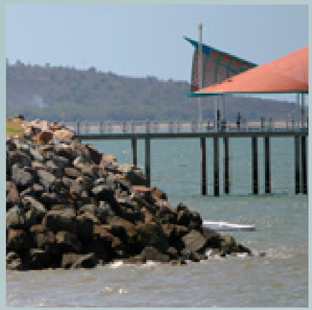
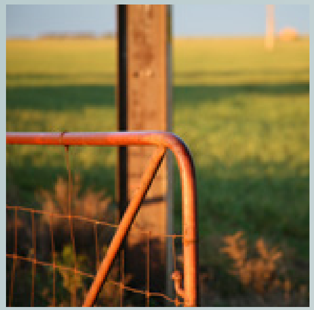
June 2014

Month in Review

HERRON TODD WHITE

Contents

Half time! Bring out the oranges

There's nothing like the rush and tumble of the first half. Everyone's full of adrenaline and predictions and they're keen to get the action going.

Come halftime, however, there's a moment to take stock – a chance for reflection right in the eye of the storm, an intermission where all witnesses to the event can take the opportunity for analysis before moving forward.

Well we've hit the middle of 2014 folks. The financial Happy New Year is upon us and observers are raring to see things unfold as we steam towards Christmas. Many markets around the nation looked set to perform this year with newfound confidence amongst those buying. For markets that continued their slide, there is a sense they're bouncing along the bottom and looking for any excuse to start rising. Even some hotter markets that are now beginning to cool their heels still have plenty of pundits predicting positive percentages in the capital gains column come year's end.

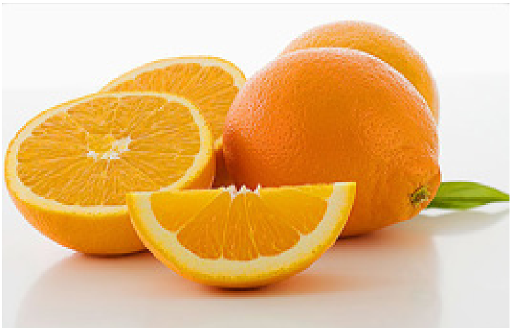
There are also markets that could retract by the end of December. Perhaps single industry driven centres where the big employers are starting to pull back. There will even be a few locations where there was overconfidence that the good times would last forever – a strategy for disaster for the uninformed owner.

With the mid annum upon us, the good folk of Herron Todd White have decided to form a circle around the coach, dig into a few orange slices and discuss how the game is going so far. The hypothetical whiteboard and non-indelible pens are out, so sketches about the plays that have happened and the strategies that will produce winners are being considered. June is a good time to take stock in the property market, and we've grasped the opportunity.

As you'll see our national market performs on many levels with variations between location, property type and price point. It takes a particular collection of well-informed, ear-to-the-ground professionals to come up with nuanced responses when asked, "How's the market going?" Luckily, we have just the team. Best of all our experts don't stop there with more than a few happy to give their opinion on where things are set to head moving into July and beyond.

If commercial is your thing, then get ready for retail. Interest rates are low but are predicted to go higher as economies around the world continue to firm up, so is retail property investment set to get stronger in Australia? We have a look at the best opportunities right now and where the important numbers might head.

So have a breather one and all. Take the chance to reflect on 2014 to this point, and consider what's in the future. Don't do it alone of course. Herron Todd White is just one electronic communication away and we're ready to train you for victory in the property stakes... but you'd better hurry because halftime is almost over.



QS Corner

Tax time is here. The dreaded task of organising finances for the inaugural trip to the accountant is upon us all.

If you own an investment property, the best advice you can receive is; it pays to be organised and it pays to do your homework on what exactly it is that you can and cannot claim against your taxable income. Accounting for every dollar is important and can save you from paying more than you should.

The big question is however, do you know what those deductions are and how to claim them?

When it comes to renting out your investment property, whether you own the property, renting out part or all of it or even if you are a commercial property owner-occupier, there are many items you can claim a deduction for. It is not just those investors who are negatively gearing their investment property that reap all the rewards. Every investor has the same opportunity to claim for tax benefits; you've just got to know what they are.

The most commonly claimed deductions are for the repair and maintenance on capital works to a property, along with managing agents fees, landlord insurance, water and council rates, strata fees (if the property is strata titled) and all directly related expenses suitably associated with the investment. Some costs are tax deductible in the year you incur them, whereas others can be used to reduce your profit, or capital gain. However you can also claim some interest, legal costs and other expenses associated with the purchase of the investment property.

While the above are the most commonly known and claimed expenses, claiming depreciation on the wear and tear of your property is one that sometimes slips through unclaimed. As a direct result there could be literally thousands of dollars that can be claimed on your investment property. The concept is the same as claiming depreciation on a car that is used for income generating purposes. A big misconception is that people do not associate the idea of depreciation with property, because as an investor all that you want your property to do is appreciate in value.

While the land component is usually the one that appreciates, the actual dwelling, the bricks and mortar, carpet, blinds and kitchen appliances, wear out and depreciate. It is for this reason the ATO allows owners of investment properties to claim annual deductions for depreciation on their properties.

In order to have your property correctly assessed for depreciation, it is advised you engage the services of a fully qualified and licensed Quantity Surveyor who is also a registered Tax Agent. This will ensure what you claim will be in accordance with the ATO's guidelines, while also providing peace of mind that a qualified professional is ensuring that all depreciable items are accounted for and not overlooked. This is the most effective way to maximise your return and reduce the amount of tax you pay.

It is important to do you homework on the tax benefits, rules and guidelines when it comes to property investment. It's important to talk to your accountant or financial advisor, not just at tax time but well before you buy your investment property. This way you will know exactly what your financial options, benefits and risks are.

Herron Todd White are more than just property valuers, we are fully qualified and accredited property advisors, in all areas and classes of property. If you or someone you know needs tax depreciation advice on your/their investment property please do not hesitate to contact us by email at tds@htw.com.au. We have fully qualified Quantity Surveyors who are ready to help.

Commercial

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New South Wales

Overview
As economies strengthen both here and overseas, there are many commercial investors who have been keeping an eye on the retail sector with positive hopes for its future. 2014 to date has seen a steady overall market, but a mid year assessment is well and truly due. This month, our experts give their take on where retail property has been heading, and how it might perform during the rest of the year.

Sydney
Key drivers of growth for the Sydney retail sector are currently in play. Net additions to Sydney housing stock have increased from 14,700 dwellings in the 2011/12 financial year to 19,900 dwellings in 2012/13 fiancial year (Housing NSW). Building approvals for residential construction in the greater Sydney region have also shown a recent rise. Six month totals of residential building approvals by the Australian Bureau of Statistics (ABS) show progressive rises from 11,270 approvals in the six months to March 2012, to 20,000 approvals in the six months to March 2014. Furthermore, the New South Wales unemployment rate has begun trending downwards from a four year high of 5.9% in November 2013, to as low as 5.2% in March 2014.

Such factors appear to have steadily filtered through to retail spending. Seasonally adjusted figures by the ABS indicate that rolling 12 month growth rates for total retail turnover in NSW reached a four year high of 8.6% in the first quarter of 2014. More significantly, the retail turnover figures show a recovery in discretionary spending. NSW retail turnover in the categories of household goods; clothing, footwear and personal accessories; and cafes, restaurants and takeaway food has strengthened considerably, growing by 9.4%, 17.7% and 21.4% in the year to March 2014.

However, while retail spending has strengthened, it may need to progress further in its recovery before generating a broad increase in leasing demand and rental levels. The recent recovery in consumer spending follows a period of challenging conditions for retailers, and we expect many retailers to focus on rebuilding profits before looking towards expansion. Meanwhile, we expect new supply additions to retail stock in Sydney to be fairly limited in 2014 and curb significant rises to retail vacancy rates in the short term.

We view analysed yields and capital values for retail assets in Sydney to have remained generally stable over the past year. Buyer interest has remained steady for retail assets in Sydney however, buyer demand continues to be focussed around good quality, well performing assets meaning opportunistic purchases remain scarce. Additionally a favourably low interest rate environment continues to provide support for owner-occupier demand for retail strata space.

Canberra
Retail activity in Canberra has been very subdued and indeed vacancies are increasing as the impact of the downturn in activity post election begins to bite. The one interesting and positive announcement is the deal struck by the ACT Government with IKEA. It is understood that IKEA have agreed terms with the government to purchase a site in the Majura precinct. The site is close to Brindabella Park where the likes of Costco, BigW and Woolworths, Mates and Dan Murphy are to be found. This will enhance this area but the retail traders in Fyshwick are concerned that it will be at their expense.

Overall the economy in the ACT is at a relative standstill awaiting the true impact of the budget and the Governments Commission of Audit. Confidence is at a very low level which could impact retail sales and demand for retail property. The budget in 1996 had a serious impact on confidence and retail sales fell and property prices declined. The commentators suggest the impact of this budget will have less of an impact on the economy in the ACT which is considered more robust than 18 years ago. However the size of the public service will be reduced by 16,500 over the next three years with many of these jobs from in the ACT, and it is noted that none of the major infrastructure projects identified in the budget will occur in or close to the nation's capital.

We are of the view that it is unlikely we will see any significant retail real estate opportunities in the ACT over the next three years.

The only bright point is the development of the IKEA facility however as indicated this also has its downside.

South East NSW

After a prolonged period of static conditions there are early signs the retail property market is starting to recover. This has been exhibited by an increase in sales with anecdotal evidence revealing that vacancy rates are steady and in some areas declining.

It is our belief that the improved conditions are a direct correlation to the strong residential sector which is giving the market confidence that has largely been missing since the onset of the GFC. Adding to the confidence are the significant number of large infrastructure and private sector construction projects taking place in the region, which continues to transform from its traditional industrial base.

The most notable transaction in the year to date has been for the Coles anchored neighbourhood shopping centre in Berkeley for $5.85 million, while the bulky goods asset class with good lease profiles are starting to rise in popularity for investors again as illustrated by the Bing Lee tenanted strata titled property in Warilla for $1.95 million and the Barbeques Galore tenanted Torrens title property in South Nowra or $2.5 million.

The Wollongong CBD is currently undergoing a large makeover spurred by GPTs West Keira $200 million shopping centre development where pre-leasing has been strong. We anticipate this development will spur activity in the western Crown Street precinct with the lower east Crown Street precinct to benefit from the substantial mostly residential development proposed for the Oxford Tavern and Dwyer's sites. Crown Street Mall while undergoing short term pain during the mall refurbishment should recover, although there will be pressure from the West Keira project. The fabric of the CBD is rapidly changing with numerous small bars and cafes opening up over the past 12 months giving the CBD a much needed night time presence.

Vacancies in Bowral's blue chip Bong Bong Street has declined with agents reporting increase tenant interest. Prime properties are still highly regarded and yields in this location are hovering in the 7% to 8% range.

While the retail market is improving we do not foresee a rapid rise in rental rates. However, with interest rates now looking to hold neutral for the current period, this may entice more inventors into the market where some purchasers may accept a lower yield and thereby see an increase in prices.

Newcastle

Action is starting to ramp up in the inner city Newcastle retail scene at the moment. The GPT/ Urban Growth NSW mixed use proposal is on display with council and is dominating local property talks and press columns. Commentary around the proposal is mixed at best. The inner city needs to be renewed, absolutely, say the pundits. However, do we need towers that are three times higher than the current planning guidelines permit? Elizabeth Farrelly wrote in the Sydney Morning Herald this week, "The proposal, flanking the Hunter Street mall, is a weird mix of quasi-officialdom and outright gluttony. Almost tripling existing height limits, but only on its own site, this proposal is a case study in just how destructive it is when governments leap the fence". She refers to the fact that the State Government has the ability in this case to amend the planning guidelines to suit their own development, while leaving other private developers no choice but to comply with planning guidelines already in place. No doubt we'll hear more about this conflict of interest in the weeks and months to come.

These residential towers would potentially play an important role in servicing the proposed 15,000 to 25,000 square metres of retail space within this proposed development – fundamentally without this increased population in the city centre, retail propositions appear less viable and rental returns may suffer. We've seen in Honeysuckle that the small core of retail space in The Boardwalk is very popular with zero vacancy but step 200 metres to the north and you'll find vacancy after vacancy in modern mixed use buildings which are 100% occupied by residential tenants in the upper floors. However, the ground floor retail suites remain extremely difficult to lease due to lack of demand.

What we do know is that GPT churn out successful and profitable shopping centres around the world (Charlestown Square is a great local example). These are destination shopping experiences with a full range of cafes, restaurants, movies theatres and all major brands which bring shoppers in from far and wide. There are three multi-level residential complexes in Charlestown Square and these are each under 12 storeys high, with low density single residential housing the norm in the surrounding suburbs. Residential density in Charlestown is much lower than the inner city is currently and even with zero new residential development, shoppers will travel to a new shopping centre if the right tenancy mix is in place and the right ancillary services are provided – this is where GPT excels. No doubt the high rise residential towers as they are currently proposed will increase the turnover figures in the proposed retail space, but if the retail offering is on point, do we need such towers imposing themselves on the character of Newcastle forevermore?

Lismore

The retail market for the NSW North Coast varies due to the wide variety of commercial retail property types and markets.

Byron Bay has some of the highest rental rates on the North Coast in regards to retail. However, Byron Bay is strongly driven by the tourist sector and the fickle nature of the tourism market. The increase in the tourism market since mid 2013 has resulted in increased demand for commercial/retail space and a stabilisation in rental prices.

The Byron Bay retail market has traditionally had rental levels two to three times that being achieved in other areas of the North Coast. Rental rates in secondary locations range from $300 to $600 per square metre per annum while premium locations ranging from $800 to $2,000per square metre per annum.

In 2012/13 the market was dominated by mortgagee in possession sales or forced sale situations, consequently we saw yield increase to record high levels 7.5% to 8.5% in more recent times yields have demonstrated lower levels generally 6.5% to 7.5%.

Other north coast centres have seen yields remain high at 8 to 11% except for owner-occupier space and Blue Chip commercial properties with strong national tenants which have remained relatively low at 7% to 8%.

Generally the market outside prime coastal areas are dominated by owner occupiers, however where investment sales do occur demand remains weak. Recent sales in Lismore include:

(i) Nesbitt House, 164 Molesworth Street, was purchased in February 2014 for $1.7 million. This analyses to a yield of analyses to a yield of 11.17%.

(ii) 50 Magellan Street, was purchased March 2014 for $210,000. This analyses to a yield of analyses to a yield of 8.27%.

Best opportunities are strong local tenants who have modest terms which generally do not appeal to an owner occupier. These also generally only appeal to local purchasers as small regional markets have limited appeal to broader capital city investors.

We believe the best opportunity are properties which fit between the more sought after segments (National tenanted properties with long term leases and owner-occupier space below $400,000).

This would leave the better buys to be well located properties with strong local tenants and higher priced vacant properties which are likely to suit an owner-occupier. These properties are likely to be acquired well below replacement cost.

The near term outlook is for retail rents to come under pressure as retail businesses continue to suffer from a lack of consumer confidence. Any falls in rents will be property specific and dependant on the retailing sector of the tenant. Anecdotal evidence suggests that there is an emergence of arrears from retail tenancies in convenience, neighbourhood and strip centres given the current difficulties associated with retail trade. This may have a negative affect on rent levels moving forward.

Coffs harbour

The Coffs Harbour City retail market overall could be described as ‘steady’. Market confidence appears to be strengthening post Federal Election. There has been limited investment sales activity in the past 12 months however well located and strongly leased property is attracting firm investment rates. Recent sales results include Nambucca Heads Commonwealth Bank sold at 7.57% and Coffs Harbour National Australia Bank for $4 Million at 6.09% net yield.

The Coffs Harbour City Centre has been buoyed by the redevelopment of the Coffs Central Shopping Centre. However, this has detracted slightly from the ‘strip commercial centre’ where vacancy levels have risen slightly. There remains some sensitivity within the rental market with lease up periods of three to six months and incentives required to fill vacancies. There is some evidence of properties being relet at decreased rates below the previous levels established in the passing leases.

The sustained period of low interest rates and increasing economic confidence should ensure a steady improvement in the retail industry through 2014.

Victoria

Melbourne

Despite mixed signs in relation to retail turnover/ spending, the overall retail property market has performed relatively strongly over the past 12 month period.

Spending patterns have been mixed with good growth in food and hospitality yet effectively negative growth within clothing, department stores and household goods.

Confidence appears to be rising in the retail property market, however the sector does appear to remain somewhat "two tiered"

with well located properties and strong lease covenants attracting good demand yet secondary properties in outer locations remaining difficult to sell or lease.

The opening of Swedish fast fashion brand H&M in the GPO building, Melbourne's former General Post Office development on the corner of Bourke and Swanston Streets is further evidence of increasing levels from new off shore entrants into the Melbourne central business district.

Improving economic conditions, the growing trend of foreign retailers opening stores and increased investor interest has driven a period of major redevelopment and rejuvenation within the central business district. The opening of The Emporium in Melbourne's central business district in April 2014 added an additional 45,000 square metres and over 200 tenants.

Generally speaking, rentals have been relatively stable with the exception of some prime central business district areas which have reported some recent rental growth.

Overall, vacancies are relatively low in prime areas yet appear to be growing in secondary areas while yields have firmed particularly within neighbourhood centres. Future opportunities may exist for investors in terms of retail property investment in strong fringe central business district and suburban locations where increased residential construction is either occurring or mooted.

Indicative retail strip parameters

Melbourne is home to a large number of retail strips within its inner and middle suburbs, with a large number of successful strip precincts located within the inner eastern and south eastern areas. The table beside is a snapshot of the indicative market parameters within these prime retail strips:

Prime retail strips	Market yeild range (%/m2)	Net rent range ($/m2)
Puckle Street, Moonee Ponds	4.25% - 5.25%	$400 - $700
Glenferrie Road, Malvern	4.25% - 5.5%	$300 - $600
Church Street, Brighton	3% - 4.25%	$400 - $700
Chapel Street, South Yarra	3.75% - 5.5%	$900 - $1,800
Burke Road, Camberwell	4% - 5.75%	$700 - $1,300
Bridge Road, Richmond	4.75% - 6.5%	$300 - $700
Acland Street, St Kilda	4.5% - 5.5%	$800 - $1,200
Station Street, Box Hill	4% - 4.75%	$700 - $1,200

Melbourne CBD

A current trend in the Melbourne central business district is for global retail brands to enter, or re-establish in the market. This demand for space from new entrants is driving an increase in rental levels for prime retail space, subsequently having a positive influence on market values. Prime retail rents in Bourke Street Mall and Swanston Street now challenge Pitt Street, Sydney. The following table provides a snapshot of indicative rental ranges within the Melbourne CBD:

Melbourne CBD	Net rent range ($/m2)
Bourke Street Mall	$6,500 - $10,000
Swanston Street	$4,000 - $5,000
CBD other	$1,200 - $4,000
CBD lower end	$500 - $800

Shopping centres
Purchasers, in particular institutional buyers, remain active in the regional shopping centre market as evidenced by a reasonably high volume of market transactions. Some notable shopping centre purchases in Victoria within the past six months are listed in the table adjacent.

