in other capital city business parks. Sales before completion, to both owner-occupiers and investors, have been very strong and exceeded our expectations indicating a positive market acceptance for the product. With these larger commercial projects it is important for owners and tenants that there is a strong commitment to ongoing management presentation and maintenance to ensure the complex retains a positive market perception.

Western Australia

Perth

The vacancy rate in Perth's CBD office market hit approximately 10% in December 2013, capping a year of steady declines for office leasing demand. Equilibrium in the Perth CBD office market is around 7% or 8% so it's a market that is marginally in favour of tenants at the moment. Mining companies such as Rio Tinto, BHP Billiton, Barrick Gold and Woodside went through cost-cutting phases following the decline in commodity prices that started in September 2012 and the market had seen the worst of the market sub-lease space. But in the wake, rents had fallen and incentives increased.

Downsizing and departing tenants left the market with a sub-lease tab that has reportedly stuck close to 80,000 square metres.

Weaker demand has lowered leasing rates and doubled leasing incentives to 12%, but most agents are holding firm on their outlook for a buoyant office market in 2014. Some are forecasting a CBD vacancy rate close to 10% with moves by some tenants taking advantage of favourable leasing conditions.

The Perth CBD still has one of the lowest vacancy rates in comparison to other Australian capital cities. There are still development opportunities in the market with Kings Square and Elizabeth Quay all adding to the supply of commercial space to the market over the next four to five years. Herron Todd White's prediction is that office vacancy rates will probably be higher by the end of the first quarter 2014, before beginning to track back towards 10% by the first quarter of 2015 as the impact of business conditions and global confidence improves.

Anecdotally, incentives have increased but are still very competitive on a national basis and while there is a significant degree of downward pressure on rents, they are holding up relatively well.

In terms of the number of leasing deals and the amount of office space leased, 2013 was a quiet year for the CBD, with most of the deals between 500 square metres and 1,000 square metres.

In West Perth, office rents have fallen about 20% and like the Perth CBD, smaller leasing deals have been the main focus. Vacancy in West Perth is up around 17%.

Leasing demand in West Perth is likely to take longer to rebound than the CBD because West Perth is home to small-cap mining companies and this sector of the mining market is not doing anything in terms of real estate at the moment, until such time as their market begins to show signs of improvement.

Herdsman Business Park is home to a majority of residential and commercial builders such as Georgiou Group, Giorgi, and the Alcock Brown-Neaves Group. This is a much smaller office market however one that has recently undergone some development activity adding to the space available.

Rents across most suburban office markets have fallen sharply and incentives run at about 10%.

Residential

Overview

The low priced property sector is one that moves quickly in a strengthening environment. On the whole, investor activity across a number of markets has increased and there's speculation that residential property will return to form in some areas that have been slow for the past five years. The affordable quartile of real estate also provides first homeowners with their property kick-start. This month, we take a look at how first homebuyers and investors are competing where prices are low.

Sydney

Sydney offers a range of property at a range of price points for both first homebuyers and investors. With such a wide choice within a wide geographic area we have considered different options which appeal to various sub markets within the first home buyer segment.

Young professionals who are first home buyers are typically looking at 1-bedroom units between the $450,000 to $600,000 price range in the transport corridor close to the CBD including the lower north shore suburbs (Mosman, Cremorne, Neutral Bay, North Sydney, Wollstonecraft, Waverton, Crows Nest) and the studio or 1-bedroom market in the CBD between the $450,000 to $600,000 range as a way of getting a foot in the door.

We have seen a high level of interest from first home buyers interested in the developments within the south west growth area, such as Gregory Hills, Oran Park and the most recent addition, Catherine Fields, with land releases throughout 2014. From $440,000 upwards buyers can enter these markets and acquire a 4-bedroom 2-bathroom family home for lower than the median house price in Sydney, currently around $660,000. The upside for this region will be the construction of the second airport in Badgerys Creek and surrounding employment and commercial areas as a result. There are reports of people camping out overnight to secure blocks within these new estates, coupled with the grants for first home buyers of new product, the amount of activity is high. Currently first home owners of new products receive a grant of $15,000 and stamp duty exemptions and concessions depending on the value. This will decrease in January 2016 to $10,000.

Investors and first home-buyers continue to compete within the lower value ranges within the majority of Sydney suburbs. The unit market is highly competitive with investors capitalising on continued low, near non-existent, vacancy rates. On the other hand first home-buyers are trying to take advantage of historically low interest rates with the fear that they may very soon be priced out of the market altogether. With the added dimension of limited stock on the market we are seeing competition between these parties at an all time high.

Investors typically had been competing with first home buyers for the lower end of the market with

record low interest rates and consistent rental yields near positively gearing the investment. With low stock levels and demand still rising, we have noted a widening in the price point with some investors willing to spend up to $750,000 to $800,000. An additional challenger, (being the overseas investor) has also entered the market, who is willing to purchase investments up to the $1.5 million price bracket. We note that the investor driven market has captured a wider locality spread, including the majority of the lower north shore suburbs (noted above) as well as a large portion of the CBD market. New stock appears to hold a double benefit to the investor, with not only low interest rates and strong rental yields, but tax advantages.

Investors tend to have deeper pockets or an existing property to use as equity (to reduce LMI) and so can stretch that little bit further than the first home buyer.

Speculators and investors with larger amounts of capital are hunting for acreage sites within the south west growth areas currently rezoned for higher density residential. Current owners and land bankers want to hold out and wait for an acquiring authority to pick up the land or for adjoining owners to amalgamate sites. With the announcement of the second airport and the level of growth planned for this region, who knows what these acreage sites could be worth once the tidal wave of development flows to their front gates.

First home buyers are active in the market and are searching for that deal. Most agents have reported that a large portion of first home buyers are simply just priced out of the market. Once a fair market range has been identified, it also is a race with regards to who can get finance organised first.

First home buyers need a far greater assistance package with most singles or young couples finding it difficult to save the required 20 % deposit and also being able to avoid paying LMI (Lenders Mortgage Insurance). Both national and state sovernment assistance would help overcome this initial hurdle.

First home buyer incentives have been significantly reduced over the past two years with now little or no assistance. There have been whispers however that the government is looking at trying to increase the current grants.

An option to stimulate this market could be that the current government could back all lenders to support first homer buyers and pass a legislation that would result in buyers being allowed to borrow 100% of the purchase:

- 80% from the bank at the nominal interest rate;
- 20% from the government (federal government) interest free loan

as well as the;

- state government eradicating stamp duty tax payable on all first home purchases (up to a capped amount). The significant challenge of entering the property market could be made far easier for first home buyers.

In order to further assist first home buyers from being priced out and pushing the end purchase prices higher and higher, there is a need to soften the current levels of competition.

One such change could be for those purchasing an investment property (secondary property that is not your primary place of residence) who are an Australian resident or have citizenship incur a higher stamp duty tax payment/levy. And for those international buyers (overseas investors) flooding to the security of the Australian property market, the introduction of an international property purchase tax could apply.

No real strategies as such, are available for the first home buyer to overcome the difficulties; more a shift in direction. Rent where you want to live and invest elsewhere. Or move away from the major cities to the more affordable country towns.

Canberra

The recent federal election and upcoming May Budget with reported cuts to government agencies has weakened market sentiment across all property sectors in the ACT/local NSW region.

Although historically low interest rates and a low local unemployment rate of 3.4% provide an incentive for demand, caution remains. Supply levels of both properties for sale and rent are relatively strong with the vacancy rate increasing and rents softening.

The current median prices are steady at $530,000 for standard residential and $415,000 for medium density accommodation.

Affordability then is at an optimum but, neither first home buyers or investors are overly present in the local market at this time - reflected in the 30% decrease in sales from the previous December quarter.

Most first home buyer activity is centred towards the outer Gungahlin suburbs of Casey, Ngunnawal and Bonner with typically a 400 square metre block improved with a 3-bedroom ensuite home with double garage and priced in the range of $490,000. Harrison and Franklin for medium density housing offer 2-bedroom ensuite units at circa $350,000.

There are incentives such as the First Home Buyers Grant at $12,500 for new or substantially renovated homes, but more informed purchasers remain wary given supply levels and limited potential for short term capital growth and especially so in the outer suburbs of Canberra. For those prospective buyers at lower income thresholds the Land Rent Scheme provides a way of getting into the market, albeit at a cost.

South East NSW

Illawarra

The Illawarra region has seen continued strong growth at the beginning of 2014 with both first homebuyers and investors driving the market in this upward trend.

First home buyers appear to be purchasing in new unit development complexes in Wollongong in the $400,000 to $450,000 range. This is made more affordable by the rebates and incentives offered by both developers and the government. The purchase of these new units offers the additional incentive of stamp duty subsidies. First home buyers are also purchasing vacant blocks of land in the new estates of Brooks Reach Horsley, Shell Cove and Seacreast, Flinders and then building modern style homes. Land can be purchased in these estates from $180,000 to $300,000 plus the cost to build is often in the vicinity of $250,000 to $300,000.

Investors in the Illawarra market are mostly concentrating on new residential unit developments in and around the Wollongong CBD. These units are around the $400,000 to $500,000 mark and offer a good rental return.

Developers are typically purchasing duplex sites in new estates such as Seacreast, Flinders and are advising of good profit margins once they have completed the project.

First home buyers will need ongoing assistance from the government's FHOS (First Home Owners Scheme) in order to compete with investors. The market is currently moving so quickly that first home buyers are becoming marginalised by investors in some sections of the market as interest rates continue to remain low.

Overall both first home buyers and investors are playing a significant role in driving the upward trend in the market in the Illawarra. Low interest rates are keeping both players in the market and pushing up sales prices. Investors are slightly outdoing first home buyers in driving the market many are using self managed super funds and don't mind paying a premium in order to secure the property. First home buyers often take more time in order to secure finance and are seeking family support for deposits or by using their parents as a guarantor.

Southern Highlands

Both first home buyers and investors are active in the Southern Highlands residential property market. There has been a noticeable increase in activity by investors. Price points for investors are usually in the $300,000 to $1.5 million range. First home buyers continue to be more active in the lower end of the market, up to $700,000 across the region, with this sector of the market showing definite increased sales activity . Many first home buyers also tend to purchase land and build. Both buyer types have been active in modern residential subdivisions like the Renwick estate near Mittagong and the new Darraby estate in Moss Vale. Government grants or concessions definitely assist first home buyers enter

the property market. Many first home buyers are also assisted by their families with gifts, or guarantor arrangements.

Southern Tablelands
The Southern Tablelands market, in particular Goulburn, is steady to increasing. There has been a noticeable reduction in first home buyer activity and an increase in investor activity. Price points are in the order of $200,000 to $600,000. There have been several new/modern residential estates in Goulburn, including the Belmore, Merino Country and Mistful Park. Both buyer types have been active in purchasing land and building.

This market is influenced by local buyers, Canberra commuters and Sydney investors.

The rural residential property market (2 to 100 hectares in land size) generally encompasses the owner-occupier, in particular the second or third home buyer. It is rare to see first home buyers in this market. Investors are however active, but to a lessor degree than in regional townships/city centres.

Newcastle
First homebuyers are pretty much purchasing wherever they can at the moment, which given the market is not very many places. The price boom in central Newcastle is following a similar trend to that being experienced in many spots around the country. We recently valued a house prior to auction which was advertised as offers over $480,000. With 33 bidders, the hammer fell at $680,000. All estimates prior to auction were in the low to mid $500,000 range. All sensible estimates were in a similar range. People sometimes think that is a property sold at auction, it reflects current market value. One factor which has to be noted however, is emotions take over sometimes and get the better of people on the day. In this case that would fail the definition of current market value. Given the current state of the market we think it's pretty easy for purchasers to get carried away. Buyers remorse anyone?

The scenario abve is not uncommon in the current market and this sort of activity can scare off prospective first home buyers, and in fact can scare off experienced purchasers as well. There is a fair chance if you are purchasing in the current market you may be purchasing near the peak, which is always difficult to justify, especially so given that it can be five to ten years before any current mistakes can be rectified. We are still seeing people selling properties in many instances for less than when they purchased them prior to the GFC in 2008.

Agents are now reporting the biggest issue they face on a daily basis is a lack of quality stock available for sale with stocks at their lowest levels for quite some time. This has the multiplier effect of tightening the screws further on the supply side and creating an almost frenzy like atmosphere on the purchaser side.

It's at this stage of the cycle that the media generally run a two-pronged campaign of attack. The first is to put pictures of 'battlers' front and centre in their broadsheets with arms folded and grim expressions on their faces. Often the pictures include several children that look as if they have just been told that Peppa Pig has been cancelled and there will be boiled brussel sprouts for tea. These stories generally manifest themselves in such a way that demonises the investors for being greedy and pricing the battler out of their birth right to own a home (they are demonised in a similar way to 'greedy' developers, who ironically might help alleviate the supply situation if they were allowed to be greedy).

The second is to start raising questions about foreign ownership and other suggestions to make housing more affordable. An example of this is the current discussion regarding negative gearing and whether it should be changed, reduced or removed. Negative gearing does not sit well with people who only own one home, and are unlikely to own anymore. There are several ideas floating around, like allowing negative gearing only on new builds for affordable homes. Any change however to the tax system would have far reaching ramifications and would likely need to be grandfathered in over a considerable period of time.

All these stories and angles come together and once critical mass has hit we start to hear the dreaded words and final punctuation:

"property bubble?"

Once this wonderful little genie raises its head out of the bottle for a quick peak there is no getting that little sucker back in. The genie flits here and flickers there, whimsically creating mischief wherever the muse takes it. Economists and property experts then line-up on either side of the chasm, with a wide gulf between those that predict the end of capitalism and those that patiently try to explain why "this time its different".

The truth as always is usually somewhere in the middle. And just remember a broken clock is usually right a couple of times a day.

NSW Mid North Coast

This month we will examine the current debate about affordability and who's driving the lower end of the residential market. Is it the first home buyers or is it investors?

On the mid North Coast we have noticed that both investors and first home buyers have been particularly active in the lower value segments of the residential market first home buyers have been targeting the low to mid value properties in the towns and villages along the mid North Coast, with more established well located areas being a major attraction. The price point for the first home buyer is between about $300,000 to $400,000 for dwellings and between $200,000 and $275,000 for units.

We have noticed that investors however, are generally after immediate returns rather than capital growth, and have been purchasing low value properties often in the low socio-economic areas where returns are high but, historically capital growth has been modest and slow. The price point for these investors is generally below $250,000 with dwellings in the inferior localities often selling in the low $100,000s but receiving rentals of over $200 per week.

We have also seen first home buyers purchase land within the newer estates along the coast and building their own home. Some developments still have government grants available (e.g. Sovereign Hills west of Port Macquarie). Land in this development is now selling for $180,000 to $190,000 which is up from $160,000 to $170,000 last year. This development is classified as being an urban growth area, and first home buyers may receive up to $20,000 rebate if they meet government criteria. If this grant was to be removed then demand may decrease in this developing estate, with potential purchasers considering the more centrally located but slightly more expensive estates.

These types of government grants need to continue to be made available in all developing estates, rather than just those designated as a growth areas to ensure continuing development of englobo sites, continued availability of vacant land and continuing work for tradesmen and builders.

Coffs Harbour

Coffs Harbour has traditionally been a lower economic area with the majority of the market being in the sub $500,000 range which is attractive to both the investor and first homebuyer on an affordability level.

