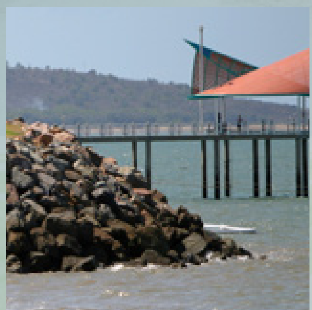
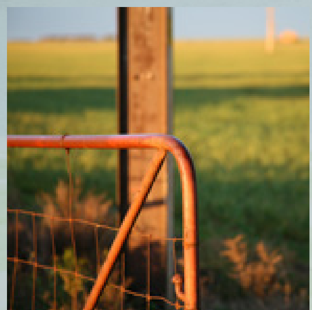
March 2015

Month in Review

HERRON TODD WHITE

Contents

Interest-ing! How interest rate cuts drive our real estate

Debate around of the Federal Reserve using interest rates to quell or spur inflation and the economy is always spirited.

There are some who believe it's a classic hammer and walnut move – too broad and brutal to deal with the nuances. Others say there's limited ability to impact Australia's economy given the overwhelming influence of larger, overseas markets. It's a bit like tickling an elephant with a feather – there's a localised sensation, but the whole thing is actually being driven by the elephant. Finally, there are those who watch interest rate shifts with hawk-like intensity, most of those observers are in property.

Property is just one sector of the economy, so while the Fed might want to speed up or slow down other sectors like manufacturing or mining, property will be directly hit by any shift.

The first half of this year saw an interest rate cut issued from on high – an unthinkable move about 12 months ago. Even more surprisingly, we're seeing plenty of speculation that the buzz saw will be taken to the figure again within the next few months. Wow!

Mortgage repayments are usually a big chunk of any investor or home owners' obligations each month, so they factor heavily in property running costs. Interest rate falls also mean a little more currency in the wallet so property owners can either pay down more of that pesky mortgage, or blow the lot on a few really great nights out.

So how can we here at Herron Todd White help? Well, has anyone noticed the way markets across Australia refuse to perform as one? Real estate in all corners of the nation perform at different speeds and at different times. Anyone looking for a little dirt in Sydney at the moment would love to see the brakes put on prices and step away from our big capital, and almost all other centres are looking for ways to boost their property values.

This is where we come in readers. While it's fine to give a 'vibe' on property markets performance in Australia, the truth is we are more complex than a simple statement of 'up, down or sideward' for all. The recent, and possibly pending, interest rate cut will result in different effects and to different degrees across Australia. Herron Todd White is uniquely placed to cut through the confusion. We've hit up our experts throughout the country to answer the question, 'How will interest rate cuts impact your area?' They've dug down to come up with an answer, and they're willing to share the results with you.

As you'll see, some markets are breathing a sigh of relief, while others find the whole thing a touch tiresome. The team at Herron Todd White is set to tell you which camp your property investment falls into.

Commercially, the office sector specialists have dropped upon us their 'year ahead' report. They've set about telling us all where office markets will head in 2015. Whether your prime, secondary, a big player or small investor, this is definitely the issue for you.

So there we are one and all. Time to understand what cuts in the cost of borrowing means to your property values. Remember the nuance, however. Don't forget to key in our number, raise the handset to the side of your head and speak to one of our local experts, to get a microscopic view of a macro-scopic topic!

Commercial

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New South Wales

Overview

Australian office markets provide mixed fortunes for their participants. Performance can vary between quality, locations and price points to the extent that an overall 'one size fits all' statement just doesn't work.

This month, our commercial teams around Australia give their predictions on office market performance across all the variables. An invaluable source as we venture into 2015.

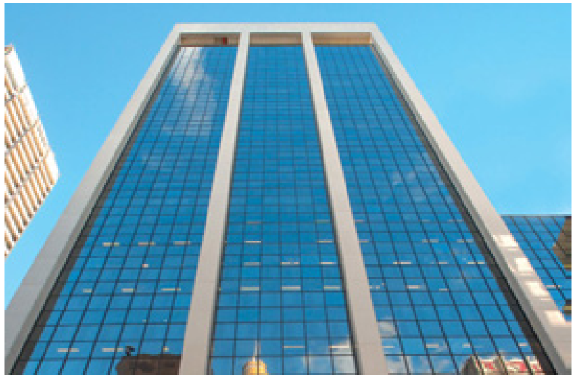
Sydney

The Sydney office market has recently shown early signs of a recovery. A diverse range of industry sectors showed increased demand for office space across a wide spectrum in 2014. The Sydney office sector particularly benefitted from solid tenant demand throughout the year from the professional services sector including finance, insurance, real estate and business services, reaffirming the dominance of these sectors in the local Sydney economy. In particular, sales and leasing activity from smaller space occupiers (generally under 500 square metres) was reportedly a very active portion of the Sydney office market in 2014.

The headline vacancy rate for Sydney office markets monitored by the Property Council of Australia (PCA) fell from 9% to 8% in the six months to January 2015. The reduction was a result of vacancy rates falling in every Sydney office market monitored by the PCA. Over the six months to January 2015, Sydney CBD office vacancies fell from 8.4% to 7.4%; North Sydney from 10.2% to 9.1%; Crows Nest/ St Leonards from 12.9% to 11.6%; Chatswood from 10.8% to 8.2%; North Ryde from 11.2% to 10%; and Parramatta from 6.7% to 6.3%. Sublease vacancy levels also fell a significant 24% over the six months to January 2015 (and 36.3% going back 12 months). The fall is an encouraging sign for the leasing market, as changes to sublease vacancy levels are often seen as a lead indicator to a strengthening (or weakening) of tenant demand.

Major commercial real estate agencies have reported that rental levels for prime and secondary grade space held stable over the 2014 calendar year. Should falls in vacancy levels and improved levels of tenant demand continue, rental levels are expected to rise for Sydney office markets in face terms, with greater growth also in effective terms as incentive levels are widely anticipated to fall from the high levels which have persisted over the past few years (up to 25% rent free of lease terms).

Capital values for Sydney are also expected to improve with a recovery in business confidence and continued investment interest from Asia. Offshore interest from Asian-based investors is no longer limited to high value property assets in Sydney, with office strata suites also benefitting from this interest. Additionally, Asian investment into strata office suites has spread outside of submarkets which



are traditionally hotspots for these types of buyers. Good levels of buyer activity by owner occupiers and local and offshore investors have supported an improvement in average capital values for strata suites in the CBD and this is expected to continue in 2015.

Forward looking indicators are also providing a positive outlook for Sydney's office markets in 2015. Sublease vacancy has reduced and the volume of new job advertisements measured by ANZ has risen for eight successive months, providing positive prospects of business expansion from office occupiers. Additionally, the most recent forecasts by Deloitte Access Economics estimate the number of office employees in Sydney to increase by around 8,000 employees in 2015 which provides another positive outlook for the sector.

Canberra

The commercial office market continues to reflect the uncertainty of the political scene within the ACT. The Property Council of Australia figures released in January indicate that the ACT has a rising vacancy rate within all sectors of the market including A grade. The current statistics are:

- Total stock: 2,393,674 square metres
- Total vacancy direct: 328,745 square metres or 13.7% (up from 12.1% in July 2014)
- Total vacancy sub-lease: 39,751 square metres or 1.7% (up from 1.5% in July 2014)
- Overall vacancy: 15.4% (up from 13.6% in July 2014).

A move upwards of 1.8% in the overall vacancy figure is disturbing and will impact negatively on rental rates and quantum of incentives.

> Incentives are anecdotally as high as 30% and net effective rents are falling to plus or minus $300 per square metre for B grade accommodation. When this will end is anyone's guess.

It is interesting to note that one of the major property owners in past times, Mirvac, (successor to the Canberra Property Trust) has released to the market the last two assets in Canberra of the former Trust, namely 60 Marcus Clarke Street, built in 1988 and 54 Marcus Clarke Street, built in 1986, by expression of interest. The Boulevard Building at 20 Allara Street is also being offered by expression of interest. These three buildings were considered A grade buildings in their day when completed but now compete in the B or less grade and will either have to be totally refurbished or converted for alternate use. The prices achieved if a sale is to eventuate will be well below anticipated values.

Newcastle

The over riding factors hanging over the A and B grade Newcastle office markets have been the continued low vacancy rates and lack of any new stock of significant size in the pipeline. The development market has now responded to this need for new stock and as at January 2015 there is a total of 20,800 square metres of new CBD office property in the construction pipeline. Of this space, 3,700 square metres is currently under construction on the corner of Parry Street and Stewart Avenue in Newcastle West, with completion due in late 2015. The remaining office property to be constructed is situated at the Doma Group owned Edition mixed use development in Honeysuckle as well as four stories of office property to be constructed over Civic West Carpark. Neither of these developments will be completed until after 2017 and we can expect tight vacancy rates in the upper end of the local office market to continue until this time.

Local political activity plays heavily on the Newcastle office market at present. The heavy rail service has been stopped at Hamilton in preparation for construction of the light rail service. While there are detractors, cutting the heavy rail service is clearly the best way to open up the CBD to the harbour and the Honeysuckle precinct and improving the aesthetic appeal of the area as well as improving the vehicular and pedestrian traffic between these two key city localities. It is understood that Labor would reinstate the heavy rail into the CBD with an average of 11 passengers per train rather than remove this service and add a light rail service. While the outcome of this particular debate seems clear and obvious, the vocal minority continue to stand in the way of what's best for the city of Newcastle.

Victoria

Melbourne

Melbourne's CBD has seen a decrease in vacancy rates with the Property Council of Australia (PCA) reporting total vacancy of 9.1% in the January 2015 office market report, an increase of 0.6% from the total vacancy observed in July 2014. The vacancy rate is currently lower than the January 2015 national average of 10.8% and the 'Australian CBD' vacancy rate of 11.2%. The PCA reports that a significant amount of space will come online over 2015 (121,335 square metres with 71% pre-committed) and 2016 (a further 55,000 square metres with an undisclosed level of pre-commitment). Leasing incentives remain high currently at approximately 25% to 30% for office space within A and B grade buildings with reports of up to 40% for such buildings with relatively high levels of existing vacancy. A number of suburban tenants have taken advantage of the relatively high incentives on offer in the market place by relocating into the city.

Strong overseas investor demand is continuing for good quality office properties within the Melbourne CBD and St Kilda Road office markets. This is primarily due to the lack of suitable stock on the market and sheer weight of capital seeking limited investment opportunities in this segment of the market. Assets in the $15 million to $50 million price point typically appeal to a broad range of private investors, syndicates and Self Managed Super Funds (SMSF). The primary overseas demand is from Singaporean, Malaysian and Chinese private investors. The Melbourne CBD is currently an attractive destination for Asia Pacific investors, primarily due to the relatively high return and low risk profiles of these CBD assets compared to other major cities within Asia.

It is predicted that prime to A-grade CBD office buildings should continue to attract strong demand from both local and overseas institutional buyers and sovereign wealth funds. If anything, overseas interest will continue to grow as the next wave of demand comes from Chinese sovereign wealth and pension funds. Recent sales activity suggests that market yields are firming for well located investment grade assets exhibiting sound fundamentals, such as strong lease profiles and limited capital expenditure requirements.

As an example of this we note the recent sale of 27-31 King Street, Melbourne which was purchased by a local private investor. This is a five level boutique freehold office building of approximately 1,788 square metres, incorporating ground floor retail, which was originally constructed in 1912 and most recently refurbished and extended in 2009 to 2010. The property was purchased for $13,688,888, representing a capital value rate of $7,656 per square metre and a passing yield of circa 6.5%. The property was sold via an EOI campaign and our enquiries indicate that there was considerable depth to the interest in this property with multiple competitive bids received from prospective local and international purchasers.

Overseas developers in particular remain extremely active within the market place at present and in many cases appear to be pricing local developers out of the market.

Given the weak leasing conditions and potentially substantial re-leasing and refurbishment costs for older office buildings, we are witnessing many overseas developers secure in some cases, quite substantial office buildings with the view to convert or redevelop for residential purposes.

Our overall observations are that due to limited opportunities and substantial capital inflows,

many purchasers are disregarding basic property fundamentals, as long the asset is in the right location, and paying firm yields for assets with weak lease profiles and capital expenditure requirements.

The most active players within the sub $15 million suburban office market at present are similarly private investors, syndicates and Self-Managed Superannuation Funds (SMSF). Overseas investors are also becoming more prevalent in this market as a result of an overflow effect from the lack of good quality commercial stock within the CBD. According to online research reports published for the second half of 2014, the overall vacancy rate of the inner east of metropolitan Melbourne market continued on a downward trend, reportedly falling from 6.3% to 5.5%. Despite relatively high vacancy rates and incentives, we are witnessing strong buyer demand and yield compression for well located assets with strong underlying fundamentals such as a long WALE, good lease covenant and low capital expenditure requirements. We are also observing many inner suburban sales of older style low rise office buildings, which are being purchased for residential conversion and/or redevelopment.

Gippsland

The industrial market throughout the Wellington, East Gippsland and Latrobe Valley Shires remained static in 2014 and is expected to do the same in 2015. Likewise, rents and yields are expected to remain steady within the industrial sector with yields hovering around 7% to 9%. The interest rate cut will have a moderate impact on the industrial market.

Latrobe Valley remains stronger than Wellington and East Gippsland, which could be attributed to the fact that it is closer to Melbourne with some major brands wishing to situate themselves there.

Wellington's industrial market continues to be largely occupied by energy companies wishing to be located close to ESSO's Longford facility. Many global energy and resources companies including Halliburton, Superior Energy Services and Nabors Drilling continue to occupy substantial industrial properties in Sale and nearby Wurruk.

Mildura

Mildura's office sector remains relatively flat. There are a number of older offices currently vacant and prospective tenants are able to be selective. As we have previously observed in these articles, many local professional businesses operate from owner occupied premises and as a result rarely move. This results in a relatively small pool of tenants.

Rents and values have remained relatively stable over the past few years and we envisage this trend continuing.

The presence of undercover carparking, the standard of fit out and degree of prominence remain the main factors that tenants consider when comparing office premises.

South Australia

Adelaide

Adelaide's office sector had a mixed year during 2014 and with little change expected within the commercial sector in the short term it appears as though 2015 will produce similar results.

Ever tightening local economic conditions, especially job losses within white collar industries, are continuing to challenge the sector and overall we are seeing fairly subdued results. Hopefully the first signs of improvement within this sector may start to emerge in the second half of this year.

However, strong underlying fundamentals remain and as we have reiterated over the past few years, while the sector is not currently achieving any significant gains in the short term, it is not experiencing any significant downturn either.

Investment activity at the top end of the market (over $50 million) is currently outperforming all other sectors and is being driven by large investor groups as they seek the attractive yields currently available within Adelaide's office market on the back of reduced finance costs. Demand for quality stock from fund buyer groups should see yields for primary grade stock remain at around the current levels of 7.5% to 8.5%.

Sales and leasing activity is expected to remain mixed. The total value of assets sold during 2014 was the largest on record and the number of sales transactions also improved slightly on the back of increasing interest from these large buyer groups.

Comparatively, leasing activity has remained subdued and is below five year averages, although on a year on year basis it has been slowly improving. It appears that the trend of tenants choosing to consolidate leasing areas due to a combination of economic pressures and changing work practices will continue in the short term.

Adelaide CBD vacancy rates have improved slightly from 13.8% in July last year to 13.5% in January 2015 as reported by the Property Council of Australia (PCA). Although vacancy rates were predicted to increase slightly this minor reduction is directly attributable to the withdrawal for refurbishment of 1 King William Street. The increased level of vacancy over the past few years is mostly the result of a construction phase that occurred in Adelaide between 2010 and 2012 when numerous high rise office buildings were completed. The backfill created by relocation of tenants to these buildings has been slowly re-entering the market (usually as refurbished space) over the past two or so years, putting upward pressure on the vacancy rate. As this has unfortunately coincided with reduced tenant demand, the vacancy rate has probably increased slightly above expected levels.

There is only one office building currently under construction which is due for completion later this year. 50 Flinders Street is approximately 80% pre-committed to People's Choice Credit Union and Santos. As there is very limited new supply forecast for the office sector, it is expected that the excess stock will slowly be absorbed over time and that vacancy rates will start to recover, however this is not expected in the short term.

Adelaide CBD Office Market Summary as at January 2015

	Stock (sqm)	Vacancy (sqm)	Vacancy Rate (%)	Net Absorption (sqm)
Primary Grade	569,515	68,264	12.0	-7,832
Secondary Grade	804,632	117,306	14.6	-10,871
Total	1,374,147	185,570	13.5	-18,703

(Source: PCA and Herron Todd White research)

Adelaide Fringe Office Market Summary as at January 2015

	Stock (sqm)	Vacancy (sqm)	Vacancy Rate (%)	Net Absorption (sqm)
Primary Grade	37,297	2,100	5.6	-460
Secondary Grade	181,751	16,120	8.9	-1,345
Total	219,048	18,220	8.3	-1,805

(Source: PCA and Herron Todd White research)

It is worth noting that agents have been reporting that a large amount of secondary grade office stock on the market for lease directly contributes to around 40% of the reported CBD office vacancy and is in part largely untenantable due to being unable to cater to the current expectations of prospective tenants. This remains a significant issue and also highlights the growing disparity between primary and secondary grade assets.

Adelaide CBD Office Vacancy Percentage by Grade

	January 2013	July 2013	January 2014	July 2014	January 2015
Premium	3.2	4.4	6.3	11.6	10.7
A Grade	6.4	9.9	11.0	11.2	12.1
B Grade	10.8	13.6	14.0	14.7	10.7
C Grade	11.0	11.9	11.5	14.7	17.0
D Grade	15.1	18.0	17.2	19.0	19.2
Total	9.5	12.3	12.4	13.8	13.5

(Source: PCA and Herron Todd White research)

It is expected that primary rents will continue to show slight improvement but this will be supported by encouraging incentives. However secondary rents, with already high levels of incentives at around 25%, are expected to remain at fairly similar levels.

Overall it appears that Adelaide's office market is in a fairly positive position and can afford to continue its pattern of consolidation as it waits for the current economic conditions to improve.