Shopping Centre	Sale Date	Rate ($)/m2	Purchase Price	Passing Yield	Purchaser Type	Comment
Northland Shopping Centre	March 2014	$10,738	$496 million	6.1%	GPT Wholesale Shopping Centre Fund	50% stake sold. Major tenants include Myer, Kmart, Target, Coles, Woolworths, JB Hi-Fi, Country Road and Hyots.
Bendigo Marketplace	December 2013	$6,637	$162.159 million	7.5%	ISPT Pty Ltd	100% stake acquired. Major tenants include Dick Smith, Big W, Woolworths and Best & Less.
Rosebud Plaza Shopping Centre	November 2013	$4,068	$100 million	7.8%	Charter Hall Retail REIT	Anchor tenants include Coles, Woolworths, Kmart, Freestanding Kmart Tyre & Auto, Target and 60 specialty stores.

Suburban retail strips
In Melbourne's suburban retail strips, freehold properties continue to be in demand due to their underlying development potential. Properties with low site coverage, excess land and multiple accesses are keenly sought after by developers, and often redeveloped into mixed use buildings with ground level retail and upper level apartments; or in cases whereby the property has excess land and rear access; low rise multi-level apartments are built at the rear land.

Tenancy mix within retail strips is also evolving. With the growth in online shopping, the rising popularity of Direct Factory Outlets, and the continual growth in strength of the non-discretionary retail sector, many traditionally fashion focused retail strips are now incorporating more food/café/bar retailers and convenience based stores.

South Australia

Adelaide

We could elaborate about the ongoing difficult conditions experienced by Adelaide's retail sector and the challenges that this is presenting, but it feels too much like we are repeating the same thing month after month (in review). Yes, there are numerous challenges at present for traditional bricks and mortar retailers as online shopping continues to grow in popularity. Yes, generally people are choosing to save and pay down debt which is leading to more limited discretionary spending. Yes, local economic conditions with high unemployment rates and concerns surrounding job security continue to drive negative sentiment. However without making light of any of these issues they are set to remain as the status quo in the short to medium term.

For this month in review we are choosing to focus on some of the new, existing and interesting developments that are currently taking place in Adelaide's retail sector.

Rundle Place, which has now been trading for just over one year, will see Trenery and Country Road move into new stores and Witchery move into a pop up store within the complex by the end of June.

The ground floor of the complex will then be fully leased. Iconic brand Tiffany and Co is opening a store in the CBD. Located in the former Air restaurant site within Adelaide Central Plaza facing North Terrace, the 11 metre tall white façade is sure to be instantly recognisable. The store is due to open by October.

The Rundle Mall upgrade is now in Stages 3 and 4, with only Stage 5 still to commence. The western end is complete and the new James Place canopy is due to open at the end of May. The Mall should be completely finished its upgrade by October this year.

After opening its first South Australian store in the regional city of Mount Gambier in 2012, Masters Home Improvement is about to expand into the Adelaide market with two large format stores about to commence construction. One is to be located near the Parafield Airport and the other is to be located adjacent to the Ikea store near Adelaide Airport. Both are due to open late 2015 with a further nine stores planned over the next six years.

The Churchill Centre is a mixed bulky goods and large format retail centre currently in various stages of completion. Located on the old Islington rail yards along Churchill Road, the site occupies 24 hectares. A 12,600 square metre Bunnings store located at the southern end of the site was constructed back in 2011. Currently nearing completion on the northern portion of the site is a shopping centre anchored by Coles and Kmart with Cheap as Chips, Priceline, Coles Express petrol outlet, Liquorland, McDonalds, KFC and around 50 other specialty stores. The Coles itself is a first of its kind for South Australia being a

superstore with over 5,500 square metres of floor space. This large format store will retail general merchandise as well as its apparel range Mix. This centre is due for completion before the end of the year.

Costco will open in Adelaide later this year, with a 14,000 square metre warehouse to be built adjacent Coles on the site of the Churchill Centre. It differs from the standard supermarket in that only those purchasing an annual membership of $60 are allowed to shop there. Costco which offers a no frills service promises to provide members with significant savings on the product lines that are stocked. Costco is expected to be open for business before the end of 2014.

German supermarket giant Aldi has recently gained council approval to build a $70 million warehouse and distribution centre at Regency Park on Gallipoli Drive. The proposed 30,000 square metre warehouse on an 8 hectare site is the first step in Aldi's expansion into South Australia.

Just announced is that development plans have been lodged with the Onkaparinga Council for approval for Aldi's first supermarket on the corner of Robinson Road and Vista Parade at Seaford Heights.

The approximately 1,600 square metre building, if it gains approval, will be the first in what is expected to be a roll out of around 50 stores statewide.

All of these retail developments should be welcome news for the construction industry as there was a question mark over what was next after some major infrastructure projects reached completion earlier this year, noticeably the Adelaide Oval development and the South Road Superway, with others due to finish in the next six months. The developments mentioned above are likely to go some way to keep construction in South Australia bubbling along, while supporting the local economy in the process.

Queensland

Brisbane

The Brisbane retail property sector has seen steady economic progression throughout 2013 and the first quarter of 2014. This has resulted in an overall increase in sector confidence. Progression can be partially attributed to the low bank interest rate environment showing signs it has created a stable platform for firming yields. Research also shows national retail turnover saw a 2.9% growth in the 12 months to November 2013 which further demonstrates how well retail properties are fairing in the current economic environment.

Properties which were transacted in the second half of 2013/early 2014 in the sub $15 million sector reflected a range of yields of 6.5% to 9.5% dependant on the price point, location and the investment profile of the particular property. entres over $15 million were attracting higher yields and generally being purchased by local private syndicates, high net worth individuals or institutional funds.

The sub $5 million market still remains in strong favour with investors resulting in firming yields which range between 6.25% and 7.75% for properties in prime regional locations and a higher range of 7.75% to 9.25% for properties in secondary and regional locations. The discrepancy between the two types of retail property highlights the importance of location in this asset class. An example of how retail property yields in Brisbane are gradually firming is the sale at 1-3/253-257 Given Terrace Paddington. This property sold on 6 March 2014 for $2.55 million at an analysed yield of 6.3% and a rate of $8,851 per square metre of GLAR.

Retail centres with a higher price point over $5 million are generally achieving slightly softer yields between 7.5% and 9% depending on the location. This is due to a smaller pool of investors in this market. For example, the retail centre at 204-208 Bestmann Road, Sandstone Point sold on 27 July 2013 for $8 million at an analysed yield of 8.16% and a rate of $3,498 per square metre of GLAR. The centre is anchored by IGA and sold fully leased to nine tenants with a WALE (by income) of 6.85 years.

In summary, we believe that the Brisbane retail property market has been steadily improving in 2013/early 2014 with prime locations being in high demand from tenants and investors. Secondary retail properties however, should still be analysed and assessed thoroughly.

Gold Coast

All signs are pointing in the right direction for the Gold Coast retail market but we are still likely to witness a few speed bumps along the way.

As a general view, there are several factors still at play that are working both for and against a market recovery in 2014/2015.

The retail investment market is continuing to hold strong with an increasing number of transactions evident in the marketplace and a general compression of yields across the board. Further to this, the volume of mortgagee in possession stock appears to have all but dried up.

On the flip side, it seems likely that rental growth will be capped for some time, particularly given that any such movement generally has a one to two years lag behind retail spending patterns.

Westfield recently reported a 4.4% growth in retail sales in quarter one 2014, a result that is better than expected. Conversely however, feedback from local small business operators is still one of a distressed situation, as households remain conscientious of their discretionary spending.

Further to this, recent budget announcements will probably result in a short-term lull in discretionary spending stemming from welfare cuts, healthcare changes, the petrol excise and the debt levy. These factors will not ultimately make a major difference to the bottom line for most Australian households, however the bad news inevitably hits home quicker than the good news; this will probably result in a slowdown in retail spending for the current period.

Notwithstanding the above, the Gold Coast retail market is ultimately underpinned by activity in the tourism and construction sectors, both of which are anticipated to start making a recovery as the global economy slowly finds its feet, and the improving residential market results in a return of local construction activity.

We have also been given a small boost of confidence upon discovering that QIC have recently applied for, and gained Council approval, for further extensions of Robina Town Centre. A search of councils PD Online reveals that the existing Coles store will be relocated and will also be flanked by an additional 35 specialty stores.

We're not sure on the timing of this project, however it is apparent that this major player in the Australian retail market has faith in the Gold Coast's future and is poised to make a move at a moment's notice.

Toowoomba and Darling Downs

The Toowoomba retail market has predominantly been made up of a mix of typical mum and dad owner operators for small retail properties and larger investment groups who have taken a 'sit and hold' approach to the larger investment product within the CBD.

Throughout the GFC the majority of owners of large retail investment properties retained ownership as a form of passive investment income rather than offering to the market when buyers were minimal and sentiment was cautious. Now with economic conditions improving and national development companies demonstrating investment confidence in the local market, owners have been more likely to join the market and free up capital.

Money is the cheapest it's been in nearly a generation and the anticipation of rising interest rates has seen investors lock in upper end investment purchases at firmer yields than have traditionally been experienced. Yield rates are expected to soften into the future in line with rising interest rates as borrowing becomes more expensive.

Self managed superannuation funds have also shown an increasing presence attracted by investment purchases with strong long term tenants in place and for owner-occupation. This has resulted in an increase in competition in this sector.

Recent investment has been boosted by action in the coal seam gas and exploration industries as well as advances in development of the new Toowoomba Airport and the announcement of the approval of government funds for the Toowoomba bypass.

The local council have commenced construction of the outer circulating ring road to alleviate CBD traffic congestion and improve flood mitigation. Completion is anticipated towards the end of 2014 and government incentives around inner city development are expected over the next 12 months.

Outer circulating ring road

The rapid growth in approval and construction of residential development in the region has raised confidence that the local population is rising and with that is an expected increased customer base for retail businesses.

National retail giants, Bunnings have increased investor confidence with their announcement to overhaul the old foundry site within close proximity to the city centre which is expected to increase customer numbers to the CBD. Other major announcements spurring investor confidence are the approval of a Quest branded 70 unit, high-rise serviced apartment building on the main street, completion of the North Point shopping centre at Harlaxton anchored by Coles and completion of the Drayton shopping complex anchored by Woolworths.

Bunnings on the old Foundry

The QIC development of the Grand Central shopping centre, incorporating the previously poorly trading Garden Town shopping centre has seen local and major tenants scramble to lock in rental tenancies in the immediate vicinity of the anticipated development. Major advances are yet to be made on the new shopping precinct however rental tenancies are becoming increasingly scarce in anticipation of what is to come.

QIC development

The recent sale of a fringe CBD bulky goods retail property for a reported $7.475 million at a yield of 7% was a reflection of an off market transaction to investors with their eye on the prize having previously missed out on other CBD investment sales. This type of buyer enthusiasm at a price point thinly traded in the local market has given smaller retail purchasers confidence in the CBD market.

Anecdotal evidence would suggest yield rates for retail properties within the city limits to be steady at 8% to 9% however are expected to soften if interest rates begin to climb.

Retail properties outside of the CBD are experiencing softer yields stabilised at circa 9% to 10% as the focus is squarely on the scarcity of appropriately located properties in the city centre.

Gladstone

The Gladstone retail market is intrinsically linked to the ongoing activity surrounding the major liquid natural gas (LNG) projects being undertaken in the region.

There has been little activity in the local retail market in Gladstone over the past few years. Rents have remained fairly stable and there have been very limited transactions. Yields softened slightly over the course of 2013 and early 2014 and vacancies remain relatively low.

We consider market conditions to remain generally stable however there is potential for price vulnerability and some market volatility due to the weakened local economy in relation to the peak workforce numbers for the construction of LNG projects starting to decline.

Hervey Bay

Hervey Bay is still eagerly awaiting completion of the expansion to Stockland Hervey Bay Shopping Centre. From all reports construction is on track for completion in the next few months. The reported $115 million redevelopment will generate in excess of 250 jobs and on completion, the centre will occupy approximately 35,000 square metres. To date, the line-up of retailers include Muffin Break, Go Sushi, Kick Juice, Kmart, Cotton On Mega, Harris Scarfe, Best & Less, Specsavers, EB Games, Katies and Michael Hill. On completion, Stockland Hervey Bay will be almost twice its original size and include more than 100 specialty stores, a 500-seat cafe-style food court and 1681 car parking spaces. A second development application has reportedly been lodged to build a cinema, supermarket and more specialty stores, which could also be completed this year. Asking rental rates are reported to be around $1,100 per square metre net.

We are entering the winter period which for Hervey Bay sees the return of the Humpback Whales. There have already been some reported early sightings of whales heading this way. Hervey Bay's retail market is heavily influenced by this tourism dollar and demand for esplanade front property remains slow. Asking rates between $250 to $450 per square metre with leasing incentives and rent free periods are now very common. Similar to what was experienced throughout 2013, maintaining occupancy during this time should be a focus as properties that are vacant, are difficult to lease. Recent activity includes a mixed retail/office complex on the Esplanade in Urangan sold in late 2013 for $1.445 million. This centre was nearly 70% vacant at sale. We also understand a convenience centre at Craignish is currently under contract and likely to reflect a passing yield in the order of 9.8% once settled.

Townsville

Townsville retail market remains patchy with ongoing new development occurring within the CBD and suburban areas expanding our retail footprint along with smaller 'mum and dad' retail businesses closing their doors.

We are seeing ongoing expansion in the food retail sector with new franchisees entering the Townsville market or expanding their number of outlets in Townsville.

The prime retail sector remains the major shopping centres, which offer air-conditioned comfort for shoppers year round, with vacancies in these centres being low. Homemaker centres and bulky retail outlets also appear to have relatively low vacancies.

Recent retail transactions are reflecting yields of 8% to 9% for stronger food and service based centres with strong anchors, but are widening to 9% plus for those centres with vacancies and/or other cash flow issues.

> Confidence in the property market is currently lacking impacted by the negative outlook being painted by politicians in the lead up to the federal budget and the high volume of media coverage this negatively is receiving.

Cairns

The Cairns retail market has progressively faded since the start of 2008 as a result of the local economic downturn leading to reductions in consumer and tourism spending. Though we now perceive the Cairns retail market to be passing through the bottom of the cycle and the Cairns market overall is starting to improve, the patchiness of the economic recovery means that the retail property market has remained flat. Retail property sales in Cairns are also extremely sporadic, with most sales involving retail property being of mixed use retail / office buildings or tenant buyouts of single premises.

There was increase in vacancy levels in the retail sector resulting from a number of business closures attributed to the tough economic environment during the GFC. However the increase was only a relatively mild increment to the high levels of long term vacancies in some areas that pre-dated the downturn. High exposure CBD space remains reasonably well occupied, with vacancies most noticeable in the lesser exposure locations and/or on the CBD fringe. Rents have remained generally stable, showing ranges of $600 to $800 per square metre per annum for prime CBD space, and $1,000 to $1,500 per square metre per annum in key tourist precincts such as the Cairns Esplanade. However recent signs are that CBD prime rents are starting to strengthen, which may well be the proof that the market has bottomed.

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

Western Australia

Perth

With weakness in discretionary spending habits of consumers continuing, retail owners have been under pressure to maintain occupancy in their assets, with evidence of increasing incentives in this market. Vacancy rates have increased marginally throughout the year across the board, however remain lowest in regional shopping centres. However, there is an increasing trend towards tenants on short term leases, holding over and pop-up style shops.

The biggest demand for space comes from entertainment or food related retailers and in the CBD of Perth.

International retailers are most active with TopShop recently announcing their entry into the Perth market in the Murray Street Mall which follows the announcement that Zara are to open a Perth CBD store next door in Murray Street as well. Both premises are under construction at the present time.

The largest retail transaction in Western Australia during 2013 saw Westfield sell their third stake in the Karrinyup Regional Shopping Centre for $246.6 million to two thirds majority owner, UniSuper. Management of the centre remains with AMP Capital Shopping Centres. The deal was reported on a 5% capitalisation rate on passing income. The deal values the centre at $740 million. This was a $117 million uplift on book value.

Over the next few years construction across the regional centre sector will increase as institutional owners seek to grow and reposition their assets. Planning is underway for a circa $400 million expansion of the Garden City Shopping Centre in Booragoon. Lakeside Joondalup is into a 28,336 square metre expansion project that will be completed next year. Midland Gate is extending another 19,395 square metres which is planned to be completed in 2017.

Meanwhile, in the sub-regional shopping centre space, Stockland Baldivis is planning an expansion of 22,341 square metres with completion due in 2016. In regional Port Hedland, the South Hedland Shopping Centre which is owned by Charter Hall Retail REIT is nearing completion of a 1,400 square metre extension.

Sub-regional shopping centre owners are also focusing on actively managing their assets and maintaining occupancy levels. Leasing incentives are typically being offered which translate in the form of a contribution to fitout equivalent to six to twelve months rental on a typical five year lease.

New retail trading laws introduced in August 2012 have allowed Sunday trading to occur for all general retail shops, including major department stores and supermarkets between the hours of 11am and 5pm. The decision on whether to open on a Sunday remains with the retailer with some of the smaller retailer not receiving any benefit from opening on Sunday. Generally however, major retail centres are reporting an average of 20,000 additional visitors as a result of Sunday trading and an 80% take-up of opening by retailers.

Some of the retail horror stories continue to be the Subiaco retail area. This area includes Rokeby Road between Bagot Road and Hay Street and Hay Street between Rokeby Roadd and Axon Street, as well as the retail area surrounding the modern Claremont Quarter development along St Quentin's Avenue and Bay View Terrace. In both locations, vacancies have risen and rents have dived, in some instances by as much as 60% over market peaks.

As mentioned, the best confidence in Western Australian retail is by food operators with the likes of Retail Zoo (Boost Juice, Cibo Coffee, Salsa and new brand Hatch) announcing a push into Western Australia which follows the likes of Jus Burgers, Coffee Club and Bing Boys who have made recent appointments to be represented in the Western Australian retail market.

The focus for the remainder of 2014 will be for retail asset owners to continue to focus on managing their asset in and working closely with retailers in order to maintain occupancy.

South West WA

With both the state and federal budgets imminent there is a general pessimism in many markets however, the retail markets are possibly the most pessimistic. Harsh budgets, which hit on the bottom lines of particularly the middle income earners, will likely lead to even more cautionary spending.

> The retail sector has been doing it tough for a long time now, with the increased propensity for saving still flowing on from the GFC, as well as increased pressure from internet shopping.

Boutique street front shops seem to have been the hardest hit particularly in secondary locations with increased vacancies, downward pressure on rents and potential softening of cap rates.

The newly established shopping centres in the south west of Western Australia appear to be faring slightly better with the smaller shops within these centres maintaining their rental levels. The opposite however appears to be the case with Margaret River, with all of the retail shops along the main shopping strip occupied and the new Woolworths centre in Margaret River struggling to attract tenants.

Esperance

Commercial and industrial sales have been slow but stable, especially for vacant lots. While some are under contract, settled sales for this calendar year are in line with the same period last year. Those transactions occurring are however still consistent with prevailing evidence dating back over two years suggesting there is still stability in this area.

Residential

HERRON
TODD
WHITE
RESIDENTIAL

Overview

Capital cities around the nation had been hoping for sustainable capital gains in 2014, while regional areas have been looking forward to a steady market. Our June issue of Month In Review gives the residential team a chance to let you know how the first half of this year has played out, as well as their thoughts on where its likely to finish. An EOFY rundown just when its needed most.