The current available government grants benefit the first home buyer who elects to build or buy new spec homes. Savings can be made on transfer duty under $550,000 plus First Home Owner Grant (new homes) scheme which allows for a lump sum payment of $15,000. As a result we are seeing more new home purchasers through local developers and builders aimed at the first home buyers market which is in the $400,000 to $500,000 range. Typically this product is confined to the new or developing residential estates were land is readily available and priced in the $150,000 to $250,000 range. This is not seen as a huge market for the area as the low economic base restricts the potential income levels available to the first home buyer as compared with major cities. Also there is a good supply of homes and units under

$350,000 which are more affordable even with the grants or incentives available for new homes.

Coffs Harbour is experiencing an increase in demand for this low priced stock (sub $450,000) particularly amongst investors targeting higher yield properties at the bottom end of the market.

The strong local rental market appears to be maintaining demand for lower priced homes and units with investors looking to find properties that can provide positive cash flow in the short to medium term.

Reasons for this demand is the continual growth increase combined with a relatively diverse industrial base and a growing health and education sector. this means the area is not entirely dependent on tourism and sea changers which makes it a less risky investment than some other coastal towns.

Other contributing factors to the strong rental market are the major road infrastructure projects such as the Woolgoolga bypass, Sapphire to Wolgoolga Highway upgrade and the Urunga bypass, which have all helped to maintain demand at the lower end of the market segment.

Both the investors and first home buyers are competing at the lower end of the market sub $450,000 level. However due to economic and social constraints of the region there is a good supply of stock available for both sectors to compete in the market place.

While the government benefits exist for 'new' housing we will see the percentage of first home buyers increasing in this sector. However this is dependant upon the development of new estates with services readily available and land priced under $200,000.

Lismore

Owner-occupiers and first homebuyers have been the main drivers of the NSW north coast lower end residential property market. However there are now early signs that investors are re-entering this sector of the market.

The first home buyers are purchasing product across various localities on the north coast. Within the Lismore area, most first home buyers are actively purchasing existing houses within most suburbs. South Lismore is regarded as the more affordable ($150,000 to $225,000) and Goonellabah, Lismore Heights, East Lismore is still affordable, however slightly more expensive ($250,000 to $350,000). Most first home buyers have a preference for houses over units. Occasionaly, the more affecient first home buyer are prepared to pay up $180,000 to $200,000 for land and buildings at a further construction cost of $200,000 plus. Within the Casino and Kyogle localities, low end residential product generally ranges in value for existing houses in the order of $150,000 to $250,000. However we have noticed minimal activity from first home buyers in these localities.

Along the coastal localities of the North Coast, first home buyers have mostly been priced out of the market. This is particularly the case in the coastal townships of Byron Bay and Lennox Head. The first home buyers are now earmarking localities where land is more affordable to purchase and new homes can be built while cashing in on government incentives such as stamp duty exemptions and various grants.

Precincts like Ballina Heights, Alstonville and Mullumbimby, where vacant land is available have seen a spike of interest within the last six months from first home buyers. Ocean Shores also offers good entry level prices and this has resulted in a resurgence in the established housing market from first home buyers within the price bracket of $400,000 to $500,000.

Due to a combination of the higher price points within the Ballina, Lennox Head and Byron Shire localities, the abundance of vacant land within the Ballina and Lismore Shires and the Land Buyers Subsidy Scheme (LBSS) currently being offered within the estate of

Ballina Heights (Cumbalum) and the various estates situated within the Wollongbar urban expansion area, there has been an increase in first home buyers entering the market.

In regards to first home buyers purchasing house and land packages, it simply comes down to affordability. Most first home buyers are asking; "Why buy an older established home when you can build what you want for a decent price and be the first person to live in it0"? The LBSS offers eligible purchasers $25,000 off the vacant land purchase. This rebate, combined with the first homer buyer's incentive to build a new home, creates a real incentive for first home buyers wanting to enter this market.

The LBSS is also helping people find affordable living in an area which previously some potential purchasers thought was over priced and too

expansive. The LBSS has also resulted in giving the vacant land market a real boost as clearance rates for vacant land eligible for full grants have increased.

At this point in time there does not appear to be significant activity or evidence of investors competing with first home buyers within Lismore, Casino/Kyogle for the same lower priced product. However the more yield based investments such as blocks of flats have been bringing investors out to play if net yields are around 7% plus. This product in not sought after by first home buyers. Along the coastal localities, there has been recent evidence of competition between investors and first home buyers within townships that offer good entry level prices (such as Ocean Shores, Ballina and near coastal locations such as Mullumbimby). At this point in time, there is no buyer market dominating over another and the buyer market is more evenly spread.

First home buyers are notoriously price sensitive and at the mercy of lender's criteria (i.e. if you don't have 20% equity then it will be difficult to finance a purchase). There is also the issue of job security among the younger first home buyers and as a result, the first home buyers exhibit reticence in committing to a long term mortgage.

The general first home buyers grant in NSW is restricted now to 'new build' development. This seems rather odd as any new build project on recently purchased vacant land would attract a total cost outlay in the region of $400,000 with Lismore City, $325,000 to $350,000 in Casino/Kyogle and above $400,000 for localities east of Wollongbar. This makes is difficult for the majority of first home buyers to enter the market.

It is our opinion that in order to stimulate first home buyers (or investors) in the North Coast residential property market, the rules to allow first home owner grants need to include existing houses (as it was in the past). This seems more reasonable with the lower prices of older established homes which are more attractive to the price conscious first home buyer.

On the North Coast, there are a few first home buyer brave souls that are coming up with strategies that help overcome the affordability issue. Some first home buyers are combining financial resources to purchase property as a partnership i.e. friends or siblings. There is also word on the street that some lenders are using this grant plus the first home buyers' entitlement as a deposit. This gives first home buyers the ability to jump into the market quicker rather than saving all those pennies for what seems like a life time to get that required deposit.

We have noticed that investors are becoming more active in the coastal townships of Lennox Head, Byron Bay and Ocean Shores. This is a result of increased optimism in the market place combined with stronger rental returns and a lack of available rentals. While the price point for property in the

Byron Bay and Lennox Head area is still firming and remains somewhat higher than that of other locations with an entry level of in excess of $400,000, there is evidence of purchasers securing units and established houses up to $800,000 purely for investment purposes. These buyers see the value in a long term capital gain while cashing in on a rising rental yields.

An example of this is a sale in Byron Bay for a residential property purchased for $725,000. The property comprised 4-bedrooms, 2-bathrooms and a 2-car attached carport. The property has good external condition, good internal condition and good presentation and was situated in an established residential precinct of Byron Bay. We were advised that upon settlement, the local agents secured a lease of $800 per week for the property and the investor.

Country NSW

The activity of first home buyers in the Dubbo residential market has been extremely limited in recent months. Low interest rates combined with record low vacancy rates has seen an influx of out of town investors in the market, who are outbidding first home buyers for properties in the low to mid market segment up to $400,000.

First home buyers are still active in Rosewood Grove, where a seven year owner-occupier covenant restricts the activity of investors. The area has improved significantly in recent years, from a housing commission area to a redeveloped residential estate. Rosewood Grove is now the most affordable residential area in Dubbo, where brand new homes can be purchased from $300,000 to $350,000.

If the government were to re-introduce a first home owners grant similar to the levels that were in place in 2009, then the activity of first home owners in the market would substantially increase. However while interest rates are low, investors will remain competitive in the market, keeping the activity of first home owners to a minimum.

Victoria

Melbourne

With interest rates at record lows and property prices in many regions beginning to increase, now may be the perfect time for first home buyers to enter the market. So why are first home buyers only trickling in, when many would expect a flood?

Many first home buyers are purchasing in areas where land is inexpensive, however they are still able to commute to Melbourne via either a car or rail link. Suburbs such as Werribee, Deer Park and Cranbourne are fast becoming a mecca for first home buyers and young families due to the affordability of these suburbs. However there may be an oversupply of new house-and-land packages in the western suburbs, which could intensify given the recent job losses in the surrounding area.

Investors on the other hand are seeking properties with different characteristics than those of first home buyers such as proximity to public transport, infrastructure and strong rental demand. Investors therefore are interested in different suburbs. Many investors are seeking out properties in established suburbs such as Bayside's Highett, where they can manufacture equity by renovating an existing dwelling. Highett is in great demand; the average number of people looking per property is 40 versus the Victorian average of 22.

Both domestic investors and first home buyers are steering clear of the CBD, as international purchasers from countries such as China, Malaysia and Singapore are paying premiums for off the plan inner city apartments. The oversupply of certain properties has resulted in Melbourne now having the softest rental yields of any of the capital cities. Gross yields for houses are now below 4%, while units are slightly higher at 4.2%.

Another reason why first home buyers have not been active lately is the reduction in first home owners grant's. Five years ago a Victorian purchasing their first home off the plan was eligible to receive $32,000 in grants. As of 1 July 2013 that grant has diminished to $10,000, with established homes not eligible to receive any grant. However the reduction in the grant has been offset somewhat by stamp-duty concessions.

Peter Bushby, president of the Real Estate Institute of Australia, says, "The major concern of first home buyers is associated with saving a deposit and if they are not able to enter the market they cannot take advantage of the record low interest rates". On a more positive note, increased competition among lenders has led to loans being offered with lower fees and greater benefits.

In order to overcome the affordability issue, first home buyers have been using various strategies in order to enter the property market. A popular method at the moment is to purchase a property and then lease it out. The rent helps cover the mortgage and the owner can take advantage of tax savings through negative gearing.

Another way of easing the financial burden of a property is to purchase it with someone else, such as a parent, sibling or partner. This assists with another income helping meet monthly repayments and can also avoid incurring extra bank fees. When parents or family help out when gathering a deposit, Lenders Mortgage Insurance (LMI) potentially can be avoided, by insuring your loan-to-value (LVR) is below 80%, thereby save you thousands of dollars.

With record low interest rates, competitive loans and a market that might be on the brink of resurgence in many areas, now might be a fantastic time to take the plunge and enter the property market.

Murray Outback

Residential property values in Mildura have started to lift in the past six months, with agents reporting that demand is greater than the available listings. Most homes and units are selling within one month of listing, and often at the upper end of the seller's expectations. This is a welcome improvement from the challenging conditions experienced during much of the preceding four to five years.

So what has changed? Investors have been active in our market for the past three to four years, attracted by a tight rental market and comparatively strong returns. Agents report however, that demand from investors has not increased in the past six months.

The increase in demand seems to be coming from owner-occupiers, who appear to have entered the market in greater numbers. While some of these buyers are first home buyers, our observation is that most of the owner-occupiers are either people moving to Mildura, or locals who are trading up into larger, more expensive homes. The most in demand segment is 3- or 4-bedroom homes in the $270,000 to $360,000 price bracket. Many first home buyers are able to enter the market at these levels.

Murray Riverina

Discussion with a loan applicant indicated that they were keen to buy an investment property after mooted changes to the pension and the fact that they didn't want to work until they were 70. This triggered interest in an investment property which also had some cross border issues (mostly relating to health service provision) with the client keen to secure an investment property they could move into when they were ready to downsize. They were looking at a modern dwelling which was not too large.

Interestingly most feedback from agents is that first home buyers are generally not interested in an older 'dooer-upperer' but they would rather move straight into a brand new modern brick veneer dwelling with 4-bedrooms and 2-bathrooms in most instances. Local investors are typically interested in older stock at low entry points which can be let out at a reasonable yield. The contribution of tax depreciation schedules does even the investment return in favour of more modern dwellings where a significant proportion of depreciation can be claimed against the income of the investment property. Nevertheless the likely returns need to be assessed on a case by case basis.

Multiple land releases in Moama and Echuca are likely to spur some additional interest predominately from first home buyers in the market at both locations.

Queensland

Brisbane

Brisbane still seems relatively affordable amongst the capital city front runners. Everyone out there is waiting for our real estate to really start kicking in – particularly beyond 5 kilometres from the CBD. It feels like our turn after the gun market runs of Sydney and Melbourne. The problem now falls firmly upon the shoulders of the first home buyers. They are the group who has to find ready cash to break into our market. We like to think there are plenty of options in south east Queensland, but where are they?

Our doyens are saying most first timers are definitely looking beyond the traditionally hot 0 to 5 kilometre radius for detached houses. Buyers will keenly seek a typical single level home below $500,000 and stake their claim. The other great movement amongst the entrepreneurial youngsters is to make their own fun where they live. By that we mean there's a trend away from always heading into the CBD for your downtime with any number of uber cool cafes and restaurants opening up further out – suddenly suburbia is hip. In the southern suburbs of Brisbane, look towards the 8 to 15 kilometre band. For example, Moorooka is getting a name for itself amongst the young and typical 1950s 3-bedroom, 1-bathroom dwellings of average condition below $600,000 will find suitors.

Entry-level investors are probably a tad more ambitious with their pricing and, as such, you'll find them looking closer in. Those keen on detached housing can certainly find readily rentable but modest single unit dwellings up to the $600,000 range.

Mid-ring investors are active in the same pockets as first home buyers, particularly Mount Gravatt where there is quite a bit of proposed development with an increase in infrastructure in coming years. Investors here are generally at the same price point as first homebuyers, but can usually push that bit further financially if required to get what they want. Investors are active in inner city units too – particularly interstate and international buyers. The caution here is to make sure you seek independent local advice before saying 'yes' to a new unit.

As far as activity from first homebuyers, they've been less present of late compared to the end of last year. Inner city suburb single unit dwelling price points are a bit rich for first timers – people looking to upgrade usually dominate this market. If they are operating in this market, it's usually when buying second hand units and townhouses. Queensland saw the first homebuyers grant amended two years ago to exclude established housing. As such, first time buyers were more likely to look at building their first home or buying a new home to get the building boost of $15,000, as opposed to buying an established home where no grant applies. We have noticed of late, however, that these buyers will acquire property in a location that suits them regardless of whether

they qualify for the grant or not. Continued low interest rates have also played their part in making the grant less imperative.

Overall, this entry level sector seems to be moving along at a steady pace at the moment with good levels of demand but not the panic buying seen in previous years. While we're sure there are those that would canvas for any stimulation of the market, we don't see any need for it just yet.

Toowoomba

While affordability issues continue to impact the larger markets across Australia, Toowoomba remains an attractive proposition for first home buyers. Older dwellings that require renovation or remodelling can be purchased for around $200,000, although properties in this price point are becoming rarer.

First home buyers have multiple options in Toowoomba. Older timber dwellings, dated but functional brick dwellings, new housing on small to medium sized lots and both new and second hand unit options are available to buyers in this market.

Approximately 87% of all residential property transactions in Toowoomba are under $500,000. Accordingly there is strong competition for the first home buyers from upgraders and investors.

Generally the first home buyer sector of the Toowoomba market is positioned in the sub $400,000 price point where there is a number of housing options available.

Increasing activity has been observed across most suburbs, however dwellings that are competitively priced, convey renovation potential or are positioned in the more affluent suburbs are generally subject to competitive buyer inquiry. Sometimes this competition elevates prices above the realm of affordability for first home buyers.

New unit construction shows no sign of slowing with the Toowoomba Regional Council receiving ever increasing development applications. The influence of the first home buyers/builders grant has traditionally been well received in the Toowoomba market, as a $7000 grant can be highly beneficial towards securing a suitable deposit for a loan application for a dwelling of say less than $400,000 in value.

Median dwelling prices are rising, due to improved confidence in the region, external factors such as low interest rates and mining activity and the influence of new housing construction that continues to demonstrate higher pricing. This is not good news in terms of affordability, however the Toowoomba market has a long way to go before it realises its full value potential when compared to median prices across other regional centres in Queensland.

