

December 2015

Month in Review



Contents

Feature - The year in review	3
Commercial - Office	4
Residential	23
Rural	56
Market Indicators	69



2015 - The year in review

The annum is drawing to a close and it has been exciting, interesting and heartbreaking across many facets of our small but significant seventh rock from the sun. It's been a year with too much tragedy, but there were moments of sweetness and light, strength and brilliance too, and these are worth your attention. Make time to both pay your respects, and count your blessings.

On the Australian business and real estate front, we are finally seeing a cooler market in Sydney. While growth continues in this great southern capital city, the rate is now no longer officially 'staggering', and there's now a well-established trend of more realistic data across the significant metrics.

Apart from Sydney, Australia's other capital cities and regional markets revealed a mixed bag of property market performance - some predictable and others not so much. Perth's once stellar market is now languishing while Brisbane's predicted 'hot, hot run' hasn't quite lived up to expectation across all its suburbs.

The Australian Prudential Regulation Authority also stepped in to try and slow down the investor frenzy, introducing guidelines to major lenders that would result in stemming the growth rate of their residential investment book. Arguments have raged on the effectiveness of the move, but it certainly seems to have played its part with plenty of anecdotal tales coming across our desks of borrowers having to adjust their expectations when seeking a loan.

As we do each year, the members of our Herron Todd White Santa Society, don the red jacket, grow out the

grey beard and listen intently to your wish list before handing out a little gift - Information on market performance over the past 12-months, city-by-city, centre-by-centre, so you can sound like just about the cleverest clogs attending your office's Christmas bash. Had your eye on Janice from accounting, or Gary in sales this year? Want to make your way up to them and try a little party conversation? Well among our pages are just the ice-breakers you'll need to strike up an exchange of ideas that will have you dancing to hit's from the 80s well into the wee hours and long after everyone else has checked their watches and staggered home.

Of course Herron Todd White is a well primed property analysis machine with more boots on the ground than just about any organization in Oz. We have experts fronting up and knocking on doors in thousands of homes each day. We're so confident of our abilities that in February this year, each office gave their hit predictions of how real estate was likely to perform throughout 2015. Well ladies and gents, its time to face the music. We've instructed each of our contributors to have a look back at what was said in the early days by their office, and give us the scorecard. They've strolled through the predictions

of their former selves and come clean on how they stacked up. A few have even been brave enough to submit their own self-assessment score out of ten.

Commercially, it's the office sector this month. We're set to continue the theme of the residential team and give you a wrap of the year that was 2015 in office property investment. Our gals and guys from the land of yields and incentives are wanting to wander back on the past 365 days and tell you all how it all panned out in their patch.

So there it sits one and all. Our reflective annual edition of Month In Review designed specifically to stimulate your interest over the holiday break, and keep you one step ahead of the competition as you travel into 2016. We know some of you won't be working, but property never sleeps and neither do we at Herron Todd White (that's just a figure of speech). Make the call and get some seriously good advice on your next transaction.

A Merry Christmas, Happy Holiday, Festive New Year and all round good times to everyone who has supported us throughout 2015. Stay safe, travel well and take care of each other. See you next year.

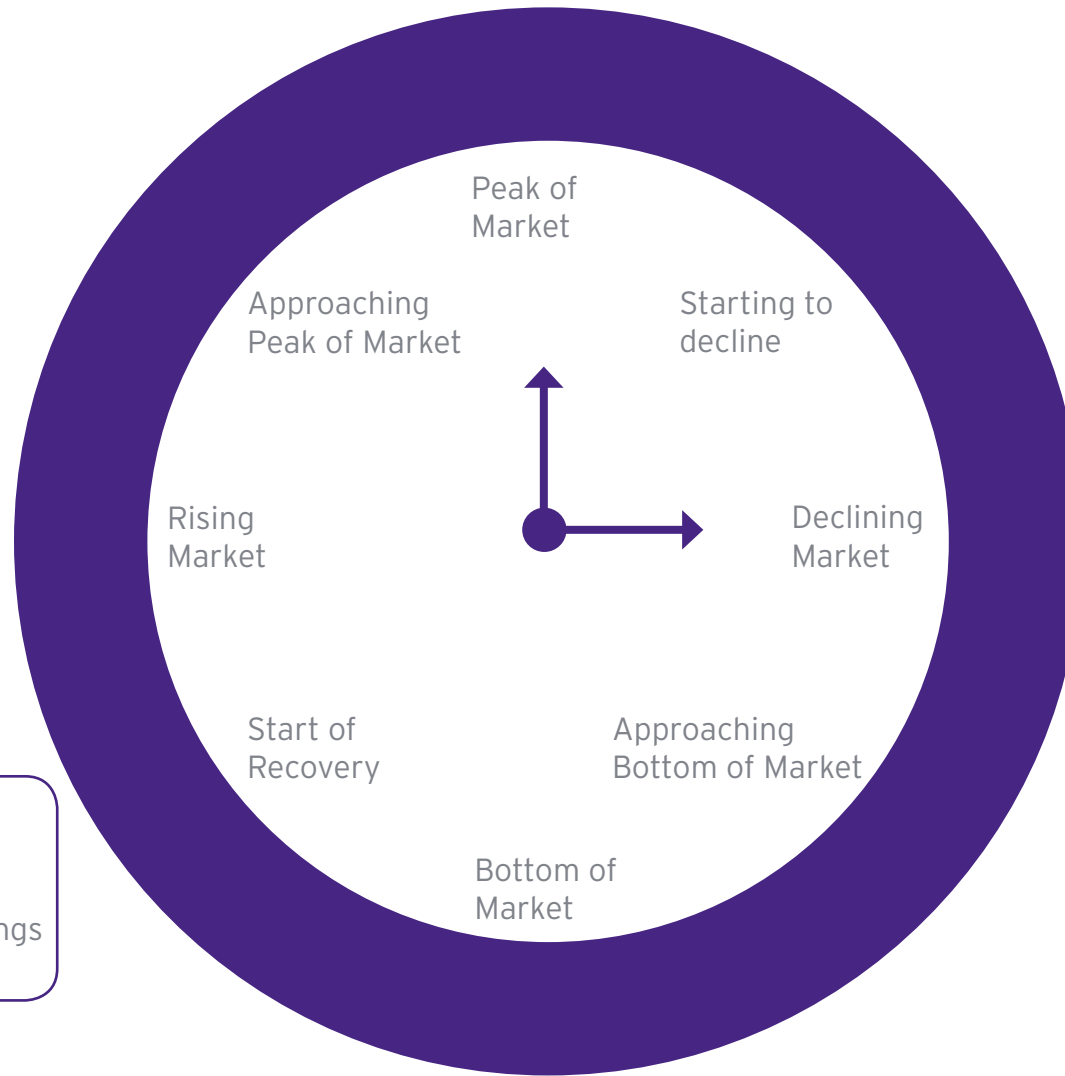
Commercial

National Property Clock

December 2015

Office

Melbourne
Brisbane
Tamworth



Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

The office sector has provided a mixed bag for investors throughout Australia over the past 12 months. We've asked our commercial contributors around Australia to give you, the reader, a rundown on the office property sector in their patch over the course of the year. It's a ready guide on the year that was in 2015.

Sydney

Generally speaking, 2015 witnessed positive growth for the Sydney CBD office market. By the completion of the third quarter in 2015, the CBD office market had recorded a positive net absorption of 25,600 square metres, the seventh consecutive quarter of positive net absorption within the CBD general office market.

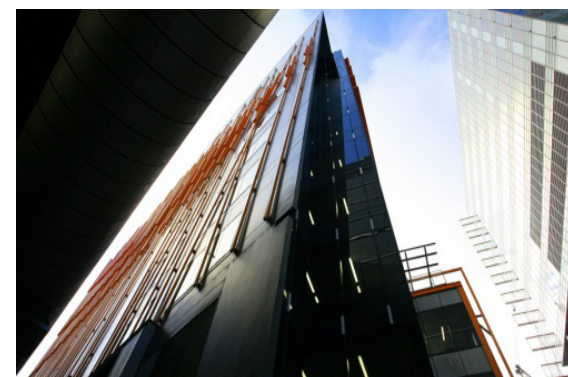
Prime and secondary gross effective rents increased over the year, with a recorded increase of 2.7% at the end of the third quarter. Generally speaking, the strong tenant activity across the Sydney CBD has seen vacancy further tighten, with the Sydney CBD being the only national CBD office market with a total vacancy below 10%.

From a supply perspective, a key development underway in Sydney is Barangaroo. The first practical completion, Barangaroo South, was recorded in quarter three. The International Towers Sydney (T2) is being completed in stages, with the low and mid-rise components completed, offering 59,385 square

metres of lettable area. The remaining component of the tower (as at the time of writing) is due to be completed by the end of the fourth quarter of 2015. Two additional projects also completed include 5 Martin Place and 20 Martin Place, which have been big contributors to the revitalisation of the iconic Martin Place. Nine other commercial office projects are currently under construction across the Sydney CBD, including 200 George Street and 333 George Street. While a number of these projects comprise tenant pre-commitments, it is expected that the shifting tenant profile down to Barangaroo will result in increased available office space in the vacated buildings.

Conversely, to date in 2015 (as at the time of writing), a total of seven commercial office buildings totalling 77,700 square metres have been withdrawn from the Sydney CBD office market. Of these, three have been proposed for residential conversion, while the remaining have been withdrawn for refurbishment or redevelopment. The additional office space hitting the market coupled with the reduction in space based on redevelopment or residential conversion, the outlook for vacancy rates across the Sydney CBD is expected to be stable in the short term.

Construction of the NSW Government's \$2.1 billion light rail system has commenced in George Street and is expected to take until 2019. Sydney's transport system will be disturbed (already apparent on



George Street, with bus and cars restricted from access into certain parts of the street) with the daily movement of the peak hour pedestrian and vehicular flow changing tenants' outlooks. Agents have reported hesitation in renewal rates based on unknown disturbances, which subsequently has seen an increase in incentives being offered to the broader office space market.

Suburban office space has also seen an increase in current and proposed development with the majority of local councils recently reviewing their local environmental plans and identifying specific central suburban hubs earmarked for higher mixed use. As residential affordability is a key area impacting Sydney's landscape, a noted increase in demand for suburban office space is apparent, with the general suburban population seeking office space within

close proximity of their primary places of residence. Take up of the suburban office space is primarily being driven by the owner occupier sector as well as a big push from the superannuation fund market, based on recent legislation changes.

There is a growing emphasis on creating or upgrading satellite cities within the Sydney metropolitan area. 2015 has seen the major media organisations jump on this push with articles and television presentations featuring the plan to gentrify areas such as Blacktown, Liverpool and Penrith. This emanates from the continuing urban sprawl of Sydney, with workers commuting long distances to work in the Sydney CBD. An increase in legitimate satellite cities will enhance Sydney's accessibility and lifestyle for its inhabitants.

Canberra

The market during the year favoured strong WALEs and heavily discounted those buildings with limited to no security of tenure. This comment applies to all sectors of the commercial market.

Examples include:

- 54 Marcus Clarke Street, City sold for \$14.2 million in April 2015 with a WALE of circa two years and a yield of 9.7%. It is understood the purchaser Centura Metro has an open mind relating to this property with a residential conversion a possibility.
- 60 Marcus Clarke Street, City was also purchased by Centura however we understand in this instance with intent to retain as a commercial holding with some consideration of erecting additional space over the car park. WALE circa two years and a yield of circa 8.7%.
- 64 Allara Street, City sold for \$16.8 million on a yield of 7.6% and a WALE of 4.6 years. The purchaser was the Cromwell Property Group whom we suspect were attracted by the yield.
- 20 Allara Street, City was purchased by a developer for demolition or total conversion to residential. The WALE was around three months.
- 74 Mildura Street, Fyshwick, an industrial holding occupied by two substantial tenants sold for \$15 million showing a yield of close to 9% and a WALE of five years.
- Dan Murphy's Queanbeyan sold at auction for \$11.3 million showing a yield of 4.7%. Dan Murphy's, a wholly owned subsidiary of Woolworths, holds the property on a 15 year lease with options running through to 2060.
- Bonner Shops comprises a Woolworths Supermarket, BWS liquor store, four specialty shops and an ATM. The sale price at \$11.68 million showed an initial yield of 6.3%. We note 77% of the income is secured by the Woolworths covenant on a term of 20 years.
- 51 Aurora Street in Queanbeyan sold for \$2.66 million at an initial yield of a low 4.69%. The lease to the NSW Governments was on a five year term plus options.

Overall the trend in the investment sector has been a flight to quality of income secured by long term leases.

The Commonwealth, the major tenant in the Territory, has been working to occupy all space under lease. It was rumoured that mid year 2015, 100,000 square metres was held under lease and was either vacant or under utilised. In the past three or four months there has been a substantial reduction in this over hang on the market. An example is the Electoral Commission consolidating into 50 Marcus Clarke Street in May this year. 50 Marcus Clarke Street was leased in one line to the then Department of Education Employment and Workplace Relations in May 2013 for 15 years. The Department was subsequently split in 2013 into the Department of Education and Training and the Department of Employment. Part of the leased space became surplus to requirements and lay vacant. The move by the Electoral Commission is an example of the back filling of leased space by the Federal Government.

Overall it is our view that departments will be encouraged to retain space they hold under lease and indeed many leases may be extended. An example is the lease extension for seven years at 10 - 12 Mort Street where the lease was due to expire in 2017. Incentives for the extension were in accordance with market norms at circa 20%. Buildings with short term lease expiries remain vulnerable but with judicious management the probability of lease extensions is high.

Illawarra / Southern Highlands

Demand for commercial office assets in the region increased throughout the year as out of area buyers became more active. Purchasers have been attracted to the yield arbitrage regional office assets can offer, however the strong demand has led to yield compression over the past 12 months.

In what can be a price sensitive market there has been strong demand for the higher valued assets in the region as exhibited by several large transactions over \$5 million while demand is even higher for quality assets underpinned by good lease covenants. Low interest rates and the strong Sydney market are seen as being the main influences locally. The sale of 67 - 71 King Street, Warrawong for \$7,350,000 (WALE 2.88 years by income, passing yield of 8.54% and analysed market yield of 10.5%) is an example of the demand for commercial office assets even for secondary suburban locations in the region.

New supply is limited as there are no new office developments proposed in the region at this time. The current vacancy of the former ATO premises in the Wollongong CBD will likely mean that it will be some time before a new office building is developed unless substantial pre-commitment is obtained. Without relocation of a government department it is difficult to obtain pre-leasing levels in the private sector given that the market is dominated by small and medium sized local companies.

Tenant demand is evident from government, not-for-profit groups and private organisations and is concentrated on the higher quality A grade space with reduced interest in the lower quality stock. Given the vacancy rate and the market primarily being driven by affordability there has been no upward pressure on rents.

Lismore

The office market in the Lismore region is traditionally well held and thinly traded. This market sector is dominated by owner-occupiers and long term investors.

In late 2013 there were two sales in Lismore:

- 26 Bounty Street sold on an analysed yield of 9.66%
- 158 Molesworth Street sold on an analysed yield of 11.17%.

The lower yield represented a sale which included 50% leased to a national tenant on a long term lease. The higher yield reflected a local tenant with inferior lease covenants.

Over the past twelve months we have seen three comparative office sales in Lismore:

- 107 Molesworth Street sold on an analysed yield of 8.2%
- Suite 3, 105 Molesworth Street sold on an analysed yield of 9.63%
- 70 Carrington Street sold on an analysed yield of 10.67%

The lowest yield was a sale to an owner occupier, the mid yield to a semi national tenant with three years remaining on the lease and the higher yield to a mixed tenancy (both national and local) in a secondary location with a WALE of 1.6 years.


The above indicates a relatively flat market with arguably no significant movement in market yields. Broadly rents appear to be relatively stable.

Evidence for coastal localities would indicate a firming of yields in a stable to slightly stronger market. Sales in Mullumbimby and Ballina are showing slightly stronger yields of around 7.7% from yields above 8% in 2013.

Coffs Harbour

The office space in the Coffs Harbour CBD remains steady. There was a steady take up of oversupplied space throughout 2015. Rental levels are generally static with the most recent lettings at similar passing rental rates. There is evidence of leasing incentives within the market throughout the past twelve months.

The recent sale of the vacated Coffs Harbour Court House and Police Station at \$2.1 million to Sydney investors and developers represents the most recent interesting commercial office site redevelopment sale.

 **The market for rental accommodation remains price sensitive.**

The capital value levels for office buildings demonstrated strong demand and firm yields throughout the year. The principal office precinct is now established in Gordon Street with a small core of purchasers dominating the marketplace and acquiring property at well below established yield levels.

The strata office market and in particular smaller units in the lower price range appeared slightly undersupplied throughout 2015. However, the market remains price sensitive and there are some proposed office projects awaiting presales and leasing prior to commencing development.

Victoria

Melbourne

The Melbourne CBD office market has observed a fall in the vacancy rate for the first half of 2015 with the Property Council of Australia reporting in its July 2015 office market report a total vacancy of 8.1%, representing an overall decrease of 1% from the total vacancy of 9.1% observed in January 2015. The overall vacancy rate for the Melbourne CBD market is currently lower than the overall Australian CBD vacancy rate of 10.7%. Leasing incentives currently remain relatively high with incentives of approximately 25% to 30% being offered for office space within A and B grade buildings and reports of up to 40% for buildings with relatively high levels of existing vacancy.

We have witnessed a strong demand for CBD commercial buildings in 2015 and the majority of the CBD investments have been acquired by overseas investors. As of October 2015, overseas investors have been involved with \$1.23 billion worth of transactions, recording the highest level of spending. Some of the major office transactions above \$100 million in 2015 include 222 Exhibition Street, purchased by LaSalle Investment Management for \$231 million showing an initial yield of approximately 6.5%, and 114 William Street, purchased by Singapore investor, Straits Real Estate, for \$125 million reflecting an initial yield of approximately 6.6%. Investment sales activity under \$100 million has also been active throughout 2015. Indonesia's

Halim Group offloaded 425 Collins Street to AMP Capital for \$39 million in September; Najee Holding purchased 460 Lonsdale Street from REST for \$98 million while 575 Bourke Street was acquired by CIMB Trust Capital for \$90 million in August.

There is a strong trend of tenant migration from the suburbs to the CBD and Docklands, underpinned by the attraction of upgrading to better quality accommodation with competitive rental terms and high incentives. It is reported that approximately 70% of the migrating tenants relocate into A grade buildings and approximately 16% of the tenants relocate to premium grade office buildings. It is also commonplace for migrating tenants to pre-commit to new buildings, such as Victoria Police, which has relocated to 313 Spencer Street providing a net lettable area of approximately 27,000 square metres. Within the CBD, established tenants such as KPMG, Maddocks, and Links Group have all pre-committed to new office buildings in Collins Square, Docklands.

A number of secondary office buildings within the CBD and St Kilda Road precinct have recently been purchased for potential residential conversion. The subsequent withdrawal of office space has led to a decline in secondary office vacancy levels. It is estimated that approximately 110,000 square metres of office space, from around 16 buildings, will be withdrawn over the next five years. We are witnessing local and overseas developers targeting

older commercial buildings with plans to convert or redevelop for residential purposes. An example is the 19-storey Fawkner Centre at 499 St Kilda Road, acquired by Qualitas for \$80 million, which will be transformed into 253 apartments with direct access to Fawkner Park. In the CBD, Sterling Global, a Chinese developer, has acquired 383 La Trobe Street, known as the Federal Police Building, for \$70.7 million from Investa Office Fund in an off-market deal with plans to develop a mixed use skyscraper.

Overseas investor demand for good quality office properties within the Melbourne CBD, city fringe and inner suburban office markets remains buoyant. This is primarily due to the lack of suitable stock on the market and the sheer weight of local and international capital seeking limited investment opportunities in this segment of the market. Commercial buildings with residential conversion potential will continue to be popular for Asian-based developers, especially developers from China, Singapore, and Malaysia.

Our overall observations for 2015 are that due to limited opportunities and significant capital inflows, a large number of purchasers have discounted basic property fundamentals to secure prime location assets by paying what may be considered a premium for assets with relatively weak lease profiles and substantial capital expenditure requirements. We anticipate that this trend will continue into 2016.

Mildura

The office market in Mildura has remained relatively stable during 2015. There continues to be a number of vacant office buildings, including a large building formerly occupied by Centrelink and several smaller premises scattered throughout the CBD. Rental growth in recent years has been low, attributed to weak demand.

Many local businesses operate from premises owned by a related party, which reduces churn rates. Businesses have also proven versatile at accommodating any growth in staff numbers by either reconfiguring their existing spaces or using technology to allow staff to work from home.

There have been very few sales of office buildings in 2015. One of the more noteworthy sales in Mildura occurred earlier this year when the Westpac Bank in Deakin Avenue sold on a yield of 6.6%. Those sales that have occurred of typical small office buildings in Mildura have shown yields of between 8% and 9.5%, depending on their prominence and standard of fit out.

South Australia

Adelaide

Throughout 2015 the economic climate in South Australia has been subdued. This has had a dampening effect on commercial markets generally and an impact on the Adelaide CBD and fringe markets. Unemployment statistics show a gradual increase in unemployment with the September 2015 unemployment rate being at 7.7% which is above the national average.

- In terms of current demand levels, local agencies are reporting generally reduced demand from the mining industry and the public sector which has impacted on leasing demand levels across all grades of accommodation.

We understand that most leasing activity is occurring in the smaller size market below 300 square metres and for areas above 800 square metres.

Vacancy rates have been relatively stable over the past 12 months although this is expected to rise in the coming year due to an increased supply of new space currently under construction and due to come on line in 2016.

With reduced demand evident in most sectors coupled with an increased supply of new space, as in the A grade office space, there will be some effect on rental levels. We understand that this will most likely be reflected in increased incentives and more favourable lease terms rather than a reduction in face rentals. The result will encourage tenants to relocate to more modern spaces at favourable lease terms. This may mean that the greatest impact will be felt in the lower B grade and D grade office markets with incentives and vacancies increasing.

The disparity between the A grade and lower grade space and the subsequent vacancy cost is translating to an increasing divide in investor demand and achieved yields. This means that blue chip investments are likely to remain in strong demand while lesser quality investment properties may be difficult to sell.

The vacancy in the lower grade office buildings is likely to be absorbed over time as lower grade buildings are either upgraded or demolished for conversion to alternative use. There is an increasing demand for residential apartments in the CBD which is assisting the conversion of some lower grade buildings. The sustainability of this trend is uncertain as the CBD unit market is untested at current levels of construction.

Some market research also attribute the higher vacancy within the lower grades to the amount of vacant developable land in the Adelaide CBD compared to other capital cities which reduces the need to convert or upgrade older buildings.

In summary the Adelaide investment market is currently not strong for commercial office space with real rentals and yields remaining essentially unchanged with limited prospect for change in the current economic climate.

Queensland

Brisbane

There is a much dichotomised world in office markets at the present time. Any prime properties with a strong WALE are selling at very tight yields. For the remainder however yields are soft and investors hard to find.

CBD

Total vacancy is expected to increase to 17% by mid-2016 and remain elevated before falling in 2017. The secondary market has been stabilising however more owners are willing to negotiate deals with incentives as high as 40% or more. Incentives have continued to increase with the current average around 39%.

The growth of tenants remained subdued during the first half of 2015 however activity is on the increase.

Secondary space is difficult without significant incentives to lease with tenants taking the opportunity to move to prime or A grade space rather than renegotiate.

Leasing markets are very soft across the board. Effective rental levels have remained dormant over the past six months with prime and secondary rents recording little to no change. Prime effective rentals are expected to remain stable until 2017

as the market copes with new supply and tenant relocations. The Brisbane CBD overall recorded negative net absorption over the first half of 2015. The prime market recorded negative absorption while the secondary market recorded positive net absorption in the first half of 2015.

Brisbane has seen fewer CBD sales during 2014 and the first half of 2015, as few commercial assets have come to the market. Purchasing activity within the CBD office market has been dominated by domestic funds. Major sale transactions included Waterfront Place for \$635 Million and 215 Adelaide Street for \$224 Million.

Three major office buildings will be delivered to the market over the next six to 12 months including 180 Ann Street, 480 Queen Street and 1 William Street. The pipeline for additional development is low with the majority of development sites seeking proposed hotel and residential developments.

Fringe

The Brisbane fringe market has experienced a low level of supply in 2015. Within the Brisbane fringe market newly built space has remained popular with tenants however competition from the CBD is proving strong. Across the fringe precincts, the inner south remains the tightest market. The fringe market is seeing older style and secondary stock being converted or demolished for redevelopment, with the

predominant development market being focussed on residential or hotel projects.

Yields for prime office properties have softened by between 0.75% and 1% with secondary yields softening by 1% to 2%. This has brought the yield spread between prime and secondary properties to more traditional levels. Yields have generally stabilised across the sub-sectors with yields ranging from 7% to 8% for prime assets, from 8% to 10% for secondary properties and above 10% for tertiary stock. In particular, larger properties that are either vacant or reflecting low WALE's reflect very soft yields.

Suburban

Suburban office markets remain very soft overall with high levels of vacancy, increasing incentives and falling rentals. However, there are some strong suburban performers including office parks at Eight Mile Plains, and Northlakes. The principal attraction of such suburban parks is increased availability of parking.