Sydney

Sydney has had a stellar 12 months across all metropolitan suburbs in the sub $3 million price bracket. We have been on the lookout for any signs of the market slowing down since the market began to take off, but have only seen it going from strength to strength. At the time of writing this market review however, conversation between valuers have revealed that we are seeing a general tapering in the market which is supported by data released from Australian Property Monitors who note the auction clearance rates as of the 3rd of May have recorded four continuous weeks below 80% after having a run of ten consecutive weeks of 80% plus clearance rates.

While these factors do not suggest the market has halted what we believe is that there will be a slight correction and softening of the local market by the end of 2014. The factors to keep an eye on are interest rates and stock levels as they are the main drivers in the majority of the Sydney sub markets. This can be further discussed looking at the following geographical areas.

Inner West

The first area we really saw taking off has been one of the first to show signs of slowing. Generally, the market is still strong in the sub one million market, but agents have described less people at open homes and less bidders at auctions. We are still seeing good results but not quite at the 'heated market' point we have been experiencing. The $1 to $3 million dollar market appears to be showing more exaggerated signs of slowing with clearance rates not quite as they have been, and again less interest at open homes as reported by selling agents.

Northern Beaches

As with other areas, the Northern Beaches is showing signs of tapering in the sub $1.5 million market. The Northern Beaches traditionally has more up and down swings compared to other Sydney markets so we will continue to watch for these warning signs. Once price expectations rise above $1.5 million there are definite signs of a slowing market. The higher the price, the more obvious this becomes. Properties appear to be staying on the market for a longer period of time which may start to be reflected in softened sale prices in the coming months.

Eastern Suburbs and CBD Fringe

We are still seeing very strong activity in the sub $1 million market in the eastern suburbs and CBD fringe suburbs. These suburbs are continuing to see strong sales activity and buyer interest. While other areas are showing signs of slowing slightly, this does not yet seem to be the case for these areas. We may see it slowing in coming months, in line with other suburbs of Sydney, but for now it continues to boom. Signs of tapering are beginning to show once the price level reaches above one million. This has been evident for the past month but there certainly hasn't been a weakening in sale prices. We are still seeing very strong results but again with less buyers competing for these properties compared to previous months.

Southern Suburbs
The southern suburbs of Sydney have not yet shown signs of slowing as evident in other markets previously discussed. We are still seeing very good sale results and continued strong buyer interest. There is yet to be any indication of a let up in this very strong market and limited stock is helping to drive this demand versus supply issue. There appears to have even been a pick-up in the market above $1.5 million. This is a sure sign that market confidence is still extremely high in these suburbs as we normally witnessed higher value properties showing the first signs of a slow down.

Sydney CBD
The sub $1 million range market is still seeing strong sale prices with most properties selling within a very short timeframe (within one open house). A greater decrease in stock levels has also been noted coming into the winter months. Most vendors are hoping to sell quickly for a good/record price in the current boom. An example is a sale in Jan 2013 of a 1-bedroom unit with no car space selling for $600,000 and the same product purchased recently (March 2014 for $660,000). Prices have stabilised since the start of the year, however if you are currently looking for an equivilant property in a building, you have to beat the previously paid amount.

The $1 million to $3 million range has seen an increase in stock available, with most prices resulting in a similar sale price or slight increase from the original purchase (since 2005). Short selling periods are also noted with a maximum of two to three weeks recorded. An increase in spending and confidence (stable property market) is the driving force here. However increased buyer awareness and affordability are the main issues for future sales.

The $3 million plus range has seen stable sale prices over the previous 12 months with no noted increase in prices and minimal sales activity recorded. Those selling are looking at moving into a better quality product and those buying are coming from something slightly smaller.

Parramatta
Parramatta is capitalising on its central metropolitan location; strong commercial and retail sectors and transport links. Big plans have been announced for the future of this city over the next few years with several landmark developments on the planning table which will substantially increase supply. The brand new unit market is still showing its popularity with the Parramatta development "Promenade" selling two towers totalling 124 apartments within the first weekend. Promenade is a proposed 11 tower development providing 774 units. This development has property ranging from $399,000 to $900,000 for a 1- bedroom apartment to a 3-bedroom unit. Due to the high level of demand for new units, they are being sold for a premium and values will eventually stall as more supply of new stock appears on the market.

Greater Western Sydney
In the past 12 to 18 months the western Sydney market has gone from strength to strength with record growth levels and heated auctions. We believe the overall market is reaching a peak after the substantial growth seen within the last 12 to 18 months.

This growth is unsustainable and will settle in the near future.

We have had reports of local agents beginning to undergo some level of 'vender management' when vender expectations exceed what the market is willing to pay. We believe a combination of higher vender expectations and an overall increase of stock have resulted in auction clearance rates dropping.

The new land releases are still popular with potential purchasers camping out for blocks within the outskirts of Sydney, this will continue to be the case as new estates are released.

Prestige Residential
The Sydney prestige residential market (generally considered to be those properties in excess of $3 million Sydney metro wide), has up until recently been classed as a buyers market. However over the past six to 12 months we have witnessed an increase in transaction numbers, and have noted ongoing levels of increased buyer enquiry.

It is our impression that both vendors and Purchasers recognise that the bottom of this market has been reached. Potential purchasers recognise that buying in the current market may still represent reasonably good value for money with an upswing on the cards, with vendors buoyed by increased inquiry levels and sales activity.

With the Australian dollar weakening from a high of around 97 cents in October 2013, to a low point of around 87 cents in January 2014, then rising to the current level of around 93 cents, combined with our AAA rated economy, appears to have attracted expatriate buyers that have been long absent, back into the market.

With market conditions showing early signs of sustained strengthening, many empty nesters who have struggled to sell their substantial family homes are now able to secure a sale.

The re-emergence of this down-sizer demand has prompted a strengthening in the prestige apartment market.

While we are witnessing increasing transaction numbers, we are yet to see any significant capital growth return to the market, but as stock numbers reduce, and assuming our dollar remains at lower levels, we may see value levels continue to creep upwards.

Conclusion

In conclusion the market for the majority of areas has begun to show the first signs of slowing. By no means has the market started to decline in any form, there just appears to be a slight tapering, which had to occur at some stage. The coming months will be the true indicator of whether this is a slight plateau in the market before it takes off again, or if this is the beginning of a true slow down after a year of record breaking sale prices.

Any additional increase in sale prices moving forward could be heavily influenced by budget and legislation movement. Based on current constraints, the market is already beginning to slow and stabilise with limited stock forcing prices higher than affordability. Additional potential increases in property values would be difficult to justify and substantiate.

Recent articles have been released identifying that some lenders are once again offering 120% loans to the public. This is of concern given that the market is considered to be at the peak or slightly over inflated (with specific reference to the sub $1 million price range), should interest rates, unemployment or cost of living rise, repayments would subsequently become increasingly difficult, and individuals would look to exit the property market quickly. The increase in stock available would flood the market, softening final sale prices and resulting in debt levels higher than property values. (i.e an increase in debt to loan ratios.)

Canberra

The residential market in the Canberra region appears to be in a relatively stable state overall with the local economy awaiting the true impact of the budget and the Government's Commission of Audit. As a result, certain sectors of the residential market are showing signs of uncertainty which can result in extended selling periods and/or properties requiring price adjustments in order to affect a sale. Agents and vendors are coming to terms with the current market conditions, however, higher stock rates, lower levels of buyer enquiry and extended selling periods are still evident in some markets. Correct pricing is still vital in procuring a timely sale. Generally all buyers have a greater choice with increased stock available. Overpriced properties are not attracting any interest.

The prestige market for properties located in the inner suburbs remains thinly traded with top end properties showing signs of a slight downturn in value. The mid-range market is performing steadily with the majority of transactions occurring in this space around $500,000 to $700,00. The unit market raises most concern with a strong supply of new unit complexes coming on line resulting in an oversupply of stock.

The numerous medium scale developments in the Flemington Road corridor, coupled with the release of several large scale unit developments in the Belconnen CBD and the inner north will see a continued surge in the supply of unit accommodation. As a result the rental market is expected to tighten potentially impacting on investors returns and loan repayment ability.

Low interest rates will continue to play a vital role in deterring negative market forces. With a marginally reduced level of migration to the ACT and a more transient rental population, closely monitoring the levels of supply and rental absorption will be critical in determining the direction of the market towards the end of the year.

Illawarra

The Illawarra residential property market has continued its strong growth from the latter stages of 2013 and throughout the first half of 2014. Local real estate agents are advising that they are experiencing one of the best starts to a year in over a decade with many properties selling above reserve and/or asking price. Near record low interest rates combined with a limited supply of properties on the market has resulted in this upward trend.

Overall the Illawarra residential property markets are performing extremely well. Both the bottom end and top end of the market is seeing capital growth. Units, houses and rural properties are all selling. Some properties that have previously been on the market and could not sell during 2013 are now selling for at or close to their asking prices.

Of note, new residential unit complexes in Wollongong and vacant parcels of land in the new estates of Shell Cove, Flinders and Brooks Reach, Horsley are performing very well. Many of the new unit complexes are selling off the plan even before any construction has begun. Investors are keen to purchase the new units as a result of low interest rates while also benefiting from government incentives offered. First home buyers are snapping up vacant parcels in these new land estates and also benefiting from low interest rates and government incentives. Developers are building in the new estates, mostly in Flinders and Brooks Reach, where land has been increasing in value over the past six months. Overall the fierce competition between investors and first home buyers are driving the market upward, combined with the low interest rates and the limited supply of properties on the market. The entire market is showing growth, some more so than others, but growth none the less.

Currently confidence is still high in the market as it was at the beginning of the year. However, both vendors and purchasers sentiment is that the current level of market activity is susceptible to a slowdown.

Local agents and valuers are predicting the market to ease towards the end of the year. The trigger for this, more than likely, will be caused by interest rates increasing and the impact of the recent federal budget. First home buyers will wait for the market to cool and investors will cease buying. This will result in more properties on the market, longer selling periods and auction clearance rates declining.

The areas which have seen the most growth will be the ones which should be the most cautious. Some areas south of Wollongong are experiencing a 15% increase in value over the past 12 to 18 months. As always the top end of the market will always be the most susceptible to any slowing in the market.

Southern Highlands

The Southern Highlands residential property market has seen a marked increase in activity in both volume and prices over the past 12 months or so. There has been a noticeable increase in activity by investors; interestingly enough rental levels have plateaued! This trend has been most notable at the lower end of the market, up to $700,000. There has been good activity in land sales in the modern residential subdivisions like the Renwick estate near Mittagong, Bingara Gorge, near Wilton and the new Darraby Estate, Moss Vale. New construction activity has also been evident, most commonly project style homes within these new residential estates. There has also been renovation/extension activity in the well located, older style/character homes in Bowral and Mittagong. The increase in prices has been at a steady rate and not as a spike in pricing, so we consider that the increases are sustainable and should continue over the next 12 months.

The upper end of the market has bottomed, albeit there is still some caution evident, but we are starting to see an increasing trend.

The Southern Tablelands region is also on the increase. Goulburn has seen steady to increasing trends. There have been good land sales in the new/modern residential estates in Goulburn, including the Belmore estate, Merino Country estate and the Mistful Park estate. There is good construction activity of new homes being built.

The rural residential property market (2 to 100 hectares in land size) is steady and buyers tend to be a bit cautious at the moment.

Albury/Wodonga

The local residential market experienced a notable upswing in activity and subsequent small lift in values after the September 2013 federal elections. However the honeymoon appears to be over as the median house price has been slipping slightly back over the past few months.

Sales in Albury/Wodonga are still steady but just not with the buyer demand to push valuers higher.

The outlying smaller townships are static with selling periods extending out further than six months ago.

One sector showing hotter activity has been the rural residential scene around Wodonga. There had been several high value sales of vacant blocks of quality grazing land around 4 hectares to 50 hectares. These are mostly cashed up city buyers who are looking for a slice of paradise to build their dream home.

When it comes to building there has been strong recent growth in new building, to such an extent that Wodonga has been given the title of the fastest growing regional town in Victoria.

Developers are currently breaking in new ground on both sides of the border as quickly as they can.

Overall, the market continues to be active with balanced buyer and seller levels across all sectors.

It is likely that investor activity will slow throughout the second half of the year if interest rates increase. However this could be balanced off by a continuation of a low median house price or a reversal of a slipping back in rental returns currently being experienced.

Wagga Wagga

The Wagga Wagga residential market has seen sales turnover increase yet values have remained relatively static for improved properties, however vacant land values have seen increases. This may be put down to the government stamp duty and new house construction concessions. Whether this growth is sustainable over the long term will be dependant on government policy, interest rates and the national economy.

Newcastle

The Hunter by-and-large has been a two-speed property market for the best part of 12 months. Built-up metro areas, in and around Newcastle, have been going gang-busters. Agents are crying out for stock, with days being the measuring stick for length of time on the market, not months. Many properties don't even get the signboards up before they have gone. The biggest complaint agents have is that stock is scarce. This can lead to multiple bids and plenty of back-and-forth between agent and prospective purchasers. For this reason generally agents say it's a tough market because of a supply problem. Most people associate a tough market with lack of demand but if the pendulum swings too far the other way it can be tough as well. Often gazumping happens and the agent is viewed as the bad guy when it's simply not that easy to apportion blame. It can be summed up with "you can't sell what you don't have".

The market further up the valley has been less demanding for buyers with the mining downturn and resources slow-down having quite an impact on the markets in smaller regional areas. This is especially so in the current rental market. The glut of vacant residential property available is limiting the urgency from buyers to act. Often it's a case of wait and see rather than the frantic compulsion to buy that is punctuating the Newcastle market at present. There is after all a strong chance the market might come back and buyers might feel they can pick up the property cheaper it they wait. Ever-decreasing circles.

So the question of the day is where will things go from here? Dealing with the valley issue first is perhaps the simpler of the two, although these things are all relative. It would likely be easier to predict the type and scope of the next scandal to befall an NRL player than to predict the market for housing.

Anecdotally there is little optimism around the mining sector within which we can base a prediction for a reversal of fortunes. For every person we speak to that predicts more investment and increased employment, there are five that don't share that optimism. It would most likely require major macro-economic changes that might include a change in the dollar or significant lasting change in the coal price. What we do know is that building still seems to be occuring within Aberglasslyn, Gillieston Heights and Singleton. This in the short to medium term has 'glut' written all over it and this can only lead to rentals falling further. What this means for house prices is unknown but likely predictable.

Newcastle is a little more difficult to predict. Do you want to be the person that predicts gloom when none exists or the guy that in the face of all evidence to the contrary to show hopeless optimism. The truth may well be somewhere in the middle. The market is always at the mercy of wider macroeconomic issues and this time around it is no different. There is plenty of talk in the media about increasing taxes in aid of a debt crisis that needs resolving. People have been warned of pain to come and it will be shared equally across the board. At the time of writing a Federal Budget is imminent and there are any number of announcements that could be made which would have varying degrees of impact upon the market.

The talk of most interest to property investors and owners is the growing disquiet around negative gearing. Without predicting what a politician might say and do (not necessarily the same thing), it would appear to be not a serious area for reform before the end of this election cycle. Although the more noise an issue gets, the more oil is needed to shush it. This is an area of reform that if seriously considered would have immediate and significant ramifications for the entire property market, from residential through commercial. It wouldn't leave a single sector untouched.

Realistically there has been some heat in Newcastle/ Lake Macquarie for a considerable period of time and the obvious question is how much longer does it have left. One would think it wouldn't be long.

> Wage growth has not kept pace with property price growth and there has to be a sticking point at some stage where it is simply unaffordable.

The question is will the market release be a massive pin prick on a balloon or just a slow puncture where you can drive around for a few days before attending to it.

NSW Mid North Coast

This month we will examine whether the current momentum can continue or will it stall.

In the residential market along the mid north coast we still have agents indicating a lack of stock in the average sectors of the market. Sales are still strong, selling periods short and demand continuing.

However, we have noted that while demand is remaining good at present, the increasing values of properties that were evidenced earlier in the year have slowed somewhat. Purchasers appear to be taking a deep breath and considering both the current and future values of their intended purchases rather than continuing the buying frenzy evident at the start of the year.

The low and mid value range properties (dwellings $300,000 to $500,000 and units $220,000 to $320,000) remain most active with good demand and a lack of stock. Values in these segments may continue to rise over the next few months, albeit at a slower rate than earlier in the year.

The market for residential properties in the smaller non-coastal towns of the region, as well as rural and rural residential properties remains steady, with slowly increasing values and demand. However we have noticed that there are still bargains to be had in these areas and market segments, as some motivated vendors accept reduced offers from purchasers.

Overall, along the mid north coast, the market appears to be continuing to rise, but at a lesser rate than earlier in the year. It is hard to predict if this rise will continue in the long term. The recent Budget, with its prediction of increasing taxes, may subdue consumer confidence somewhat and may dampen the market.

Lismore

As the jaded farmer leaned up against the old timber strainer post and stared pensively over the ripe cane fields to the north, an inner voice resonated within "build it and they will come". Coupled with visions of blistering white chalk lines, a raised pitching mound and a home base surface of burnished silver, the bewildered farmer asks rhetorically "A baseball diamond? Why would I want to build a baseball diamond out in the middle of no where?

This it quite possibly the scenario envisaged by the property market. Some ask, that with low interest rates and useful grants/incentives to build (think infrastructure grant and first home owners grant – now limited to new build development), it should be the time to build a new home - upgraders and first timers alike. Others may argue, that the troubling lack of job security and the pending tough Federal Budget could be a precursor to 'battening down the hatches'.

Nevertheless, casual conversations with local project home builders indicate an increase in new build activity since the beginning of the year within the Northern RIvers region, particularly in the new land estates of Goonellabah.

The proposed North Lismore plateau development has also piqued interest.Not just with new building activity, we beginning to see improving interest from investors for "residential product" that provide a realistic return and/or added features that can be exploited to provide improved returns. Recent media reports from Lismore City Council to encourage "granny flat and secondary dwelling" development within Lismore by discounting levies/contributions provides more of an incentive that pretty much did not exist prior to the announcement, potentially saving money for would be investors/developers (stay tuned – public exhibition of the proposed policy ends late May 2014).

In general the overall residential market within Lismore appears to show mild improvement since the beginning of the year, whereas the rural towns of Kyogle and Casino are still generally quiet. Typically, the $400,000 plus price within Lismore City is harder to shift while the $250,000 to $350,000 market remains relatively popular amongst owner-occupiers and investors with rental ranges between $250 to $350 per week.

As expected, the larger rural residential/lifestyle block market has had limited demand since the beginning of the year with price level expectations of three years ago needing to be continually revised, under pressure from the more 'savvy and emboldened purchaser' with most having NO time for playing 'ducks and drakes' – getting rather more blunt than emotional in their purchases – the time is good for negotiating as it was at the start of the year til the present day, unless of course there

is something special about the property that is plainly obvious i.e. elevated rural views, creek/river frontage with swimming holes, extensive residential improvements that are out of the ordinary or may be an ethereal secret baseball diamond/cricket pitch hidden by the lush seteria/rhodes grass pasture cover and leafy cane trash.

Even at low interest rates, nett return is paramount. And nothing has changed on that front since the beginning of the year. The few block of flats that have sold in Lismore City, now expect nett yields around 7% to 8% compared to under 7% from two to there years ago.

To summarise, the residential market within Lismore is improving ever so slightly, but no colourful petals have yet burst forth from the green shoots of recovery. Steady as she goes.

