



Herron
Todd White

Independent Property Advisors



The Month In Review

2011

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Peace of mind for your property decisions.



The Trade Up Market.

The Trade Up Market - What now for the second home buyer?

"We deserve better than this!", The Daisycutters 2008

Let's not avoid the elephant in the room. We all want more my friends! Bigger, better, brighter, faster, longer, higher, greater, smarter... affluenza is not a dirty word and nor should it be. There is opportunity abounding throughout the sweeping plains, ragged ranges and wide brown lands of our island home. When the hard work is done and the money is in the bank, why shouldn't you look up the hill a little and wonder what the view might be from the top?

It's with this ethos in mind that we have a look at the aspirational sector of real estate. The market that follows after we wake up from the once eternal hangover of youth where responsibility was a little something "old people" needed to attend to. Now well done on securing a cosy little crash-pad as your first step on the property ladder and terrific job tarding up the treasure and keeping things under control by doing without the little necessities. Who needs an entertainment unit for the TV when some very level milk crates and a reasonably clean white sheet cover will do the trick just as well? Unmatched dining room chairs are just "shabby chic" and gourmet means adding parmesan to the scrambled eggs. The first home buyer is someone who is on their way and no doubt dreams of the day when they can find a little patch of dirt away from the main road and not quite so close to the coal smelter.

Trading up attaches itself to the need to take charge and protect our brood. It means no longer looking around for someone else to pick up the pieces because ladies and gents, we both own and hold the dustpan and brush. The aspirational in us all is a good thing. We all want something better for the family, even if the family consists of as few as one person.

With this in mind we have looked toward our keepers of truths around the country. This month, we have asked all and sundry at Herron Todd White to take a closer look at where the wild things go once they've secured a good job, had a haircut and sought something better than their first shack.

As usual the results are varied. The surprise is that the variations are not confined to geography. In this month's issue there are plenty of examples where trade up sectors differ within the same city.

And if you're tuned into industrial property, then we've got a treat in store as the shaman and shawomen of commercial take a tilt at their sectors with some particular attention paid to the middle ground investments.

So there you have it people – grunge is dead! Get off the couch, dust yourself down and pick up the pace. The Joneses have already upgraded so don't drag your feet. Just make sure your next step is taken off the back of a call to your local Herron Todd White office. With a little help from our friendly folk, you'll soon be enjoying the rarefied atmosphere of your next abode and wondering why everyone else wasn't as clever as you.

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1 October 2011

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Commercial Overview

Industrial markets have been experiencing a trial by fire across many price points. We keep returning to these uncertain economic times in each issue of the Month In Review, but there is no avoiding the link between confidence and performance. The rule applies across a myriad of sectors but none more so than commercial property. A look at the nation's industrial markets will provide an interesting frieze of the times, and to drill down further, we have paid some close attention to the middle market industrial sector.



Sydney

Investors where art thou?

With the Global Financial Crisis (GFC) now behind us and the Global Economic Crisis seemingly closer every day, it seems redundant to continue to comment on the impact of the GFC on the industrial market. Unfortunately however, the majority of the properties within the Sydney market remain in a holding pattern, with no significant changes to rental rates or property values since falls recorded at the onset of the GFC.

The exception has been the upper end of the market, which has recorded a flurry of activity, with several large firms including Big-W, Volkswagen and Dick Smith Electronics pre-committing to new facilities, spurring new development in central and western Sydney. The sale of the St Leonards Corporate Centre for \$86.7 million and the rumoured sale of Sir Joseph Banks Corporate Park in Botany for \$78 million has restored some faith at the top end of the market.

At the lower end of the market however, continued demand from owner occupiers and constrained rental growth has limited demand from investors. Discussions with industrial agents across Sydney reveal that sales to investors have been minimal in the first half of 2011, with several industrial strata unit projects completed in the past two years remaining unsold.

So what does that mean for buyers looking to upgrade? In normal market conditions, a fall in sales demand would likely result in an increase in well priced properties. In the current market however, vendors are holding out for owner occupiers who do not have the same motivations as investors and are more willing to accept a higher purchase price. If we were pushed, we would suggest buying a strata industrial unit in south Sydney or Artarmon, with the rental growth outlook in these markets more positive than other Sydney markets.



Canberra

Unlike other capital city industrial markets, the ACT industrial market is comparatively stable with demand restricted to those businesses that provide direct services to the ACT population. Despite this historic stability, over the past twelve months, a decrease in construction within the ACT has seen a fall in the demand for industrial floorspace, with less floorspace required for the storage of building and construction materials. While an exact figure is difficult to obtain due to the lack of leasing transactions, we estimate that rents have fallen by up to 7% in some markets.

As a result of this fall in rental rates, investor interest has reduced, with investors now less willing to commit to purchases that lack strong lease covenants. Despite this fall in investor demand, a high presence of owner occupiers has placed a floor under capital values, with these purchasers seemingly more willing to accept higher capital values than traditional investors.

For buyers looking to add to their portfolio, the ACT industrial market offers some good opportunities to invest for the long term, with the industrial demand likely to improve over time as the economy responds to increased population growth. Looking short term, demand remains high for bulky goods / showroom type premises in Fyshwick, with rental growth in this market likely to outperform both Mitchell and Hume over the coming 18 months.



Melbourne

The Melbourne industrial market is generally divided into the western, northern, eastern, south-eastern and city fringe geographic regions.

Demand

Industrial demand is driven fundamentally by affordability, interest rates, access to transport networks, and other cyclical forces. There is currently a reasonable demand for well located properties close to key transport networks. A key factor in the Melbourne industrial sector is over supply. In both the south-eastern and western industrial markets, there is an abundance of industrial zoned land suitable for development. Yields and rents may suffer if too much of this stock is released on the market at one time.

Sales and Leasing Activity

The mid sector of the industrial property investment market has maintained a steady position throughout 2011. We have seen a reasonable volume of transactions with market rentals and capital values maintaining their overall position or increasing slightly.

Some examples of recent mid level industrial investment sales in the south-eastern region include 29 Kimberley Road and 1-3 Ausco Place, Dandenong South. 29 Kimberley Road, a circa 1997 concrete tilt slab office warehouse, sold subject to a two year lease with a passing rental of \$62,830 per annum net. The sale price of \$835,000 reflected a market yield of 7.52%. 1-3 Ausco Place, a circa 2000 concrete tilt slab office warehouse unit, sold subject to a new five year lease with annual CPI rental reviews and a passing rental of \$137,561 per annum net. The sale price of \$1,650,000 reflected a market yield of 8.34%. The higher yield achieved for this property is reflective of the strata nature of the property, the higher price bracket and a rental rate towards the upper end of an acceptable market range.

There have been a number of significant transactions at the upper end of the market in 2011. Major retailers have been active in the western region. Retailer Pacific Brands has pre-committed to lease approximately 40,000 square metres of space in Laverton North. National supermarket giant, Woolworths, has leased an existing building of 52,600 square metres formerly occupied by Kmart in Old Geelong Road, Hoppers Crossing, while Kmart has moved into a larger 76,735 square metre facility at Banfield Distribution Centre in Truganina.

A major recent sale in the western region includes a facility occupied by Pacific Brands in the Wyndham Industrial Estate, Truganina. The original developer, Vaughn Constructions, sold the 44,262 square metre facility to GIC, a sovereign wealth fund wholly owned by the Singapore Government, for \$35.5 million, reflecting an initial yield of 7.65%. The property was sold with ten years remaining on the lease and 3% fixed annual rental increases. GIC also purchased a Cadbury facility in the south-eastern region at Greens Road, Dandenong South.

The 28,181 square metre facility sold for \$33.24 million, reflecting an initial yield of 8.5%. The property was sold with 8.75 years remaining on the lease and fixed 3.75% annual rental increases. The combined GIC purchase amounts to \$68.74 million, reflecting an average initial yield of 8.06%. This is a significant international investment and a good indicator of consumer confidence in the Melbourne industrial market.

Industrial Land Supply

The Melbourne industrial market has no shortage of vacant industrial zoned land. The latest estimates have the south-east region with around 2,432 hectares of industrial land supply, the western region having around 956 hectares, and the northern region 1,150 hectares.

Owners of industrial land in Melbourne include major developers Salta, Vic Urban, Leighton's and Australand. A key issue affecting the value of industrial land is the land release strategies of the major players in the market. There is a general awareness amongst the major landholders that a mass release of industrial land would cause industrial land values to fall due to an overwhelming supply. The ability of these companies to absorb holding costs is critical to the industrial market. If one or two of the major landholders were forced to sell, the market could be severely affected.

The Dandenong South industrial land market generally shows rates of approximately \$170 to \$200 per square metre for Industrial 2 or fringe land holdings for approximately 5,000 square metres, with higher rates up to \$250 per square metre for well located Industrial 1 zoned vacant allotments.

Summary

Melbourne's current existing building vacancy sits at around 400,000 square metres. Approximately 420,000 square metres of existing building space has been leased in the first half of 2011.

Industrial investment yields currently range between 7.5% and 9.5%. South-eastern industrial properties tend to achieve slightly sharper yields than properties in the outer north and the west.

Mid range industrial investment provides an opportunity for astute investors to achieve a higher return than a retail or office investment in the same price bracket. These properties are small enough to attract both the owner occupier and the investor market. This limits the risk to an investor if the property was to become vacant and required to be sold.

As vacancy levels decrease and tenant enquiry rises, pre-lease activity should increase over the next twelve months. Further upward pressure on existing rents is also expected towards the end of the year. Investors remain the most likely purchasers of property over \$5 million; As however we expect to see developers and possibly Australian REITS becoming more active in late 2011. Capital values are forecast to record moderate growth in the short term and owner occupiers are likely to continue dominating the sub \$5 million industrial market.



Brisbane

Sales activity in the first half of 2011 was somewhat subdued, however steady. As the Australian economy began to stabilise in 2010 and more so in the first half of 2011, activity and enquiry in the industrial property sector increased in primary industrial areas. Whilst we do not consider the market to have substantially improved, there appears to be more business confidence since early 2010 which has filtered into the industrial market; more so in established industrial precincts.

However, the flood events in January 2011 negatively impacted on this recovery. High risk, flood affected industrial precincts include Rocklea, Sumner and Albion. In the months following the flood, there have been very few transactions of flood affected properties. Owners are being advised by sales agents to hold on to their asset in the short term (if possible), in the hope that the stigma attached to flood affected properties dissipates relatively quickly. Buyers are being cautious and most understand that there are higher volumes of stock available with no real pressure to act, given the subdued levels of demand. This has prolonged the recovery process in these areas in particular and there continues to be an oversupply of stock. We envisage it to take a further 12 to 18 months for the low level of demand to compensate for this. With the few recent transactions of flood affected properties that have occurred, we have seen property prices drop in the order of between 20% to 30%.

The culmination of the downturn in the market, subsequent lower levels of demand and the addition of a natural disaster in the greater Brisbane area has resulted in a greater disparity between primary and secondary industrial stock. Not all properties were affected by the floods and some precincts are experiencing higher levels of demand. It is important to note however, this increased level of activity has been specific to certain industrial precincts, rather than being across all areas. With the current market still volatile, demand has become more driven by primary price determinants such as location, with values in secondary industrial locations continuing to lack direction. The TradeCoast precinct (Eagle Farm, Pinkenba, Banyo, Lytton, Morningside, Murarrie, Hemmant and Tingalpa) remains an attractive option due to its status as Brisbane's primary industrial precinct. This area attracts some of the highest sales and rental rates in Brisbane and benefits greatly from its proximity to major transport routes such as the Gateway and Pacific Motorways, the Port of Brisbane and the Brisbane domestic and international airports.

In 2011, in secondary industrial locations such as Brendale (on the northside of Brisbane), there has been a greater disparity in sale prices between modern and older style buildings (especially for freestanding buildings ranging from 1,000 to 3,000 square metres of gross floor area). Given the increased difficulty in obtaining finance from the major lenders in the years following the global financial crisis, there had been a diminished number of modern style buildings constructed and available to the open market. The limited number of industrial stock

being constructed was generally design and construct contracts built for owner occupation. What has become apparent is that when a modern style property becomes available for sale on the open market, this product is acquired within a reasonable timeframe for a reasonable sale price. In 2009 and 2010, sale prices softened for most industrial stock in secondary industrial locations such as Brendale.

Transactions in 2011 have indicated that modern style buildings have held their value (or experienced lesser declines) in these secondary locations compared with older style buildings.

Yields

Analysed yields have remained relatively steady in the primary locations with sale prices for industrial properties having between \$5 to \$10 million dollar quantum of values typically reflecting yield ranges between 7.75% and 8.75%. We note that some transactions with strong leaseback arrangements have reflected lower passing yields, however these sale prices are generally considered above 'market' parameters due to the long term income stream associated with the investment and the added utility of not having to locate a tenant. For industrial properties below the \$3 million dollar price point, achievable yields in the prime precincts generally range from 7.5% to 8.5%, considering location, access and exposure, property age and condition, lease terms and strength of tenant. Keener yields have also been achieved in fringe CBD suburbs due to their underlying land value and long term redevelopment potential. Yields currently being achieved in secondary industrial locations for properties with sub \$3 million dollar quantum of values range from 8.5% to 9.75%. Again, these yields remain in line with 2009 and 2010 as market conditions have not changed significantly.

Rents

Rents achieved in the prime industrial locations, whilst experiencing some downward pressure through 2008 and 2009, have remained stable in 2010 and the first half of 2011 and typically range between \$115 and \$150 per square metre per annum net for high quality, modern style accommodation. The rate achieved is dependent upon a range of factors including the age, design and standard of the improvements and the location, access and exposure of the site. Rental rates can also vary based on other property specific factors such as the office to warehouse ratio, air-conditioned warehouse accommodation and the inclusion of gantry cranes in the warehouse. Lower grade industrial properties, typically of sheet metal design; generally achieve rental rates between \$80 and \$105 per square metre per annum net in these primary industrial precincts. Whilst leasing demand in these areas has stabilised, we have recently seen some leasing deals of secondary stock reflecting low effective rentals rates. This again is a consequence of the supply overhang and a lack of tenant demand in these outerlying areas, resulting in extended vacancy periods and high rent free periods and fitout deals being required to secure tenants. In the current market, we would consider incentives in the form of a rent free period of up to three months or a fit out contribution would need to be offered to secure a tenant in secondary industrial areas, which generally equates to approximately 5% to 10% of the achievable net income of the property.



Adelaide

The Adelaide industrial sector is performing adequately at present. Economic uncertainty is still continuing to have an impact on the local market, although there are some positive signs with the latter half of 2010 seeing a slight increase in the number of sale transactions which has also continued to increase over the first six months of 2011. Both the current high level of the Australian dollar and the 'unknown' surrounding the introduction of a carbon tax may have a noticeable impact on the manufacturing sector in the short to medium term with a possible flow on effect impacting on the Adelaide industrial property market.

There is still solid demand for inner southern and western industrial properties when they become available, although these areas tend to be quite tightly held. There is also a much stronger preference for prime quality assets over secondary stock, which tends to be quite difficult to sell or lease especially if it is located in the outer southern or northern industrial areas. This is supported by evidence that yields for prime property have remained stable over the previous twelve months while at the same time, yields for secondary stock have softened by 20 to 30 basis points.

Leasing activity has been slow and rents have shown slight decreases over the past twelve months.

At present, private investors are most active in the market with owner occupiers also showing some interest.

Of note is the recent sale of 164-168 Cavan Road, Dry Creek for \$8,029,650 to San Remo, an Australian company that produces pasta and related products. Purchased from Rocla Concrete Pipes with a short term leaseback in place, it is expected that San Remo, as an owner occupier, will redevelop the nearly 5.1 hectare site to its specific manufacturing requirements. This is the largest industrial sale in Adelaide since mid 2008.



Perth

This article will discuss opportunities for existing property investors looking to make an industrial property part of their investment portfolio. Industrial properties might for many be considered a homogeneous property segment, essentially comprising a cubicle structure. However this is far short of a proper description of this category of property.

Industrial properties form one of the most diverse group of properties in the commercial property market, and are likely to become even more diverse as modern industrial developments become increasingly specialised to cater for specific business types and continually evolve to higher standards. Industrial properties also vary widely in

terms of scale, degree of specialisation, age and location to name a few. Despite an essentially heterogeneous category of assets, it is clearly an asset class that has shown a far greater stability in values in comparison with other asset classes over recent years.

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Property as a whole has always been considered a relatively stable asset class in terms of price fluctuations, although over the past two decades the increasing availability of credit has seen an unprecedented increase in volatility. While values grew dramatically, this category of property attracted an increasing level of interest from speculative investors looking to get a slice of the capital growth action. This group of investors often acquired industrial properties without any knowledge of this category of property and acquired these assets with little equity. However speculative investors were generally limited to the lower, sub-million dollar end of the market, mostly purchasing newer strata titled industrial units. These properties at the peak of the market were often purchased on a vacant possession basis, and some "off the plan" at potential income yields averaging between 4% and 5%. Many of these investors learned the risks of high leverage following the onset of the GFC, as suburbs such as Bibra Lake began to experience a significant oversupply of properties for sale or rent, as speculative investors were all looking to consolidate their high debts simultaneously. Fortunately, the relatively high cost of this investment type limited the market's exposure to this category of investor, so the market correction was short lived with current values more in line with long term trends.