Toowoomba

The Toowoomba commercial sector has been relatively active with a number of new developments completed over the past two to three years. These include the new Masters Home Improvement Centre in Kearney's Spring, the Northpoint Shopping Centre anchored by Coles with a large medical component

and the Drayton Shopping Centre anchored by Woolworths. In addition, Bunnings has purchased the former Toowoomba Foundry site on Ruthven Street with the intention of developing a second Bunnings store in Toowoomba. The site is located on the northern fringes of Toowoomba's CBD with a land component of over five hectares, however it is noted the development is expected to be challenging due to potential heritage and environmental issues.

The QIC expansion and redevelopment of Grand Central Shopping Centre in Toowoomba's CBD, currently anchored by Coles, Myer and Target has commenced and is expected to be completed by late 2016. The expansion is to include a Woolworths, Big W and 100 new speciality stores with expectations that QIC will be aggressive when sourcing additional tenants.

Rents in general have remained relatively static although market leading rents may be achieved for new developments.

The office market in Toowoomba is predominantly found in the CBD and fringe CBD areas with some office use properties in established suburbs which generally comprise former dwellings converted to professional office or paramedical facilities.

Leasing demand in 2015 was considered moderate with office rentals remaining relatively static. Gross face rents for prime office buildings sit at around

\$375 per square metre to \$400 per square metre per annum. Any new development would likely require rentals towards the upper parameters to be feasible. Secondary office space continues to be slow in line with softer tenant demand. The slow market conditions have seen the introduction of some rental incentives as landlords compete for tenants.

There have been no new office buildings developed over the past two years and this is seen as a result of limited demand and a necessity for extensive lease pre-commitment and market leading rentals to ensure projects are feasible.

The low interest rates have resulted in strong demand from investors for commercial properties. However the lack of supply of quality, fully leased properties has limited the number of investment sales and has resulted in a firming of net yields.

Major recent retail or office sales of note include:

- Northpoint Shopping Centre sold for \$36.5 million in September 2014 (reported fully leased yield of 7.6%).
- Retail centre Victoria Central in Margaret Street reportedly sold for \$3.85 million in September 2015 (yield 7.90%).
- Office building known as Canberra Place reportedly sold for \$4.5 million in September 2015 (yield 9.13%).

The limited investment sales have indicated yields of between 7.03% and 9.13%. Other investment sales of note were in Capital Place, a large modern office building that was strata-titled. These units have sold at prices ranging from \$225,000 to \$965,000 at circa mid 8% net yields. Several larger office buildings, Petard House and the James Cook Centre were marketed for sale late 2014 without success. Both these properties were in higher price brackets (one above \$6 million and one above \$10 million), which appear to have a reduced number of buyers. The sub \$1 million price bracket remains strong with a significantly increased number of buyers in this market segment.

Gold Coast

2015 has seen the Gold Coast office sector in general improvement mode, having improved in strength as the year has progressed. Overall, the across the board vacancy level has certainly stabilised and is expected to continue on a downward trend line moving forward; office rental have stabilised and incentive reduced; sale volumes have increased; yields firmed; and the sector has seen several sales of larger standalone office buildings.

A big contributor to the improved marketplace conditions has been the sustained low interest rate environment, whilst there has also been more stability in local economic conditions. Various infrastructure initiatives have also assisted with

improved sentiment - the light rail has achieved above expected patronage, and the stage 2 extension to facilitate connectivity to the heavy line at Helensvale has the green light so as to complete prior to the 2018 Commonwealth games; an expansion and refurbishment Pacific Fair shopping centre re-opened in late 2015; Jupiter's Casino have announced a \$345 million expansion and the Gold Coast Airport a \$200 million expansion/upgrade (also for the games).

Figures released by the Property Council of Australia (PCA) in July 2015 indicated a slightly improved position of vacancies across the Gold Coast, having decreased from 15% in July 2014 to 14.8% in July 2015.

The standout performing precinct within this market segment was the Broadbeach office precinct with vacancy rates decreasing from 8.8% to 4.2% representing a total change in occupied stock of 4.6%; we note that the Robina/Varsity Lakes office precinct reflected a slight reduction in its vacancy level to 8.6%.

Insofar as some of the Gold Coast more traditional office precincts such as Southport, Bundall and Surfers Paradise, vacancy rates still remain relatively high representing rates in the order of 14%, 17.2% and 29.9% respectively. Southport reflected a limited reduction over the 12 months comparison period,

whereas Bundall and Surfers Paradise reflected increases. In all three areas, stock is generally older and slower to be absorbed; based on the collective extent of available stock competing interests will continue to be an ongoing problem in respect to absorption.

Rental levels have stabilised and in cases are starting to exhibit growth, albeit low in nature. Incentives have reduced - for older, more affordable floor space incentive are nil or only reflect the equivalent of one to two months to fitout; for more expensive A Grade space the incentives are 8% to 10%, but a reduction on levels provided in 2014. Typically, rental rates for A Grade stock range between \$460 and \$500 per square metre gross plus car parking (although a rate of \$600 per square metre was achieved for a lease renewal in the Oracle at Broadbeach in the later part of this year). B Grade stock ranges between \$330 and \$425 per square metre gross plus car parking, whilst C and D Grade stock ranges between \$220 to \$280 per square metre plus car parking.

Over the course of 2015, the volume of market transactions has improved. The low interest rate environment has attracted owner-occupiers to vacant properties, and investors to leased investment properties. There were fewer transactions to entrepreneurial investors seeking to refurbish older buildings with a view to re tenant and hold or on sell

for capital growth. International buyers, particularly Asian, whilst being more prolific in the overall Gold Coast market during 2015, have generally shown only low interest in office sector. Good quality lease covenants with reasonable WALE's, together with stabilisation of vacancy levels and rental rates will be the catalysts to attract buyers to the Gold Coast office market moving forward.

It is noted, however, that agents are suggesting sellers are starting to question why they should dispose of buildings that in many cases are now starting to regain value, more so on the reasoning of... where and in what do I reinvest?

Some notable larger transactions that have occurred over the past 12 months include the following:

- Foxtel Building, 35 Robina Town Centre Dr, Robina. - sold in April 2015 for \$46,000,000. A Grade, six level office building having a total Lettable Area of 9,814 square metres. There are 157 basement car parks and on-grade car parking for 111 cars. Constructed circa 2001. Fully let and sold on a reported WALE of 8 years. Reported to indicate a 7.8% yield. Reflects a rate of \$4,687 per square metre.
- 16 Queensland Av, Broadbeach - sold in May 2015 for \$11,860,000. B Grade, six level office building having a total Lettable Area of 2,160 square

metres. Basement, covered podium and open podium car parking is provided for 54 vehicles. Constructed circa 1980's and substantially refurbished in 2012. Advised fully occupied and returning \$865,000 per annum net. The property reflects an analysed yield of 6.81% and a rate of \$5,491 per square metre.

- Bankwest House, 68 Marine Pde, Southport - sold in July 2015 for \$8,300,000. B Grade, six level office building having a total Lettable Area of 1,396 square metres. Basement, covered podium and open podium car parking is provided for 31 vehicles. Constructed circa 1989 and substantially refurbished in 2006. Fully let and returning approximately \$665,000 per annum net. Passing rental considered above market level. The property reflects an analysed yield of 4.81% and a rate of \$5,946 per square metre.
- The Rocket, 203 Robina Town Centre Dr, Robina. - sold in September 2015 for \$70,050,000. A Grade, 16 level office building having a total Lettable Area of 12,814 square metres comprising 1,723 square metres of retail and 11,091 square metres of office floor space. There are 420 car parks including 391 basement spaces and 29 on grade spaces. Completed December 2009. Strata titled, but purchased 'in one line'. Reported passing gross rental \$6,635,214 plus guaranteed rental of \$415,896.37 reflecting \$7,051,110 per annum gross.

WALE 2.6 years. The property reflects an analysed yield of 8.35% and a rate of \$5,467 per square metre.

However, we note that a reasonably large gap still exists between primary and secondary properties.

Furthermore, a major segment of the Gold Coast office market comprises smaller strata titled office suites which constitute approximately one third of the city's total office space. The low interest rate environment has continued to encourage owner-occupiers in this market sector, resulting in an increased volume of sales during 2015.

Value rates exhibited by good quality strata office space on the Gold Coast typically reflect between \$3,500 and \$4,500 per square metre inclusive of car parking and between \$2,000 and \$3,500 for secondary stock depending upon size, location and physical attributes. These are similar to 2014, although the median rate in each category has probably increased circa 5%.

In summary, 2015 was a better year for the Gold Coast office market as local economic conditions continued to improve, net office vacancies dipped slightly and rental levels ticked up marginally. Moving into 2016 we would expect the improving conditions to continue on the back of sustained low interest rates and ongoing benefit of planned infrastructure associated with the Commonwealth Games in 2018.

However, uncertainty in respect to global unrest could have implications for the Australian property market overall.



The Rocket - 203 Robina Town Center Drive

Sunshine Coast

2015 saw a continuation of the trends noted during 2014 within the office market on the Sunshine Coast. Generally we saw limited take up of vacancy, apart from in the better classes of property with the overall

vacancy rate holding generally steady at circa 12% down from 14% in 2014.

Overall rental rates were mixed in the sector. Secondary property saw some drops in rental levels in order to gain tenants, while well located and good quality buildings saw some rental growth, albeit minor.

Towards the last six months of 2015, we have seen the owner-occupier market again come back, which is a positive sign for this sector. We noted a number of sales in the Kawana Business Centre again reach over \$3,800 per square metre, which is an increase of circa 10% on about 12 to 18 months previous. This has come about due to the improved business confidence noted currently on the Sunshine Coast.

We have also seen a number of larger strata titled and stand alone sales of office space in 2015. A strata sale in Kawana sold in June for \$2.2 million indicating a yield of circa 8% and \$4,200 per square metre leased to a national tenant. A 3,111 square metre building in Kawana was purchased by the Sunshine Coast University in July for \$6.85 million with the building being mostly vacant at the time of sale. The University purchased for owner-occupation.

2016 is shaping up to be an interesting year in the office market with significant levels of supply currently under construction.

It will be intriguing to see if there will be good take up of the space or if existing tenants will relocate and it will force the hard fought recent rental increases lower again.

Rockhampton

A wrap of the office market for 2015 in Rockhampton shows small amounts of investor activity, with most of the demand driven by the owner occupier market. We are aware of about eight sales of office properties in south and north Rockhampton throughout 2015, with only one of these being to an investor and the remaining sales all to owner-occupiers. These sales have been up to a price point of \$1.1 million, however most of the sales fell within the range of \$380,000 to \$700,000. The presence of this buyer type in the Rockhampton market has been driven strongly by low interest rates.

There has been no major addition of office accommodation to the market, however we do note that work is nearing completion on a new office building on the corner of Musgrave Street and Burnett Street which will provide approximately 896 square metres of lettable area. This new office building is to be owner occupied.

Rentals appear to have remained stable for the duration of the year and the presence of incentives remains strong in order to secure tenants. Rentals for modern office accommodation in well exposed

locations with available car parking appear to be holding well.

Overall, a wrap of 2015 shows a fairly stable market across the office sector.

Gladstone

The office market in Gladstone for 2015 has been slow, continuing the declining conditions experienced throughout 2013 and 2014. As construction phases have come to an end on most local LNG projects, demand for office accommodation has declined. This has been the big influence on supply and demand for office accommodation in Gladstone. Local agents report enquiry for office accommodation remains low, with high supply of accommodation available in the Gladstone CBD and surrounds. Tenants through the year have regained bargaining power when renegotiating leases, instigating reductions on rental amounts struck during peak market conditions. In order to retain tenants, it has been necessary for landlords to reduce office rentals. Due to high supply, incentives have also been offered by landlords in order to secure tenants, including rent free periods and fit out contributions. While sales activity has been low, there is one notable sale of a double storey office building in Goondoon Street for about \$2.4 million, reflecting a passing yield of about 9%.

Mackay

The Mackay commercial office market faced some pretty significant challenges during 2015, with continued low demand and a large volume of supply present in the CBD.

The majority of sales was driven by demand from owner-occupiers or part owner-occupiers.

The highest sale was for 73 Victoria Street (\$2.35 million), which achieved an analysed yield of circa 9.36%, however was reportedly purchased for part owner occupation, while retaining the existing tenants. Most sales in the CBD have been for smaller, owner occupied properties, which appears to be the dominant purchaser at present.

Investors are very circumspect about the local market and are generally only considering good quality properties with a strong tenant profile and long unexpired lease terms or WALE's.

Most buyers in the current market however are recognising the potential for a future softening in rental rates and an increase in vacancies and are discounting offers accordingly.

The commercial office leasing market in the CBD appears to have undergone, and may still be undergoing, a fairly significant downward correction

during 2015. Rents in early 2015 indicated a broad range of \$224 to \$357 per square metre gross. Recent negotiations during the second and third quarter of the year for first level, reasonable quality, lifted office accommodation resulted in rental rates of \$160 to \$207 per square metre gross including air conditioning running costs.

It is difficult to discern whether these low rates are one off instances or indicative of a further deterioration in market conditions. Therefore an additional weight of evidence is required to fully support the notion that the broader market has fallen to this level.

The future of the local economy is volatile and it is likely that there will be further downward pressure on rental rates in the medium term as the current oversupply and limited demand situation is unlikely to change without a significant turnaround and improvement in the local economy. The impact this will have on property values is difficult to quantify, although the softening in rental values will almost certainly erode net incomes.

Townsville

Townsville's commercial market is entrenched at the bottom of the property cycle. Activity has picked up slightly throughout 2015 but the turnaround is towards quality property offering strong investment returns with long term leases or national tenants.

On the back of some quality sales in 2014, the office market throughout 2015 has generally been slow with limited transactions, however there are a number of quality properties reportedly under negotiation. Details of these are yet to be made available.

Vacancy rates remain high and the office market continues to experience weakness in demand. Rental rates have suffered further downward pressure triggering increases in leasing incentives to attract tenants.

We have seen further office refurbishments in the inner city and fringe inner city locations throughout the year. While this could be considered a somewhat bold move in the current market environment, we consider that these upgrades are putting those landlords in a superior position to attract tenants when interest returns to the market. Landlords not in a position to undertake upgrades are likely to struggle to attract interest when demand returns or retain tenants when leases expire.

The sub \$5 million price range remains the main area of activity with the sub \$2 million price bracket being a more realistic range for mum and dad investors at this time as they are seen as more affordable and less risky due to smaller floor plates and single tenancy configurations.

Overall the interest being shown in the office market seems to be being driven by out of town investors

seeking better returns compared to the overheated metro markets of Sydney or Melbourne. The level of demand is considered to be directly commensurate with the strength of the lease profile and secondary properties are still experiencing limited interest, especially those with vacancies.

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. The last large office building constructed in Cairns was the State Government office tower completed in 2010 and there are no known new developments in the pipeline.

Most new office space leasing demand is for smaller areas and for modern, good quality green star rated premises, 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.

Overall however there has been little change in the Cairns office market during 2015.

Northern Territory

Darwin

The major activity in the commercial office sector in Darwin in 2015 was the opening of the Charles Darwin Centre in the Mall. A total of 21 floors and over 16,000 square metres of net lettable area, it is undoubtedly the premium address for office space in the Northern Territory. A significant portion was pre leased to the NT Government and the developer is retaining some space for their own business.

The effect on the Darwin office market has been substantial. Not only have many departments relocated there, but the efficient design of the building means that fewer square metres are required per employee.

Demand for office space in Darwin is moribund and the net absorption rate will be low or negative for the foreseeable future. With higher vacancy rates expected to persist into the medium term at least, the outlook is not positive for owners of existing buildings. This will flow through to the other main office centres of Casuarina and Palmerston.

With negotiation power shifting to tenants, we do not expect any positive rental growth in the Darwin market for some time.

Western Australia

Perth

Leasing conditions in the Perth commercial office market remained stagnant amid weakening demand. As resources-related companies reduced their staff and functions, demand for office space in Perth has plummeted over the past 12 months.

The size of the Perth CBD office market is some 1.646 million square metres of lettable space, of which approximately 960,000 square metres, just over half, comprises prime (premium and A grade) space and the remaining 686,000 square metres is secondary (B, C and D grade).

• Average vacancy across the office grades as at July 2015 reached 16.6% or 271,000 square metres, the highest level since the mid 1990s in Perth.

• However, this figure is predicted to be more likely closer to 19% by the end of 2015 with the addition of new supply to the market, plus backfill space and the further retraction in demand for space. It may not stop there.

The current vacancy amounts to about 180 whole floors of office space available for lease in the Perth

CBD market, assuming an average floor plate of 1,500 square metres. This is expected to rise further.

Iron ore prices began to fall in September 2012 and after they failed to recover, many projects began to be put on hold. By late 2013, with office demand beginning to fall, incentives began to rise, resulting in a decline in effective rents. The current average incentive offered in the Perth CBD is 45%, however in lower grade space this can be higher. Current face rents in Perth are \$500 to \$700 per square metre per annum net for prime or A grade, and \$300 to \$400 per square metre per annum net for B grade.

To add to the woes of the Perth office market, there are six large office projects due for completion now. These projects will add a further 125,000 square metres of office space to the market, however 70% of this space has been pre-committed meaning that 37,500 square metres will be available for lease and added to the current available stock.

There has been another year of below average sale activity in the Perth CBD office market. The sales in the past year to November 2015 amounted to approximately \$250 million, well below the five year average of over \$725 million.

Due to the fall in effective rents, capital values have generally eased over the past 12 months, so it is no wonder sale volumes are below the longer term

average. Having said that, we predict that owners will begin to divest of their assets or portfolios and look for opportunities in other markets, but we should see an influx of capital from overseas investors looking for a stable government environment.

So, 2015 was a pretty below average year by anyone's standard, worse than 2014. So what is in store for 2016 in Perth? Well, we predict that tenants will use this opportunity to renegotiate leases or move to better space (with their landlord paying for the fitout). This means that lower grade space will suffer the most, as the flight will be to premium grade locations and space.

There is a significant amount of new supply which remains uncommitted entering the market, adding to an already high vacancy. There are no real indications that the resources sector will suddenly re-engage, thus fuelling the demand for office space in Perth once again. We think we are in the early stages of a medium-term, stagnant office market. Space will need to be converted (hotel, residential and educational), or taken off line and upgraded before things start to improve in terms of vacancy and rents.

From an investment angle, yields are still showing healthy signs for investors (around 7.25% to 8.5% for prime grade assets and higher for lower grade

assets) and so with some pain comes some gain for those with the capital and foresight to invest.

Perth has begun its transition from a mining town to a tourism based town. When James Packer finishes the expansion of his Crown Casino at Burswood which includes a new hotel, the Elisabeth Quay on the Swan River is fully operational offering new hospitality venues, hotels and apartments and other key infrastructure projects are completed (including a new stadium at Burswood and Northlink development between the CBD and Northbridge) and planned expansions of regional shopping centres, we believe Perth will emerge as a tourism hub given its closer links (in time and distance) to the Asian hubs of Singapore, Malaysia and Indonesia.

South West WA

The office market in the South West has been relatively quiet throughout 2015. The generally lacklustre business confidence throughout the year has curbed any investment in the office sector. While there have been very few new office developments entering the market there is considered to be a limited supply of particularly larger size A grade quality office space. This being the case however there is also currently limited demand for this space particularly with government departments no longer requiring new space due to budget restraints.

There have been a number of re-lettings of smaller quality office space both in Busselton and Bunbury at rental levels which have either kept up with or are slightly reduced from the previous rental values.

There have been very few office transactions during the year apart from a couple of smaller office units in Bunbury indicating limited demand within this sector.

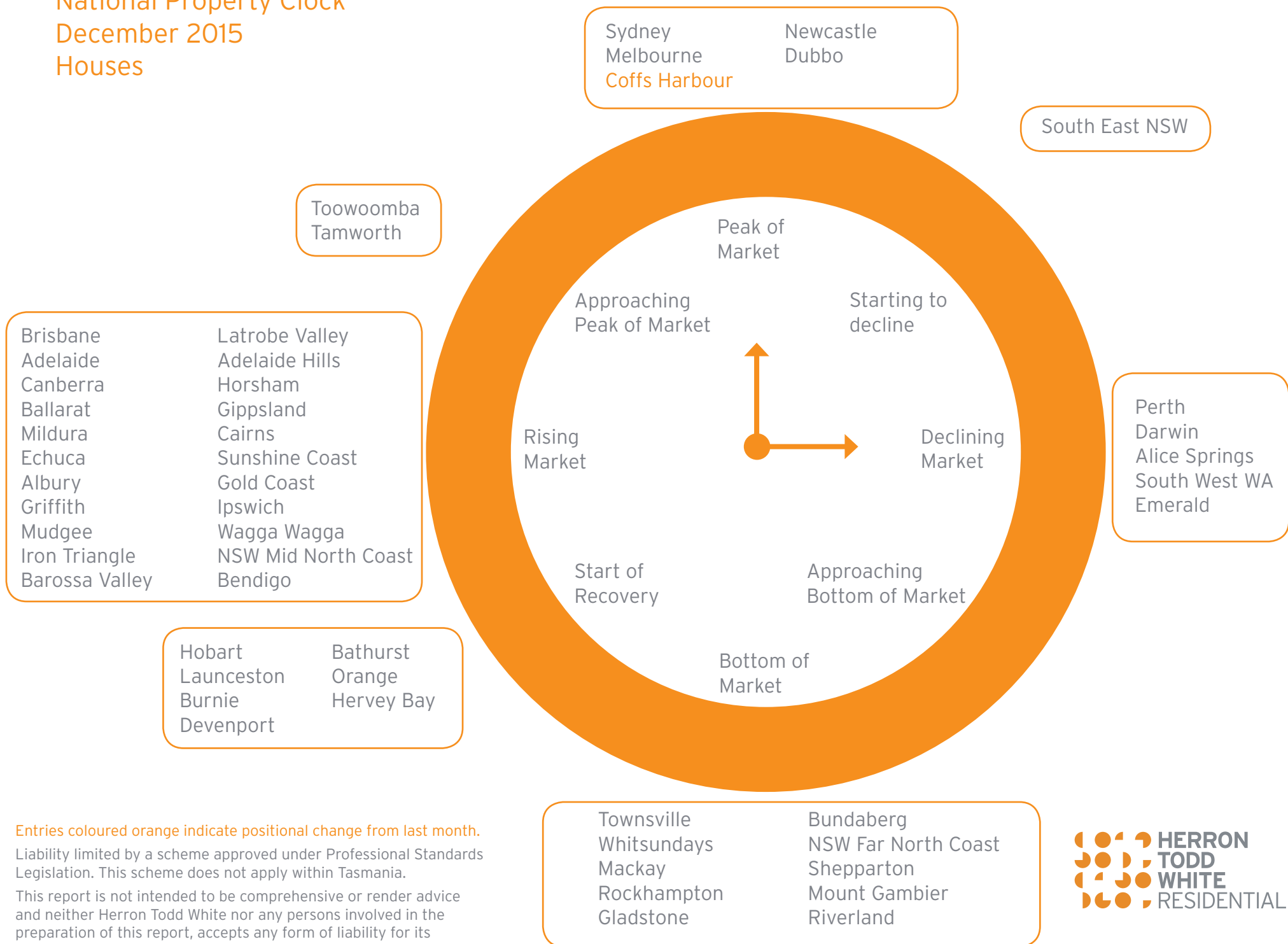
Our discussions with agents active in the commercial market indicate an increase in enquiries over the past few weeks possibly as a result of the increase in business confidence due to the change in leadership in the Federal Government.