Gold Coast

Central and Northern Gold Coast

Over the past 12 months the number of first home buyers in the central Gold Coast is fairly moderate however we are aware of first home owners buying to the western suburbs and generally to the cheaper estate pockets such as Parkwood, Helensvale, Arundel and Coombabah. We are also aware of some entering into the market by buying lower end units in the Southport and Labrador area. A typical first home buyer may have a price point of circa $175,000 to $400,000. However an investor could have a price point of say $500,000 or even $1 million plus in some cases.

In the nrthern Gold Coast first home buyers are leaning towards house and land packages. A strong market has made existing homes less affordable and this has made building more attractive. A typical price point for a first home owner building on the northern Gold Coast would be $380,000 to $430,000. As per usual it depends on the estate, the land size, house size, etc. but a 4-bedroom, 2-bathroom house on a 450 square metre lot in a new estate would be priced at $400,000. In the past few years first home owners have been better off buying an existing home but due to a stronger market many first home owners are leaning towards building.

The unit market in central areas close to the beach has been subdued for a number of years with a recent firming in price levels. This appears to be driven mainly by investors. In this market under $350,000 first home buyers are competing with the investor with agents reporting the investor is wary of higher body corporate fees which drive down the net return on investment. Stand-alone housing in the central areas (such as Mermaid Waters, Broadbeach Waters, Bundall and Benowa) has firmed in recent months for entry level housing rising from the high $300,000s to very low $400,000s into the mid to high $400,000s with first home buyers being driven out to the more outlying suburbs such as Nerang, Gilston and Carrara where it is still possible to get a home for under $400,000.

First home buyers are competing with the investor market, however typical investors often have higher points price points. Generally the central Gold Coast is becoming quite heated and is now a sellers' market with properties selling quickly and buyers competing to secure deals. This is currently putting significant upward pressure on values. Investors are clearly winning with many not having to get finance pre approval (i.e cash buyers, foreign and interstate buyers).

It should be pointed out that a lot of interstate and Chinese buyers are buying house and land packages on the northern Gold Coast for investment purposes. Sydney buyers are taking advantage of their increased equity in a strong Sydney market and purchasing in a cheaper Gold Coast market, compared to Sydney. While this is placing upward

pressure on demand, local buyers can still enter this northern corridor market due to building costs been fairly stable and land values in this area only increasing marginally. There is enough englobo land and new estates getting developed in the northern corridor to cater for the increased demand from both first homebuyers and investors.

In summary, investors are winning the race in central Gold Coast but in the northern corridor we believe first home owners are still competing with the inflow of funds from investors.

In Gilston there have been recent increases in activity for house and land packages both to local first home buyers and non local investors. In general the non local investor is paying more both for the land and for the building contract. For example two sites in the same estate recently sold.

The first was to a non local investor who for $476,500 purchased 146 square metres of living area in a 4-bedroom; 2-bathroom house with double garage on a sloping 600 square metre block. The local for $473,000 purcahsed a more level 700 square metre site with a 213 square metres of living space, 4-bedroom house with double garage without landscaping or fencing. In this instance the local was a clear winner. However the land cost was higher due to non-local investor activity.

First home buyers are fairly active throughout the Gold Coast, however the confidence and expectations have taken a hit in recent times due to the strong market. For example take a standard 4-bedroom, 2-bathroom house in a suburb such as Ashmore or Parkwood. If this sort of property was placed on the market about 12 months ago for say $450,000, then you would expect moderate interest with maybe one or two offers 5% below the asking price in a one to two month period after listing. Now however one could list that same property for $475,000 and you would expect a lot of interest with multiple offers very close to the asking price within two to three weeks of listing.

First home buyers are defiantly still in the market place but due to upward pressure on demand and prices some have been priced out of the market or are waiting for things to cool off.

While grants help first home buyers and those that build, we believe that under the current framework the values of typical grants are often lost by over inflated developer land sales. However the grants available do assist first home owners and without them we would see a fall off in demand in places such as the northern Gold Coast where many first home owners are now buying and building.

The first home buyer market will be stimulated by greater employment opportunities and higher salary levels in the area (i.e. improvement in local economy).

- Open up grants to existing properties;
- Raise the gran;t
- Axe stamp duty charges.

We have seen first home buyers joining or syndicating together to buy their first property to try and help raise more funds to buy completed product as they compete with investors and drive prices up.

With house and land packages, the first home buyers are opting for less in the contract i.e. they might choose to supply the appliance at a cheaper price, or opt out of the fencing or landscaping or floor coverings, etc. to reduce the initial cost to get into the market and aim to complete these items over time.

Southern Gold Coast and Tweed Coast
Across the southern Gold Coast suburbs investors are favouring the higher yield low to medium end units towards the beachside suburbs around the $200,000 to $400,000 mark.

First home buyers are generally wanting a house at entry level around the $350,000 to $500,000 mark on the western side of the highway in locations such as Reedy Creek and Elanora. Both investors and first home buyers have been active in the northern NSW coastal subdivisions within Kingscliff, Casuarina and Pottsville. The rental returns are steady and the lifestyle (excluding the commute) is family and beach orientated. Both completed homes and house and land packages are similar in price to Coomera which has the same commute time to work but is 30 minutes from the beach.

First home buyers appear more active at present. This is possibly a result of pent up demand while nervously observing the market and looking for the bottom with the market being depressed for so long, this recent spike in sales we have experienced has persuaded them to jump in and join the wave of activity.

The media has contributed in creating this recent jump in the market with a lot of talk about the market turning. However across the southern Gold Coast suburbs, signs indicate that this jump over the last few months is slowing down.

The run of short weeks, Easter and school holidays may again lead to a build up of sales for May which is generally the busiest valuation month we experience.

Sunshine Coast
As the Sunshine Coast property market unwinds, the buyer make up is becoming interesting. As mentioned in previous MIR's, the greatest level of buyer activity is in the sub $500,000 housing market. The most active buyers in the market for these properties are both the investors and owner-occupiers with the first home buyers being a small component of the owner-occupier market. As we move into the higher value bands, the percentage of investors tend to fall with owner-occupiers (second and third home buyers) being most active. It is in this sub $500,000 value band that we are most interested in.

Activity has increased for both the second-hand housing and new house and land package products. Increases in sale volumes have been experienced in both sectors. However since the start of 2014, and as supply of second-hand housing has declined, the ability to purchase this type of product has fallen.

The new house and land package product has however continued to be a major appeal for both investors and owner-occupiers. The developing of smaller lots has allowed a person to buy a block of land and build a home for under $400,000....

....in some cases under $300,000 (really small blocks). Anecdotally it feels like the investor and owner-occupier ratio is 50/50.

As we have previously mentioned, the first home buyer component is pretty small. While first time buyers do have grants on offer ($15,000 towards a new property) to help them get into the property market, we do not believe this is having a major impact in the decision-making process given that other factors weigh more heavily on these buyers. The other factors tend to be job security, 'under' employment and lifestyle choices. It is only when these factors have been answered that they will be willing to dip their toes into the water.

Gladstone

The Gladstone residential market continues to ease with declining prices still evident which have been

decreasing since November 2011. This has been seen across all residential market sectors including vacant land, residential units and dwellings.

Local buyers are coming back into the market as prices are decreasing and becoming more affordable. The buyers are first home owners as well as home owners upgrading. Interstate investors are still active however, interest has slowed significantly.

First home buyers are taking advantage of the Queensland Government Great Start Grant. Some developers are currently offering 0% deposit for eligible purchasers on house and land packages in the $400,000 to $500,000 value range. This will buy a modern 4-bedroom, 2-bathroom dwelling in a modern suburb of Gladstone, such as Kirkwood and New Auckland.

Older more central suburbs of Gladstone typically provide smaller and more modest accommodation in the $300,000 to $400,000 price bracket which are also attracting interest from first home buyers looking for more affordable property investment.

Construction of new homes in modern estates has slowed significantly due to a decrease in investor activity. However new product is still being project marketed to investors. They are typically purchasing house and land packages of modern 4-bedroom, 2-bathroom dwellings in modern suburbs of Gladstone, such as Kirkwood and New Auckland. Project marketed investment purchasers are typically paying between $400,000 to $500,000.

Due to the current oversupply of vacant land and new dwellings, there is not considered to be any competition between first home buyers and investors.

Rockhampton

This month we zoom in and have a look who's buying what. In the red corner we have the silver fox, cagey and cunning always looking for a low entry point and a high yield. That's right your typical investor; combing through the property week, talking to agents across the country or interstate, searching for that all time bargain and growth area!

The Rockhampton region offers plenty of options for these wily old foxes generally the house and land packages being offered for sale in emerging estates such as North Ridge, Varsity Park and Chancellors where we are seeing entry level prices starting at around $380,000 and generally ranging up to $500,000. Although be warned to do your homework before signing on the dotted line.

In the blue corner we have the up and coming young bunnies eager to get their hands on property for the first time; many being local, born and bred or moving here for work early in their careers, sick of renting with the pack, they have saved up their deposit and are ready to move out, wanting to stake their claim. The are generally looking at prices between $250,000 and $350,000 in more established areas such as Wandal/Allenstown on the south side, or Frenchville/Berserker/Koongal on the north side.

Government grants in the past have stimulated the market substantially however the current and only available carrot being dangled by the

Queensland Government exists for a first home owner encouraging them to purchase and construct a new dwelling in return for a $15,000 rebate. This is however in contrast to my earlier assessment of the region, as most new homes even with the grant are still above the $350,000 threshold and as a result we believe the impact has been minimal.

This age old battle may be heating up in the larger metropolitan areas. However given the relatively stable market the Rockhampton region has experienced for many decades, now combined with the differentiation between property selection, there is minimal competition between the two groups and we have therefore been fortunate to escape the conflict a very lucky thing for all those young bunnies leaving the burrows as the wily old fox is usually able to find an alternative meal.

Mackay

The downturn in the coal industry continues to have direct flow on effect to the Mackay residential market. The local market has seen reduced demand and sales volumes over the past 12 months, with a particularly large decline in rental values on the back of increasing vacancy rates. Investors were drawn into the market with the lure of high rents achieved on the back of a very strong resource sector. Now that rents have fallen, and vacancy rates have increased, with lower sales volume across Mackay, the prospect of capital growth is seen as limited in this current market environment. It is more likely that in the short term there may be some slight reductions in line with reduced rents and demand. Historic low interest rates are also cushioning the market. Everything hinges on how the resource sector and coal mining activities recover.

There just appears to be a wait and see attitude to the market. At the moment investors appear to be holding their nerve with limited completed investor stock being presented to the market. The major risk to the market is whether investors are prepared to continue to accept the lower rental returns and high vacancies in the short term future. Should a large number of investors decide they do not want to accept this reduced yield, or interest rates begin to rise, it has the potential to increase supply of houses for sale and have a direct negative impact to the Mackay market.

Hervey Bay

First home buyers are considerably more active in the property market across the Fraser Coast, which has stimulated demand in predominately the lower to mid price brackets. One agent has reported that seven out of eight sales of new dwellings within a new estate are first home buyers. This increased activity may be due to the Fraser Coast Regional Council introducing the Hervey Bay Housing Affordability Incentives Scheme which contributes a $12,000 rebate towards the sale price of a new property (for both land and house and land packages in selected growth corridors).

This rebate coupled with the state government Great Start Grant for eligible first home owners provides a very attractive incentive towards the deposit for first home buyers to enter the market.

Investors are still buying property in the region, with strong demand for stock priced below $250,000 which typically sells within four weeks of the initial listing.

Excess volume of units is slowly being absorbed, with most interest for townhouse type stock located close to the beach and shopping. Overall market sentiment has definitely improved over the past twelve months, with interest rates and values remaining steady, which has provided much needed stability and confidence for the area.

Townsville

First home buyer activity in the Townsville market appears to be mostly in the housing sector and in no particular locations but rather across the board with activity generally in the sub $400,000 price bracket.

Housing priced in the sub $350,000 price bracket is currently attracting the attention of both first home buyers and investors. Both sectors alike perceive now is the best time to buy, with investors appearing to be the most active and are currently coming out on top when competing for stock as they are generally quicker to act and commit.

Currently the $15,000 home buyers grant for Queensland applies to new homes only. With median house prices for established housing still soft, the wide differential between the purchase costs of a new house construction verses the cost of an existing house continues to retard the economics of new house construction. This is resulting in low levels of take-up of the first home buyer grant in our local market.

We consider the best way to stimulate first home buyer activity is to apply the first home buyers grant to both new and established homes. This would enable second home buyers to sell out of their first homes to these entry home buyers, with second and third home buyers historically more likely to build new homes then the first home buyer market. This would provide first home buyers with an opportunity to enter the market while the median price is still soft. It would also likely stimulate the new housing market with second and third home owners typically now in more financially stable circumstances then when they purchased their first homes and are therefore more likely to look at upgrading to a new home.

Cairns

The Cairns residential property market is building in momentum and has moved from the 'bottom of the market' to the 'start of recovery' phase in late 2013. The market is seeing much stronger buyer demand evident and sales activity has lifted significantly over the past six months. Most areas are no longer buyers markets and are moving towards equilibrium between buyers and sellers. Prices are starting to rise, stock is depleting and previously unsaleable stock is starting to move.

The northern beaches market has also been stimulated by the proposed $8 billion Aquis resort development, which although still prospective at this stage is nevertheless generating additional market activity and increased prices in its immediate vicinity. Though prices have typically increased by up to 5% over the past 12 months in the more popular suburbs, there has been little change in other areas and overall price movements have been more modest.

Demand from first home buyers and investors has been generally slow over the past four years, and while increasing as the market picks up, it is by no means reaching the level where first home buyers and investors are out-competing each other for similar properties.

Higher sales rates have reduced the amount of stock available due to the number of sales growing in excess of new properties being listed for sale. Nevertheless our research indicates a total of 1,355 houses listed for sale as at the end of March 2014, relative to house sales now running at about 2,500 per annum, and 818 units listed for sale as at the end of March 2014, relative to sales of about 1,300 per annum. In other words, there remains an adequate stock of housing available to satisfy the needs of first home buyers and investors without the two groups having to compete.

Restricting first home owner grants to new dwellings only has also been spectacularly unsuccessful in getting first home buyers into the market in Cairns. With an almost complete absence of new apartments being built, new home owner grants are only effectively available on new outer suburban houses, and that does always suit the first home buyer. For example there are first home buyers foregoing the first home buyer grants and opting to buy a near city established house or apartment which better suits their urban consumptive lifestyle, in preference to buying a new house in an outer suburb.

South Australia

Adelaide

We consider first home buyers in Adelaide to be in the market for property up to about $450,000. Of course there are some first home owners that would spend more than this but the majority would probably be within the $300,000 to $400,000 range. It is worth noting that the first home owners grant is only available on properties worth up to $575,000.

Generally the outer suburbs are considered to be the domain of the first home buyer. In Adelaide's case this means the outer northern and the outer southern suburbs. Mount Barker in the Adelaide Hills (to the south east) is one example which has increased in popularity and experienced significant growth in the past decade. This is mostly due to first home buyers looking for the hills or tree change, and feel that this is offered by this area in conjunction with affordability and good access to the CBD via the freeway.

We often hear that purchasing your own home is becoming a distant dream, but in the cheapest mainland state it is difficult to believe that this is really true. There are many properties available within the metro area of Adelaide that are well under $400,000. Of course these are not modern 3-bedroom, 2-bathroom dwellings with open plan living, but many are close to the city (5 to 10 kilometres) and in established desirable suburbs with good services and access to public transport. The question is whether the first home buyer is willing to start small (with only two bedrooms or even one) or maybe compromise on certain aspects, which includes unappealing exterior, dated fit out or being attached, in order to get into the market in the first place. Those wanting new or modern homes do tend to have more limited options in this price bracket and are going to be somewhat limited to the newer sub-divisions within the traditional first home buyers markets, unless they are prepared to spend time saving up in order to enter the market at a higher price bracket.

