Australia Economic and Property Report

Second half of 2015

Riding The Residential Rollercoaster

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RESEARCH

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We contribute to innovative research and topical discussions relevant to local, regional, and national interests through a series of reports, conference papers, and regular media commentary; in collaboration with multiple stakeholders – academics, organisations, communities, and government departments.

Welcome

Welcome to the second half of 2015 edition of the Australia Economic and Property Report.

2015 proves to be the year of many "firsts" in Australia's economic and property market, with a focal event being the double rate cut earlier this year. The Reserve Bank of Australia's (RBA) second rate cut in May, following the first in February 2015 brings us to a historical low interest rate and standard variable bank loan.

It is interesting to see the Australian Consumer Sentiment's direct correlation to the RBA rate cuts, as consumer confidence hit a positive figure for the first time in twelve months during February 2015 and again in May 2015. Undoubtedly there were negative spells in between these cuts, reflecting consumer uncertainty in the strength of the economy.

Property wise we are seeing a highly divergent trend, whereby we are witnessing capital cities simultaneously at the peak of the market and declining stages of the market for the first time. We are also witnessing the same trend within a state and/or region, making it even more crucial to localise market analysis and projections.

It is without a doubt that this issue will highlight the seemingly "up and down" journey of many economic and property indicators, impacted by not only local and national policies but also international economies – namely Greece, China, and the United States. It will also highlight the rise and decline of property values across capital cities, most of which have occurred within a very short space of time.

It seems that there are still many twists and turns to come as we ride the residential rollercoaster for the remainder of 2015.

Yours in research,

Dr Diaswati Mardiasmo
National Research Manager
PRDnationwide

Contents

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Overview

The Australian Consumer Sentiment has had an interesting journey in 2015, with monthly changes ranging from a display of optimism (above 100 index points) to pessimism (under 100 index points). February, May, and August saw rises in positivity to 100.7, 102.4, and 99.5 index points respectively. March, April, June, and July saw dips towards pessimism at 98.5, 96.2, 95.3, and 92.2 index points respectively. This journey can be likened to a rollercoaster ride with sudden dips and high rises reflective of a multitude of reasons: cuts to the cash rate (and thus interest rate) by the Reserve Bank of Australia, Federal and State government budget announcements, highly volatile and uncertain global economy (including the Greek Debt Crisis, weakening Chinese economy, and devaluation of Chinese Yuan for example), and many others.

The largest movement in the Australian Consumer Sentiment occurred between July and August 2015 when the index rose by 7.8%. Economists have noted that movements of this magnitude are unusual and usually associated with significant events such as interest rate movement or Commonwealth budgets, however it is also possible that this response was driven by international issues and housing.

Increasing house prices are suggested to be responsible for the sudden burst of optimism in consumer sentiment, as larger confidence boosts have been noted by those who own property (up 6.2%) or hold a mortgage (up 11.0%); than those who are out of the housing market (up 4.3%).

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Foreign Direct Investment remains a hot topic due to the discretionary powers of the treasurer under amendments to The Foreign Acquisitions and Takeovers legislation, not to mention Foreign Direct Investment sensitivity to political uncertainty. It is no surprise that this issue has sparked public debate regarding the balance between investment and regulation to maintain Australia's reputation as a reliable and attractive investment alternative.

It is no secret that there has been an increase in foreign investment into the Australian property market throughout 2015, in particular from China. Australia's decreasing dollar makes our market increasingly appealing, with a drop from AUD 0.86 to AUD 0.70 against the USD between the start of 2015 and now (early September 2015). The AUD has lost 29.0% against the Chinese Yuan in the past three years, creating favourable circumstances for Chinese investors.

Government incentives, such as the relaxation of real estate investment regulations for insurance companies, have also resulted in local developers looking for overseas investment to fund residential projects.

It is not surprising to see foreign investment focused on New South Wales, as the state continues to lead rankings for: population growth, retail trade, and dwelling starts. That said overseas investors are also turning toward the Brisbane and Queensland property markets; as Sydney and Melbourne markets appear too expensive to gain a foothold. Sydney valuations are now 80.0% above Brisbane, which is propelling many interstate property players to consider other capital city options. The increasing perception of capital city unaffordability is also pushing investment into outer suburbs, resulting in outer metropolitan areas experiencing sudden bursts in transaction activity and price growth.