Residential

National Property Clock

December 2015

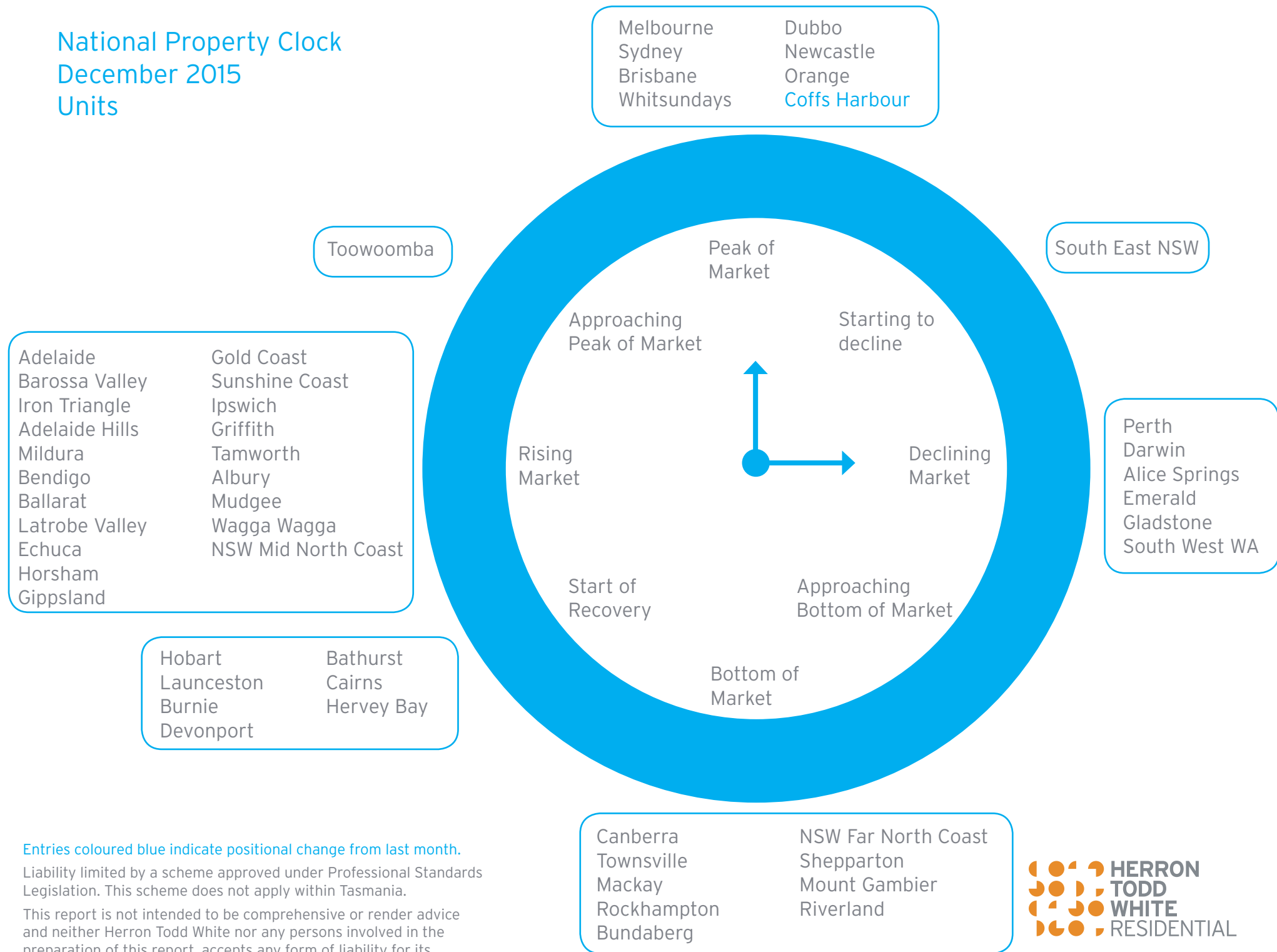
Houses



National Property Clock

December 2015

Units



Overview

In keeping with tradition, each of our offices have provided a summary of the real estate market in their service area – a round up of centres from around the nation.

We've also asked each office to revisit their hit predictions from February this year so as to provide a scorecard on their calls. Most were on the mark, but best if you check out your area of interest to see how we performed.

Sydney

Overall 2015 will be seen as the turning point for the Sydney property market. As predicted the market continued to steam ahead in the early months from the momentum of late 2014 and then began to slow in recent months. The current market conditions are mostly due to a combination of a higher volume of supply, affordability concerns, major lenders increasing interest rates and APRA regulations on investment loans.

The Sydney metropolitan area, as with the majority of Sydney, exceeded our expectations across all price points throughout 2015. A general consensus at the start of the year was that the Sydney metropolitan area would flatten after dramatic growth throughout 2014. This was a prediction based on historic trends, market fundamentals and conversation among other property professionals operating in our area. As

the year progressed we were all very surprised at the continued growth and strength of the Sydney metropolitan market within all subsections.

Prestige market

Over the past 12 months, confidence in the prestige residential market appears to have returned to somewhat buoyant levels, with evidence of supportable value level growth in some areas, and with a strong number of trophy homes transacting.

While many local high net wealth purchasers are currently active in the Sydney prestige residential market, we have noted a resurgence in demand from ex pat buyers and international purchasers, particularly high net wealth Chinese buyers, seeking to acquire prestige residential property as the Sydney market continues in an upswing, and also to capitalise on the current weakness in the Australian dollar.

It can also be said that strong growth in the lower end of the property market has in some ways flowed through to the lower end of the prestige market, as those vendors are now able to take the profit from their strong sales results, and trade into those properties in the \$3 million range.

With confidence returning to the prestige market and transaction numbers strengthening during 2015, a number of prestige selling agents have reported diminishing stock levels that are not currently

matching demand and enquiry.

Over recent weeks, the overall Sydney auction market has declined significantly, impacted by the announcement by banks of increasing mortgage rates for investors, a generally weak local economic environment and concerns regarding the performance of the global economy.

Our feedback from prestige selling agents indicates that weakening in auction clearance rates appears to have mainly impacted the lower end of the residential market (say sub \$2 million), with ongoing demand and reasonable confidence remaining in prestige price bands, with some agencies reporting prestige auction clearance rates of up to 80%.

Trophy sales

La Mer, Wentworth Road, Vaucluse – sold in August for around a reported \$70 million, setting a new Australian house record. Sold by James Packer, this property reportedly comprises a 3,300 square metre site with quality harbour and CBD views, providing 6-bedroom main accommodation, with underground parking for 20 cars, vast entertaining spaces, two self-contained staff quarters, a rooftop lawn and lap pool. It is rumoured the property was three years under construction at an estimated cost of \$40 million.

Villa Del Mare, Wolseley Road, Point Piper – originally sold in October 2014 for \$39 million by Julia Ross

to a Chinese businessman after around three years on the market. The new owner was then forced to sell the property by Treasurer Joe Hockey due to contravention of foreign ownership laws, reselling for \$39 million. The property is a near 1,500 square metre non-water front site improved with a 6-bedroom, 8-bathroom high calibre Mediterranean style home featuring expansive harbour and CBD views and car accommodation for eight cars.

Southern Sydney

Predictions of Greenhills Beach, some three kilometres to the north of Cronulla in Sydney's Shire have exceeded expectations with strong sales results throughout 2015. We had predicted after a strong 2014 that this market was sure to slow and level out. In particular, in the first half of 2015 demand was at its highest resulting in some very high sale results far exceeding everyone's expectations.

The highest settled sale according to RP Data records shows a modern 5-bedroom, 4-bathroom dwelling on a 590 square metre parcel achieving \$2,370,000 in June with the previous transaction being \$900,000 for the transfer of the vacant land in late 2013.

This followed true throughout the rest of the suburbs in the south of Sydney where the market outperformed our expectations. One of our valuers came across a very strong trophy sale in the suburb of Sandringham approximately 20 kilometres to the

south of the CBD. The property is east facing onto Botany Bay and is known as The Versace House due to its Versace theme throughout. The property sold in March 2015 for \$7.8 million and comprises a 980 square metre parcel of land, beachfront reserve onto Botany Bay, 4-bedrooms and 5-bathrooms.



The Versace House (RP Data)

Fringe CBD

We continue to value a high number of properties in the Waterloo/Zetland area. We were concerned at the start of this year that the continued development of high density residential unit complexes was going to cause an oversupply issue, obviously putting downward pressure on prices. In truth, we underestimated the continued foreign and local investment in the area and have seen unit prices here go from

strength to strength. This is the case for not only new developments but also for re-sales in the older complexes in the area which were the ones we predicted would not perform well in 2015.

Inner city fringe suburbs were again predicted by our office to flatten throughout 2015. Like everywhere else though, the market has had another year of extreme growth. We thought that investor interest would have reduced at the start of the year with calculated yields being unappealing due to the dramatic price rises in 2014. Investors were not deterred though and remained very active up until the point of the APRA changes. A converted warehouse unit at 82 Myrtle Street in the city fringe suburb of Chippendale just sold on 14 November 2015 for \$1,236,000 according to RP Data. The previous sale of this property was \$805,000 on 10 April 2013 (RP Data) with no significant improvements during this period giving capital growth of 53.5% over two and a half years. It was reported by Domain that this property sold at \$136,000 over the auction reserve price which would indicate the selling agent and vendor also underestimated the strength in the market.



82 Myrtle Street, Chippendale (RP Data)

Western Sydney

Providing entry to the market for the majority of first home buyers and first time investors, the metropolitan fringes can provide capital appreciation and solid rental returns for those happy to commute or work in the regional town centres. Suburbs we advised to look out for in early 2015 were Penrith and Seven Hills. In Penrith the median house price now stands at \$547,000 shooting up by 31% (annual) and in Seven Hills the median house price is currently \$676,000 up by 22% (source: Australian Property Monitors). Both locations offer existing transport links with rail and motorway access and proximity to employment zones ensuring a ready pool of both owner-occupiers and tenants.

South West Sydney

First home buyers will continue to be active within the south west growth areas including Gregory Hills, Oran Park and Catherine Fields. For mid \$600,000, buyers can enter these markets and acquire a 4-bedroom, 2-bathroom family home. To highlight their popularity this figure has increased from high \$500,000 over the past twelve months.

Small blocks with low maintenance dwellings continue to be popular with time poor first home owners not keen to maintain a large block. A new suburb in Leppington within this south west zone was announced in November. The released plans are to rezone existing semi-rural parcels into new estates for nearly 30,000 new homes. We would expect that these sites will be popular with several market segments and particularly with those looking to the future with the proposed completion of Badgerys Creek Airport and its associated employment zones in the mid to late 2020s to benefit the entire region.

Central West

We suggested unit buyers keep an eye on suburbs surrounding Parramatta. With continued investment in Sydney's second CBD over the next decade, the surrounding suburbs will also enjoy the benefits of this investment. This is evident with the Harris Park unit median price now \$464,000 a growth of 11% (annual) and the Westmead unit median price

at \$535,000 showing a growth of 14% (source: Australian Property Monitors).

Again due to the proximity of the commercial centre, ready access to transport, the continued expansion of the Western Sydney University (campuses at Westmead and Rose Hill) and the medical precinct surrounding Westmead Hospital these suburbs should continue in popularity with both owner-occupiers and investors and should provide steady capital appreciation.

North West

2015 saw a continuing trend of high growth in the north-west growth corridor of Sydney such as at Baulkham Hills, Kellyville, Cherrybrook and Castle Hill. With the north-west rail link construction well on its way, these suburbs continue to be popular with young families due to quality local schools, upcoming transport hubs and established shopping precincts. Australian Property Monitors indicates the median house price for Cherrybrook in 2014 was \$980,000 and in 2015 it jumped to \$1,239,000.

Residential land in the north-west is high in demand with The Ponds completely sold two years ahead of schedule. A new suburb of Box Hill is being developed to accommodate more than 4,000 families. The master plan for Box Hill North has been approved by the state government which is confident it will provide homes for a wide range of buyers. The

new suburb will have a primary school, a 4 hectare lake, shops and commercial businesses.

Conclusion

In conclusion, 2015 outperformed our expectations in the Sydney metropolitan area. We continued to see strong growth, low supply and trophy sales. In the past six weeks we have finally started to see the market stalling, with auction clearance rates dropping to 61% (according to Domain). This has been magnified by an increase in stock levels turning the market in the buyer's favour after two and a half years of relentless growth. This was always going to occur at some stage, but it happened far later than any of us predicted.

Dusting off our crystal ball we believe there will be limited growth in 2016 as the market will continue to cool due to a combination of a higher volume of supply, affordability concerns, major lenders increasing interest rates and APRA regulations on investment loans. Property professionals are not seeing this as a doom and gloom situation, more like a market correction after a period of strong but unsustainable growth.

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.

Overall, 2015 saw the Canberra residential sector continue on a level path, with noticeable improvement in the housing sector occurring in the last quarter. Established residential housing in the \$700,000 to \$2,000,000 sales bracket performed well with increased demand as a result of the Mr Fluffy buy back scheme and extra buyers entering the market. Features driving demand included larger block sizes, established grounds and proximity to services.

The high supply of new unit developments notably in outer suburb locations saw some softening in this market segment. Selling prices for 1-bedroom unit, off the plan stock have come back to around \$260,000 with earlier prices around the \$300,000 mark. The weakening new unit market was offset by sales agents reporting strong interest from foreign investors looking at new housing in developing areas. Price points for this style of housing investment range from \$450,000 to \$1,000,000.

The spring sales season towards the end of 2015 saw several sales records achieved in the housing market with a \$2,000,000 sale in Nicholls, a \$1,185,000 sale in Harrison and a \$1,470,000 sale occurring in Crace.

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

Illawarra

There were no standout performers in 2015 in the residential sector. All sectors benefited from the low interest rate environment and more importantly for growth, the closeness of the Sydney market influencing prices. Notwithstanding the broad overall rise in market prices, we did see residential land values strengthen sharply, particularly in the latter part of the year, where it appears supply has not caught up with demand. This has generally been in the southern parts of the region where greenfield sites were in demand and developed lots sold up quickly.

New CBD units were also apparently a big hit with owner-occupiers and investors, with many being snapped up off the plan. The strong prices being paid for these units also tended to drag the old 1970s and 1980s walk up models along as well and it is now difficult to find these under \$350,000 in the inner ring.

With a large number of new vacant lots and new CBD units coming to the market it will remain to be seen whether prices hold their current levels moving into 2016. Banks are predicting a low interest rate environment so perhaps prices will steady. Some of the Sydney frenzy is now dying down so that is likely to affect our Illawarra region market.

Weak sectors of the market were few but perhaps we didn't see as much growth in older units in outlying areas, although these are not a big part of the market and it may be a reflection of the choice available in other more attractive products in the inner city area.

In many ways we did predict a lot of this in our early 2015 edition of the Month in Review. We stated that major infrastructure such as GPT's new Wollongong CBD shopping centre, the bypass infrastructure works taking place and the Shellharbour Marina would be beneficial to employment prospects in the area and keep investors in the market. This influx of employment and confidence has surely had some impact on the buoyant real estate residential market.

We also predicted that this trend would continue till at least mid 2015 and after that, continued growth although at a slower rate. However we did not really see a slow down until the last month or so. Local real estate agents were claiming that the past two to three years was simply the catch up that was needed. Whether that is true is debatable. In our view we

can simply attribute the strength of the local market to a continued low interest rate trend, continued relatively strong employment statistics and of course our proximity to Sydney, the largest real estate market in the nation.

For 2016 to continue the same trend or at least retain the values of 2015, interest rates must remain relatively low. These low interest rates are crucial for investors, first home buyers and renovators and extenders to maintain confidence.

Buyers and lenders should also still be cautious about not extending themselves in this low interest rate period to avoid financial stress when interest rates inevitably do rise.

The employment climate in 2016 in the Illawarra will also be a key factor in determining the strength of the local market. Employment security in the mining and manufacturing sectors is still uncertain with BlueScope discussing closing the Port Kembla base with a resultant lay-off of 500 workers. This appears to have been averted for now.

In the northern suburbs closest to Sydney we have seen many trophy properties change hands and several sales over \$3 million have taken place, a phenomenon not seen in seven years. A modern 3-level house at 5 Garaban Court, Bulli changed hands in July for \$3.175 million, a record for the area, and right up north at Stanwell Park, an ultra modern

property with direct beachfront access at 49 Lower Coast Road fetched \$3.69 million.

Overall we predict the market to continue reasonable growth at least for the first half of 2016. In the latter part of the year, we believe sales will slow and no longer be a seller's market but rather a more steady environment.

Tips for best localities are much the same as always.

Inner ring and northern suburbs up to Bulli offer the best value for money in our opinion and postcodes such as 2519, 2517 and 2518 rate highly. Look for flat blocks, beach and train access. Sea views are becoming less valued as closeness to shops, schools and transport take priority.

In the southern areas, we look to Shellharbour and Kiama as our picks. Shellharbour's Marina is well underway and will really boost this seaside village, particularly now that the new train station has opened at Shellharbour Junction. Kiama is a well preserved seaside location, with relatively low rise development and that special village feel.

Southern Highlands

The Southern Highlands residential property markets finally started to improve in 2015 and the latter part of 2014.

This year it has been (as in most market moves) most apparent in the lower price bracket of under

\$1,000,000, with properties under \$700,000 moving off the books pretty easily within short selling times. After a long hiatus period of subdued prices, the towns and villages of the Southern Highlands have also shown some increases. Steady as it goes is the deal rather than a flurry of demand, but local real estate agents also confirm that the enquiry rate is up and the market is increasing. For the year ahead, we anticipate this to continue. The rental market in the Highlands had increased and is now steady.

Continuing good demand for vacant land and new properties throughout the Highlands region has returned confidence to a previously flat market.

The newest construction is mainly in Renwick-Mittagong and on the outskirts of Bowral and Moss Vale. New home builds really give impetus to a small economy and realistically we predict this will continue into 2016 and beyond given our analysis.

The prestige or upper end of the market of over \$1.5 million to \$3 million is steady and some caution is still evident from buyers, but transactions are starting to become more frequent, with cashed up buyers from Sydney generally being the main players, although

there is still some trading up happening. Once again in this sector, agents are stating that if vendors' expectations are excessive, longer selling periods apply, until the vendors eventually meet the market. We are expecting this sector to remain steady in 2016.

Southern Tablelands

In Goulburn and surrounds, market prices have been stable throughout 2015 without much fanfare. A great deal of the new lots in north Goulburn have been sold and building is well underway, with a resulting knock-on effect for the local economy, which is well anchored by major employers Goulburn Jail and Police Academy.

We expect that the Goulburn market will continue to be steady in 2016. The Crookwell Village market is also steady.

The rural residential property market has also been stable. We predict that these markets should remain steady throughout 2016.

The rental market in Goulburn has actually declined slightly as some tenants have returned to the Canberra area.

Newcastle

The 2015 Newcastle property market can be classified categorically as one of mixed fortunes depending on your location.

As Australia enters a new era of significant economic change and a decreasing reliance on mining and resource industry booms, the Newcastle and Hunter Valley economy finds itself exploring new avenues to sustain and boost economic growth in the region.

Largely, Newcastle's property market has managed to weather the impacts of wider economic instability and continues to diversify into a growing service based economy. While Newcastle is still heavily reliant on coal exports, the economy seeks to diversify.

The strongest performers in the local market remain houses and units within seven kilometres of the Newcastle CBD, while the Lake Macquarie and Port Stephens markets experienced reasonable capital growth in 2015. Pleasingly this echoes the 2015 property market predictions made in our February 2015 forecast. In the main, rental yields have remained strong at around 4% to 5% with many investors relying on better performing capital growth returns.

On the flip side, a downturn in the Hunter Valley mining industry and more recently the Williamstown contamination fall-out have created market jitters in parts of the Hunter Valley and Port Stephens property markets. In the short term, residents within the Williamstown contamination zone are likely to remain on edge as further investigation unfolds.

In 2015, the NSW Government mooted possible amalgamations for many NSW local governments. Residents in the Hunter Valley, Lake Macquarie and Port Stephens LGA's will remain on watch for decisions that may impact their investments into the future. Let's hope common sense prevails on every level through this process to ensure our local economies continue to remain strong, vibrant and flexible.

In November, interest rates remained at an all time low of 2%. The RBA left interest rates on hold due to global volatility continuing, Australia's terms of trade falling and the cooling of property prices in Sydney and Melbourne. It's anyone's guess as to the RBA's next move. The last increase by the RBA was November 2010 and since that time investors have seen capital values rise, rental rates rise and portfolio values increase with little to no effort. To suddenly see an interest rate increase is a fundamental shift in mindset that may rock a few and place onto the back foot those investors who have leveraged their portfolio too high.

NSW Mid North Coast

This month we are taking a look back on 2015 and our predictions from earlier in the year.

We have had a strong year throughout the mid north coast with most residential market segments performing well. There has been strong growth in

capital values and rents as well as bullish yields for investment properties.

The only market segments that haven't seen rapid rises in values have been the prestige residential and higher value rural residential property segments. These segments only make up a small percentage of the overall market on the mid north coast and they have continued with steady values and longer selling periods.

At the start of the year we predicted that the continuing low interest rates would fuel the residential market across the mid north coast for at least the first half of the year and we were pleased to see this prediction come to pass. Recently demand has slowed slightly, but it continues to remain strong over most market segments throughout the region.

We predicted that the investment market would be strong throughout 2015 and this has also been the case with investors generally dominating the low to mid residential market segments throughout the region.

At the start of the year, we were more optimistic for 2015 than for previous years and it has been great to see a buoyant market along the mid north coast throughout 2015.

We wish everyone a very merry Christmas and a prosperous new year.

NSW Central Coast

Being so close to the Sydney, it's fair to say that the real estate market within the central coast region will follow what's happening in the Sydney market. There has been no exception in 2015.

The region has seen a very active market this year and many suburbs are enjoying a level of activity not seen for some time with values rising accordingly. Other suburbs have continued on an upward trend in values and popularity, while others have coasted. However toward the end of the year, activity declined as lending criteria and policies came into effect.

At the southern end of the region, Erina is one of those suburbs that saw higher than average levels of activity and prices paid in some cases were surprising. In speaking with the marketing agents, it seems there has been pent up demand and once the activity started, it kept going. Only now, are we seeing a slowdown in this activity. A higher level of activity has also been seen the popular rural residential Matcham/Holgate Valley area and this looks like continuing into next year.

Up at the northern end of the region, the newer suburbs of Woongarah, Hamlyn Terrace and Wadalba have had the lights switched on again. This is a good thing for this end of the region as it represents the main urban development area and to see the return of activity and confidence here is considered a boost for the region.

Values and turnover in Kariong rose during the year beyond a level we expected. This is an area with easy access to the M1 Motorway which has proven popular with those doing the daily commute to Sydney. A little further from the beaches but logic is the strength of residents here inasmuch that they commute during the week and play on the weekend.

The Peninsula areas of Umina Beach, Ettalong Beach and Woy Woy continued to grow in values and demand, which is something we didn't think would happen. We stated earlier that the rising values are becoming unsustainable, but they continued to rise in 2015 and the prices being paid here are now being compared to those in some Sydney suburbs.

On the sleepy side of the market, we are surprised that suburbs including Avoca Beach, Bateau Bay and Toukley didn't see as much activity as they deserve. We are suspicious this will change next year.

As one could expect with such a busy year in the local market, there have been a number of 'big' sales seen in the region. These include;

- a lovely rural residential property at Mount White sold for \$3.4 million;
- another rural residential property at Matcham sold at \$4 million;
- a beachfront home in Wamberal at \$3.75 million;
- two near beachfront properties at Killcare sold for \$4.5 million and \$5 million, and;

- a Blue Bay beachfront home at \$3.5 million

There have been a number of events that have impacted the regions market this year, but perhaps the most obvious has been the return of residential unit construction. Developers have made their return and it's good to see. So far Gosford City is leading the way with several developments completed and sold off during the year with several further large scale developments awaiting approvals to begin.

Gosford waterfront has been mentioned in the news a lot this year, with supporters and detractors making their views known. The development of this area has the potential to substantially change the local real estate market, but after so many years of planning, discussion and shelving, it's a sad reflection that the locals aren't holding their breath for something tangible to start. Perhaps the State Government led amalgamation of Gosford and Wyong Councils will provide an impetus for this.

Speaking of Wyong (Shire) Council, much has been spoken about major developments coming off the drawing board, but in reality, little has actually occurred. Unfortunately, like many major initiatives, there always seems to be impediments from various sources. This includes the expansion of Warnervale Airport which has the potential to boost the local market.

NSW North Coast

Lismore, Casino and Kyogle

As expected, the residential markets for 2015 in the Lismore, Casino and Kyogle localities were relatively steady with some slight variations, thanks largely to the surprise rate cut mid way through the year. The market towards the last quarter of the year has seen a slight lift in positivity, although plot divergences in the story over recent months have raised some concern for the near future.

The ongoing low level official interest rate environment contributed to a steady impact on the overall residential market with first home buyers benefiting, whereas the change in policy on the treatment of property investor finance by lenders as being a different product to home owners..... not so.

The rural residential and rural lifestyle markets of Lismore, Richmond Valley and Kyogle Shires experienced continued reticence by investors and home owners despite record low interest rates throughout the year. The increase in costs to maintain such properties was a pertinent factor as well as distance. Even more so, the semi remote and remote vacant timbered blocks of 40 hectares or more received a significant hit in overall demand, appeal and ultimately, a fall in market value. Of all the various property types, this particular sector has experienced much change over the year with typical prices being achieved ranging between \$50,000 and

\$70,000. This is a stark reality check compared to nearly five years ago when such property would have breached \$100,000.

New residential building stock for first home buyers (together with stamp duty exemptions and other incentives) and upgraders relied on the availability of vacant land which throughout the course of 2015 became increasingly slim. The current supply of vacant residential lots within Lismore, Casino and Kyogle has fallen with only the suburb of Goonellabah (Lismore City) offering some vacant land stock in the form of further planned stages in large, existing residential estates and new, smaller estates developed in the latter part of the year.

As with the Lismore, Casino and Kyogle markets, if properties were competitively priced they continued to sell. Vendors still appear to be requiring some coaching and blunt advice regarding their expectations which are based on yester year.

In summary, the residential property market for Lismore, Richmond Valley and Kyogle Council areas for 2015 had a relatively long period of softening activity and confidence despite the low interest rates. Confidence and sales activity picked up slightly during the latter stages of the year and for a brief stint following the interest rate cut.

However, the recent decision by major lenders to marginally increase their borrowing rates not long

after, citing as their reason the banking regulator APRA requiring the major banks to hold more capital in reserve by 1 July 2016 to protect against potential mortgage losses, went down like a lead balloon on a wintry arvo and has resulted in an increase of bank hopping by savvy property investors and home owners seeking better deals.