Investors are understandably much less fussy when selecting property and often are looking for location as the priority. That is location to the city, location to public transport, location to shopping centres, location to the universities, location to the beach, knowing that these properties tend to be easier to rent and also hold value due to, unsurprisingly their location.

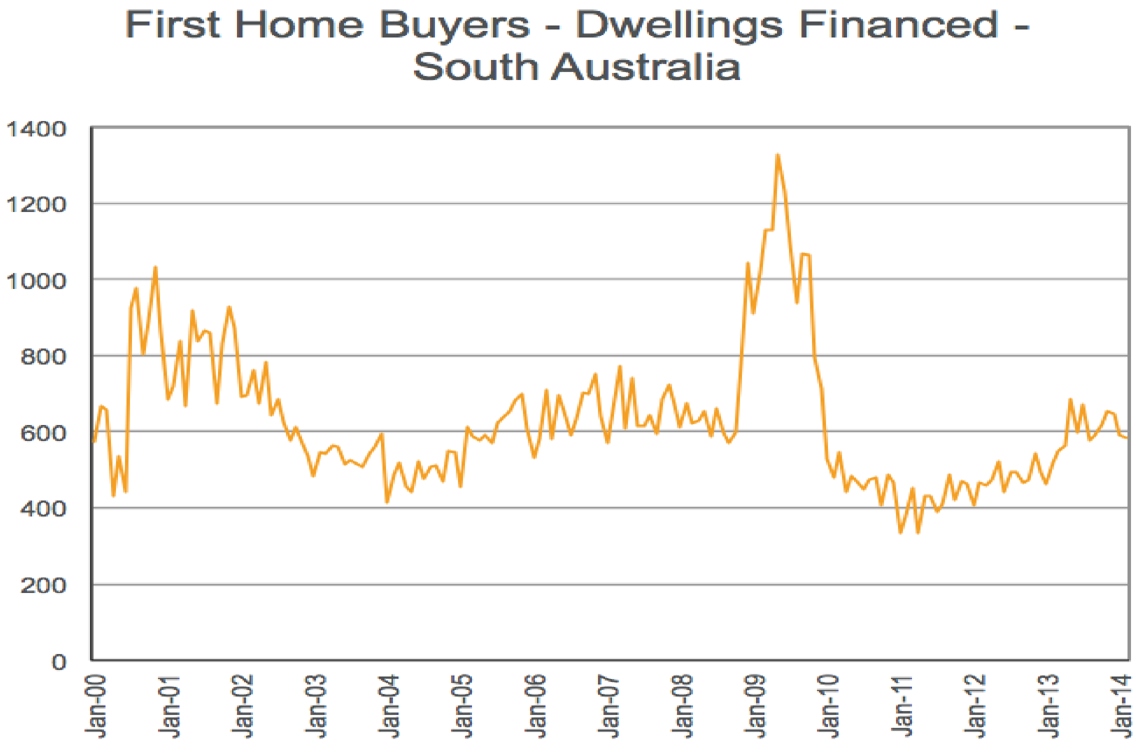
Generally local investors are more interested in established dwellings and often consider future development potential, such as sub-division of corner allotments to increase future returns.

It appears that in the sub $500,000 bracket investors have returned to the market and are currently quite active. This demand is being driven by numerous factors which include, vacancy rates holding steady, rental rates increasing slightly, interest rates remaining low and speculated to remain around current levels and signs that the Adelaide residential property market is starting to show capital growth.

In the $350,000 to $450,000 price bracket in the more desirable locations, including newly constructed in-fill, limited stock in conjunction with increasing use of auction as the sales method is seeing increased demand from investors pushing prices up and often pricing first home owners out of this market.

Over the past five years the first home owners grants and boosts have changed numerous times in order to stimulate the housing industry in the wake of the GFC. During 2009 grants totaling $25,000 for newly constructed and $18,000 for existing dwelling caused a significant spike in first home owners entering the market (see graph). As the boosts were removed and reduced at the end of 2009 first home buyer activity declined through 2010 and appeared to bottom out during 2011. With the housing industry facing difficult times the Housing Construction Grant (HCG) was introduced at the start of 2013 to provide stimulus to the industry. This grant was only available for 12 months and is now no longer available. This grant provided $8,500 towards any newly constructed dwelling and was available to anyone for dwellings up to $450,000. In combination with the existing FHOG, first home owners were eligible for grants totaling $23,500 throughout 2013 for newly constructed dwellings, which did have the desired effect of again encouraging first home buyers to enter the market with first home purchases trending upwards.

The FHOG for existing dwellings has reduced from $7,000 at the end of September 2010, down to $5,000 at the end of November 2012 and disappears completely at the end of June this year. So as of 1 July 2014 the only First Home Owners Grant (FHOG) remaining will be $15,000 for newly constructed dwellings and it is expected that as a result there may again be a slight decline in first home buyer activity. Also first home buyers may be more inclined to look towards new construction in order to get the $15,000 boost, this may in turn see existing dwellings in the newer house and land estates suffer some decline. As a flip side this may provide improved options for investors.



Other factors that will continue to hold back first home buyers are concerns over job security, with South Australia's unemployment rate jumping to 7.1% for March, its highest level since 2001 and ongoing cost of living pressures. Some strategies to help first home buyers improve their chances of securing their first home include family loans and joint purchases.

First home buyers looking to save up for a deposit should consider the benefits of the various savings accounts on offer from various financial institutions, providing higher interest rates, federal government co-contributions and lower tax rates on interest.

For first home owners (and investors) it is also worth noting that there are ongoing stamp duty concessions of up to $21,300 for any off the plan and under construction apartments within the City of Adelaide and the surrounding inner city suburbs up to around 5 kilometres from the CBD. This is provided by the South Australian Government in an effort to reduce urban sprawl and increase inner city and inner suburban housing density as part of The 30-Year Plan for Greater Adelaide.

Mount Gambier

First home buyers' vs. investors. Does the stereotype of the investor pushing the first home buyers out of the market really happen in the Mount Gambier region?

Mount Gambier is ripe for the picking for first home buyers, where they have a property market that is affordable, supply is greater then demand and a market which has dropped back from its peak a few years ago.

Although the market is affordable, first home buyers are still limited in the region. If first home buyers are purchasing a property they generally are purchasing properties with a value less than $200,000 at the lower end of the market. These properties are a mixture of dwellings and units, which generally require some elbow grease.

Investors are still active in the market, however somewhat subdued compared to recent years. The last couple of the years in the region have seen large employment loss and some economic factors which have seen property prices drop back. This has resulted in investors becoming cautious. The market is however stabilising and we are seeing a return of the investor.

There are some new subdivisions being released which are offering house and land packages for the investors. We are seeing interest from out of town investors in these areas who are being offered attractive yields. The National Rental Affordability Scheme (NRAS) has also seen some investor activity in the region.

The housing construction grant which ended in 2013 provided first home buyers with a large chunk of their deposit. This was popular with Mount Gambier receiving the second most amounts of construction grants in the state. Since the construction grant has ended it is expected first home buyers will move away from construction and more towards established properties. This may increase demand for dwellings under $200,000 which could stimulate activity in this market segment.

To summarise, affordability is generally not the issue in Mount Gambier for first home buyers it is finding ways of entering the market. Previously the construction and first home owner grants provided an avenue for the first home buyer but since these have decreased or diminished first home buyers are entering the market at a slower rate. Increased employment and population growth will be the key driving factors behind first home buyers entering the market but until this happens they will continue to enter at the current leisurely pace.

Tasmania

In Tasmania the First Home Builders Boost (FHBB) provides a point of differentiation between the investor and the first home buyer's property market focus.

To encourage employment, economic activity and confidence within a flagging economy and construction industry, in January 2013 the state government ramped up the First Home Builders Boost. The grant gave first home buyers a $15,000incentive to enter the property market by either purchasing a newly built home or to build their own home. Lower than anticipated uptake levels of this initiative led the government to dangle a larger carrot by raising the First Home Builders Boost to $30,000 and extending the offer to December 2014. As the FHBB initiative applies to newly constructed homes it has not significantly impacted upon capital values in existing housing markets.

Economic data has shown that building approvals and activity has increased just over 8%since the same time last year.

Increasing volumes in building contracts and reportedly in some areas, increasing building contract prices are indicators that first home buyers are munching on the carrot and are active within the residential construction market.

First home buyers are focusing on suburbs further afield from city centres where vacant land is available for residential development. Popular suburbs in the south are Kingston, Tranmere, Howrah, Old Beach and Oakdowns. Median land prices in these suburbs range from $110,000 to $190,000. Northern suburbs that are enjoying first home building activity include Prospect Vale, Newnham, Riverside, Legana and Perth with vacant land in these suburbs achieving a median price range between $84,000 to $159,000.

A property market investor also has unique opportunity in Tasmania; low interest rates, a firm rental market, government incentives (for investors partaking in the National Rental Assistance Scheme) and capital values coming off a declining market. These factors translate into good gross returns for investors. Inner city property best held its value during the economic decline. For investors whose financial needs are best served by capital growth inner city suburbs of West and North Hobart in the south and Invermay and West Launceston in the north are suburbs to consider.

For a 3-bedroom, 1-bathroom older style home in North Hobart an investor could expect to spend upwards of $350,000 with 2-bedroom units attracting prices of $230,000. A similar style home in West Launceston (the north) could be purchased from just over $200,000.

While first home buyers and property investors may be competing in similar property price brackets the generous Tasmanian First Home Builders Boost may have dampened competition in the established property market by focusing first home buyers attention to newly constructed residential property.

Northern Territory

Darwin

Affordability is a key issue facing all sectors of the greater Darwin market. This particularly extends to the first home owners where entry level is towards the highest level in the country. Traditionally first home owners have targeted smaller attached and semi detached units in both the northern suburbs and Palmerston. This starts at the high $200,000 in Palmerston and the mid $300,000 in the northern suburbs. Stock at this price point is very basic and in need of renovation. For first home owners targeting dwellings the price point is under $600,000. At this level FHOGs are withdrawn.

Investors have been very active within the greater Darwin market. They have targeted off the plan units both in the CBD and outer suburbs, along with detached housing in the newer Palmerston suburbs. Investors have been acting quickly on the CBD, with some developments being sold to up to 70% investors. Investors appear to have more capacity within this market, and first home owners are simply being priced out.

As a result of available grants, first home owners are strongly encouraged to build new dwellings. Grants are available for up to $25,000 to build a new home if the price point is under $600,000. From early 2013 stamp duty concessions on existing properties were removed which had an immediate impact on the activity of first home owners and the entry level stock in the market. This saving of anywhere from $8,000 to $15,000 was an increased cost on the property transaction which had a dampening effect on the market.

The reinstatement of previous stamp duty concessions would have a direct positive impact to the first home owner segment of the market. At the entry level this would allow these buyers a greater purchasing power and better ability to compete with investors. Currently investors are very active within the market and continued low interest rates and a strong rental market will keep this segment of the market very busy.

In the short to medium term there is no quick fix on the horizon for first home owners. While Darwin remains one of the highest priced property markets in the country, the younger generations will further rely on overnment and family assistance to purchase property.

Western Australia

Perth

The Perth residential market is once again suffering from overactivity by investors and developers, especially with regard to multiple dwelling developments (that is 1-bedroom and 2-bedroom apartments).

Following an extended period of subdued activity from developers surrounding development site acquisition, confidence in the market has risen substantially over the past 12 months on the back of extremely strong first and second home buyer activity.

The frenetic pace at which developments are occurring gives rise to the issue of affordability.

With selling days now down to their lowest (currently 49 days) for the first time in the past eight years, low interest rates, low number of listings and a slow release of lots to the market by developers has had the result of increasing the median house price to unaffordable levels, once again. While it is noted by real estate agents that first home buyers are still active in the market, there is a noted caution with people taking more time to reach a decision about whether to purchase.

We note that most developers are pushing up stage prices significantly in land estates and there appears to be a push to maximise development within new land estates with lot sizes now below cottage lot size (circa 300 square metres) and in some instances, we are seeing land developers undertaking built form development, which is not traditionally their core function and thus they may not have the core skill to understand this type of development.

Of most concern are multiple unit developments away from transport orientated communities (that is 800 metres outside of a radius from a train station). The areas in and around Kewdale, Cloverdale and Belmont have been witness to an alarming increase in the development of 1- and 2-bedroom apartments on traditional sized lots, with developers taking advantage of the dual, and in some instances triple split residential codings of these sites. Thus a site of circa 750 square metres zoned 'Residential R20/50/10' which at one point would be developed with a single residential house or grouped dwellings (villas or townhouses – 3-bedroom, 2-bathrooms) are now being developed to the maximum R100 coding with up to eight dwellings being developed on the lot.

In reality, the product cuts out first home buyers and only suits investors. Whereas a more traditional development which was occurring in these areas up to 12 months ago, better suited the first home buyers.

The investors aren't local either. The majority are eastern states based. And this causes an issue. In areas which are within what the Western Australian Planning Commission call "TOC" areas, the proliferation of multiple dwelling developments is being accepted by the local investor and owner-occupier market. The local community understands best the nuances of an area (proximity to the right type of amenity, travel time to the Perth CBD and methods of transport that can get me there) versus someone from Brisbane who has no idea.

The old adage in Perth development circles is that once you begin to see apartment developments taking off, you know the market is about to turn. The price of these apartments are not cheap.

At these times in the market, first home buyers typically revert back to the underlying fundamentals, being the ultimate affordability of what they are about to buy versus the cost of rent taking into consideration current market conditions and where they see the market going. With talk of increasing interest rates and the high median price of real estate, first home buyers understandably are in a state of indecision. As the market comes to terms with these changed conditions and sales remain limited, it is not unusual for value inconsistencies to emerge, as the sale prices are ultimately determined by the motivation of both vendors and purchasers, and where these purchasers come from.

It would appear that the signs are there to indicate that something dark is on the horizon. So, if I were a first time home buyer, I would be holding off my decision for a little while longer.

South West WA

The lower end of the property market in the south west of Western Australia is on the move.

With decreasing levels of supply, coupled with strengthening purchaser demand, the property market has improved and now debate about affordability has commenced. While the middle and upper sector of the market remains relatively stable the question remains who and what is the driving force behind the movement in the lower end?

First home buyers and investors generally make up the buyer profile for the lower end of the market. In this case the market is driven relatively equally by both. First home buyers have been stimulated by government rebates, low interest rates and property values in general being the lowest they have been for many years. These positive indicators have resulted in first homebuyers returning to the market.

Competition for the lower market segment is brought about by investors who are looking to capitalise on a booming rental market that has seen a considerable increase in yields. Higher yields and low interest rates create a very good market for investors and this has strengthened property values. Nevertheless, while yields have increased they do remain lower compared to the capital city and this coupled with

Perth historically achieving better long term capital growth, results in many investors shying away from the south west market and looking north to the metropolitan region. Nevertheless, the South West property market does benefit from the out of area emotion driven investor seeking a holiday home and part time investment.

Entry points into the lower end of the market range from $250,000 to $400,000 and for this amount you can purchase either a basic established residence or build a project home in one of the outlying new developments. These established homes are in general located in closer proximity to the beach than the new developments and as such the established homes generally offer better capital growth potential while the new housing market offers better yields.

So, while it is true that investors can be partly blamed for affordability issues hindering the first home buyer, the first home buyer can be thankful the investors are not impacting the market as significantly as other markets where capital growth projections are stronger.