The investor market at the lower end industrial property market has been extremely limited as investors pay more attention to the potential cash flows this category of properties can generate and what rate of return the income reflects. Not only have investors become more prudent, a two-tier market has evolved, with leased properties selling for significantly less than vacant counterparts. This has arisen mostly because owner-occupiers are willing to acquire such assets at higher prices. This segment of buyer generally purchase at analysed yields of between 4.5% and 5.5% after allowing for a three to six month letting up period. Recent sales at the lower end of the market generally reveal passing yields for leased industrial properties between 6% and 7.5%. Consequently, the supply of leased properties available to the market is limited, as owners will logically tend to keep holding on to the asset until expiry of the lease. In that way owners are able to realise a higher sale price on disposal.

While the investor yield range might appear low in comparison to mortgage rates, they reflect the relatively low risk of the asset's cash flow deviating below its anticipated return. Vacancies of such properties are currently well below the post-GFC level, and it can be reasonably expected that lease up periods would typically range between three and six months. Most industrial property leases incorporate fixed, or CPI annual reviews with market reviews at options, so yields should typically rise over the holding period of the property.

More Australians are opting to convert their managed superannuation to self-managed superannuation and we note an increase in industrial property acquisitions intended to form part of these self-managed funds. For these investors, the yield range noted might appear quite attractive as it is above typical institutional superannuation returns over recent years. Recent media reports reveal that the rate of return on managed superannuation averaged approximately 3.5% over the previous 20 years. Often individuals purchasing industrial properties to form part of their self-managed superannuation use their existing fund balances to secure these properties outright without the need for finance, although leveraging is also generally available.

One of the easiest aspects in assessing a potential purchase of an industrial property is determining its net income. Industrial property leases are mostly negotiated on a net basis, whereby outgoings are generally paid by the tenant over and above the negotiated lease price. The tenant also pays GST and in most instances also pays management and strata levies. Therefore determining the passing net rental of a particular industrial property is a lot more straightforward than say a residential property. From here, a bid price can quickly be determined by capitalising the net income at your expected rate of return.

One of the easiest aspects in assessing a potential purchase of an industrial property is determining its net income.

Property-specific attributes that a potential investor will consider in order to apply an appropriate expectation of rate of return on investment include understanding the supply and demand determinants of the sub-market the property forms a part of. In general, rental rates across the Perth metropolitan area can range from \$75 per square metre per annum to \$110 per square metre per annum, and office components tend to attract a broader range from approximately \$120 per square metre per annum to \$250 per square metre per annum on lettable area. Selling agents can provide information such as recent leasing evidence and other investment sales to assist a potential buyer. The rates achieved tend to strongly correlate with the age and quality of the accommodation and relative supply and, to a lesser extent, location.

At the upper end of the industrial property market, investment yields rise significantly. For example the recent sale of 99 Quill Way, Henderson for \$10.5 million revealed a passing yield of 10.9%, although this yield partly reflects the relatively short period the lease has remaining prior to expiry which at the time of sale, was less than two and a half years. Overall yields in this segment of the property market closely correlate underlying values, with lower yields associated with lesser priced assets and higher yields associated with more expensive properties.

In all, industrial properties are useful assets to include in any investor's portfolio, as they offer a risk profile superior to many other asset classes. The asset is also a tangible asset, which appeals to many investors. Most investors holding industrial properties as part of their broader investment portfolios have benefited from these assets as returns improve over time and they are relatively easy to manage and maintain. However investors looking to enter this market for the first time should only do so if

they intend to hold the asset for a medium to long term. Acquisition and selling costs are high for this category of asset. As with other longer term investments, risks can be reduced significantly by limiting the level of funding, as interest rate fluctuations can significantly affect the overall performance of the asset. Being a lumpy asset is an advantage for the first time investor as they transact a lot slower than other asset classes, and time is required to obtain the necessary information in order to formulate a proper bid price.



Darwin

While we are still awaiting the "final investment decision" from the Inpex board in relation to the on-shore processing plant at Blaydin Point in Darwin Harbour, there are other industrial infrastructure projects on the drawing board which should stimulate further demand in the general industrial property sector over the next few years.

This month, the preferred bidder to build, own and operate the new marine supply base at East Arm was announced. The marine supply base aims to provide support for the off-shore processing of LNG from the Timor Sea gasfields, mainly by servicing the rig tenders which transport all supplies to the off-shore platforms. The project is expected to employ about 125 people in the construction phase.

Nearby, the East Arm wharf is also in the process of expansion which will include an additional 2.3 hectares of hardstand and upgrades to the bulk loading systems after some well publicised environmental issues.

Further works at the port may be required due to the proposed new abattoir at Livingstone (50 kilometres south of Darwin). It is expected that the port will require over 130 new refrigerated container points and improvements to the rail handling system to manage the boxed beef and hides bound for export.

CORRECTION: The September issue of the Month in Review made a reference to the offering for sale of the Wow! development at Berrimah by the receivers of the SSI Group. The Wow! development adjoins the Berrimah Business Park but is not related to it in any way. Our comments regarding the receivership referred to the SSI group's Wow! property only. Apologies for any confusion caused.



New South Wales



Dubbo / Orange / Bathurst

The Dubbo industrial market is showing signs of recovery with some increased activity over the past six months. There have been three vacant land sales and two improved sales year to date. Vacant land has reflected between \$35 and \$57 per square metre, while improved property indicates values of between \$340 and \$427 per square metre added value of improvements.

Mining continues to be the main driver in most rural areas with increased activity in the Mudgee Region (Ulan), Parkes, Cobar and Orange.

The Orange industrial market has been steady with six improved sales and six vacant land sales. Land values have ranged from \$91 to \$116 per square metre while improved properties have analysed from \$412 to \$1,070 per square metre added value main building improvements. There has been one investment sale reflecting an analysed net yield of 8.7% with a WALE of 3.74 years.

The Bathurst industrial market remains slow with only three recorded sales year to date. This is a result of both limited demand and supply.



Far North Coast

The market for industrial properties over the past 18 months on the North Coast has been soft, with generally moderate demand in the current economic climate. Large industrial properties are rarely available as they tend to be closely held and sought by owner occupiers and larger local businesses rather than investors. Smaller industrial properties are sought by both owner occupiers and investors, however, asking prices need to be realistic in order to achieve a sale.

Overall, the market for industrial properties has been affected by a soft rental market and increasing statutory outgoings, resulting in owners being forced to accept low returns on investment.

The industrial market in Byron Bay was particularly strong between 2004 and 2007, being driven by owner occupiers and investors taking advantage of low interest rates to secure their own freehold premises or entry level investments in a rapidly increasing market. This high level of demand saw very strong increases in values due to a shortage in supply.

Demand for industrial properties within Byron Bay has continued to be soft due to continuing economic conditions and negative market sentiment. Strata titled industrial units within this locality have generally attracted reasonable interest due to entry level investment opportunities (under \$400,000) with investors competing with owner occupiers, some of which utilise premises for residential use, albeit illegally.

There has been a recent sale of a large strata titled industrial property within Byron Bay. This particular property has a total building area of 829 square metres and sold in March 2011 on a six month extended settlement for \$750,000 (\$905 per square metre). The property was purchased by an intending owner occupier. A large strata titled industrial unit has also recently sold within the Bangalow industrial precinct for \$800,000. This unit comprises 812 square metres of building area (\$985 per square metre) and has been purchased by the existing tenant.

The industrial market in Ballina is also currently soft, however, buyers in the lower end of the market are still evident subject to the asking prices for stock being realistic. The current soft market conditions within Ballina are supported by the recent sale of a free standing industrial building located on a 1,487 square metre site with a building area of 600 square metres which recently sold for \$650,000 to an intending owner occupier. This same property was purchased in the peak of the market (November 2007) for \$810,000 and a further \$90,000 was expended for construction of a mezzanine and caretaker's flat. This analyses to a discount of 28%.

Overall, the market for industrial properties is currently being adversely affected by a soft rental market and increasing statutory outgoings. Owners are being forced to accept low returns on investments, however, there is an expectation in the market that conditions will improve over the coming years. We feel that an improvement to net returns would not necessarily result in uplift in values, but would increase investment yields to a more acceptable level.



Newcastle

The mid price for industrial property in the Newcastle / Hunter region would be around the \$500,000 to \$750,000 range depending on what you were looking for. At that price, you could acquire a large, good quality, modern industrial strata unit in a developing estate. That price could also buy you an older style, free standing industrial building in an established industrial estate. What yields would you expect to pay? Well, we would expect somewhere north of 9.5% depending on the usual factors of location, quality of asset and lease covenant.

At this price point you would be competing with a reasonably robust owner-occupier market. Owner-occupiers are seeing good value in purchasing industrial units in super funds and using good depreciation allowances to further make the deal attractive. The benefit from owner occupiers purchasing the unit or property in their super funds also extends to the peace of mind and certainty that can be gained from owning your own premises, not to mention flexibility.

Generally speaking, the mid range price point will see yields of 9.5% to 11% and generally show a rate of \$1,000 to \$1,500 per square metre improved. This rate can fluctuate greatly depending on area of hardstand available and whether the current improvements fully utilise the site. It is not uncommon for lesser quality industrial properties to be in the \$700 to \$1,000 per square metre range improved.

At the hypothetical level of \$500,000, you could expect to pick up a unit of around 300 to 350 square metres in an estate like Beresfield or Steel River. A likely rental return for a unit like this might be in the order of \$100 to \$120 per square metre. That rate might increase if there is a higher proportion of office space.

It's more of a mixed bag for freestanding industrial property which is generally dictated by the amount of land that comes with it. The quality of asset can vary greatly from reasonably new but modern to larger but older. Some reasonably good deals can be found in fringe estates like Redhead, Toronto and regional areas like Cessnock and Kurri Kurri. The majority of purchasers in these locations tend to have a requirement to be in that location and sometimes will pay a premium for that so competition can be fierce, but countering that, there are often fewer purchasers in the market.

It's important as an investor to look at the quality of the lease covenant in place when making a decision to purchase an industrial investment property. In this market it is a brave call to speculate on a vacant industrial building. Leasing periods can be six to twelve months in many cases and lease incentives of rent free periods or fitout requests may be requested by tenants.



Southern Highlands

Following the leads of Western Sydney and the Illawarra regions, the Southern Highlands industrial market is relatively weak at present as the speculation that drove the market pre-2008 has evaporated.

Southern Highlands is an owner-occupier market with limited investment grade assets as most investors stick to the traditional industrial locations in the outer industrial suburbs of Sydney, which offers a superior variation of product. Investment interest in the region is almost non-existent due to competition from better placed industrial assets in Greater Sydney combined with current economic conditions. Until the broader economy and rents show clear evidence of stabilising, it is difficult to see investor interest retuning in the short term.



Wollongong

The employer and contractor job cuts at BlueScope's Port Kembla plant have cast a dark shadow over the industrial market as participants remain nervous about its flow on effects. Already coping with a struggling manufacturing sector, where several companies have downsized or moved operations offshore, the BlueScope announcement was unwelcome, but not surprising.

Coupled with the local and international environment, investors largely remain on the sidelines with the recent price declines and current economic conditions at the front of everyone's mind. Further, the minimum return of 9% for investors in this market is undermined by the competition from owner occupiers that are willing to pay a premium to secure long term stability.

In this market, there is typically a flight to quality. There is strong demand for well located industrial developments with strong lease covenants, however, these properties rarely become available.

There are potential deals around from distressed vendors, however, one should not speculate on future growth and look solely at the fundamental income stream and income return, asking oneself does the risk match the reward?

An investor in today's market should seek an asset with a sitting tenant in place as there can be up to a twelve month letting up period to secure a tenant and incentives may need to be offered to secure occupancy. Properties in established industrial areas with good road and infrastructure linkages should be favoured.

...Properties in established industrial areas with good road and infrastructure linkages should be favoured.

Victoria



Mildura

The industrial property market in Mildura is becoming more polarised. There have been examples of quite strong sales of large, modern properties in preferred locations. The owners and/or tenants of these properties are generally national businesses, which are typically associated with the transport, mining or broadacre farming industries. These larger players are prepared to pay strong rents to secure the right property.

At the same time, there are a number of older and inferior premises, which are proving hard to let. Many small businesses that have historically occupied these premises have struggled in recent years, with the effect that rental growth has been virtually non-existent. Having said this, our observation is that the industrial sector has held up better than the office and retail sectors in the past few years.

Queensland



Cairns

The industrial sector in Cairns is relatively small with areas close to the CBD showing the stronger demand. The market has come back from its peak of early 2008 with a slowing in the rate of sales, and yields having eased back by about 10% from the record low levels observed at this time. We believe yields for industrial premises at present analyse in the 8% to 8.5% range, from the 6.75% to 7.25% range previously evident. Commercial agents advise limited availability of good quality stand alone warehouse stock with reasonable demand for same. Strata titled industrial warehouses are proving more difficult to lease, with most demand being from owner occupiers as opposed to tenants.

The tight serviced industrial land supply situation that previously existed has now been alleviated to some degree with the State Government introducing some additional lots to the market at Woree, and there are now about 30 lots with areas of 2,000 to 3,000 square metres available, albeit at ambitious asking prices. Lots of this size are also much larger than the typical small owner occupier generally requires which is more in the 1,000 square metre range.

Due to the downturn in the local economy and reduced demand from tenants and purchasers, rents have shown slight decreases over the past three years.

There is limited quality investment stock available for purchase in the Cairns market which will support values over the short to medium term. The outlook for secondary stock and smaller industrial units is for continued slow activity over the next 12 months or so. A recovery in the vacant industrial land market in Cairns may depend upon a more widespread recovery in the local economy.

... There is limited quality investment stock available for purchase in the Cairns market

Recent sales include the former CEC depot which sold in two parcels, one to JJ Richards and the other to Ergon Energy. The combined purchase price of \$13 million shows the market is willing to pay strong prices for quality real estate.



Gladstone

The Gladstone industrial market has started to see the positive flow on effects of the residential market. Activity has been increasing since the beginning of 2011. There have been 16 sales of industrial premises in the past six months, four of which are still under contract. This is a great increase from recent years in which very few sales occurred. Despite the increase in activity, yields have not yet improved. Demand for new industrial leases is steady.



Gold Coast

Values of serviced industrial sites on the Gold Coast continue to deteriorate. A 2,000 square metre block at Emeri Street, Stapylton on the northern Gold Coast was sold in April 2011 for \$175 per square metre.

It is sobering to note that a 3,000 square metre parcel of land at Stapylton was sold at a rate of \$207 per square metre in February 2006, resold for \$260 per square metre in November 2006 and resold again for \$343 per square metre in March 2007.

A 5,000 square metre site in a new subdivision on Elderslie Road, Yatala on the northern Gold Coast has recently been resold for about \$200 per square metre under forced sale conditions, well below the original purchase price of \$375 per square metres in late 2008. Interestingly, many people thought that the land values of highway frontage sites were already at their lowest in late 2008, prompting two other lots to be sold at \$315 per square metre in 2009. This sort of bitter experience has now led to vastly reduced levels of activity as we wonder exactly where the bottom is.

Another 2,800 square metre allotment in Central Park, Yatala has been sold to an interstate buyer for \$250 per square metre while another 3,500 square metre site on Octal Street, Yatala has been sold for \$278 per square metre. On the central Gold Coast, a vacant site of 9,097 square metres in Burleigh Heads has been sold for \$308 per square metre.

Englobo development sites in Stapylton suffered a major blow when a 14.4 hectare site was sold for \$2.20 per square metre in June 2011. It was previously sold for \$11,655,000 (\$90 per square metre) in late 2007. It is reported that another site may have sold for only \$17 per square metre. On the other hand, an 80.4 hectare site in Bethania has been sold at a rate of \$81 per square metre and the buyer apparently has contracts out with two buyers for land after it is subdivided.

Small industrial units continue to provide the support for the industrial market with most sales occurring in Helensvale, Arundel, Biggera Waters and Molendinar. The majority of the units are between 300 to 500 square metres and achieve sale prices reflecting \$1,200 to \$1,600 per square metre for second-hand units with new units sold for \$1,800 to \$2,000 per square metre of floor area.



Has the market stabilised? No one knows, but we can say that it is still a tough market with extended selling periods.

There are only a handful of sales of freestanding industrial buildings. The Gold Coast City Council's purchase of Southport Industry Park at Middleton Street for \$21.05 million was the most significant sale during this period. This is a five hectare site developed with multiple buildings providing a total lettable area of 15,900 square metres. They are leased to strong tenants including the City Council. Analysis of the sale would indicate an analysed yield of 9.9% with a site area improved rate of \$385 per square metre. Other sales include a 1,100 square metre building in Nerang that sold for \$1 million, a tyre shop on Brisbane Road that sold for \$1.1 million while another industrial factory on Newheath Road, Arundel has changed hands for about \$2 million. The industrial market in the Yatala Enterprise Area continues to be plagued by low demand, with the only significant sale being a cold storage facility in Yatala Industrial Estate for \$1.665 million. Local agents are now talking about dropping prices but vendors need to be convinced.

Landlords, however, appear to be convinced that market rents for industrial premises have dropped significantly. Several new leases completed on Computer Road and Burnside Road on the northern part of the Gold Coast indicate that gross rents have fallen to about \$90 to \$100 per square metre per annum. On the Central Gold Coast, rentals appear to have stabilised at \$100 to \$110 per square metre gross. Due to the falling rents, we are seeing a relocation of tenants who were paying well in excess of \$120 to \$140 per square metre gross during the peak of the market. Such tenants are investigating the economics of moving and securing better terms in alternative premises.



Hervey Bay / Maryborough

Supply of industrial space is beginning to decline in Pialba which will hopefully see enquiries increase in the Dundowran and Urangan Industrial Estates. These estates have struggled over the past two years due to the high level of supply and limited demand. Lessors need to be negotiable as competition for tenants remains strong and incentives are required to attract a prospective occupant. Base prices for vacant industrial land in the Dundowran and Urangan estates remain around \$110 per square metre excluding GST. Owner occupiers have been the most active purchasers over the past six months and a number are tenants purchasing the unit they occupy. There are a number of properties on the market at present and vendors appear to be negotiable on price to clear stock.