At this late point in the year, the property market for the local region is on an edge and like many times before, the role defining feature of the interest rates will be a pertinent factor in the following chapters of the 2016 residential property market story line.

Ballina

Vacant land sales increased towards the back end of the year. This is mainly due to the land buyer's subsidy scheme which is a Government rebate. The \$25,000 incentive has helped mainly local people build a new home and enter to the ever increasing property market within the North Coast. Recent stages in these subdivisions have sold quickly with an increasing shortage of supply.

The rural residential market remained slow throughout the year along with the upper end standard residential price bracket of over \$800,000. However, this has increased slightly towards the back end with some good prices being achieved.

Lennox Head, Byron Bay, Mullumbimby, Ocean Shores

Strongly performing localities over the 2015 calendar year have been Suffolk Park and Lennox Head, particularly for properties in the \$700,000 to \$1.2 million price bracket. Strong demand and lack of stock have seen both dwellings and houses alike performing well.

The continued low interest rates combined with limited stock supply throughout Byron Bay, Lennox Head and Suffolk Park have helped maintain a firming market throughout the year.

The surprise of the year within the coastal residential market has been the prestige sector within Byron Bay for properties priced from \$1.8 million and above. This market sector has performed well over the past year, with properties being purchased by interstate buyers as well as local buyers looking to trade up. Both buyer profiles have continued to compete with one another to secure their piece of this prestige market and in doing so have set new pricing benchmarks for similar and well located properties.

Coffs Harbour

The lure of cheap money and competitiveness of the banking industry have fuelled demand throughout all sectors of the market with the biggest performer being the sub \$500,000 sector where demand is the strongest. This demand has naturally flowed through into the mid to high value range (\$500,000 to \$1 million) culminating in two beachfront sales in excess of \$2 million which is the first in many years.

The rural residential market has also been strong especially for the well located properties close to Coffs Harbour such as Boambee East, Bonville, Korora, Karangi, Upper Orara, Sapphire and Moonee Beach, west of the highway, which has seen some notable sales within the \$1 million to \$2 million sector.

The ever increasing performer in the rural sector is the blueberry market driven by the recent purchase of the old Bunnings site south of Coffs Harbour with news it is to be re-developed as a local processing centre.

One sector of the market which was hit hardest by the GFC that has seen a strong recovery is new unit and housing constructions. Park Beach north of the Coffs Harbour CBD has experienced the greatest number of new unit developments with Sapphire Beach topping the list for housing. The increased

demand for new housing coupled with the natural constraints of supply has seen vacant land prices increase sharply.

In short, market conditions in all sectors have been extremely buoyant over the past twelve months which has not entirely been driven by the record low interest rates but more importantly fundamentals such as continual population growth, resurgence in local tourism, upgrading of major road infrastructure, an increasing industrial base and the growing health and education sectors.

Clarence Valley

The Clarence Valley residential market has been busy over the past year with agents reporting increased sales and limited stock available for listing.

The Grafton hub has seen an increase in demand for lower mid range residential dwelling properties particularly between \$300,000 and \$400,000. This range accounted for just over 50% of all residential dwelling sales.

Several key infrastructure developments are driving this demand which include a proposed second Grafton Bridge crossing, Pacific Motorway bypass and second jail in South Grafton.

Recently, the old Grafton jail has been re-opened, creating more jobs. These projects are underway to various degrees which is in turn driving both investor and home occupier purchases. The projected infrastructure works planned for the region are expected to continually drive this situation. The flow on effect of this large proposed infrastructure spending in the region is also impacting on other towns such as Maclean and Yamba.

Victoria

Melbourne

Arguably the biggest event to shape the residential market in Melbourne was the tightening of borrowing for investors by APRA. While the full impact hasn't been felt yet, it is likely to cause headaches for developers trying to sell off new investment apartments, which may limit supply of new apartment developments being built. This is an attempt to cool down what is currently a fairly heated market, as the Melbourne property market is expected to have the highest growth in property prices, overtaking Sydney as the highest rising property prices. With the RBA holding steady on any interest rate movements, the banks independently raised their interest rates. This was the first real attempt at curbing the rising cost of entering the property market, as new home buyers are being forced further and further away from the Melbourne CBD to find affordable houses.

Predictions

The predictions for Melbourne in 2015 were fairly accurate, with increasing foreign investment in the greater metropolitan area and continued low interest rates. The government has begun intervening in the market in an attempt to ease the pressure caused by the soft local economy. We were off target in regard to modest growth in house prices in Melbourne, with housing prices growing at a much more significant rate, although there have been signs that this is now being reigned in, with median house price growth in

Melbourne dropping from 6% for the June quarter to 2.8% in the September quarter.

Trophy Sales:

The below trophy sales were reported within Melbourne (individual photos attached)



6 Wills Street, Balwyn

This 981 square metre, circa 1930s red clinker brick residence was originally sold on 22 September 2014 for \$2,230,000 and was sold again on 16 May 2015 at auction for \$3,160,000. The growth of 41.7% in just under eight months is made even more impressive by the fact that the property isn't situated within the highly sought after Balwyn High School zone.



46 Canberra Road, Toorak

This 613 square metre, circa 1970s brick dwelling was recently renovated by architect Ilario Cortese and sold on 10 February 2015 for \$6,500,000. The property was previously sold on 3 March 2012 for \$3,905,000 showing a substantial growth of 66.5% in just under three years.



Australia 108, Penthouse, 70 Southbank Boulevard, Southbank

The purported \$25 million off the plan purchase of this 750 square metre penthouse, located in what will be the tallest building in the southern hemisphere, now has the title of Australia's most expensive apartment ever sold. The apartment will boast a private grand foyer and its own glass elevator in addition to 360 degree views of the CBD, Port Philip Bay and mountain ranges. With construction due for completion in 2019, the sale of this apartment has cemented Melbourne's place in the luxury apartment real estate market.



60-74 Buckingham Drive, Heidelberg

Banyule Homestead, built circa 1846, is one of the oldest remaining dwellings in Melbourne. The gothic style mansion sits on an impressive 9,105 square metre allotment and was sold on 16 May 2015 for \$5,200,000. The heritage listed dwelling boasts 8-bedrooms, 4-bathrooms, ballroom, breakfast room,

cellar, tennis court, pool and an impressive street frontage of 137 metres.

Strong Performers

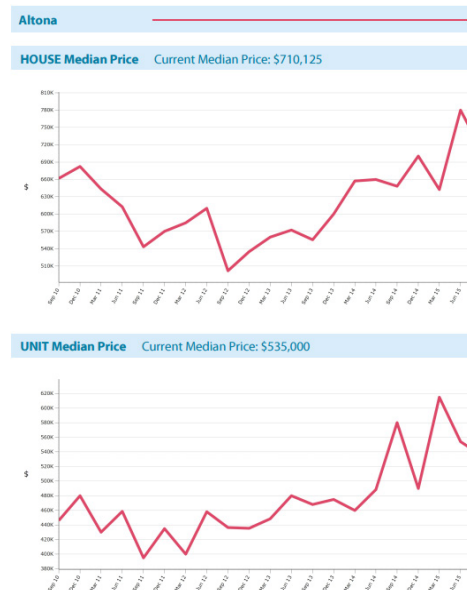
In 2015 we saw strong performances in the middle western suburbs of Altona and Airport West.

Both of these suburbs saw continued growth and a considerable increase in demand for both houses and units.

The growth of Airport West is attributed to changing attitudes and sentiment towards the suburb, good access to public transport, its location within approximately 16 kilometres of the Melbourne CBD, the redevelopment of large lots into multi-unit sites and the \$2 billion development of Essendon Fields. It is a combination of these factors that is driving market demand and median sale prices for the suburb are closing in on Keilor East, which has long overshadowed Airport West in demand and pricing. The median house price for Airport West recorded at September 2015 is \$665,000.

The State Government rolled out plans for the redevelopment of Essendon Fields earlier this year and expects to create 25,000 new jobs. While the blueprint and timeline is over the next 30 years, it has already drawn great attention to Airport West within the business sector. The perception of Airport West has been shifting as people recognise its proximity to freeways, the airports and improving

shopping and recreational facilities. With a number of residential developments now occurring, the population is densifying as home owners seek affordable housing in close proximity to the city. This is causing increased demand for vacant land and ageing dwellings on large lots as developers seize the opportunity to supply the market with infill developments.



Altona is an inner urban locale suburb, approximately 13 kilometres west of the CBD and has been a

surprisingly strong performer this year with impressive capital growth and relatively high demand both in the sales and rental markets. The median house price for September 2015 was recorded at \$710,125 (source: REIV.com.au). Similar to Airport West, a changing attitude towards the suburb due to accessibility to public transport, improving retail shops and facilities as well as proximity to beaches and the city have driven demand and desirability.

One of the largest former brown fill sites in Melbourne is located in Altona North and is forecast to supply around 1,900 new dwellings by the year 2036 due to the surplus of former industrial land creating additional housing opportunities in the suburb. This effect will impact the neighbouring suburb of Altona and thus the high demand for both sales and rentals will increase.

Gippsland

Sale/Traralgon

Property prices remained stable over the past 12 months. The winter months showed a slight slowdown, with agents having buyers but struggling to get the listings. The spring months have seen an increase in buyer activity. Traralgon has a larger portion of land to buy which has seen an increase in construction. Morwell prices have slowed slightly, although whether this is a reaction to the fires of last year is hard to tell. On the positive side for the investor market, rental returns are as high as 7.5% to

8% on lower purchase properties. Sale tends to hold its own, and with the RAAF base expansion, we would put Sale in the watch and act category.

Warragul/Drouin

This is considered a real growth area, being only an hour from Melbourne. Construction activity remains on the increase with the Waterford Rise Estate continuing development.

Phillip Island

Prices here have been stagnant with generally medium interest, however high end value properties are considered to be at their most affordable prices in many years, plus very high rental returns are achieved in peak seasons on low to medium priced properties. Phillip Island could be the sleeping giant.

Koo Wee Rup/Lang Lang

This area is on the move. Close to Pakenham and Melbourne, land prices in these two localities have increased in the past six to nine months with good demand for new homes and building.

Overall

Prices have remained stable with an increase in buyer activity in recent times. It may be a good time to buy as 2016 looks more optimistic compared to recent years.

Horsham

The strong performers in the Horsham residential market this year have proven to be the middle tier market from \$300,000 to \$450,000, mainly comprising large modern homes within developing or modern subdivisions. This market has taken off with resales displaying good levels of improvement in value.

On the other side of the coin, the property that has not fared so well is the bottom end of the market from the \$95,000 to \$150,000 price bracket that generally comprises small ex-government housing purchased by investors. This market has seen limited growth in 2015 and values remain relatively steady in many cases.

This market movement was opposite to expectations, largely as a result of the relatively weak national economy and APRA changes to investment loan criteria enabling the owner occupier market to dominate sales volume. This focus on owner-occupiers brought about a number of top end sales in 2015, in particular a property on Eastgate Drive, Horsham that sold for \$599,000 and a property in Haven that sold for \$675,000 which indicate the underlying confidence in the local market.

Warrnambool

2015 saw the Warrnambool property market regain some of the growth lost in the previous 12 months.

The numbers of sales were down on previous years which is attributed to the ongoing uncertainty surrounding current interest rates. Buyers active in the market took advantage of some great purchasing opportunities with the 2015 market considered a buyer's market.

The median housing price remained steady in comparison to recent years at \$325,000, with the best performing market being between \$300,000 and \$400,000 which accounted for approximately 48% of sales. The prestige market of Warrnambool performed the worst, with little sales transacting over \$700,000. Extended selling periods were required to achieve a successful sale with a limited number of purchasers in this bracket. The majority of home owners considering selling in this bracket decided to hold on until the market saw some improvement.

The current oversupply of residential land continues to be a major factor in Warrnambool's property market, with properties built in the 1980s to early 1990s, feeling the pinch the most, as potential purchasers opt to build new, rather than buy old and established. Land values have also suffered due to this oversupply with some developers offering incentives to purchase particular parcels of land.

Located in one of Warrnambool's most tightly held locations, Stansfield at 3 Victoria Street was offered for sale for the first time in over 45 years.

The property comprised a fairly original sandstone dwelling and was purchased at auction for \$650,000, after considerable interest. 5 Melaleuca Court was offered for sale in 2015 and comprised a circa 1980s clay brick dwelling located within one of Warrnambool's most exclusive areas, featuring river frontage on a site of approximately 4,025 square metres. It sold for \$1.11 million.

Ballarat

It has been a year of fits, starts and false dawns for the Ballarat residential market as a whole. Through the long and traditionally quiet winter months, discretionary vendors kept their properties off the market to wait for their gardens and purchasers to burst into life. However when the leaves returned to again adorn the trees the market was hit by two events which had vendors holding their hands and cheque books firmly in their pockets.

Around August, Australian mortgage regulators tightened lending policies on investment properties which effectively increased the amount of cash or capital an investor needed to purchase the same property. Consequently, the sub \$300,000 market in Ballarat which is increasingly investor driven saw a softening in demand.

Additionally, after staging a near three year surge the Melbourne and Sydney markets came off the boil and returned some sub optimal auction clearance rates in the initial weeks of spring. This had the

doyens of Domain and the like dashing for their quills to fill property paper pages with promises that as they oft predicted, the bubble had burst and we were in for the worst.

In turn and unsurprisingly, Ballarat's initial months of spring were dull, with even the most bullish agents admitting the demand for their services was somewhere less than the usual out of control. However vendors held their nerve, their breaths and their asking prices and, as they have done before, the purchasers returned, first in an indignant huff and then an insistent rush. So much so that November to date has shown some very encouraging results which indicate, not for the first time the rumours of the burst have again been greatly exaggerated.

The most sought after properties have been established modern and period properties in established and developing areas. We have also noted that a property's garden and cosmetic presentation has had a greater than usual impact on price.

Areas that have seen the greatest growth include Buninyong, Wendouree, Soldiers Hill, Black Hill, Ballarat Central and rural residential properties on the north and eastern sides of Ballarat.

Areas that have struggled include those with large supplies of property. These include Lucas, Delacombe, Sebastopol and some sections of Alfredton.

The surprise of the year has been the performance of Buninyong. The sleepy hamlet 12 kilometres south of the city has a significant supply of serviced lots on the market in several estates. However not only has this supply been taken up, but values of established new and period property in the area have seen growth of up to 10% for the year.

After perusing our predictions from February this year we have awarded ourselves the score of six out of ten. We were correct in predicting an unspectacular year from the prestige sector and new estates. However our crystal ball neglected to reveal to us the tightening on investment lending which rendered our gentrification proclamation of Ballarat East a miss judgement. Additionally we failed to predict the stand out performance of the Buninyong market.

Mildura

A glance back at the predictions we made at the start of 2015 for the residential property market suggest that we weren't too far off the mark. The improved market conditions evident in 2014 have continued into 2015, although our data suggests that values levelled off in the second half. Well presented properties are still selling relatively quickly and agents are reporting good demand, particularly in the \$200,000 to \$400,000 price bracket. We have continued to see a smattering of higher valued sales, with the most noteworthy ones being an off the river

sale of a prestigious home in Mildura for \$1.5 million and the sale of a home overlooking King's Billabong for \$865,000.

Residential vacancy rates remain low, however the greatest demand is now at the lower end of the market. Where there had been tenants competing for properties in the over \$300 per week bracket, demand at this level has subsided. It is possible that low interest rates have enticed tenants to instead purchase a property or it may just be that we have had less migration of professional people to Mildura in the second half of the year. It would seem that the rental market is now at a more balanced level.

Those subdivisions completed in 2015 have been selling quickly, reflecting some pent up demand. A rural residential subdivision in Koorlong has had 23 lots out of 26 sell within six months of release. Meanwhile a subdivision in the popular satellite town of Irymple has had 18 of 30 lots sell this year and the final stages of a subdivision in Mildura South has also sold quickly.

Queensland

Brisbane

So here we sit at the end of another year. A moment for hindsight to rear its ugly head so we can assess in stark reality just how successful our predictions were at the beginning of 2015.

We took what some might call a 'soft' approach to the predictions by saying 2015 would continue along the lines of 2014 - a firming market that would see long-term average capital gains. Well we were pretty much spot on. It wasn't a crazy market, but ask anyone looking to buy and they'll tell you that property priced to sell was receiving strong demand and would be under contract within a few weeks at most. If vendors stepped over the mark with pricing however, they were in for a long wait.

Markets continued to perform at different speeds. As we've come to know and love about Brisbane, the inner city suburbs always see plenty of demand. As you move further out, demand slowly softens. There was a growth wave this year. After some very strong gains within the five kilometer ring, demand started moving outward. At last count, the wave was at the 10 kilometre ring. To our credit, we predicted this back in February and it's certainly come to pass, particularly in the entry-level stock.

Our strongest caution for those looking to invest in 2015 was to watch out for new unit stock, which was traversing into oversupply territory - specifically

poorly designed investor grade product. Once again, a spot-on warning. Of course, construction continues on these high-rise projects, particularly close to town. Worries are beginning to creep in that some stock may have a hard time valuing upon completion. We'll have to wait and see.

As for our misses, they weren't too dramatic. We did predict a rise in infrastructure might help capital gains in outer suburbs, citing the rail link to Redcliffe as a possible driver, but mostly these areas continued to be flat performers this year.

We also thought inner city property would continue to perform at stellar levels of growth, and it did in the first half of 2015, but in all honesty it softened a little more than we expected in the second half on the year.

Our wrap of the year's activities are therefore:

- The inner suburbs were still the strongest. Examples include Coorparoo, Camp Hill, East Brisbane and Norman Park in the \$600,000 to \$1 million range for dwellings. West End/Highgate Hill was also strong for dwellings \$900,000 to \$1.5 million. There was also renewed interest in Hawthorne, Bulimba, Balmoral in the \$1 million to \$2.5 million range for detached housing.
- The weakest markets were in the outer suburbs. Areas such as Marsden, Crestmead, Browns Plains

and Regents Park are still static with plenty of stock available. There has also been an increase in townhouse construction in these areas, particularly Marsden, over the last couple of years and this may result in downward pressure on rentals given the majority are sold to investors.

So all in all we've given ourselves a nine out of ten for our predictions for 2015.

We at Herron Todd White Brisbane would like to take this opportunity to say thanks to all our clients for a terrific 2015. We look forward to your support in the New Year and wish everyone a wonderful holiday season.

Gold Coast

A combination of factors such as a shortage of stock, new infrastructure (such as the success of the light rail) and significant evidence of new residential projects under construction has firmed buyer confidence within the local property market on the central Gold Coast. It has been a fairly positive year in terms of price growth across all price brackets.

The strongest performing sections of the property market in the northern corridor between Brisbane and the Gold Coast in 2015 were house and land packages and duplex units. Suburbs such as Ormeau Hills in which the Ormeau Ridge estate is located, and Pimpama in which Gainsborough Greens is located, have seen arguably the best growth throughout the

year. These estates are favoured by owner-occupiers and have seen increases in value between 5% and 10% during 2015. Duplex units have also performed strongly with prices paid for new 3-bedroom, 2-bathroom, attached style duplex units in Pimpama increasing from low \$300,000s at the start of the year to mid \$300,000s.

● Townhouse units continue to underperform single unit dwellings and duplex units with large discrepancies between developer sales and the subsequent resales of second hand property.

An example of this is Unit 21/20 Bedford Road, Pimpama which sold originally from the developer for \$410,000 and resold for \$340,000 on 22 January 2015.

The continued low interest rates combined with a gradually strengthening economy can be seen as underpinning the positive growth in both values and demand in this area. The commencement of work on the Exit 54 upgrade and the proposed Coomera Town Centre Shopping Mall development have also furthered interest in the area.

At the start of the year we cautioned against lesser quality house and land packages being sold to interstate and overseas investors at inflated rates. This continues to be a problem in this area with construction commencing on numerous new estates throughout the year. If rental demand does not meet the upcoming available stock then we could see an oversupply of extremely similar dwellings coming on to the market.

The central north area has been performing quite strongly with many agents reporting stock shortages, particularly in areas around the Broadwater, Southport and Ashmore.

Established dwellings between \$500,000 and \$700,000 in these areas have seen increases of around 5% and 10% since the start of the year. Furthermore residential sites in Labrador, Southport, Biggera Waters and Paradise Point with re-development potential are in demand.

Land values in waterfront suburbs have also strengthened particularly Runaway Bay. Sale numbers between \$1,000,000 and \$1,500,000 have virtually mirrored 2014, while land values have increased by approximately 15% to 20% in this time. Quality, renovated houses are achieving premium prices close to the peak levels of 2007/2008.

The most positive news for the central north zone has been the announcement of the second stage of the light rail which will connect to the heavy rail at Helensvale. There is a buzz around Helensvale as to the positive flow on effects for property and businesses.

New medium rise unit development around Harbour Town at Biggera Waters including the East Quays development and Waterpoint Residences have sold strongly to owner-occupiers and investors at prices typically from \$450,000 to \$650,000 for 2- and 3-bedroom configurations. The first stage of Waterpoint Residences is nearing completion and is around 80% sold out (as at November 2015). The development will contain six stages with over 600 units on completion.

From early in 2015 the sustained growth has been expected and predicted. All indicators remain positive from many areas and there is no shortage of buyers in the low interest rate environment from overseas and locally.

Residential housing in Broadbeach Waters and Mermaid Waters has remained highly sought after and there have been no signs of this market cooling off. There is also a growing trend in these two suburbs where many old dwellings have been purchased and knocked down for new duplex developments. Local agents have reported fairly

strong demand for these new duplex units which is generally a good indicator that local market conditions are very buoyant at the moment.

As predicted in our Month in Review article published in February this year, the detached housing market in the \$500,000 to \$800,000 price range within the central areas of the Gold Coast has continued to be a strong performer.

To give an example of how hot the market is within Mermaid Waters, we are aware that 16 Firmin Court, Mermaid Waters sold under the hammer in August 2015 for \$650,000 to a local purchaser. The property comprises an original, single storey, face brick, 3-bedroom, 2-bathroom dwelling with detached double garage on a 614 square metre allotment. The property requires a full renovation. It sold well above the agent's expectations.

Both detached housing and townhouse and villa units in Robina have been in high demand from owner-occupiers and investors.

There have been good levels of demand for waterfront housing particularly under \$1,500,000. Along with Broadbeach Waters and Mermaid Waters, we have seen fairly strong price growth for canal front and river front properties in localities such as Isle of Capri, Sorrento and Benowa. While there has been increased sales activity for prestige homes

(\$2,000,000 plus), buyers in this bracket are still quite discerning with more stock to choose from.

We note that 9 La Scala Court, Isle of Capri sold in July 2015 for \$1,950,000. The property comprised a fully rebuilt and renovated single storey, lightweight clad, 4-bedroom, 3-bathroom dwelling with a 2-car attached carport. The property has a south-westerly aspect to the canal with approximately 18 metres of canal frontage appreciating local, canal and river views. Ancillary improvements included timber decking, pebblecrete in ground pool with tiled surroundings and frameless glass pool fencing. The land Area is 779 square metres. It previously sold in April 2014 for \$1,035,000 in original and dated condition.

The highrise market within Surfers Paradise, Broadbeach and Main Beach is starting to gain some momentum, apart from fully serviced apartments. There appears to have been steady price growth for second hand unit product over the past 12 months. Many new high rise towers are currently under construction which is quite a contrast to two years ago. It will be interesting to gauge the level of foreign investment in these new towers over the next 18 months and whether prices for this stock will move in a positive direction.

As predicted back in February, market conditions on the southern Gold Coast in established areas such as

Palm Beach, Miami and Burleigh Heads continued to strengthen throughout the course of 2015 with the majority of buyers being from the local area. While there is very limited land available in these fully established areas, prices for knock downs and fully original dwellings with limited added value to the property as a whole have risen by as much as 10% to 15% since the beginning of 2015, which was predicted in our February Month in Review.

Casuarina on the Tweed Coast also performed according to our predictions with very limited land available and a continued increase in demand for land. A good example of this (and a trophy sale) was 34 Dianella Drive, Casuarina, which is located within the Miramar estate (considered to be one of the inferior new residential estates in the area). This property sold from the developers in February 2015 for \$385,900 which was considered a strong sale price at that time. The property was since sold in September 2015 for \$480,000 to a local buyer. This represents almost a 20% increase in value in the space of seven months. The property sold within the first month of being offered, a common occurrence for most properties in the sub \$750,000 bracket on the Tweed Coast and Southern Gold Coast throughout the later half of 2015.

There were no weak performers in the southern Gold Coast, however high rise units and rural residential

markets have not strengthened to the same extent as the standard residential housing and land markets, however the overall market in both sectors has also improved.

There are a number of new projects which have recently been released or are to be released in the near future including the redevelopment of the old Palm Beach caravan park by Sunland and soon to be completed Casuarina Town Centre.

There have been no major surprises which impacted the market, with interest rates remaining very competitive. There is much more positive activity occurring with reduced selling periods, a higher number of buyers and more competition for properties offered for sale.

Slow and steady is winning the race in the Scenic Rim locality in 2015. Most markets showed improvement in interest levels and sales rates across 2015, however price point remains of most importance for vendors. Most sectors performed well in comparison to the previous 12 month period and when priced in line with the market, agents are reporting sales within a few days.