The reality is that market conditions still remain relatively favourable in comparison to previous years and it is apparent that both the investor and first home buyer are looking to capitalise.

Esperance

In a market the size of this there is not much of a rumble between first home buyers and investors. The two seem to co-exist quite happily with an even spread of available property for each. With a median

house price in this area published at $350,000, there is a broad area of this town that can cater for both purchaser types, rather than being confined to a relatively small patch as may be the situation in other areas.

At the lower end of the residential market, Nulsen is hard to go past as a starting point for entry level homes. For less than $200,000 a fairly comfortable home can be picked up with loan payments generally less than rents and the opportunity to positively gear the property. From an investment perspective, the home you can purchase under $200,000 could generate $250 to $280 per week in rental income which gives a far better return than the next market level that would see you outlay around $100,000 more for probably only $20 to $30 per week extra in rent. This area is increasingly popular with investors due to the potential returns and first home buyers are preferring more upmarket suburbs such as Castletown or West Beach.

At the next level, Sinclair and the older areas of Castletown have a variety of property for the purchaser in the high $200,000s into the early $300,000s price bracket. The homes are generally reasonable brick and tile about 25 to 35 years old on average and are at the point where renovations would lift them to the next level. For the new home owner they provide a starting point to get into reasonably well priced property with the potential for some capital growth over time especially if maintenance and refurbishment programs are completed. With potential rental levels in the $280 to $320 per week range, these properties are less ideal for the investor due to the lower returns compared to Nulsen.

Probably the greatest conflict between first home buyers and investors is the next level up again being the better quality homes within Castletown and West Beach. Typically these properties are selling between $400,000 and $550,000 and in the current market are returning rentals between $400 and $500 per week. The majority of these homes still have concessions available for first home buyers, such as stamp duty reprieve, and are located in areas that these purchasers have greater aspiration to live in. From an investors perspective, while the percentage return is down compared to the lower valued areas, the potential for a better quality tenant and a property likely to have less maintenance issues combined with stable longer term capital growth is appealing.

The construction market is also strong at the moment with first home buyers and investors alike building new homes for either owner-occupation or rental return. The supply of vacant land however is diminishing and at current sales volumes could be soaked up within the next 18 months to two years if no new estates are brought on line. The balance of available vacant land and improved property is keeping conflict between investor and first home buyer at bay while new home construction is adding to supply. Once the supply diminishes however, the impact on values and those that can most afford property within these markets will determine the victor of the first home buyer versus the investor.

Rural

HERRON TODD WHITE RURAL

Overview

Well the much needed rain has arrived for many regions across Qeensland, New South Wales, South Australia and Victoria. The change I noticed in the country travelling from Brisbane to Melbourne recently was great to see and reports are that some great growth is occurring in pastures with still some good days and warmth in the ground. Unfortunately this recent rain did not get to the drought affected areas in north west Queensland and the recent cyclone did not impact much over the great divide either.

Cyclone Ita has left an impact however on the sugar and horticulture sectors with some significant crop losses. The impact will start to be seen in the supermarkets soon especially for tomatoes and similar crops. We wish those growers a speedy recovery and trust they get the support from government to help re-establish their supply lines.

On the property front there have been more sales in the Northern Territory and Kimberly region which supports a trend that started about September last year. The attraction of investment capital into the northern cattle sector is a positive signal for the property market there. On the other side the MLA has released a report into the long term viability of the cattle sector which tends to support the view that it has been a tough pace to generate a return for the past ten or so years. Other agricultural commodities have faired better than the beef sector and maybe now could be the start of some catch up in return outlooks on the back of increased processed and live export demand coupled with the longer term benefits of new free trade agreements. It will be interesting to see how this translates to the northern property market over time.

The announcement of the offering of the Greentree/Harris farming operations in New South Wales will be a big test for the market in dryland cropping. It is not often such a large holding is put to the market and it will attract large institutional interest one would think. The aggregation does however also have the capacity to be broken down if this attracted interest as well. A sale will provide a great benchmark for the region but also provide some guidance more broadly where the appetite for scalable cropping operations sits.

The ongoing gas industry development continues to be a topic for much discussion and emotion for many. Queensland is probably the furthest state along regarding development in the field, but New South Wales and Victoria will no

doubt come under the spotlight as the need to derive more gas supplies to service the domestic market build.

I recently attended a meeting in conjunction with other valuation firms convened by the Gas Fields Commission in Queensland and the discussion was quite broad. One of the key messages from the commission was to encourage those in the gas areas to keep good records of their properties so if an impact was to occur this can be validated in discussing terms of a compensation agreement.

For those interested a summary of the discussion can be found on the commission website below;

http://www.gasfieldscommissionqld.org.au/whats-happening/rural-valuers-share-insights-on-gas-impacts.html

If you have been impacted or are in the process of undertaking discussions with a gas company, please feel free to contact your local Herron Todd White rural valuer to obtain an independent assessment of the compensation.

Contact
Tim Lane - Rural Director (07) 3319 4403

Southern Queensland

The recent ideal rains throughout the region over the past month have sparked a frenzy of activity on two fronts.

Firstly, the rains should allow for the planting of a very large winter crop especially on the Downs and the inner Maranoa regions. Flow events within the various systems have also occurred which will allow water harvesters the opportunity to set themselves up for next summer. It has also been good for the cattle market in general with all market indicators increasing quite sharply in recent weeks. Normally it would be expected that these factors would assist in settling the sector down somewhat given they all have the potential to underpin cash flows.

However the rain has also proved to be a double edged sword as it has caused heightened activity on the property front.

> With the rains we have seen a sharp increase in listings over the past two to three weeks with it becoming evident that many have occurred for the wrong reasons.

We are not going to identify those properties specifically; however the market within the Meandarra/Tara/Moonie/Glenmorgan regions in particular will surely be tested over the coming weeks and months.

As well as those properties officially listed, we are aware of a number of properties that more than likely will be coming onto the market in the coming weeks. Unfortunately as we have alluded to in the past, this will place quite significant pressure on this market sector. The qualities of the properties do vary from 'fringe to first class' and therefore in some instances we could see those drawing buyers out. Unfortunately there is the real potential that many won't attract sufficient interest in the first instance. This could lead to further downward pressure on an already shaky market.

At the other end of the scale, the depth of the corporate sector will also be tested over the coming period with large scale farming and grazing aggregations now coming onto the market. These include the Milton Downs and Boolcarrol aggregation south of Moree, Glenmaurie in the Brisbane Valley, the Hollymount Aggregation at St George, the Arcadia Valley aggregation of Rainbow, Leeora Downs and Lotus Vale and the Natal Downs aggregation in the north. All have the potential to attract good interest and provide evidence of where the market is currently positioned.

Four to five years ago, there was a general perception within the industry that the corporate sector had only limited depth and that it had all but been exhausted. However we subsequently saw new players enter the market and take up the slack. Again, there is the school of thought that this sector may only have limited further capacity to acquire such holdings. As such these holdings will test that thesis. There is no doubt that the world in the past has had an appetite for our country because of its clean green image and stable government and there is no reason why this should not continue. However this round of sales will clarify the depth of the corporate sector and its capacity and appetite for such acquisitions.

North Queensland

The talk of the north is around the continued strength of the live export market and the ability of cattle to be within specifications.

There is little demand for cattle that fall outside the specifications. Reports are that the meatworks in Townsville are booked until mid to late August for kill dates. Cattle marketing options are proving challenging.

The property market too is challenging. In the last couple of weeks grasses have started to hay off with the season change as winter approaches. There was not much of a wet this year and volumes of grass are patchy.

The property marketing season also appears to be just as patchy. Glenalvon, to the south east of

Richmond passed in at auction. It will be interesting to see how post auction negotiations transpire.

The auctions of Baroona, Caleewa and Chudleigh Park each go under the hammer shortly.

Behind the scenes there are some contracts occurring. There are three blocks currently under contract, or if not yet are under negotiation. While it is a positive point that these sales are occurring, the purchasers have run a fine tooth comb over each property and in each case, they have been tough on pricing in a discount for any negative issue that they find.

The failed wet season does mean that some stations will be very difficult to sell this year. However for those who are able to capitalise on the strong live export demand and get their cattle on a boat, then livestock sale activity will be strong.

Southern NSW

Significant rainfall through late March and early April has resulted in one of the best autumn breaks in decades. This has coincided with a strengthening in cattle prices through April due to a shortage in supply as many farmers look to restock after a fairly dry and hot summer.

One of the more notable sales which occurred in April is that of Longerenong at Walla Walla, NSW which sold at auction for $1.28 million on the 16 April 2014. The property has a land area of 283.8 hectares and is principally alluvial Billabong Creek flats, 95% arable and used for dryland cropping and grazing. There were six registered bidders at the auction and the marketing agent has advised the sale price which reflected $4,510 per hectare was a very strong result. The solid price and keen bidder interest may be a sign of a strengthening market buoyed by the Autumn rain and solid commodity prices.

In the irrigation areas allocation prices for New South Wales and Victoria temporary water has plummeted since the recent rain dropping to as low as $60 per megalitre, down from $80 per megalitre just one month ago. However High Reliability permanent water is trading steady at approximately $1,400 per megalitre in both the Murray and Goulburn systems, while New South Wales General Security water is also steady at $850 to $880 per megalitre.

NSW Central Tablelands

A feature of the Central Tablelands through April has been the continued strengthening of seasonal conditions following the recent, welcome, turnaround. A wetter than average February, March and April have followed seven drier than average months. Throughout April pastures have continued to respond rapidly to the timely run of rain and remaining warm weather, and a now reasonable soil profile is laying the foundation for successful winter cropping.

A number of landholders we visited this month commented that the speed of their country's response to this seasonal change was remarkable.

Unfortunately this wet weather was untimely for Central Tablelands viticulturists, with several clients we visited this month describing disease and reduced grape quality adversely affecting their recently completed harvest.

Generally confidence in the Central Tablelands has steadily improved throughout April. If macroeconomic conditions remain favourable and commodity prices buoy we may see some lift in what has recently been a subdued market exemplified by reported tough marketing conditions and depressed sales activity.

While this month has developed further optimism for productive period ahead, producers may see that as an opportunity to consolidate rather than an opportunity to enter the property market seeking to expand their operations.

Murrumbidgee Irrigation Area

The rural markets across the region remain quiet. Rice harvest has been progressing slowly and cotton is still finishing. The weather has turned cooler and we have had one of the best Autumn breaks with exceptional rainfall across the dryland areas giving the farmers a good start to planting.

Sales are still thin on the ground with a number of properties listed but the market remains hesitant especially in the irrigation areas with final water allocations remaining tight for the season.

Without significant winter rainfall in the catchment areas next season's allocation outlook is not promising.

There remains good optimism in the agricultural industry down here with two development applications in progress for two new cotton gins. One at Hay, New South Wales to be built by Auscott and another at Tabbita, New South Wales to be built by another party. Other agricultural industry expansion continues with the re-opening of the Tabbita feedlot by JB Swift and the construction of further poultry grower sheds by Baida and Proten.

We have also seen the recent completion of a walnut processing plant by Walnuts Australia and the development of a large scale Hazelnut orchard at Narrandera.

All these developments show the high value of the region to agriculture and indicates the long term outlook remains positive.

Murray Outback

Activity in the rural scene over the past month includes the completion of the table grape harvest which ended with the positive news that Sunraysia has produced the first shipment of Australian Table grapes sent to South Korea. This follows on from the first shipment sent to Japan in late March. The shipments resulted from new market access protocols negotiated earlier in the year by the Federal Department of Agriculture and it is estimated that within five years the value of such shipments will be worth $20 million annually to the Victorian economy. Table grape exports from Victoria in 2012/13 were the highest horticultural export earner at $174 million.

This region has enjoyed one of the best autumn breaks for many years with significant rainfall over a wide area in mid April to include the pastoral section of the western division of New South Wales and right throughout the dryland crop growing regions of the Millewa and Mallee areas in Victoria.

With the current water season nearing completion, the recent rains has resulted in a slight drop in the spot price to around the $70 to $75 per megalitre range on each side of the border, while most categories of permanent High and General Security entitlement have risen slightly.

In regard to permanent entitlements the Commonwealth Government has recently announced a small permanent buy back for NSW Murray and Lower Darling entitlements. The tender process has a budget of $10 million and closes on the 28 April 2014.

Further 'water' news was the recent signing by the Premiers of New South Wales and Queensland of the Intergovernmental Agreement (IGA) on implementing the Murray-Darling Basin Plan. This IGA has now been signed by all Basin states and territories.

The rainfall recorded in the Millewa has been welcomed, and of particular interest will be the forthcoming sale by auction (under mortgagee in possession circumstances) of a 3,270 hectare holding on 2 May. The auction will provide a relevant benchmark of current market conditions in this area.

On the sales scene, the sale of Denian Station is due to settle in the next couple of weeks at 'strongish' levels, noting however that it comprises a very good bush block located 80 kilometres to the east of Menindee. The station has been conservatively stocked over the past 18 months and presently has

excellent grass cover. The pending sale will show around the $280 to $300 per DSE improved.

Murray Riverina

The Autumn break has been the best in years with over three inches of rain across a large proportion of the north in early April. This is likely to stimulate additional demand particularly in the dryland cropping sector in the coming 12 month period. This is assuming we can finish the season reasonably well and growers be able to fill the coffers and those with a view to expanding might have the means to do so. Nevertheless this relies on several things falling into place over throughout the season which rarely seem to happen all together.

There may be further expansion of dairy farms in the area with a good water resource position across most of the irrigation districts along with good milk price prospects for the current year. Interestingly several sales are still being triggered for secondary properties which can be redeveloped with assistance of funding to improve irrigation layouts from the federal government and reconfiguration opportunities through the Goulburn Murray Water Re-connections Program.

South West WA

Harvey Fresh sells

It's all going on in the agribusiness sector this month in Western Australia.

As I am writing this article, the Chinese Agribusiness Cooperation Conference is starting in Perth with more than 300 businesses and stakeholders reportedly registered to attend. This conference highlights Asia's continued interest in the Australian Agribusiness industry, an industry which has suffered from a number of economic and environmental blows in the past decade.

In the south west of the state the big news is the report that Harvey Fresh a Western Australian milk and food company has sold to Italian company Parmalat for $120 million. I could only imagine that when the family owned business started out in the south west town of Harvey in 1986 with their fruit juice factory, that this was a dream they never expected to come true. Since establishing in 1986 the company has expanded into the dairy industry and wine industry resulting in supplying milk to one of the national supermarket chains. The majority of the produce passes through their large multipurpose factory located on a 100 hectare site, just outside of the Harvey townsite.

What will this mean for the south west dairy farmers who supply Harvey Fresh? As you can imagine, speculation is rife with both pros and cons being weighed up. It does however signify that eyes from around the world are looking at Australia and are investing in Australian agribusiness. This in turn should result in an increase in confidence by Australian producers. If local confidence does increase and the result of the Parmalat purchase is an increase in demand for product and a higher farm gate price, then the dairy property market will be given the push it needs.

Like the farmers, I can only speculate and wait and see. All in all it does appear to be positive news. In the mean time, it is a good news story for the family who built Harvey Fresh and proves that fortunes can still be made in 'the lucky country'.

Northern Territory

Last month, we reported on the air of renewed confidence which is now pervading the Top End pastoral industry. This confidence is continuing as evidenced by good prices out of Darwin for live export cattle.

The sale of Killarney and Birrimba was reported on last month. This month, another larger scale property has been sold, with Willaroo being sold by its long term owner, the Sultan of Brunei.