Owner occupiers have been the most active purchasers over the past six months ...

Some recent interest has been shown in Maryborough industrial properties such as the Moonaboola Estate to the north. National transport and logistics companies are now seeing this location as a viable stopover point for trips between Sydney and Cairns. This interest is yet to translate into sales or leasing.



Mackay

Paget is the primary industrial estate in the Mackay region due to its proximity to the Bruce Highway, Peak Downs Highway, Mackay Railway Goods Yard and Mackay city. The Peak Downs Highway provides the principal access to the Bowen Basin coal mines.

Demand for industrial property in Mackay is reliant on the performance of the Bowen Basin coal industry. Mining equates to approximately 50% of the Mackay, Whitsunday and Isaac Regional Council's gross regional product with Paget providing a service base for a significant number of mines in the region. The development of the Galilee Basin west of Alpha and associated rail and port infrastructure

may also benefit Mackay through increased business to service industries.

There have been limited sales of improved industrial property throughout 2011, with most sales located within the Terminus Business Park. Most of the demand for improved stock is from private investors. Owner occupiers are purchasing their own sites and constructing purpose designed buildings.

Yields for modern industrial office/warehouse facilities range from 8% to 8.75% up to a price range of \$4 million. Anecdotal evidence indicates properties over \$4 million to be subdued and an easing out in the yield would be expected.



Rockhampton

The industrial market continues to reflect reasonably tight yields at around 8% to 8.5% and sales volumes continue to be slow. However, supply stocks in the industrial market, particularly investment stock, is relatively low.

There has been some activity in the market for larger allotments (around one hectare) over the past six months. Sales include a site in Chappell Street which sold for \$1,340,000 in April 2011. This is a 1.14 hectare site which reflects approximately \$118 per square metre of land area. The purchase is reportedly for owner occupation. Smaller sites currently reflect \$130 to \$150 per square metre for 2,000 to 4,000 square metre sites.

In terms of rental availability, there are a number of newly constructed, tilt panel warehouses with floor areas ranging from 100 to 200 square metres, including small offices and mezzanine levels available for rent ranging from \$140 to \$165 per square metre gross. At these levels, the Rockhampton industrial market is still a long way behind other regional counterparts of Townsville, Gladstone and Mackay.



The Gracemere industrial landscape has changed during 2011 with the construction of new warehouses in the industrial estate on Somerset Road. Two recently constructed high bay warehouses have achieved rents ranging from approximately \$130 to \$145 per square metre gross. Industrial land is still available for sale for approximately \$70 per square metre for 2,000 to 4,000 square metre sites. Historically, development of the Gracemere – Stanwell Industrial Precinct has been limited due to height restrictions for vehicles crossing the Blackwater Rail Corridor to access the industrial land. There are also safety concerns for heavy vehicle traffic due to insufficient storage room between the rail line and Capricorn Highway. In the past, this has led to many near-miss accidents between rail traffic and heavy vehicles and is a major safety concern for the community.

The State Government in conjunction with the Main Roads Department and Queensland Rail have commissioned a study to identify an access solution to land south of the Capricorn Highway where the subject site is situated. In August 2011, Premier Anna Bligh visited Rockhampton to release the final design for the project and commit a total of \$50 million to construct the overpass and bridge access road. The new overpass will provide a seven metre clearance above the Capricorn Highway along with approximately four kilometres of access road between the Highway, Somerset Road and Boongary Road. Site construction is expected to start as early as January 2012, with the road/rail overpass and associated infrastructure open to traffic in early 2013, weather permitting. Once the project is complete, the two rail level crossings at Malchi-Nine Mile Road and Somerset Road will be permanently closed.

This project will make industrial land in this particular precinct far more accessible and could lead to an increase in land values.



Sunshine Coast

The industrial market on the Sunshine Coast has remained slow during 2011 with the volume of sales well down on the peak of the market in 2007 and 2008.

The main driver for industrial property in the area remains the construction industry. Over the past six months, we have noted some increased construction activity with a large building underway on the Mooloolaba Esplanade and the new Harvey Norman Centre and Emporio Complex in Maroochydore commenced, however the general sentiment remains soft for the construction industry. Therefore, demand for space has remained limited.

Vacant land is still considered to be well oversupplied with limited take up of lots in either Caloundra or Coolum, where the majority of stock is located.

Agents active in the market have reported some recent increase in enquiry for purchasing though, primarily as vendors reduce prices of developed stock. Purchasers are typically looking at space that is below replacement cost of purchasing new land and building. For smaller stratas, this is generally in the following general ranges:

Kunda Park: \$1,200 to \$1,500 per square metre

Kawana: \$1,300 to \$1,600 per square metre

Coolum: \$1,200 to \$1,600 per square metre

Noosaville: \$1,200 to \$1,750 per square metre

Investment properties with good lease covenants are generally saleable in a yield range from approximately 8.5% to 9.5%.



Toowoomba

There has been strong demand for Toowoomba industrial property in 2011 from both purchasers and tenants. The western suburbs of Wilsonton, Glenvale and Torrington remain the most popular areas compared to the precincts located in the north and south of the city. The main interest appears to be from owner occupiers with few investment sales of note. Supply in the western industrial estates appears to have reduced in both the selling and leasing markets.

Values in general appear to have remained firm within the owner occupier market. Some locations however have experienced large increases in site values which has resulted in increases in land tax and have reduced returns to investors.

The "7SD Industrial Park", located to the south of Toowoomba (a mix of new smaller industrial lots, existing older, larger warehouses and a portion of balance undeveloped land) has been recently marketed for sale by receivers with strong interest reported.

Construction has now commenced within the first land subdivision development at Charlton/Wellcamp. The Charlton/Wellcamp Industrial Precinct is located to the west of Toowoomba and is seen as the location for the growth of the region's industrial development. The location of the industrial precinct was chosen due to its proximity to the existing Western Railway, the proposed Inland Railroad and the connection point between the existing Warrego Highway and the planned Toowoomba Bypass which will also provide a link to the Gore Highway to the south. The precinct is primarily to provide larger scale end users with the minimum lot size set at two hectares.



Townsville

The industrial property market in Townsville remains at the bottom of its market cycle.

Industrial vacant land is languishing as a result of weak demand and most transactions are taking place at low or bargain basement prices. Although there was a flurry of industrial land sales in the latest quarter, we suspect that these purchases were speculative in nature and not intended to support any imminent industrial development. Our Industrial Land Survey revealed a total stock of 77 development lots available for purchase at the end of June 2011, which in a perfect supply and demand situation represents around two years of supply, but balloons out to four to five years of supply in today's market.



Within the established market, stock available for purchase in the \$500,000 to \$1 million price bracket with long term leases in place are limited, with most stock having minimal remaining lease terms or periodic tenancies. Vacant possession transactions provide an uncertain investment opportunity to buyers with rental incentives having come into play over the past few months, a further indication of an oversupply of available stock for lease and a lack of interest by intending tenants.

The over \$1 million price bracket provides some opportunity for investors to secure property with stronger lease terms and tenancy profiles.

Western Australia



South West WA

The broad industrial property market in the south west of Western Australia has remained fairly subdued with only a small volume of sales transactions outside the Bunbury area during 2011 and prices stabilising.

The Bunbury area has witnessed a reasonable volume of industrial sales however it is still a tough market with supply exceeding demand.

Notable sales in Davenport include three investments properties with the same vendor and purchaser for \$2.1875 million, \$1.35 million and \$1.185 million respectively. The same Perth based company also acquired a modern multi tenanted property from a different vendor for \$1 million. This particular sale showed a passing yield of 6.67%, however below market rental income indicates potential for a higher reversionary yield.

The abovementioned \$1.185 million sale shows some resilience in the market after previously selling for \$1.04 million in 2009. This is backed up with a sale of an older style storage complex for \$750,000 in July, which previously sold for \$725,000 in 2009.

Other sales include several vacant lots and a number of strata storage units in Davenport. The Public Transport Authority purchased the Allnut Court Bus Depot for \$3.3 million in April 2011, plus there have been a couple of vacant possession property sales in Picton for \$550,000 each.

Vacant land sales display rates are up to \$198 per square metre in Davenport, while the readily available land in East Picton is selling from \$100 per square metre.



Residential Overview

Trade up markets are a particularly good gauge of not only the market in general, but also the performance of the economy. The trade up buyer is aspirational and the ability to look for something better will be linked to confidence and finances. As you will see in this month's issue, every area has a broad cross section of buyer profiles and property types. By looking at each area's diverse second home buyer market, you will not only get an interesting overview of real estate performance, but also the underlying story about which sectors of the economy are performing best and which might be floundering.



Sydney

Sydney CBD, South and Northern Suburbs

In the CBD, the majority of first home buyers are young professionals who moved into the CBD who are now looking to start a family and are seeking to upgrade to a larger property. The location and property they upgrade to depends entirely on their current and perceived future income. For those where money is less of an issue, the eastern suburbs of Paddington, Surry Hills and Darlinghurst offer these buyers a good compromise - a larger property without significantly sacrificing their proximity to the CBD. Terraces in these suburbs achieve between \$900,000 and \$1.5 million depending on condition. Given that average two-bedroom CBD apartments sell for between \$600,000 and \$2 million, it is not too much of a stretch for cashed up buyers. If money is more constrained, upgrading buyers look to the other side of George Street, into the inner western suburbs of Newtown, Leichhardt, Stanmore and Marrickville, where smart buyers can pick up two-bedroom terraces and semis for between \$550,000 and \$1 million, depending on their condition and location under the flight path. For those that can't handle the idea of suburbia however, the CBD still offers numerous opportunities for second or third home buyers, looking to keep hold of their city roots. Most commonly, these buyers will first look

within their existing building for a larger apartment on an upper level, with improved views, before looking at neighbouring properties, with the aim of securing an apartment in a higher quality building.

To the South of the CBD, the demographic profile shifts, with households ranging from young families to older retirees. Many units from Cronulla to Caringbah are filled with young singles and couples and mostly dual income households occupy the units close to the beach and around good infrastructure. Most of the first home buyers have bought the one and two-bedroom units in the original 1960s and 70's blocks which are the most affordable. The appealing areas are Cronulla and Caringbah which are both close to the beach and public transport and suburbs such as Rockdale and Kogarah which have good facilities. Once these first home buyers look to upgrade, they look to the freestanding dwellings or townhouses which are most affordable around Jannali, Como, Mortdale and Arncliffe. Original style 1950's, 60's and 70's fibros homes can be purchased from anywhere between \$600,000 and \$800,000. Townhouses in the low to mid \$600,000's are also options considered by the upgraders. Trading from unit to unit still occurs as they look for larger units in modern blocks in more desirable spots with better views.

Very similar to the southern suburbs, the northern beaches are full of young singles and couples with no kids and dual incomes in one and two-bedroom units around the beaches and close to North Sydney which is closer to the CBD. Most traders are looking to stay in the same area for familiarity with the area and its facilities. The trading up market is looking around the areas just inland from the beach, such as Narrabeena, Allambie, Brookvale and Beacon Hill and those suburbs offering freestanding original homes. Young singles may trade for large units in better areas closer to the beach such as Manly and Dee Why where they may get views and elevated positions. Young couples looking to start a family will be looking more for the freestanding homes, chasing the dream of owning land.

The jury is out on whether it is a buyer's or seller's market - a good argument could be made for either. It appears to be specific to the actual property, so differs in each case and location.

Sydney West

The Western suburbs is the first home buyer capital of Sydney. Ever since the creation of Parramatta Road in 1811, first home buyers in Sydney have been flocking to the west in search of the great Australian dream. Fast forward to 2011 and the west continues to undergo dramatic transformation, with new housing estates emerging every day. It is not only first home buyers and young families who favour the west. The lower entry level price of these suburbs and an increase in the level of medium and high density housing within the West has allowed countless new Australian families to establish a new life and obtain that great Australian dream too.

Despite this ever evolving urban sprawl, first home buyers are not the most common purchasers of property within these new land releases. Discussions with marketing agents for these estates reveal that the higher entry price of the new stock limits the pool of buyers to those who have bought their first home and are now looking to upgrade. Commonly, these buyers are trading up from fibro and red brick houses located in established suburbs, to recently completed homes in new estates. There have been recent reports of families moving from apartments in the inner west in the hope of securing a larger home and land package in greater western Sydney.

While the great Australian dream is alive and well within the western suburbs, the size of this dream is decreasing rapidly. In response to the ever increasing affordability issue, planners have moved to allow a greater density of low density housing (as confusing as this sounds). What this means in practice is that developers are now building more houses on smaller lots, with some lot sizes being as small as 200 square metres.

While these smaller lots can be secured for as low as \$400,000, most second time buyers are looking to spend between \$500,000 and \$600,000 to secure a recently constructed three-bedroom home in a new housing estate. In the last six months, we have seen a shift in the pendulum from owners to buyers, with demand at the current price point failing to match supply. That's not to say however that sales are non-existent, rather that marketing periods have increased in the last six months.



Canberra

Queanbeyan or Rome.....?

So, it's been five years since you bought your first property. You've had good capital growth in your area so there is a nice amount of equity you can tap into..... Maybe you have found a partner in that time, you have a double income and you have a couple of kids to show for your troubles.....It's time to upgrade.....

Like most people, you will be upgrading from a one or two-bedroom unit or maybe even a small house and you're happy with the size of the house, it's just the outdoor living area that's a bit cramped or you want to be in a better area.

If you're in the new area of Canberra Gungahlin and the time is right, you can not go past Nicholls. For those who have a bit more to spend and want a bigger block and kangaroos, the acreage in Sutton will give you room to move, both still with easy access to civic.

Most people we have spoken to have bought in Queanbeyan because when they were looking it was in the more affordable bracket and you could even get a back yard. The attractiveness of the area is still there so maybe your best move is across the street.

The older areas of Belconnen remain for the younger crowd. You might have bought there when you started uni and remained there after you had finished your studies. Now, with the temptation of the strong Australian dollar, you might want to leave this great brown land and get in touch with your cultural side, you can't go past Rome If not, Evatt is a great place to look.

With a lot of head offices located in the area, you may have been tugged towards Tuggeranong. If so, then the best areas to expand would be Gordon or Banks.

But wait! You love your neighbours, your kids have friends in the area and you cannot beat the vista off your back deck. Then why not add an extension or knock down and rebuild. With all the costs involved with moving, this could be the best option.

Herron Todd White's Canberra market report has shown that the price paid for upgrade property is in the range of between \$550,000 to \$750,000.

With the announcement that the Reserve Bank will keep interest rates on hold for another month, this could be a good time to make the move.



Melbourne

The market is at a challenging point. Longer selling periods, low auction clearance rates, plummeting buyer demand. Incentives have been on offer for first home buyers such as increased grants and stamp duty savings but what is in it for second home buyers?

Where times have been tough for a number of people, it has also created opportunities for others. At one end, if we look at first home buyer activity, premium prices are still asked for new estates and brand new homes but what happens to the value of these six months down the road? As an example, we looked at the outer lying area of Cranbourne which features a number of new developing estates as well as a few two to three year old established estates. House and land package prices generally range from \$400,000 to \$480,000 for three to four bedroom project style homes on land sizes of around 400 square metres to 450 square metres. For second home buyers getting into established properties, they are able to upgrade and acquire bigger homes on larger lots within the same price range. The outer lying market is still dominated by nuclear families.

The residents around the inner suburbs of Port Melbourne and Albert Park have generally been young couples who occupy the typical extended single fronted Victorian terraces. A noticeable trend when these occupants become parents has been their migration south to bayside suburbs like Black Rock and Aspendale where they can purchase properties in the range of \$500,000 to \$800,000 for larger, older homes with bigger back yards.

Around the period homes of the middle suburbs of Carnegie, Murrumbeena and Oakleigh, there has been movement where purchasers upgrade to better locations and better homes within the suburb. Where occupants are older couples, they are downgrading into smaller units for less maintenance and better security.

The secondary market is currently buyer driven where purchasers have greater say in settlement terms and are in most cases able to negotiate prices below asking level. On the other end, it has not been a profitable time for the sellers where generally the market has dipped around 5% to 10% since the boom in 2010. Leading into spring, agents are reporting a slight increase in activity where they have been able to clear listed stock from winter and are attending more enquiries. The market remains stable and should interest rates and employment rates remain unchanged, this trend should continue.



Brisbane

Trade up markets cover a reasonably broad spectrum of property in the greater Brisbane area so while diversity means there is usually something to suit everyone, it also means some property types are performing better than others.

Your average trade up buyer is usually one who has left the formative “fun” years behind and decided to settle for the larger home with a yard suitable for the 2.5 kids and requisite dog. The majority are couples who have taken the plunge into property ownership some time earlier and are now looking to get a bit more space to restore their sanity. Trade up definitely seems to be about a lifestyle choice.

The other consideration is that this is an area where the old two speed economy comes to the fore. Workers in the mining and professional industries are making some good money around the traps but if you’re further afield and linked to the construction industry, then times are probably a touch tougher.

Looking at some of the different areas around our patch, the outer fringe affordable suburbs provide some bang for the buck at present. First home owners in these parts probably find themselves on a traditional 800 square metre block with a lowset basic quality brick and tile. Buyers wanting to upgrade their digs but still maintain their place in the community are now turning towards some affordable acreage options in order to move ahead. Step a few kilometers beyond Caboolture’s CBD and you’ll see what we mean as the large lots have never been so

cheap. The downside is that the houses these buyers are trading up from are in a market that isn’t exactly firing like a rocket. As long as you have the means and are willing to accept that you are buying and selling in the same depressed market, then you can probably find a heap of options with a very tidy home well within your budget.