Yarrabilba continued to be the star performer with all lot types showing up to 15% price growth for land values through the year. Lend Lease reported up to 50 sales per month and attribute the strong second half of the year to the announcement of the

commencement of major infrastructure within the community. The announcement of a full service Coles supermarket, independent Catholic school, Caltex service station and tavern has spurred interest from the local market now that these services and facilities are becoming tangible.

Established housing has shown nominal growth within the regional centres of Jimboomba and Beaudesert, however there appears to be less stock relative to the start of the year and the time on the market is considerably less.

One of the star performers within the Jimboomba to Beaudesert growth corridor is Cedar Vale and the new release of land within the Jimboomba Woods estate. At the start of 2014, a 4-bedroom, 2-bathroom house on a 4,000 square metre allotment was selling for around \$440,000. The latest sale of a similar house on a similar size lot is \$475,000. This price growth has been underpinned by limited land stock within the area and the finalisation of upgrades to the Mount Lindesay Highway. Moving to the north-east, QM Properties released their new acreage estate known as Jimboomba Woods and have steadily increased prices from around \$210,000 for a 4,000 square metre allotment at the start of the year to around \$245,000 more recently.

The rural residential and rural lifestyle sectors remained stable through the year, with buyers

placing emphasis on proximity to services, value for money, infrastructure and usable land. Non prime property remained static on price growth compared with the previous year. There are a number of larger rural holdings within close proximity of regional centres that still represent good value for money and good lifestyle options with sale prices still below replacement cost of improvements. Steady as it goes for this market.

Looking back over 2015, the predictions made at the start of the year have panned out within the marketplace and the markets highlighted for growth have materialised. On a whole, this year we would rate our predictions a nine or ten out of ten!

Sunshine Coast

Any year in the Sunshine Coast property market tends to be pretty interesting and 2015 is no different. We have had good activity with sale volumes being up. All in all it has been a pretty good year.

At a high level overview, the first half of 2015 was strong with significant sales being recorded throughout the market and some sectors experiencing price increases. Then about half way through the year we started to get the speed wobbles, with a slow down in sale volumes and general enquiry. There appears to be a few factors around why this slowdown may have occurred but one thing is for sure - the new APRA policy to curb

investment lending, mainly aimed at slowing the Sydney and Melbourne markets, has had an effect on the Sunshine Coast market.

When looking more specifically at the market sectors some of the other factors that have slowed down the market become clearer.

The most activity in housing tended to be in the entry level areas and typically along the coastal stretches and areas close to amenities.

Time on the market decreased dramatically and improvements in values occurred. As a by-product, stock levels have reduced becoming quite thin thus causing transaction volume to slow. We do not believe there have been any main problems with this market other than limited stock levels that has effectively curbed sale volumes.

The unit market has been somewhat similar to the housing market in that entry-level properties have tended to perform well. Combined with complexes that have fairly low body corporate fees, this has led to reasonable volumes being recorded. Typically these are walk up complexes and townhouses which also offer an alternative to single unit dwellings.

We have also seen a bit of an increase in the larger permanent style units and also larger townhouse and small lot housing on the back of empty nesters wanting to downsize.

We have seen an improvement in the rural residential sector however it is certainly been at a slower pace than the housing and unit markets. Some reasonable buys remain given the discretionary nature of these properties and there are opportunities to purchase at below replacement.

The prestige market has also improved over time and once again, it is generally at what is considered to be entry level. A comment that we regularly hear is that there are plenty of people looking between \$1 million and \$1.5 million, however above that the market tends to thin out pretty quickly. As with all the markets but more so in the prestige market, it is very much reliant on the specifics and circumstances of the property, the purchaser and the vendor. Any properties that have issues or are overpriced will tend to sit.

As mentioned, 2015 has been a pretty good year for the property market on the Sunshine Coast. With the Sunshine Coast University Hospital due for completion in 2016, there may be some exciting times ahead.

Hervey Bay

Predictions from earlier in the year have been fairly accurate, with steady demand for lower priced stock, increased sales for property over \$500,000 and continued low rental vacancy with gradually increasing rents for most types of property.

There are now at least seven separate estates developing their next stages which will cater for more house and land packages predominantly below \$400,000. The volume of construction activity was not foreseen however is welcome given the employment stimulus and ongoing demand for investor stock from out of area buyers. Sales of property above \$500,000 are now occurring on a more regular basis, with higher earners thought to be from the medical profession accounting for renewed interest and sales in this price range.

Unit values are mostly holding firm, however some particular developments that have had excess developer stock have seen some lower sales filtering through. This may be due to frustrated developers and vendors seeking to offload underperforming assets after an extended marketing period.

Emerald

The residential market across the Central Highlands continued to fall approximately 10% to 15% through 2015 with the worst now behind us for the time being. Most mining companies are reporting that the

bulk of their job cuts are over for a while and they will try to survive with the current low coal prices. Values in most towns appear to be levelling as locals are starting to be active purchasers in Moranbah, Dysart and Blackwater. Sales turnover has also been steady. Values in Emerald are now back near 2005 and 2006 levels. Agents are reporting new rentals being signed up each week. The supply is still far greater than demand and if there was a pickup in the local resources economy there is a lot of stock to be absorbed first before values would start to rise.

Gladstone

At the beginning of 2015 we forecast that most market sectors would stabilise however there may be further price vulnerability as the construction workforce associated with the LNG construction falls.

The market sectors of entry level, mid price and prestige established housing have generally stabilised over the course of 2015. New construction activity has continued to weaken as it is still cheaper to buy a near new dwelling than it is to purchase land and build a new dwelling. The unit market in Gladstone has continued to decline over 2015 with very limited sales occurring and of the sales that have taken place, declines of between 45% and 50% from sale prices that occurred in the peak of the market in 2011/2012 have been recorded.

Construction worker levels on Curtis Island have declined steadily over the course of 2015. Due to the

steady decline, the market has not seen any sharp increases in vacancies however as the workforce has declined the vacancy rate for Gladstone has increased. It currently sits at 8.4%, nearly double the rate of 4.4% in January 2015. Sources indicate that significant job losses will occur between now and February 2016 with all construction complete by the second quarter of 2016.

Rockhampton

As we look back at the performance of the Rockhampton region throughout 2015, it is worth noting that although as a whole the market has showed signs of weakening, with an increased number of mortgagee in possession sales occurring, there has still been some well performing market sectors.

The first one of note is our local prestige market, with a number of sales at price levels in excess of \$700,000 occurring, with approximately half a dozen confirmed sales to date.

Another market sector that preformed well in 2015 was the new unit market with riverfront units in Empire and Southbank being well received in the market place. There was also some smaller scale suburban unit developments in Rockhampton that sold well.

On the Capricorn Coast, Salt, a beachfront unit development comprising a mixed residential and retail complex consisting of 50 residential

units is nearing completion (due December). The development will also comprise ground floor retail tenancies and a conference facility. The development has had a strong rate of sales throughout both the pre construction and construction phases with only three units remaining of the 50 residential units in the development. This development has gone against the grain of the greater unit market on the Capricorn Coast over recent years and is considered to be a likely result of the unique, main beach front position of the site.

At the other end of the scale, the market sector that has not proven to perform well throughout the year was our local entry level market sector (i.e. property under \$250,000). Locally, there has been a marked decline in investor activity combined with higher vacancy rates and decreasing rents, all leading to a softening of this market sector. You can again purchase property in Rockhampton for \$150,000, often out of flood areas.

Job security and the flow on effect of the resources industry have shaped the property market in the Rockhampton region over the past 12 months, none of which were unexpected elements. For instance, in Gracemere, you can now purchase a modern onground brick home (4-bedroom, 2-bathroom, double lock up garage) for well under the \$300,000 mark. It wasn't that long ago that this product was achieving \$370,000.

Casting our minds back to February, we had anticipated 2015 would be a year of challenges locally, without being able to foresee any obvious signs to lead to a market recovery. As the year panned out, this has been proven. While interest rates have remained at record lows and our region has become even more affordable, job security in the resources industry has proven to be the major determining factor in our market throughout 2015, despite our local economic diversity with agriculture, medical and education industries performing well.

Mackay

This month we can take a ride back in time and look over the Mackay residential market for 2015. In a nutshell, it was a pretty tough year, with value levels across the board reducing a further 10% to 15%, and rental values also dropping and vacancy rates increasing to over 9%. So how did we go in February predicting what would happen? In February we said... "Our take is that the market probably hasn't quite reached the bottom, although it seems (hopefully) to be coming up fast. We think that on the back of increased sales activity and reduction of stock, the market may stabilise by mid 2015."

Well, for the first six months of the year we were spot on, however bottom of the market has remained elusive with values still falling after the six month mark. The increased sales activity did happen early in

the year and has ebbed and flowed since depending on buyers' reactions and acceptance of new value levels.

In February we said "It is difficult to see any growth in values in 2015 without some big momentum shift in the Mackay economy. If the coal mining or associated services located in Mackay start to increase, then this will have a positive effect on the Mackay market. It is considered that no real recovery will occur." This prediction still holds true today. At the moment there is a lot of negativity surrounding the Mackay market. This negativity is seen as the biggest hindrance to any sort of recovery.

Townsville

Townsville's residential property market has weakened during 2015 and is seemingly searching for direction. While we have previously maintained that the market remains in the early stages of recovery, albeit tenuously and with a pace of recovery that is incredibly slow, we now believe the market has reverted to the bottom of the cycle.

The volume of house sales has remained relatively steady throughout 2015, however the median house price has declined. Our impression is that buyers are only purchasing properties they regard as affordable based on their current economic circumstances, leading to a reduction in the median price of houses that are actually transacting.

Unit sale volumes fluctuated during the year with the median sale price for established units remaining relatively steady.

Vacant land sales have declined and median sale prices have softened slightly, reflecting a lack of buyer confidence in the market stemming from the subdued economy, as well as the wide price differential between new versus existing houses retarding the economics of new house construction.

The rental market has continued to demonstrate an over supply. It was our belief that during the course of 2015, the rental market would progressively return to the balanced market range following the construction of National Rental Affordability Scheme (NRAS) properties coming to a close. This however has not been the case, with the overall trending vacancy rate remaining above the balanced market range.

At the start of 2015, we predicted that the year ahead would remain cautious with the overall level of activity very much dictated by the local economic factors of unemployment and business confidence. While business confidence showed some improvement throughout the year, unemployment and job security along with limited local stimulus have heavily weighed on the direction and confidence of the residential property market.

Cairns

The Cairns residential market moved from the start of recovery phase into the rising market phase of the property cycle in early 2015 and has maintained that position for the remainder of the year. The market is best described as healthy as demonstrated by good demand for most residential property types. Sales volumes are showing growth but the rate of growth has tapered during the course of this year possibly as a result of resistance to increasing prices as well as tighter lending conditions for investment properties. Areas of the market that are underperforming to some degree include units in lower socio-economic locations and units in tourist accommodation complexes.

the ongoing effects of buyer aversion from increased strata building insurance costs.

There has been good demand for vacant land in most locations throughout 2015 with prices rising relatively quickly over the past 12 months. Land prices now start at about \$130,000 per allotment and extend to about \$280,000. The median allotment price stood at \$198,000 in September 2015. Land price rises have been strongest over the past twelve months on the northern beaches, but have been less severe in the southern corridor market due to its larger developable land supply and greater competition between developers.

Overall, 2015 has seen a continuation of slow growth and consolidation in the Cairns market as a result of its improving tourism based economy.

Prices levels for houses typically regained previous 2008 peak levels in mid 2014 and prices have continued to rise mildly during 2015.

The Cairns median house price stood at \$410,000 in September 2015 which demonstrates a 4.7% increase since September 2014. The median price for units stood at \$215,000 in September 2015, up 5.2% from September 2014. However the median unit price remains shy of previous peak levels due to

South Australia

Adelaide

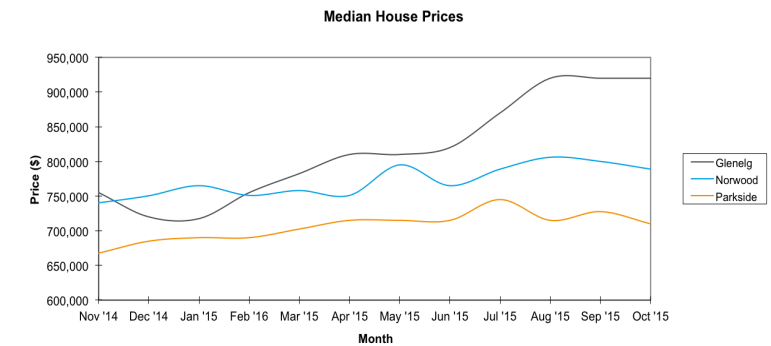
At the start of the year we predicted that the residential property market would continue to gradually improve at a similar rate to that of 2014. We were correct in predicting a slow start to the year in terms of capital growth and that the latter half of the year would see improvements. Also we suggested that the inner suburbs would experience the greatest growth. This is evident in the graphs provided which show the increasing trend for median house prices in three inner suburbs which we believe are strong performers.

There have been some strong performers during 2015, particularly in the much sought after inner and beach side suburbs. The inner northern and southern suburbs have also seen strong sales activity and higher than expected sale prices. A prime example is the demand for quality character dwellings. We have seen character dwellings in areas such as Parkside and Prospect achieve sale prices in excess of \$1 million after initially being advertised for much less. Overall we have seen increases in sale prices of around 6.5% in suburbs like Parkside and Norwood, with Glenelg achieving extraordinary results with an increase in the median house price of 21.85%. We note that although the growth is shown as above 20% it is based on a small number of sales which is likely to have magnified the growth.

Dwellings remain the most sought after property type.

Caution should be taken when purchasing apartments or units. This can be due to the fact that the market is over populated, particularly in the CBD and the price sellers are asking appears to be excessive. Most units and apartments are rented to international and local students, but the saleability of these properties is proving to be more difficult. There is an abundance of new high rise complexes throughout the CBD and the overall capital value of slightly older apartments has declined significantly. An example of this is the apartments in a development in Morphett Street where 1-bedroom and 1-bathroom apartments initially sold for almost \$400,000 in some cases, but have seen prices drop to between \$200,000 and \$250,000 in the past six months.

The high unemployment rate continues to have an effect on the residential property market in Adelaide. Further uncertainty over the manufacturing industry including the closure of the General Motors Holden plant at Elizabeth and speculation over the future of the submarines continues to be a major factor, with further job losses potentially around the corner.



Mount Gambier

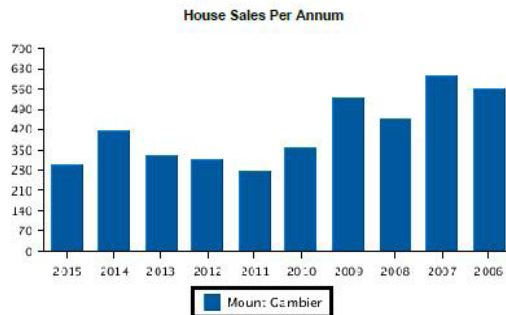
The market in Mount Gambier has remained relatively stable over 2015. There have been no major events or loss of jobs which are generally the cause of a significant change in the market.

Mount Gambier hasn't seen too many strong performers this year, however two areas that have performed well are Springview Estate and Buffalo Crescent.

Springview Estate consists of 29 vacant allotments and in October alone, 13 of these allotments sold. Buffalo Court consists of 21 allotments and 17 of these allotments have sold since the beginning of the year.

At the beginning of the year we predicted that the most popular price range for house sales in 2015 would be \$200,000 to \$250,000. Now looking back on the year, this has proved to be the most popular price range.

We also predicted that house sale numbers would continue to increase, as they have done over the past three years. As seen in the graph below, while house sales have increased since 2011, they are slightly lower than last year. Although there is still one month remaining in the year, following the trend of 30 sales per month, sales numbers will not reach last year's level.



One of the highest selling properties for the year was 4 Seafarers Crescent, Robe, which is a modern 4-bedroom, 2-bathroom dwelling with ocean views approximately 20 metres from the beach. The property sold in February for \$1,375,000.



Overall, we give ourselves a score of nine out of ten for our 2015 predictions. While we weren't spot on, we did predict a positive outlook for the year and with no major drop in house sales or prices, 2015 has been a positive year.

Tasmania

During 2015 Tasmania's economic performance has remained positive. The state's unemployment rate has steadily declined to 6.2% which is just a tad above the national and its decade average (0.1%), being the best national performer when measured against decade averages.

The residential real estate market continues with a below (16 year) average performance, however annual sales volumes have increased from recent years of historic lows and there are reported stock shortages in some suburbs.

The scheduled end of the First Home Builders Boost on 31 December 2015 is a potential pitfall as previous stimulative initiatives created non-cyclical spikes in demand and pricing as future market entrants brought forward their purchasing decisions to capitalise on current incentives.

Historically at the conclusion of stimulus initiative programs, declines occurred in both pricing and demand in the marketplace. Assuming levels of supply remain relatively constant this same scenario may unfold resulting in slower vacant land sales and a weakening in demand and pricing due to demand imbalance as this initiative ends.

Some land developers may already be anticipating a weakening in demand as we are now beginning to see advertised incentives including new cars and gift vouchers being offered with vacant land purchases.

Incentive offers have also extended to the building industry as has occurred in the past.

Tasmania continues to be challenged by economic conditions, particularly in the north-west however there is a continued, steadfast focus on developing its agricultural, education and tourism markets. For example, Hellyers Road Distillery has grown by 50% during 2015, broken into the lucrative Japanese whisky market and expanded its presence in the European whisky market; berry growers are increasing production in the north-west; and new cycle trails and MONA continue to be tourist draw cards.

Tasmania's strengthening tourism and food production industries create and support employment and business opportunities that will aid stability, sending positive ripples to other markets including housing. Tasmania is ahead of the pack in grappling with contraction of its traditional industries, something other Australian regions are yet to be confronted with.

Northern Territory

Darwin

As 2015 draws to a close we reflect on the Darwin market for another year. It was predicted to slow and it did exactly that. Overall the market didn't see a drastic decrease in the median house price, only down 0.7% compared to this time last year and the unit median price down 3%. The most alarming statistic to come out of the REINT quarterly publication was that recorded sales of houses was down 28.9% and units were down a whopping 64.1% from this time last year. The major factors impacting on the market up north are the removal of the First Home Owner Grant (FHOG) from existing properties, decreased rental levels and subsequently fewer investors in the market.

As of 1 January 2015 the FHOG was no longer available on existing properties, with new builds still eligible to receive the \$26,000 incentive. This came at a bad time as the market was showing signs of easing coming into 2015 and now nearly 12 months on, the full effect has been felt. Properties that were generally sourced by first home buyers are being forced to sit on the market with extended selling periods and either having to take price reductions to attract buyers or are being withdrawn from the market entirely. The worst affected are the older properties and in particular dated units. Although the statistics don't show a great fall in the median price, this has been held up as a large majority of the

sales have been of new stock, including properties settling off the plan that were contracted prior to 2015. Unfortunately the first home buyers who got in prior to 2015 and bought existing houses have had a painful year watching their new hard earned asset fall in value, adding to their financial stress.

Over the past 12 months the median rent for a 3-bedroom house in Darwin has come back 14.9% to \$556 per week. Rents rose quickly over the past few years as there was a large influx in the labour force in the NT due to the Inpex gas project fly-in-fly-out workers based in Darwin and continued demand from the defence force and subsequently all the other sectors felt the positive spin off effects of the population growth. The demand greatly outweighed the supply of accommodation available pushing rents to all time highs and making Darwin the highest rental yielding capital city in Australia. As the construction phase of the Inpex project draws closer to an end and mining industries remain relatively quiet, the rental market has eased giving tenants a bit of much needed relief.

As rental levels have steadily fallen over the year, investors have quietened as a large player in the Darwin market and owner-occupiers have managed to get a strangle hold back on the market. As interest rates are increasing for investors making investment in real estate less desirable, funds are being directed to other investment opportunities.

With Christmas fast approaching, it seems every property vendor on the market has a story, from losing their job, marriage settlement or just simply too hot and they are escaping south. There is a sense that only people who really need to sell are on the market and are often being pushed to accepting less than they paid for the property only a year or two ago. Cautious owners though are willing to sit on their hands and ride out the market.

As the market conditions changed in favour of buyers in 2015, we have seen developers become craftier at attracting buyers, offering incentives such as settlement discounts. Properties are being sold with handsome long term rental agreements such as the Northern Territory Government's Real Housing for Growth scheme, or there is help with stamp duty costs and many more. The new estates such as Zuccoli that has numerous developers all competing to attract buyers, has significantly lowered the entry level price for vacant land. Similarly, builders are offering cheaper build contracts to win work as it looks to be survival of the fittest.

There were few highlights this year but as predicted the prestige markets held relatively steady both in town and in the rural sector specifically Howard Springs and Virginia. Residential property took a confidence hit this year, opening up more opportunities for home owners as investors took a step back. Darwin being Darwin, it doesn't take much

to spur on the property market. Coming into 2016 with an election looming and foreign investment becoming a big player we are certainly in for interesting times ahead.

Alice Springs

The Alice Springs market continued to experience soft conditions throughout 2015, in part attributable to the removal of the first home buyer's grant for existing dwellings at the end of 2014. It was not all doom and gloom however, with some sectors performing well.

Older units really felt the soft conditions, with reductions in values evident, particularly for 2-bedroom units built circa 1980. New units fared a lot better, such as the new South Edge Development which sold to owner-occupiers and investors via the Real Housing for Growth Scheme, offering gross yields in excess of 6.5%.

The upper end of the market continued to see some good turnover, particularly for renovated homes. The pick of the sales from Desert Springs for 2015 was in Hillside Gardens which saw a 4-bedroom, 3-bathroom renovated home sell for just over the \$1 million mark.

Western Australia

Perth

In February this year we discussed how the word caution would describe market activity throughout 2015, with early signs at the time that sales activity had likely peaked and supply would continue to outstrip demand. Unfortunately, we were correct, but the year has not ended in doom and gloom across the board.

According to the Real Estate Institute of WA, Perth started 2015 with a median house price of \$550,000 and looks set to finish the year with a median house price below \$525,000. Stock levels are some 30% higher than at the start of the year and the average property is taking ten days extra to sell.

Similarly, sales rates for multi residential units have reduced by some 23% over the course of 2015, which we predicted in February. Peak demand in this segment was in early 2013 at the height of the mining boom, with reductions in resource project construction phase employment numbers occurring on a consistent basis since. The reduction in sales rates corresponded with an increase in supply, an increase in the rental vacancy rate and a decrease in market sentiment.

Sales rates for vacant land appear to have peaked in the June 2013 quarter (4,200 sales), and have declined significantly throughout 2015 to 946 in the September quarter. Interestingly, the median sale price for vacant allotments has continued to rise

from \$263,000 at the start of 2015 to \$288,500 at the end of the September quarter. We note however, that we have seen an increase in rebates and incentives on offer across the metropolitan area, which reflects the struggling state of the residential land market.

2015 presented as a buyer's market in comparison to 2014 and those in the financial position and having the confidence were in a strong buying position. Multiple high end sales occurred which reflected sporadic confidence in individual positions. Notable sales for the year included 3/19 South Perth Esplanade, South Perth (apartment) for \$10 million, 16 Reginald Street, Cottesloe (contemporary residence) for \$23 million and 2 Majestic Close, Applecross (vacant land) for \$10.5 million.

Discussions with selling agents reveal that there are still several pockets of strong activity. Many of the drivers for these markets are education based - school catchment zones or proximity to sought after educational facilities. A good example of this is the southern suburb of Willetton. It hosts a well renowned public high school and is partially in the catchment zone of another highly sought after school. While sales rates decreased in the suburb in 2015, it maintained a median price increase of 6.4% and more importantly, has remained in positive territory over the last quarter.

All in all it was a cautious year, with the market levelling off in most areas, and some uncertainty remaining as to where the actual market is at. The summer period should provide a good insight as to which areas have been re-priced and are attractive in comparison to the wider market.

South West WA

As we come to the end of the year, we get the chance to reflect on how close to the mark our predictions in February were. This year it appears we were reasonably close, in that the prediction was for a slowing market throughout 2015. While the market remained relatively steady throughout the first half of 2015, it began to weaken in the second half as the ripple effect from the Perth market eventually flowed through. That being said, while the market has slowed transactions are still occurring and properties are being sold if they are priced well.

The property market throughout the year has been driven from the bottom with sales to \$500,000 being the majority. The top end of the market continues to be more problematic and is no doubt affected by the declining resources sector. The prestige market is characterised by an over supply of properties for sale and a lack of prospective purchasers in that value range resulting in weak market conditions.

Developers responded to a shortage of vacant land in 2013 and 2014 that was driving vacant land values up with further releases in Treendale, Millbridge,

Dalyellup, Provence, Vasse New Town, Kealy and Dunsborough Lakes. Consequently, the vacant land market has started to decline as the balance has now swung to an over supply of land.

The rental market has reduced over the past 12 months with property managers reporting on over supply of properties for lease for the first time in numerous years. This has put downward pressure on rental prices having a negative effect on the investor market.

Further, we have seen a stabilising in building activity. Throughout 2014 the new housing market had picked up considerably in comparison to previous years but began to slow during the later part of 2015.