Further to the south within the yamba locality, the property market is still showing sings of 'momentum' in general, although it appears to have steadied slightly. There are still several MIP sales occurring via distressed situations creating some evidence that prices are continuing to soften, albeit under forced sale situatuions. At the other extreme there is evidence that for some quality properties in good locations there has been heightened levels of competition causing selling prices to be sold at listed or even slightly above listed prices. The downturn in employment is continuing to impact the Clarence Valley and therefore adding to the pressure to sell for some buyers.

Leading the increased momentum is the prestige or high end market in Yamba. In recent times there have been five sales over $1 million. Also in Yamba agents report some owner occupiers upgrading from $300,000 to $350,000 residences to $400,000 to $500,000 product levels. This evidence is inline with recent firming of rents in Yamba. However, within Grafton, rents have softened. Investors continue to be active at the low end of the residential property market in both Grafton and Yamba.

For Grafton, value levels are expected to continue to plateau. However, value levels may be positively impacted if construction on the Pacific Highway and Grafton second bridge goes ahead.

Coffs Harbour

The Coffs Coast continues to see good enquiry and sale rates within the lower section of the market (sub $500,000), however we have seen a slight stalling in this market from the strong activity recorded in late 2013. Sales are starting to filter through to the mid to upper price bracket ($500,000 to $700,000), however, more promising signs in the upper price bracket ($1 million plus) have recently been seen with several beachfront properties having sold.

Generally buyers are seeing the time is right to purchase with interest rates remaining low, prices remaining static and rental demand consistent. Buyers in the mid to upper end of the market are making resurgence with perceived 'good buys' in this market segment due to good supply of stock with limited demand over recent years.

Traditionally strong beach front markets such as Sawtell (southern Coffs Harbour) and Arrawarra (north of Woolgoolga) have seen several recent beachfront sales with prices ranging between $1.18 million and $1.4 million with a recent record beachfront sale at Korora (north Coffs Harbour) for $1.8 million.

Although these sales are encouraging, buyers within this market still remain 'hard nosed' in negotiations and are acutely aware that market conditions remain challenging for vendors and there is a general expectation that sale prices will reflect good buying when compared to historic peak market levels.

Selling agents are reporting continual increase in enquiry rates within this sector driven by a combination of local interest and prospective out of town buyers looking to purchase now with view to future retirement. We are aware of several negotiations currently taking place for beach side properties within the Coffs Harbour locality which have been on the market for many years with no interest shown until recently.

> The activity being displayed in the upper section of the market indicates confidence is returning to the market place with perceived good buys in the top end sector.

Further indicators of confidence returning to the market are recent acquisitions and commencement of development sites throughout the locality with a potential 25 lot site recently purchased for $915,000 within Boambee East, commencement of construction and pre-sales within "The Element" estate also at Boambee East and construction commenced on the Equinox residential/commercial highrise complex at Park Beach.

Other notable market activity is within the rural market segment with several high value sales being recorded ($1 million to $2.1 million) within the locality of Woolgoolga and Bucca (some 20 to 30 kilometres north of Coffs Harbour).

This activity is part of a 'blueberry' expansion which has traditionally been centred around the regional town of Woolgoolga. We are now seeing the

expansion of this industry into more traditional rural residential localities such as Bucca and further south to the greater Coffs Harbour area. Prices being achieved for these properties are considered to be above sustainable rural residential values with premiums payed for land which has the characteristics for blueberry/agricultural production such as permanent water, aspect, slope and cleared land.

This market should be treated with caution as the continued demand and high value level being achieved for this classification of real estate is contingent upon commodity prices and the viability of the Blueberry industry into the future. Traditionally agricultural sectors such as this can be risky over the long term.

In short, the lower sector of the market continues to be were most activity is being experienced with prices firming and selling periods shortening. We consider this market will continue to improve throughout 2014 and possible price increases seen if demand outstrips supply. Good signs the prestige market is starting to recover with noted recent sales activity and continual increase in enquiry rates which we would expect to continue in the short to medium term. The rural residential market will naturally increase in activity as demand and confidence grows which will result is more sales activity and eventual value increases.

This activity being experienced coupled with the continual growth increase of the region from the traditional housing market role (attracting families and retirees from the metropolitan areas further south), combined with a relatively diverse industrial base, growing health and education sectors means the area is not entirely dependent on tourism which makes it a less risky investment than some other coastal towns.

Victoria

Melbourne

The overall Melbourne residential market has steadily increased over the first half of 2014. Auction numbers have been high with nearly 3,000 auctions held in April 2014, higher than the historic ten year average of 2,510 for April, while March was a record-breaking month in terms of auctions with 4,750. A further 3,700 auctions are scheduled for May pointing to market optimism amongst vendors.

Clearance rates so far in May have been steady averaging 70%, which is an increase from 68% in April which endured both the Anzac Day and Easter long weekends, and also marks a return to similar levels recorded in March and February with 71% and 70% respectively.

Stable clearance rates have reinforced the good demand in the overall market with the median house price growing at 5.4% on average across metropolitan Melbourne during the first four months of 2014.

A high volume of sales transactions have been recorded in the $500,000 to $800,000 price point, especially in suburbs such as Bentleigh East in the middle south-east, Thornbury in the middle north, and Yarraville in the inner west.

The median house price in Thornbury has recorded a significant rise of approximately 11.5% in the first quarter of 2014, with the median apartment price recording an astonishing rise of 17.7% in the same period. In contrast, stable activity is observed in Bentleigh east with a rise in the median house price of 6.4% and the year to date auction clearance rate sitting at a strong 89%. In the inner west, Yarraville has also experienced steady growth with a 5.8% rise in the median house price and a 66% clearance rate at auctions.

While optimism and demand have remained quite stable in the overall market both buyers and sellers should remain cautious of the apartment-dominated markets of Melbourne CBD, Docklands, and Southbank. While the housing market has seen an overall 5.4% increase in prices, the apartment market has experienced just a 0.9% increase in 2014.

The alarm bells are highlighted by Docklands recording a 43% clearance rate from only seven auctions in 2014, with a further 370 properties currently on the market by private sale. Between 2009 and 2013 off the plan apartment releases in the CBD increased by a staggering 103% from 7,000 to more than 14,000, in the same time first home buyers have gradually left the market with Melbourne currently experiencing its lowest number of first home buyers in 23 years.

These have been contributing factors to the over supply of stock currently sitting on the market. However, sales recorded over the three months to May 2014 have totalled $510.9 million, an increase from the $126.8 million recorded to February 2014 and also an increase on the $166.8 million recorded to November 2013.

Queensland

Brisbane

As we hit the half year in Brisbane, confidence continues to steadily firm. The residential market had a bit of a breather leading up to the release of the budget. It may have been some pent up demand decided to let loose come late last year and early this year. That beast is resting a little, although some of our trusted property contacts say there has been a noticeable increase in activity since the federal government released its balance sheet.

In an overall sense, we've been touted as the capital city to watch in 2014 by many observes after the big gains in Sydney and Melbourne in late 2013/early 2014. Our valuers are saying the market is generally improving in suburbs within short commute of the CBD. Agent can't seem to get enough stock within 10 kilometres of town and open homes are well attended by prospective purchasers.

To drill down a little, inner city within 5 kilometres of the centre is still strong with good interest across all price sectors. There are plenty of buyers around, and they'll find competition when the listing is priced appropriately. There's been renewed interest in the $2 million plus market too, particularly around the inner south-western suburbs of Hawthorne, Balmoral and Bulimba which had been quite for the past few years.

Another southern inner hotspot is around West End and Highgate Hill. Demand is strong although price growth appears to be at a manageable level

with little evidence of people paying over the odds to get a holding. Further afield mid-ring suburbs such as Holland Park, Mt Gravatt, Coorparoo and Greenslopes are still showing signs of strong interest and limited supply.

Further out towards the 15 to 20 kilometer radius mark Shailer Park, Springwood and Cornubia are seeing competition between investors and owner-occupiers which is resulting in some contracts well above recent sales of similar, nearby properties. There is actually causing some panic buying, particularly from owner-occupiers thinking they'll miss out.

These sales aren't truly reflective of the overall market in those areas. These short term inflated sales are not likely to be sustainable in the future.

Developer stock, including both townhouses and house and land construction, is still investor driven with the cost to purchase or build still at a premium to established product. Our advice is to tred wearily here as there is quite a bit of stock potentially coming onto the market in the near future. This could result in an oversupply of options for renters not what landlords want when they hope for rent rises.

Overall we remain bullish about Brisbane's prospects, but it will be a steady-as-she-goes approach to capital gains.

Gold Coast and Tweed Coast

The Gold Coast real estate market has rebounded strongly compared to 12 months ago. Sales volumes for January 1 to April 30 have increased 30% compared with the same period in 2013.

According to our research, the price bracket spread reveals that 89% of sales are for properties less than $750,000. The following table breaks up the brackets:

2014 year to date

Price Bracket	% of sale volume
0 - $300,000	22%
$300,001 - $500,000	48%
$500,001 - $750,000	19%
$750,001 - $1,000,000	5%
$1,000,001 - $1,500,000	4.1%
Over $1,500,000	1.9%

Residential

Over the same period, the greatest growth in volume of sales has been between $500,000 and $750,000 as follows:

2014 year to date

Price Bracket	% increse of sale volume 2014 vs 2013
0 - $300,000	30%
$300,001 - $500,000	27%
$500,001 - $750,000	36%
$750,001 - $1,000,000	11.5%
$1,000,001 - $1,500,000	4%
Over $1,500,000	16%

While the stronger sales volume is building confidence prices have not grown in all suburbs. Our Valuers have given a snapshot of the territories of the Gold Coast they specialise in below.

Tweed Heads

Overall, the general feel in the Tweed region is a positive one. Market conditions have been quite strong in the area since the beginning of 2014 and there seems to be a lot more positivity in the air. There also appears to be more buyers in the market actively seeking residential property, being both investors and owner-occupiers. This is because of the record low interest rates and the relatively cheap housing prices.

The under $500,000 price bracket across the board is the best performing sector in the Tweed market. Local agents advise of very strong buyer demand for both houses and units under $500,000, often selling properties within a week of listing. We have seen the coastal areas such and Kingscliff, Casuarina, Cabarita Beach and Pottsville experience increases in value since the beginning of the year.

The market in the Tweed region could be described as somewhat overheated. It will be interesting to see what happens to the property market if interest rates were to rise at the end of the year. We may see a slowdown in buyer activity and possibly a slight decrease in value levels in those coastal areas which are currently ‘running hot’.

There are definitely areas of the market which should be treated with caution. A prime example of this is the land market in Casuarina and Salt which is currently flying. We have seen an increase in land values of up to 20% from 18 months ago. If interest rates were to rise, I predict this market to slow considerably.

M1 North Western

Confidence seems to be on the rise in the region. Sale prices since the start of the year are showing growth, particularly in the sub $500,000 price point for both new and existing dwellings. Owner-occupiers are becoming more impatient and worried about missing out on a preferred property hence we often see premiums being paid. For investors, particularly those from interstate the Gold Coast market is representing comparatively good value hence it is in hot demand. Agents are reporting sales generally within seven to 14 days. In a growing number of instances properties are being sold prior to being listed on the internet.

Notably, the sub-$350,000 price point in Tamborine Mountain is showing signs of mild decline, the reasons for which are unclear. The market has suffered significant declines since the GFC and was starting to show promise, however lower value sales are demonstrating a softening at the lower end.

Anecdotally, the market appears to be at risk of peaking too quickly with a steep downward curve. With interest rates being at low levels, purchasers are given a false sense of confidence. As employment and infrastructure remain fairly weak it is difficult to comprehend what is underpinning the rise in prices other than low interest rates. The worry is that history will repeat itself when interest rates firm again.

While lifestyle properties are currently very popular resulting in strong prices, this market is at risk of significant fluctuations should rates rise. Areas such as Wongawallan, Maudsland and Willow Vale have seen steady growth particularly in land values, however this has the potential to be short lived.

Northern Gold Coast

The overall feel of the property market is quite buoyant and has continued to improve throughout 2014.

The property market under the $850,000 price point is on the move on the Gold Coast. Paradise Point, Southport, Labrador and Ashmore are the areas that have shown the most improvement in the past five months, with these suburbs having a general positive feel about them. The unit market is moving in a positive direction but at a slower pace. Overall the property market in the $850,000 and under is on the move in a positive direction but has begun to level out in the past two to three weeks on the northern central Gold Coast.

I think the growth in the property market is sustainable to a degree, but will fluctuate in the coming years.

Hope Island vacant land market needs to be treated with caution as the market has jumped up by 25% in some cases in the past 14 months, as illustrated by the sale below. The growth cannot be sustainable at that level:

- 2209 Taromeo Ct, Hope Island. Under contract for $900,000, April 2014. The lot previous sold in February 2013 for $720,000 reflecting approximately a 25% increase.

Overall the market on the northern central Gold Coast is trending in a positive direction with increased sales volume and price increases at this mid-year point. People should consider that the Gold Coast property market is volatile.

Central

Market activity continues to be strong in the more central areas of the Gold Coast, particularly for residential property below the $1 million level. Real estate agents are commenting that a shortage of stock levels is creating some urgency in the marketplace and in many cases properties are selling within a week of being listed for sale.

Detached housing in suburbs such as Broadbeach Waters, Isle of Capri, Sorrento, Benowa and Robina is currently highly sought after and buyers looking to purchase in these spots will need to be prepared to make quick decisions or they will miss the opportunity. There is also an increasing trend where the buyer is paying list price just so they don't miss out and do not want to waste time knowing that there are many other buyers prepared to negotiate quickly!

Sales activity for waterfront property in Broadbeach Waters and Sorrento has been very strong in the past couple months and there is no sign of demand and market activity easing anytime soon. Value levels have risen quite sharply in the past six to 12 months and buyers should be cautious that it may be difficult to find a property where they negotiate hard on the price.

> The entry level price for an older style 3-bedroom dwelling with canal frontage in Sorrento appears to range between $650,000 and $700,000.

Again, agents have reported that there have been quite a few canal font properties which have been auctioned in the past month and selling under the hammer. As for waterfront property in Broadbeach Waters, buyers will most likely find it difficult to secure any detached housing with canal frontage below the $600,000 as an entry level price. Buyers are also showing confidence in the market over the $1 million level in Broadbeach Waters which was not that prevalent in early 2013.

The unit market in the central areas of the Gold Coast continues to be steady and investors will more likely find a bargain buy in this sector at the moment rather than buying a detached house. There appears to be a good selection of stock available in all price ranges.

With the spike in price levels evident for detached housing over the past six months, it feels that a minibubble has been created and it is difficult to see the trend of soaring prices continue over the next year.

Toowoomba

The Toowoomba residential market has continued to benefit from the large influx of investor activity which has occurred throughout 2013 and early 2014. Buyer demand is still strong and appears to be outweighing the supply.

The sub-$450,000 price point has high levels of demand particularly in well located, established suburbs of Toowoomba such as Centenary Heights, South Toowoomba and Mount Lofty. Reports of properties selling as soon as they are listed for the asking price or above are becoming a regular occurrence. This strong buyer demand and shortage of supply are providing upward pressure on achievable sale prices.

12 Cooper Street South Toowoomba

A circa 1979, onground, 3-bedroom, 1-bathroom dwelling with brick veneer walls, concrete tiled roof and 1-car built-in garage. Areas: living - 117 square metres; outdoor – 68 square metres; car – 19 square meters. The dwelling features updated kitchen and bathroom areas. Area 641 square metres. Purchased by local buyers through a local agent. Sold for $345,000.

The $600,000 to $900,000 price bracket has demonstrated a significant growth in sales activity in the past three months. Modern houses in locations such as Mount Lofty, Middle Ridge and Rangeville have shown sales activity which have increased over the course of 2014.

14 Bonville Court Middle Ridge

An circa 2008, contemporary style, rendered brick, 5-bedroom, 3-bathroom, dwelling, with zincalume roof, large entry foyer, large kitchen/family/meals, formal lounge, formal dining, media/games, portico, alfresco and 3-car built-in garage (with single drive-through to rear), solar heated concrete inground pool. Land Area 838 square metres. Sold for $870,000.

In the Toowoomba residential market the prestige market is relatively thinly traded. Over the past three to six months we have had an upturn in sales volume for properties over $800,000.

11 Old Toll Bar Road

A circa 1953, part two level, rendered brick, 5-bedroom, 3-bathroom dwelling featuring rangeside views and swimming pool. Land Area 11,120 square metres. This property is reportedly under contract for well over $2 million after an extended selling period.

Overall, the Toowoomba property market has continued to demonstrate steady growth with demand outweighing supply resulting in shorter selling periods and higher achievable sale prices.

Sunshine Coast

When looking back over the past six to 12 months there is no doubt that the market has improved with the worst being behind us. Activity is good with market conditions better.

One problem with the market is that it is quite sensitive to any bad news or news that gives rise to some uncertainty. An example of this is that some agents have reported a cooling over recent weeks, about the same time the talk (in some parts negative talk) about the Federal Budget began. Media reports can scare people into holding back or delaying their decisions.

> The greatest level of buyer activity at present continues to be in the sub $500,000 to $600,000 housing market.

Both investors and owner-occupiers are active. As we move into the higher value bands there is no doubt that activity has also improved. The recovery is being bottom led so it is slowly working its way up.

The prestige housing market has improved, particularly in the entry end of this market, up to $1.3 million. Sale volumes appear to be quite good. As you move into the higher value level bands, buyers are thinning out. Interested buyers still want to be getting perceived value for money but in some cases this is becoming less of a concern. All in all, we believe the higher end market is a bit of a steady as she goes proposition, with some good signs of growth at the entry level.

The land market has improved significantly with developers pre-selling stages in advance. The reduction in lot sizes has allowed the price of land to be reduced significantly and has had the effect of 'price pointing' a completed property at a level where there is significant interest. While some people are commenting on the small lots and high density these properties do provide freehold title and are an alternative to a unit. They are and also are an affordable entry point into the property market for a first home buyer.

We are also seeing the rise of multi tenanted houses (3-bedroom house with a 1-bedroom flat) and duplexes. There is a feeling that the investors make up the largest component of this market with self-managed super funds, and normal investors being active in the marketplace. The concerns are going forward are the amenity of these areas, the mix of owner-occupies to investors. If the mix is skewed to far in the direction of the investors with a significant number of properties being rentals the amenity of the area could be adversely affected.

The unit market is a different proposition. Over recent months we have seen an increase in sales volumes, however this is very much area and property specific. In some sectors we're seeing some slight value increases, others flat and others again showing some declines. So when looking at the unit market in general we say that we are at the corner rather than turning it. Once again another steady as she goes proposition with body corporate fees having a significant impact in the buyers decision making process.

Rural residential also appears to remain relatively subdued but we have slowly started to see some green shoots in this lifestyle market sector. We still believe there to be some opportunity for some decent buys given that there is an opportunity to purchase at below replacement.

Mackay

At the half way point of 2014, we are seeing a very different Mackay market to that over the past few years. With the downturn in the coal industry and flow on effects, the Mackay market has been very subdued during the first half of this year. For the first time in a long time, the market is best described as a buyers market with decreased sales activity and increased supply. Values have remained fairly stable, however we are seeing reductions, although not significant at this point, up to about 10%. However with Mackay having one of the highest median house prices in regional Queensland, 10% does have some bite!