Willaroo is a well regarded 1,710 square kilometre pastoral lease, about 120 kilometres west of Katherine, with frontage to the sealed Victorian Highway. It has been purchased by an Indonesian-based company. The sale details remain confidential at this stage, but market activity at this level seems to confirm the returning confidence in the industry.

We can also report on another sale in negotiation within the Katherine region. Although details at this stage of the negotiations remain confidential, it is yet another indicator of the increased interest within the Northern Territory pastoral industry and highlights the willingness of the market to pay for properties well positioned with all weather access.

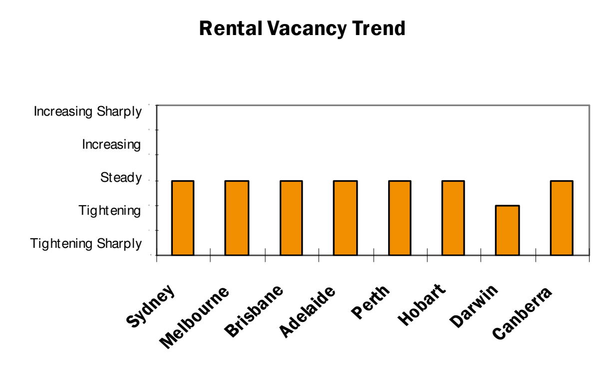
Investment in the NT pastoral industry continues to come from both Australian and international sources. We expect this trend to continue, with many overseas buyers seeking to have more control over the supply chain to ensure that a constant supply of beef is available to their own countries.

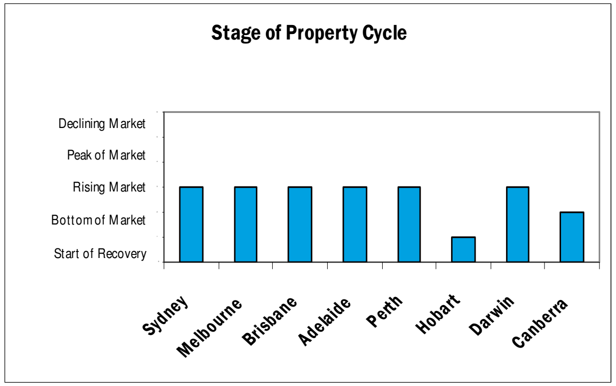
In other news, a recent inspection of the abattoirs construction site at Livingstone, 40 kilometres south of Darwin, revealed that works are continuing apace, with a view to commence slaughtering before the end of the year.

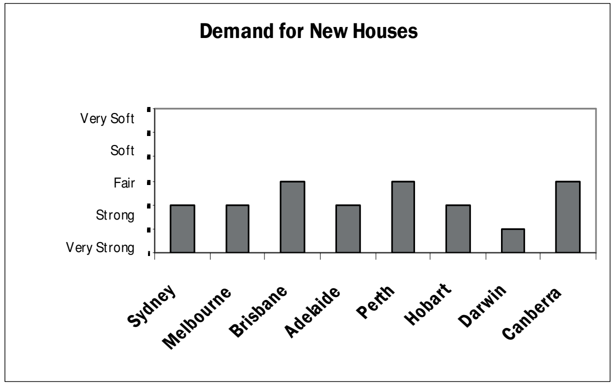
Capital City Property Market Indicators - Houses

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	Balanced market	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Steady
Demand for New Houses	Strong	Strong	Fair	Strong	Fair	Strong	Very strong	Fair
Trend in New House Construction	Increasing	Steady - Increasing	Increasing	Increasing	Increasing	Increasing	Increasing strongly	Steady
Volume of House Sales	Increasing	Increasing	Increasing	Declining	Steady	Increasing	Increasing strongly	Steady
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Rising market	Start of recovery	Rising market	Bottom of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasionally	Frequently	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*







Market Indicators

Capital City Property Market Indicators - Units

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

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

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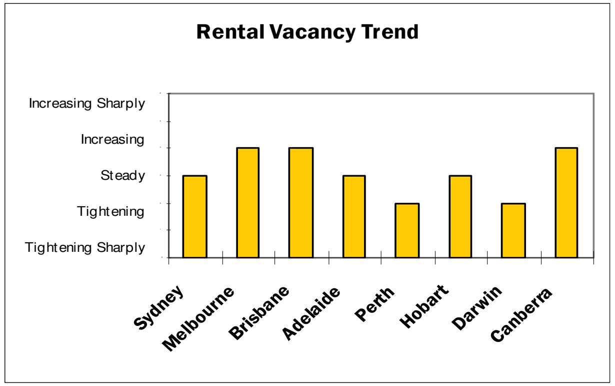

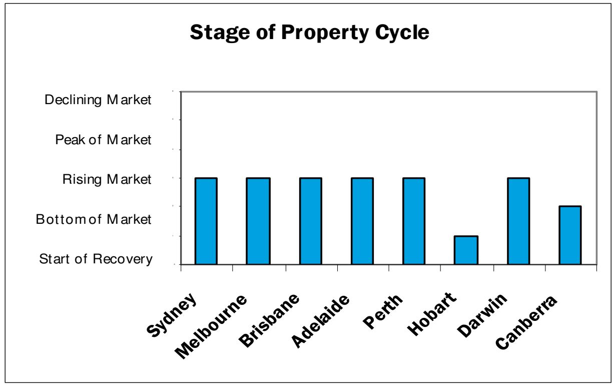

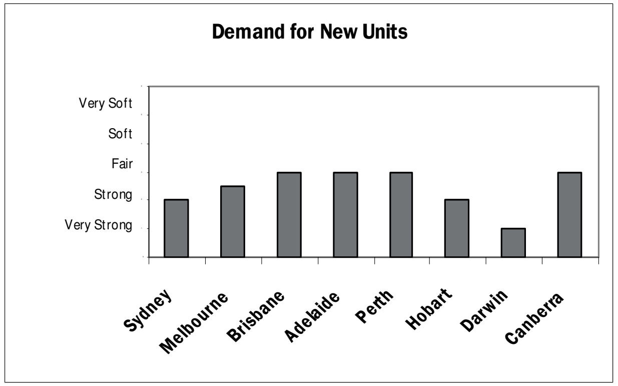

Market Indicators

Capital City Property Market Indicators - Office

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	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	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
Rental Vacancy Trend	Increasing	Steady - Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Steady
Rental Rate Trend	Stable	Declining - Stable	Stable	Declining	Stable	Declining	Stable	Stable
Volume of Property Sales	Increasing	Increasing - Steady	Increasing	Declining	Steady	Declining	Steady	Declining
Stage of Property Cycle	Bottom of market	Start of recovery	Start of recovery	Declining market	Rising market	Declining market	Bottom of market	Bottom of market
Local Economic Situation	Flat	Flat	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	Significant	Small	Significant	Very large

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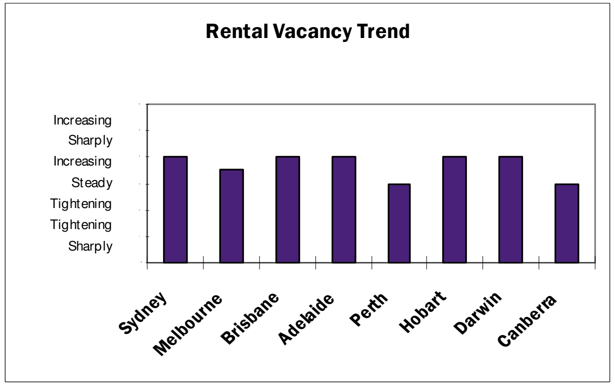

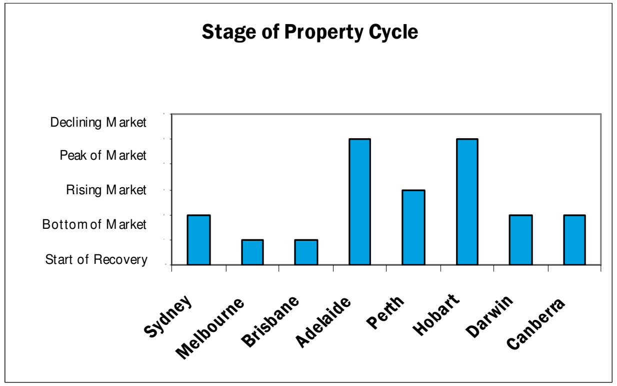

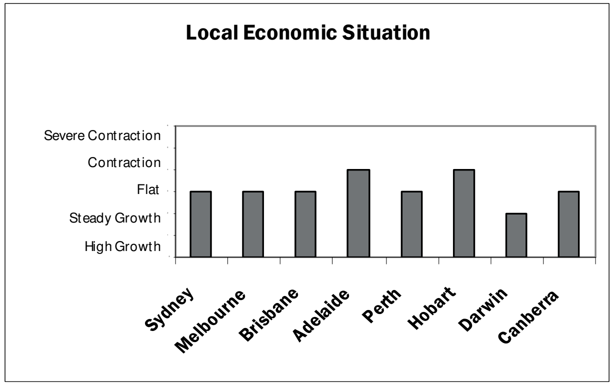

Market Indicators

New South Wales Property Market Indicators - Houses

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	Balanced market	Severe shortage of available property relative to demand	Balanced market	Shortage 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	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening - Steady	Steady	Steady	Tightening
Demand for New Houses	Strong	Fair	Fair	Strong	Strong	Fair	Fair	Strong	Fair	Strong	Fair	Fair	Fair	Strong	Strong
Trend in New House Construction	Increasing	Steady	Steady	Increasing	Increasing	Steady	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	Increasing	Steady
Volume of House Sales	Declining	Increasing	Steady	Increasing	Increasing	Increasing	Steady	Steady	Increasing	Increasing	Steady	Increasing - Steady	Steady	Increasing strongly	Increasing
Stage of Property Cycle	Start of recovery	Rising market	Bottom of market	Rising market	Rising market	Start of recovery	Rising market	Peak of market	Rising market	Rising market	Peak of market	Start of recovery - Bottom of market	Bottom of market	Rising market	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasion-ally	Occasion-ally	Almost never	Occasion-ally	Occasion-ally	Occasion-ally	Almost never	Very frequently	Occasion-ally	Occasion-ally	Occasionally	Occasion-ally - Frequently	Occasion-ally	Frequently	Occasion-ally

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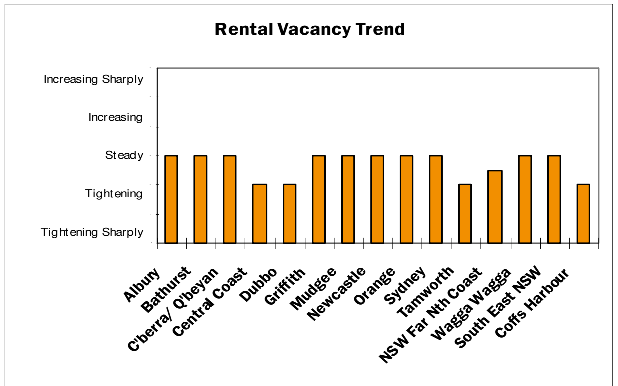

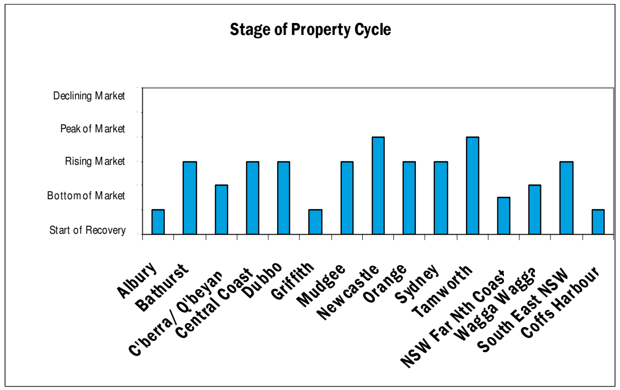

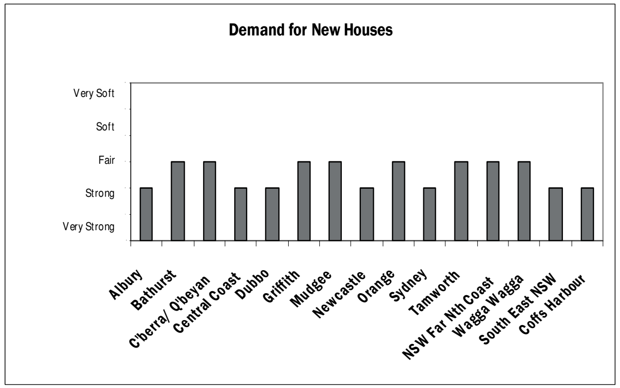

Market Indicators

New South Wales Property Market Indicators - 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	Over-supply of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Balanced market	Severe shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Increasing	Tightening	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening - Steady	Steady	Steady	Tightening
Demand for New Units	Very soft	Fair	Fair	Strong	Strong	Soft	Fair	Strong	Fair	Strong	Fair	Fair	Fair	Strong	Strong
Trend in New Unit Construction	Declining	Steady	Declining	Increasing	Increasing	Declining	Steady	Increasing	Steady	Increasing	Steady	Declining	Steady	Increasing	Increasing
Volume of Unit Sales	Declining	Increasing	Steady	Increasing	Increasing	Steady	Steady	Steady	Increasing	Increasing	Steady	Increasing - Steady	Steady	Increasing strongly	Increasing
Stage of Property Cycle	Start of recovery	Rising market	Bottom of market	Rising market	Rising market	Start of recovery	Rising market	Peak of market	Rising market	Rising market	Peak of market	Start of recovery - Bottom of market	Bottom of market	Rising market	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasion-ally	Occasion-ally	Almost never	Almost never	Occasion-ally	Almost never	Almost never	Very frequently	Occasion-ally	Frequently	Occasionally	Occasion-ally - Frequently	Occasion-ally	Frequently	Occasion-ally

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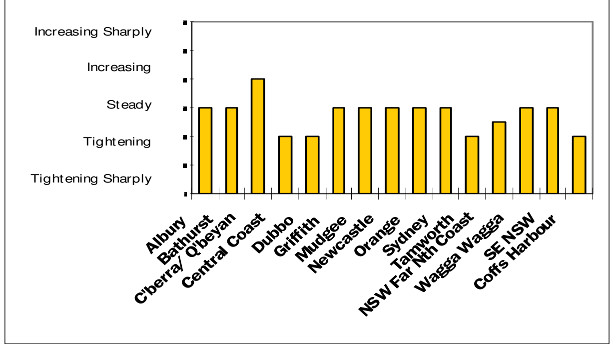
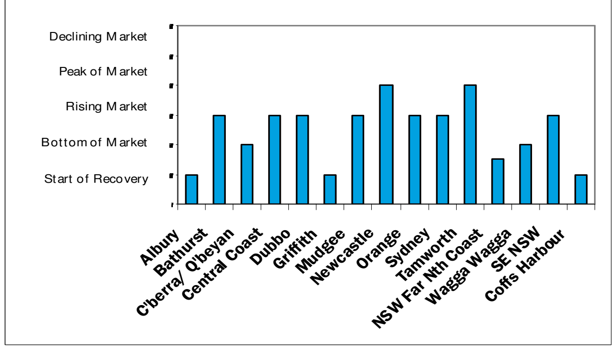
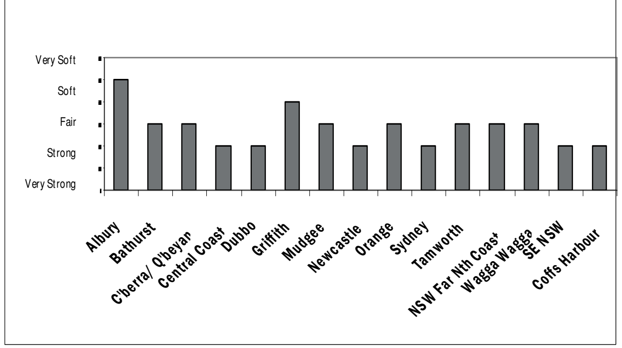