Queensland

Brisbane

Throughout 2014 economic global growth improved slightly although it was uneven with the threat of deflation and collapsing commodity prices. Australia has been experiencing continued low cash rates and subdued growth while Australian shares underperformed. Non-mining activity improved while the slump in mining investment and poor confidence led to low growth which in turn saw unemployment rise. It is likely that 2015 will see steady but uneven global growth, low inflation and easing monetary conditions. The main concerns to watch in 2015 include the Chinese property slump, possibility of the Federal Reserve raising interest rates and whether non-mining economic activity continues to increase.

The latest reserve bank cash rate cut of 25 basis points in February 2015 lowering the official cash rate to 2.25% has left the economy at a cross road with a great deal of uncertainty overall, stemming from factors such as the slowdown in mining investment and rising unemployment.

The year ahead looks to be patchy for the Brisbane office market, with high rental incentives expected due to continued low demand. This will offer good value for prospective new tenants providing for affordable rents. Demand for office space in the Brisbane CBD remains weak and there is a surplus of office accommodation available.

Looking at the market in greater depth, the Brisbane CBD office market has seen vacancies continue to rise, increasing from 14.2% in January 2014 to 15.6% in January 2015. Although this is the highest vacancy rate ever recorded for this market sector, the increases seen are significantly less than in recent times - with vacancies increasing from 9.3% in January 2013 to 14.2% in January 2014 alone. The Brisbane fringe office market has been more positive, recording a slight increase in vacancies in 2014, with vacancy rates rising from 12.5% in January 2014 to 12.8% in January 2015. With vacancy levels remaining high across Brisbane's CBD and CBD fringe office markets, it has remained necessary for lessors to offer substantial incentives in order to attract tenants for both prime and secondary office accommodation. On average in the Australian CBD incentives have doubled while face rents have not moved with premium incentives ranging between 30% and 33%. This has led to competitive effective rents. Incentives are expected to stabilise throughout the remainder of the year as less pressure is placed on land lords to attract tenants.

Yields remained relatively stable in 2014, with the prime office market reflecting yields of circa 7.5% to 8% while the secondary market reflected yields circa 8.5% to 9%. The Brisbane CBD yields are expected to remain relatively stable through 2015, maintaining the disparity between prime and secondary assets,

noting that a softening of secondary yields may occur in light of increasing vacancy rates. The prime assets within the Brisbane fringe are currently reflecting softer yields circa 8.5% with secondary stock reflecting rates of circa 9.5%. The six months to January 2015 saw 3,613 square metres of new stock added to the Brisbane CBD office space, with 8,910 square metres of stock being withdrawn in the same period. The same period saw 34,084 square metres of new stock added to the Brisbane CBD fringe office and 8,394 square metres of stock being withdrawn, resulting in a net increase of 25,690 square metres.

The Brisbane CBD property market is undergoing transformation with significant residential development activity underway. One million square metres of construction is expected over the next five years. In addition, developers are putting projects on hold until they are able to secure a high level of pre-commitment. The significant supply due to enter the market from the second half of 2015 is expected to mark a new development cycle. Overall, Queensland's outlook is looking promising with the states economic growth forecast to outperform other states in 2016.

Toowoomba

The historically low interest rates have resulted in a strong demand for commercial properties by investors. However, the lack of supply of quality, fully leased properties has limited the number of investment sales. The lack of quality investment stock will likely continue in 2015 and could result in a firming of yields if an attractive property is offered to the market.

Investors have shown a preference for stand-alone properties over strata-titled units, with a couple of suites still being marketed for sale in Capital Place, a large modern office building on the CBD fringe.

Strong demand from owner occupiers for smaller offices in the $300,000 to $600,000 price range is likely to continue in 2015. These offices are often former houses converted for professional use and provide easy access for employees and clients and good off street car parking. A diminishing supply within this segment may result in a further modest increase in values.

Leasing demand in 2015 will likely continue to be moderate with office rentals remaining relatively static. There is a moderate supply of small to medium sized tenancies in Toowoomba but a short supply of larger tenancies. Any tenant demand for a larger tenancy area may require the construction of a new building. This was evidenced by the recent requirement by the Department of Transport and Main Roads for a 2,500 square metre office tenancy within the Toowoomba CBD or CBD fringes. The submissions to supply this tenancy are believed to consist mostly of new design and construct projects.

Gold Coast

Contrary to the previous few years which have been underpinned by poor local economic conditions, buyer appetite and confidence appears to be returning to the Gold Coast market place.

The Gold Coast office market has been hampered for some time by nationally high vacancy rates resulting in some instability and lack of market depth within this market segment.

From the view point of print media and the general consensus portrayed by most selling agents, market conditions in the office sector have now started to shift, with leasing and sales enquiries increasing across the board.

Collectively, from our active involvement within the commercial property market and dealings with clients we are also seeing the re-emergence of investor demand. This is particularly the case for office stock with recognised good quality tenants in place, in combination with strong lease covenants to mitigate vacancy risk.

That being said, there remains a large gap between primary and secondary stock.

This is generally supported by figures released by the Property Council of Australia (PCA) in January 2015. While the vacancy rate has remained generally stable at 15.2%, the second half of 2014 saw a net absorption of 7,200 square metres of space.

As noted in our previous office brief column, a standout performing precinct within this market segment is the Robina and Varsity Lakes area, with vacancy rates declining from 20% in July 2013 to 10.4% in January 2015, representing a total change in occupied stock of 13%. The Broadbeach office precinct reflects a current vacancy rate of 7.6% which is the lowest on the Gold Coast.

The Gold Coast's more traditional office precincts such as Southport, Bundall and Surfers Paradise continue to exhibit relatively high vacancy rates at 14.8%, 18% and 25.1% respectively.

In light of the perceived increase in buyer and market confidence and healthy decline in vacancy rates within some of the Gold Coast's key office precincts, we consider that the year ahead will potentially see a positive uplift in value levels for areas such as Robina, Varsity Lakes and Broadbeach, with supply and demand playing a critical role in determining an adequate pricing level.

Localities such as Southport, Surfers Paradise and Bundall which are characterised by excess stock and high vacancy rates, will potentially see an increase in sale and leasing transactions with the return of greater market confidence and limited available stock elsewhere on the Coast. However, we do not project there to be short term uplift in value levels until vacancy rates fall to a more acceptable level.

Sunshine Coast

The office market on the Sunshine Coast showed signs of improvement during 2014 in different areas and looking forward into 2015 we consider that this will continue with different markets and locations performing at different levels.

Within primary locations we noted an increase in demand primarily from owner occupiers and we consider that this increased demand will continue given the ability to secure new premises at low interest rates compared to renting similar quality properties.

Supply within primary office locations has remained fairly stable however is expected to increase significantly with the construction of the Kon Tiki development by the Pratt Property Group due for completion in 2016. This development will comprise two six-level commercial towers with an approximate total lettable area of 16,000 square metres. We understand that incentives are being offered to fill the building which is likely to create opportunities and vacancies in secondary buildings.

With investment properties in primary locations we have also seen an increased demand from investors however demand remains relative to the location, price point and quality of the lease covenant. In summary for office properties in primary locations we consider that during 2015 there will be some small growth, particularly in locations which are tightly held.

The other location that is experiencing significant opportunities is the office and medical precinct around the new Sunshine Coast University Hospital in Birtinya where strong demand has been experienced in off the plan buildings for medical related uses opposite the hospital.

We are also experiencing increased demand for smaller commercial sites as building for owner-occupation investment is becoming more attractive in the low interest rate environment.

Bundaberg

Office vacancies and rental rates are steady in the Bundaberg office market. The supply of new offices is noticeable along Barolin Street where rental rates in the vicinity of $300 to $400 per square metre have been achieved for new premises. The market for medical related offices has been relatively strong. New supply has been concentrated around the hospital precincts and has been for purpose built premises.

In general terms, yield rates generally range between 8.5% and 9.5% and there is a strong presence of owner-occupiers in the market, particularly under $750,000.

Hervey Bay

Generally, the commercial office market in Hervey Bay remains unchanged and slow with little indication of any change in the short term. Continued high levels of supply have resulted in buyers lacking urgency to make a decision. Some sales with good tenancy profiles are achieving yields in the 8% to 8.75% range however volumes are low. Owner-occupier rates per square metre appear steady in the range of $2,000 to $3,500 in older buildings and up to $3,800 per square metre in newer buildings.

Outside of The Signature Building, demand for strata office space is predominantly from owner occupiers. Investors are present however require good lease terms and quality tenants.

Medical and allied health space has seen quite a lot of activity over the past 12 months due to the construction and recent completion of the new St Stephens Hospital. The recent completion of one strata complex has seen rates in the order of $3,500 per square metre achieved and purchased by predominantly owner-occupiers. Another project has recently commenced marketing.

Leasing rates are likely to remain very competitive with landlords trying to attract tenants. Incentives are common and tenants remain cautious with most local operators negotiating initial one year lease terms with options.

Gladstone

In early 2015 we consider market conditions to be volatile for all Gladstone market sectors with potential for further price vulnerability. The Liquefied Natural Gas (LNG) industry and more specifically the construction phase of the LNG consortiums building multi billion dollar gas plants on Curtis Island are now winding down and commenced the production and export phase in late 2014. The total workforce in Gladstone will be reduced from peak levels and this will have a direct flow on effect to the residential and commercial property markets in terms of rental values, vacancies, sales volumes and prices.

Sales volumes are expected to remain weak which is in line with previous years.

Office rental levels have contracted on the back of rising vacancies. Vacancies are expected to rise slightly in 2015 and leasing up periods may also increase depending on how eager landlords are to meet market rental levels.

Rockhampton

The year ahead for the office market in Rockhampton is set to continue at the pace of the previous twelve to eighteen months. With a further interest rate cut kicking off 2015, it is likely that owner occupiers will continue to dominate the market for office accommodation. These buyers are taking advantage of the low interest rates to secure a premises of their own, with most recent sales up to about the $1 million price point. Most of the activity by this group is likely to be sub $750,000.

A result of government rationalisation of accommodation, coupled with economic conditions and an oversupply of office accommodation has resulted in several vacancies within the CBD, including secondary accommodation, as well as modern newly refurbished and newly developed accommodation. As a result there are longer letting up periods for vacant tenancies and it is becoming common for incentives to be included in lease negotiations, including rent free periods and fit out contributions.

It is likely that there will continue to be good opportunities in the market for owner occupiers given vacant stock on the market, yet few good quality investment opportunities. Where investment opportunities do exist, investors are likely to demand returns between 9% to 9.5% for better quality properties and 9.5% to 10% for secondary properties. They will be sensitive to WALE and tenant strength.

Mackay

The office market in Mackay has had it tough since late 2012 due to an increase in supply, coupled with decreasing demand, which has resulted in a high volume of vacant space being available moving into 2015.

In late 2014, we saw a number of new leases negotiated, which indicated that rental rates have also begun to soften in response to the continuing oversupply that the market is facing. In saying this, there is only limited evidence of a decline in rental rates and we have not seen large declines across the board.

Some opportunistic tenants have made the most of the available vacant office supply and have relocated to more efficient or more modern premises. Some lessees have downsized their tenancies, to reduce operating costs during a slow economic period in Mackay.

Owner-occupiers have also been active in the market, securing premises at a time of oversupply of accommodation and a low interest rate environment.

Tenants are now more selective in choosing tenancies. Good carparking, efficient floor plates and well presented buildings are some of the key drivers for tenants.

We anticipate that the full impact of the change in the supply and demand dynamic will be felt in the market through 2015.

Anecdotal evidence indicates there are still investors in the market, although purchasers are generally after the better quality properties or bargain prices.

So overall, 2015 is looking to be another uncertain year for the office market. Tenants are definitely in the box seat to negotiate rentals and have a large amount of space to choose from. There is limited stimulus which will improve the office market in the short to medium term and the market is expected to remain subdued while the coal industry and local economy are depressed.

Townsville

Over the past 12 months there has been a fair level of activity, albeit sporadic, within the office market. This activity has come off a very low base with the market still positioned at the bottom of the market cycle.

We have seen a number of sales particularly in the sub $2 million price bracket both in the CBD and located along arterial roadways. There have also been sales in the $5 million to $10 million price bracket in the CBD along with another iconic CBD office building which sold in an off market transaction for $16.6 million.

There seem to be a number of factors playing out in the local market with buyers looking to capitalise on vacancies while prices remain subdued, along with investors, owner occupiers and syndicates snapping up good assets based on quality and exposure. The strength of tenants is a factor which needs close consideration in the current market with office vacancy rates in the CBD remaining high and rental rates suffering downward pressure leading to increasing leasing incentives in order to attract tenants. There is a concern that current incentives are simply attracting short term opportunistic tenants into the market who will have little commitment to the longer term.

On a positive note, one of the office transactions that occurred over the past six months was purchased for an intended alternate use. The Department of Main Roads building was purchased for a reported $5 million for a proposed use as a 60 bed mental health facility. The effect of this alternate use is the removal of office space that would have otherwise added to an already oversupplied office rental sector.

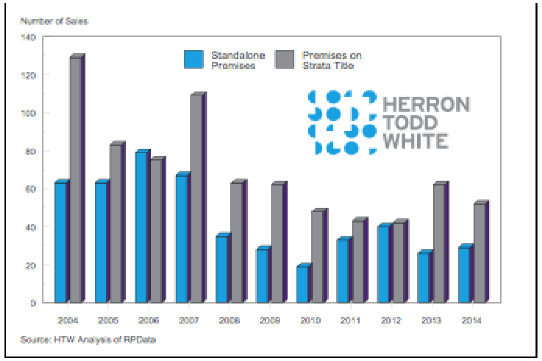
Although recent transactions indicate that the Townsville commercial market is on the national radar, overall activity is sporadic. We are expecting the commercial markets to follow the lead of the capital city markets where improvements are now underway, but local economic factors continue to hold back the market.

Cairns

The Cairns office market is relatively shallow with most properties being tightly held and experiencing limited sales activity. The market also experiences limited new development, with the last large office building constructed in Cairns being the State Government office tower completed in 2010.

Our chart shows the number of general commercial property sales in Cairns, inclusive of retail and commercial office premises. It highlights that activity in the Cairns commercial market remains well below the levels achieved in the 2004 to 2007 period, with the rate of sales over the past seven years averaging around 80 sales per annum.

Commercial Property Sales in Cairns



Most new office space leasing demand is for small areas of up to 300 square metres and for modern, good quality green star rated office areas. However there is only a handful of such buildings in Cairns. These buildings achieve high levels of occupancy and are experiencing stable rent levels typically of $350 to $400 per square metre per annum. Demand for lesser quality space remains limited and there is a large oversupply even of good quality non-inner CBD and well exposed secondary space. These conditions have placed downward pressure on secondary rents and have seen the emergence of incentives. There has also been considerable churn in the market in recent months, with a number of larger tenancies relocating to higher quality or purpose built premises.

There was little change in the Cairns office market during 2014 and we see no reason for the current situation to change in the near future.

Northern Territory

Darwin

The industrial market continues to demonstrate buoyant activity for both sales and owner-occupier development activity.

East Arm continues to enhance its location and investment profile as evidenced by the sale of 18 Mendis Road in January 2015 for a reported $4.3 million as part of a national portfolio purchase. The property is leased to MTU Detroit Diesel until March 2020. The sale equated to 8.42% or $2,389 per square of net lettable area.

Winnellie, Berrimah and Yarrawonga have a number of smaller industrial strata title developments generally up to 200 square metres in net lettable area under construction or nearing completion. The appetite by investors for this product is very strong driven by a low price point and the low interest rate environment. Our only concern is the limited leasing demand as many prospective tenants are preferring to be owner-occupiers.

Western Australia

Perth

2014 saw 31,000 square metres of office space added to the market. 2015 is expected to add 150,000 square metres or 8.5% of which 68% is pre committed. Approximately 63,000 square metres leased in 2014, down 57% from the 2013 level and from the five year average of 118,000 square metres. 65% of the space was leased in West Perth.

Net effective rents are $379 per square metre to $495 per square metre for A grade buildings, the average being $437 per square metre, down 15%, while secondary buildings are $261 per square metre to $346 per square metre. The vacancy level is expected to increase to 19.5% from 15% as at December 2014.

Face rents dropped 8.9% over 2014, back to the levels of 2011. Prime incentives increased in the last quarter to 30%, up from 25% in the previous quarter and up from 18% in the same quarter of 2013.

There was $343.9 million of sales recorded in 2014, down 80% or $1.702 billion in 2013 and down from a five year average of $1.045 billion (69%) decrease. Last year saw the third lowest amount of sales in the past decade. Foreign investors were the most active with 66% of sales to this market. There was one transaction in the last quarter, 14 - 16 Parliament Place, West Perth for $22.6 million.

Market yields in the CBD range from 7.5% to 8.75% for A grade and 8.75% to 10.25% for secondary grade buildings. There was no change in the average A grade yield in 2014 at 8.13%. High levels of supply in 2015 suggest this will soften this year. West Perth prime yields are at 8.35%.

Capital values range from $6,571 per square metre to $10,000 per square metre for A grade and $3,854 per square metre to $6,000 per square metre for secondary grade. There is no change in the average for A grade properties of $8,154 per square metre.

Unemployment in Western Australia increased from 5.2% in November 2014 to 6% in December 2014 against a national unemployment rate of 6%.

Western Australia is still the key driver of large scale resource projects with 53% or $141 billion under construction or committed and $98.6 billion of potential projects in the pipeline.

South West WA

The commercial property market in South West WA remains subdued with business being cautious due to the broader economic uncertainty and global economic volatility.

There have been a limited number of office sales transactions in the south west with prices generally stabilising during 2010 into early 2011. There have been limited sales since the latter part of 2011 to be able to gauge a clear pattern of values however weak demand in this segment indicates price softening. Most properties are tightly held which is helping to balance the market but extended selling periods are required.

There has been an increase in demand for good quality office space particularly from government departments within many towns in the south west, brought about by the lack of speculative development in this area over the past few years. This has put upward pressure on rental values of quality office space and although there have been few sales of quality office space it is considered likely that values will also increase.