For those that have already established themselves in the near city areas, the trade up is going to cost a lot more dough for the land size. For example, if you are a young professional near-city dweller and were interested in moving on up but not out, then you might consider Ascot or Clayfield for your next little four bedder on a reasonable size allotment. Just make sure there are some dollars behind you as real estate doesn’t come cheap in these parts. That said, we are experiencing a pretty slow market right now so a bit of digging could yield a gold nugget or two. Another option may well be the café centric suburbs of Paddington or Bulimba where you can stay shy of \$900,000 and still land a reasonable size home.

A further driver of the trade up buyer is community and, in particular, schooling for the whipper-snappers. Ashgrove in the inner west offers some great traditional housing in a leafy setting with some highly rated schools nearby. Shopping is handy as are other facilities. If you want to splash some dollars around then the area colloquially called “The Avenues” is the place to be, but there are plenty of other spots suitable to meet buyers and sub \$850,000 is a possibility.

Mid ring means areas like Kedron where those in \$475,000 properties are considering spending \$700,000 to get some more yard and house. This suburb sees good demand in the aspirational market due to the ready transport links and plenty of services.

Overall the trade up market for near city locations remains firm as long as the fundamentals feel right. I know we bang on about it endlessly in almost each month’s issue of this mail out, but sticking with the fundamentals of avoiding main road and rail frontage, keeping some elevation and ensuring good access to services and facilities is well and truly the way to go no matter what your sector of interest. You will have competition for this type of property close to the CBD but keep at it. It will be your best bet in the long term.



Adelaide

The Adelaide residential property market continues to be subdued. The second home owner market is in line with the overall market and is also slow. Strong negative sentiment due to current economic uncertainty in combination with the already conservative nature of the population of Adelaide is resulting in a ‘wait and see’ type attitude.

Most are reluctant to take risks and selling a house in this market is perceived to carry considerable risk, with potential for the property to sit on the market for a long period of time and/or for the owner to have to reduce their expectation of what the property is worth in order to achieve a sale.

People are instead preferring to reduce personal debt, increase mortgage repayments and even trying to save some money to generally put themselves into a slightly stronger financial position in order to make it through the current economic crisis.

It appears that while many people are not prepared to chance the market, there are ever increasing numbers that are prepared to make improvements to the house in which they currently live. This includes all types of renovating, various extensions and additions, adding a pool or creating an outdoor entertainment area – it can even include demolishing the existing house and rebuilding. This can certainly delay the need to upgrade to another property and can also add value and increase the saleability of the property.

Trading up in a depressed market can actually make financial sense. As most costs associated with selling and purchasing a property are percentage based, some savings can be made and the old adage of buying and selling in the same market still holds true – even though you may make less on the sale of your property, the property you purchase should be slightly more affordable.

First home buyers have almost disappeared from the market. In the late 2000s, rising property and associated costs made it increasingly difficult to enter the property market, even with all the grants available. Those that did purchase property often required large loans in comparison to the capital value of the property and with limited or even negative capital growth in the last twelve months, little equity exists in many of the properties owned by first home buyers. With property values still expected to further contract slightly, it is difficult to see how first home buyers will be in a position to upgrade to a second home in the short to medium term.



Perth

Whilst there is still considerable uncertainty with regards to the future direction of the Perth residential property market, our office can report a greater volume of transactions for properties within the trade up market over the past two months. Given most trade up properties and/or suburbs are appearing to represent good buying in comparison to the values being achieved within the heated market conditions of 2006 to 2007, many prospective purchasers are recognising that perhaps now is an opportune time to purchase. Some trade up buyers believe the market is at or nearing the bottom of the property cycle although given the next move is likely to be a long term one, they are more attracted to the large supply of stock in any given area and current favourable buyer's market conditions, rather than exactly getting the "bottom of the cycle" correct. As a general rule the average trade up buyer isn't straying too far from their current price category, however is upgrading for a large variety of reasons including buying into superior accommodation, a more desirous location or property address, larger land or to suburbs in close proximity to highly regarded private schools such as Dalkeith, Nedlands, Claremont, Mosman Park and Cottesloe.

The rate of sale for properties within the trade up market is however being hindered by the fact that a large percentage of offers being placed are subject to the sale of the buyer's existing residence which is in effect creating a vicious circle. Whilst trade up buyers may be spoilt for choice, their endeavours are being thwarted by the inability to sell their own property or their unwillingness to reduce their price to meet market expectations. In fact, the properties that are selling within the market are where vendors are prepared to meet the current market with these new sale prices confirming a definite decline in values.

In general terms, trade up buyers are in stable employment and are not overly sensitive to interest rate fluctuations. Some trade up buyers who purchased pre-2005 now find themselves in an enviable position of having enough equity to upgrade and retain their exiting residence as an investment, further benefiting from the current strong rental demand.

We are also witnessing trade up buyers leaving their slightly dated residences and taking the opportunity to move into new, nearby establishing estates with modern infrastructure and a prevalence of landscaped parkland. However this decision is considered to be a little misguided in the current market. As market conditions have cooled, many developers have reduced the size and frequency of land releases whilst maintaining upward pressure on land prices. With values of established housing reducing over numerous consecutive quarters, the summated cost of a new house and land package is often surpassing the asking price of very comparable existing properties, making it increasingly difficult to support from a valuation point of view.

The eastern hills and surrounds are presently drawing a mixed reaction from the traditional trade up market as a result of a lack of confidence. Traditionally foothill suburbs such as Forrestfield and High Wycombe have attracted first home buyers who eventually traded up to newer, larger dwellings within the locality. However, the past few months has seen a tangible shift as agents within these areas report a significant fall in enquiries and sales whilst nearby hillside suburbs such as Darlington, Kalamunda and Gooseberry Hill are seeing an increase in demand.

Near city semi-rural or lifestyle suburbs such as Wattle Grove and Maida Vale offering properties of over one hectare in size are similarly gaining prominence, particularly among young families, as a result of declining prices.

Overall it appears to be a good time to look at upgrading. Stock levels remain above long term averages (although are declining) and we believe that we may be approaching the bottom of the market cycle. As stock levels continue to decline over the traditionally upbeat spring period, we may start to see the first signs of a recovering residential property market. Having said this, the ongoing instability of several European economies and to a lesser extent, the United States, is still having a significant dampening effect on overall confidence and it is very likely that we will need to see some improvement or clarity around these global concerns before we see a genuine recovery in the trade up market.



Darwin

The reasons people choose to trade up from one property to the next within Darwin are no doubt just as varied as with any other property market across the country. Often it is to seek a perceived better lifestyle whilst due to the transient nature of the Darwin population, it is also often the case of trading out and moving back down south to be closer to families.

The locations where the trading up comes from are as varied as the reasons. The past year has seen a general weakening of the Darwin property market across most sectors. One sector which has remained resilient during this time is rural residential which is overwhelmingly dominated by owner occupiers. Agents indicate that a large portion of purchasers in this area have come from the mortgage belt suburbs surrounding Palmerston as well as the established northern suburb locales. These purchasers yearn for additional space and the lifestyle benefits associated with a large block. Conversely, these rural residential allotments generally require a great deal of maintenance and require the owners to spend a much greater time travelling to both work and amenities and ferrying children to sporting events and social gatherings. As such, some tire of this constant travel and choose to relocate closer to the city centre. Often these people have well established rural blocks and on selling, have the ability to move into the more popular city fringe and northern suburb locales and trade their rural lifestyle for a tropical house in close proximity to Fannie Bay or Nightcliff. If the children have moved on, they may even 'trade up' to a prestige unit in the city, forgoing the need to ever mow a lawn again and enjoy the city lifestyle.

A large portion of first home buyers in Darwin purchase a unit or small townhouse when entering the property market. Many of these people are either young singles or young couples and the Darwin lifestyle encourages less time spent at home doing house maintenance and more time out socialising, camping and soaking up the dry season. As such, a unit or townhouse is the perfect option. However as these people age, children often come along. Although many persist with living in their current accommodation for as long as possible, eventually raising a young baby/toddler in a small unit becomes too much or the second child is coming along. These people typically 'trade out' and head back interstate or alternatively, purchase a house locally. Due to affordability issues, they are generally faced with two choices when choosing where to trade up to in Darwin. Either purchase in the northern suburbs where the houses are generally 20 to 30 years old, however relatively close to the city and amenities, or alternatively head to the relatively new suburbs surrounding Palmerston where the benefits of a five to ten year old house is weighed up against the perceived negative attributes of living further away from the amenities of Darwin.

As previously mentioned, the Darwin market has weakened in the past six to twelve months. In some cases values have declined by up to 15%. The previous three to five years saw values increase around 10% annually and

therefore depending on when a property was purchased, owners may have still experienced good capital growth. Overall the current market is seen as being a buyer's market. Some of the lower end units (below \$450,000) have held firm and not suffered the same decreases as other properties. As such owners of these properties (younger first home buyers) may have the ability to trade up into a house, benefiting from the softening market in the detached housing market and hopefully benefiting from their unit still being well sought after in the current marketplace. As for the other sectors, trading up is still a possibility but generally only for those who have owned their current house for at least three to five years. Therefore they have still benefited from good capital growth despite possibly losing value in the past twelve months and are now trading up in a subdued market.

New South Wales



Central Coast

What happens when the first home buyer on the Central Coast decides the time is right to move up the real estate ladder and trade up? Where do they make their next purchase and what are they buying?

According to market researchers, a majority of home buyers make their next purchase within two kilometres of their present address. The reasons for this are unknown and therefore unverifiable – but it sounds interesting.

With this in mind, rather than provide commentary on the Central Coast as a whole, we have chosen several specific areas known to be popular haunts of the first home buyer and try to see what is happening with property values within them.

Woongarah, Hamlyn Terrace and Wadalba are areas considered the perfect first home buyer territory - and for very good reason. They are within close proximity of each other and combined, they are approaching mini city status having been developed from "greenfield" sites where they are now dominated by new project style homes. These homes are perfect for the first home buyer due to their affordability, functionality and closeness to services. The home building companies present here have truly done a magnificent job. Some might argue that the housing is bland and repetitive, but vibrant, productive and sustainable communities now occupy what was once cow paddocks and that can't be all that bad.

If the researchers are right, then a revolving door scenario must be occurring in these areas as first home buyers trade up. To a certain degree, we can see that this might be the case.

The typical first home buyer in these areas will purchase a four-bedroom, two-bathroom dwelling with a double garage. At present, we are seeing these types of purchases from \$360,000 to \$420,000. Through the passage of time, we will see gardens develop, a covered entertainment area at the rear and possibly an in-ground pool appear. As the family expands or the income to expenditure ratio equation starts to favour the income side, thoughts might turn into serious discussion about trading up.

Upgrading within these areas will involve the purchase of say a five-bedroom, two and a half-bathroom dwelling with larger living areas and either a double or triple garage with a larger covered entertaining area and in-ground pool. Such purchases are most often between \$500,000 and \$600,000.

These are considered to represent typical scenarios within these areas and we suspect in many regions across Australia. But at present, these markets are suffering a level of uncertainty due mainly to what we see as an unstable economic situation. This is evidenced by the slowing market in not only Woongarah, Hamlyn Terrace and Wadalba, but in many parts of the Central Coast region.

A similar scenario is also playing out in other parts of the Central Coast. Upgrade purchases are occurring, but at a slower rate than in years gone by. These purchases would typically involve not only a move to a larger dwelling, but ideally, one that is closer to the beach areas or with an improved view.

Some observers theorise that there is a direct correlation between activity in the upgrade sector of the real estate market and the retail sector. This is interpreted to mean that activity and growth in these sectors is largely dependant on discretionary spending or consumer confidence. The troubles of the retail sector, with its regressive income from sales, is currently being well reported and this gives some credence to this theory.

This gives rise to cautionary levels of spending and higher levels of savings occurring.

In real estate market terms, we valuers are seeing upgrade purchases being put on hold in favour of renovations and extensions to existing dwellings and, dare we say it, the DIYers putting on the work boots, overalls and tool belts once again.

This, in addition to the banks' renewed vigour in telling us they want to be our newest best friend, would appear to be history repeating itself or the real estate cycle following a well worn path.



Far North Coast

The NSW Far North Coast residential 'trade up' market (one step beyond the first home buyer market) comprises a wide range of product with various price points situated within the differing localities.

The majority of 'trade up' buyers within the NSW Far North Coast are typically families due to the following:

- * needing larger space to accommodate a growing family
- * change of job which requires moving and using this as an opportunity to acquire a superior property
- * personal preference to relocate to a considered superior location after spending time in an area that may have been initially suitable for a first home purchase due to its affordability, but not necessarily favoured.

The other types of 'trade up' buyers within the NSW Far North Coast include retirees and professionals whose employment is based in a major regional centre (eg. Lismore), however who want to reside in a more coastal location (such as Lennox Head, East Ballina or Yamba).

Within the localities of Lismore City, Casino and Kyogle, the type of property most favourable for a 'trade up' purchaser are established four-bedroom, two-bathroom homes with double garages, where the previous house would have been somewhat smaller or older. Units within these localities are very rarely sought after as a trade up option unless they are large, brand new detached product on a strata title which typically has a value in the range of \$350,000 to \$380,000 in Goonellabah or \$270,000 to \$300,000 in Casino / Kyogle.

The type of property favoured by the trade up purchaser within the coastal localities of Ballina and Lennox Head are also established four-bedroom, two-bathroom homes with double garages. Within the coastal township of Lennox Head, trade up buyers are mostly looking for product within the village locality which offers a better 'lifestyle' component due to the proximity of village facilities and beaches. However, due to the premium asking prices within this precinct, the next option for trade up buyers is the 'hill' locality outside of the village CBD. The prices being paid for this 'trade up' product is generally within the range of \$500,000 to \$650,000. There is currently a large amount of stock available to choose from for the trade up buyer with a budget of between \$700,000 and \$1,000,000 within the Lennox Head locality.

The most favourable property type for the trade up buyer within the Byron Bay area is also a more contemporary home located within close proximity to the Byron Bay CBD and beaches. However, the price point for this product is generally between \$700,000 and \$1,000,000 and there is currently limited stock available. As a result, there is also appeal for unit product with the same characteristics, however for lower prices between \$500,000 and \$700,000.

There has been a noticeable development within the NSW Far North Coast, whereby first home residential property purchasers within the younger generation (i.e. Gen-Y) are attempting to skip the traditional first home buyer product and the resultant future trade up process. This is being achieved by purchasing vacant land and building a new dwelling. This is occurring within subdivisions located within Goonellabah and Ballina. The total cost of this product is generally within the order of \$400,000 to \$475,000. This is of concern in a slow market and where first home buyers are possibly over-extending their financial position with the possibility of capital gain unlikely in the near future.

The key issue facing most potential 'trade up' buyers within the NSW North Coast is the not just the continuing unrealistic expectations of vendors wanting to sell their homes to the trade up buyer in a currently subdued market, but also the difficulty encountered by 'trade up' buyers trying to sell their existing homes in an also subdued lower end market. There are currently limited first home buyers actively looking in the market. Any significant reduction in the potential 'trade up' buyer's property value will ultimately have a negative effect on the affordability to purchase the trade up property.

The NSW North Coast residential market continues to be 'soft' following similar conditions experienced over the past twelve months. This has resulted in low volumes of sales occurring, particularly within the trade up market. The cold hard reality is that while the property market remains quiet and subdued, the 'trade up' buyer will often struggle UNLESS they can sell their existing home within a reasonable period of time. Otherwise, they will either miss out purchasing the 'trade up' home to a cashed up buyer or investor from outside the North Coast locality (i.e. Melbourne, Sydney, Brisbane or even the Gold Coast) who are more likely not constrained by having to purchase a property conditional upon the sale of an existing property.

... the market at present is a buyer's market ...

In summary, the market at present is a buyer's market with a large number of properties listed for sale, giving potential purchasers better bargaining power to secure a 'trade up' property at a discounted price. However, this will only occur if the sale can be transacted unconditionally.



Illawarra

Generally in the Illawarra area, the demographic of the trade up buyer or second home buyer is the younger couple starting a family who are generally moving from a smaller unit or older house into something larger with three to four bedrooms and a reasonable size block for their needs. This demographic has not generally changed in the past five years. There is a smaller group buying their 'trophy' property later on once sufficient equity from savings or paying down the mortgage has occurred – around the \$700,00 to \$800,000 mark. After this, the depth of the buyer market drops off but there is still reasonable activity. The higher price bracket over \$1 million has seen some good sales but it is thinly traded. The major influences in this sector are interstate investors and Sydney buyers looking for an upmarket house close to the beach but within commuting distance to Sydney. Suburbs such as Bulli, Thirroul, Austinmer, Coledale and Stanwell Park are all attractive to this buyer sector. Kiama and Minnamurra are also included in the southern parts of the region.

Due to borrowing capacity, we are seeing most second home buyers sitting at a limit of \$600,000 or just below. At present around the CBD area the opportunities for this type of purchase are limited to Figtree, Mount Keira in the south and Fairy Meadow, Tarrawanna and Corrimal to the north. In these suburbs for this price you will buy an older 1960's or 1970's timber or brick three to four-bedroom home on a reasonable size block.

This is the second home buyer's sector or mums and dads, and those who bought late in 2008 have seen some genuine increases, particularly around the northern beaches. Suburbs such as Figtree, Keiraville, Balgownie, Corrimal, Woonona and Towradgi have experienced some growth in values in this time.

In Shellharbour LGA, we are seeing second homes being purchased in new subdivisions like Flinders/Blackbutt,

Albion Park and Shell Cove, so people are shifting from their older two-bedders into homes that they've either built themselves or that have been built in the past five years. In this area, prices are generally starting at the \$450,000 mark for a ten year old home in say Albion Park.