The south west market has been relatively resilient in the context of a slowing Perth metropolitan market. The south west market for an extended period of time bucked the historical trend of declining in line with the Perth market, perhaps because we did not have the same increases in values throughout 2013 as Perth did and a correction in prices was not necessary. However, the last half of 2015 has showed the south west market beginning to slow. Overall the market is beginning to weaken but is still considered steady.

Esperance

Broadly speaking, the Esperance district fared well over the course of 2014 with stability in the rural sector underpinning the stability in the town. Sales volumes were lower than previous years however values over the various areas within the broader town site have remained reasonably consistent.

Vacant land sales continued with regular volumes for a market of this size and minor improvement in values as supply has gradually decreased. At present there is a good balance between supply and demand for residential land with rural residential land being more hit and miss due to limited properties available for sale and a large variation in quality of those on the market.

Improved residential sales have again covered all value ranges. The lower valued area of Nulsen has seen a relatively good volume of sales with a notable number now in the \$180,000 to \$230,000 price range which is an improvement on recent years when \$200,000 was a ceiling that could not be broken. The adjoining suburb of Sinclair has similarly seen a sound volume of sales for what is a small locality but quite under rated with some good quality established housing close to local shopping and schools.

The first half of the year saw an improvement in sales volumes for the over \$500,000 price bracket compared to the corresponding time period of recent years. The second half of the year has seen a small number of sales over \$500,000 and into the \$600,000s with purchasers being a mix of owner-occupiers and investors. Sales volumes have slowed over the second half of the year however the transactions occurring indicate that consistency in values is being maintained.

Within the broader south east region of Western Australia serviced by this office, there has been some cautiously encouraging activity. Firstly, the small mining town of Norseman, approximately 200

kilometres north of Esperance, has seen the local mine closed and placed in a care and maintenance program. The uncertainty within the town has seen values plummet over recent years however over the course of the year, sales volumes have improved with possibly the highest number of sales that has been seen for some time. Values are exceptionally low however at least there may be the capacity to set a base level with room to then gradually improve over time. A contributing factor is the affordability for low income earners to have their own home - there are not too many places you can purchase a home to live in for less than \$50,000.

Hopetoun, 200 kilometres west of Esperance, was hit hard by BHP opening its mining operations and just as quickly closing them all at the same time as the GFC hit. Values initially skyrocketed, a massive supply of property hit the market and then it all fell apart. However, the latter half of this year has seen some improvement in sales volumes, with values largely ranging between \$180,000 and \$350,000 over all property types for single residential dwellings. Although this is well down on the peak, at least transactions are improving in volume and there is the hope that stability is returning to this market.

So all up, a sound if somewhat subdued year in this region. Wishing you all the best for the festive season and the year ahead.

Rural

Overview

This month I have asked the team to review their local markets with a focus on water. With large parts of the country still in drought, potentially changing use of land where water is available (and highly reliable), increased tree crop activity - the nut industry is going nuts at present - and El Nino weather patterns well formed, the question begs what does this means for water values?

The team has therefore had a bit of a look back at the past 12 months, considered the changing regulatory and ownership of interests and in some cases looked into the crystal ball to give some thoughts going forward.

Certainly overall in high security systems in the south of the country the values of water have risen circa 30% in 12 months. One wonders where this peaks and what effect good general rains would have on these values in the longer term. There is more



volatility in water values compared to the land on which it is utilised given its fluid nature of tradeability in many areas (the pun is intentional), so caution does need to be applied when considering the holding of those values with a return to more reliable rainfall patterns.

The other side of that is with a bias to drying conditions. Generally in every long term modelling completed by the DAFF and other forecasters, even a good general rain period may not see the value shift down as in previous years post floods etc where the owners are looking long term.

The other view I hold is that the ongoing development of permanent crop plantings underpins in some regions an absolute minimum water requirement and therefore potentially a shift in base demand. In livestock you can if needed de stock when there is no water. A tree crop with a 30 year average life and say 25 or so years production however has a big impact if you switch off or indeed under water the trees. The economic cost relative to capital invested and the time to bring back to full production can be a few years.

So what is the outlook for each region? The summaries from the team follow and hopefully are thought provoking for our readers.

We also do wish those farmers and graziers in the Esperance and South Australia bush fire areas all the

best at present under difficult circumstances. It is heart breaking to see these events unfold.

We wish all our readers and clients the best for the festive season and to be safe. We look forward to closing the 2015 year with an ongoing positive view of what the world of agriculture has to offer.

Regards,
Tim Lane, National Director - Rural
07 3319 4400

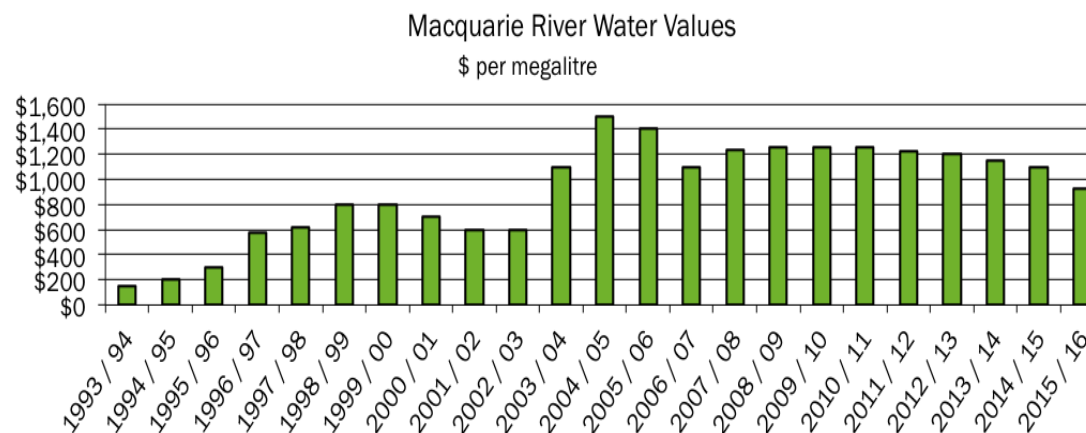
Central New South Wales

What are the impacts of the El Niño? Currently you would have to say that they are similar to periods when there was supposedly no El Nino if you go by the level of available irrigation entitlement within the Macquarie Valley. We have noticed over the past few years that heavy rainfall events over the general catchment area appear anecdotally to have decreased. Generally when the Macquarie Valley upstream of Burrendong Dam has had some previous rainfall and allowed the ground to wet up a heavy fall of 50 mm to 100 mm across large sections of the catchment area will see the dam fill in a few days. The overall catchment area for Burrendong Dam is nearly 14,000 square kilometres and as such major rainfall events can quickly fill the dam. The major difference we see in recent history is that while there may be some heavier falls across this area they have not been in conjunction with previous rainfall events which allow the ground to wet up.

The water market has been static to slightly softening over the course of 2015 and this is a reflection of the lack of entitlement within the system. We have just seen permanent transfers of general security entitlements transfer at \$900 per mega litre whereas in the beginning of 2015 the transfers were at \$1,100 to \$1,150 per mega litre. It is understandable that there has been some softening of values as producers are baulking at outlaying capital to buy an asset that cannot be used for at least the balance of the water year. The temporary water market on the other hand has strengthened as producers tried to accumulate enough entitlement to keep some irrigation activities on the go. As this goes to print the temporary transfer market on the Macquarie River is at \$300 per mega litre and has been at this rate from June this year.

Smaller irrigation licenses of high security entitlement have traded on the Macquarie River system at \$3,850 per mega litre and we are also aware of two other parcels of water being marketed with bids of \$3,600 per mega litre. Currently high security entitlements have 100% allocation and general security entitlements have a 7% allocation with Burrendong Dam currently at 21% capacity.

The graph beside outlines the growth in value of the Macquarie River general security entitlements since 1993.

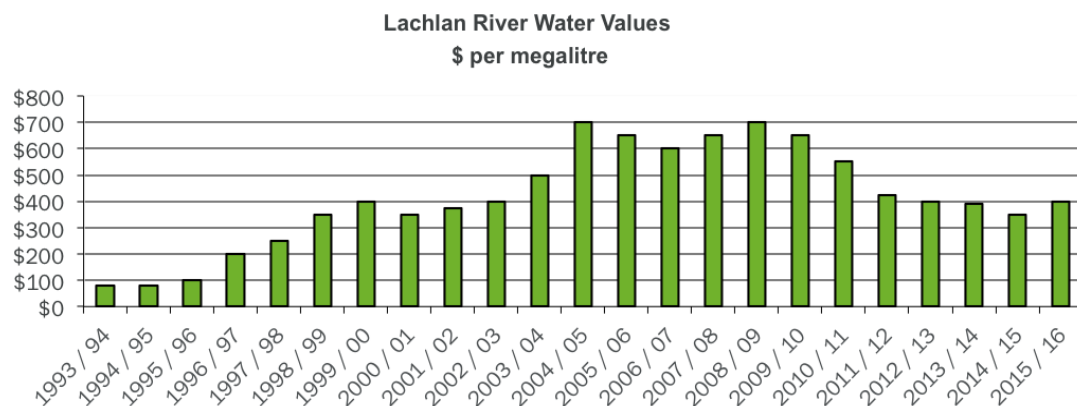


In the Lachlan River Valley general security values have actually strengthened slightly during the course of the year. Overall values bottomed out at the beginning of the year with some sales occurring below \$350 per mega litre. Currently general security entitlements are trading at \$400 per mega litre, with temporary transfer currently asking for and receiving \$140 per litre. Currently in the Lachlan Valley high security licences have 100% allocation and general security licences have a 25% allocation.

One positive thing beginning to develop within the Lachlan Valley is the expansion of the cotton industry, as we believe that the Lachlan Valley

itself is missing a major crop that drives overall output. While there are a number of different crops grown, none have the same impact that cotton does on other valleys. We often refer to the Lachlan Valley as the poor cousin as it consistently has the cheapest general security values in the valleys that we deal with across New South Wales. Part of the reason is that this valley does lack its base crop to rely on overall production and is also due to its reliability which has been poor in recent years.

The graph on the following page outlines the Lachlan Valley general security value levels over the past 22 years.



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NSW North Coast

The NSW North Coast has a summer dominant rainfall pattern. Rainfall recordings can range from below 500 mm per annum in the western localities in dry years to near 3,000 mm per annum near the coast in wet years. In the dry years the ability to irrigate is desirable while in wet years drainage rather than irrigation can be the priority. There have been good falls of rain in late 2015.

Irrigation on the NSW North Coast is used mostly for pastures for dairy and beef cattle, horticultural crops

such as blueberries, ti trees, nurseries and some protected cropping greenhouse agriculture facilities.

There are two main river systems on the NSW North Coast - the Richmond and Clarence Rivers - and smaller river and creek systems such as Coopers Creek and Brunswick and Tweed Rivers. The Richmond River, Coopers Creek and Tweed River are administered under the Water Management Act 2000 while the Clarence River and Brunswick River remain under the Water Act 1912 until Water Sharing Plans are gazetted.

All of the river and creek systems on the NSW North Coast are unregulated. This means that there is no

main water storage dam on the river. When the water flow drops below predetermined levels in a locality, pumping restrictions for irrigation are triggered. This naturally occurs in dry times. However these dry times are when the irrigation water is most needed. This significantly restricts development of farms for irrigation unless large water storages are constructed on farm. There are cost issues to this and the subsequent need for high value agricultural or horticultural crops to justify the expense. There are very few large on farm water storages on the NSW North Coast. Many water sources within Water Sharing Plans that are administered under the Water Management Act 2000 do however permit water licences to Conversion to High Flow Access Licence at the ratio of 1:5 for entitlement conversion. This provides farmers with the opportunity to construct large on farm water storages that can be filled during wet periods.

There are very few water licences traded. Some of the few that have traded in recent times have been in the range of \$600 to \$700 per mega litre. Many owners of water licences appear to sit on water licences without using them to capacity. The owners appear to be prepared to pay the fixed annual charge of about \$10 per mega litre regardless of use.

Groundwater licences are mostly limited to the basalt hard rock areas such as the Alstonville Plateau.

As very few water licences trade as separate assets, water licences are usually sold with a property and the respective values for land and water licence are not apportioned separately. Recent sales of Richmond River and tributary creek front land with water licences indicate land with water licences values in the range of \$10,000 to \$16,000 per arable hectare for flood liable land. The Alstonville Plateau land with water licences is typically planted to macadamia trees which are not irrigated. The macadamia market is very buoyant at the moment and usually represents the highest and best use of the land. Many water licences on the hard rock plateau therefore are not used to capacity.

The draft Water Sharing Plan for the Clarence Unregulated and Alluvial Water Sources has been exhibited. This Water Sharing Plan has not yet been gazetted to be administered under the Water Management Act 2000. There has been some expansion of blueberries from the Coffs Harbour region to the Clarence River. When gazetted the Clarence River Water Sharing Plan may provide further opportunity to develop properties on the Clarence River for horticultural or other irrigation purposes.

Across the region the increase in beef cattle prices may encourage graziers with water licences to improve and irrigate pastures and grow fodder crops. This would provide greater opportunity to

finish stock for these graziers rather than sell as store weaners as has traditionally been the case for many. There has been some renewed interest in dairying despite difficult conditions in this industry in recent times. It is very desirable to be able to irrigate for this land use. Properties with water licences and in localities that are less affected by pumping restrictions are the most sought after for this purpose.

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Western Victoria and South East South Australia

Water is key to farming. Without it, the best of farmers can come undone. The past few years have proven tough in western Victoria and south east South Australia with below average rainfall in most locations for the past two to three years. Graziers and cropping farmers are itching to take advantage of record high stock and grain prices that for the most part remain above long term averages. However hard they try, farmers have been hamstrung by the lack of rain and resulting poor growth for feed or crops to support their operations. Many of those with the potential to irrigate have increasingly placed more pressure on their irrigation systems and rotations of stock or crops to gain better efficiency. Irrigation and water rights continue to be recognised as increasing in importance.

With water in mind, another significant but perhaps quietly publicised change in 2015 was the blanket issue of forestry water licenses in April 2015 under the Limestone Coast Water Allocation Plan (WAP) that was originally adopted in November 2013.

Under the WAP, forest managers are now required to hold a water licence as a direct result of the over allocated water resources in the south east of South Australia. The WAP implements a number of restrictions and changes to the way water is allocated and utilised in forestry areas but in effect it has reduced the area of forest able to be planted or even maintained in some regions.

The new water allocations are tied to a specific property until that specific forest area is reverted to an alternative use. The water allocation becomes the personal property of the forest manager and can be moved to other nearby areas and alternative uses subject to approvals and certain criteria, creating a new market for non-viable timber land and an increased volume of water licenses in the area which may begin to have an impact on water values in some areas.

The recent implications of a blanket allocation of water licences across all forest areas within the lower limestone coast under the WAP is yet to be felt by the area's existing water market. The irrigation water market in this area remains volatile and in its infancy,

with any current water trades on an ad hoc basis. Watch this space.

Mildura

The past 12 months has highlighted the ongoing volatility in water markets.

Using Victorian Murray River High Reliability Water Shares (zone 7) as an example, prices paid for permanent entitlement have gone from around \$1,200 per Mmegalitre in 2007 to \$2,400 per megalitre in 2010, back to \$1,300 per megalitre in 2013 and are now approaching \$3,000 per megalitre.

As valuers, we like to adopt the prevailing rate, however history shows that the value has doubled and halved twice in the past eight years!

The main driving forces affecting water prices up until around mid 2013 were the level of government buy backs (which can come and go) and the need for many irrigators to sell down their water entitlements in order to reduce debt. It is also clear that there was at times a herd mentality among buyers and sellers, with fear helping to drive up prices in the period from 2007 to 2010.

The recent spike in water values appears more sustainable, as it is being driven by a combination of reduced supply and increased demand. Several of the key horticultural industries in our region, notably almonds, table grapes and citrus, are enjoying

stronger commodity prices. Growers are responding in the usual way when this happens, by planting more land.

The almond industry estimates that an additional 5,000 hectares have been planted in 2015, and expect a further 10,000 hectares will be planted over the next two years. This will add 50% to the national planted area (in 2014) of slightly under 30,000 hectares. At a requirement of say 12.5 megalitres per hectare, this will create a need for another 187,500 megalitres per annum. This volume is about the same as the entire allocation of NSW Murray High Security Water Access Licences or 11% of the NSW Murray General Security Water Access Licences.

The demand from new citrus and table grape plantings will be lower than this, but still substantial.

The significant purchase by the Federal and State Governments of permanent water entitlements in recent years has soaked up most of the readily available water entitlements. The majority of the sellers into these programs did so as a result of financial duress. Those that have retained their water may be tempted by the current high prices, however it is expected that these growers are not under any great financial duress, and so are more likely to hang onto it, in the expectation that values will hold at the current levels.

Interestingly, we have started seeing some sales of horticultural properties which have included full water entitlements. This is in contrast to many of the sales which have occurred during the past four to five years, where the water and land have been sold separately.

In these recent examples, the purchasers have been willing to pay market levels for the water entitlement, but have possibly been able to use the high water value component to squeeze down the land component in the transaction. And with temporary water fetching around \$280 per megalitre, the return of around 9% is higher than interest costs on borrowed money.

At the same time, irrigators of annual crops such as rice and cotton will be weighing up the comparative returns from growing their usual crop or from leasing their annual water allocation. The potential for large volumes of water from these areas to be offered up for annual lease will hopefully keep a lid on temporary water prices.

Irrigators are also mindful that inflows into the main Murray River catchment dams have been at well below average levels during the past 12 months, and there are concerns that high security entitlements may receive less than 100% allocations in the 2016/2017 water year. Water managers are still forecasting that allocations for the current 2015

to 2016 water year will reach 100% for Victorian Murray and Goulburn River entitlements and remain at 97% for NSW High Security entitlements. South Australian irrigators currently have a 100% allocation for the current water year.

The volume of water stored in the Murray Darling basin storages has been gradually reducing for the past three years, as shown in the following graph.

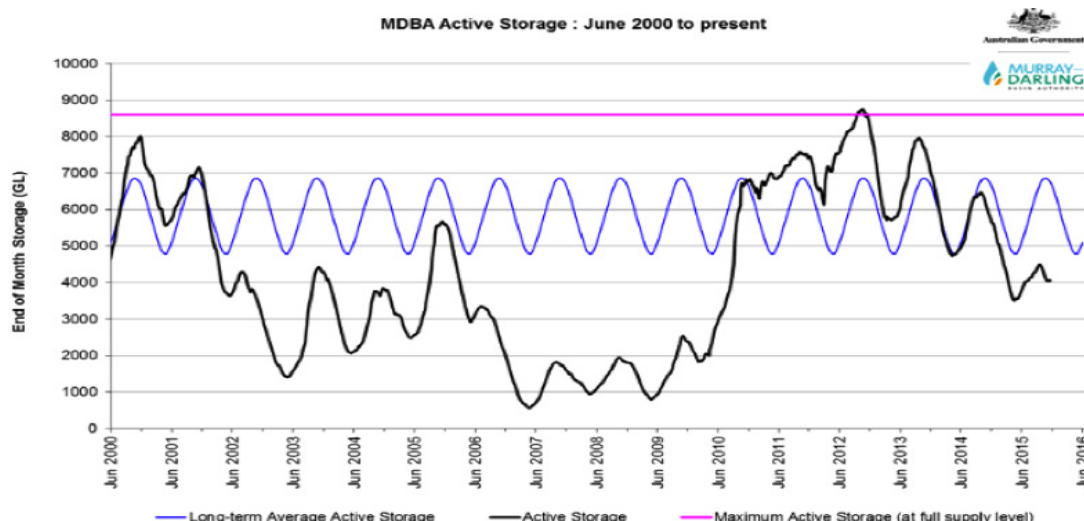
The current marketing of a substantial citrus growing and packing operation is understood to be meeting some genuine enquiry, and it will be interesting to see whether a sale will translate into higher values. Many of the traditional horticultural crops in this area, including citrus and wine grapes, have endured a long period of subdued values, and it would be welcome to see greater confidence from buyers translate into higher values. We have already seen this occur in the table grape and almond industries during the past two to three years.

Southern Queensland

The northern New South Water market taking in both the Border Rivers system originating from Pindari Dam some 60 kilometres north of Inverell and the Gwydir Rivers system originating from Copeton Dam some 35 kilometres south-west of Inverell, underpin the highly developed and keenly sought after irrigation country centred on the Moree Plains. These water markets are very mature markets and are underpinned by a number of major corporates including both local and foreign interests.

Over the course of the past 12 months or so we have seen a marked slowdown in both the quantity and volume of trades that have occurred within these systems in the main due to the declining volumes of water currently held within both storages. Pindari Dam, a 312,000 mega litre storage facility is currently at 37%, down from around 60% 18 months ago. Copeton Dam, a much larger facility of 1,364,000 mega litres, is currently at 22%, down from around 64% over the same period. Until there are major sustainable inflows into both storages, entitlement holders are expected to be impacted by ongoing restrictions.

In the short term this has created supply and demand issues for existing entitlement holders and while the number of buyers in the market has naturally reduced somewhat short term, there is still relatively sound demand for water rights so that current crops can be finished. This will generally underpin water values in the short term, however if the dry



Source: Murray Darling Basin Authority weekly report

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continues there is the potential that the value of the various water rights specifically General Security and Supplementary rights within the Gwydir System and General Security B and Supplementary rights within the Border Rivers System may soften slightly. The potential for a sizeable softening in the market is very limited however given the very mature nature of the market within both systems.

North of the border, the water market is extremely immature in comparison. The Federal Government via the Department of the Environment now known as the Department of Agriculture and Water Resources has been the main buyer of water rights within the various southern Queensland systems through the Restoring the Balance in the Murray-Darling Basin Program. This program is based solely around restoring health to the Murray Darling Basin and any acquisitions occurring via this scheme are generally considered to be fully firm given the special interest nature of both the buyer and reasoning for the purchase.

Within the east of the state the emerging El Nino has had only a limited impact on productivity to date. The major wheat belt of southern Queensland and northern New South Wales has broadly experienced its best season. Discussions with growers across the region have confirmed average yields in the order of 3.5 t/ha or 17 bags per acre in the old scale. The real bonus is that because large areas received good in

crop rain especially at the latter end of the season, much of the cropping country still has good levels of sub soil moisture. This will reduce the requirement for major rainfall events to occur at the front of the 2015/2016 season.

The encroaching El Nino is however expected to have a greater impact on the summer cropping season. Although storms may still occur, it is now too late for cotton to be planted and any early sorghum should now be in. There is the potential for a late sorghum crop to be planted in the new year, however the issues of heat in February and the potential for early frosts at the end of the season may mean that much of the country will be fallowed through until winter 2016.

Areas of inland southern Queensland have received good storm rains that have promoted pasture growth, however many areas, especially further west are yet to receive any beneficial rains. Stock numbers in the west are generally down on the long term average.

Flying in the face of the approaching El Nino is the booming cattle market with demand far outstripping supply. This scenario is expected to continue for some time as the Australian cattle herd is now at a 35 year low. This is now starting to feed into demand for top quality cattle country with the Roma/Taroom/Wandoan triangle experiencing good demand with

recent sales suggesting values are on the rise. We caution however that depending on how the season pans out across the summer, this will determine whether or not this demand can continue. The upward trend in values for country in this area has also not been replicated throughout the broader market, although we have seen an increased level of interest.

The blocking of the sale of the Kidman Portfolio to foreign interests by the FIRB has the potential to stall the sale process if not completely, then for quite a period of time. While there may still be options for the foreign interests, comments by the vendors confirming that offers from local bidders were well under the level of value offered by international interests will mean that if local buyers wish to be considered, their offers will need to be reviewed upwards. Future Month in Review reports will provide updates on how the sale process is likely to pan out.

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Central Queensland Water Market Review

The market for irrigation assets in central Queensland has been very thinly traded from 2008 to 2013, after which we have observed a number of farm sales, commonly with a degree of vendor duress as a combined result of multiple floods, volatile

commodity markets and existing debt pressures. This has reduced that local buying market for water assets, however there appears to be some signs of recovery as new players and alternative industries enter this market space.

Parts of the Fitzroy Basin Resource Operations Plan (ROP) have undergone significant changes in recent years, primarily in relation to the conversion of water licences (which were attached to the land title) into water allocations with their own titles which can be separately traded from the land. Sales evidence for stand alone water entitlements are limited as water is generally traded in conjunction with the land on which it is utilised. In time, with the conversion of many water licences into water allocations, we expect to see a more sophisticated water market evolve similar to those in the southern states.

After a relatively quiet few years of water market transactions, there has been a significant increase in transactions within the Nogoa Mackenzie Water Supply Scheme (supplied from the Fairbairn Dam near Emerald) in the past 12 months. The majority of these transactions has been by two individual parties, one being a corporate entity that acquired significant irrigation land holdings within the region in recent years and the other being a party who purchased a grazing property in 2014 and is reportedly going to develop this land for macadamia nut production. These water transactions range in volume from around 800 mega litres to 1,650 mega

litres and generally show a range in values of \$1,550 per mega litre to \$1,700 per mega litre. Within this area we have also observed a number of water sales where owners of in use irrigation farms have sold their water allocations with the intent to continue operation of the farm solely on temporary transfer entitlements. Our assumption has been that this is a strategic action by land owners to redeploy capital and reduce debt while also avoiding water charges during seasons of reduced water availability.