In August 2015 the house price index for the first time this year showed an extreme divergence in property price growth between capital cities. Sydney and Melbourne for example reported year on year growth of 17.6% and 10.6% respectively; yet Canberra, Darwin, and Perth recorded year on year growth of -0.9%, -4.6%, and -1.8% respectively. Such divergence can also be observed within states and regions, for example the extremely different price growth rates between Brisbane (Queensland) and Mackay (North Queensland). These figures suggests the Australian property market is indeed on a rollercoaster ride, with certain areas rising in price growth and others dipping at an accelerated rate.

First home buyer affordability concerns have continued to perpetuate public debate and discussion throughout 2015, with many claiming first home buyers are the "losers" of the booming property market. Interestingly, although there is a decreasing trend in first home buyers overall, many have opted to enter as investors. Latest statistics show that nearly one-half of active first home buyers went into the investment sector, most choosing the all too familiar route of accessing first home buyer grants and occupying for twelve months before renting out with hopes to negative gear.

The Organisation for Economic Co-operation and Development (OECD) forecasted Australia economy growth to decline to 2.5% before picking up and reaching 3.0% in 2016. This projection is based on a gathering momentum in consumption, non-resource investment, and exports – all of which assist the economy in adjusting and recovering from a fall in commodity prices and unwinding resource-sector investment. The OECD also predicts that there will be a reduction in non-residential fixed investment and increase in residential investment up until late 2015. However, levels of residential fixed investment are expected to slow continuing into 2016.

Key Facts September 2015

- Consumer Price Index: 1.50 %
- Standard Variable Home Loan Rate: 5.45 %
- Unemployment Rate: 6.00 %
- Average Australia Fuel Price: $1.42/L

Property Growth

Rollercoaster growth rates evident across all markets

Capital city markets have, on average, reflected the positive impact of Australia's historical low interest rates; with 6.2% growth recorded in the second half of 2015. This figure is higher than the previous 12 months growth of 4.8%, signifying a definite boost of confidence in the market due to expansionary monetary policy. Metropolitan markets continue to perform, although there is a softening over the past year – from an average of 2.9% to 0.9%. It is suspected that this is due to continuous increased investor activities in capital city areas, with weekend auction results peaking at 76.0% at the end of August. Surprisingly Melbourne tops the leader board at 79.0%, followed by Sydney 74.0%, Adelaide 62.0%, and Brisbane 54.0%.

Regional Australian property growth proves to be sustainable, with the second half of 2015 recording an average growth of 3.6%. This shows an increasingly healthier market, as regional areas recorded an average growth of 2.2% 12 months ago and 2.7% six months ago. Regional Tasmania is leading the pack with a reported growth of 12.0%, followed by New South Wales 6.1% and Victoria 5.1%. This suggests that affordability concerns in both capital city and metropolitan areas are pushing buyers to outer areas. High levels of infrastructure and commercial development commitments in most regional areas are also drawcards for first home buyers and astute investors.

Most of the swift growth in property prices is speculated due to this year's RBA double rate cut, bringing interest rates to a historical low of 5.45%. Interestingly not all capital cities, metropolitan and regional areas experienced positive growth in the second half of 2015. This likely suggests that whilst low interest rates played a role, local economic conditions prevail and impact the property market accordingly.