Rental Vacancy Trend



Stage of Property Cycle



Demand for New Units

New South Wales Property Market Indicators - Office

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	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market - Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Steady	Increasing	Steady	Steady	Steady	Tightening	Steady	Increasing	Increasing	Steady	Steady	Steady	Steady
Rental Rate Trend	Declining	Stable	Stable	Declining	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Stable
Volume of Property Sales	Steady	Steady	Declining	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Declining	Steady	Increasing	Increasing
Stage of Property Cycle	Bottom of market	Rising market	Bottom of market	Bottom of market	Rising market	Start of recovery	Rising market	Start of recovery	Declining market	Bottom of market	Rising market - Peak of market	Bottom of market	Bottom of market	Bottom of market	Start of recovery
Local Economic Situation	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Contraction	Flat	Flat	Flat	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small - Significant	Very large	Significant	Significant	Significant	Significant	Large	Small - Significant	Significant	Significant	Significant	Significant	Significant	Significant

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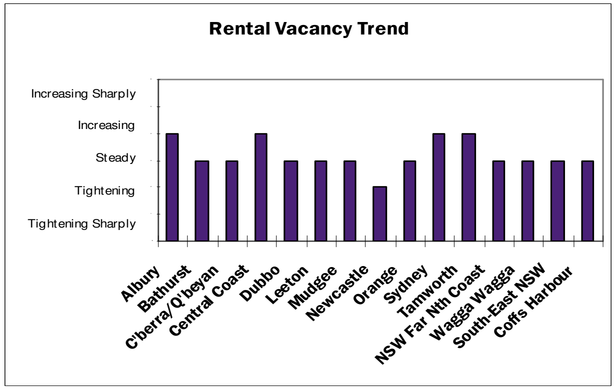

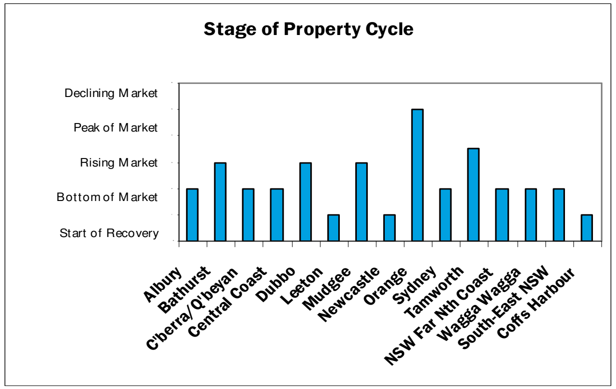

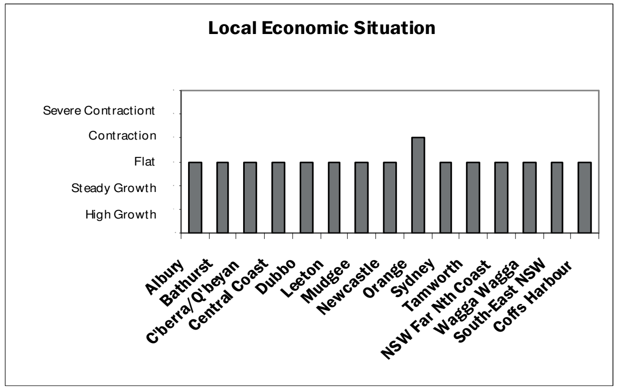

Market Indicators

Victoria/Tasmania Property Market Indicators - 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	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Tightening	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Houses	Strong	Fair	Fair	Fair	Strong	Fair	Strong	Soft	Strong	Strong	Strong	Strong
Trend in New House Construction	Increasing	Steady	Steady	Steady	Steady - Increasing	Increasing	Increasing	Declining	Increasing	Increasing	Increasing	Increasing
Volume of House Sales	Increasing	Steady	Increasing	Steady	Increasing	Increasing	Steady	Steady	Declining	Increasing	Increasing	Increasing
Stage of Property Cycle	Rising market	Rising market	Bottom of market	Start of recovery	Rising market	Start of recovery	Bottom of market	Bottom of market	Start of recovery	Start of recovery	Start of recovery	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasion-ally	Occasion-ally	Occasionally	Occasionally	Occasion-ally	Occasionally	Occasion-ally	Occasion-ally	Occasionally	Occasion-ally	Occasionally

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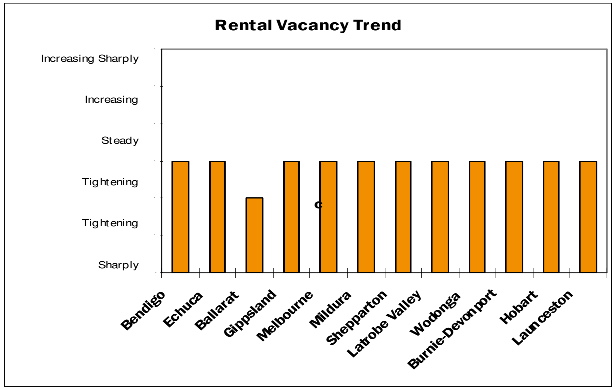
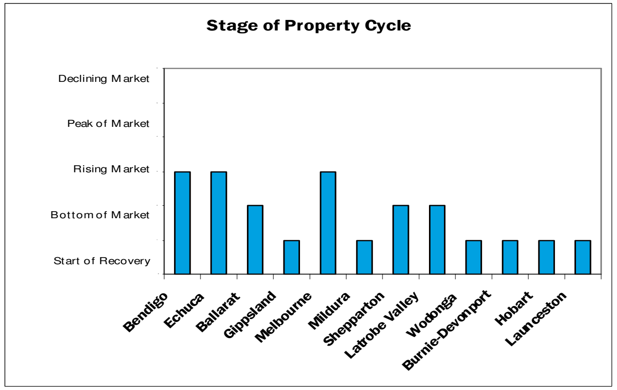
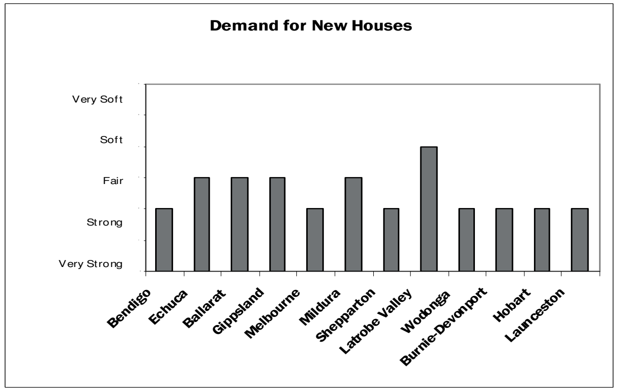




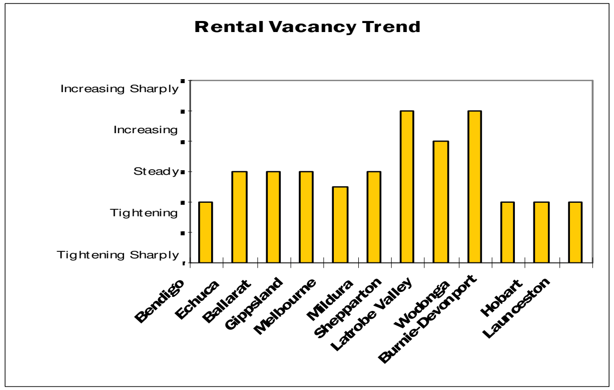


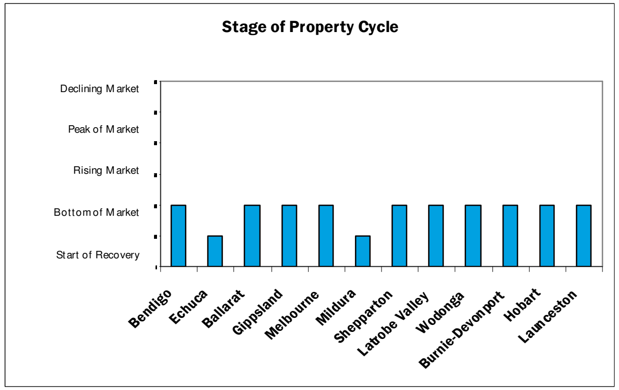
Market Indicators

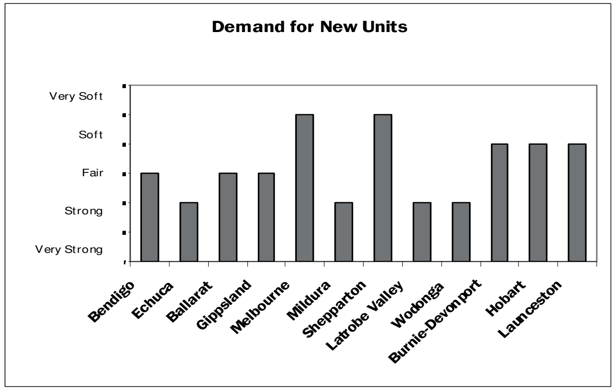
Victoria/Tasmania Property Market Indicators - Units

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	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Tightening	Steady	Increasing	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Houses	Strong	Soft	Fair	Fair	Fair - Strong	Fair	Very soft	Soft	Very soft	Strong	Strong	Strong
Trend in New House Construction	Steady	Declining	Steady	Steady	Increasing strongly	Declining	Increasing strongly	Declining	Declining	Increasing	Increasing	Increasing
Volume of House Sales	Increasing	Steady	Increasing	Steady	Increasing	Steady	Declining	Steady	Declining	Increasing	Increasing	Increasing
Stage of Property Cycle	Rising market	Rising market	Bottom of market	Start of recovery	Rising market	Start of recovery	Bottom of market	Bottom of market	Start of recovery	Start of recovery	Start of recovery	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

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







Victoria/Tasmania Property Market Indicators - Office

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

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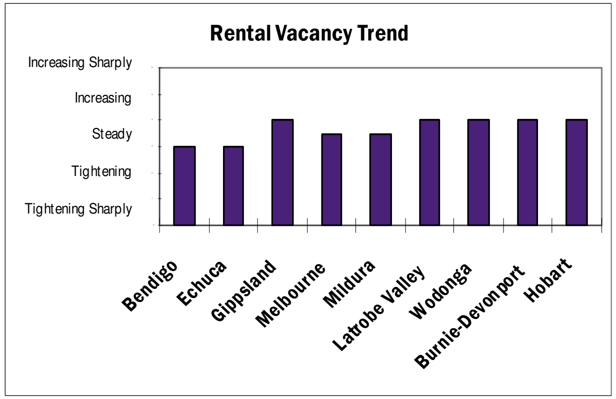
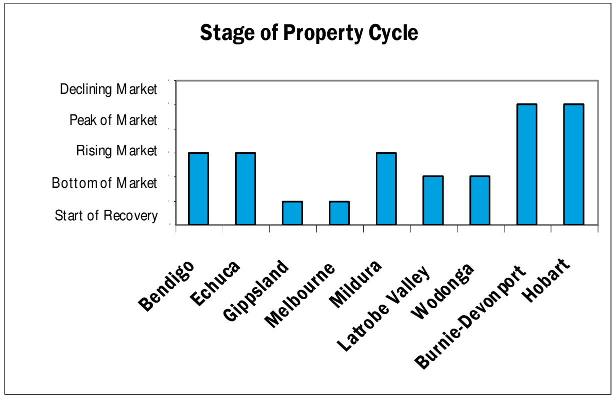
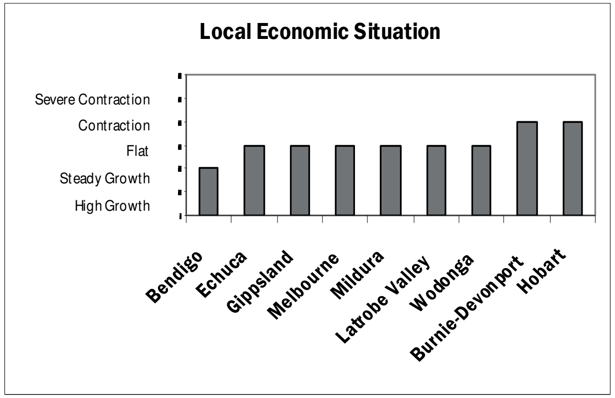






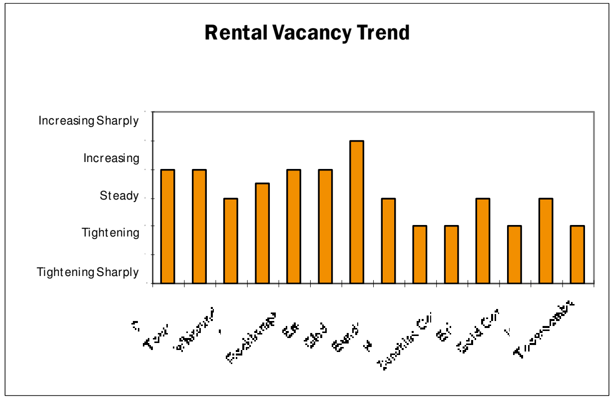
Market Indicators

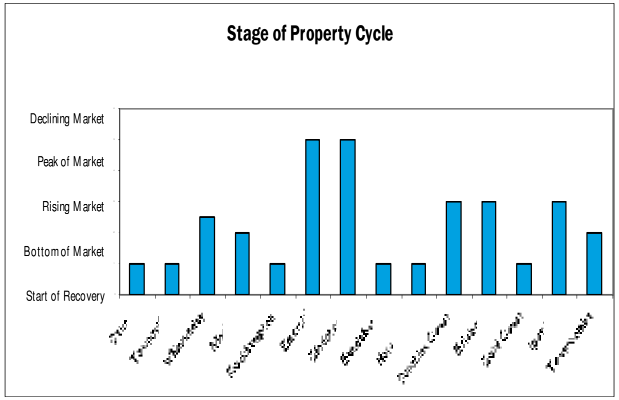
Queensland Property Market Indicators - Houses

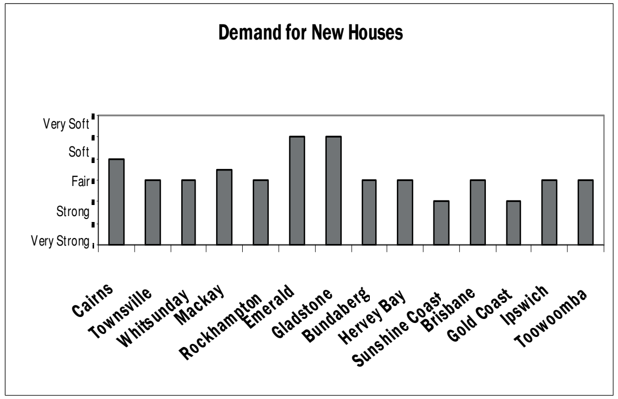
Factor	Cairns	Townsville	Whitsunday	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Ipswich	Toowoomba
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Increasing	Increasing	Steady	Steady - Increasing	Increasing	Increasing	Increasing sharply	Steady	Tightening	Tightening	Steady	Tightening	Steady	Tightening
Demand for New Houses	Soft	Fair	Fair	Soft - Fair	Fair	Very soft	Very soft	Fair	Fair	Strong	Fair	Strong	Fair	Fair
Trend in New House Construction	Steady	Steady	Steady	Steady	Steady	Declining	Declining significantly	Increasing	Steady	Increasing	Increasing	Increasing	Increasing	Declining
Volume of House Sales	Increasing	Increasing	Steady	Steady - Declining	Steady	Declining	Declining	Increasing	Steady	Increasing	Increasing	Increasing strongly	Increasing	Increasing
Stage of Property Cycle	Start of recovery	Start of recovery	Bottom of market - Rising market	Bottom of market	Start of recovery	Declining market	Declining market	Start of recovery	Start of recovery	Rising market	Rising market	Start of recovery	Rising 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	Almost always	Almost never	Occasion-ally	Occasion-ally	Occasion-ally	Frequently	Occasion-ally	Occasion-ally