Due to increased banking regulations and tightening margins, speculative developers have been very quiet. The majority of developments being undertaken and properties purchased now appear to be by those who have a use for the property.

There are high levels of owner-occupation in the area with the majority of sales activity relating to established property for use by owner-occupiers. The equivalent yield range identified from this type of sale is usually lower than that of investment sales.

Overall the quality office market can be seen as coming off the bottom of the cycle and is showing initial signs of growth.

Due to population growth and the broad economic diversity of the south west WA region, it stands poised to deliver strong economic growth in the long term which should underpin long term demand for commercial property in the area.

Residential

HERRON
TODD
WHITE
RESIDENTIAL

Overview

Who'd have thought interest rate cuts were on the agenda, however here we sit in 2015 and they've become a reality. This drop in the cost of borrowing will have varied effects on real estate across the country. Our Herron Todd White offices from all corners of the nation have come up with their go-to guide on where interest rate falls ill make the biggest impacts.

Sydney

The RBA reducing interest rates to a new record low of 2.25% (and markets pricing in a further 25 basis points cut to come) has appeared to have an immediate effect in the Sydney property market.

Many agents have reported bullish prices over the past two weekends (7th Feb and 14th Feb) with a notable spike in the number of bidders. This has been reflected in the 83% clearance rate achieved over the weekend of the 14th February and 81% clearance rate achieved over the weekend of 7th February compared to 70% the week prior (31st January) and 71% prior to that (24th January). Agents have indicated that the number of enquires increased almost instantly following the cut and are predicting a period of strong results in local markets.

The latest interest rate cut is expected to fuel the property market as prospective buyers decide they can afford to borrow more money on the lower rates. This in turn, can push prices as up as buyers bring their bigger purse to auctions. We expect activity in the market to be particularly strong in the sub $700,000 region as we anticipate a large number of low to middle income buyers will continue to help drive prices upwards, helped by the ever-present investors. We do not expect this to change over the short term and we anticipate this portion of the market will perform well over the coming year, especially with a further rate cut expected as early as March.

As the majority of the banks have already promised to pass on the latest cut, investors are expected to respond and continue to remain a dominant force in the market just as they were throughout 2014. Economists say lending to investors for residential property is now double the level it was in 2011 with housing loan approvals for investors currently accounting for a record high share of new loan approvals in New South Wales (increasing almost 20% as of the end of December 2014). A cooling off in the Sydney property market therefore is looking increasing unlikely, at least in the short term.

The future over the medium to long term however remains uncertain. One worrying fact is that rental growth has not increased at a level even close to the growth of Sydney property prices. This suggests that the involvement of investors appear to be speculative with many banking on capital gains

rather than attractive rental yields. It appears that this increased investor activity (speculative based or otherwise) is driving housing prices to rise faster than fundamental factors suggest they should in the Sydney market.

Factors including the aforementioned falling interest rates, continued strong presence of overseas buyers (fuelled by the falling Australian dollar), tax incentives and positive market sentiment, has seen unaffordability levels continue to soar in the Sydney market with home ownership becoming more unattainable for many, especially young people looking to break into the market. This unaffordability however has not yet appeared to have had a significant effect on the market with regards to a levelling off and we believe that as long as investor demand remains steady, the market will continue on its current path of strong growth. It appears however that this growth in Sydney housing prices is currently running at an unsustainable pace and that at some point, this further growth is likely to be met by housing price declines over the medium to long term, a correction if you will, especially when the inevitable happens and interest rates begin to rise.

Prestige market

The prestige residential market in Sydney is generally considered to comprise those properties with values in excess of $3 million. These properties tend to be located either within the eastern suburbs and eastern beaches, lower and upper north shore, northern beaches, with some waterfront localities in the southern suburbs, and the larger rural residential estates to the north-west areas of Sydney.

While we note the official cash interest rate was reduced to 2.25% in February 2015, being a new record low, we consider interest movements have reduced impact upon prestige residential market performance.

Generally, forces including the performance of the equities market, the state of global economic conditions, levels of business and consumer confidence, overall business conditions, and the value of the Australian dollar, are the strongest drivers of those high net wealth local and overseas purchasers investing in the Sydney prestige residential market.

The semi rural market

Lower interest rates and increased buyer confidence will continue to attract those looking for a lifestyle option on Sydney's fringe. As the metropolitan area continues to growth in the designated north west and south west corridors, traditionally acreage locations are being developed into residential estates and those that want to continue this lifestyle option are being forced further out.

Affordable interest rates make this a desirable option particularly for those that are looking to enter the semi-rural market for the first time and have capitalised on the bracket creep in a modern suburb. Price points are very flexible and will be determined by location; extent of arable land; standard of dwelling and scale of ancillary improvements from self-contained guest accommodation, stables aand sheds, outdoor living areas and privacy and versatility of floor plans.

Investors will look to opportunities in semi-rural villages particularly in the Hawkesbury and Blue Mountains as they are an affordable entry level for most and the returns will stay similar to more central suburbs given the tight rental market in these locations (Glossodia and Bowen Mountain), where traditionally a tenant in these locations will look to stay for a medium to long term.

Wester Sydney

The recent interest rate cut has maintained consumer confidence and has so far kept up the strong demand seen in 2014. Demand is still vastly outstripping supply and if the market conditions in the early stages of 2015 are anything to go by then the western Sydney property market looks set for another strong year.

As the inner and middle ring suburbs become more and more out of reach for the general house hunters prospective buyers are looking for cheaper alternatives but still want to maintain a similar standard of living. Residential dwelling approvals are at an all-time high indicating that the strong demand for these areas does not appear to be slowing down.

The positive market conditions coupled with the commencement of the much needed North-West Rail link is making new release areas within Riverstone, Marsden Park and Kellyville affordable options for first home buyers looking to build their dream home in a familiar location.

The south west counterpart, particularly the Liverpool and Campbelltown LGAs has seen increasing demand as another affordable living option to the south west. The rail link approval of Badgerys Creek airport will improve accessibility to the region and promote job growth which will only increase this demand.

Another key area of focus in 2015 is Parramatta. Parramatta Council has a clear long term vision for the future of the now labelled Western Sydney CBD. It will comprise of a core residential and commercial precinct with further enhancements to existing infrastructure including the Western Sydney University, Westmead medical precinct, Parramatta Stadium and the currently under capitalised Rosehill and Camellia precinct are all primary focuses for the project. With a central location, strong rental demand and future growth potential Parramatta and its fringe suburbs are always a popular choice for the astute investor.

Overall we consider the western Sydney market to be strongly positioned. While heavily reliant and sensitive to the economic client, confidence is currently high and buyers are willing and able to borrow at a greater capacity keeping the property market in a strong position. The biggest question of 2015 is how long the market will maintain these strong conditions. Those highly geared will be affected most when interest rates increase.

Canberra

The Canberra residential market is complex with many factors interacting to affect demand, supply and ultimately price. On a macro level, the Canberra residential market aided by historically low interest rates has a number of underlying positives including generally strong employment and a perception of good job security.

Near record low interest rates and low unemployment levels have resulted in continued strength in the ACT economy and property market, particularly the residential sector. Despite market uncertainty in the lead up to the September 2013 Federal election and the subsequent restructuring and downsizing of the Australian public service in late 2013 and early 2014, the ACT property market and the broader economy have remained resilient.

Recent rate cuts are expected to boost the property market at all levels for both owner occupiers and investors. The sub $750,000 housing market is expected to receive the most positive change as the cuts are likely to positively impact buyers in this market sector the most. The prestige housing market is expected to remain steady, however we have seen strong recent sales activity in the $2.5 million plus housing market. Some improvement is expected for the unit investor market as cash becomes cheaper, however high supply levels remain a concern. The high supply levels have meant unit landlords and investors have had to adjust rental expectations in line with the market to avoid vacancies. This rental trend is expected to continue. Overall, there is depth in Canberra's residential market and it is seen as one of the strongest markets in Australia. A negative aspect however is the limited population growth.

The impact of Mr Fluffy asbestos contaminated homes and the eventual removal of these properties from the market will have a positive effect on the broader ACT economy and increase demand levels for housing in the mid market point. Accordingly, demand for residential property is set to increase.

Given current stock levels both for sale and rent, softening dwelling commencement numbers and increased demand levels, we anticipate the residential market in the ACT to tighten over the short term and prices to firm.

Small segments of the market including units along the Flemington Road corridor in Gungahlin are expected to remain soft plus those properties situated in less sought after locations or providing inferior accommodation.

Illawarra

The Illawarra property market has continued to progress well into the new year and continues to record strong sales activity due to the continued low interest rates.

Demand is still outweighing supply in many areas and the low interest rates are creating a competitive market environment. Agents are advising that many properties are selling for asking or above asking price, often prior to auction. The most difficult process for agents at the moment is obtaining listings to sell. Moreover, there are no real signs that certain sectors of the market are beginning to soften and slow. Competition between buyers is strong and often recent sellers are finding it hard to secure a new property that matches their expectations in terms of quality, location and price. .

When the market softens, as we know it will, it's often the unique rural residential and top end properties that historically are the ones that will be hit the hardest.

It's also the popular in vogue suburbs where the boom cycle is being experienced that is affected most.

Buyers are currently paying a premium for these suburbs, most notably older renovated homes located close to the beach and Wollongong CBD. Valuers are also noting that investors are paying top price for new units in the Wollongong CBD where some are using their super funds to acquire the purchase.

Modern new duplex homes in Flinders and Shell Cove are also achieving strong sales as buyers are paying high prices for obtaining new properties in these areas. These sale prices might not be achieved in the future once the home is no longer in new condition. With more large unit residential developments planned in the Wollongong CBD in the near future and an abundance of supply in the new estates of Flinders, Shell Cove and Brooks Reach Horsley, these sectors may feel the effect once the market softens.

There are not many poor performing suburbs at the present time, indicating how good market demand actually is.

The best performing suburbs in the Illawarra area at the moment appear to be in the north, starting at Fairy Meadow, Towradgi and East Corrimal but we are also seeing more top end sales in the northern beaches around Thirroul. In the south it's the established suburbs of Shellharbour, Windang and Warilla that have achieved significant increases in value. These, together with Kiama to the south, experienced a serious uplift in prices in the past 12 months.

More and more we are seeing investors entering the market and pushing up prices often at the expense of first home buyers, who are slowly being pushed out of the market for standard dwellings close in. Investors are also using their superannuation to purchase property.

Overall we see a steady 12 months on the horizon, buoyed by low interest rates. We do however caution that if unemployment increases in the area, growth will certainly be pulled back and from our experience and observations over a number of property cycles, it is the upper end property values that get hit hardest.

Southern Highlands

The Southern Highlands residential property market has seen a strong start to the year, with keen market activity closer in to the town centres of Bowral, Moss Vale and Mittagong in the $750,000 to $1.2 million bracket, which has been trading briskly with short selling times. Buyers are a mix of retirees coming off larger land holdings within the district, or from Sydney and Canberra as well as families moving within or into the area. The preference is for smaller blocks within close proximity of established infrastructure. For the year ahead, we anticipate this trend to continue. The rental market in the Highlands has increased over the last 12 months and remains brisk.

There continues to be solid demand for vacant land and house and land packages throughout the Highlands region. New construction is mainly concentrated in the Renwick-Mittagong precinct and on the outskirts of Bowral and Moss Vale with new house and land packages in the $450,000 to $650,000 range. With the historically low interest rate environment we would expect this trend to continue for the current period.

The prestige upper end of the market (over $3 million) is best described as fragmented, albeit with an increasing number of sales being recorded in the region over the past six months, driven in part by purchasers from Sydney and vendors meeting the market. These properties typically comprise larger land holdings of 10 hectares plus located on the outskirts of the townships, appealing to the rural residential lifestyle market.

Southern Tablelands

The market in the regional city of Goulburn was stable throughout 2014 and we expect it to remain steady throughout 2015. The Crookwell Village and rural residential property markets have also been stable and we predict these markets to also remain steady throughout 2015. The rental market in Goulburn declined slightly over the course of 2014 as some tenants have returned to the Canberra area.

Dubbo

The Dubbo residential property market continues to remain strong after recent interest rate reductions. There is still strong demand for residential property up to $400,000 from both investors and owner occupiers and strong demand for vacant residential land. Medium density and unit developments are still very popular and selling within shortened marketing periods and often prior to advertising.

We have also seen some strong rural residential sales in early 2015 which could be attributed to the interest rate reductions and increased affordability in this price bracket. A 25 acre property at 14L Angle Park Road, Dubbo sold at auction recently for $872,000 with ten registered bidders. This was a strong result and shows there is still demand for good quality rural residential properties with a reliable water supply.

However there have been very few high cost sales for prestige residential dwellings and this price bracket (above $500,000) seems to have plateaued. Properties with golf course frontage are still popular and highly sought after as are properties in Regand Park Estate. Interest rate reductions may increase demand in this sector in coming months but we have not seen any impact so far in 2015.

Bathurst/Orange

It is clear that even the major lenders have swung from a risk and caution approach to a profit and volume approach when valuers are being spruiked as potential mortgage referers. "Oh wait, I understand there may be a conflict of interest, but what about your partner, your friends... do you have a cat?" Sell, sell, sell! Interest rates have never been lower, but are the recent reductions in the interest rates seeing anyone beating a path to their door west of the Great Dividing Range? What if these graces being bestowed upon the public do not find traction? Will they be like a bride left at the altar?

Perhaps the last time there was a similar vibe from lenders was around 2008. Anecdotally however, the vibe among potential borrowers in the region seems to have become wary of the benefits of the linguistically plausible yet potentially flawed position of a high debt to income ratio. They may not be seeking to borrow as much as previously, if at all. Grandmothers across the country have sensed the receptive ears of an audience once lost to easy money and are extolling the virtues of saving for that desired item rather than buying it on credit, although that's an almost impossible feat to do for a house these days. Depending on your perspective they may be more damaging to the global credit economy than Mr V. Putin. So how does this translate to the property market in this neck of the woods?

Quite possibly it may be a case of who cares that the interest rate is now 2.25% and not 2.5% or 3% or 4%. It has been so low for so long now and experts are suggesting it will continue to remain low for some time to come, so why the rush? Speculative investment in residential property in this region is not anywhere near the levels in Sydney for example. When there has been increased investment it has typically correlated to other factors such as employment, most recently experienced during the mining boom. Values also rose and have accordingly settled to levels more consistent with prior to the boom, along with levels of investment. It is interesting to note that interest rates were higher during that time than they are now. Speculative investment appears to be the main driver of the Sydney market at present with recent auction rates above 80%. This region is less affected by such investment from various sources and will continue to be dominated by the domestic owner-occupier market, which is typically much more price sensitive.

Property values continue to be more aligned with traditional attributes such as location, size, quality of construction, utility and surrounding development, attributes which may be becoming less important considerations in the Sydney market.

This is because there are so many more options available to purchasers in this region. Shop around and you may be surprised what money can buy. But with interest rates set to fall even further, grandmothers across the country may yet face some stiff opposition from the temptation to buy, buy, buy!

NSW Mid North Coast

The latest interest rate cuts have again fuelled market demand in the residential sector, however this has yet to be converted into sales volumes. This is mostly due to the current lack of stock available for sale on the Mid North Coast rather than any hesitancy by prospective buyers. Agents are reporting strong enquiry and buyers are regularly competing for the same properties.

Our market has been bullish for several months now, although Christmas was its traditional slow period. We have noted in recent reports that both sale rates and values have been increasing across the regional centres including Port Macquarie, Taree, Forster/Tuncurry and Kempsey.

The lower rates have also increased consumer confidence. We continue to see investment properties and mid-value properties ($300,000 to $500,000) in high demand, with limited stock and rising rentals continuing to fuel investor demand. The lower interest rates will only fuel it further.

These historic low interest rates are continuing to increase demand across the residential market, albeit in the low to mid range properties ($300,000 to $600,000). The higher value properties and high end investment units and properties have continued to remain slower, although we are starting to see slight increases in demand and possible shortening of selling periods in these market segments.

As always, the danger of extremely low interest rates is how investors and purchasers factor in future interest rate rises. We feel that any interest rate rises are some way off and general market increases and increased rentals may somewhat offset interest rate rises and increased loan repayments in the future.

In summary, we expect the latest interest rate cut to continue to fuel our market further and we remain positive and optimistic for 2015.

Newcastle

Getting straight to the heart of the matter, interest rates have been cut (at the time of writing) for a couple of weeks now and the volume of valuations we have undertaken has increased substantially in that short period. If that is an indicator of market activity surging, then we have seen activity significantly increase in a short period of time. If it's not an indicator of that, then this is probably a waste of a perfectly good introductory paragraph.

Digging a little deeper however and we note that the increase in volumes came off the back of a fairly sluggish January period when school holidays reigned supreme and people seemed nice and relaxed after a hectic end to 2014. Volumes are traditionally low in January so it may be a false reading to suggest that interest rates have increased demand significantly. It may be that the January lull finished at the same time as the interest rate decrease.

Talking with agents around Newcastle, the familiar theme is that stock is still difficult to come by with well-priced dwellings selling in a heartbeat. It is noticeable that poorer quality stock is still meeting with resistance and the age-old philosophy of correctly pricing your house is so important, it does not matter if the market is flying or conversely crashing. Optimistic asking prices simply make it easier for potential purchasers to gloss over your house when surfing the net. You don't want to lose that freshness to the market that attracts purchasers like teenage girls to a One Direction concert.

The recent drop brings interest rates to all-time historic low levels and prior to this drop they have remained extremely stable for a considerable period of time. It may stimulate some activity in the sluggish Hunter Valley areas although it is hard to see this becoming a trend without the required improvement in general macro-economic factors. Given that the Reserve Bank usually only decreases interest rates in a sluggish and under performing economy, it is unlikely to lead to increased speculation from any but the most audacious (we could have used many descriptive words here, this was deemed by general consensus as the most positive and generous) investors. The usual caveats here apply with the improvements in resource prices, the Australia dollar and the employment outlook all potentially helping the Hunter Valley to rebound.