We are seeing that those looking to trade up really need the extra bedroom, a second bathroom, a bathtub in the bathroom and an enclosed back yard. One smaller developer has recently put on the market a four-bedroom, two-bathroom property they recently renovated in Mount Keira near the CBD. Feedback from the real estate agent so far is that interested parties are young couples with children under five years and they are looking elsewhere because the house does not have a bathtub!

Properties in the trade up market in the Illawarra are currently well supplied. Buyers are starting to be able to pick and choose and sellers are facing either longer marketing periods or meeting the market.

Since the announcement that 1,000 jobs are to go at BlueScope Steel, the market has taken a wait and see attitude and we may see prices stabilising for the medium term. Lenders are however seeing some increased first home buyer activity, principally for established homes. This is on the back of the recent O'Farrell government decision to cease the FHOB stamp duty concession on established dwellings from early 2012.



Leeton

The Too Hard Basket

The trade up buyer in this patch is the nuclear family who is looking for bigger and better (larger and newer). Historically, they trade in their older circa 1950/60's three-bedroom renovated home in North, East or West Griffith for a new home generally in the Collina subdivision area. They are looking for more living area, a few more mod cons and generally that additional bedroom. They are not necessarily looking for larger allotments with the majority allotments being similar in size or smaller than their previous homes.

Despite the market conditions offering the best net changeover opportunity in years, with a typical \$400,000 second home falling 10% (to \$360,000) and their much loved but the walls are closing in first home trade in falling 5% to \$256,500, why not do it now? Fear!

No confidence, no do. The local trade up market is scared. Reports of possible large market downturns and an uncertain financial climate have this segment adopting the old "if in doubt, then don't" approach. The buyer's market has them running scared. Scared they won't be able to sell their homes, scared they won't achieve the price they need for the trade-up and scared that even if they can pick up a great buy in the second home market, they may end up having two homes for a period of time. Despite the best opportunity in theory, the reality is it's just "too hard and too risky" at this point in time. To the Too Hard Basket it is.



Mid North Coast

In looking at the characteristics of second home buyers, it's important to take a look at who the first home buyers are to understand where they will likely trade up along the property ladder.

In 1999, the Australian Bureau of Statistics (ABS) reported that young Australians are staying in education longer, marrying later, having children later and buying their first home later in life than they used to. In 2008, the ABS further reported that first home buyers were most likely to be couples with dependant children (34.6%), followed by couples only (33.5%) and lone persons (20%) and that these figures were stable for the ten years from 1995 to 2005. The ABS also reported a decline during this period of first home buyers with a mortgage who bought new dwellings (23% to 14%) and an increase over the same period of those living in medium/high density housing (15% to 27%). These findings suggest that partnering commonly precedes purchasing a first home and that affordability of modern, large homes in urban fringe developments is weakening as a shift occurs to lower priced housing

Such dwellings are typically a long walk from the original town centres and in areas less dominated by tenants / investors due to lower yields.

Our discussions with local agents tend to suggest these results are applicable to the Mid North Coast of New South Wales and that in general, first home buyers will purchase affordable lower-end property which usually comprises dated houses or units constructed pre-1980, a result of rising house prices reducing affordability. We consider affordable being under \$380,000 in Port Macquarie, under \$350,000 in Forster/Tuncurry and under \$230,000 in Kempsey and Taree. Less expensive properties have a greater appeal for first home buyers where the deposit is lower, however these are often in tenanted concentrated areas targeted by investors where returns above 5.5% gross can be expected. Whilst the number of first home buyers has weakened in the past twelve months, lower-end prices remain affordable and sufficient activity remains in this sector to enable second home buyers to trade up the property ladder.

Given that first home buyers are most likely to be couples with children, it follows that second time buyers will probably have 1.8 children, are looking to acquire a dog, and in following their dream of home ownership, seeking a suitable mid range three or four-bedroom detached brick house with double garage and good sized backyard.



In Port Macquarie, we consider the mid-range price bracket to be \$381,000 to \$550,000 whilst Forster can be classified as \$351,000 to \$520,000 and in Kempsey or Taree as \$231,000 to \$450,000. We would typically expect

second home buyers to be at the lower end of these mid range figures which would generally exclude the purchase of a large, brand new, modern house. Sales volumes throughout 2011 have declined significantly in the mid price market for Port Macquarie and Forster. Such findings can be partly attributed to an unease amongst buyers who are putting aside further climbing the property ladder via extended loan commitments whilst memories of the GFC are still fresh in their minds.



Newcastle

Trade up locations are those where home owners aspire to something a little better. It's the family Honda Accord that one day becomes a BMW something. It's the Rick Stone who becomes a Wayne Bennett. It's the Man From Snowy River who becomes McLeod's Daughter, and before you crucify me for that last one, I'm talking about The Man From Snowy River (TV Series) not the poem.

In Newcastle, first home buyers have traditionally been in the sub \$350,000 market although in recent times this has been creeping slowly upwards as the debt burden also increases. This sort of price would put you in the Windale, Gateshead, Cardiff or Mayfield locations. Trading up from these areas would see you spending somewhere in the vicinity of \$400,000 to \$550,000 and would land you in suburbs such as Lambton, North Lambton, Adamstown or Adamstown Heights. You could also consider some areas around the lake, like Warner's Bay, Garden Suburb or Speers Point. Around the lake there are some good quality properties that can be picked up at the \$500,000 price point. Often there are hints of water views in some of these locations although the houses on site are generally in need of some renovation a la "The Block".

Many people trading up are looking for several things. First (and probably cynically) many people are looking to leave their past behind, whether it's bad memories, bad neighbours or the house just requires too much work. Other reasons to move can include the desire to gain a better property or a socially perceived better location. Many times it's to move closer to infrastructure or to get into a better school zone.

It is definitely a buyer's market at the moment. The uncertainty over interest rates in the marketplace at present and increasing cost of living pressures means that disposable income is tight and people are less certain about the commitment of mortgage spending. A telling sign is the almost monthly stories in local media about how Mr and Mrs Average have given up the dream of owning their own home as it's simply unaffordable. Mr Average however is leaning up against his almost new SS Holden and champing at the bit to get back inside and watch the footy on his 245 inch 3D Plasma LED screen TV with double overhead cam and 48 gig of ram onboard.

If you can afford the changeover costs of buying and selling a property, now is probably as good a time as any to negotiate with a potential seller. They may just be desperate enough!



Southern Highlands

The demographic for the trade up buyer is usually a young family, or a young couple about to have children. They have generally started in a unit / villa / townhouse or an older style property in a slightly outlying location, that they have renovated and are looking to trade up to a better home in a slightly better location. In the Southern Highlands, a classic trade up suburb is East Bowral. With semi-modern and modern homes, usually with four bedrooms, two bathrooms, two-car accommodation on good sized blocks for a growing family, East Bowral is within a short driving distance of the Bowral town centre and offers parks and playing fields. Price expectations would be in the \$450,000 - \$600,000 bracket. Moss Vale and Mittagong also offer more modern pockets where the growing family can trade up. Prices here would be similar.



The economic environment for a second home buyer is reasonable at the moment, as long as unemployment and interest rates remain low. Current economic uncertainties are affecting the upper end and prestige section of the markets, but have not really slowed the lower and middle end of the market too much.

Once the second home / trade up buyer reduces the mortgage and trades up again, they would then generally move onto larger land and build the trophy home, or move into a more expensive location like Burradoo, or just move closer to the town centre and renovate or extend a well located, older style character dwelling. Price expectations would be in the order of \$600,000 to \$1,200,000.

At the moment, the market is steady to slightly weakening - it is really a buyer's market.



Southern Tablelands

In the Goulburn area, most trade up buyers would be a young family or young couple. Generally they have started in a small, older style home that they have renovated. They would then build or purchase a larger, single storey project home with four bedrooms, two bathrooms, two car accommodation in the \$350,000 to \$500,000 price range. Additionally, we are seeing the trade up buyer move onto rural residential land (five to one hundred acres) and build a large home. The land would be purchased for \$150,000 to \$300,000 and the spend on the build would be in the order of \$200,000 to \$350,000.

The third home buyer would be building the trophy home or moving into a well located character style home close to town. Due to buyers from Canberra relocating, this market has recently peaked and is currently

considered to be steady. A seller's market has been evident here in recent years and there has been relatively low unemployment.

Victoria



East Gippsland Region

The second home buyer in the East Gippsland market is generally the established family who has built equity in their previous home and have reached a position where they can afford to upgrade to a better quality home. They will be trading up from a basic to mid range dwelling to a higher value modern home or moving to a well established rural lifestyle property.

Newer subdivisions, both residential and rural residential, have proved popular. Over the past twelve months there has been steady demand in the \$350,000 to \$450,000 price range for these types of properties, while recently demand has slowed and it has become something of a buyer's market. Conversely, particularly in the rural lifestyle market, established properties are often being sold by older owners looking to downsize, or younger families looking to be closer to facilities in town.



Mildura

It has mainly been local buyers or professionals moving to the district who have been active in the middle price bracket property in Sunraysia. These buyers have taken the opportunity to acquire generally substantial detached dwellings in the \$300,000 to \$500,000 price bracket - usually at below replacement cost and with the benefit of established landscaping.

While the sale price achieved for their "trade in" first home has been depressed in recent years, so too has the cost of their next home and the net position has usually been in their favour. Fears of interest rate rises are possibly less of a factor for these buyers than for first home buyers, due to the greater use of equity from the sale of their first home.

An example of a recent trade up sale is a house at 10 The Grange, Mildura, which has just sold for \$510,000. This 4,000 square metre property is in a well regarded 1980s subdivision. The dwelling had been substantially upgraded by the vendor and the property included good external improvements including a pool, detached office or games room and established landscaping.



Sale / Traralgon

Sale and Traralgon are considered to be strong family oriented and working towns. Second home buyers tend to be upgrading to either a larger family home or constructing their own new homes.

Young working and business couples of today's generation tend to buy new houses or units with low upkeep or conversely larger modern family homes. However, retirees are tending to downsize from larger family homes to smaller and newer properties.

First home buyers tend to hold on to their properties longer due to the current state of the property market. The second home buyer's market has definitely slowed in recent times and we anticipate this continuing in the months leading up to Christmas. It appears with the tightening of the market couples and families are starting to save more than they have in the past before considering a second home purchase.

The Sale/Traralgon property market is considered to be a buyer's market with sales turnover slow and properties experiencing prolonged periods on the market.

Queensland



Bundaberg

First home buyers are in the new home market, collecting the benefits of the first home owners grant and the \$10,000 grant which is steering them away from the older established homes.

The older established homes are being purchased by investors and / or traditional homeowners who are looking to upgrade to take advantage of high rentals and strong demand for rental houses. The so-called traditional upgrade market is changing and is not as strong as it once was due to the current economic situation with people being much more cautious.

Bundaberg is a buyer's market at the present time, presenting good opportunities for people who anticipate that the market will improve.



Cairns

The Cairns residential property market is still at the bottom of the property cycle and it is still very much a buyer's market. Property demand from investors and first home buyers is weak and the market for low end housing is slow. Demand for better quality houses and units in good locations remains solid, largely sustained on the basis of the trade up buyer segment.

There are two types of trade up buyer - existing locals trading up (or down or sideways) in response to changing circumstances and/or preferences, and people relocating to Cairns.

People relocating to Cairns tend to fall into two classes - the lifestyle and the economic migrants. With the slowdown in the Cairns economy, the economic migration component, consisting largely of young singles or young couples or young families moving to Cairns for employment reasons, has diminished. However Cairns still appears to be attracting its fair share of lifestyle migrants, albeit at a slower rate than before. This segment consists typically of the pre-retirement empty nester demographic, looking for a nice place to live but with opportunities for full or part time work if required.

Indeed, cashed up lifestyle migrants who have sold up in Sydney or Melbourne to move to Cairns are like gold in the current market environment.

Lifestyle migrants are demanding a variety of accommodation styles, some buying up big as if expecting to be constantly descended upon by the friends and relatives they have left behind, while others are seeking well located unit accommodation with good amenities. The northern beaches are often a preferred destination.

Locals are also active in the trade up market, but the catch with this segment is selling their existing home. We often hear of sales that fall through because buyers are unable to sell their existing house in the presently slow market environment.



Gladstone

Of the 500 or so residential transactions that have occurred in Gladstone this year, over half have been purchased by investors. Strong yields are continuing to attract investors to the Gladstone residential market with rental values continuing to improve.

Carrying on from the strong demand for accommodation, home owners (in some instances) who have achieved significant capital growth over the past several months are no longer upgrading their homes, but instead borrowing against their new found equity and purchasing an investment property to 'cash in' on the strong rental demand.

In other instances, home owners are upgrading to more desirable locations. Twelve months ago, Tannum Sands was a premium location which attracted premium values. Fast forward twelve months and that premium is gone (with the exception of properties very close to the beach), overtaken by values in Gladstone City driven by accommodation demand. It is still a desirable location however, and is attracting new local buyers / upgraders looking for a sea change. The Tannum Sands / Boyne Island areas have not been affected as badly by accommodation demand from workers due to the distance from the City of Gladstone.



Gold Coast

Time to trade up? or is it the opposite?

DEBT REDUCTION is now the primary focus when it comes to decision making for a second home buyer on the Gold Coast. Before the Global Financial Crisis (GFC), it was all about upgrading (luxury) and upsizing. Typically, a second home buyer is a young married couple (age 30 – 45) with a small family looking at upgrading from a small three-bedroom home or unit into a large five-bedroom house. These buyers were also choosing building a new house over an existing house and bigger over smaller.

However, due to the GFC, the second home buyer market is being more mindful of current economic uncertainty and is opting to decrease debt. They are most likely buying older/existing dwellings and renovating, or purchasing near new homes that are selling well below replacement cost rather than build new (unlike four years ago). The typical property being purchased by these types of buyers are detached dwellings that are well located on 600 – 1000 square metre allotments being priced around the \$450,000 to \$600,000 bracket.

... the second home buyer market is more mindful of current economic uncertainty...

TRADE UP - In considering the desire of home buyers wanting to trade up in the current market, we first have to consider when they purchased their existing home to determine how much available equity they have to assist them in upgrading to a better location/property.

Buyers of second homes looking in the current market may not have as much equity as they think they do. Did they buy their first home pre-GFC or post-GFC?

Those first home buyers who purchased during the early 2000's and held that property until now have probably had a chance to ride the market roller coaster to their advantage, ie. the market decline post-GFC may not have eroded too much of the equity gained from the earlier part of the decade when increases in market values were the norm.

If choosing to sell now in the hope of picking up a cheap second home, these buyers would be in a position to take a step up the property ladder and upgrade their home or suburb.

In contrast, buyers who purchased their first home post-GFC are probably in a more precarious position. Plateaued or in some cases, declining, property values post-GFC would have left many of these first home buyers with little or no equity to play with. Any upgrade for these buyers would come at the cost of lowered price expectations/affordability and/or relying on additional borrowings along with accessing savings or cash reserves to upgrade to a second home.

What is more likely is that those first home buyers who purchased post-GFC may look at deferring their decision to upgrade until their own equity/financial position improves.

The obvious knock-on effect of this is that in the current market there may be fewer buyers looking for their second home, bringing about further softening in market conditions. Those buyers who can afford to upgrade to a second home have a good opportunity to purchase from a good selection of stock and from a good bargaining position.



BUT, the increase in stamp duty in Queensland which was introduced in August 2011 has impacted on the upgrading market (second home owners market). For contracts entered into from 1 August 2011, no concession is available to those buying an established home who have owned property before. Example:

* Purchase Price = \$400,000		
Stamp Duty:	Before 1 August	= \$5,250
	After 1 August	= \$11,825
* Purchase Price = \$600,000		
Stamp Duty:	Before 1 August	= \$12,850
	After 1 August	= \$20,025

Housing previously out of reach in the \$500,000 to \$600,000 price range may now be “gettable” at prices 10% to 15% lower. For example, an original 1980’s brick house, three or four bedrooms with pool would now be available for between \$450,000 and \$500,000. Twelve to 18 months ago, the same style of dwelling would have realistically sold between \$500,000 and \$575,000. These would typically be found in the established suburbs of Banora Point, Elanora, Burleigh Waters, Miami, parts of Robina, Benowa, Ashmore, Southport, and Paradise Point.

Similarly, good quality villas in Paradise Point which a year to two years ago would have made \$600,000 to \$700,000 are now achieving \$550,000 to \$650,000, with a relatively large amount of new and near new stock available.

Suburbs within the Gold Coast to Brisbane corridor have witnessed a number of second home buyers choosing to re-finance and renovate their existing home as opposed to selling and trading up. With house prices at their current levels, the majority of owners have realised that they won’t sell for the price they are hoping for, so they instead to choose to do some alterations and sit tight for a few more years.

THE RESULT - Overall, if you can afford to buy, now is a good time to look at upgrading to a second home, bearing in mind that investing in property requires a medium to long term perspective, and buying for short term gain/speculation carries greater risk.



Hervey Bay

The residential market in Hervey Bay is still very much a buyer’s market with strong competition across most market sectors. Property in the sub \$350,000 market still remains the most appealing for entry level housing. This market attracts a broad range of buyers from low income families, first home owners and retirees. House and land packages such as those in the Augustus Estate have potentially created a price ceiling, however do provide a new product at an affordable price. Trading up from this \$350,000 price point has become more attractive due to increasing competition and cautious vendors lowering prices.