The biggest impact of the slowdown has been on the rental market. The mining downturn, loss of jobs and contracts plus an influx of investor product, particularly in the northern beaches has seen vacancy rates increase significantly from around 1% to sit now at around 7.5%. Rental values during this period have also fallen. New 4-bedroom dwellings in Blacks Beach that were renting for $550 per week during parts of 2013 are now listed at the $380 to $420 per week range.

Hervey Bay

The overall feel of the property market within Hervey Bay at the present time is optimistic and positive, which has stimulated steady sales activity particularly in the low to mid price points. There appears to be a slight rise in values of property in the sub-$350,000 market, which is considered to be due to a lack of good stock and consistent demand. The volume of higher priced property is slowly being absorbed, with the length of time on the market retracting in line with demand. Local builders are reporting increased construction activity, which is catering for a cross section of mid to higher priced property.

Several large projects are expected to come to fruition within the next six months, namely the extension of the existing Stockland shopping centre, and the completion of the new private St Stephens Hospital. There are also several major road projects which appear to be predominately completed in Hervey Bay. The Fraser Coast Regional Council is continuing to promote very low infrastructure costs for new developers to the region, which is very encouraging for the area.

The property market in Maryborough started the year with steady sales, however local agents have noted that this trend has slowed over the past month. Property is still regarded as being very affordable in Maryborough compared to coastal areas. Property values are not expected to start rising in this area for some time, with market sentiment still cautious overall.

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 dwellings in modern suburbs 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 this is 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 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 over supply of vacant land and new dwellings, there does not seem 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, 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 ranging up to $500,000, seem to be the meal of choice. 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. 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 area,s however given the relatively stable market the Rockhampton region has experienced for many decades combined with the differentiation between property selection, there is little 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.

Townsville

As we approach halfway through 2014, the residential property market, while still showing glimmers of improvement, has performed below expectations over the past few months. The expected recovery seems to have stalled and is overall happening at a slower pace them was first anticipated.

We have seen a slight increase in the median house price, however this is considered due to compositional changes in the make up of sales as opposed to any real increase in values across the board.

In saying this however, there are small pockets that have seen some firming in prices, particularly in the older suburbs within a 5 kilometre radius of the city where the volume of available property for sale is limited.

Confidence in the property market is currently lacking, impacted by the negative outlook being painted by politicians in the lead up to the Federal Budget and the high volume of media coverage this negatively is receiving.

Also of concern for the Townsville property market is the impact on our building industrial that may occur as the NRAS (National Rental Affordability Scheme) wraps-up its round four of development.

Overall sales activity continues to build, but the amount of property for sale is also building. We are seeing some good owner-occupier interest and even price appreciation in some residential pockets and/or specific property types.

Rental vacancies have risen over the past 12 months and the unit market appears to be underperforming with flat rents and rising vacancy rates. With continued supply of stock planned this year we flag some concern as the rental equation becomes slightly skewed. Property agents continue to comment on their concerns with NRAS stock and the compressional impact on gross rental rates. Key economic drivers to continue to monitor are economic growth, employment, population growth, inflation, interest rates, consumer sentiment and business confidence.

Cairns

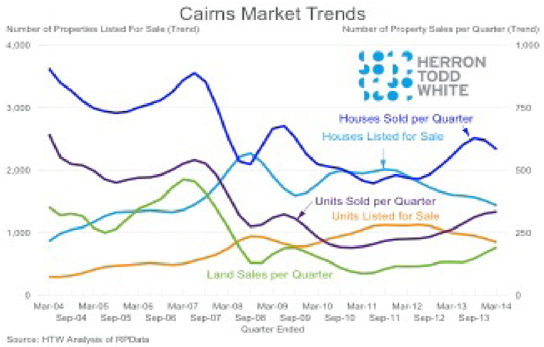
The Cairns market is consolidating its recovery and is continuing to build in momentum: Sales activity overall grew by over 40% between the December quarters of 2011 and 2013, but house sales cooled somewhat in the first quarter of 2014 attributed to a shortage of properties on the market rather than any abatement of demand.

Stronger demand is filtering through to higher property prices, which combined with increasing turnover at the higher end of the market, is leading to higher median sale prices. The Cairns median house price trend stood at $379,000 in March 2014, which represents a 4.7% upward movement since March 2013. Even so the latest median house price is still shy of the 2008 peak.

The supply of property on the market continues to shrink. Agents are reporting difficulties in attracting new listings at present, as even though there is a pent up supply of homeowners wanting to sell, they are now seemingly hanging out for the market to rise further in prices.

Other market metrics, like average number of days on the market and average vendor discounts, are also shrinking as the market moves from the buyer's market that has been evident over the past five years into one where there is much more balance in market power between buyers and sellers.

Our overall expectation is for the momentum in the market to maintain for the remainder of this year. There is likely to be further price acceleration which will redress the supply of listings on the market, especially when prices once again hit the psychological level of the 2008 peak.



Residential

South Australia

Adelaide

Adelaide's residential property market continues its fairly measured recovery.

Increased buyer interest and enquiry seems to be slowly translating into increased sales transactions. Auction used as a sales method has increased noticeably along with auction clearance rates, which are often over 50%. The number of days on the market continues to improve and vendor discounting has reduced. Overall it appears that there has been a slight increase in confidence.

> Job security, cost of living and local economic issues are still continuing to have a negative impact, however ongoing low interest rates are offsetting some of this negativity.

Latest figures from RP Data are reporting an increase in the median price for the past 12 months of about 3.5% and it now appears that the market has recovered to sit slightly higher than the last peak of the market which was towards the end of 2010.

The market is still price sensitive and property that is not priced to the current market is destined to see extended selling periods and potentially some vendor discounting in order to achieve a sale.

Property located within the inner suburbs is performing solidly. This includes both prestige property and property within the lower price bracket of $650,000 to $1.4 million. However lack of quality stock is still evident with reduced sales numbers overall.

The outer northern suburbs are firming but are still patchy with ongoing concerns surrounding the closure of Holden's manufacturing plant at Elizabeth in 2017.

The outer southern suburbs, especially in the sub-$600,000 range appear to be performing solidly. Improved infrastructure has played a role in the increased popularity of this area. This includes the recently completed extension and electrification of the railway line to Seaford which has improved public transport access to the outer southern suburbs.

Also due for completion in the next few months is the duplication of the Southern Expressway, once only a one way expressway which was open to north bound traffic in the morning and south bound traffic in the afternoon with a two hour closure in the middle of the day. Upon completion of the dual carriageway the expressway should significantly improve travel times to the southern areas, and after more than two years of significant disruption due to road works, users are probably starting to count down the days until it is fully functional.

Further infrastructure improvements are now on the cards with a big win for South Australia as part of the budget announcement is that both proposed upgrades to South Road will go ahead. South Road is the major north south connector across metropolitan Adelaide.

Originally the state labor government had planned to improve the 3.7 kilometre stretch of South Road between Torrens Road and Torrens River by lowering South Road under the three main intersecting roads and the existing rail line.

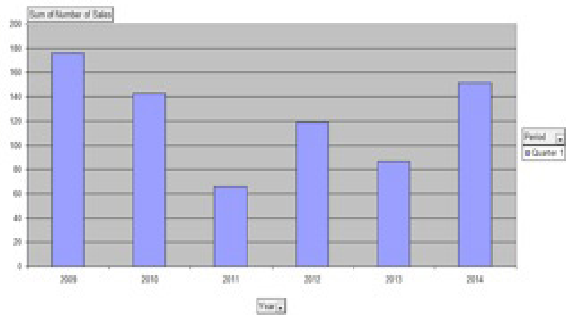
As an election promise last year the Federal Liberal Government promised an upgrade of South Road at Darlington to include a traffic light free section from Flagstaff Road to Ayliffes Road and free flowing traffic from the southern expressway onto South Road.

Certainly with valid arguments for both, and a Liberal Federal Government and State Labor Government in place after recent elections, there was concern over how this was going to play out. To the benefit of South Australia both of these infrastructure improvements will commence construction in 2015, with completion expected sometime during 2018. Yes the headaches associated with major road works are going to be extremely frustrating, but for the short term pain the end results will be worth the inconvenience for with improved traffic flows, improved road safety and reduced travel times.

Mount Gambier

The property market within Mount Gambier is currently relatively stable. There has been a noticeable increase in house sales for the first quarter in 2014 (January to March) since the market dropped back in 2011. The chart below shows that first quarter 2014 has had the most house sales for the start of the year since 2009. This is a positive sign for the Mount Gambier housing market, as the market has previously been slow since 2011 when speculation began about the forward harvesting rights and the sale of the harvesting rights in 2012. The overall feel of the market at the moment is that it is improving and with the evidence showing sales are increasing, it is a good confidence booster for the area.

Quarter 1 - House Sales



The most purchased dwelling price range within the past 12 months is $200,000 to $250,000. There are few dwellings purchased over $400,000 and under $150,000. The $200,000 to $250,000 price range is affordable for people entering the market and for investors looking at a property which provides a stable rental return. Dwellings over $400,000 are at the top end of the market and have limited market activity. Dwellings under $150,000 are generally in less sought after locations and have limited market activity.

Properties located within the Lakes location and centrally around the town centre have shorter listing times than most other areas, as they are tightly held locations. We have not seen much growth, if any with often decreased values on dwellings within the region since the market peaked. Most properties which we have seen growth have been renovated or updated and are within sought after locations. Properties not located within sought after locations generally are not reaching their values when the market peaked and have dropped back.

For growth to become noticeable within the region, sales activity needs to increase which for the first time we are starting to see. If sales activity increases and continues throughout the year as it has for the first quarter, we may start to see some growth within the region. With the construction grant ending it will be interesting to see how the market adapts and if the volume of sales of established homes increases and if the volume of land sales decreases. It will be an interesting year which we will be monitoring closely to see if this increase in sales activity can continue throughout the year and how the market adapts to the construction grant ending.

Residential

Tasmania

Hobart and Launceston

Performance of Tasmanian property markets is currently differentiated by region. Generally sales volumes have decreased over the first quarter of 2014 however, annual sales volumes have increased by almost 15% off historical lows. The southern region is experiencing the most buoyancy, particularly inner city suburbs. The north appears to have stabilised while regional markets are oversupplied.

In the south annual sales volumes have increased by 10% with a general median price increase of 10%. Centrally located suburbs are reportedly enjoying the highest median price increase with sales indicating a 12% increase in median price. March's median price for houses located in these best performing suburbs range from $400,000 and $800,500 in north Hobart to $660,000 in Sandy Bay. Suburbs experiencing higher residential house sales volumes include Glenorchy, Howrah, Kingston, Lindisfarne, Sandy Bay and west Hobart.

Data for the northern residential house market indicate a market that is stabilising. Reportedly this market has shown an annual median price increase of just over 1% in conjunction with annual rises in sales volumes of just over 25%. In 2014 the highest number of house sales in the north have occurred in Newnham and West Launceston. Median prices for houses in these suburbs are $230,305 respectively.

The north west property market is a reflection of its current economic circumstances. Annual house sales volumes have risen but at lower than those of other Tasmanian regions. The north west is among one of the nation's most hardest hit areas with regard to unemployment. Increasing unemployment levels have had a particular impact upon the childcare sector. Recent ABC reports have revealed that decline in demand in the child care sector can be directly attributable to unemployment and in some instances demand has declined by more than 50%. Devonport and Ulverstone are experiencing the highest number of house sales. Median prices in these towns are $225,000 and $262,000 respectively.

Data indicates that trends set in December 2013 have slightly cooled in 2014 however Federal and State Government changes may impart a greater level of economic confidence for the future. Markets to watch are vacant land and newly constructed housing currently underpinned by the State Government first home builders boost to the tune of $30,000, due to cease in December 2014. This boost appears to be creating a market bubble as first home owners bring forward decisions to become market entrants. Should it cease there may be a corresponding fallout.

Northern Territory

Darwin

As we near the mid point of 2014 the Darwin and greater region residential property market continues to cruise along the Stuart Highway, with some sectors indicating right into the fast lane and others perhaps pulling safely back into the left.

There appears to be no slowing the expansion and creation of new suburbs, with the NT budget for 2014/15 allocating $84.4 million to release additional residential land to facilitate the construction of 6,500 new dwellings. All activity is heading south with the creation of Palmerston North, revitalisation of Berrimah Farm and the release of a further 1840 residential lots in the already popular Zuccoli.

Over the past 18 months we have witnessed vacant land prices grow steadily, as land isn't being released at a rate fast enough to meet the current demand. The government proposes to fast track the new suburb of Palmerston North, but will it be fast enough to curb the increase of vacant land prices? Perhaps those currently looking to build their first home should sit tight and wait to see if the large land release on the horizon floods the market and pulls prices back, or hedge their bets now as the previous months have shown new suburbs aren't built in a day.

With the large land release and first home owners grant (FHOG) only being available for new dwellings, this should hopefully ease the demand for existing houses and units and create more affordability and stability in the existing residential market. This will compel more people to build, although you'll be doing well to get any change from $600,000 - not only have land prices increased, labour and building costs continue to head skywards.

High-rise unit developments continue to sprout throughout the CBD, with a projected 800 units coming onto the market in 2014. With changes in the FHOG, as it is soon only available for new builds, inner city living may be a feasible alternative for first home owners to collect the $26,000 rather than heading Palmerston way. Subsequently this may curtail initial concerns of an oversupply of units coming onto the market.

Darwin is well positioned mid way through 2014 in comparison to other cities around Australia, with a healthy economy feeding a high demand for housing, as the work force continues to expand. Investors are still very active in the market as they try to capitalise on our good fortune. And who knows, with all the construction activity currently underway, perhaps there may even be some relief ahead for the long suffering tenants.

Western Australia

Perth

House price growth picked up again this month and expected further increases risk pushing prices into the danger zone that previously has led to a market correction.

As widely feared, foreign appetite for Perth real estate, especially apartments has caused prices to surge over the past 18 months. Massive development of apartments is one sure fire sign of an overheated Perth residential market.

Australia is now the most stretched housing market amongst English-speaking countries.

Documents from the Reserve Bank of Australia indicate the central bank was recently looking at macroprudent controls, similar to what New Zealand implemented - another country with a sizeable overheating housing market. The RBA Deputy Governor, Dr Philip Lowe transparently told a Housing Standing Committee on economics earlier this year that:

"More generally, there is a lot of activity going on in different countries around the world in the macroprudential space and that is going to give us an opportunity to observe how those things work out. My tentative conclusion must be that it can work but it creates distortions, and in the end the distortions are quite costly and people work out how to get round the distortions".

He went on further to say "Macroprudential tools are very much like the tools we used in the 1970s and we ended up deciding we did not like those very much because you restrict one class of lenders, and the financial system is very flexible and another class of lenders comes up to fill".

In the same grilling from the House Standing Committee, RBA Governor Mr Glenn Stevens expressed the following concerns:

"Credit to households for investment in housing is 8% or 9%a year. I would say that is probably fast enough – there has been a very big run up in investor activity. That is okay, but people need to keep in mind that prices do not just rise; they can fall and have fallen. We need to be careful that we do not take on too much leverage on the expectation that ever-rising prices for the asset make that work out, because I think that would be a dangerous assumption".

So, if the Reserve Bank think things are a bit off in the property market, what does the Federal Government think?

The Federal Budget was not yet handed down at the time of writing, so apologise if we appear a bit off. However from our perspective, and from the talk that is doing the rounds in the media, that Australia will need massive budget savings of about $90 billion if it is to stabilise its government debt by 2030 which is in line with International Monetary Funding projections.

Household debt is hovering just shy of 100% of GDP, or over three times that of government debt. As a percentage of household disposable income, household debt is now 148%, still rising and still continuing to ring alarm bells.

One of the reasons why few saw the Global Financial Crisis coming was simply because they were fixated with government debt.

The Treasurer Joe Hockey has been reported as stating in Washington that "Achieving long-run fiscal sustainability (in Australia) will require winding back some spending that our population have come to take for granted". He said. "This will require every sector of the community, including households, corporates and the public sector to make a contribution."

Everything is now in the firing line including increasing the pension age to 70, scraping the NRAS scheme, negative gearing and a raft of other property related perks that will see investors bailing the market.

Housing bubbles, like the size of the one Australia is experiencing, almost always leads to banking failures when prices come tumbling down. Banking failures require government bailouts. Following the last minute buyout of Bankwest in October 2008, preventing its collapse and potentially triggering the collapse of Suncorp, the government moved to pass legislation to set up the committed liquidity fund to the tune of $380 billion. This means, when the time comes, the government is better prepared and the Australian taxpayer will be ready to bailout the banks. Lucky bankers. Not so lucky punters.

Overstretched household debt can very quickly turn into government debt. For example in 2008, Ireland had a government debt to GDP of just 25%, less than Australia today. In 2013, it was 117.4%, following the devastating collapse of its housing bubble.

So, half time....bring out the oranges.....more like bring out the smelling salts. Strap in people. We're in for one heck of a ride for the rest of the year.

South West WA

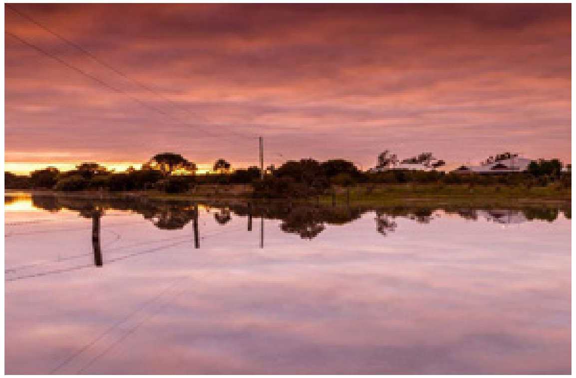
Six months into the year and the property market along the costal strip in the south west of Western Australia has remained positive, with good numbers of buyers and some shortage of stock in specific areas. Agents are reporting that sale numbers have been on the increase and values towards the lower end have strengthened, while the middle and upper market segments have generally remained stable, due to a lack of prospective purchasers.

The purchaser profile has started to change over the past 12 months, from being a market driven by FIFO workers relocating to the region, to a market which sees the return of first home buyers, investors and holiday home purchasers, particularly from the Perth metropolitan region.

The regional property market in the south west has also improved from previous years and has now stabilised. It now appears evident that the property market reached the bottom of the cycle throughout the course of 2012 and early 2013. The number of houses for sale has generally reduced as demand has started to increase and the broader economic picture begins to look more favourable. Consequently, we have seen the market transition from being stagnant, to a market which is more stable and steady.

This is particularly relevant to the $400,000 and below market. The $400,000 and above market is somewhat slower, given affordability issues in these regional towns. We note that extended selling periods are still being experienced but this is generally a result of the somewhat isolated locations of many of these regional localities.

The buyer profile for this market remains relatively the same, with the make up of purchasers being predominately local buyers. However, there does seem to be a small increase in demand from purchasers in the Perth metropolitan region as they seek to now invest or purchase a holiday home or hobby farm in the regional south west.



Overall, it appears the residential property market has improved, and that once again we are on the upwards swing of the property cycle.

Esperance

As we head towards the middle of the year, it could be time for a mid year review of the market performance in the Esperance district. In short, where has it gone? After a promising end to the 2013 year and start to this year, activity in particular over the most recent month has nearly stopped. Part of the reason is seasonal with cropping programs well underway after a reasonably traditional, but later than experienced over recent years, break to the season. With there still being relatively low interest rates and a broad spread of affordable housing, the lack of recent activity is hopefully only temporary and regular volumes will return in the near future.