Low interest rates are likely to help the holiday focused areas of Nelson Bay et al, Hawks Nest and Tea Gardens. Both these locations (only a few kilometres apart as the crow flies, much further by car) have been steadily picking up steam over the past 12 months or so. This appears to be on the back of the holiday buyer becoming more prevalent and competing with locals for stock. Noticeably Sydney buyers are looking for beachside holiday spots within a two to three hour drive from Sydney and are finding what they are looking for at much lower prices than are on offer in and around Sydney. The danger is when the market turn sour, the first property that goes is the holiday home and as such Hawks Nest and Nelson Bay properties are subject to a shorter, sharper boom-bust cycle. This should always be considered when investing in spots that are reliant on tourist income and visitors to the area.

The danger with interest rates being as low as they are at present is that they inevitably increase. How will purchasers (especially novice purchasers with limited experience of fluctuating rates) cope with the rising interest payment burden? If enough invest at current levels and don't factor in potential increases, then a world of hurt could be coming to the market in the shape of debt defaults and mortgagee in possession sales. As always, it will take a while for this to play through the market.

Victoria

Melbourne

The RBA has recently cut interest rates 25 basis points from 2.5% to 2.25% after 16 months of stability to a low not reached since 1959. This will affect the Melbourne property market in a variety of ways. Currently the property market is performing well with steady growth across the board in Melbourne. RP Data shows that Melbourne property prices have increased 8.1% over the past 12 months.

By lowering the cash rate this month, the RBA has the ability to influence housing market prices and household property investment. This can encourage greater consumer confidence and willingness of lower to middle range income earners to take out mortgage security loans. This appears to be working as research by the Housing Industry Association indicates that 2015 will see substantial growth in new home construction, especially in the early months.

An interest rate fall allows borrowers to feel more confident when borrowing money as their monthly bank repayments would be lower or the amount they borrow could be increased. First home buyers would also be encouraged to enter the lower end of the property market and therefore create more demand, which in turn can drive property prices up. The lending market would also become more competitive, offering better loan packages as lenders try to attract their share of any increase in borrowing. This results in the cost of money becoming cheaper and property values rising.

The greatest benefit of interest rate cuts will be seen in the lower end of the property market. As interest rates are gradually lowered, the Melbourne property market will initially see an increased investment in outer suburban areas of Melbourne such as Craigieburn, Mickleham, Mernda and Doreen. These suburbs are at the medium to lower price point value, with a current median sale price of houses in these suburbs of $350,000. People living here usually have mid to lower income levels, for example, 19.9% of Craigieburn households earn between $52,000 and $78,000, and would therefore receive more relief or encouragement to borrow when there is an interest rate cut. Outer suburbs such as these consist of modern conventional homes that are master planned and mass-produced by large building companies. The more people who decide to buy or build a property due to the interest rate cut, the larger the growth of property prices in these suburbs.

Inner city properties containing higher value properties will be significantly less affected by interest rate cuts. The inner north such as Parkville, Northcote and Brunswick will not show as much change in consumer confidence or property investment as those in the outer suburbs from the interest rate cut. The inner suburbs are at the medium to higher price point value with a current median sale price of $1,077,500. Generally, those who live closer to the CBD and own their residential dwelling have a higher income, for example, 20.5%

of Northcote's households earn between $78,000 and $130,000 per year. With these higher income levels, Parkville and Northcote residents generally own higher value assets such as period or modern dwellings with higher land values. As a result, the downward movement of interest rates isn't going to have as large an effect on these households. Cuts to the interest rate would only ensure that consumer confidence remains solid and that properties continue to have steady to moderate growth.

Many types of investors exist within Melbourne's property market including property syndicate funds, foreign investment and owners looking to negatively gear. All investors receive encouragement from lower interest rates although different categories of investors will be affected to different degrees. The RBA lowering the interest rate will boost the already strong number of overseas investors in the Melbourne property market. The RBA's announcement also results in a downward moving Australian dollar, falling more than 1.5% to below US$0.77 making foreign investment more attractive in our country. We will see greater property investment from owners looking to generate income from negative gearing benefits.

Property syndicate funds are less affected by the rate cuts as investor numbers and the amount they invest aren't affected as greatly by the RBA's decision.

Ballarat

The latest cut in interest rates from the RBA will have a positive effect on the Ballarat residential market, mainly in the sub $400,000 section. Participants in this section of the market historically have the highest loan to value ratio and as such will be most acutely affected by a change in the cost of their mortgage. Less affected sections of the market are the prestige residential and rural residential areas, due to their generally lesser loan to value ratio and fewer market participants.

The rate cut will also have a positive influence on the investor market as decreased costs of capital transfer into larger returns without increases in rents.

Gippsland and Latrobe Valley

It is still too early to see if the recent interest rate cut will affect the Latrobe and Wellington shires. There has been an increase in sales activity In the past three to six months from Sale through to Traralgon and into Warragul, however prices have remained similar to that of 2012 levels.

Rents remain strong throughout Latrobe Valley while rents have increased in the Sale and Maffra area due to increased employment and higher demand.

Rate cuts in recent years have not really had a major impact on these markets. However discussions with local real estate agents indicate that these low rate cuts may see a stimulus in the market. It is definitely a wait and see approach.

Baw Baw Shire

The rental market has been stable with average rents around $280 per week for older stock and $300 to $350 per week for newer dwellings depending on size and location. The interest rate cut is not expected to have much impact on the rental rates around Baw Baw.

First home buyers are likely to be lured into a mortgage with lower repayments. It has been mentioned recently in the media that some lenders have returned to 95% loans, which can give those starting out a greater chance to get that first property with a lower deposit.

An additional rate cut is expected in 2015 or 2016 which should make the market slightly more attractive to upgraders as well.

In saying that, property prices are expected to remain stable with low percentage increases over the coming 12 months.

East Gippsland

East Gippsland markets experienced an increase in sales activity in the latter part of 2014 and continuing into 2015. Prices are remaining flat in generally well traded areas and properties are selling in areas which have been subdued over the previous few years where vendors are meeting the market. Buyers are still getting good value for money.

The low interest rate environment may be helping sales levels. The market has stabilised and early signs of recovery are evident however prices have not yet responded.

A number of recent residential subdivisions has seen increased house and land packages being acquired, such as Shannon Waters Estate on the western fringe of Bairnsdale. Sales within these estates are expected to remain steady throughout 2015 as building companies offer competitive house and land packages.

Warrnambool

As a result of the latest interest rate cuts by the RBA, the Warrnambool property market should respond positively, especially in the mid-range (under $350,000) sector of the market which accounts for the majority of current transactions. This sector comprises investors who will take advantage of the lower interest rates on offer as well as first home owners and young families who generally have a higher loan to value ratio. Top end residential and rural lifestyle properties will be the least affected sector mainly due to the security of most purchasers.

Horsham

When looking at general market levels of demand and supply, values and vacancy in Horsham and the Wimmera, the recent interest rate cut is likely to go relatively unnoticed. But under the surface the recently subdued market was displaying signs of softening with a reduction in sales numbers and very little demand for properties over $500,000. The recent interest rate cut is likely to improve demand from those prospective buyers who have been holding off which in turn is likely to steady the demand and number of market transactions at the current rate. The number of transactions of residential homes is likely to remain low in coming months with limited price movement. The first home buyer market in the $200,000 to $300,000 bracket is likely to be the strongest performing market in coming months with some renewed interest from investors as a result of the rate cut.

Mildura

The residential market in Mildura started to move up in early 2014 after a prolonged period of stable prices. This upswing is attributed to improved confidence in the economy combined with a low interest rate environment. The recent announcement of a further interest rate cut is likely to maintain the existing momentum.

For owner-occupiers the impact of the rate cut is considered minor. The average home loan required to purchase a dwelling in Mildura is lower than in capital cities and while buyers will no doubt appreciate the peace of mind gained from the cut, the financial impact of a 0.25% variation is relatively minor.

The interest rate cut may however provide additional impetus to investors, particularly those who become disenfranchised with the low interest rates available for term deposits. Returns from residential investment properties compare favourably with those available from more passive investments and it is considered likely that some new investors could enter the market.

Homes in the $225,000 to $350,000 range and units in the $150,000 to $225,000 range are considered to provide the best combination of rental return and ease of management and we would see these segments as being the most likely to come under investor attention.

Homes in the over $350,000 bracket are more likely to appeal to owner occupiers and are considered less likely to be impacted by the move in interest rates.

Queensland

Brisbane

Last year was healthy. About 6% across the board with inner areas doing better, but outer suburbs not so well. Overall though we are a capital whose recent property history has been relatively unhealthy. Apart from post-GFC hangover, our 2011 flood and other moments of failing to fire meant many expected a hot, hot run in 2014. It didn't quiet pan out that way, but there is positive momentum that lays a foundation for 2015.

Buyers shouldn't expect Brisbane to perform like Sydney – it just doesn't. We've had our years of 20% growth but it's highly reliant on interstate and overseas migration as well as strong employment prospects and general economic good times. Our cheaper buy-in prices are, however, attractive for those looking to get into a capital city, so there's still plenty to offer here.

Overall, we're saying Brisbane property owners should expect to see the number of sales and other general activity to continue along the same lines established by the end of 2014. Translation – look to our long term averages and you'll be about right for 2015.

New construction is expected to be buoyant for both house and land packages and units. The building industry is being touted as an employment savior that can pick up the slack of mining industry layoffs, after all.

In terms of suburbs on the go, the 'ripple effect' appears to be well underway. Inner and near-city suburbs saw attractive gains in 2014, so it's time for suburbs further out to start shifting as affordability close in becomes more of an issue. Mid to outer suburban areas are now experiencing a pickup in buyer demand, or more specifically, entry level property within these locations. Investors are certainly keen to stay ahead of the wave of course, and there's interesting infrastructure underway to help drive gains. The train line extension to the Redcliffe Peninsula is a case in point. For this reason, try looking a bit beyond the currently growing mid ring suburbs if you want to shore up equity gains this year. Those affordable markets should put on a respectable performance over the coming year.

As for the inner city hotspots, they seem to have hit a sustainable level of price growth that should continue over the next 12 months – once again long-term averages are your guide.

Our strongest caution for those looking to invest in 2015 is to watch out for unit stock. Specifically poorly designed investor grade product – there will be a lot of it coming on line and if the developers only thought is to offload end-product quickly without considering their projects ability to maintain value over the longer term, then those who buy are in for grief. Overall, buyers need to be conscious that this market is experiencing significant uplift in supply over the next one to two years at a time when the

vacancy factor has already increased and interstate migration is still languishing. This could keep the overall market relatively honest because there's potential for the new unit supply to draw on the suburbs to some extent plus new house and land construction.

Until the time comes when the southern states see the light and interstate migration kicks back in, expect modest gains from our sunshine state capital.

Toowoomba

Interest rate cuts look set to encourage the stability but not increase the momentum of the Toowoomba residential property market in the early stages of 2015. With interest rates already at a low base, the effect of further rate cuts is unlikely to have a significant impact on values and activity.

There are early signs emerging of an oversupply of investment housing and units in Toowoomba with the vacancy rate nearing 4%, having increased from around 1% in early 2014.

With this in mind and in line with the easing market activity recorded towards the end of 2014, it is predicted that the sub $450,000 price point encapsulating the median price point of approximately $350,000 will remain the most active due to its affordability and broad appeal to owner-occupiers as well as investors. This segment is expected to continue to represent the broadest segment of market activity for the remainder of the year irrespective of rate cuts.

It is likely that investor activity will also remain consistent with that seen towards the end of 2014, as although there continues to be considerable hype surrounding the Toowoomba residential property market as an investor hot spot, there are reports of easing interest, particularly from absentee investors. Rate cuts may reduce the impact of any consequent weakening in this sector.

As for owner-occupiers, especially those located in the more established eastern suburbs of East Toowoomba, Middle Ridge, Mount Lofty and Rangeville, while rate cuts offer assistance, consistent growth in line with pre rate cut predications is expected.

Overall, interest rate cuts are not likely to have a significant effect on sales volumes and prices. However, these cuts will motivate the market to maintain current levels of activity.

Gold Coast

In general, market conditions are slightly softer now than at the end of 2014 and we may be suffering a bit of a post-Christmas hangover. We are yet to see a flow on effect of the recent interest rate cut on the property market however it is still only early days. We can only assume that market conditions will pick up in the coming weeks as interest rates are at an all-time low, everyone is now back at work after the Christmas holidays, kids are back at school and hopefully the wet weather of recent weeks will have passed.

2014 was a good year for the whole Tweed Coast property market. We saw an increase in buyer activity across most market segments which led to an increase in values for most properties priced under $1 million. 2015 is shaping up to be just as good with many local real estate agents reporting limited stock on their books, having sold most properties last year. This is in contrast to areas in the Tweed Valley including Murwillumbah where market conditions remain slow. These areas have not yet felt a flow on effect from the coastal areas.

At the southern end of the Coast, the key areas for investment will likely be Tugun, Bilinga and Coolangatta in the under $600,000 price range. These areas have not yet seen the same growth in value levels as say Palm Beach and Burleigh and are areas for both owner occupiers and investors due to the proximity to the beach and airport and generally strong rental returns.

On the central Gold Coast we have seen an increase in positivity in the local property market since the rate cut but probably more so in the prestige market ($1 million and above).

Broadbeach Waters has been one of the best performing suburbs on the central Gold Coast in the past six months where values for waterfront properties have firmed considerably over the past 12 months, particularly for property priced below $1 million.

Further north first home buyers have targeted suburbs such as Southport, Labrador and Ashmore around the $400,000 to $500,000 price point. These areas provide a good standard of amenities including schools, recreation facilities and substantial retail precincts and relatively easy access to the beach, Southport CBD, Gold Coast Hospital and north and south bound M1 motorway and electric rail. Generally speaking, it appears anyone who has bought and sold a house in these areas in the preceding three years has been able to turn a profit.

We believe that investors will become more prevalent in the property market on the Gold Coast in 2015 as the cost of money has become cheaper and rental returns have increased. We have been advised by various property managers that rental levels have increased over the past six months with an undersupply of rental properties in most areas. This has led to large numbers of prospective tenants turning up to open homes with multiple offers to rent on each property.

Some advice for investors would be to steer clear of areas which saw considerable growth in value levels in 2015 (Burleigh, Miami, Mermaid Beach, Palm Beach, Broadbeach) and look further afield.

Overall, the property market on the Gold Coast is tracking along okay. We are yet to see the activity in the beginning of 2015 that we saw towards the end of 2014 however with the recent interest rate cut and talk of another cut in the next few months, we can only hope that things will pick up in the coming weeks.

Sunshine Coast

The power of interest rates giving the market a push along appears to have reduced. Saving a few dollars on a home loan is hardly going to be the driving force behind buying a property. There are other factors that come into play prior to making this long term financial commitment.

Amenity and affordability of an area are considered, but the big one for all of us continues to be employment and income security, plain and simple. Without these, buying a property is the furthest thing from your mind. That is why the deeper question should be whether the property is in a region where there are works underway to promote employment growth and income security thereby creating an environment for home ownership. We believe that on the Sunshine Coast the answer is yes.

We look at two big factors locally.

The new Sunshine Coast University Hospital will be a game changer. This will create a new layer of employment on the coast that has typically been dependent on the tourism and construction industries. Some of the numbers around the hospital are that it will open in 2016 with about 450 beds and about 3,500 staff, with the ability to grow to over 738 beds with about 6,000 staff. An injection of this magnitude into an economy the size of the Sunshine Coast will have a major positive effect.

The second factor is a local government that appears to be doing its best to promote the region and provide an economic strategy for growth into the future. Some of the projects such as the Maroochydore CBD and enhancement of the Sunshine Coast airport are steps in the right direction. The big challenge moving forward is being able to grow at a sustainable rate and not adversely impact the environmental and community benefits that we currently enjoy.

Hervey Bay

Agents in Hervey Bay have been reporting good steady activity of late with demand mostly prevalent for stock in the sub $450,000 range. This interest is from a wide spectrum of buyers from interstate, local and intrastate locations. Buyer profiles vary, however investor activity does appear to have increased, with steady sales particularly for house and land packages. The further lowering of interest rates is likely to provide further confidence to current market sentiment which is increasingly optimistic overall. Rental demand remains strong with low vacancy rates across all areas.

Gladstone

In early 2015 investors appear to have largely retreated from the Gladstone market. Potential buyers are therefore mostly owner occupiers who are made up of a mix of first home buyers and people who are upgrading. The recent interest rate cut is likely to spur on the current higher level of activity we are seeing for existing housing. Sales volumes have increased moderately over the past few months as property values stabilise to more realistic values.

On a positive note, vacancy rates for conventional dwellings have fallen over the past few months and there appears to be reasonable demand for rental accommodation.

The markets for vacant land and units are still weak with a very low level of demand and oversupply in both market sectors.

It will take more than an interest rate cut to start seeing improvements in these markets.

Despite the increased activity in the market for existing housing, we consider it a possibility that there will be a further (possibly significant) market correction in the next 12 to 18 months over which time all LNG construction work will cease on Curtis Island. The exact effect this will have on the residential market is unknown.

Bundaberg

The residential market remained steady throughout 2014 after some areas of Bundaberg flooded in January 2013. These flood affected properties did sell at substantial discounts from their pre flood values. Fully renovated flood affected properties coming onto the market now are beginning to realise higher values almost two years after the 2013 floods, however these levels of value are still less than pre flood values.

Sales volumes increased in the latter half of 2014, but values have remained static with most activity being in the sub $350,000 range.

Rentals appear to be stable with a standard 3-bedroom house averaging $290 per week and a 4-bedroom house averaging $345 per week. Vacancy rates are about 3%.

Confidence appears to be growing with the current low interest rates, federal government incentives and low vacancy rates encouraging both first home owners and investors to remain in the market during 2014 and into 2015. If you are in an older style timber dwelling with detached garage, you would probably be looking at taking the step up into a 3- to 4-bedroom brick with attached garage.

Suburbs where you might start if your budget is tight would be Thabeban. Here flood free, under ten year old homes can be found for high $200,000 and low $300,000 and would have you in a modern 4-bedroom, 2-bathroom home with attached double garage.