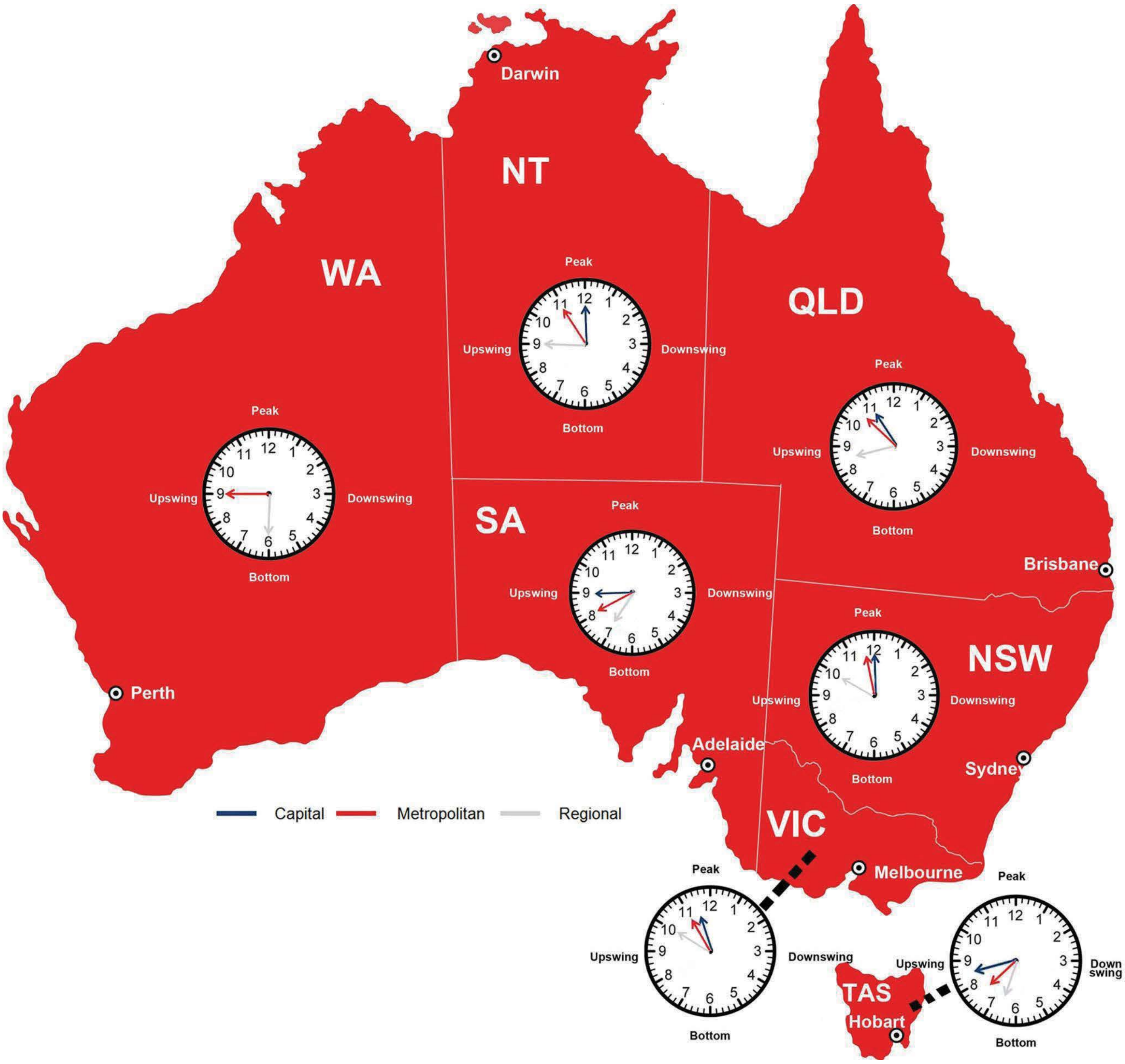
A clear discrepancy of high price growth in certain capital cities and negative growth in others, as well as quick movements on a month by month basis, confirms that the residential real estate market is going through a rollercoaster period.