The residential market in Esperance has seen sound sales volumes and values in the lower socio economic areas as purchasers realise these areas provide some of the most affordable housing in the region, are well located with regards proximity to schools, shopping and recreational facilities and can provide the best return on investment for residential property with correspondingly high rentals relative to capital outlay. Values typically range between $160,000 to $220,000 in this area with increased sales compared to the same period last year.

Mid tier market of say $300,000 to $450,000 has seen consistent activity and this range is well represented in volumes and values with a relatively stable correlation between supply and demand. Absent from the market for some time were sales over $500,000 however the second half of last year saw strong sales above this value and into the mid $600,000s although volume above $500,000 has notably diminished this year so far. That said, sales between $700,000 and $1 million have improved over the corresponding period from last year.

Prestige residential property is limited in this area however we have had one sale at $1.225 million recently.

Rural residential lifestyle properties have maintained their consistency in sales volumes with realised sales over all price ranges noted. Lower end property with modest houses and negligible outbuildings have achieved prices within the $450,000 to $500,000 range and higher end sales have occurred at $965,000 and $1.175 million for a contemporary home with substantial outbuildings.

The satellite localities of the Esperance shire have had little to no activity over the first half of the year with this also a factor of limited supply. To the north, Norseman is still struggling with uncertainty over the local mining operations and Ravensthorpe to the west has similarly seen limited activity.

Encouragingly, the small coastal town of Hopetoun has seen sales volume increase slightly over varying value ranges which is giving some hope values may have stabilised. There is still an issue with an extensive oversupply of property, especially rural residential land, but in time it is hoped that supply will gradually reduce and allow values to recover.

So, after an initial burst, market activity has quietened off lately but overall sentiment is still very positive for this region. Later in the year we will provide another summary and see how things have changed between now and then.

Rural

HERRON
TODD
WHITE
RURAL

Overview

The changing face of agriculture was highlighted to me the other day with the photo of a cotton crop being grown near Swan Hill Victoria. Many would be surprised to see this activity and it made me think about the broader implications for assessing the market when it comes to property valuation. Today a dairy operation could be converted to a beef operation if dairy was not economical, with some being resumed to regional town expansions etc. The reverse could also happen if the dairy market place becomes an attractive and financially rewarding use of capital.

So what else is happening in the sector broadly that is influencing the market place. One thing I am hearing more is the demand for agricultural assets coming from new money which has capital and limited to no debt attached. If this were to eventuate to a large scale what would this impact be on the broader values in agriculture in Australia? To date I have only really been aware of capital for owner operators, albeit under formal management. I wonder then if another change for agriculture will be capital for land owners who are prepared to lease country on long term basis to operators that wish to deploy their capital in the enterprise and not the land. To this end I recently became aware of such a potential investor profile seeking just that, a nominal yield of 2% to 4% averaging 5% to 6% long term on the land value, with an overall return of 7% to 9% long term, (and I am talking long term here) you wonder if this model could find a place in the Australian landscape.

Change is a constant in life, what the change in the agricultural space evolve into will be interesting to observe over the next ten or more years. Maybe some of our city sons and daughters may be able to be involved in agriculture via investment. The challenge may be in what capacity do financiers support operators who are not large landholders with limited equity, but possibly very good operators seeking to expand their enterprises?

Enjoy this months wrap from the Heron Todd White rural team and as always I am happy to hear from our readers on all things agricultural.

Tim Lane
Director, Rural
Ph: (07) 3319 4403

Country NSW & North East Victoria

The general market appears to be in a holding pattern at present, utilising the reasonably good rainfall that has occurred across most areas of central New South Wales to provide the basis of cash flows further on in the season. The continuing positive seasonal influences across most areas in New South Wales have seen some negotiations and sales negotiated. Currently we believe a large dryland farming block, south of Nyngan has been purchased at approximately $1,000 per hectare. If this is accurate, it would be seen as a strong sale for the district and indicative of the confidence of land holders within the area, and the production capabilities of the general location.

Currently in the Macquarie Valley the cotton pick is finishing up with overall yields slightly below that of last season. The value levels for the Macquarie Valley general security irrigation entitlements have remained steady despite the general downturn in demand due to the finishing of the cotton watering season. Currently we see General Security Macquarie River water on the market at $1,150 to $1,200 per megalitre. There was some slight downward pressure however, this has not translated into the softening of values. In the Lachlan Valley to the south, overall General Security values are in the $400 to $440 per megalitre range. Demand is currently weak which would be considered normal for this time of year as demand for watering of this year's cotton crop has subsided.

One topic which valuers are often asked to discuss at length is the value of bore entitlements throughout the central and western areas of New South Wales. One of the most difficult assets to value is bore water entitlements as there are a number of factors that influence the useability and productive capacity of the water which in turn influences the price that prospective purchasers are prepared to pay. Factors like:

- the number of other irrigators within the zone that the bore is in;
- the quality of the irrigation water itself;
- the extraction rate of the bore;
- the quality of the pumping infrastructure and general supply mechanisms.

In many cases we come across, while the bore entitlement is a Water Access Licence which enables

it to be bought and sold like property, the number of other irrigators in the aquifer and the number of potential purchasers can be limited and this does impact on the saleability and value of the licence.

More importantly is the extraction capacity of the bore and what can be extracted within a normal growing seasonal time frame of 120 days. If a bore has a 1,000 megalitre licence and is only able to pump one to two megalitres per day, then realistically only 120 to 240 megalitres can be utilised in the normal seasonal timeframe with the balance of the licence being superfluous until further development is undertaken that enables the extraction of this to be utilised. Whether this capital expenditure is on new bores or storage reservoirs, potential purchasers will take this into consideration and discount accordingly. The quality of the extracted irrigation water is also a major point of focus when ascertaining bore water values as slightly higher calcium contents can impact on growth.

There are areas in the Lachlan Valley which have high levels of leeched calcium and salts which do impact on growth rates and sometimes need to be mixed with river water to enable acceptable growth patterns in crops to be achieved. In situations such as this, obviously the added value of the water is impacted quite negatively.

Also with bore allocations each overall aquifer can be divided into separate sections, with each section having different rules on trading and extraction. For example, in the Lower Macquarie there are aquifers on sandstone and, should a new bore be developed, then irrespective of the licence purchased to utilise, 500 megalitres is the maximum that can be extracted from a new bore, even if the licence purchased was greater than this. This does not apply to bores that are already in existence, only new bores and intricate details like this need to be known by the valuer as they have a large impact on the Water Access Licence's overall useability and obviously apply value.

Generally speaking, bore water values are achieved through demonstrated production capacity such as bales of cotton, tonnes of wheat or tonnes of hay produced. If a landholder can demonstrate a full history of extraction on the allocation in a normal seasonal timeframe and show that this extraction can be done over a number of years and have quantifiable profits from the crops that have been watered, then this obviously impacts positively on the value of the water. This is why we see values for bore water vary wildly between $100 per megalitre up to over $1,000 per megalitre in some cases.

It is interesting to note that the market has not demonstrated its willingness to pay for the surety of supply from well-developed and proven bores. We believe that there is a valid argument to say that some bore water is equivalent to High Security water on regulated systems; however, the market has not been prepared, both in Macquarie or the Lachlan Valley to pay anywhere near what would be seen as market value for High Security water

For example in the Macquarie Valley, High Security entitlements are selling in the vicinity of $3,000 per megalitre, whilst bore irrigation entitlements with a long demonstrated history of production are generally in the $800 to $1,000 per megalitre range. Whilst there are some higher costs associated with the extraction of bore water, which are generally in the $60 to $90 per megalitre range, the discrepancy in the values applied by the market would indicate a greater variance than this extra cost would indicate.

There are inherent positive attributes from having a reliable bore supply, as the allocation would generally be 100% available year in, year out, which allows for forward selling with confidence at opportune times. Overall we believe that bore water can be a risk minimisation strategy for larger growers due to the variability and reliability issues with regulated Valleys.

Mildura

The recent announcement by the State Government for a proposed $220 million upgrade of the Mildura to Geelong/Portland rail freight line is expected to provide a significant boost to the local economy. The upgrade will provide a more reliable freight service along with an increase in capacity resulting in significant savings in the transport costs of grain, containers and bulky goods by rail and thus easing the traffic and burden on our regional roads. The announcement also keeps the flame flickering for the long talked about northern rail link from Mildura to Broken Hill or Darnick to meet the Indian-Pacific rail line which links Perth and Sydney.

The good autumn break rains continued last month and local farmers have well and truly welcomed the best break in more than 25 years. The local area has quickly transformed into green establishing cereal crops and with plenty of sub surface moisture the season appears very promising at this early stage.

With the current water season nearing completion, it is reported that demand remains firm for all water types with permanent water values in particular firming sharply in recent months. Victorian High Reliability entitlements have firmed from around $1,325 per megalitre to the current $1,480 per megalitre; while NSW High Security entitlements have risen from around $1,550 per megalitre to $1,750 per megalitre. There have also been recent transactions of Murrumbidgee High Security entitlements touching $2,000 per megalitre. It is reported that the construction of a new cotton Gin proposed at Hay has had a flow on effect to the permanent water values in this area.

The main drivers for this demand appear to be the improved outlook for the almond and cotton industries in particular and to a lesser extent the

dairy industry. Additionally the Commonwealth Government remain a significant player in this market noting the requirement to puchase permanent entitlements to meet the Murray Darling Basins proposed sustainable diversion limits. This aspect alone is likely to result in a firm permanent water market being maintained in the short term at least.

The results from the recent Commonwealth Government permanent buy back for NSW Murray and Lower Darling entitlements have not yet been released. The tender process budget of $10 million closed on the 28 April 2014.

Current water value levels as reported by Ruralco Water are set out below.

- Victorian Murray River High Reliability Zone 7 – $1,420 per millilitre to $1,480 per millilitre;

- NSW Murray River High Security - $1,700 per milliliter to $1,750 per millilitre;
- NSW Murray General Security - $850 per millilitre to $875 per millilitre;
- NSW Murrumbidgee High Security - $1,900 per millilitre to $2,000 per millilitre;
- NSW Murrumbidgee General Security - $880 per millilitre to $900 per millilitre;
- South Australia 3A Irrigation Entitlements - $1,700 per millilitre to $1,750 per millilitre;
- Spot Market Temporary Water, Lower Murray - $58 per milliotre to $63 per millilitre.

Rural sales activity in the local region has been quiet which is typical for this time of year. It is noted that the MIP auction outlined in the last edition for a Millewa dryland farming aggregation was passed in with post auction negotiations continuing.

Murray Riverina

Agents are reporting enquiry is generally subdued; however since January 2013 there has been some improvement that has translated into levels of value remaining steady to a slight rise. The generally subdued market would appear to be a result of the ongoing adverse publicity in regard to the worldwide economy, and adverse publicity regarding the Australian economy.

One factor that has provided negative sentiment in the market is the temporary water price at around $80 per megalitre for much of the 2013/2014 irrigation season that is having a negative impact on farmer's short term income outlook.

In the current market environment it has been shown that unless there is genuine interest from neighbours, it is very difficult to sell a farm, particularly in the plus $1 million bracket.

Northern Territory

The horticultural sector has probably been the most active in the Northern Territory this month. The Northern Territory Government has signed a Project Facilitation Agreement with Vietnamese company CT Group who are looking to develop a massive 10,000 hectares to dragon fruit plantation somewhere within the tropical regions of the Top End.

The CT Group report increasing demand for dragon fruit in the US and Japan and cite the climate in the tropical belt of the Northern Territory as providing ideal growing conditions (we note that dragon fruit is already successfully grown in the NT on a small scale). A 10,000 hectare horticulture operation - in anyone's language - is a massive scale (that's nearly as big as the existing Ord River irrigation area at Kununurra which is around 12,000 hectares) and it will be a real challenge for the proponents of this project to find and acquire this much country while ticking off on the soil, water, climate and access features required of the land.

We know that the greater Darwin region is already mostly well established to other horticultural pursuits such as mature mango plantations, Asian vegetable farms, melons etc. and the expanding rural residential property market continues to encroach placing upwards pressure on land values. The Douglas Daly region has around 100,000 hectares of freehold country (much of it arable and a lot of it potentially irrigable) however it may be too cool a climate for dragon fruit, and in any case, African Mahogany and Indian Sandalwood users have more recently secured the bulk of cleared arable country available in that district.

There is also around 100,000 hectares (approximately) of freehold country in the Katherine district (a good majority of it arable or potentially arable) which is probably also too cool a climate for dragon fruit and most of it is well established to other horticultural, grazing and rural residential uses.

It would appear therefore that there will either have to be a wholesale change in land use on a large scale somewhere up in the outer Darwin regions, or the new Diversification Permit laws recently passed under the Pastoral Land Act will have to be given a run. A successful application for a Diversification Permit to allow for dragon fruit production could potentially be the answer for the CT Group - we will wait and see.

We are also aware that the Sandy Creek pivot irrigation operation some 40 kilometres south west of Katherine, is under contract for sale. This property had been on the market for an extended period (several years) and although sales details remain confidential at this point, we understand that there was a reasonable level of competition prior to the contract being signed to a large landowner in the district. The property was purchased for its 100 hectares plus of red loamy irrigation country, water licence and location close to the purchasers existing operations. More details of this sale will follow in next month's edition.

Meanwhile back on the pastoral front, seasonal conditions look good for many regions as the dry season sets in after a reasonably good wet pastoralists are still capitalising on the strong live export prices through Darwin and Broome (some still have contracts into as late as June-July to export cattle for $2.30 per kilogram). However, most cattlemen interviewed recently are also aware that this price point cannot be sustained forever. With Indonesia currently experiencing a surplus of cattle in its yards the expectation (and hope) is that a longer term, less erratic, but more sustainable price point can be achieved, based on a more consistent demand and supply relationship. All in all, the healthy cattle prices and good feed reserves continue to maintain the demand levels for pastoral country in the north which (anecdotally) would appear to be sitting at a five year high.

North Queensland

Despite the forecasts for Cyclone Ita to cross the coast and deliver rain to inland areas, it chose to bounce its way down the coast.

Not only was this painful for the grazing community, the coastal farmers certainly had some stressful moments!

It would appear that the cane is standing up again. While sugar content may be influenced, it is good to see that crop recovery has been favourable.

With regard to property markets, the auction rooms have been busy, but since the sale of Swans Lagoon earlier this year, nothing has sold under the hammer. Post auction negotiations have met mixed success.

The tendering process in eastern districts appears to be attracting prospective purchaser interest. There is a difference in sale scenarios though. The stations going to auction are being offered to the market on behalf of the grazier and the stations going to tender are being sold by receivers.

The auction room results are not an indication of a total lack of buyers. Enquiry rates for some stations have been high, while others low. Potential purchasers are researching each opportunity and are prepared to take their time in making their decisions.

Southern Queensland

From our last month in review we were predicting an increase in property listings on the back of those late summer rainfalls however also notably patchy. This seems to be now evident with a surge in listing over the past month. Potential vendors are now coming out of the woodwork for various reasons. Most considering its now a good opportunity to advertise their property for sale, with the perception they are now more marketable with body of feed, stock water supplies replenished or waters in storage and or full moisture profile for future plantings. The reality is, the pool of purchaser doesn't appear to have increased, therefore there is a real risk of further saturation of property listings within an existing buyers market.

With the improvement in seasonal conditions broadly, there is still large numbers of cattle coming through the market centres.

Approximately 50,000 head went through the Roma yards last month and just falling short of a record single yarding of 13,600 head in the second week of May. Prices have remained firm on well presented cattle, however those in poor condition or secondary quality stock are finding it difficult in the market and are generally overlooked by buyers.

Some properties that have been offered to the market recently included Nardo being a 3,349 hectare holding north east of Roma marketed by Ray White and Ruralco. The holding passed in at auction early May and we understand the property is still under negotiation. Other indicators identifying buyers are still thin on the ground was the auction of Romona, a 2,931 hectare mixed farming holding to the west of Moonie on the 16th May. The auction failed to achieve a result however there were a number of registered bidders present.

Overall the short term outlook on the market doesn't appear too optimistic for any recovery. The market at present is slow and vendors now realise that if they are to been successful with a marketing campaign they have to be prepared to meet those market expectations.

Within the Toowoomba environs we are aware of a pending sale of a well improved smaller rural and rural lifestyle holding to the south of Toowoomba within the $1.5 to $2 million range. This market has been relatively static over the past few years and it is encouraging to see activity at this level, however notably after extended market periods being required. Further details of this property will be commented on in later editions when the transaction completes.

South West WA

Harvey Beef remains in WA ownership

The big news in the Western Australian beef industry is that mining magnate Twiggy Forrest has purchased meat processors Harvey Beef through his Minderoo Group, beating Craig Mostyn Group and Chinese and Japanese investors. This sale, together with the earlier sale of Harvey Fresh to Parmalat is considered to be a real boost to the area and Western Australian agriculture. A local agent said "this will no doubt be a great boost to the local residential and rural residential property market and potentially the grazing land market as well".

Other positive news is that the majority of the WA wheat belt has received good rain events coming just in time for the seeding programs. This is great news for areas which have suffered over the past decade.

Overall, the mood in Western Australian rural sector appears to have swung in a positive direction, which in turn should see an increase in activity across most sectors of the rural property market.

Esperance

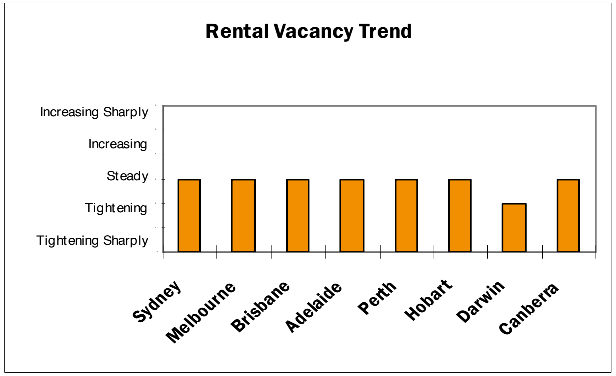
Rural activity is slow for now as we are outside the typical selling season and cropping programs are well underway. There was a strong finish to the selling season earlier in the year with a mix of corporate and private activity. It is hoped this will be maintained when the next selling season commences at harvest.