From there you might look in Kepnock, Kalkie, Avenell heights or Avoca for 15 to 20 year old dwellings at about $300,000 to $350,000.

These suburbs are all close to the centre of the city, shopping and healthcare. Bundaberg is only a 10 to 15 minute trip from one side to the other.

If you wanted a sea change, Bargara is only a 15 minute trip from Bundaberg and prices there start at the low $300,000s and rise according to proximity to the beach. Prices have been stable in the region for the past couple of years and we consider that prices will remain stable for the next five years.

Rockhampton

In the Rockhampton region, the recent interest rate cut handed down by the RBA is welcomed however it is considered unlikely to significantly impact on our local markets.

Given the recent job losses in the Bowen Basin mining industry and associated service industries, job security and buyer confidence is at lower levels than recent years. Therefore, the lowering of what were already low interest rates is not expected to have any short term benefits to our market generally.

With that said, there are some market sectors that remain fairly stable in the Rockhampton region, mostly better quality suburbs attracting owner occupiers under favourable buyer's market conditions. This is the main sector likely to see any benefit in the recent rate cut and able to act accordingly.

Another market sector to consider is first home buyers. This market sector is likely to seriously consider rental expenditure verses mortgage repayments and find themselves financially better off entering the property market. That said, while interest rates are currently low, they will increase in time, therefore budgeting for a higher level of interest is necessary.

The reduction in interest rates may prompt some local investors who know the area well and are in a financial position to invest further to capitalise on the opportunity for a higher return than that currently available from term deposits. These property types and price points would include run of the mill housing in average suburban localities up to say $350,000.

This recent rate cut may benefit our region over a longer term as home loan borrowers are able to save some extra cash reserves in the short term resulting in increased buyer confidence in the future.

Mackay

So, will the Reserve Bank's decision to reduce interests to historic low levels have a major impact in the Mackay property market? We believe it will have an impact, not on potential capital growth but more a stabilising effect on a volatile and reducing property market. The Mackay market has been through the wringer in the past 12 months, both on house prices and the rental market.

We think the reduction in interest rates may improve confidence in the market, however at reduced levels to the peak of two years ago. Agents are reporting increased enquiries and greater sales volume, however at reduced sale prices. The biggest effect we think will be in the rental market with landlords facing huge pressures from falling rental levels and higher vacancies. Rental values are down by up to 30% and higher in some areas, with vacancy rates blowing out to 8% and higher in some pockets. The reduction in interest rates may alleviate some of this pressure and allow landlords to hold on through this period.

As stated in previous Month in Review articles, everything hinges on the coal mining industry in the Bowen Basin and its flow on to service industries in Mackay. While interest rate reductions will definitely help the Mackay market, the recovery of the coal price and mining industry is what is required as a catalyst for any improved market conditions.

Townsville

Our residential property market remains at the start of recovery phase with positive vibes surrounding the market, however the lingering high unemployment levels and job security remain a restraint.

Over the past 12 months on the back of record low interest rates and subdued market conditions, activity remained slow and we believe that the most recent cuts in interest rates will provide little stimulation at a local level with economic factors still being the main driver of our market.

With median price points soft and record low interest rates, now is a good time to buy, however there are still market participants out there thinking "Will they go lower? Will I wait?" In our opinion, it is the buyers with money saved that are most likely to benefit from these lower rates and the current depressed market conditions. These are most likely to include investors looking to enter the market or expand their property portfolios.

Another sector where we have seen some anecdotal evidence of taking advantage of these lower rates is the renovator market. The ability to borrow funds at low levels is enticing home owners who have been wanting to renovate to take that leap.

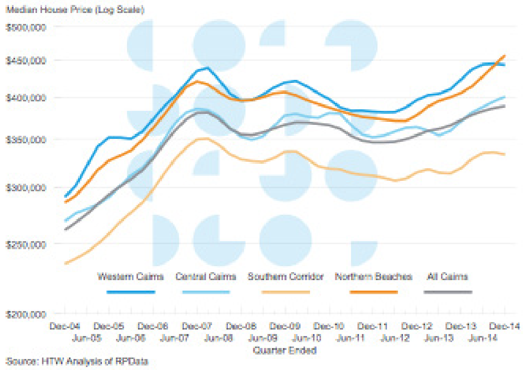
Overall the impact of low interest rates is not currently having any dramatic impact on the market and until our local economic conditions improve this is likely to remain status quo.

Cairns

Interest rates aren't a big determinant in the Cairns market. Though lower interest rates help, the prime influences on people's buying confidence in Cairns are the state of the economy, affordability and job security. As the economy continues to slowly recover during the course of 2015, these will all contribute to driving property in Cairns over the next 12 months.

We keep saying that the property market recovery to date has not been uniform across Cairns and here's the proof. Recovery to date has been strongest in the northern beaches where the median house price has risen 22.3% over the period from the December quarter of 2011 to the December quarter of 2014 and is now 8.7% above its 2007 to 2008 peak. At the other end of the scale, the median house price in the southern corridor has risen by only 7% over the same period and remains 5% short of its 2007 to 2008 peak. Median house prices in the other two areas of western and central Cairns have risen by 16.1% and 13.8% respectively and have both moderately surpassed their 2007 to 2008 peaks.

Cairns House Prices



We expect these trends to continue during the course of 2015, though with some intensification in the southern corridor as the ripple effects from the other areas flow through. Interest rate reductions will support this process, but by no means be the primal cause.

Residential

South Australia

Adelaide

It is interesting that for much of last year while the interest rate remained on hold it was speculated that the first movement would indeed be upwards and it wasn't really until the end of the year or even early this year that the pressure began to mount on the RBA for in fact a rate cut, and so on the first Tuesday of February, 0.25% was wiped off the cash rate with most banks and lending institutions passing on the full quarter of a percent reduction.

With Adelaide's residential property market remaining somewhat cautious in the wake of the 2010 to 2012 market downturn, a rate rise would possibly have had a fairly noticeable impact on the local market and the feeling was that all of the positive improvements over the past two or so years, such as increasing sales transactions, reducing number of days on the market, decreasing vendor discounting and auction clearance rates being consistently above 50% could come to a grinding halt, but the really good news is that for the time being, we don't have to worry about this occurring, phew..... So where to from here?

Overall we don't believe that this rate cut will make much of a difference to our property market as it currently stands, although we will be happy to be proven wrong. Let us explain... Firstly mortgage rates have been at all time lows for years now, so even though a 0.25% reduction is going to be welcomed by anyone with a mortgage, if the currently very low interest rates were driving our market one would suspect that our market should be performing better than the approximately 3% per annum improvement in capital value that occurred over 2014. As we have mentioned numerous times before Adelaideans are traditionally very conservative and local economic factors, cost of living expenses and job security at this time is playing a significant role in holding back our market.

It is fairly obvious that in the current financial climate many are choosing to consolidate and pay down debt and are not willing to commit to major financial decisions such as buying or selling a house until confidence improves. Home renovations, improvements and extensions are very popular.

Investors on the other hand may possibly see the drop in interest rates as a sign that it is time to act. With the hint of a further 0.25% reduction it appears that rates may be set to remain around fairly similar low levels into the foreseeable future and all of the other fundamentals for solid medium to long term investment returns remain in place. Adelaide offers very affordable entry level prices (cheapest on the mainland), yields continue to remain above 4% gross and vacancy rates have been very stable (often below 2% over the past few years), and capital growth appears to be slowly improving. In fact the feeling was that increasing investor activity during

2014 has played a significant hand in the steady ongoing recovery of our housing market.

Generally Adelaide investors are most active in the sub $500,000 segment and we believe that sales activity in this price bracket may improve during 2015 and as a direct result there may be a slight improvement above what is expected in capital growth. However at this stage we don't believe that it will be significant. Unfortunately, increased investor activity may come at the expense of first home buyers also looking to buy in this lower price bracket. Investors are probably going to out compete first home buyers for sub $500,000 established dwellings located closer to the city, yet again pushing first home buyers into the far outer suburbs.

We believe that overall during 2015 our market will continue on its path of steady recovery and translate to between 3% and 5% in capital gain for the calendar year.

At this time of the year affectionately known as Mad March, many Adelaideans might see the slight easing of petrol prices and mortgage rates as an opportunity to get out and about and immerse themselves in any one of the diverse range of events on offer as part of either the Adelaide Fringe, including its venues the Garden of Unearthly Delights, The Royal Croquet Club or Glutton, or take in a production of dance, theatre or visual arts at the Adelaide Festival, which also hosts an amazing writers' week. Alternatively there is the international music festival of WOMADelaide, One Day Cricket World Cup matches at Adelaide Oval, the Clipsal 500 four day motor racing event or The Adelaide Cup Racing Carnival at Morphettville.

At this time of the year it's easy to understand why the New York Times believes that Adelaide is one of the places to visit in 2015 (and you know that we had to mention this honour at least once this year being the only Australian city on the list!).

So while an interest rate cut may play a positive role in improving discretionary spending and morale in this state, at this point we don't see it translating directly into any noticeable improvement in the performance of our residential property market above what we have previously predicted for the year ahead.

Mount Gambier

The recent interest rate cut is not expected to stimulate the market to a significant extent however there will be lower repayments which increases the affordability of borrowing money so we may see a slight increase in sales transactions. Interest rates have been historically low which has played a part in an increase in sales numbers in the region so we expect a continued stable flow of sales activity with optimism of a slight increase.

We do not expect the recent interest rate cut to affect one particular property type in the area. We do see investment properties and first home buyer properties the most likely to see the biggest benefit. Investors may have some extra free cash to reinvest and first home buyers will now see an opportunity to enter the market with lower repayments.

Overall in the area it will require not just interest rate cuts but additional factors to impact the market. Additional factors such as the new James Morrison Academy and University of South Australia expansion and timber industry funding will have a larger impact on the market than interest rates. The new academy will see additional people requiring rental properties and the timber industry funding may give people job security and therefore the confidence to purchase a property.

Tasmania

The recent interest rate cut is likely to have a stabilising rather than stimulative effect on Tasmania's residential property market.

Recent government economic data indicates that the state continues on a positive note with a relatively stable labour market.

Sales volumes peaked during the June quarter of 2014, reportedly the strongest sales in four years. Residential sales volumes have stepped down in both subsequent quarters.

This month available government sales data for existing dwellings over the last two quarters was used to identify potential trends in residential market bracket sales volumes. Each region of Tasmania (south, north and north west) was categorised into four sub markets of first home buyer, middle market, upper middle market and luxury or executive. Bracket adjustments were made for regional economic variations.

In the south, the luxury or executive residential dwelling market was the only sub market to buck the state sales volume trend. Residential sales volumes in this bracket rose during the December quarter. The majority of these sales occurred in the suburbs of Sandy Bay and Battery Point. These suburbs are located alongside each other near to the city and fronting the Derwent River. In the south, consistently over the two quarters, the most sales occurred within the middle bracket. This data would be consistent with the notion that first home buyers were preoccupied during this period building homes to take advantage of the generous $30,000 first home builder's boost.

The north west was on trend for this period with sales volumes in all market brackets stepping down through the two quarters. Sales within the luxury market bracket were spread across various regions within the north west with no apparent concentration in any particular area. Once again, the middle bracket was where the greatest number of residential sales occurred. The top sale for this region was $1.5 million at Hawley Beach, a weekender and holiday spot popular with all Tasmanians. Hawley Beach is a beachside village located approximately 20 kilometres east of Devonport and 80 kilometres north-west of Launceston.

Tasmania's northern region was also on state trend with sales volumes in all market brackets stepping down from the June quarter, although in the luxury bracket this was negligible. The first home buyer bracket in the north showed the greatest number of sales during this six month period. Like the north-west, sales within the luxury bracket were spread across several areas however the highest sales occurred in East Launceston and Relbia. The highest residential sale was at Relbia which is a well sought after rural residential suburb of Launceston.

Northern Territory

Darwin

Darwin has shown stellar property growth over recent years so exactly how will the market react to interest rate cuts put in place by the RBA? Over the past decade the Darwin housing market has been a solid long-term performer, recording some of the highest capital gain rates of the major cities.

> Reductions in cash rates will inevitably bring mortgage rates even lower, but how much difference will this make when they are essentially at rock-bottom levels already.

Theoretically these cuts should provide a boost to the current flattening house price levels. However, this is counteracted by low consumer confidence and softer labour markets. Higher unemployment rates and prudent macro-economic policies by the RBA will further inhibit chances of a steep climb in property prices. We can expect some increase in first home buyers attempting to get their foot in the market in response to the extremely low interest rates, however recent changes to the FHOG will limit purchasing of existing stock and shift these buyers to new stock only. Owner-occupiers must be wary if and when the rates head north again, being sure that they aren't over committed to a property, and can afford increases in mortgage repayment requirements.

Darwin is an excellent example of a 'shallow' housing market which is characterised by minimal volume and depth. We can expect prices to stabilise or even marginally decrease in response to a current downturn in commodity prices unless recovery in the tourism sector boosts interstate investors. Changes into the development phase for the Ichtys Inpex project will also lead to higher end tenancies being taken out by contract workers. The Darwin property market is very much employment driven, we have seen this by its reactionary boost from the Ichtys Inpex project over the past few years.

Darwin is still experiencing some of the highest gross rental yields of any capital city market due to strong population growth and increased rate cuts will definitely keep investors happy, offering a larger spread of their money and presenting better returns. But whether we see a bumper year in price growth due to lower interest rates is a lot less likely. Correlation between interest rates and property prices is a fickle thing. When speculating about property prices in the greater Darwin market, an educated guess would look a lot closer at employment levels and infrastructure projects than interest rates.

Western Australia

Perth

The recent fall in interest rates has had little immediate effect on market activity. The market is predicting further rate cuts this year. The need to drop interest rates further is a sign that our economy is heading downward. As a result, with softening prices for commodities, there will be falls in profits of major corporations which will lead to a loss of jobs and ultimately a decrease in demand for housing and fall in property prices.

Discussions with agents, valuers and business people suggest there is a softening trend caused by and large as a result of economic factors associated with the resource sector (oil and gas and minerals). An increase in the unemployment rate in Western Australian from 5.2% in the third quarter of 2014 to 6% in December 2014 signals that headcounts are being reduced across these sectors which are traditionally the main employers of labour.

> The flow on effect is a fall in net migration to the state as some people return to interstate or overseas.

Land sales agents are reporting a decrease in sales and an introduction of incentives to lure buyers to the market. This is usually the first signal of a price correction. This last occurred immediately post GFC.

Agents are still reporting reasonable levels of interest for property in the sub $1 million price range, however longer selling periods apply, suggesting the balance of power has shifted away from the seller and towards to the buyer. There is also a noticeable increase in the number of listings. As a result, the final contract price is tracking more towards the asking price.

Sales above $1.5 million have slowed significantly. Buyers are become more discerning. There appears to be discounting in this price segment and the number of listings has increased. Some valuers have noticed that a number of properties in this price range have remained on the market for extended periods, becoming stale and resulting in a significantly reduced contract price.

The inner city apartment market is soft and trending downwards. Valuers in this market have suggested prices may have declined and that it's not uncommon to see apartments resold below the off-the-plan purchase price.

Agents are reporting generally flat conditions. Property which is reasonably priced appears to be selling quickly, however vendors are a bit reluctant to adjust to the softening trend.

Some of the signals which point to a shift in the market in the Perth metropolitan region include an increase in the number of listings, increase in the days a property remains on the market, the lower number of offers received for the marketed property, volume of sales, level of discounting of a property from the original asking price or expectation of the seller and whether the contract price exceeds or falls below the asking price.

South West WA

The Reserve Bank reduced the cash rate by another quarter of a percent this February to 2.25% on the back of a decline in commodity prices, weak domestic growth and rising unemployment. So how does a reduction in the cash rate influence and affect the property market in the South West?

The Reserve Bank reduces the cash rate to increase demand and stimulate the economy. A reduction in interest rates will contribute positively to the south west market as we would expect demand for housing to increase as the servicing of loans becomes more affordable and in some cases achievable.

Currently the property market is steady with a stable level of sales throughout the locality. There is a levelling out of values throughout the lower and middle segments and a slight increase in land values. The top end of the market continues to be more problematic, with continuing weak demand and an over supply of properties for sale coupled with a lack of prospective purchasers in that value range. The rural residential market has also slowed with the majority of sales being below $1 million and experiencing extended selling periods.

We would expect the reduction in the cash rate to motivate and encourage some renters to leave the rental market and enter the lower segment of the market place as the gap continues to narrow between renting and holding a mortgage.

Consequently, a gentle flow on effect to the middle segment may occur as lower segment vendors look to trade up their homes. We would expect little to no effect to the top end segment as this market remains oversupplied in the south west with a distinct lack of prospective purchasers.

Overall, a reduction in the cash rate will have a positive effect on the property market, particularly the lower and middle segments. Nevertheless, the word on the street is that it is likely the property market in the south west for 2015 will be relatively slow. This is on the back of the Perth metropolitan market slowing significantly throughout the last two quarters of 2014 as the Perth market historically has a flow on effect to the south west market. Despite this, the south west market to date has remained relatively steady and a decrease in interest rates can only be positive.

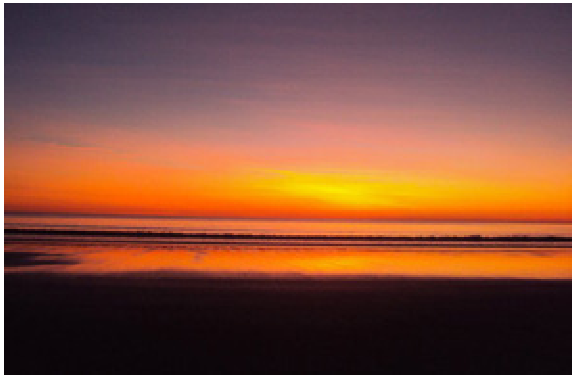
Esperance

The silence in this area created by the latest interest rate cut has been deafening. There has been no conversation in the community or evidence of increased real estate activity as a result. Local agents and finance brokers are reporting they are as quiet as they have ever been.