The Theodore irrigation district has seen very little transactional activity over the past 12 months. Many irrigators are still recovering from the devastating effects of three floods in four years onwards from 2010. This is a market that has historically been driven by district irrigators and in this regard these events have significantly limited the buying capacity for irrigation assets in this location. The few available sales in this area indicate rates well below that of southern irrigation markets and by comparison we consider that this offers a relatively affordable buying opportunity.

Land Outlook for 2016

As always it is difficult to look forward without first having a quick look in the rear vision mirror. We have conducted an analysis of the 2014/2015 year on year sale trends for properties over 500 hectares within non drought declared local entities which includes the Central Highlands Regional Council, Isaac Regional Council, Banana Shire Council,

Rockhampton Regional Council and the Livingstone Shire Council. It is interesting to note that despite a general belief that market activity has increased (number of sale transactions) from 2014 to 2015, this is actually not the case. Our analysis shows there to be a total of 76 sales transactions in 2014 as opposed to 68 so far in 2015. Bearing in mind this data would not include a number of recent transactions, we expect the overall year on year number of sales to be similar. However, the interesting statistic to come from this analysis is that the average sale price during this period has risen from \$2,588,528 in 2014, to \$2,803,006 in 2015. This shows an increase of about 7.5% in the average sale price over this period, demonstrating the increase in buyer confidence over this period.

The standout performer over this period was the Banana Shire Council which takes in some of Queensland's premium beef cattle fattening country, including the renowned Callide, Dawson and Arcadia Valleys. This region saw a 42% increase in the number of sale transactions with a 3.6% increase in the average sale price. However we do note that there was a 50% drop in the number of sale transactions for the 2013/2014 period, which illustrates that 2014 was a relatively flat year in terms of sales activity and is now widely regarded as representing the bottom of the market cycle in this location.

Looking forward to 2016, we anticipate a continuation of the current market conditions for the above regions assuming an average rainfall seasonal. Local agents are currently reporting demand for top quality scrub blocks to be exceeding supply, with numerous parties actively looking to secure additional grazing land.

As for the question “what is going to happen in the west when it rains?”, at this point in time it is difficult to speculate given the number of variables in play. However we do believe there will be opportunities out there for those with adequate stock numbers to take advantage of the abundance of good quality feed likely to be on offer if a decent wet is received in these areas.

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North Queensland

Water is certainly a hot topic in the north at present. Industry stakeholders in the north are keen to see agricultural industry development across the region. At present there are fodder crop projects that have served as incubators to higher valued agricultural crop development. The collective voice of the west would like to see economic growth and increased employment opportunities through the development of agricultural projects.

By the time this article is released, the Great Artesian

Basin bore allocation tenders will have closed (11 December). The minimum price of this water is \$1,420 per megalitre. There has been much conjecture in the marketplace regarding this price. It will be interesting to see how many tenders are submitted. And it will be interesting to see how the new water releases are utilised.

With the impending GAB ROPS enabling trading, it will be interesting to see if any trades do occur in the free market and at what price.

Tenders for the unallocated 264,550 megalitres of water from the Gulf Resource Plan Area close on the 29th January 2016. This plan area includes the Flinders, Norman, Nicholson, Gregory and Leichhardt River catchments.

The combination of these allocations and the previous allocation round of 95,000 megalitres in 2012 is a good start towards the evolution of the Gulf and north west Queensland irrigated agriculture industry.

At this stage, none of the first allocation round licences are actually in use. No projects have been developed. Water is tradeable in the Flinders and Gilbert River catchments. It is unlikely that trading will even occur until such time that demand arises when projects are up and running.

Even when an irrigation area is established, a water trading market is not necessarily established

automatically. For example, it is some years ago now that the water allocations in the Burdekin were detached from the land parcel and tradability was enabled. Given that there already was enough water allocated, there is no scarcity and there have been few trades at all in that market area.

It is exciting to listen to market discussions about the potential for projects and also the pricing of the water itself. One of the comments in the market place is around “how are we going to pay for this water when we need to survive the drought first?” This is a serious issue for many.

The timing of this opportunity is unfortunate. Despite some industry commentary around increasing rural property values, there is a drought on and once it does rain it is going to take some time for the land and cattle numbers to recover.

I gather that at this point in time there is discussion within the finance industry as to the financing of these water allocations. Given that the allocations in the Gilbert and Flinders River are tradeable, they will effectively have their own title and therefore it is expected that they will have their own mortgage. In turn, they will have their own loan to value ratio as well. This is likely to be a lower loan to value ratio than that for land assets.

The purchase of these allocations do not necessarily have to be debt financed. We have received enquiry

from potential investors who are interested in joint venture development. These equity investors are not all from overseas either. Given that capital structures are tight at present, perhaps equity investment and joint ventures may be the vehicles that develop the gulf and north west Queensland irrigated agricultural industry.

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South West WA

The water market in Western Australia remains in its infancy with no real framework in place for trading allocations or recording of trades of surface and sub surface allocations. The main issue for trading sub surface water in Western Australia is whether the water source is fully allocated. If not, then why would anyone trade? Some of the deep aquifers including the Yarragadee have sections that are fully allocated and therefore if you need to source water in these areas you will have to lease or purchase an allocation from an existing licence holder within that region. These are few and far between and are not on public record so information is very difficult to obtain. The situation may also be that the allocation was traded with land and that a breakdown has not been recorded during the sales process so obtaining values through analysis is also difficult. In instances where the water source is not fully allocated (which is the case for a number of superficial aquifers) then an allocation can be obtained by applying for a licence

from the Department of Water and therefore no trading is required.

Discussions with a local agent involved in trading water allocations indicates that a number of trades for sub surface water allocations have occurred during 2015 in the south west region with rates ranging from \$700 per mega litre to \$1,000 per megalitre depending on the source and area. These trades have predominantly been for horticultural purposes as the development of the market garden and horticultural industry (particularly avocados) continues to gain momentum. 2016 is likely to see continued demand for subsurface water especially from quality water sources which have fresh water with low salinity levels.

For surface water, the main scheme which involves trading of allocations is the Harvey Water Irrigation Scheme. The is split in to three zones, Harvey, Waroona and Collie with the water being sourced from a number of large catchment dams located along the Darling scarp in the south west. This scheme has been piped underground in recent years in an effort to reduce evaporation which occurred under the previous open channel system. Allocations under this scheme can either be leased or traded with leasing results being posted on the scheme's website under a rate per Transferable Water Entitlement (TWE) per mega litre. The most recent results for leasing in 2015 are split into Collie at \$5 per TWE and Harvey/Waroona at \$25 to \$30

per TWE. The most recent purchases indicate values for Harvey/Waroona (piped water) are between \$350 per TWE to \$470 per TWE. The Harvey/Waroona zones have a higher quality of water which is reflected in the rates paid. The majority of properties within the zones are grazing properties utilised for dairy or beef production and as the increase in demand for quality grazing increases as the beef industry continues to thrive, it is likely that demand for water under this scheme is likely to increase and therefore rates are also likely to increase.

With the Bureau of Meteorology reporting one of the possible effects of the El Nino weather system being a reduction in rainfall then the supply and regeneration of the above noted water sources is likely to be significantly affected. The result of this reduction in supply and drier conditions is likely to create pressure on the existing allocations and we consider it likely to result in upward pressure on values and rates for water allocations both temporary and permanent.

Overall it is evident in the market place that demand remains strong for quality water and that properties with tradeable surface and sub surface allocations are remaining tightly held with the horticultural and market gardening industry continuing to perform well. With the possible effects of El Nino and the demand for water from the agribusiness sector increasing, this coming year could be an opportune time to implement some framework and put in place

a trading and registration system similar to that of the eastern states.

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Northern Territory

An El Nino event in the Northern Territory typically means a longer than average build up period, with no rain and higher temperatures leading into a later than average start to the wet season, perhaps late January or February (which is normally the wettest month) instead of a start in November or early December. A glance at the BOM rainfall gauges across most districts in the NT and Kimberley indicate generally below average rainfall for November. Interestingly however, in this valuer's recent travels to several districts across the NT (and as far south as the SA border), there are reasonable patches of green, sporadic as they are, that mean some pastoralists can hold off on trucking to trim back their herds. But the general perception is that increasing numbers of cattle across the NT are being trucked to lighten the burden on dwindling pastures given the generally unfavourable El Nino forecast by the BOM. The prevailing high cattle prices makes it a bitter-sweet situation.

As for irrigation water trading etc, there has still not really been any true arms length water trades to take place in any of the NT's four declared Water Control

Districts. The map below shows the current status of water allocation planning in the NT.

Water Allocation Planning Areas (WAP) - source NT Government

Water trading can only occur within declared WAP areas and needs to comply with the rules relevant to the WAP. Where there is a declared WAP (for example, irrigation areas around Katherine) it is still an immature water market and some negotiations leading to a trade or two will be needed to set the first benchmark water values for the NT. Licencing in a WAP is based on a High, Medium and Low security system where each year on 1 May, allocations are announced by the Controller of Water Resources in the form of a percentage factor by which the relevant entitlement must be adjusted in order to maintain an appropriate level of environmental protection and water supply security in regional water resources. If it's been a light rainfall/recharge year the previous wet season (or seasons) then it is the low security licence holders who cop the chop first and so on up the security ladder.

However, there are still significant irrigation areas that are now well established outside declared WAP areas. For example, there are more and more production class irrigation bores being discovered in the Douglas Daly district which are being used to irrigate crops such as hay, melons, turf and now

Indian sandalwood. Water trading can't occur within this district (essentially the area resourced by the Oolloo aquifer) until a WAP is declared, but it is within a Water Control District which has dedicated legislation that covers all aspects of sustainable water resource management including the investigation, use, control, protection and allocation of water. Water Control Districts have been declared for the Alice Springs, Daly Roper, Darwin Rural, Gove Peninsula, Great Artesian Basin, Tennant Creek, Ti Tree and Western Davenport regions. Despite the lack of an established water market at this stage in any of the NT's WAP areas and Water Control Districts, established irrigation supplies still obviously hold significant value and this is currently measured by the market in the price paid per irrigated hectare. Prices paid reflect a combination of land quality, location, water security, proven supply and returns achievable from the overall highest and best use of the irrigated land.

Generally speaking, the market for freehold irrigation properties of any scale in the Northern Territory is a very difficult one to accurately analyse due to the small number of such properties to transact in any given year. This has particularly been the case for the generally subdued market conditions over the past three to four years. There have been only four confirmed arms length commercial irrigation property sales in the Katherine/Daly region in the

past four years (that we are aware of). Overall, Indian sandalwood grower Tropical Forestry Services (TFS) have clearly been the most active buyers in the Top End in recent years and in most circumstances have proven that they are capable of outcompeting bids from other potential purchasers who might use land for a more traditional use (ie, irrigated horticulture) but a proven irrigation supply and licence has to be in place. We note however that the latter also appears to be in tight supply.

Over in the Kimberley near Kununurra, there has been only one arms length sale in the Ord River Irrigation area (ORIA) in the past five years that we are aware of. We note that the supply for sale

of quality irrigation land in the ORIA is virtually nil at present, resulting in demand pressures for such land. According to the WA government, land development cost estimates of some of the potential private developers for Stage 2 range from around \$7,000 per hectare where there is existing road and irrigation channel infrastructure (around Goomig) to over \$23,000 per hectare where there is no channel or road infrastructure in place (Knox Plain). We note that these estimates are roughly similar for some areas in the north of the Northern Territory. With the current tight supply of already developed irrigation land (land with water allocation and production history) it would not be unreasonable to assume,

even given the general slow but improving market conditions, that the rate per hectare which may be sought by sellers of such land in the ORIA could now potentially be in the region of \$15,000 per hectare.

The Northern White Paper identifies the following potential irrigation expansion areas which, if ever achieved, would obviously have profound impact on the situation described above.



Region	Existing (ha)	Source	Potential (ha)	Potential Irrigation Source
Northern Territory				
Darwin	3,000	Groundwater	30,000	Small to moderate sized dams
Victoria River - lower catchment	NA	Victoria river	100,000	Large in-stream dams
Victoria River - mid catchment	Minimal	Victoria river	> 2,000	Groundwater
Victoria River - upper catchment	Minimal	Victoria river	40,000	Small to moderate sized dams
Ord River	Nil		14,500	Ord Stage 3 (from ORIA)
Kimberley				
West Kimberley	Minimal	Fitzroy river & La Grange aquifer	40,000	Overland flow; groundwater
North Kimberley	NA	NA	20,000	Small to moderate sized dams

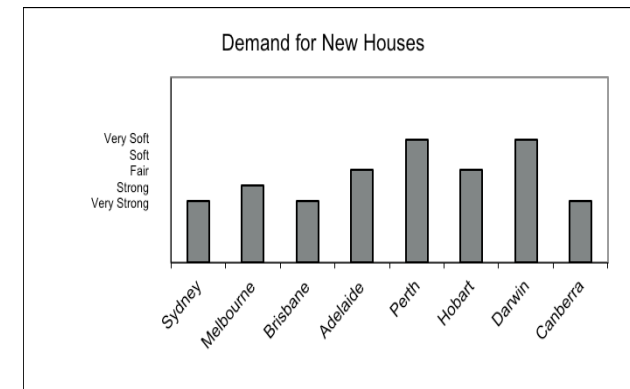
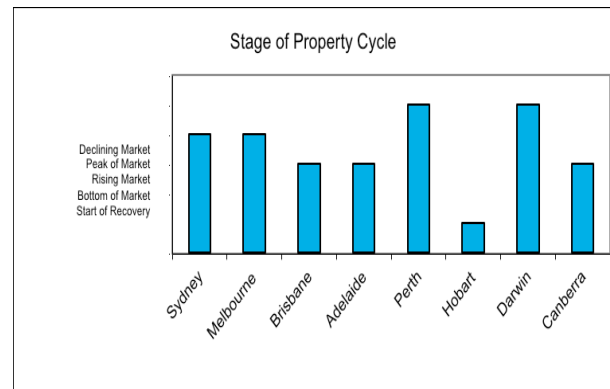
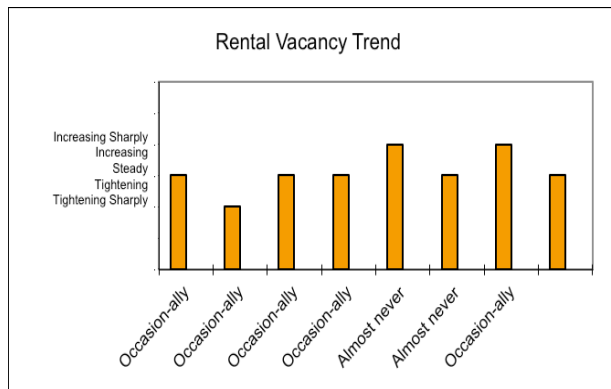
Source: White Paper on Developing Northern Australia (2015), Australian Government (information tabled by HTW)

Capital City Property Market Indicators - Houses

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

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

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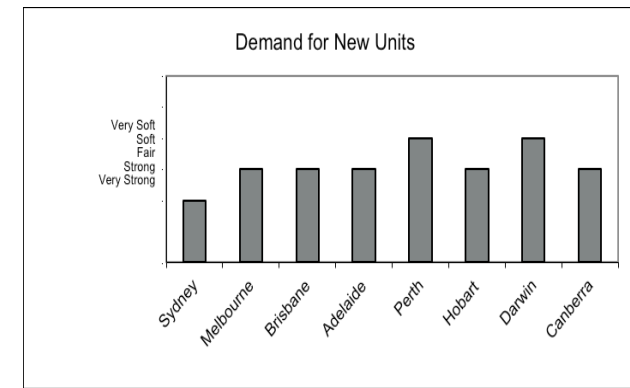
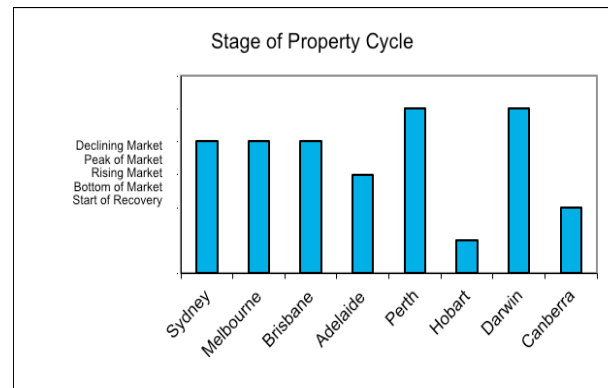
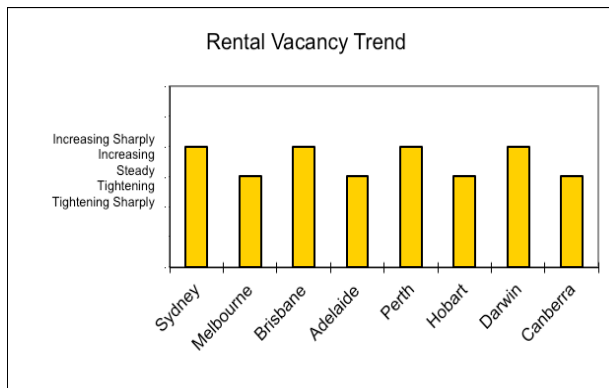


Capital City Property Market Indicators - Units

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

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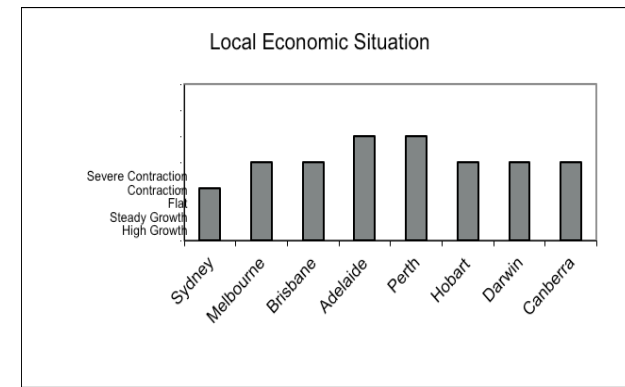
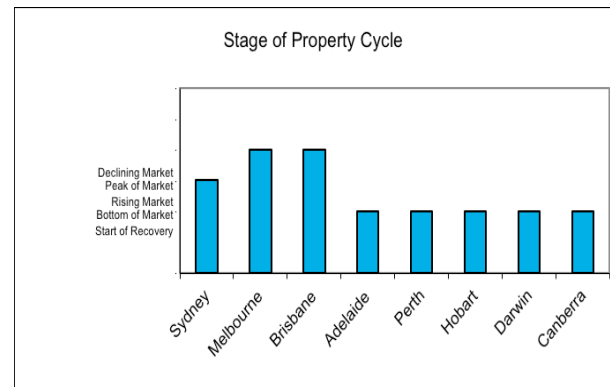
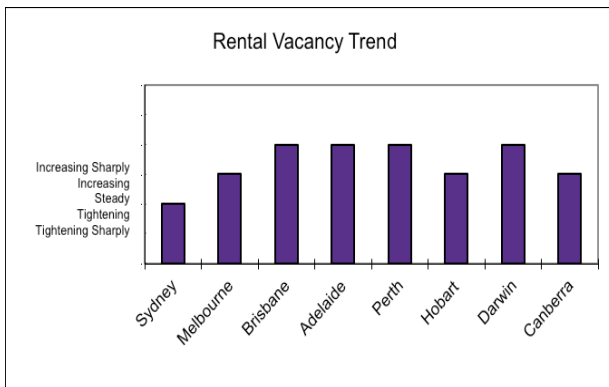


Capital City Property Market Indicators - Office

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

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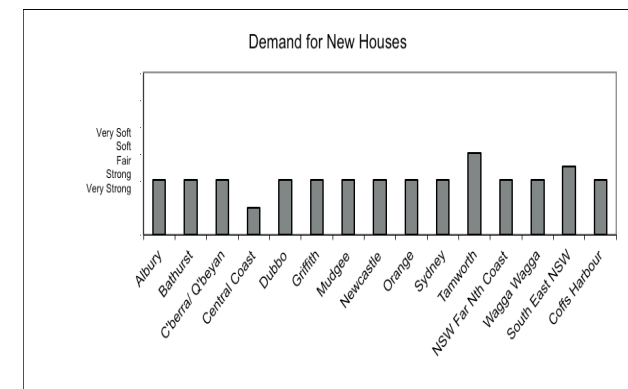
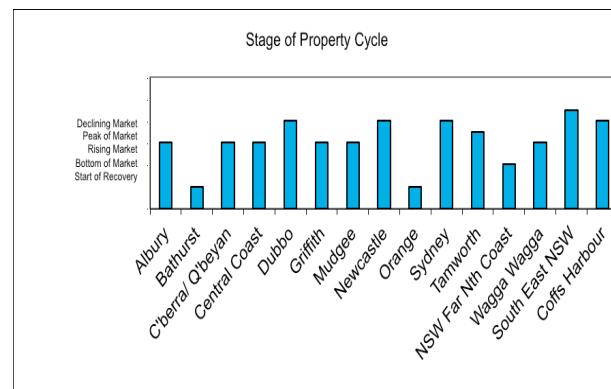
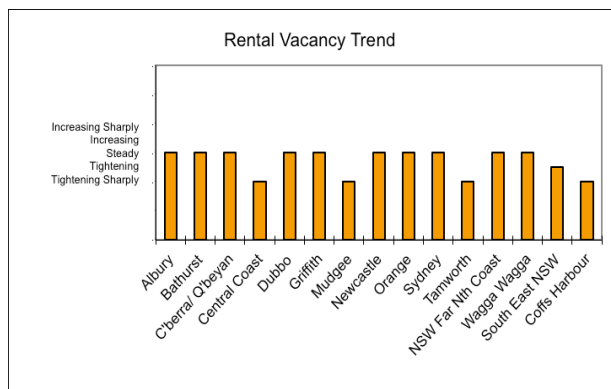


New South Wales Property Market Indicators - Houses

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

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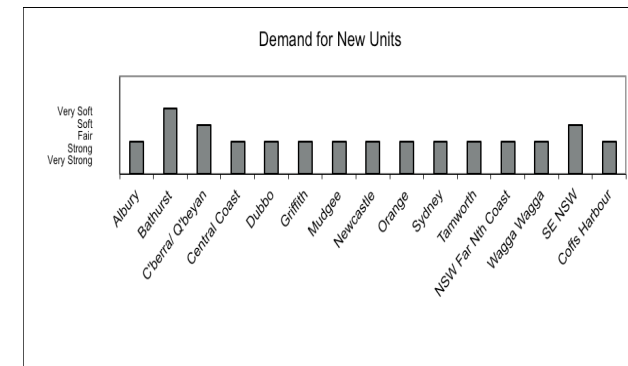
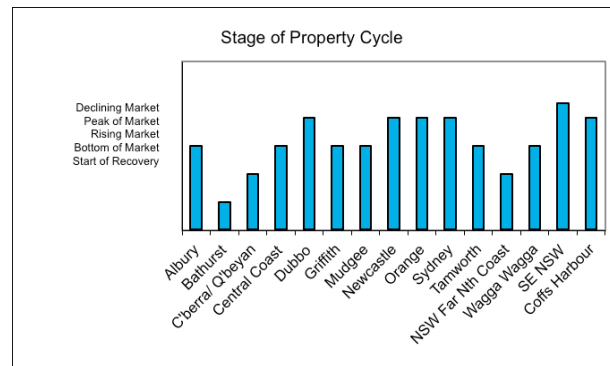
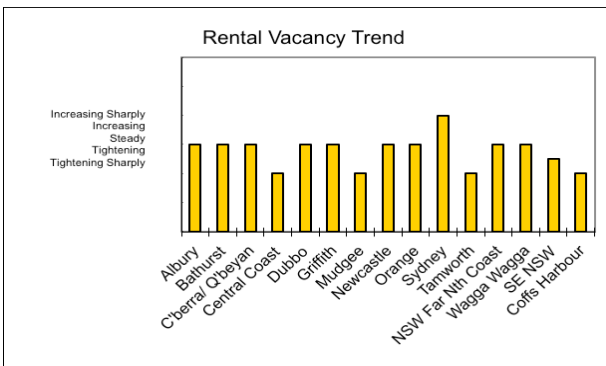