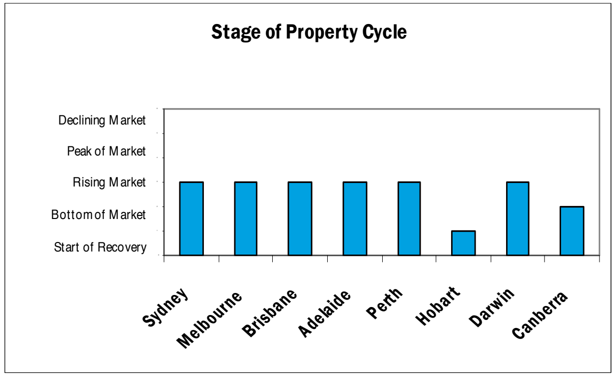
Capital City Property Market Indicators - Houses

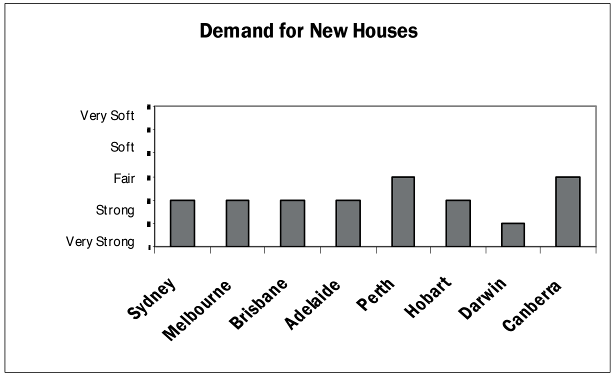
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Severe shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Steady	Tightening	Steady
Demand for New Houses	Strong	Strong	Strong	Strong	Fair	Strong	Very strong	Fair
Trend in New House Construction	Increasing	Steady - Increasing	Increasing	Steady	Increasing	Increasing	Increasing strongly	Steady
Volume of House Sales	Increasing	Increasing	Increasing	Steady	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	Steady	Steady	Tightening	Steady	Tightening	Increasing
Demand for New Units	Strong	Fair	Strong	Fair	Fair	Strong	Very strong	Fair
Trend in New Unit Construction	Increasing	Increasing strongly	Increasing	Steady	Increasing strongly	Increasing	Increasing strongly	Steady
Volume of Unit Sales	Increasing	Increasing	Increasing	Steady	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

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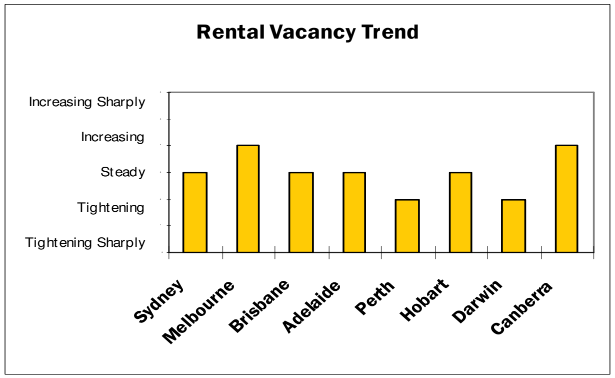

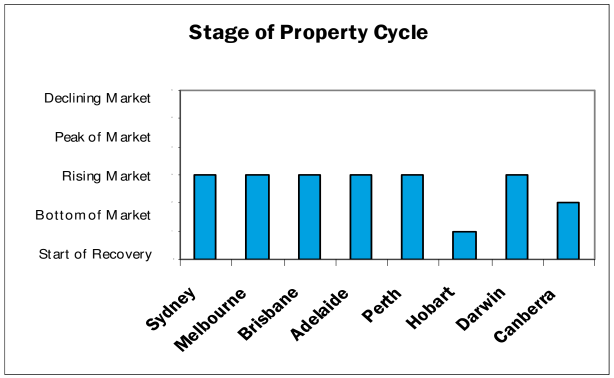

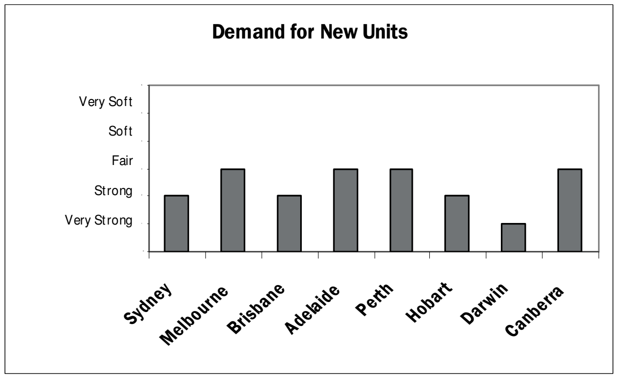

Capital City Property Market Indicators - Retail

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
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
Rental Vacancy Trend	Steady	Tightening	Tightening	Increasing	Increasing	Increasing	Increasing	Increasing
Rental Rate Trend	Stable	Stable	Increasing	Increasing	Declining	Declining	Stable	Declining
Volume of Property Sales	Steady	Increasing	Increasing	Declining	Steady	Declining	Steady	Declining
Stage of Property Cycle	Bottom of market	Rising market	Rising market	Start of recovery	Bottom of market	Declining market	Bottom of market	Bottom of market
Local Economic Situation	Steady growth	Steady growth	Steady growth	Contraction	Steady growth	Contraction	Steady growth	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Small	Significant	Small	Significant	Significant

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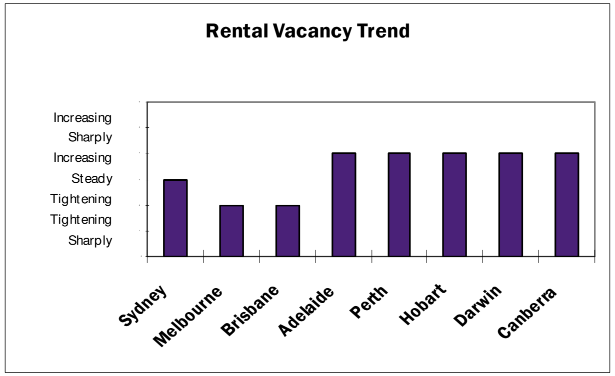

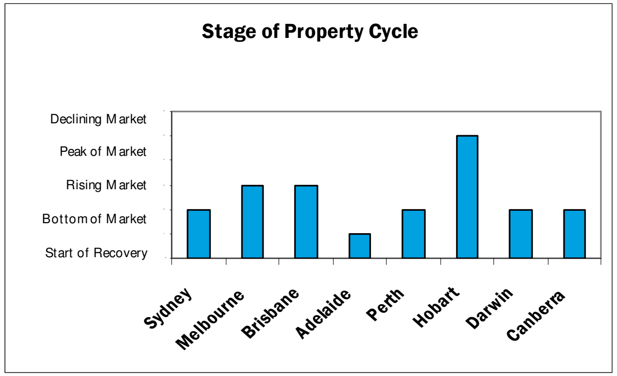

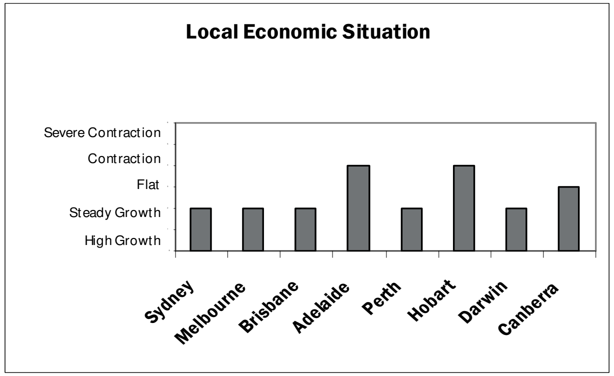

Market Indicators

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	Severe shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Tightening	Steady	Tightening	Tightening	Steady	Tightening	Steady	Tightening	Steady	Tightening	Tightening - Steady	Steady	Steady	Tightening
Demand for New Houses	Strong	Strong	Fair	Strong	Strong	Fair	Strong	Strong	Strong	Strong	Strong	Fair	Strong	Strong	Strong
Trend in New House Construction	Increasing	Increasing	Steady	Increasing	Increasing	Steady	Increasing	Increasing	Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Increasing
Volume of House Sales	Steady	Steady	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	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	Rising market	Start of recovery - Bottom of market	Start of recovery	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	Occasion-ally	Very frequently	Occasion-ally	Occasion-ally	Occasionally	Occasion-ally - Frequently	Occasion-ally	Frequently	Occasion-ally

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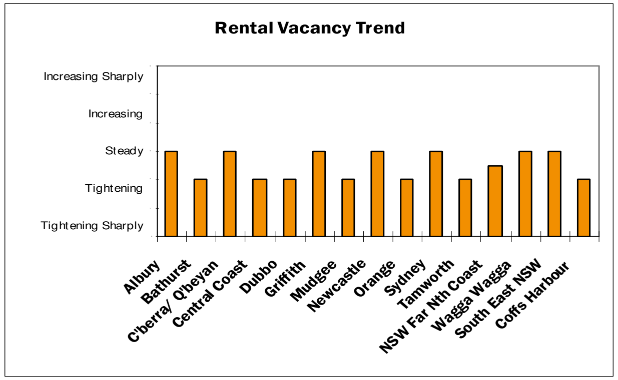

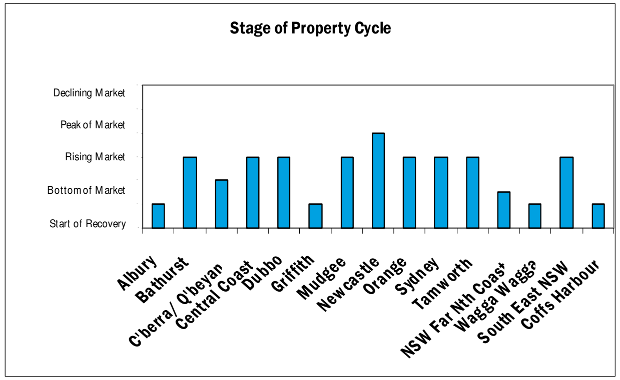

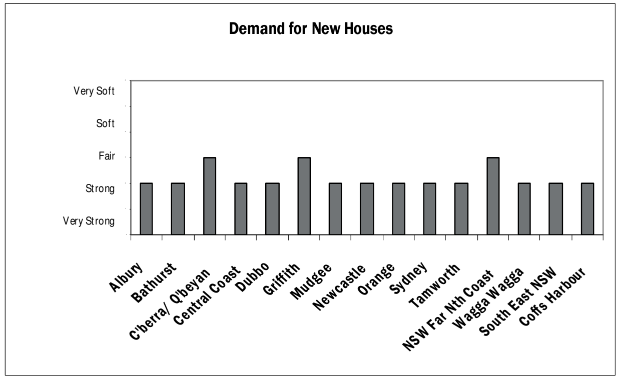

Market Indicators

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

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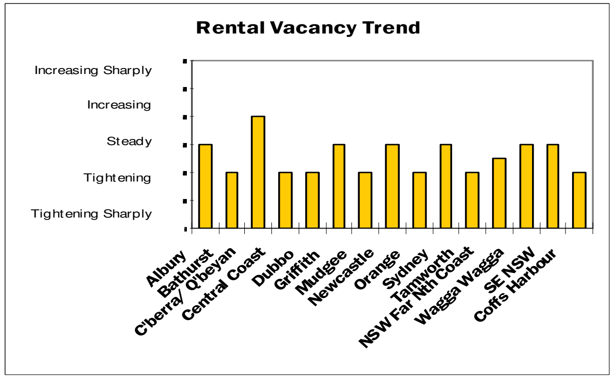

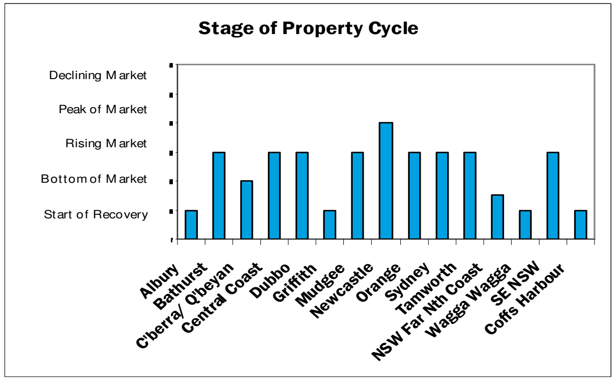

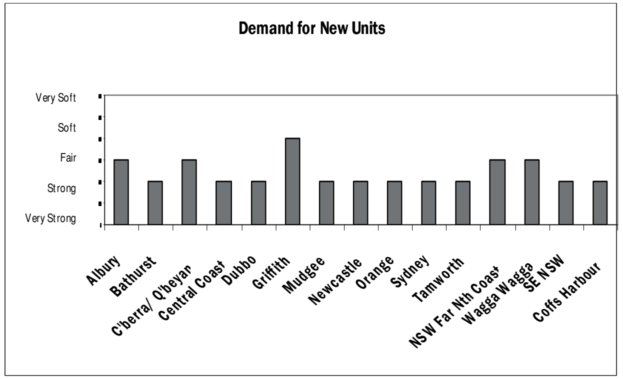

Market Indicators

New South Wales Property Market Indicators - Retail

Factor	Albury	Bathurst	Canberra/ Q'beyan	Central Coast	Dubbo	Griffith	Mudgee	New-castle	Orange	Sydney	Tam-worth	Tweed Coast	Wagga Wagga	Wollon-gong	Coffs Harbour
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Increasing	Increasing	Steady	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Steady
Rental Rate Trend	Declining	Stable	Declining	Declining	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Declining
Volume of Property Sales	Steady	Steady	Declining	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Bottom of market	Rising market	Bottom of market	Bottom of market	Rising market	Start of recovery	Rising market	Rising market	Declining market	Bottom of market	Rising market - Peak of market	Bottom of market	Bottom of market	Bottom of market	Rising market
Local Economic Situation	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Steady growth	Contraction	Steady growth	Flat	Flat - Contraction	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small - Significant	Significant	Significant	Significant	Significant	Significant	Significant	Small - Significant	Significant	Significant	Significant - Large	Significant	Small	Significant

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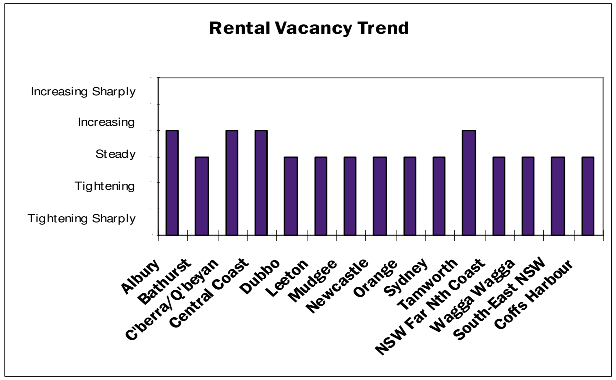

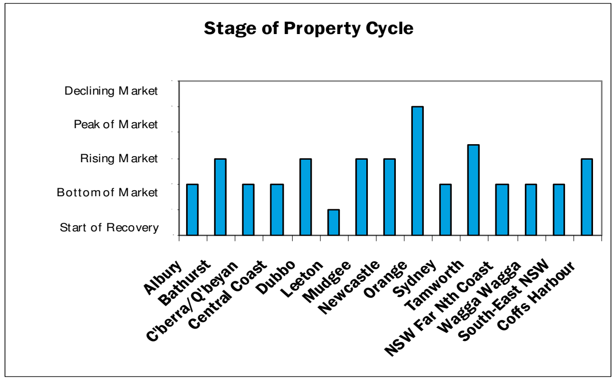

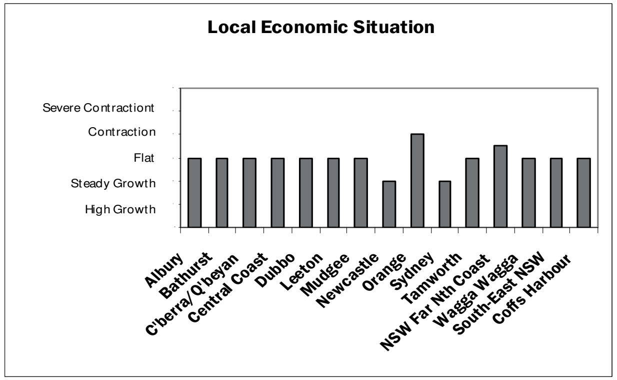

Market Indicators

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	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally

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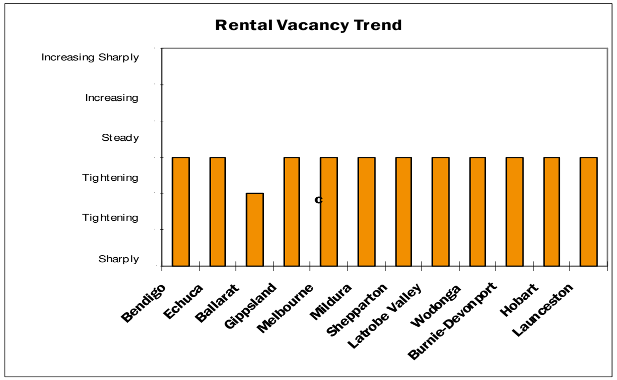

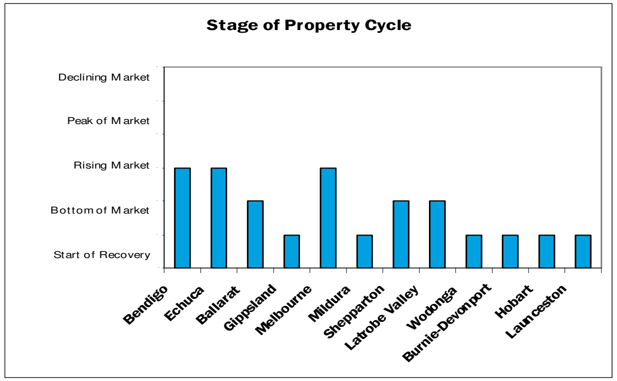

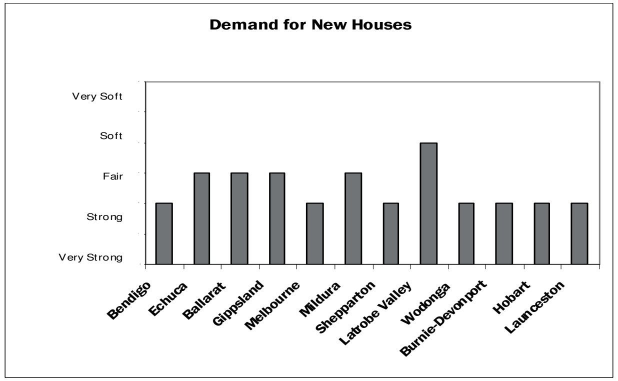

Market Indicators

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	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

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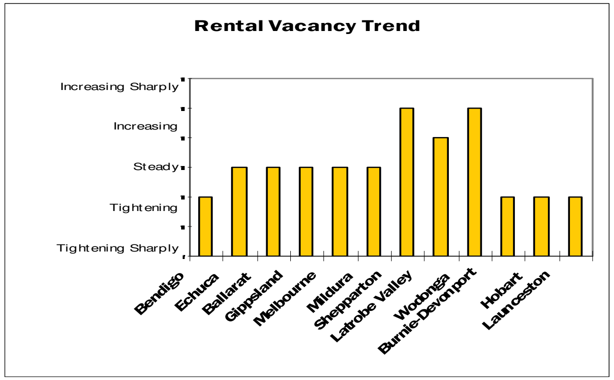