The demographic in Hervey Bay generally has remained the same over the past few years with predominately families trading up from older, smaller dwellings to larger houses in better locations or newer dwellings. The single and double income with no kids demographic would be attracted to the affordability of balance stock units in larger modern complexes. Couples with young families trading up are generally looking for larger homes on larger lots. Mid to high income families have also tended to upgrade to dwellings on larger allotments in areas such as Dundowran Beach and Wondunna. Prices in these areas generally range from \$450,000 to \$750,000.



Ipswich

The market for those trading up in the Ipswich and greater Ipswich region is reflective of the general market sentiment at present. Purchasers are cautious in their property transactions and are negotiating harder than in recent years.

Many vendors are finding the market cannot support their asking prices and we are seeing them beginning to meet market expectations. This is reducing their capacity to trade up to a larger property. We are seeing harder negotiations on more expensive properties or in some cases owners are trading down to smaller, more affordable properties. The overall effect is a reduction in values across the board which is in line with the current economic conditions being experienced in Australia and globally.

The positive in this market is for those purchasers who are not highly geared in their current property. They are in a position to absorb a loss on their current property and take advantage of well priced property of a higher standard.

Overall, we are seeing caution within all market sectors and this is expected to continue until confidence returns to the property market.



Rockhampton

The Rockhampton region is well known for dwellings built in a pre-war era. These include basic lowset and highset fibro and timber homes, through to grand, timber, Queenslander-style residences that have been renovated to provide comfortable living. These types of homes, although costly to maintain, have in the past been very popular. However due to the increase in everyday living expenses most owners are experiencing, trading up to a modern home with less maintenance is becoming an attractive option.

These buyers include families with older children who are looking for good quality modern homes. The main locations of the developing residential estates in Rockhampton are Norman Gardens, Parkhurst and Rockyview. Allotment sizes range from 750 square metres to 4000 square metres with buyers having the option of either building a new home or purchasing an existing dwelling. Prices on average can range from \$450,000 to \$550,000.



Sunshine Coast

The upgrade market has not been active on the Sunshine Coast given the downward property market here since the peak in late 2007. Upgrades to existing homes by additions or refurbishment have made much more sense.

The market seems to be nearing a bottom, though that might not actually happen until late 2012. Relative value in comparison with other markets is rebalancing and property is being purchased now at a significant discount to replacement cost. And importantly, that typical upgrade market from \$500,000 to \$1,000,000 is softer than the under \$500,000 market.

Sellers are finally recognizing that the current market is their new reality, so sales are happening for those that have their properties priced right.

So this is a market where upgrading makes sense and we are seeing some early signs of this happening. Having said that, the discount in the second hand home market makes upgrading into a new home way less attractive.

The risk in upgrading lies in what you will get for your existing property, and that risk has been too high previously.

Even today there is risk, so the smart upgraders are selling their home first to cash up, even if they have to rent in the interim. That experience of selling into this market also seems to focus the mind on how hard you have to negotiate to buy that next home well.

We have seen examples where great buys have been made by people who have already sold, so are cashed up and can confidently move on distressed properties.

There are no real secrets to buying well – it's about knowing what you want and being informed in the market so that you can move quickly when an opportunity presents.

...there are no real secrets to buying well - it's about knowing what you want and being informed in the market ...



Toowoomba

While the First Home Owners Grant stimulated market activity in the sub-\$300,000 price bracket in Toowoomba during 2009, we are currently witnessing two distinct directions that these home-owners are traveling.

The more affluent, generally double income, Mum and Dad buyers are riding on the back of stable occupations (such as teachers/nurses/government workers) and an easing in bank lending criteria and becoming 'trade up' buyers. They are generally selling their older brick dwelling in Centenary Heights, Kearneys Spring or Glenvale and buying a five or ten year old brick dwelling in the more sought after suburb of Middle Ridge, a character timber home in East Toowoomba or Mount Lofty or building a brand new house in the new estates in Glenvale or Kearneys Spring. These buyers occasionally have some association with the mining boom in the Surat Basin to the west of Toowoomba.



Example of a first home purchase in Glenvale



Example of a trade up purchase in Middle Ridge

On the other end of the spectrum are the lower income earners who managed to purchase their first home (typically an older timber dwelling in a secondary location such as Harlaxton, North Toowoomba or Rockville) with the assistance of the First Home Owners Grant. These buyers have struggled through the GFC and are currently suffering a degree of mortgage stress, resulting in them selling these properties and returning to the rental market.



Example of a first home purchase in Harlaxton

We have observed an increase in properties listed for sale over the past three weeks, however this is considered somewhat seasonal coming into spring and also coinciding with the Carnival of Flowers which brings a large number of people through the city of Toowoomba and has historically created increased buyer activity. While there is some concern that an increase in the number of properties listed for sale could lead to an over-supply in the short term, agents are generally reporting an increase in buyer enquiry to match the increased supply.

Given the current weak market conditions for properties in secondary locations and with sub-optimal presentation, these vendors are often having to accept a lower sale price for their properties than what they originally paid in 2008 or 2009.

The trade up buyer appears to be looking for a well-located property in the \$300,000 to \$400,000 price range, with a reasonable level of stock available in this market segment at present. The market has generally been portrayed in the media as a buyer's market since early 2011, leading to buyer caution and a lack of urgency to secure a property in the belief that they may be able to find a 'bargain' elsewhere. However, over the past month, selling agents are reporting that vendors are beginning to have a greater understanding in terms of achievable value and are listing their properties for sale with a more realistic initial asking price rather than deterring potential purchasers with an unreasonable asking price. These recently listed properties appear to be selling after a relatively short marketing program (four to six weeks), indicating that it is less of a buyer's market at present and is starting to become more stable.



Townsville

The Townsville residential property market appears to have stabilised after a period of downturn and is expected to undulate over the foreseeable future. The market is now dominated by buyers. Some opportunistic purchasing is placing downward pressure on prices.

The trade up buyers in today's property market are knowledgeable, cautious and property smart. Overall the residential property market remains a buyer's market.

The trade up buyers in today's property market are knowledgeable, cautious and property smart.

The trade up buyers we are currently seeing typically fall into two categories - they are either moving to better locations or staying within the same locality but upgrading their standard of accommodation.

The first type of buyers are those moving from their current location to superior areas due to the current soft market conditions enabling them to enter these areas. In some instances we are seeing buyers moving to a suburb offering similar entry price levels to their current location, but having a lesser "perceived" level of anti-social issues. In other instances there are buyers just looking to upgrade their location to be closer to the city or in more desirable residential suburbs while prices are soft.

The second type of trade up buyer are those upgrading from their current level of accommodation to something larger. This buyer is generally seeking four bedrooms, two bathrooms and a double lock-up garage either with or without a pool.

Overall the trade up buyers remain cautious of debt levels. They appear savvy and knowledgeable on the changes to stamp duty implemented on 1 August 2011 in Queensland and are appearing to factor these additional expenses into the purchase price they are willing to pay.



Western Australia

South West WA

One of the biggest issues in writing about the trade up market is trying to define where first home buyers start and stop. Over the years, this seems to have been a moving feast and the boom times seem to have taken first time buyers far further up the real estate tree. There was a common feeling that expectations were for a four-bedroom, two-bathroom house to start with and with the availability of high loan to value ratios many went down this road. This was probably compounded by a compressing of the value ranges due to the traditional three-bedroom, one-bathroom first home in the suburbs (as reasonably defined by Colin Barnett) becoming more and more expensive as developers and investors looking to subdivide bought into this market. The step to the larger house wasn't so great and so the young couples with double income and no kids just skipped the starter house and leapt straight into what was traditionally a trade up house.

That was the boom and times have changed, and it has been a case in point of how government intervention can cause distortion in the market. It is well documented that the first home buyer's boost changed the percentage of first home buyers in the market with a corresponding drop in their numbers once the boost finished. The GFC also had the effect of knocking significant holes in the budget of many a small developer, meaning the demand for those smaller houses on larger blocks in the suburbs also declined. There are a number of examples in the south-west of Western Australia of properties with triplex potential with old houses in suburbs such as Carey Park selling for prices approaching \$400,000 in the boom now selling for under \$300,000. Starter houses with no development potential can get down to low \$200,000's and so these are now better options for the more conservative first home buyer wanting a lower mortgage bill.

So in answer to where the trade up market start now, it seems to be from approximately \$350,000 and up. We then run into the next problem in that the market for properties over \$500,000 has been very flat for the best part of the year and builders are also finding a shortage of new clients. So this market has generally also been quiet. Those that have been buying are often people who have moved into the area, be it from overseas or interstate. Many potential "trade up" buyers are not able to sell the house they are in now and so they are unable to move on up the scale, meaning some have upgraded where they are and others wait for the market to pick up.

On further reflection, it appears that the make up of this market is probably returning to a more traditional group of established households with a reasonable amount of equity. This is because they purchased the home they are in before 2004, so if they do sell now they are still well ahead of where they started in contrast to purchasers from 2006 onwards who, at best, are square and so with the high cost of changeover, have little incentive to move.

The statement "it doesn't matter if prices go down as long as you are buying and selling in the same market" doesn't altogether ring true in a falling market as the result is loss of equity and, along with costs, any move just adds up to larger debt. With banks now being more cautious about how much they are prepared to loan as a percentage of value, it may not even be possible to secure finance for many households looking to change up and consequently they may be locked into their first house for some time to come.

So where does this leave the market in the longer term? Well it certainly isn't screaming that there will be rapid escalation of prices any time soon, but with few houses being built, there eventually must come a point where there is a lack of supply and with demand from immigration continuing, prices will start to rise and some normality will return to the market.



Tasmania

Typically the "trade up" or "second home buyer" in the Tasmanian market is characterised by the maturing of a first home buyer's career (and the increased pay packet that comes with it) or the growth of the family and the requirement for additional space. These buyers have typically purchased and owned their first home for at least two to five years minimum, and now with the ability to pay a higher mortgage are looking to purchase either a larger or newer home. An emerging trend amongst these buyers is the desire to buy a block within a newly released subdivision using the equity in their existing home with the intention to build at a later date to the specifications they want. Generally these purchasers are young couples who currently have no children, but plan to build a house to accommodate them in the future.

Outside of Hobart, there do not seem to be specific "second home buyer" suburbs. The Hobart market is bigger, sprawls further and has higher median prices than their northern neighbours. As a result of this, affordability does dictate the suburbs which first and second home buyers can generally purchase in. This is relevant for some areas of the northern and north west market; however it is not as obvious and homes in these suburbs are not exclusively purchased by second home buyers. The established housing stock within suburbs surrounding the major northern centres is generally characterised by a sufficient mix to ensure a good spread of owners from all demographics. The exception to this is of course newer subdivisions, which as mentioned earlier, are starting to include second home buyers who wish to build.

Due to school zoning, location of public schools is an important consideration for purchasers with families or planning to have children.

The first home buyer's market is generally capped at \$300,000, with most purchases being closer to or sub \$250,000 in some locations. The next market segment does tend to overlap slightly, with purchases likely to range from \$285,000 to \$350,000.



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Rural – Market Directions

Feedback from many of our offices throughout the country paints a picture of anxiety and uncertainty during the short term, but with some quiet optimism post 2011. Right across the board, rural transactions remain low and this is not expected to change greatly over the next six months. There is an increasing emergence of distressed sales which unfortunately will continue to make up a fair percentage of listings going forward.

On the positive side, there now appears to be good demand for quality dryland farming country, especially on the Inner Downs of South Queensland. Excellent subsoil moisture and solid commodity prices are the drivers behind this.

In Queensland, the exceptional season at the beginning of 2011 is now seeing strong demand by restockers for quality bulls whilst the live export market has finally recommenced.

The picture is much the same the further south you go. Rain is urgently needed and the emergence of distressed sales is making up a fair percentage of listings. This paints a picture of a tough six months but one feels that if a decent summer prevails, cashflows will be boosted which could lead to some optimism re-emerging in 2012.

Doug Knight Ph: 07 4639 7600
1 October 2011



Northern NSW

Very wet conditions prevailed during late August and early September before dry weather in mid to late September.

Sugar Cane

The sugar cane planting season was brought to a halt by

wet conditions in the Condong Mill area. Early plant has not yet 'got out of the ground' and growers are anxious to ensure that the cool wet conditions have not damaged germination. Conditions are now approaching ideal for planting and harvesting.

The NSW Sugar Milling Co-operative has implemented 'planting loans' with joint venture partner in the sugar refinery, Manildra.

There has been little activity in land sales.

Macadamias

Growers are pleased with excellent flowering of macadamias.

Cattle

Improved pastures present in very good condition. A sale at auction on the day for \$1,450,000 of a slightly remote grazing property east of Tenterfield with a stated carrying capacity of 550 breeding cows indicates the difficulties in the current market if a sale is necessary. A sale by private treaty under normal current marketing conditions closer to Casino indicates \$5,000 per breeding cow plus improvements.

General

Purchasers remain cautious with the background of global economic uncertainty and volatility also contributing to local specific issues.

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Regional Victoria

Spring has certainly sprung, with footy finals fever in full swing and of course, being September, the windy weather has arrived. In recent weeks the Sunraysia region has experienced some pretty ordinary hot and windy weather. Whilst bud burst has completed on the vineyards, the lack of rain for cereal crops over the past six weeks is quite evident, with crops beginning to feel the pinch due to the hot and windy weather. The majority of crops are running into head and a good drop of rain is urgently needed to fill the grain to ensure reasonable if not average yields. Without the sub soil moisture build-up from the good rains of last year and earlier this year, this type of hot windy weather would have likely killed many of these crops already.

Mice continue to be a major pest to cereal and canola growers in this region and many farmers try to maximise their yields by continuing the expense of poison baiting to minimise the damage that these rodents cause.



The results of the latest survey undertaken by the Victorian Department of Primary Industries (DPI) reveal that the volume of wine grapes crushed in the Murray Darling and Swan Hill regions for the 2011 vintage fell by more than 20%. The DPI states that the total crush declined from 328,147 tonnes to 256,398 tonnes. A contributing factor to this result was a large proportion of low quality fruit being used for concentrate. Red wine grapes had the sharpest fall with over 50,000 fewer tonnes being crushed.

Lower Murray Water, which is a major employer in the district, has recently announced that 10% of staff will be slashed virtually immediately. The February floods are said to be the main contributing factor behind staff retrenchments with revenue from water sales well down. The difficult financial year last year along with the very wet summer which culminated in significant flooding throughout the region in January and February 2011 has forced the organisation to tighten its belt and thus pull back on many proposed programs which means staff numbers have to be trimmed.

The recent mortgagee in possession sale by auction of a wine grape fruit block to the south of Red Cliffs sold at levels above market expectations. The property, developed to 43 hectares of drip irrigated mixed wine grape varieties and sold excluding water, showed values of \$8,000 per hectare for the planted area.

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Southern Queensland

Whilst good quality large scale and appropriately priced properties still have the potential to sell on sound values, the depth of the rural property market in south-east Queensland has undoubtedly narrowed substantially. The level of uncertainty about the national and international monetary markets at present has not done the market any favours and subsequently, continues to pose a risk for the supply of rural property to exceed demand in the foreseeable future.

Agents are indicating there is generally a lack of buyer confidence within the market which is stalling any possible market recovery. Presently some vendors are beginning to meet buyer expectations, but generally those properties priced outside the market are generating very limited interest. A concerning factor we are starting to observe in the market is the increase in mortgagee in possession properties or those that are under some distress to achieve a sale. This has the potential to further change the dynamics of the market, especially those in an area already oversupplied with listings.

We expect the market to at least remain flat until results from this year's winter harvest are finalised. With generally good moisture profiles and the current on-farm water storages, it is expected this summer's plantings will be high, including dryland cotton. We are aware of a couple of sales within the inner downs of both good quality arable and irrigable country that has sold or is under contract for prices that can be described as exceptional. This is considered to possibly reflect the shift of demand toward quality farming holdings from a historically cattle driven market. We will be able to discuss these sales in later editions once details are publicly available.

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Far North Queensland

Grazing Industry

On a positive note, beef live exports recommenced out of Townsville with about 6,500 head sent by boat to Indonesia within the last fortnight. This should assist many graziers and again provide an alternative market for suitable livestock.

Cattle prices remain reasonable within the region, but people still remain reluctant to commit to the property market. Toomba had numerous inspections and some tenders were lodged, however to date it would appear that no contracts have been put to ink.

Discussions with agents have revealed that those in the market place are seeking either stocked or partially stocked properties in preference to a bare property. A stocked property provides a cash flow and return faster than an unstocked property.

Victoria Downs in the Charters Towers area did recently sell for in excess of \$10,000,000 and provides some reassurance that there are still graziers remaining who are capable and prepared to invest large sums into the pastoral industry.

The downs country continues to be lightly traded with the biggest concern at present being the threat of fires, especially with the existence of large fuel loads, continuing wind and increasing daily temperatures as the full heat of summer approaches.

The proposed power transmission line from Mount Isa to Townsville, Copperstring, is nearing the easement and acquisition stage through all the grazing country affected by the line. If the easement agreements and associated payments cannot be agreed in the near future, the compulsory acquisition process can be invoked with the Government now recognising the project as an Infrastructure Project of State Significance.

Cane Growing

The Burdekin area has harvested over five million tonnes of cane to date this season with an estimated five million tonnes still remaining. It may eventuate that up to one million tonnes of cane will remain uncut in this region at season's end. To date dry conditions have been encouraging and if this continues the stand over cane estimate may be reviewed downwards.

The crop for the Herbert region has been estimated downward to a figure of about three million tonnes for the two mills. As dry conditions continue, the CCS levels are increasing and it is anticipated that the season will end in early November.

Sales of cane farms continue to be limited with no indicative movements in cane land values to date.