New South Wales Property Market Indicators - Units

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

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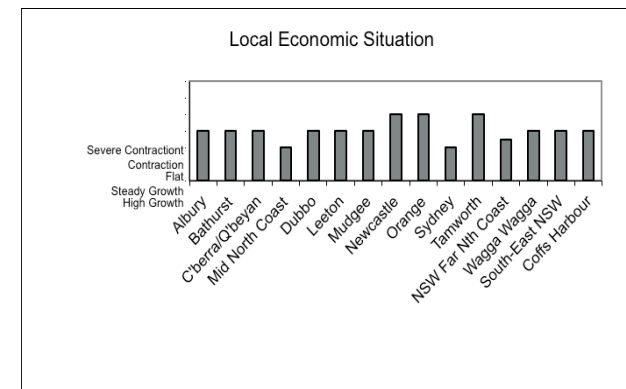
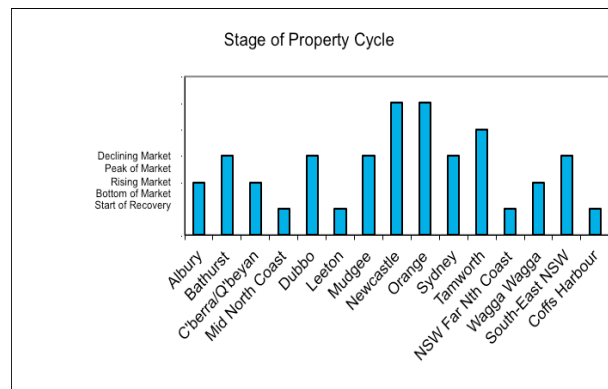
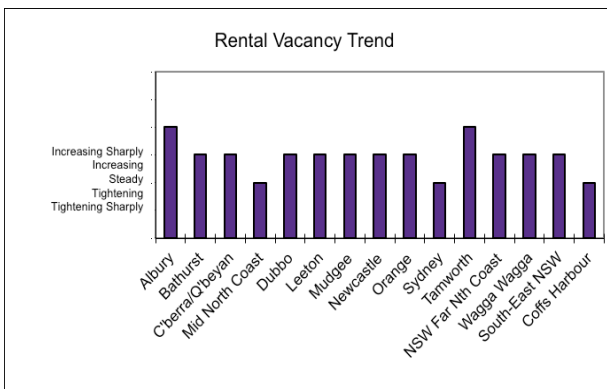


New South Wales Property Market Indicators - Office

Factor	Albury	Bathurst	Canberra/ Q'beyan	Mid North Coast	Dubbo	Leeton	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	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Steady	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Increasing	Steady	Steady	Steady	Tightening
Rental Rate Trend	Declining	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Declining	Stable	Stable
Volume of Property Sales	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Declining	Steady	Steady	Steady	Increasing	Steady	Steady	Steady
Stage of Property Cycle	Bottom of market	Rising market	Bottom of market	Start of recovery	Rising market	Start of recovery	Rising market	Declining market	Declining market	Rising market	Peak of market	Start of recovery	Bottom of market	Rising market	Start of recovery
Local Economic Situation	Flat	Flat	Flat	Steady growth	Flat	Flat	Flat	Contraction	Contraction	Steady growth	Contraction	Steady growth - Flat	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small - Significant	Very large	Significant	Significant	Significant	Significant	Large	Small - Significant	Small	Significant	Significant	Significant	Significant - Large	Significant

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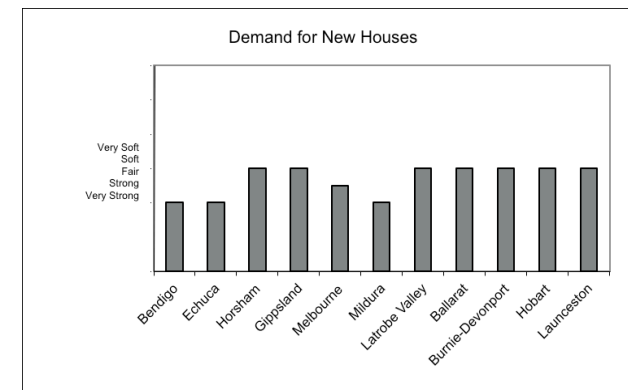
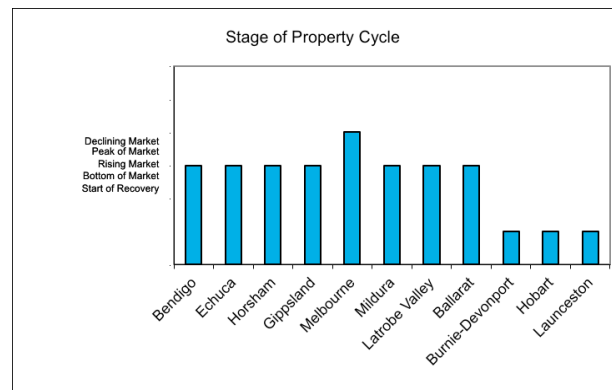
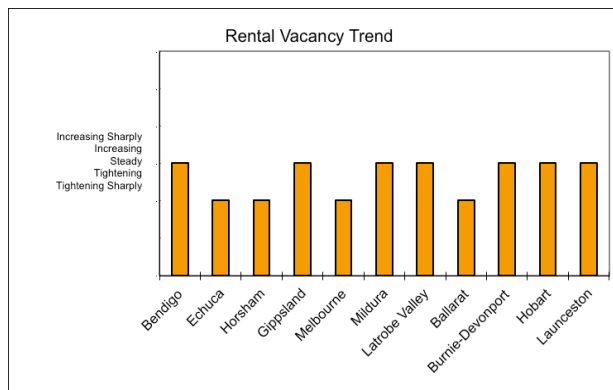


Victoria/Tasmania Property Market Indicators - Houses

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

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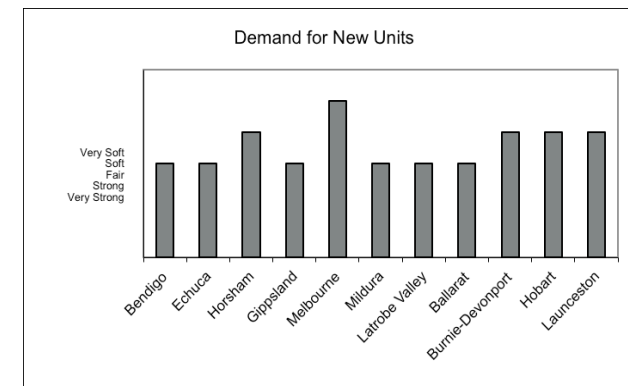
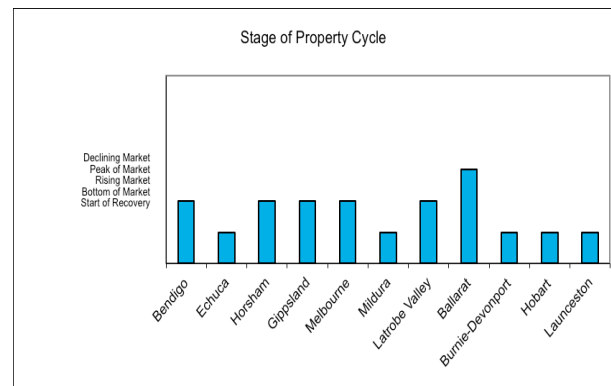
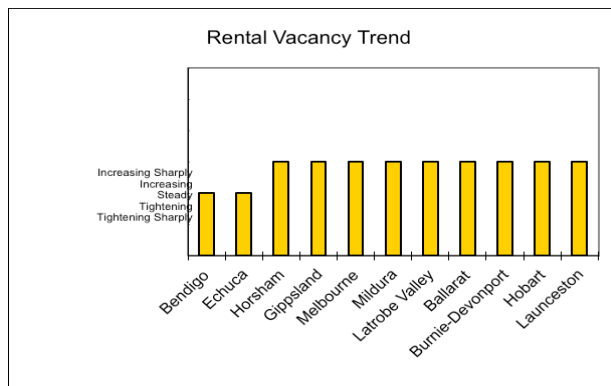


Victoria/Tasmania Property Market Indicators - Units

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

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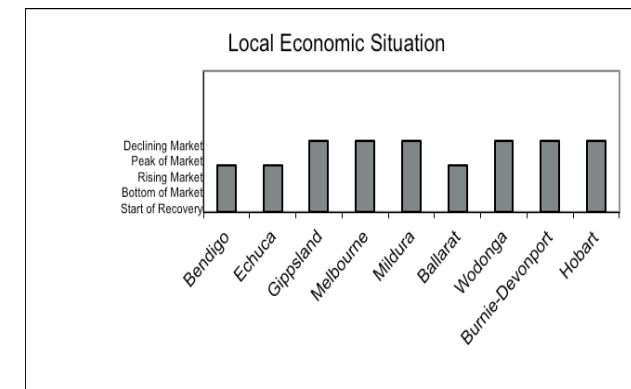
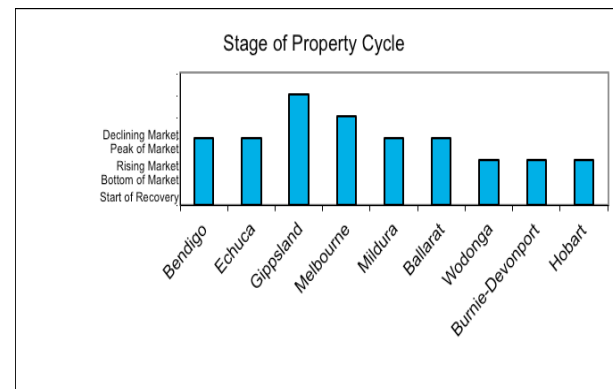
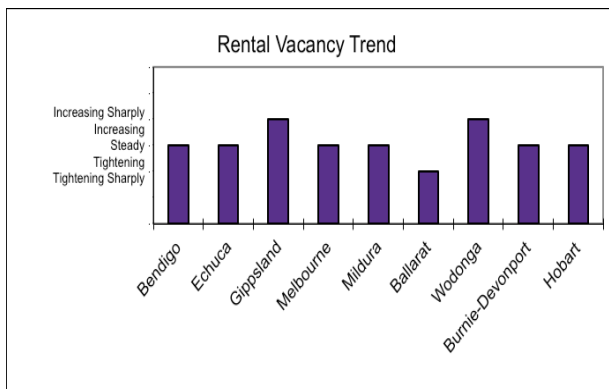


Victoria/Tasmania Property Market Indicators - Office

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

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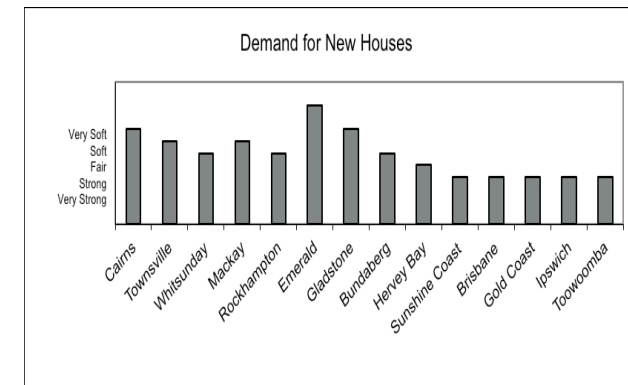
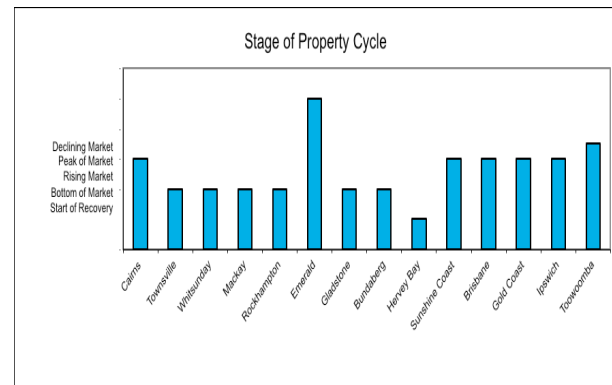
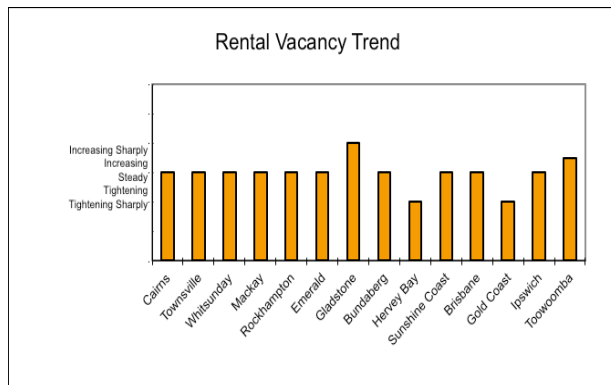


Queensland Property Market Indicators - Houses

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

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

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

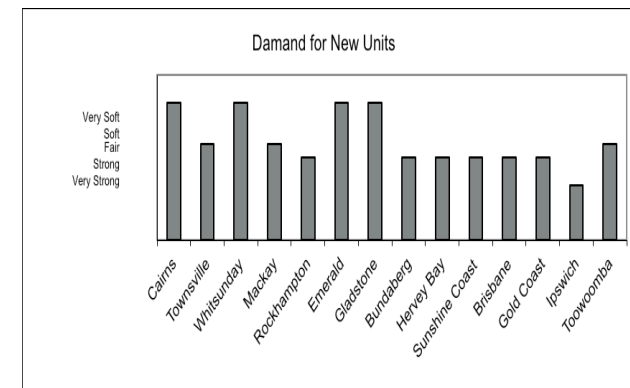
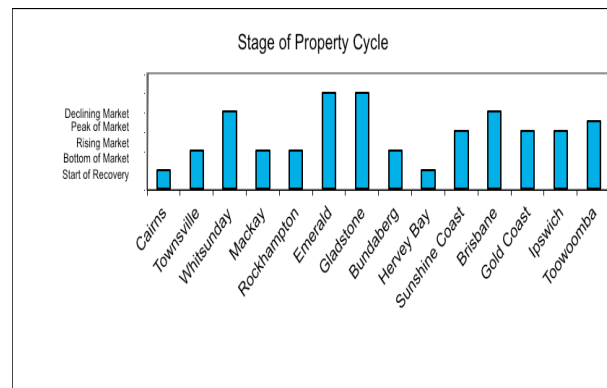
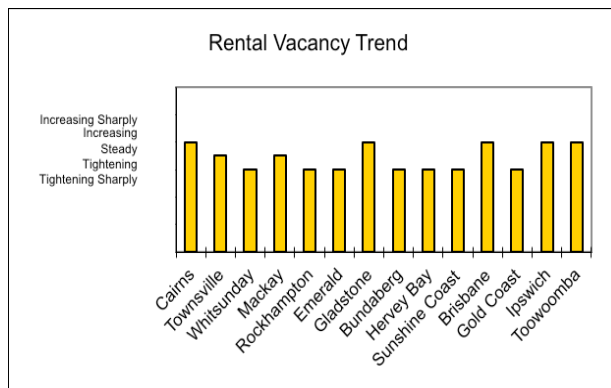


Queensland Property Market Indicators - Units

Factor	Cairns	Townsville	Whitsunday	Mackay	Rockhampton	Emerald	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Gold Coast	Ipswich	Toowoomba
Rental Vacancy Situation	Shortage of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand - Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady - Increasing	Steady	Steady - Increasing	Steady	Steady	Increasing	Steady	Steady	Steady	Increasing	Steady	Increasing	Increasing
Demand for New Units	Very soft	Soft - Fair	Very soft	Soft - Fair	Fair	Very soft	Very soft	Fair	Fair	Fair	Fair	Fair	Strong	Soft - Fair
Trend in New Unit Construction	Declining	Declining	Steady	Declining - Steady	Steady	Declining significantly	Declining	Steady	Steady - Increasing	Increasing	Increasing strongly	Steady	Increasing strongly	Increasing
Volume of Unit Sales	Steady	Steady	Declining	Steady	Steady	Steady	Declining	Steady	Increasing - Steady	Increasing	Steady	Increasing - Steady	Steady	Steady
Stage of Property Cycle	Start of recovery	Bottom of market	Peak of market	Bottom of market	Bottom of market	Declining market	Declining market	Bottom of market	Start of recovery	Rising market	Peak of market	Rising market	Rising market	Rising market - Peak of market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Occasionally	Almost never	Almost never	Occasionally	Occasionally	Occasionally	Frequently	Almost never	Occasionally	Occasionally	Occasionally	Frequently	Occasionally	Frequently

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

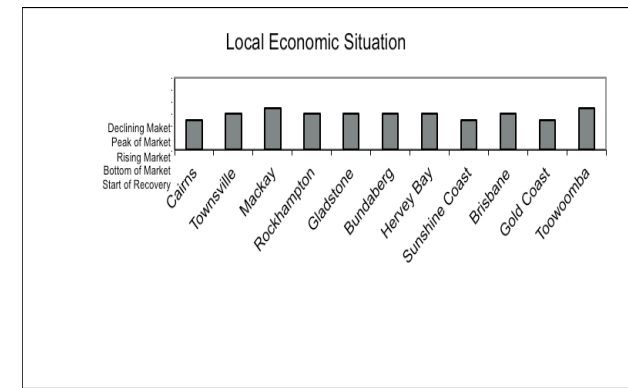
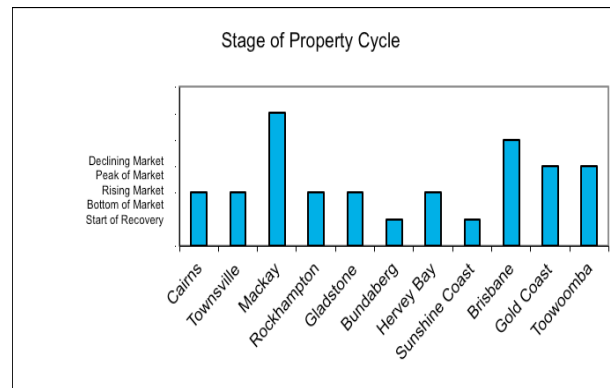
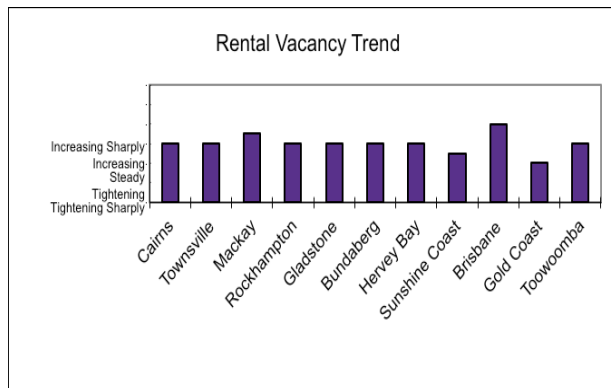


Queensland Property Market Indicators - Office

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

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

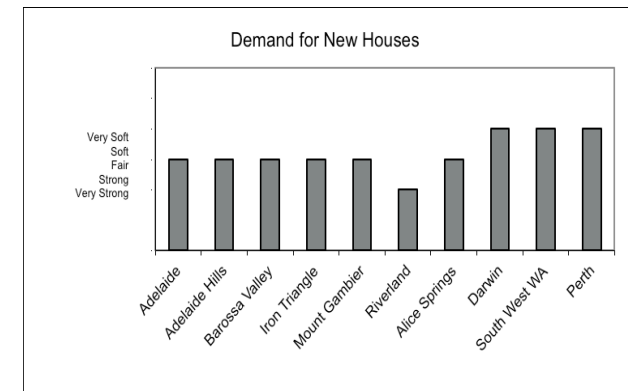
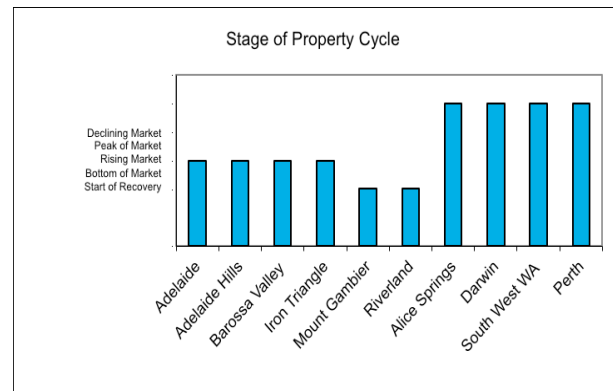
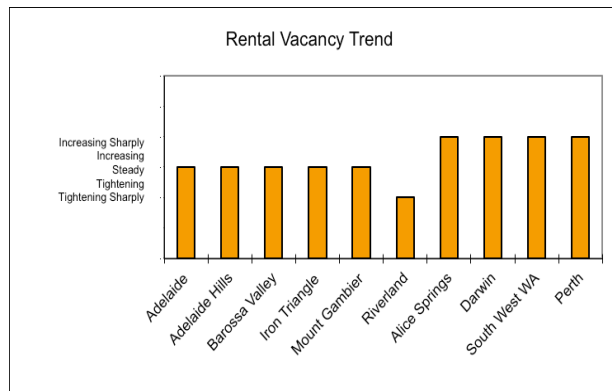


Northern Territory, South Australia & Western Australia Property Market Indicators - Houses

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

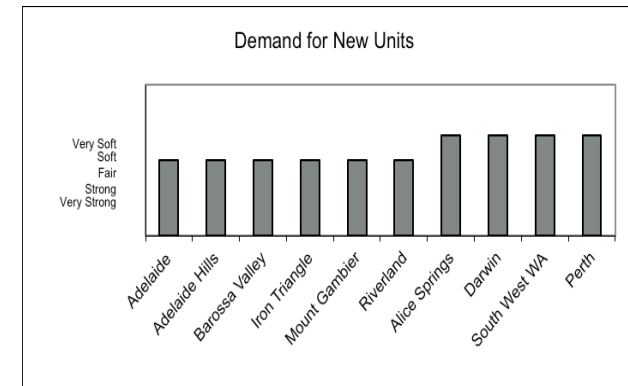
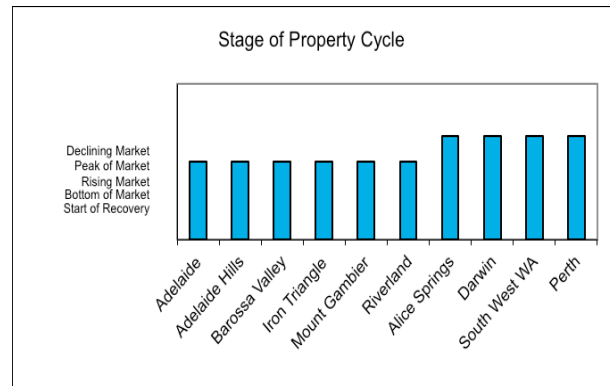
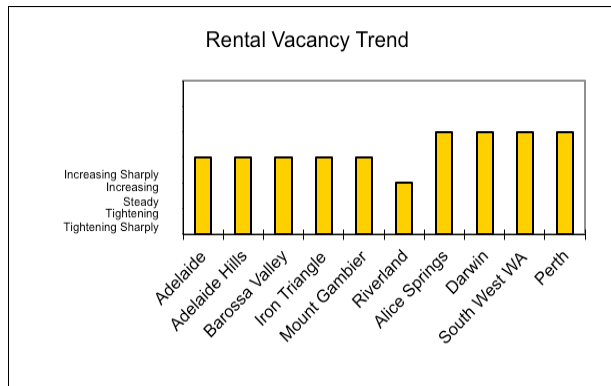


Northern Territory, South Australia & Western Australia Property Market Indicators - Units

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

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

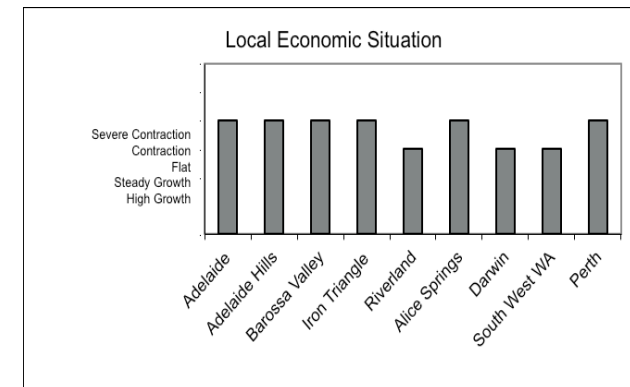
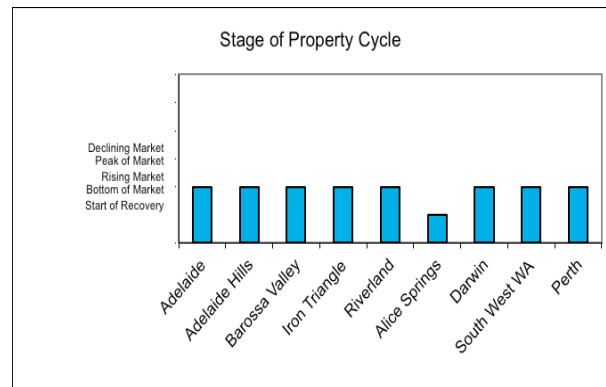
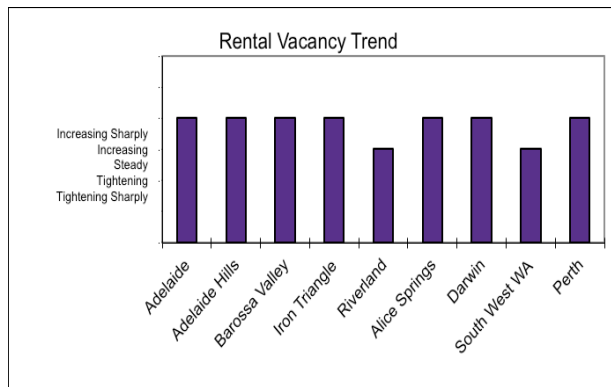


Northern Territory, South Australia & Western Australia Property Market Indicators - Office

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	Large over-supply of available property relative to demand	Balanced market	Large over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Increasing	Increasing	Increasing	Steady	Increasing	Increasing	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Declining	Declining	Declining	Declining significantly
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	Start of recovery	Bottom of market	Bottom of market	Bottom of market
Local Economic Situation	Contraction	Contraction	Contraction	Contraction	Flat	Contraction	Flat	Flat	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Significant	Large	Small	Large	Small	Significant

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