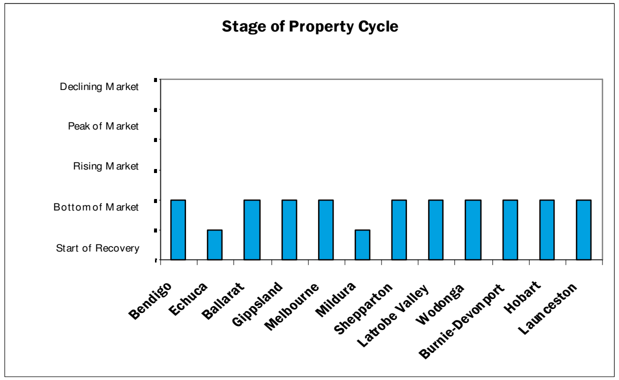

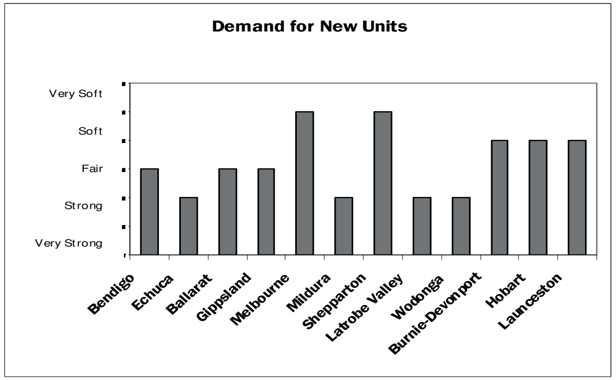

Market Indicators

Victoria/Tasmania Property Market Indicators - Retail

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

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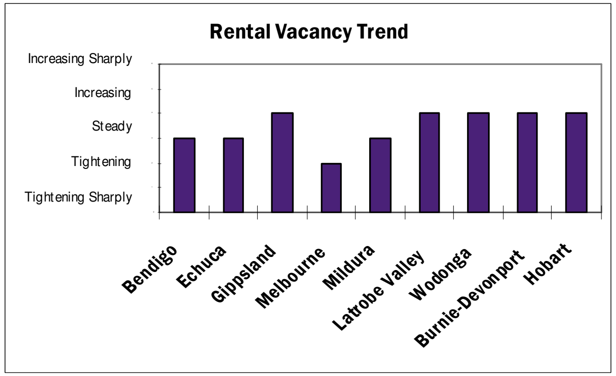

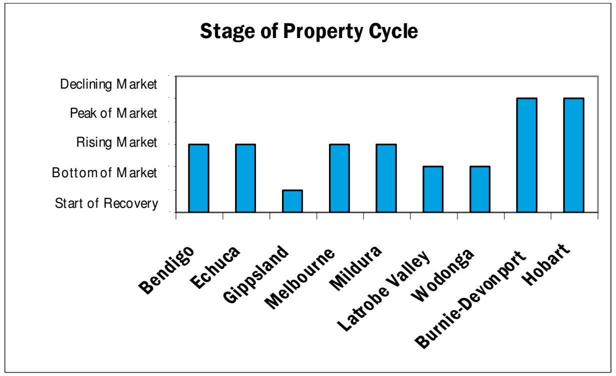

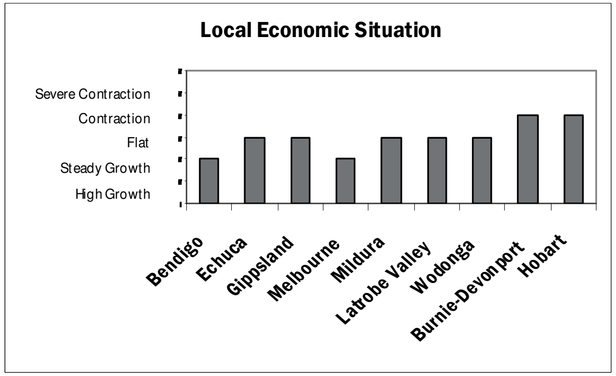

Market Indicators

Queensland Property Market Indicators - Houses

Factor	Cairns	Towns-ville	Whit-sunday	Mackay	Rock-hampton	Emerald	Glad–stone	Bunda-berg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Ipswich	Too-woomba
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	Tightening	Increasing	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	Strong	Strong	Strong	Fair	Fair
Trend in New House Construction	Steady	Steady	Steady	Declining - Steady	Steady	Declining	Declining significantly	Increasing	Steady - Increasing	Increasing	Increasing	Increasing	Increasing	Declining
Volume of House Sales	Increasing	Increasing	Steady	Steady - Declining	Steady	Declining	Declining	Increasing	Increasing - Steady	Increasing	Increasing	Increasing strongly	Increasing	Increasing
Stage of Property Cycle	Start of recovery	Start of recovery	Bottom of market - Rising market	Declining 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

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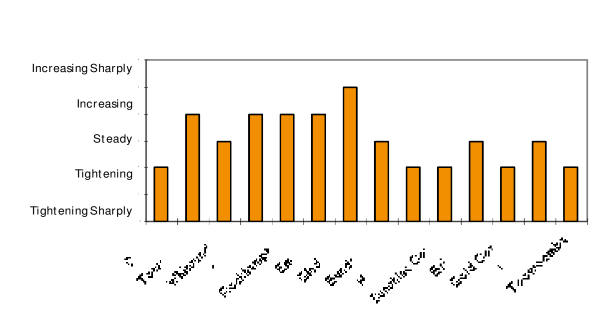
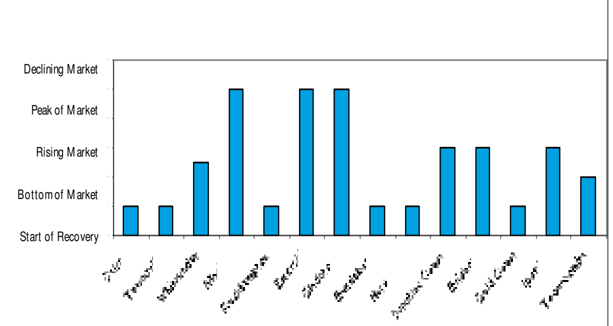
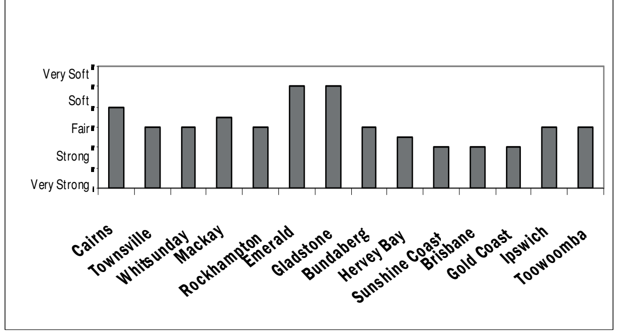
Rental Vacancy Trend



Stage of Property Cycle



Demand for New Houses



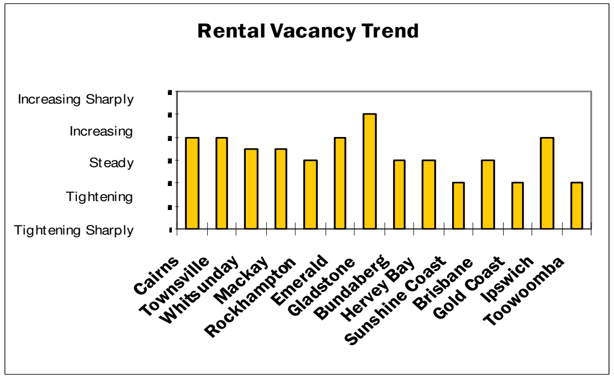
Market Indicators

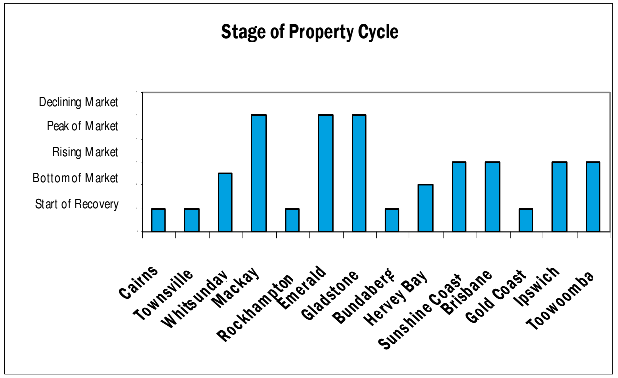
Queensland Property Market Indicators - Units

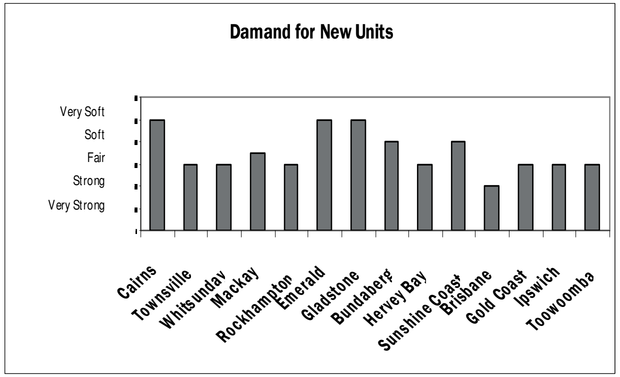
Factor	Cairns	Towns-ville	Whit-sunday	Mackay	Rock-hampton	Emerald	Gladstone	Bunda-berg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Ipswich	Too-woomba
Rental Vacancy Situation	Balanced market	Large over-supply of available property relative to demand	Balanced market	Over-supply of available property 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	Steady	Tightening	Increasing	Tightening
Demand for New Units	Very soft	Fair	Fair	Soft - Fair	Fair	Very soft	Very soft	Soft	Fair	Soft	Strong	Fair	Fair	Fair
Trend in New Unit Construction	Declining	Steady - Increasing	Steady	Declining - Steady	Steady	Declining	Declining significantly	Steady	Steady - Increasing	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	Declining 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

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

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







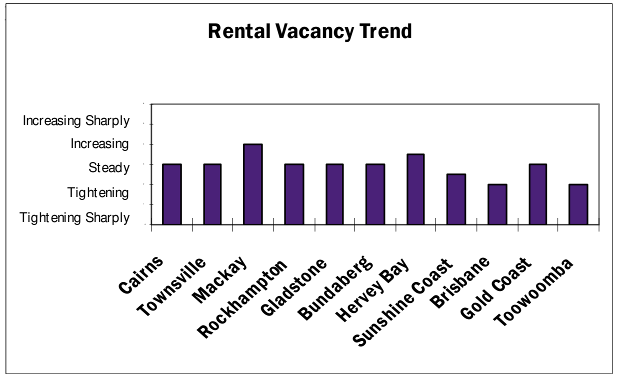
Market Indicators

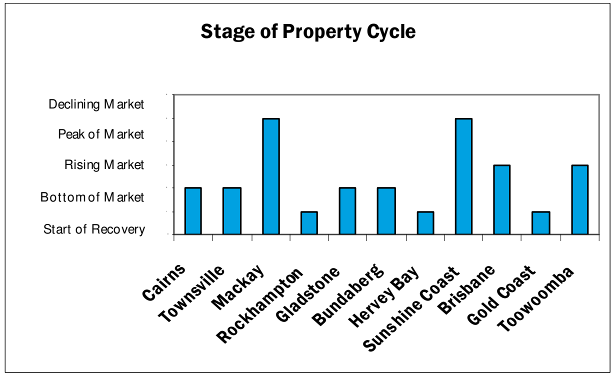
Queensland Property Market Indicators - Retail

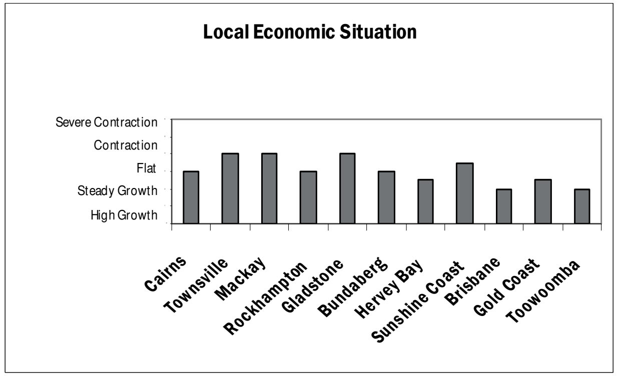
Factor	Cairns	Townsville	Mackay	Rock-hampton	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market - Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of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

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

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





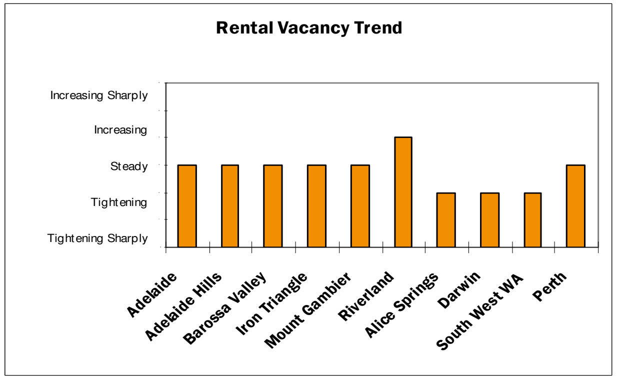


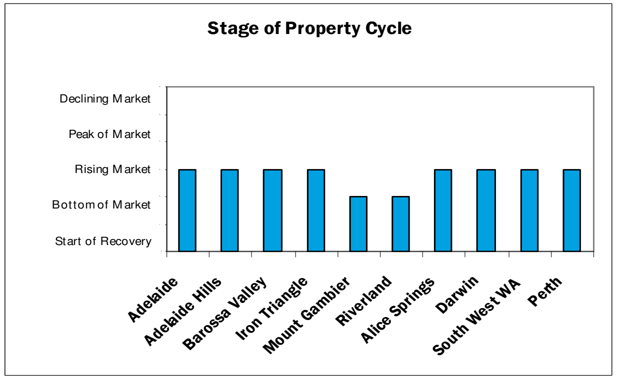
Northern Territory, South Australia & Western Australia Property Market Indicators - Houses

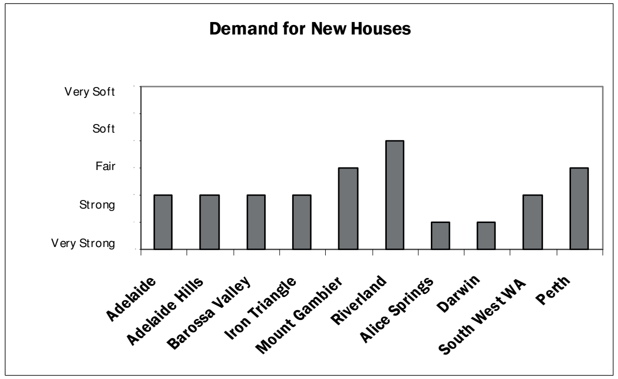
Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Riverland	Alice Springs	Darwin	South West WA	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Severe shortage of available 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	Steady	Steady	Steady	Steady	Steady	Steady	Increasing strongly	Increasing strongly	Increasing	Increasing
Volume of House Sales	Steady	Steady	Steady	Steady	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







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	Steady	Steady	Steady	Steady	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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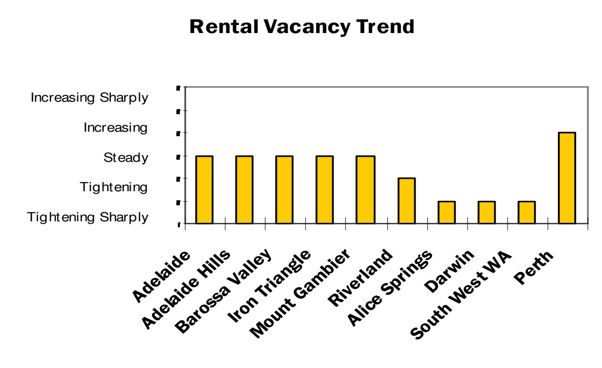
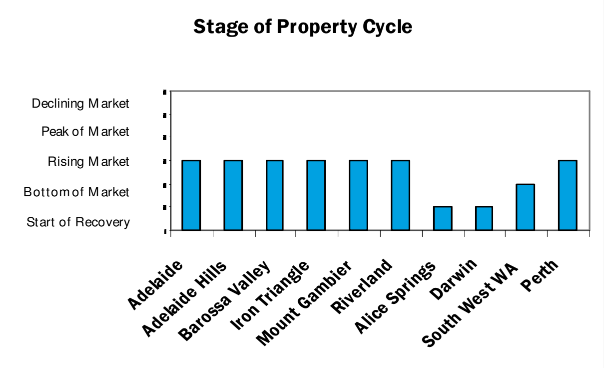
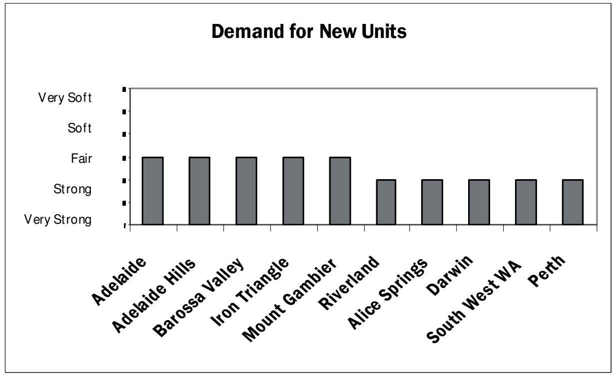




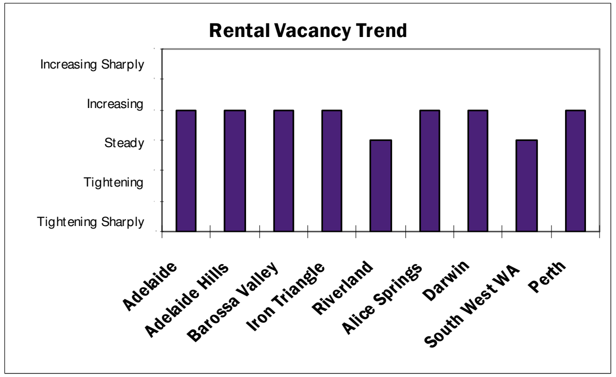


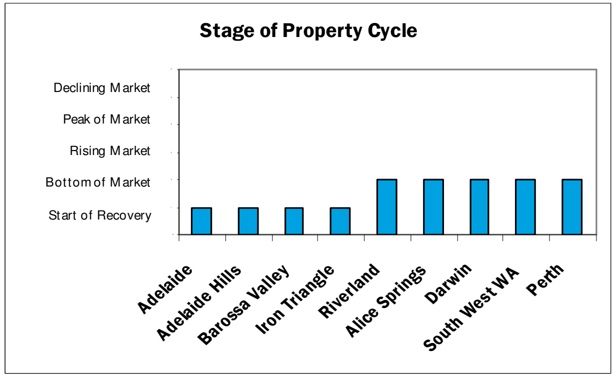
Market Indicators

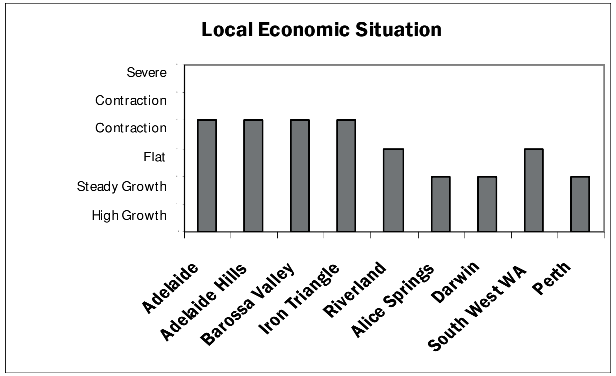
Northern Territory, South Australia & Western Australia Property Market Indicators - Retail

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	Increasing
Rental Rate Trend	Increasing	Increasing	Increasing	Increasing	Stable	Stable	Stable	Stable	Declining
Volume of Property Sales	Declining	Declining	Declining	Declining	Steady	Steady	Steady	Steady	Steady
Stage of Property Cycle	Start of recovery	Start of recovery	Start of recovery	Start of recovery	Bottom of market	Bottom of market	Bottom of market	Bottom of market	Bottom of market
Local Economic Situation	Contraction	Contraction	Contraction	Contraction	Flat	Steady growth	Steady growth	Flat	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Small	Small	Small	Large	Significant	Significant	Small	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

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