A contributing factor in this area is our typically lower average values compared to more populated parts of the country which correspondingly means lower average mortgages. The reduction of 25 basis points has less impact on repayments than it would in areas with higher mortgages. Where there may be some upside is in the higher value part of this market where some property may now come within reach of a broader spread of purchasers. The caveat here of course is that as soon as interest rates rise again there could be the same number of people seeing mortgage stress.

The reduction is timely for those with investment properties in the area. A strong rental market on the back of extensive capital works in this region has tapered off as the projects have been completed. Residential vacancy has increased slightly as a result culminating in some reduction in weekly rental rates over the preceding six to twelve months. A small reduction in interest repayments could help cushion the lower rental income for investors.

The hangover from the GFC is still being felt in the broader market and the perception is prospective purchasers are wary of getting caught by stagnant or declining property values combined with the possibility of interest rates going up in the medium



term. Hence, while there is still a regular sales volume for a market of this size, purchasers remain very cautious in their dealings.

It may well be that another interest rate cut following close behind the most recent one may have a greater impact. As there was a long time frame when rates were on hold, the market in a sense got used to the status quo. Family budgets were recalibrated and a new norm was established. One interest rate reduction has perhaps seen a modest increase in monthly disposable income but not enough to stimulate thoughts of purchasing a new property. A second rate cut, sooner rather than later, may give some impetus to activity in our local property market.

Rural

HERRON TODD WHITE
RURAL

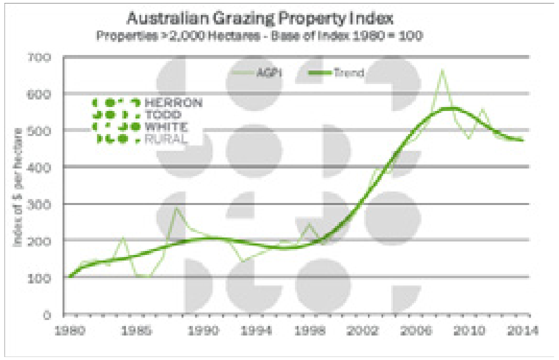
Overview

This month we take a look back at the 2014 year in review as we do each year to see where the trend is now running in the market. Overall there are a few themes starting to show stronger signs

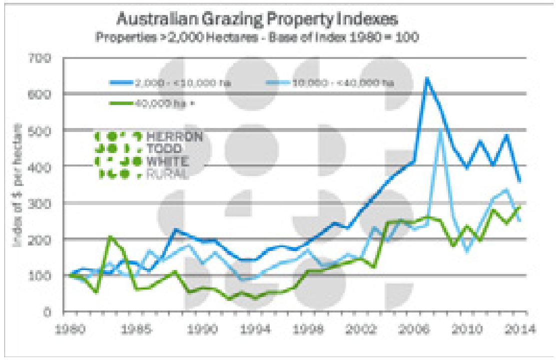
- Sales activity across the board appears to be trending up in every state, this is a good thing.
- Money and new players are still coming for scale assets and while cropping and irrigation has been the main message for a few years the shift back to livestock is notable, to a degree there is almost a sense of urgency to get set.
- The corporate end of the market is showing values trending upwards albeit slightly, but there are not a lot of overall sales across any market.
- The sub corporate market largely underpinned by debt still has a negative bias, however this decline has moderated significantly and to a large degree stabilised.
- General market conditions other than seasonal, are positive regarding dollar input costs. Most commodities have a positive outlook regarding demand and price sugar being a notable exception.

So what does all this translate to;

The chart below is the long term index of land values over 2,000 hectares nationally. As expected the trend line has flattened from the past year and when looking back suggests we are approximately back to 2005 to 2006 type values.



And when looked at by scale of assets the view on the second graph is a general tick up in larger scale values with sub-corporate showing decline.



It is yet to be determined how the potential for more investment into the corporate scale assets will impact the overall value of broader market. With demand for assets and some potential competition in the space, some investment may start to filter down the scale and provide an injection of capital that can help support the next tier in both activity and value rates nationally.

A more detailed national market overview will be available on the Herron Todd White website early March for those interested.

Tim Lane, Rural Director (07) 3319 4400

NSW North Coast

Continued wet conditions and the effects of Cyclone Marcia are imminent.

Sugar Cane

The north coast sugar cane harvest is expected to be over two million tonnes in 2015, well over the crop of 1,543,748 tonnes harvested in 2014. Aggressive domestic sugar marketing and uncertainty about the future local industry structure places some uncertainty on price.

Macadamias

A 40.46 hectare macadamia farm has sold for $1,725,000. This farm has 7,750 macadamia trees, dehusking shed, cottage and silos. This confirms the continued interest in purchasing macadamia farms following the favourable 2014 harvest and commodity price. There have also been a number of other farms sold, such as a 50 hectare farm south of Macksville for $460,000 including the crop. This farm has about 4,000 trees but has no structural improvements.

Beef
There have been limited sales in this market sector as graziers rebuild stock numbers after last year's dry conditions.

Poultry
Some of the local poultry assets including a hatchery and breeder farms owned by Ingham have been sold on leaseback.

Mildura/Sunraysia

The start of the year has seen above average rainfall for the region, with two rain events. While bad timing for grape growers the rain has provided some much needed soil moisture for dryland farmers.

The wine grape sector is currently harvesting, however Murray Valley wine grape growers have been dealt another significant blow with indicative wine grape prices for 2015 bringing more bad news for growers. A slight increase in the price for some white wine varieties has been offered but pain is being felt with some prices of red varieties well below the cost of production.

The fresh fruit table grape harvest is in full swing and while the contrasting weather patterns and humidity have not been ideal, the weather in the week following the rainfall has been kinder which is likely to alleviate any significant damage to fruit quality. Growers are optimistic that talks last week will see an end to the ban on Australian fruit into Vietnam which may mean local fruit exports will reopen in May.

There have been minimal sales of wine grape holdings in this region during 2014 and early 2015, while table grape property sales have shown slightly firmer levels for better quality holdings, particularly in the Robinvale and Euston region.

Activity in the dryland cereal market has been subdued for some time. Agents report renewed interest in two Millewa properties offering over 2,500 hectares in a well regarded and tightly held area from both local and out of area buyers keen to expand.

The Darling River has stopped flowing for the third time in eleven years as flows cease from the now dry Menindee Lakes. Concerns are held for the continuity of water supply to Broken Hill and irrigators along the Lower Darling and their long term viability. A group of irrigators has lobbied the NSW government for assistance as they now consider removal of permanent plantings.

The first seasonal outlook for 2015 to 2016 for Victoria has been released by the Resource Manager for Northern Victoria. Under dry conditions the High Reliability Water Shares allocations for the Goulburn/Loddon and Murray are expected to be 39% at 1 July. Under average conditions this increases to 49% (Goulburn/Loddon) and 55% (Murray). Under average inflow conditions both systems are forecast to have 100% High Reliability Water Shares allocations by 15 October 2015. Current prices saw a small increase last week with NSW High Security at $2,100 per millilitre and Victorian High Security at $1,850 per millilitre.

Murray Riverina

2014 saw a year of varying fortunes throughout northern Victoria and the Riverina across various segments in response to varying price and environmental drivers. For the cropping sector the pace of sales seemed to slow marginally over the previous year though pricing of good quality dryland through the Mallee at close to $2,500 per hectare for the very best parcel was consistent, while closer to Elmore dry land parcels have achieved prices touching $4,500 per hectare. Those on heavier soils in the Mallee and Wimmera or who missed out on finishing rains unfortunately had tougher years and were not able to capitalise on what ended up to be above average pricing. It will be interesting to see if demand/levels of value ease in the coming year as a result.

In the dairy sector price signals were around the longer term average though the price of irrigation water on a temporary basis in conjunction with grain prices probably made the going relatively difficult. It is worth noting that there were several larger transactions across the north - particularly with ACE Farming entering the market for the first time with an acquisition of four dairy farms at Cobram East complementing a flurry of sales of medium to large scale holdings in the northern irrigation district totalling in excess of $25 million in transactions.

While there have been limited sales in the horticultural space anecdotally those operating with predominately market fruit have tended to post strong results for the year. However there is still considered to be an oversupply of horticultural properties on the market. This is likely to take time to work through as the full ramifications of reduced quotas from the cannery several years ago continue to work their way through the market.

Property values in the Riverina have also enjoyed good run prices for mixed irrigation lots being analysed out at as high as $2,200 per hectare exclusive of water entitlements. In addition there were several sales of larger holdings executed including Old Cobran Station (Price on file - Caldwell), New Market Station ($9.5 million - Hay), Cooroonboon ($12 million), Booabula and Booabula East Station (c$5.6 million and $8 million - Wanganella) while the Agline aggregation was also recently sold.

The brightest performer in the agricultural space has been without doubt the value of water entitlements which started the year trading at levels around $1,325 per millilitre (incl Allocation) and finished the year as high as $1,850 per millilitre (incl Allocation) on the Victorian Goulburn (1A) and Murray (Zone 7). In New South Wales the story was the same, particularly for General Security water which started the year at around $700 to $750 per millilitre and finished closer to $1,000 per millilitre. These were underpinned by relatively strong prices in the temporary market at around $130 per millilitre leading into the end of 2014.

Southern Queensland

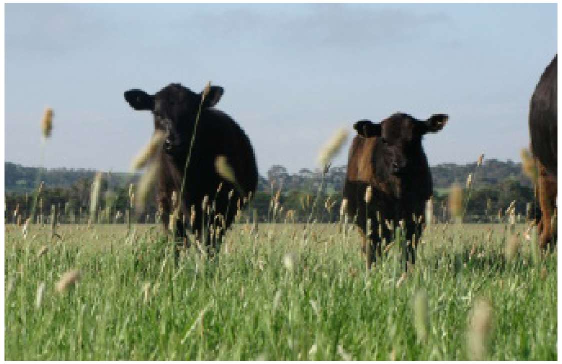
The winds of change are starting to move into Southern Queensland and although large areas especially in the west have missed out on good breaks in the season to date, issues previously thought adverse are now starting to work in a positive manner. These include:

Falling Australian Dollar

A sub US$0.80 is certainly much better all-round than +US$1. The expectations are that the Australian dollar will continue to trend down over the next 12 months on the back of a strengthening US dollar.

Improved cattle market

This is purely supply and demand driven which has been underpinned by restockers experiencing good seasonal breaks. However female numbers are at an all-time low which has created a catch 22 situation as it will feed into higher sale yard prices and could therefore have an impact on viability going forward.



Increased feedlot participation

Cattle numbers currently on feed are at their highest ever recorded, equal to almost 85% of capacity compared to the long term average of sub 60%.

There appears to be a shift from the drought management strategy that occurred through 2012 and 2013 to one now of maintaining control of supply at the processor end. This has led to improved demand for product however the issue going forward will be maintaining that level of supply given the record low number of females within the Australian herd.

Generally more market activity

More enquiries from potential buyers for existing feedlots have been fielded in the past six months than the previous six years. In this sector of the market, three to four enquiries in the past few months is quite exciting news. This is yet to transpire into sales.

Overall there has certainly been more activity in the past six to nine months than there has been for a long time. This does not mean that we will see any sustainable growth in values in the short to medium term, however you must begin to experience market activity before you can hope to achieve any growth in values.

Issues that still have a question mark around them include:

Seasonal outlook
The seasonal outlook is broadly better despite about 80% of Queensland still drought declared, including all of southern Queensland. Within our region there are pockets in the Dirranbandi/Cunnamulla area that have missed out. The Channel country in the main is looking good and it is hoped that there will be some runs in the western systems before the end of March.

New state government
The question is how the decisions the new government will make over the next three years will impact the rural industry in general and the regional market in particular. These include vegetation management, rural funding, management of departments and whether there will be any downsizing in line with the broader election policy to reduce the size of the government from 18 ministries to 14. All have the potential to impact in one form or another on the broader rural industry in Queensland.

Distressed assets
How these will be managed by the banks over the course of the next 12 months will be critical to any market recovery. The last thing we need is to see further dumping of multiple assets onto the market now. An area bounded by the Surat/Meandarra/Tara/Moonie and Westmar regions has suffered greatly in recent times due to multiple assets being put to the market with the end results reflecting quite significant reductions. The sooner some distance in time can be put between those sales and today, the better.

Gas
With the industry now generally moving from the construction to the production phase, there will be a significantly reduced workforce in the region. In the first instance this is having a major impact on the service centres of Miles and Chinchilla and to a lesser extent Roma and Dalby. Examples include rental reductions in Chinchilla from $800 per week to $250 per week with significant vacancies. This will impact heavily on the rural lifestyle market but the broader rural market has been insulated from this to some degree. The peak in the acquisition process has now passed so that we will now begin to see the removal of many uncertainties within the region in general.

Water market
The regional water market is still very immature with uncertainty surrounding the value of various water rights especially those within the broader Condamine - Balonne system. The federal government has largely been the only real player in the market having acquired some 40,275 millilitres of unsupplemented water from the Condamine Balonne system at an average price of $1,609 per nominal millilitre. This ranged from $1,795 per millilitre in the first tender process in November 2012 to $1,500 per millilitre in the most recent tender 12 months ago.

At the same time, some 1,314 millilitres of unsupplemented water from the Queensland Border Rivers was acquired for $1,500 per millilitre. (I refer you to the Department of Environment website for further information on water pricing).

Given that the federal government is a special interest purchaser and the current instability within the cotton market with regard to returns, we would expect that this level of value would not necessarily be reflective of the broader market value for unsupplemented water going forward.

Groundwater can now be traded but as yet there have been very few sales.

Cotton market
Global cotton prices have continued to decline despite the falling Australian dollar. Cotton is still trading well below the same time last year as an oversupply and subdued Chinese demand continue to suppress the potential for any sustainable turn around any time soon.

In recent months we have seen an increase in activity within the corporate sector, from existing and new companies. This includes:

Existing corporates
Existing corporates such as Warakirri, Westchester and Macquarie are still active within the Moree Plains and Southern Downs/Goondiwindi regions. We saw the recent purchase of Gubbagunyah at Toobeah for $15.6 million by Global Ag (Westchester), a 4,395 hectares mixed irrigated and dryland farming holding which adjoined their 2013 $34.5 million purchase of McIntyre Downs. This will now provide a significant scale including almost 10,000 hectares with approximately 3,500 hectares of irrigation.

New Players
Over the course of the past two years, an investment arm of Cargill, Black River, has acquired property in the name of One Tree Agriculture Pty Ltd totalling approximately 6,750 hectares of prime Warra Brigalow farming country for in excess of $33 million. This equates to around $4,900 per hectare bare. We understand that they intend to continue with this acquisition programme.

Gina Rinehart and the Hope Dairies Project
Australia's richest person, Gina Rinehart, recently announced her intention to invest up to a half a billion dollars in the South Burnett region to produce infant milk formula for the Chinese market. The Hope Dairies project plans to establish Australia's biggest dairy operation by acquiring 5,000 hectares of farmland and building a processing plant in the Mary Valley. By association therefore, the scale of this operation will make both processors and the retail market take notice and could have a positive knock on effect for local producers. We understand that the aim of the project will see the construction of a 16,000 head dairy aiming to produce about 40% to 60% of a total yearly requirement of 150,000,000 litres by 2016 with the balance sourced from local and regional producers.

The requirement to source around 75,000,000 litres from local producers will be a real shot in the arm for the regional dairy industry in southern Queensland.

Wellcamp Airport /Second Range Crossing
No hard evidence yet, but the broad feedback is that the airport and crossing will provide major benefits not only to Toowoomba but a much wider region. The freight side of the project appears to be at the forefront of everyone's mind with the potential opportunities significant.

$71 million Grantham Cannery Proposal
The project comprises a 23,500 square metre proposal to include processing vegetables primarily from the Lockyer Valley in the first instance and tropical fruits and vegetables from throughout Queensland. The anticipated output from this project

is hoped to replace a significant portion of vegetable products currently imported. The project appears to have the full support of the Lockyer Valley Regional Council with production planned to commence in July 2017. This project is the type of business that the Wellcamp Airport will be chasing, with easy access to the airport via the bypass when completed.

Chinese acquisitions in southern Queensland
Hollymount and Mt. Driven via Westmar: The acquisition price totalled $41.5 million or about $830 per hectare and comprised approximately 50,000 hectares of mixed farming and grazing country but with the potential to also establish some irrigation. There are also further water entitlements totalling almost 700 millilitres including 480 millilitres of groundwater for stock intensive purposes that would

be sufficient to support the construction of a 20,000 to 25,000 SCU feedlot if they so desired.

Waterloo: We note that the June 2014 irrigation sale on the Inner Downs, Waterloo via Pampas, sold for $7.6 million. This equates to almost $10,000 per hectare as developed. It has set a new level of value for the region that is yet to be replicated.

The Undabri Aggregation west of Goondiwindi sold in June 2014 for circa $28 million to Chinese interests. The 10,470 hectare holding includes approximately 1,000 hectares under pivots together with a small area of flood. It was sold under receivership conditions, however the result was not greatly out of line with the market.

Market tests coming up over the course of the next month or so include:

Kia Ora & Clyde - The impending finalisation of the tender process for the Kia Ora and Clyde holdings at St. George and Dirranbandi respectively will be completed in early March 2015. The aggregation totals approximately 37,500 hectares, with approximately 12,000 hectares of developed irrigation, 8,800 hectares of dryland cultivation, 273,000 millilitres of storage and approximately 10,000 hectares of grazing between them. Previous media advice is that their expectations are in the order of $170 million to $200 million. Time will tell.

The cattle properties of Oak Park (78,117 hectares) to the north of Charleville and the South Comongin and Nyngarie Aggregation (39,149 hectares) south of Quilpie are for sale by tender closing 13 March 2015.

The holdings of Oakwood west of Augathella and Yo Yo Park south of Augathella, both approximately 25,000 hectares in size comprise very good breeding and fattening country and will be market indicators going forward.

The feel within the region is one of quiet optimism but with conditions. Much needs to fall into place over the course of the next 12 months before we can expect to see a sustainable improvement going forward. However the fundamentals are in part starting to align in the right manner.