Average Growth in Median House Price

	Capital City					Metro					Regional				
	2 2013	1 2014	2 2014	1 2015	2 2015	2 2013	1 2014	2 2014	1 2015	2 2015	2 2013	1 2014	2 2014	1 2015	2 2015
NSW	12.5%	11.1%	3.3%	11.8%	9.7%	8.1%	8.0%	5.3%	14.4%	6.1%	9.9%	0.3%	1.6%	1.8%	6.1%
QLD	4.7%	4.1%	3.4%	0.5%	4.5%	2.2%	1.8%	1.5%	1.5%	0.9%	-0.3%	-3.9%	6.5%	1.1%	2.6%
VIC	7.0%	9.4%	3.8%	2.9%	7.9%	7.4%	3.6%	2.0%	8.2%	8.1%	3.0%	1.8%	-2.4%	9.7%	5.1%
WA	26.3%	0.0%	18.8%	-5.6%	N/A	4.0%	1.8%	2.0%	-2.2%	-7.6%	0.8%	2.3%	-2.6%	3.4%	-7.2%
TAS	6.7%	-3.1%	2.2%	6.2%	1.1%	2.3%	0.3%	2.5%	3.5%	1.7%	-5.0%	6.0%	1.7%	6.3%	12.0%
NT	3.9%	0.0%	-2.4%	-4.6%	6.6%	-0.1%	2.1%	1.9%	3.2%	3.7%	-3.0%	4.4%	-1.5%	-6.5%	N/A
SA	-4.2%	-0.2%	4.9%	1.0%	7.4%	1.0%	3.4%	2.2%	3.8%	-0.5%	1.0%	0.7%	12.3%	3.2%	3.0%
ACT						8.0%	-1.4%	5.6%	1.3%	-5.2%					

Property Growth

Australia Property Growth Map



Property Growth

Median House Price – Capital City

	Capital City				
	2 2013	1 2014	2 2014	1 2015	2 2015
NSW	$1,080,000	$1,200,000	$1,240,000	$1,386,000	$1,520,000
QLD	$557,000	$580,000	$600,000	$603,000	$630,000
VIC	$722,000	$790,000	$820,000	$843,500	$910,000
WA	$1,200,000	$1,200,000	$1,425,000	$1,345,000	N/A
TAS	$480,000	$465,000	$475,000	$504,500	$510,000
NT	$615,000	$615,000	$600,000	$572,500	$610,000
SA	$822,000	$820,000	$860,000	$850,000	$912,500

Median House Price – Metro

	Metro				
	2 2013	1 2014	2 2014	1 2015	2 2015
NSW	$902,500	$989,000	$1,025,000	$1,215,500	$1,318,750
QLD	$400,000	$415,000	$410,000	$417,000	$404,000
VIC	$590,000	$610,000	$625,000	$661,000	$726,000
WA	$625,000	$620,000	$630,000	$633,000	$615,000
TAS	$305,000	$310,500	$318,500	$329,375	$350,125
NT	$440,000	$450,000	$469,000	$499,000	$533,750
SA	$479,000	$490,000	$510,000	$515,000	$520,000
ACT	$936,167	$922,389	$939,944	$934,324	$1,009,529

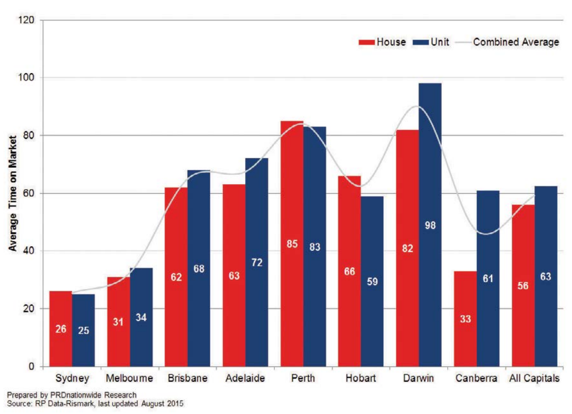
Median House Price – Regional

	Regional				
	2 2013	1 2014	2 2014	1 2015	2 2015
NSW	$248,000	$250,000	$269,000	$259,000	$278,000
QLD	$264,750	$267,500	$264,500	$256,500	$298,500
VIC	$250,500	$246,000	$247,000	$257,250	$270,000
WA	$354,125	$350,000	$352,500	$346,500	$350,000
TAS	$220,000	$228,000	$228,000	$230,000	$257,500
NT	$260,000	$271,500	$267,500	$250,000	$375,000
SA	$215,000	$225,000	$230,000	$240,000	$219,500