Horticulture

Bowen and the tomato harvest is in full swing. Several sales have occurred with land values for irrigated cropping land continuing to fall within the established value range. The ongoing "Water for Bowen" project has again resurfaced with the LNP also supporting the proposal to bring water from the Burdekin River to the cropping farms of Bowen and of course the major industrial users of the Abbot Point Port Lands and the nearby State Development Area.

Bankwest announced that they are closing their Townsville Regional Office in October. How this will affect primary producers and their financial institution is yet to play itself out, but it is a shame to see an agri-business institution contract from this region.

For further information, contact the team:
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Northern Territory

In the Top End (north of Tennant Creek), the live export trade is gradually opening up again, but to limited volumes. There is presently strong demand for feeder cattle from the Indonesians who are now in an under supply situation due to the suspension. But supply on our side is tight, as large numbers of cattle have already grown above the 350 kilogram weight restriction and many stations were forced to sell domestically to generate cash flow soon after the suspension. Subsequently, Indonesian prices are being driven up to above average levels. Although there is still much to unfold within the live export trade in terms of eventual annual volumes and Australia's ability to provide consistent and cost effective supply to the Indonesians over the longer term, these new developments appear to be bringing a glimmer of confidence back into the pastoral property market, but confidence is seeping in ever so slowly.

There are still many cattle stations for sale in the Top End and there has been no sales activity apart from the two small Sturt Plateau properties, "Mathison" and "Dry River" (May 2011 and April 2010 respectively). The last period of major sales activity in the northern half of the Northern Territory occurred between 2008 (seven sales - one corporate and six private properties) and 2009 (four sales - three corporate and one private). In comparison, the non live export reliant Alice Springs region looks like it has yielded another sale (and at a firm to strong price too) although details remain confidential at this stage. At the same time, a cruel twist (albeit expected) - large areas of central Australia are ablaze. Pastoralists are paying the price for the best feed reserves in twenty years with reportedly the worst fires in decades.



Large parts of central Australia are ablaze

Back to the Top End, where there are around fourteen cattle stations for sale, there have been a few encouraging developments that may get the ball rolling.

First (as mentioned above), the live export shipments from Darwin are slowly rebuilding and over 20,000 head have now been sent to Indonesia since the trade was suspended on 7 June. This includes around 18,000 head of NT cattle on the record shipment (over 24,000 head feeder cattle) on the largest livestock vessel in the world - Wellard's MV Ocean Shearer. However, the numbers of live NT cattle exported in the year to date is only a fraction of the trade volumes at the same time last year. On the flip-side, live exporters report they are struggling

to find the cattle numbers required to fill the permits for the month and prices have subsequently increased to around \$2.10 per kilogram for steers and \$1.95 per kilogram for heifers (port of Darwin) and these prices are expected to hold into the wet season when traditionally they spike. However, despite the high cattle prices at present there is still much uncertainty about whether the live export market will reach the levels enjoyed prior to the suspension. Many in the industry believe that the answer will only be known after another twelve months, after there has been a full cycle of breeding and turn-off, and also when the full implications of the new trade rules, including the Bill Farmer report (now completed but not publicly released) are known.

Second, AACo's announcement on 21 September that they are moving to the next stage of proving the potential for a processing facility 50 kilometres south of Darwin, will be encouraging for some northern pastoralists. AACo have stated in a press release that the facility would have a capacity to process up to 1,000 cattle per day for export markets in the US, Europe and Asia. The produce will be boxed beef, hides and rendered products. AACo have stated that they will operate the facility for twelve months of the year including one month shut down for maintenance over the wet. AACo will reportedly anchor the supply of cattle through the facility, but will need the majority of stock to come from cattle producers. At this stage, Herron Todd White has been unable to verify the extent of cattle numbers from the NT and the Kimberley that will form part of the process, apart from reports that commencement of the \$80 million + abattoir is intended to be completed by mid to late 2012. There remains much speculation about the abattoir's final business plan, therefore the full extent of the positive impact to the balance of the northern (and southern NT) cattle industry is unavailable at this stage. However it is a positive step for the industry and (depending on demand) may provide a valuable secondary market for NT cattle producers. We understand that the announcement by AACo is not a final investment decision and they are still seeking Federal and NT Government funding assistance for the project.

As mentioned above, down to the Alice Springs district where there are currently eight properties on the market, the exceptional seasonal conditions and reasonable prospects for continued strength in the cattle market appear to have been the catalyst for another sale. After the finalisation of Henbury Station in June for \$13.5 million (bare) and Marqua Station up on the Plenty Highway for \$7.22 million (WIWO) also in June, we are aware that a highway fronting station south of Alice has contracted for sale at a reasonably firm price (details confidential at this stage). More details in the next Month in Review.

Contact:

Frank Peacocke Ph: 08 8941 4833

Comparative Property Market Indicators - September 2011

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

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

Comparative Analysis of Capital City Property Markets



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

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

Comparative Analysis of New South Wales/ACT Property Markets



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

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

Comparative Analysis of Victorian/Tasmanian Markets



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

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

Comparative Property Market Indicators - September 2011

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

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Comparative Analysis of Queensland Property Markets



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

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

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



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

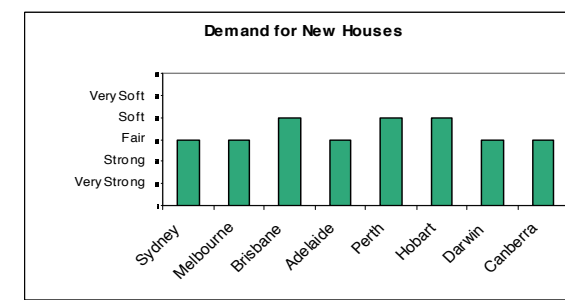
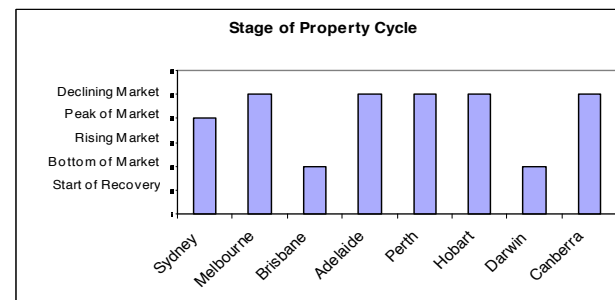
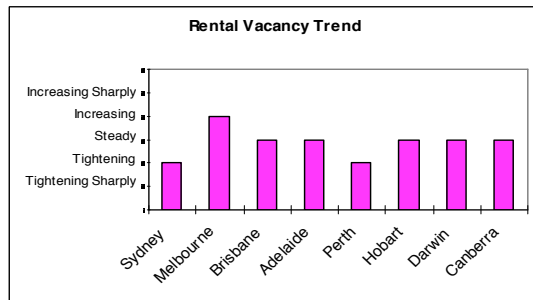
Adelaide	(08) 8231 6818
South West WA (Bunbury/Busselton)	(08) 9791 6204/ (08) 9754 2982
Perth	(08) 9388 9288
Darwin	(08) 8941 4833

Capital City Property Market Indicators as at September 2011 – Houses

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

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

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

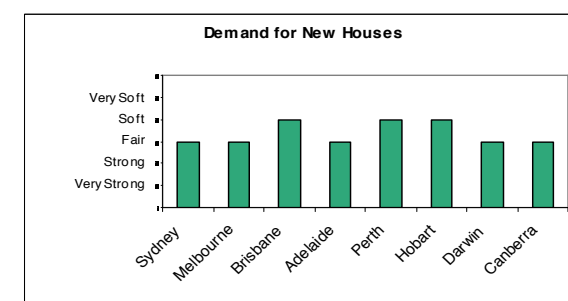
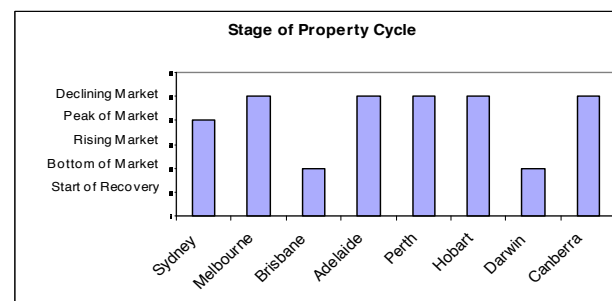
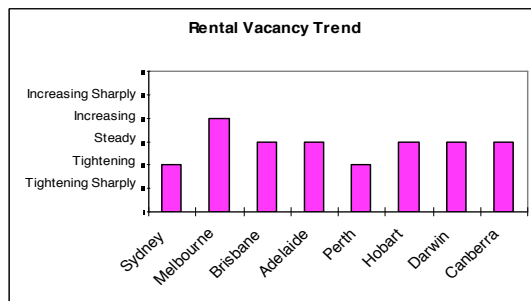


Capital City Property Market Indicators as at September 2011 – Units

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

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

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

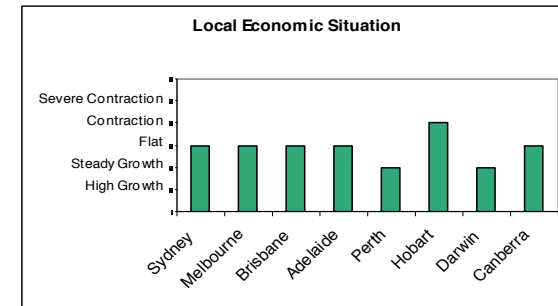
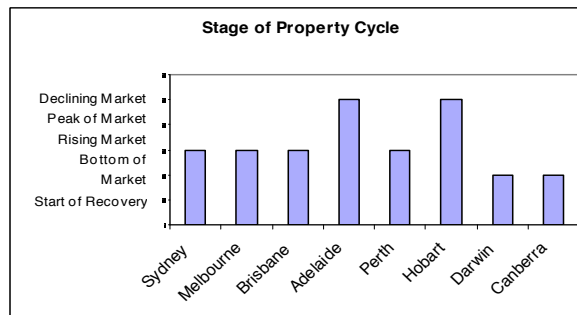
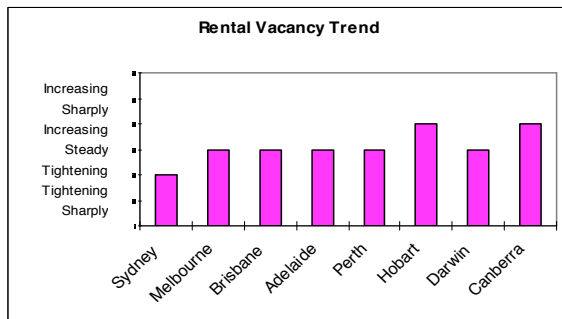


Capital City Property Market Indicators as at September 2011 – Industrial

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

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

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

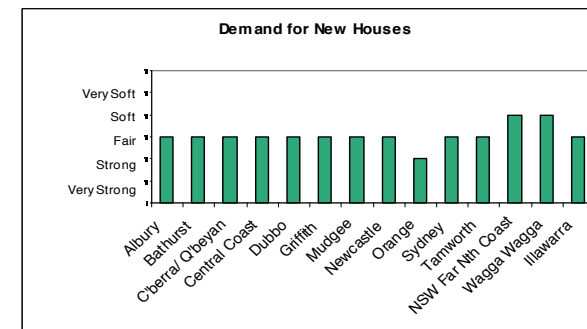
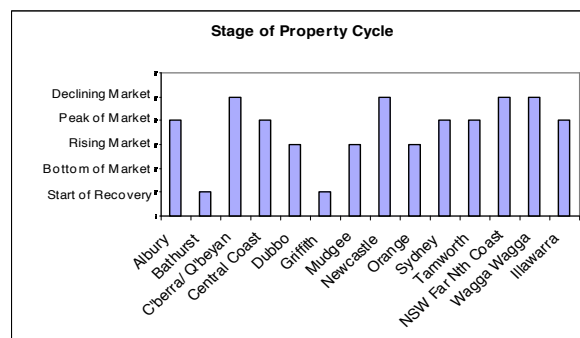
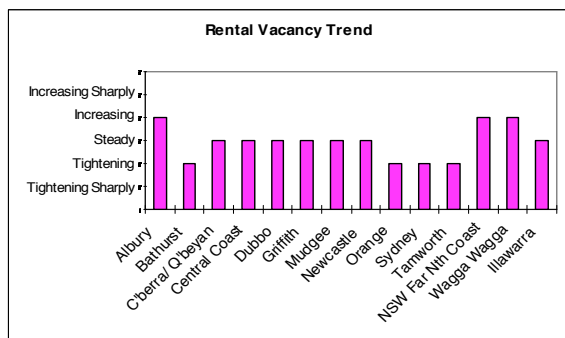


New South Wales Property Market Indicators as at September 2011 – Houses

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

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

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

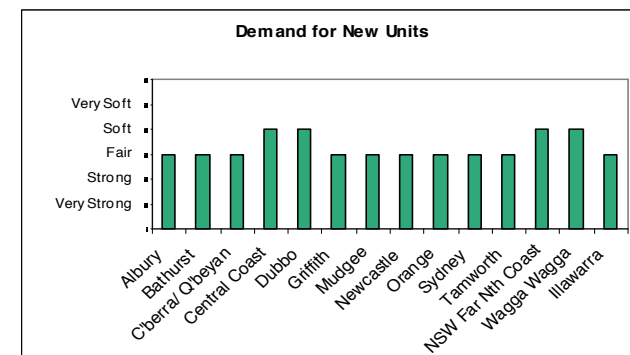
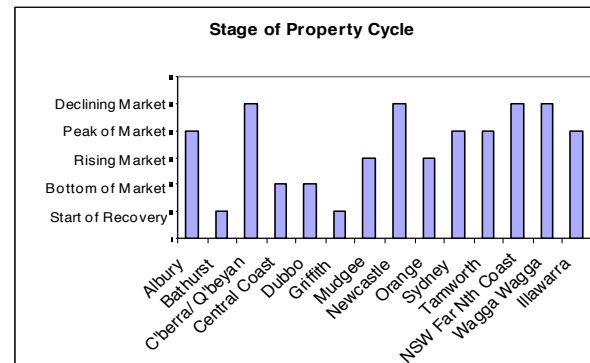
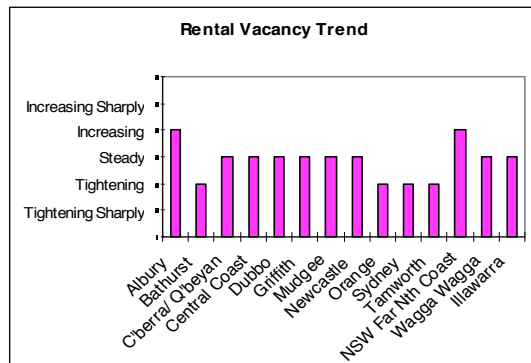


New South Wales Property Market Indicators as at September 2011 – Units

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

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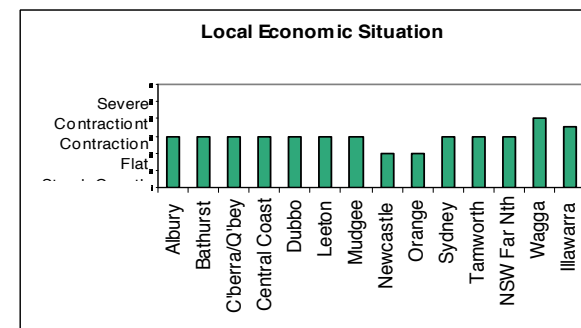
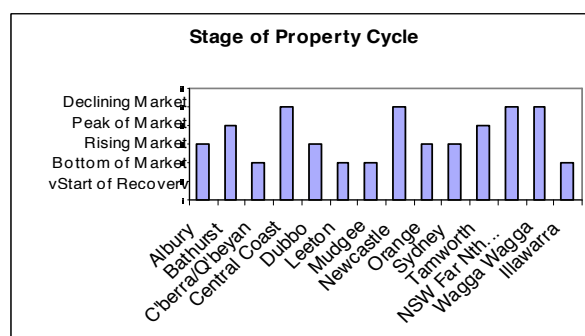
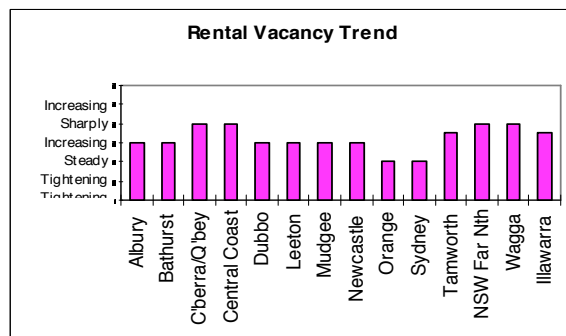