Central Queensland

Wet seasonal conditions have persisted throughout most of the inner Central Queensland areas and as a resalt market activity has been subdued. This has been compounded by the passing of Cyclone Marcia which inundated the Rockhampton, Biloela and North Burnett regions, however failed to deliver to the central highland and more importantly the central west regions where it is most needed.

However looking to the coming months, indicators in this region appear positive with flows in the Fitzroy Basin offering the opportunity for water harvesting, and most areas have now received reasonable grass rain which has resulted in a strong cattle market.

Current listings of interest include Alberta at Bauhinia Downs which comprises 1,297 hectares of developed scrub with quality soft forest influences, and Granville at Baralaba with an area of 1,964 hectares including 283 hectares of leucaena. This has been placed back on the market for $3.85 million ($1,960 pere hectare or $793 per acre).

Far North Queensland

The Atherton Tablelands has continued to see extensive plantings of avocado and to a lesser extent limes. Blueberries are an emerging industry and appear well suited the climate and soils. Changing land uses have created active competition for water allocations and we have seen water values rise from around their historic benchmark levels of $700 to $750 per millilitre up to $850 to $1,000 per millilitre. High rainfall grazing areas has seen limited property transactions and values appear to be holding steady at around $5,000 to $7,000 per hectare in the south and rising to $8,000 to $12,000 per hectare around Malanda.

Golden Triangle values have not come back as evidenced by a recent sale which set a new benchmark level for a dryland block selling for in excess of $50,000 per hectare.

Cassowary coast is finally starting to see cane farms transact again albeit at lower levels than historic benchmarks. Rural lifestyle market is still very flat albeit there is some renewed interest in grazing properties particularly when compared to grazing land values in the nearby Atherton Tablelands.

The pastoral market started to see some activity and buyer interest in the latter part of 2014 however what happens in this sector may be determined by the fate of the wet season in northern and western Queensland. To date the coastal strip and northern parts of Cape York have had good rain however this rain has not moved inland and western areas are still very dry.

Northern Territory

It's been a good start to the year with a fair drenching to nearly the entire Northern Territory however in the Katherine region rainfall has weakened over the past few weeks and pastoralists will be looking for a heavier second half of the wet. Many of our Kimberley clients have also received a good soaking since Christmas. Central Australia has experienced a big first half of the wet with some of our clients reporting falls of 150 millimetres (plus). There has been an explosion of feed in the red centre however there are not the cattle numbers around at present to make the most of the abundant feed and if rain continues to fall in line with monthly averages through to March and April then fires in this region will be the big concern.

The good wet (so far) as well as the current high live export prices and the low Australian dollar continues to fuel optimism for the pastoral property market. However, Indonesia (by far the Northern Territory's largest live export market) continues to have many in the northern pastoral industry second guessing, with a first quarter quota of only 100,000 head (total for Australia) and some exporters are now predicting a significant reduction in the numbers we might expect to export via Darwin to Indonesia in 2015. Having said that, exporters report that it will be difficult enough to source enough cattle to fill the quarter one quota given the reduced access bought on by the wet and significantly reduced herd sized from regions outside the traditional live export zone that exporters are also having to rely on to find cattle. It is generally perceived that prices may have peaked at $2.70 for Brahman feeders out of Darwin. Nevertheless, confidence in the industry continues to be underpinned to some degree by solid growth in other and south east Asian markets such as Vietnam.

Meanwhile, there are those properties lucky enough to have wet season access to the bitumen who are capitalizing on the peak prices. Wet season access has always been a desirable feature of northern stations (or any northern cattle station for that matter) however they are relatively few and far between and are rarely traded. We are aware of one such station in the Katherine region that is very close to being a sale. Details remain confidential at this stage however the reported sale price appears to reflect this wet season access premium. Aside from this, we are aware of no other pastoral transactions over the Christmas break although, we are aware of two reported strong offers for moderate quality northern stations that were apparently rejected by the vendors. While interest in northern pastoral properties has definitely strengthened in the past six months, potential purchasers remain cautious and vendors still need to be price realistic in order to achieve a sale.

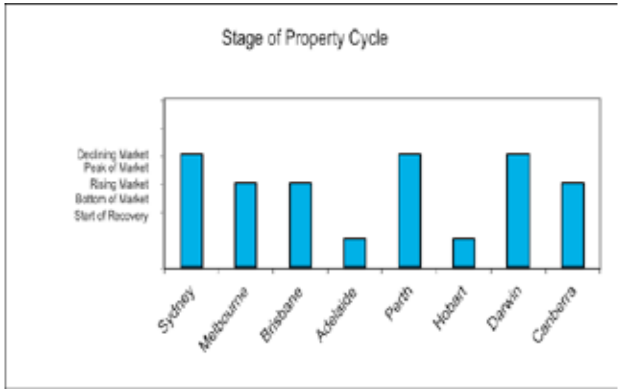
News just in is that the sale of "Bunda Station"(1,788 square kilometres) in the southern Victoria River district has finally settled with CPC being the new owner. The deal was reportedly $15 million WIWO however full details of the added value of herd and plant are still unavailable. This property had been on the market for an extended period, however we understand there was reasonable competition for this property by other players in the district in the end.

Capital City Property Market Indicators - Houses

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



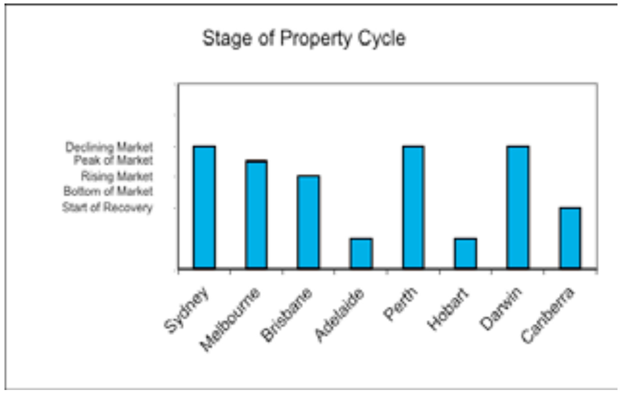
Market Indicators

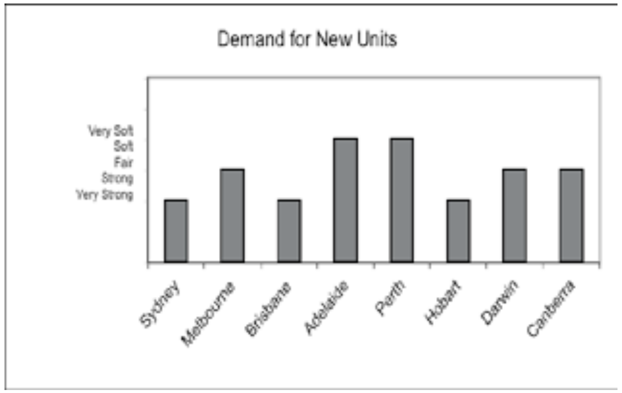
Capital City Property Market Indicators - Units

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



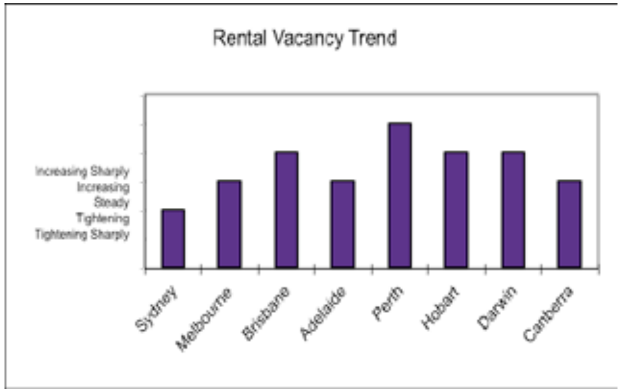


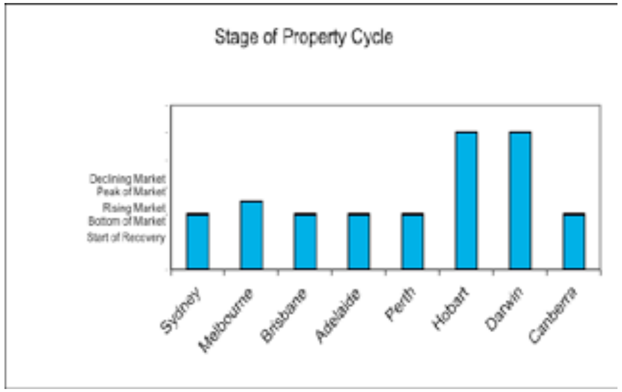
Capital City Property Market Indicators – Office

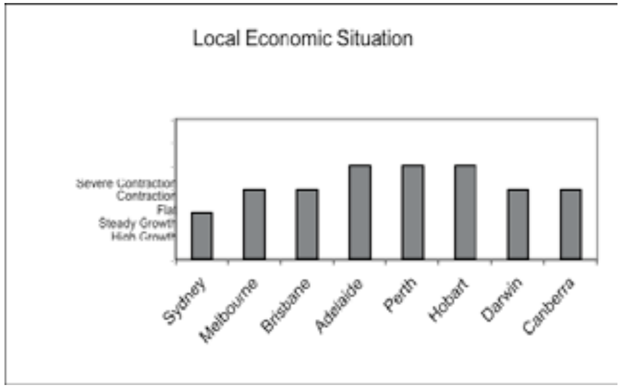
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Balanced market	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Over-supply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

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

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







Market Indicators

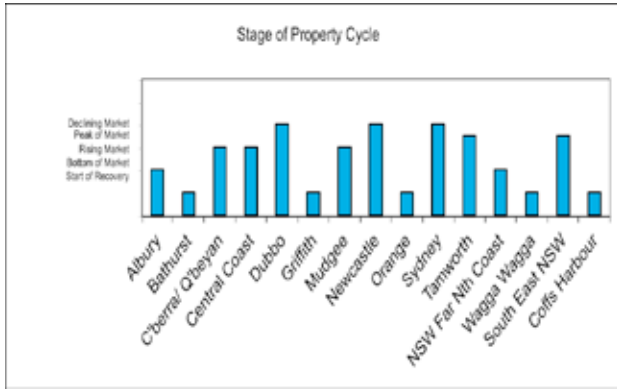
Month in Review
March 2015

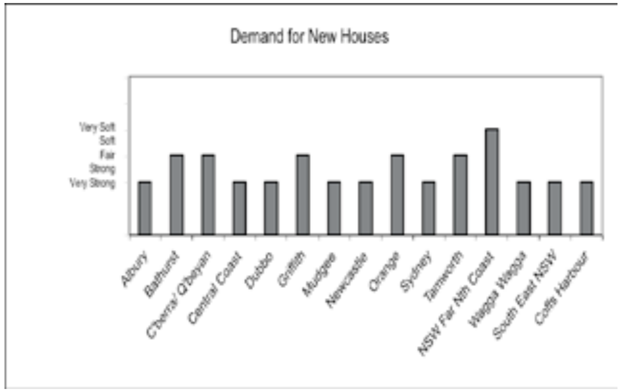
New South Wales Property Market Indicators - Houses

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

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

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





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	North Coast	Wagga Wagga	Wollon-gong	Coffs Harbour
Rental Vacancy Situation	Shortage of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Tightening sharply	Steady	Steady	Tightening	Tightening	Steady	Tightening	Tightening	Tightening - Steady	Steady	Tightening - Steady	Tightening
Demand for New Units	Soft	Fair	Fair	Strong	Strong	Soft	Strong	Strong	Fair	Strong	Fair	Soft	Fair	Strong	Strong
Trend in New Unit Construction	Declining	Steady	Steady	Increasing	Increasing	Declining	Increasing	Increasing	Steady	Increasing	Steady	Steady - Increasing	Steady	Increasing	Steady
Volume of Unit Sales	Declining	Steady	Steady	Increasing	Steady	Steady	Steady	Steady	Steady	Declining	Steady	Increasing - Steady	Steady	Increasing	Increasing
Stage of Property Cycle	Bottom of market	Start of recovery	Bottom of market	Rising market	Peak of market	Start of recovery	Rising market	Peak of market	Start of recovery	Peak of market	Rising market - Peak of market	Bottom of market	Start of recovery	Rising market - Peak of market	Start of recovery
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasion-ally	Frequently	Almost never	Almost never	Occasion-ally	Almost never	Occasion-ally	Very frequently	Frequently	Frequently	Occasionally	Almost never - Occasion-ally	Occasion-ally	Occasion-ally	Occasion-ally

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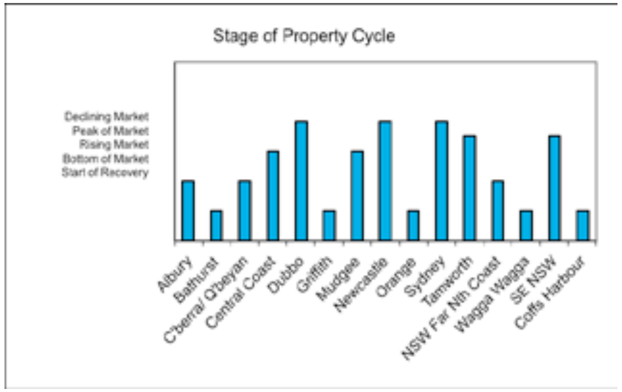
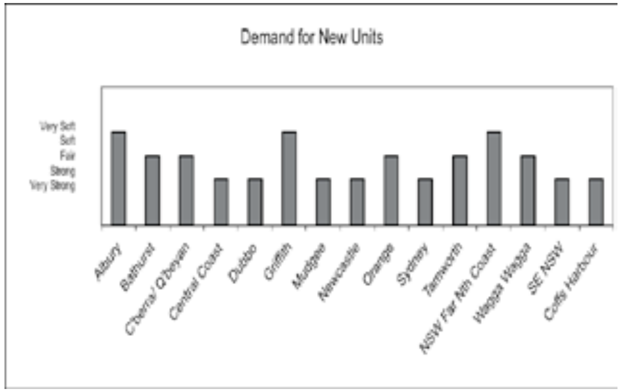




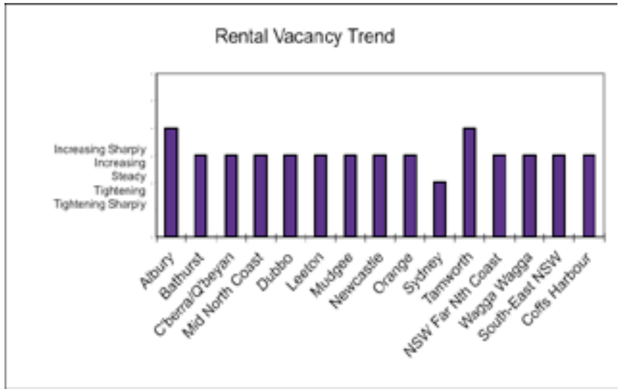
Market Indicators

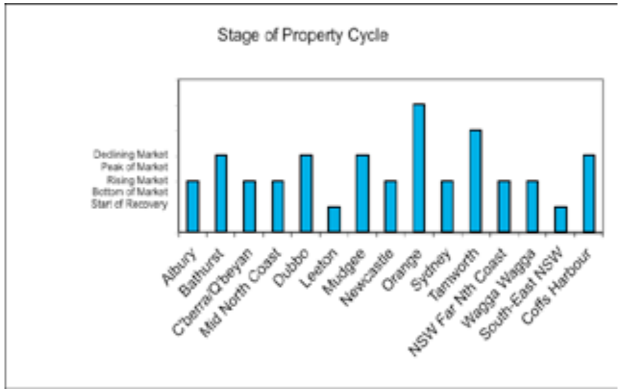
New South Wales Property Market Indicators - Office

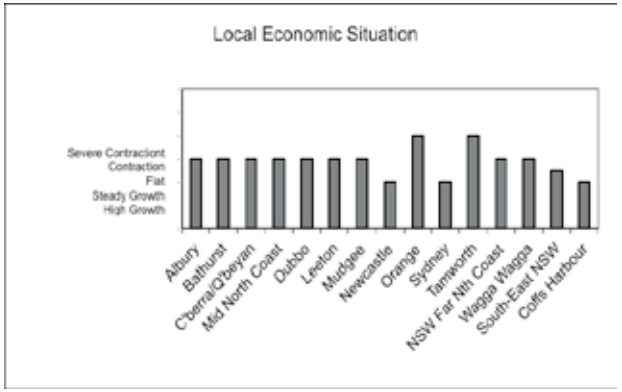
Factor	Albury	Bathurst	Canberra/ Q'beyan	Central Coast	Dubbo	Griffith	Mudgee	New-castle	Orange	Sydney	Tam-worth	North Coast	Wagga Wagga	Wollon-gong	Coffs Harbour
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Large over-supply of available property relative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







Victoria/Tasmania Property Market Indicators - Houses

Factor	Bendigo	Echuca	Horsham	Gippsland	Melbourne	Mildura	Shepparton	Latrobe Valley	Warrnambool	Burnie / Davenport	Hobart	Launceston
Rental Vacancy Situation	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Tightening	Steady	Steady	Tightening	Steady	Steady	Steady	Steady
Demand for New Houses	Strong	Fair	Fair	Fair	Strong	Fair	Strong	Fair	Strong	Strong	Strong	Strong
Trend in New House Construction	Increasing	Steady	Steady	Increasing	Steady - Increasing	Steady	Increasing	Increasing	Increasing	Steady	Steady	Steady
Volume of House Sales	Increasing	Steady	Steady	Increasing	Increasing strongly - Increasing	Increasing	Steady	Increasing	Steady	Increasing	Increasing	Increasing
Stage of Property Cycle	Rising market	Rising market	Peak of market	Rising market	Rising market	Start of recovery	Bottom of market	Rising market	Rising market	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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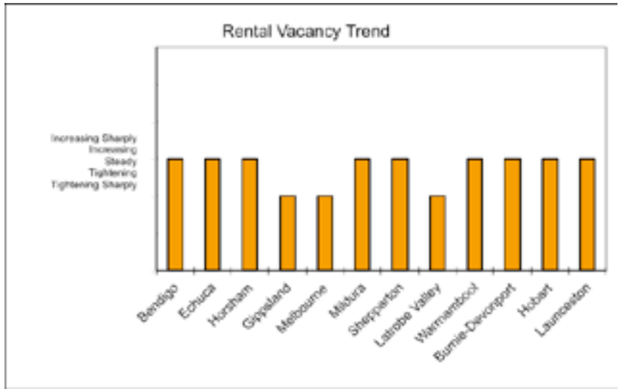