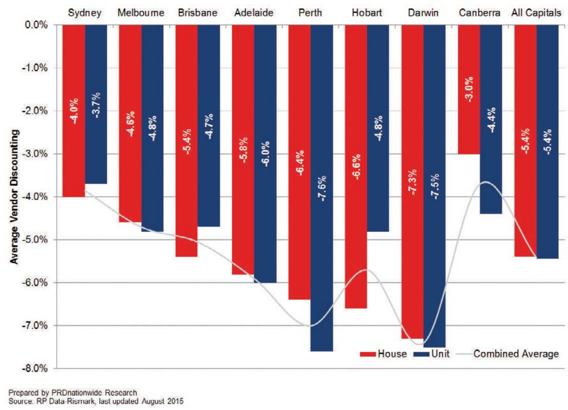
Stop Press: *Median price for second half 2015 reflects sales up to and inclusive of 1 September 2015*

Property Growth

Average Time on the Market



Average Vendor Discounting



Properties Listed for Sale

Capital City	No. of new listings	12 mth change (%)	No. of total listings	12 mth change (%)
Sydney	7,929	16.6%	18,793	-1.5%
Melbourne	8,230	11.5%	27,808	-6.5%
Brisbane	3,835	4.5%	17,659	-1.7%
Adelaide	1,776	-1.0%	7,227	-0.9%
Perth	3,344	-10.8%	19,324	20.1%
Hobart	297	-12.1%	2,491	-11.7%
Darwin	207	-21.9%	1,583	18.5%
Canberra	560	19.4%	1,974	-13.0%
Combined capitals	26,178	7.0%	96,859	0.3%

What does this mean for you?

- Median prices are expected to continue to grow nationally, however at differing rates due to the rollercoaster nature of local economic conditions.
- Average vendor discounting for both houses and units in capital cities are currently sitting at -5.4%, with Sydney units and Canberra houses being sold closest to their first list asking price.
- Average time on market for all capital cities has displayed a decreasing trend, by 12.5% for houses and 21.9% for units. This indicates that buyers are competitive and will stimulate the market further, signalling that buyers must not delay in securing their ideal property once found.

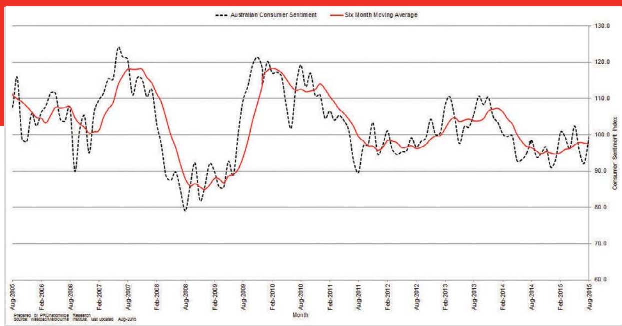
Confidence

Consumer Sentiment recovers to positive level

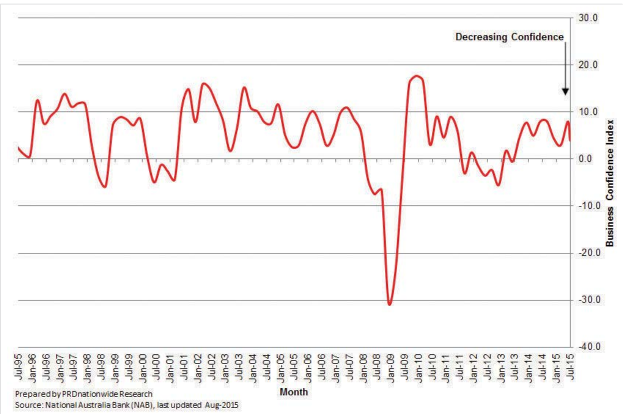
Australian consumer confidence witnessed a sharp recovery over August 2015, climbing to 99.5 index points, up from 92.2 index points in July 2015. In May 2015, consumer confidence hit the highest level in the past 12 months at 102.4 index points, however has since remained below 100.0 index points. August's recovery in consumer confidence has been attributed to the positive news around house prices and the recent RBA rate cuts, as a reflection of expansionary monetary policy in the face of sluggish economic conditions. Fears in regards to Greece and China equity markets were evident in June/July's confidence, however this has dissipated.