New South Wales Property Market Indicators as at September 2011 – Industrial

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

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

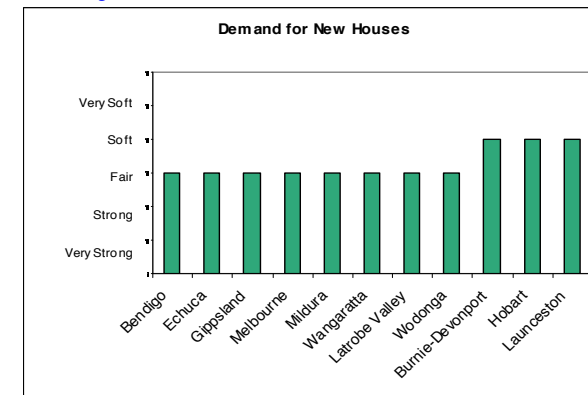
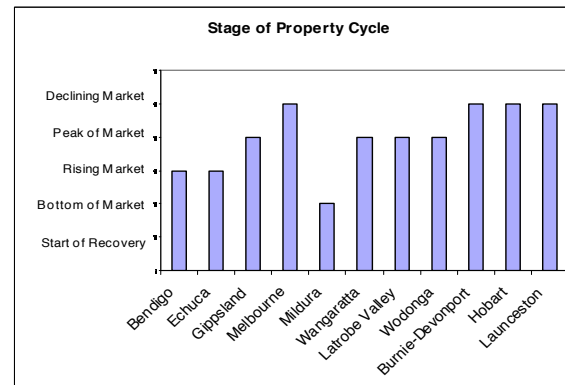
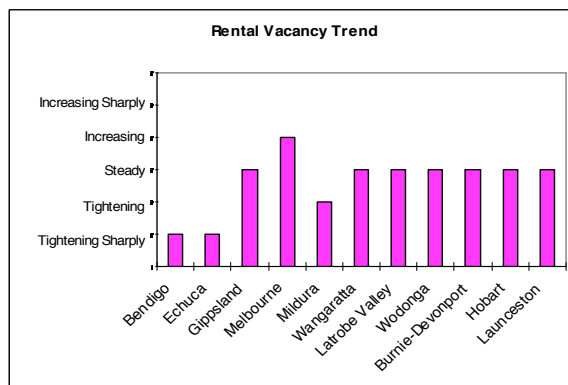


Victoria/Tasmania Property Market Indicators as at September 2011 – Houses

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Wangaratta	Latrobe Valley	Wodonga	Burnie - Devonport	Hobart	Launceston
Rental Vacancy Situation	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening sharply	Tightening sharply	Steady	Increasing	Tightening	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Houses	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Soft	Soft
Trend in New House Construction	Steady	Steady	Declining	Steady	Declining	Declining	Steady	Declining	Declining	Declining	Declining
Volume of House Sales	Steady	Steady	Declining	Increasing	Steady	Declining	Declining	Declining	Declining	Declining	Declining
Stage of Property Cycle	Rising market	Rising market	Peak of market	Declining market	Bottom of market	Peak of market	Peak of market	Peak of market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Almost never	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Almost never	Occasionally	Occasionally	Occasionally

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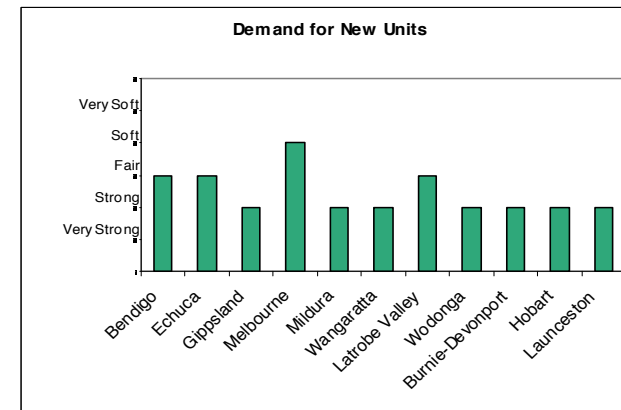
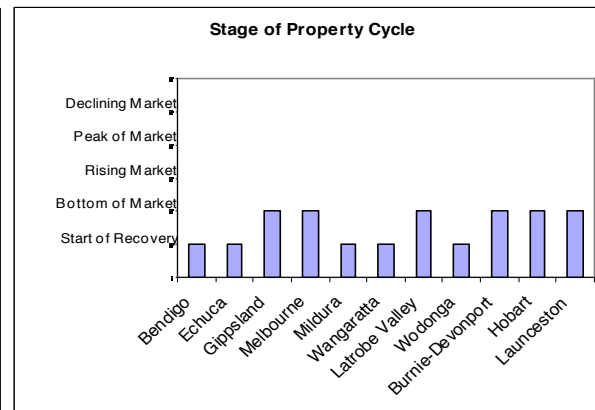
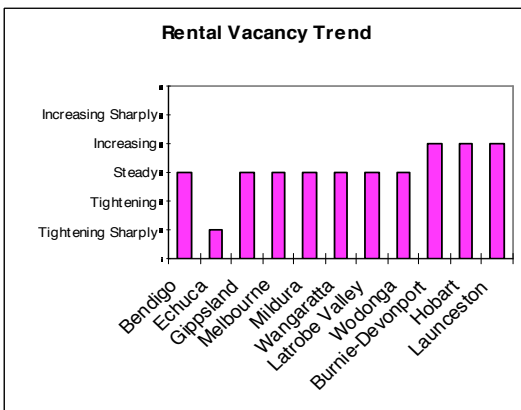


Victoria/Tasmania Property Market Indicators as at September 2011 – Units

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Wangaratta	Latrobe Valley	Wodonga	Burnie - Devonport	Hobart	Launceston
Rental Vacancy Situation	Severe shortage of available property relative to demand	Severe 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	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening sharply	Tightening sharply	Steady	Increasing	Tightening	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Units	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Soft	Soft
Trend in New Unit Construction	Steady	Steady	Declining	Increasing	Declining	Declining	Steady	Declining	Declining	Declining	Declining
Volume of Unit Sales	Steady	Steady	Declining	Steady	Steady	Declining	Declining	Declining	Declining	Declining	Declining
Stage of Property Cycle	Rising market	Rising market	Peak of market	Declining market	Bottom of market	Peak of market	Peak of market	Peak of market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Almost never	Occasionally	Occasionally	Almost never	Almost never	Occasionally	Almost never	Occasionally	Occasionally	Occasionally

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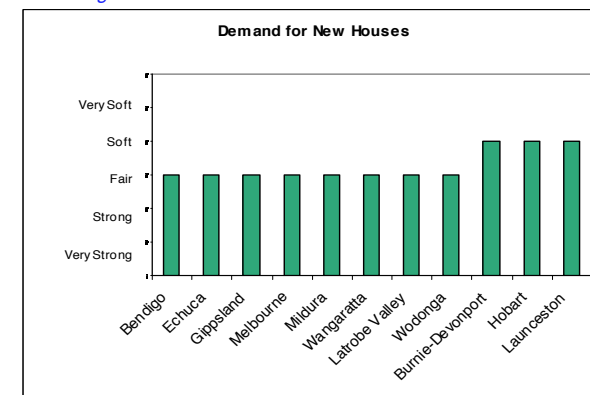
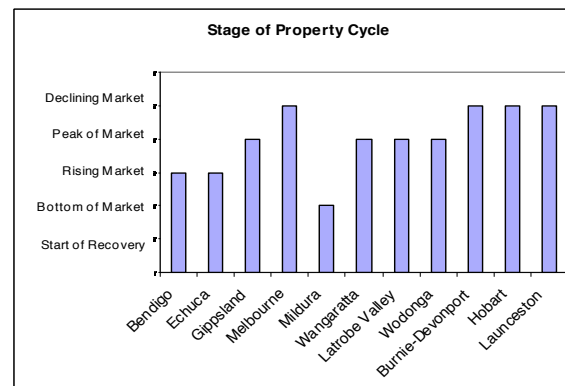
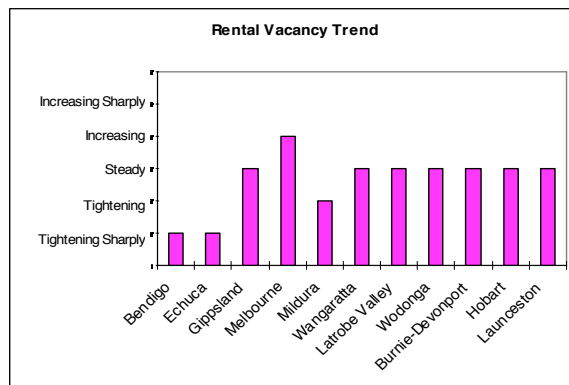


Victoria/Tasmania Property Market Indicators as at September 2011 – Industrial

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Wangaratta	Latrobe Valley	Wodonga	Burnie - Devonport	Hobart	Launceston
Rental Vacancy Situation	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Balanced market	Balanced market	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening sharply	Tightening sharply	Steady	Increasing	Tightening	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Houses	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Soft	Soft
Trend in New House Construction	Steady	Steady	Declining	Steady	Declining	Declining	Steady	Declining	Declining	Declining	Declining
Volume of House Sales	Steady	Steady	Declining	Increasing	Steady	Declining	Declining	Declining	Declining	Declining	Declining
Stage of Property Cycle	Rising market	Rising market	Peak of market	Declining market	Bottom of market	Peak of market	Peak of market	Peak of market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Almost never	Occasionally	Occasionally	Occasionally	Almost never	Occasionally	Almost never	Occasionally	Occasionally	Occasionally

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

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

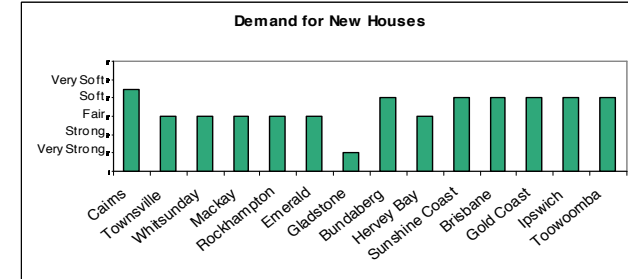
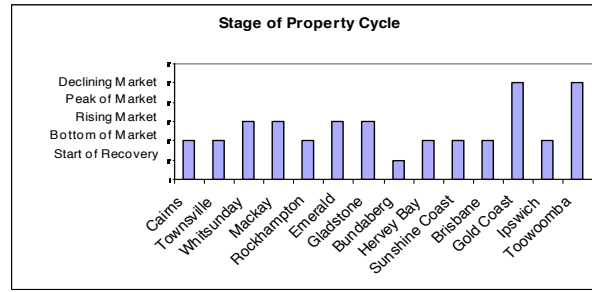
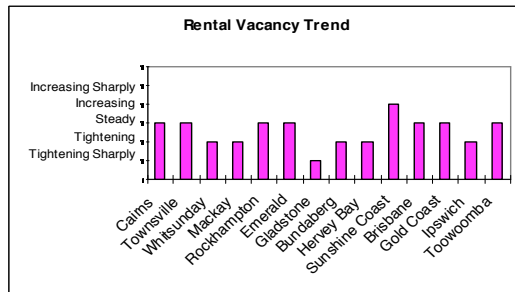


Queensland Property Market Indicators as at September 2011 – Houses

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

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

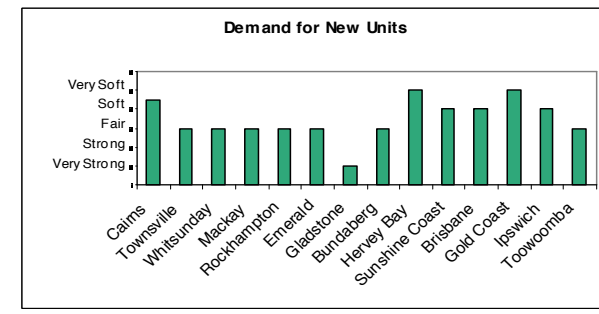
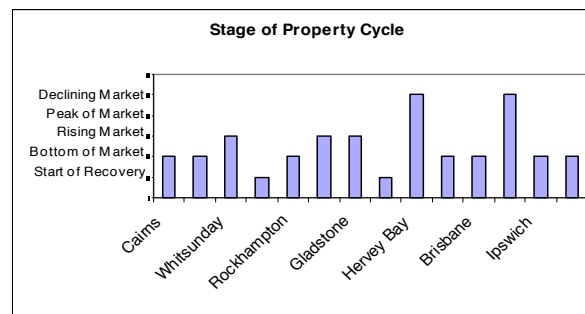
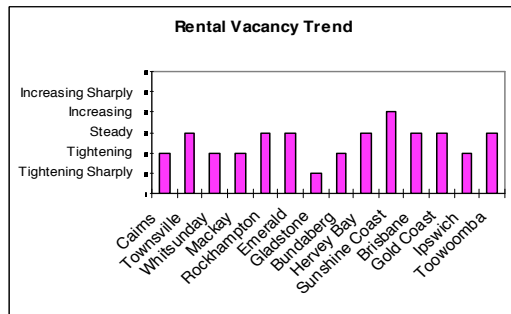


Queensland Property Market Indicators as at September 2011 – Units

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

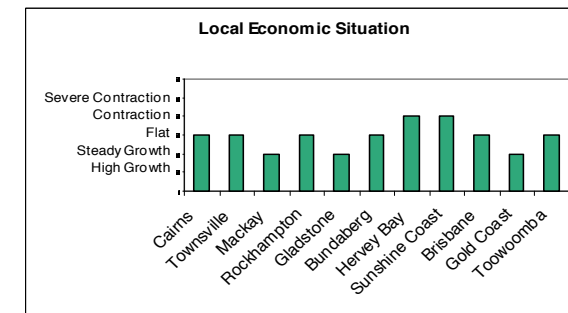
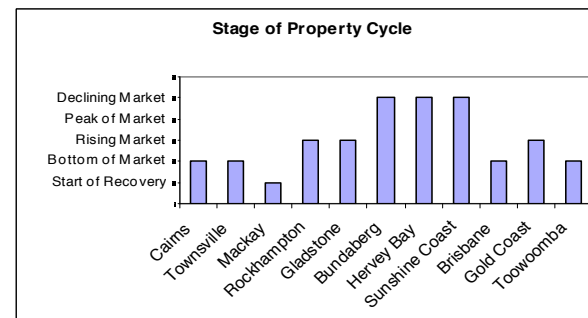
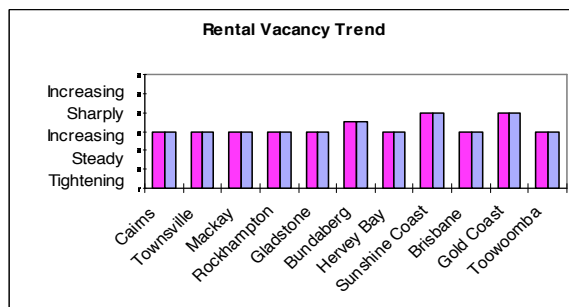


Queensland Property Market Indicators as at September 2011 – Industrial

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

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

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

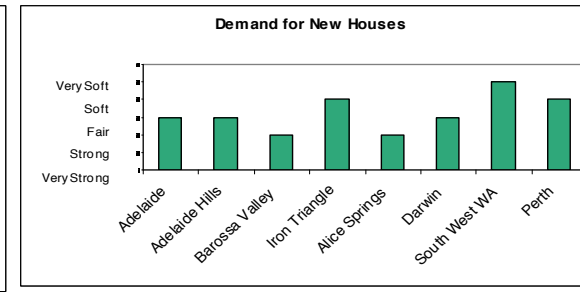
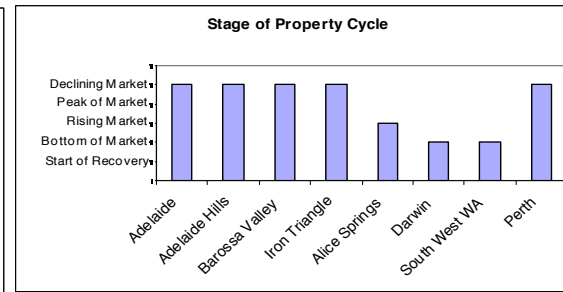
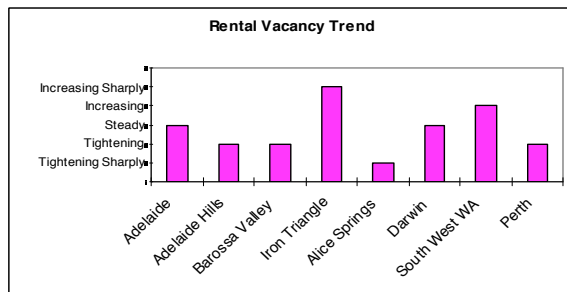


Northern Territory, South Australia & Western Australia Property Market Indicators as at September 2011 – Houses

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

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

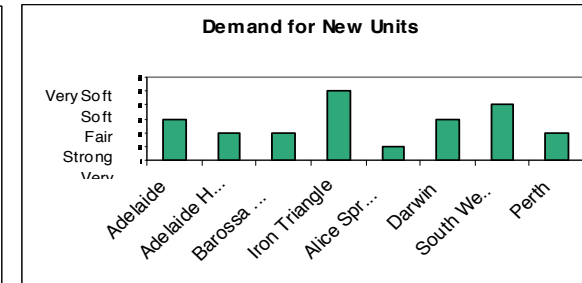
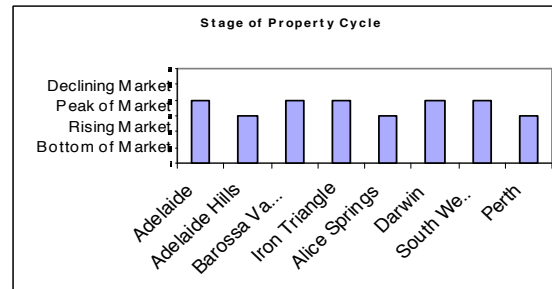
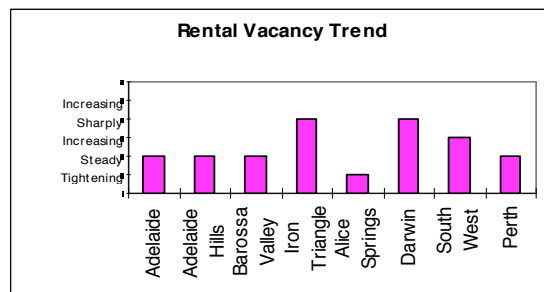


Northern Territory, South Australia & Western Australia Property Market Indicators as at September 2011 – Units

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

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Northern Territory, South Australia & Western Australia Property Market Indicators as at September 2011 – Industrial

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

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