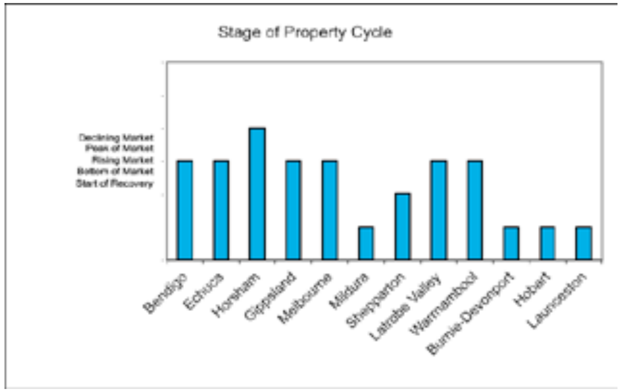

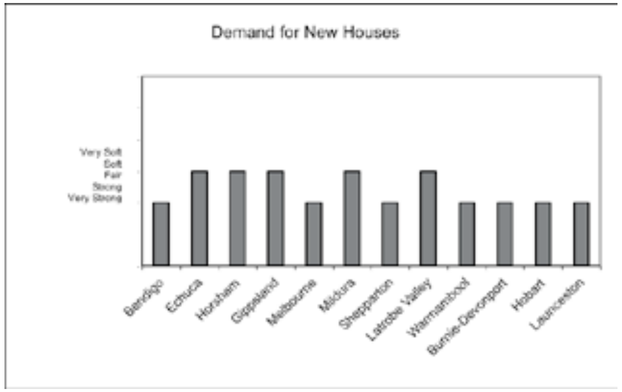

Market Indicators

Victoria/Tasmania Property Market Indicators - Units

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

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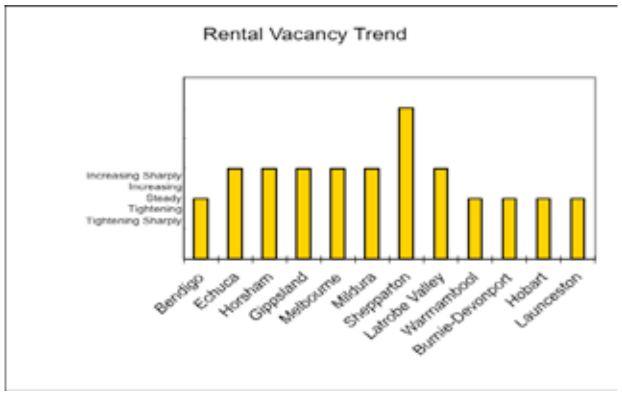

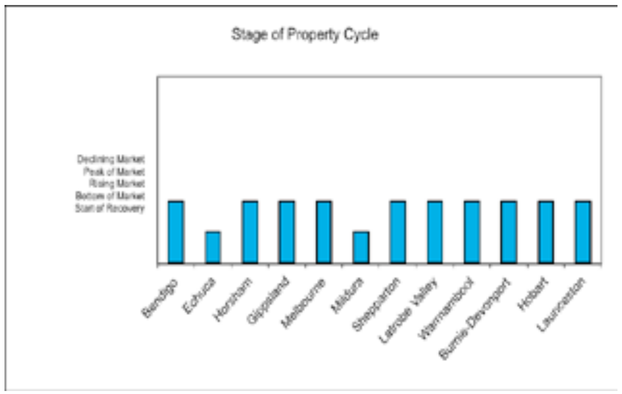

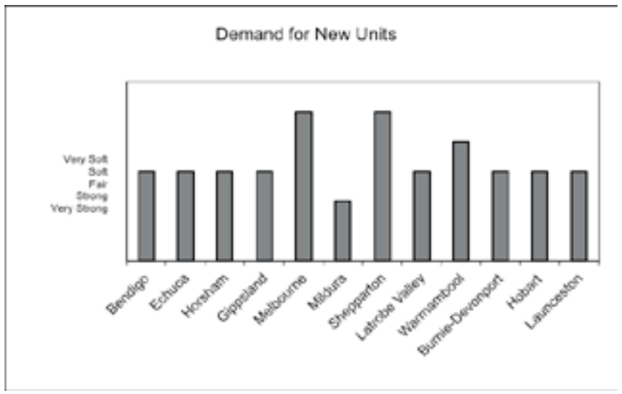

Market Indicators

Victoria/Tasmania Property Market Indicators - Office

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

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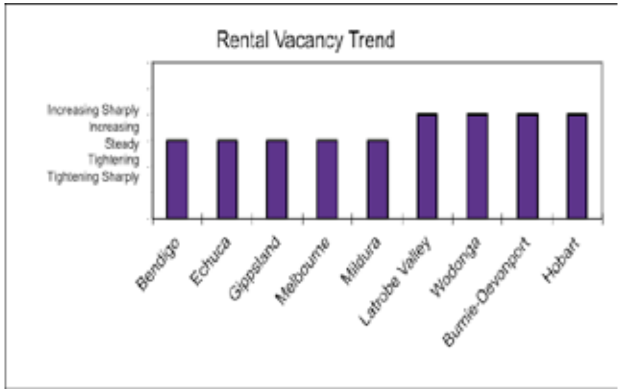

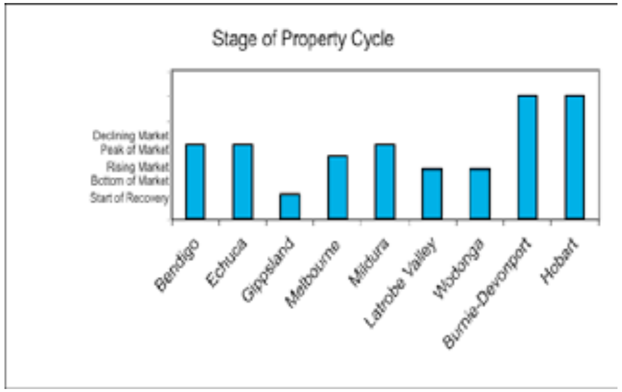

Queensland Property Market Indicators - Houses

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

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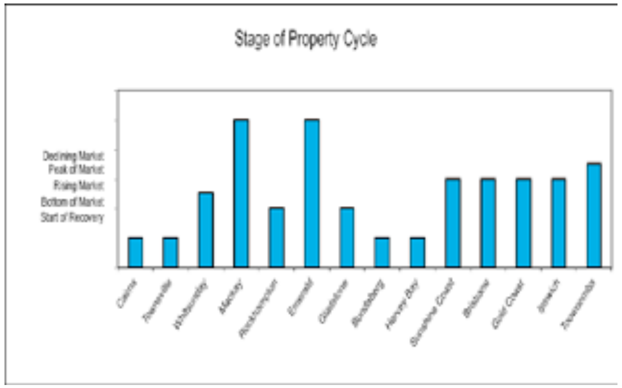

Market Indicators

Queensland Property Market Indicators - Units

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

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

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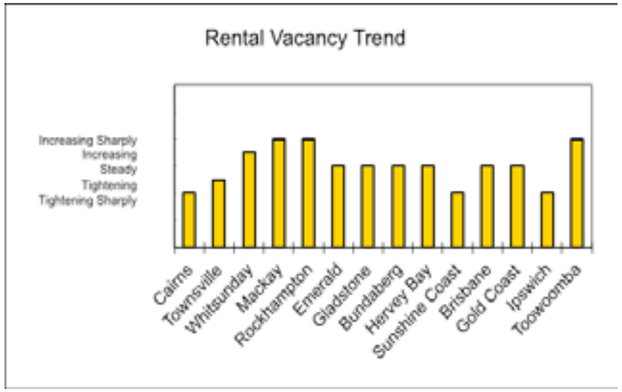

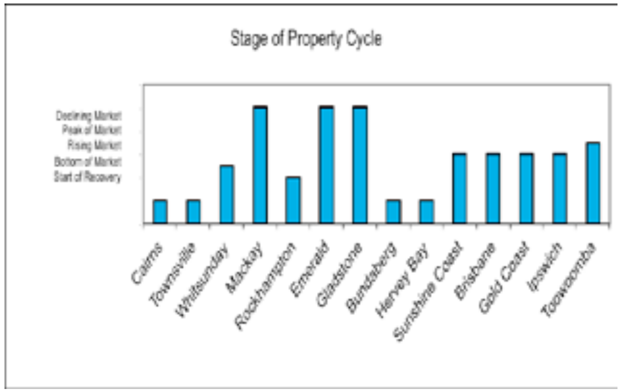

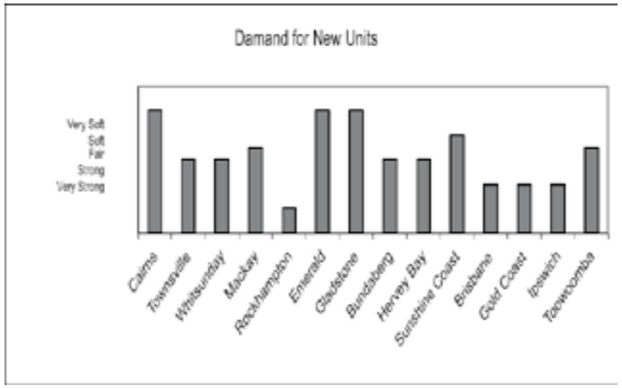

Market Indicators

Queensland Property Market Indicators - Office

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

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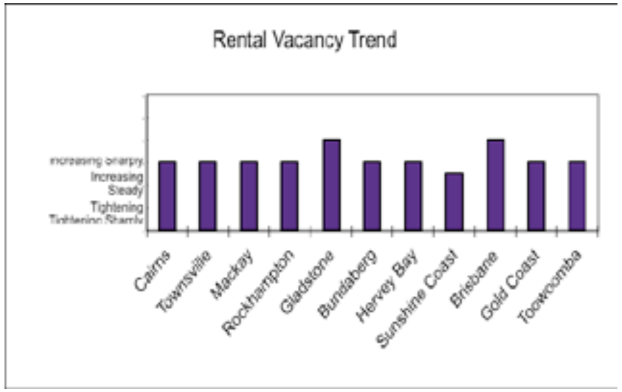

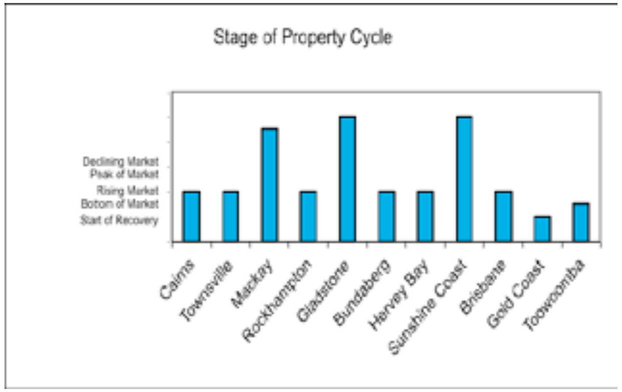

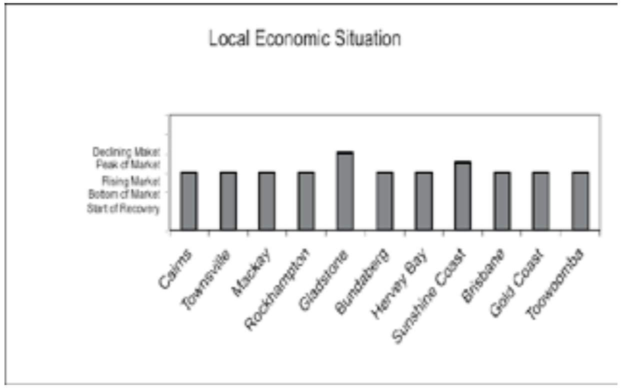

Market Indicators

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

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

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

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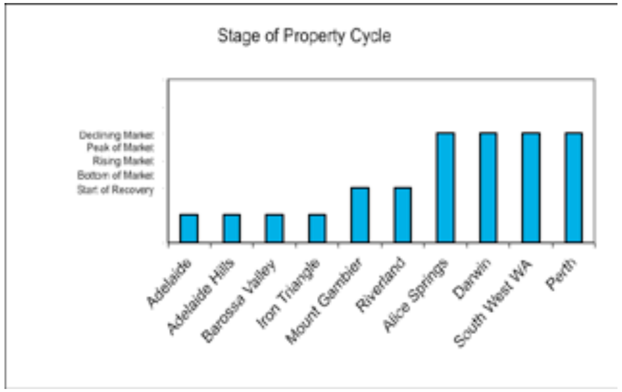
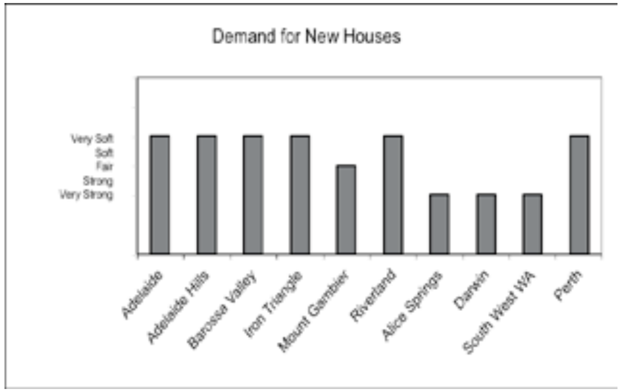




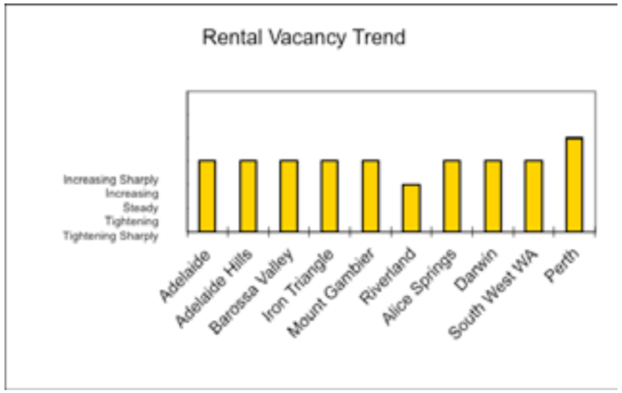
Market Indicators

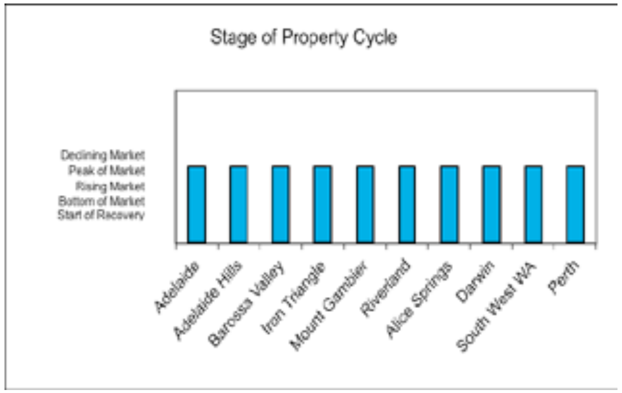
Northern Territory, South Australia & Western Australia Property Market Indicators - Units

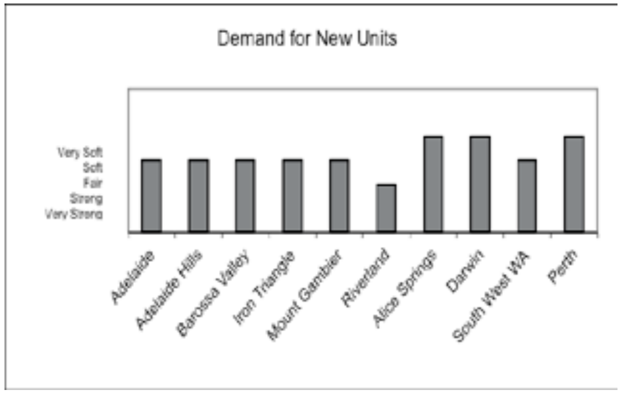
Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Mount Gambier	Riverland	Alice Springs	Darwin	South West WA	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced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

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

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







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

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

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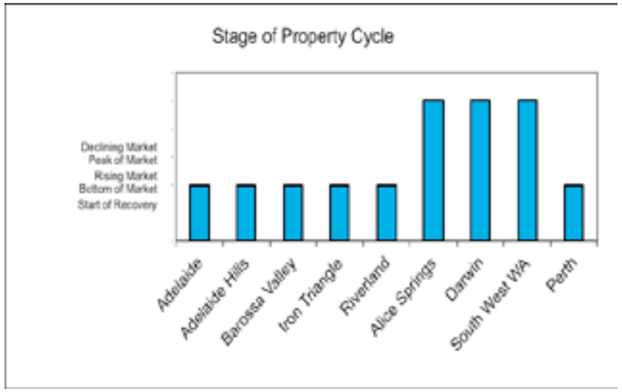

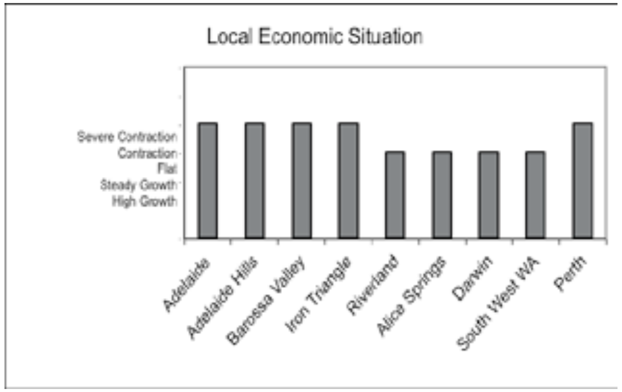

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