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

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







Market Indicators

Queensland Property Market Indicators - Units

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

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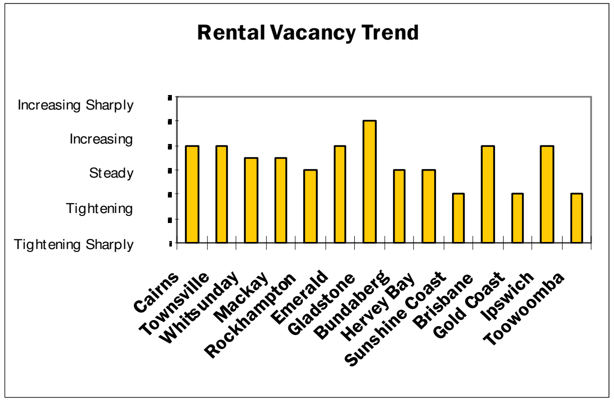
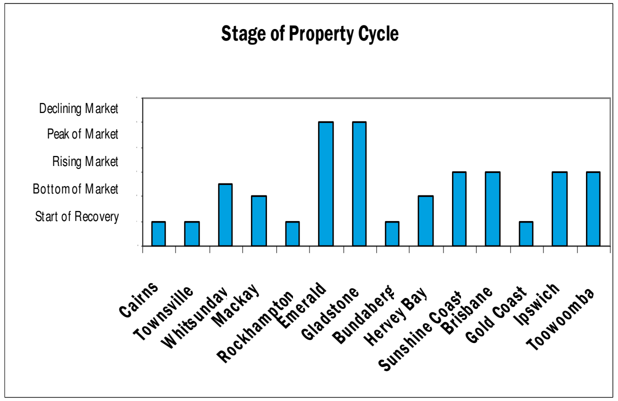
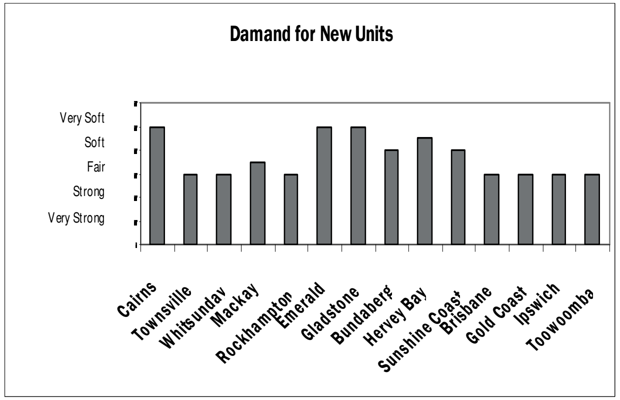
Blue entries indicate change from previous month to a lower risk-rating





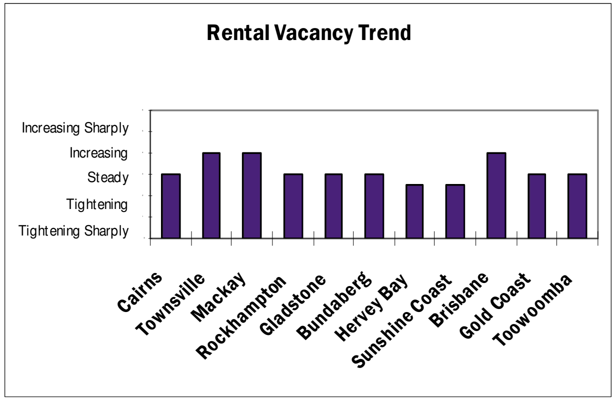


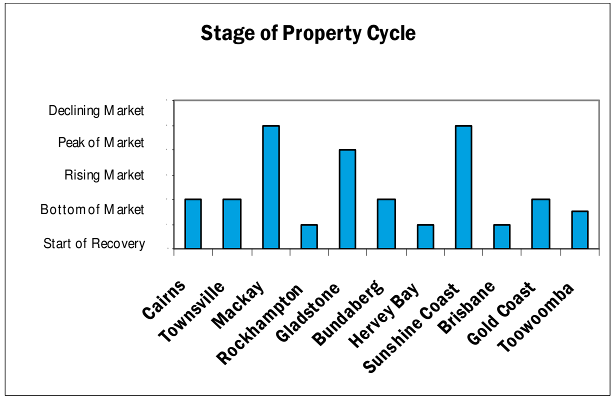
Queensland Property Market Indicators - Office

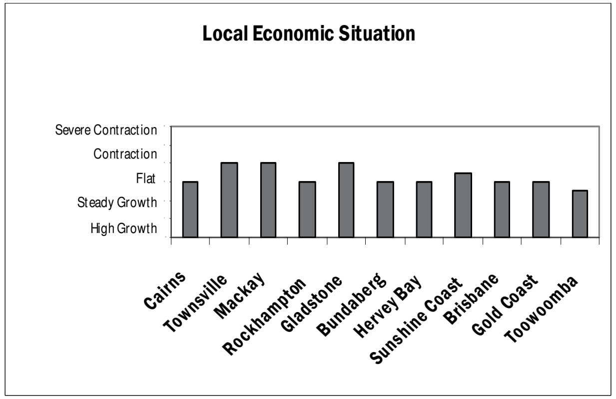
Factor	Cairns	Townsville	Mackay	Rock-hampton	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Toowoomba
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand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





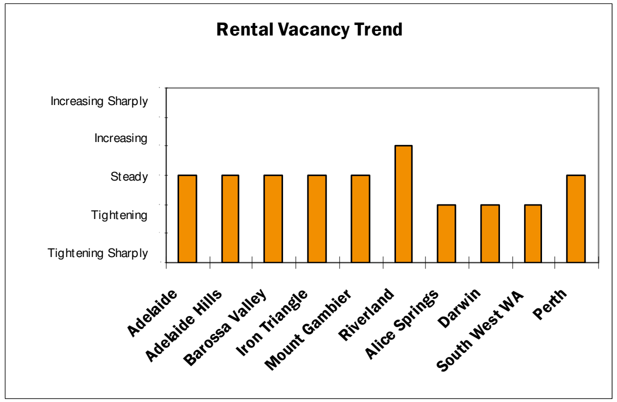


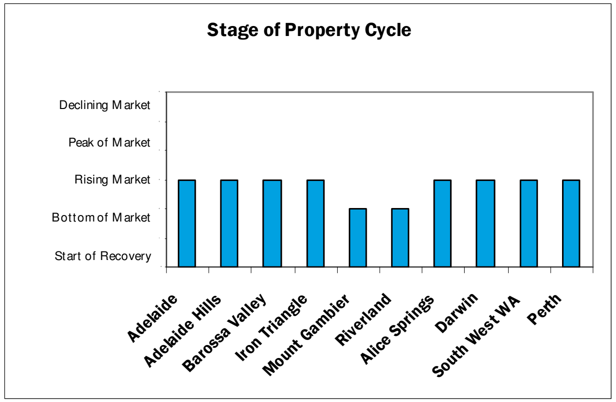
Market Indicators

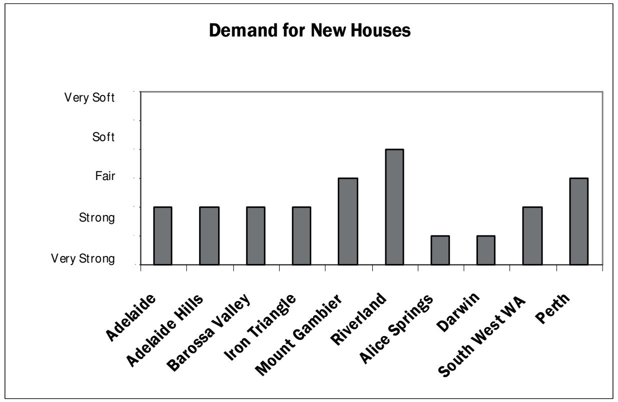
Northern Territory, South Australia & Western Australia Property Market Indicators - Houses

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	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	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening	Tightening	Tightening	Steady
Demand for New Houses	Strong	Strong	Strong	Strong	Fair	Soft	Very strong	Very strong	Strong	Fair
Trend in New House Construction	Increasing	Increasing	Increasing	Increasing	Steady	Steady	Increasing strongly	Increasing strongly	Increasing	Increasing
Volume of House Sales	Declining	Declining	Declining	Declining	Steady	Steady	Increasing strongly	Increasing strongly	Increasing	Steady
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Bottom of market	Bottom of market	Rising market	Rising market	Rising market	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Occasionally	Occasionally	Occasion-ally	Occasionally	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*







Market Indicators

Northern Territory, South Australia & Western Australia Property Market Indicators - 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	Severe shortage of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening	Tightening	Tightening	Tightening
Demand for New Units	Fair	Fair	Fair	Fair	Soft	Soft	Very strong	Very strong	Strong	Fair
Trend in New Unit Construction	Steady	Steady	Steady	Steady	Declining	Steady	Increasing strongly	Increasing strongly	Increasing	Increasing strongly
Volume of Unit Sales	Declining	Declining	Declining	Declining	Steady	Steady	Increasing strongly	Increasing strongly	Increasing	Steady
Stage of Property Cycle	Rising market	Rising market	Rising market	Rising market	Bottom of market	Bottom of market	Rising market	Rising market	Start of recovery	Rising market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Almost never	Almost never	Almost never	Almost never	Almost never	Occasionally	Occasionally	Almost never	Occasionally

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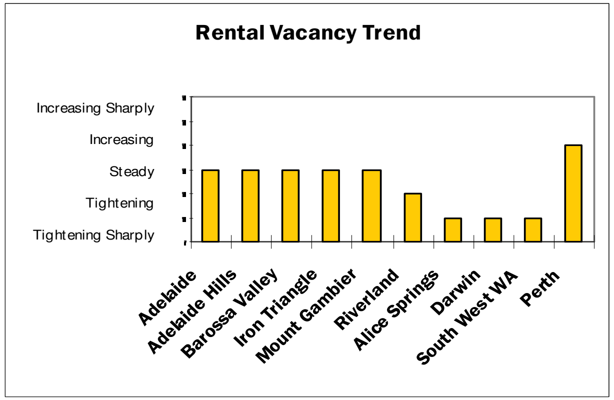

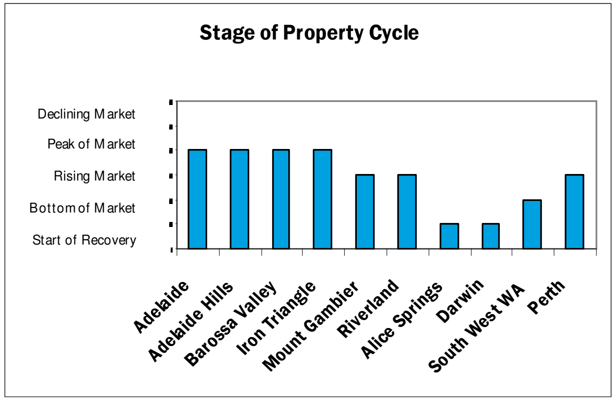

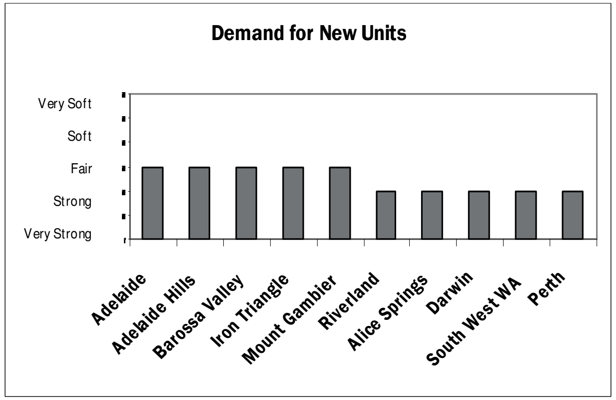

Market Indicators

Northern Territory, South Australia & Western Australia Property Market Indicators - Office

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	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market
Rental Vacancy Trend	Increasing	Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Steady	Steady
Rental Rate Trend	Declining	Declining	Declining	Declining	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Declining	Declining	Declining	Declining	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Declining market	Declining market	Declining market	Declining market	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Rising market
Local Economic Situation	Contraction	Contraction	Contraction	Contraction	Flat	Steady growth	Steady growth	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Small	Small	Small	Large	Significant	Significant	Small	Significant

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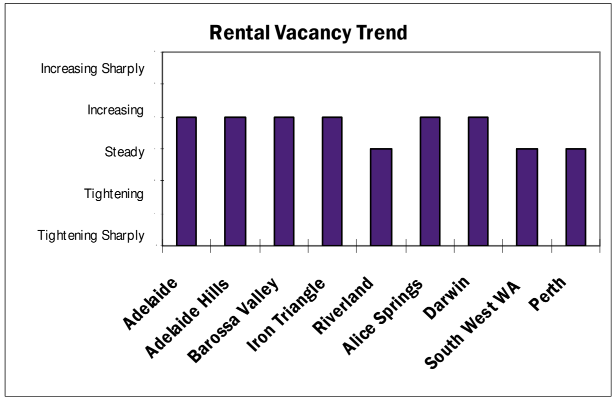

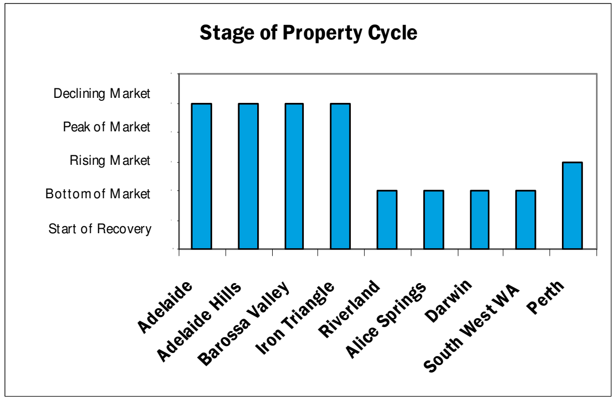

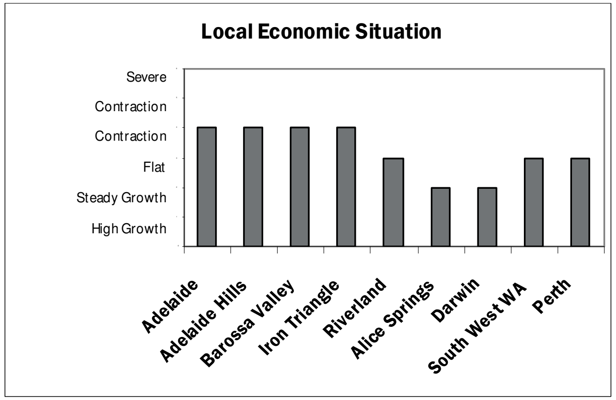

Market Indicators

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