Australian business confidence has lost its momentum, with conditions falling from 8.0 index points in June 2015 to 4.0 index points in July 2015. Low interest rates do bode positive effects, however limited to certain sectors. China's slowdown, decreasing mining investment, slowing retail sector growth, and subdued non-residential approvals are each contributing factors; while the falling Australian Dollar (AUD) is adding import costs to many manufacturers. Although business confidence remains at a positive level, it is now below the long-term average. Good news can be found in the non-mining sectors, particularly the services sector, which has continued to outperform.

Consumer Sentiment



Business Confidence



What does this mean for you?

- Consumer confidence rebounded by 7.8% in August after falling to 92.2 index points in July 2015, indicating that consumers are more optimistic and willing to spend.
- After a slight recovery in June 2015, business confidence has continued to travel in a declining trend. With few signs of improvement in the near future this may propel the government to provide industry specific monetary assistance.
- Both consumer and business confidence are travelling in a rollercoaster ride pattern on a month to month basis, creating uncertainty within the economy.

Macroeconomic Climate

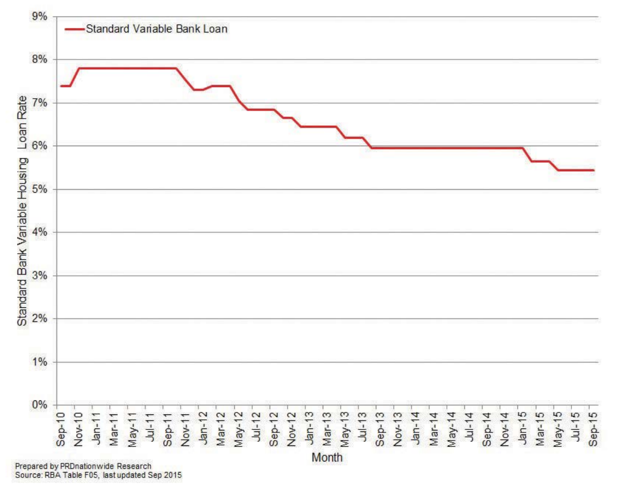
Expansionary monetary policy continues to stimulate investment from both local and international buyers

In August 2015, the Reserve Bank of Australia (RBA) stated that GDP growth is expected to slow down further, following a winding down of the resources sector.

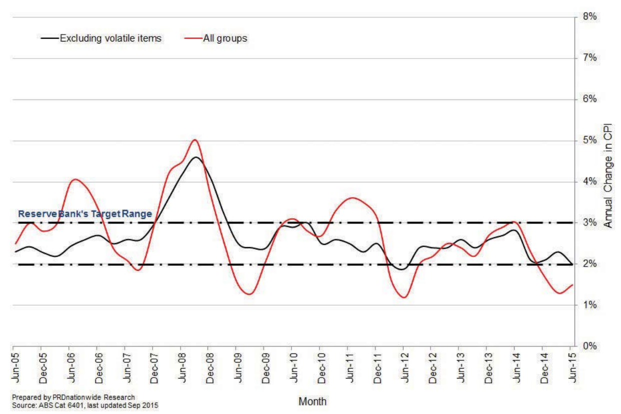
As the Australian economy continues its structural change with the decelerating mining sector, monetary policy continues to accommodate borrowing and spending through its expansionary measures. The RBA cuts to the cash rate to historical lows of 2.0% in May 2015 have resulted in a relatively steady housing market in recent times.

While inflation recorded 1.5% in August 2015, below the RBA target range and lower than long term averages, it is expected to be on target over the next one to two years. Unemployment forecasts have been revised following the RBA's September meeting with peaks in 2015 downgraded from 6.5% to 6.0%. The cash rate is expected to remain stable in the foreseeable future, with no major ups or downs anticipated for the remainder of 2015 through to 2016.

Housing Loan Interest Rate



Inflation



What does this mean for you?

- Sustained low interest rate is expected to facilitate spending and thus keep inflation within the 2.0 to 3.0% target.
- Differing macroeconomic conditions within each state create a rollercoaster environment for businesses and households, pushing the Reserve Bank of Australia to stabilise with a continued low cash rate.
- The low interest rate environment will maintain housing affordability, fostering further growth in property market and housing construction activity.

Foreign Exchange and Commodity Price

No further devaluation of the currency is necessary

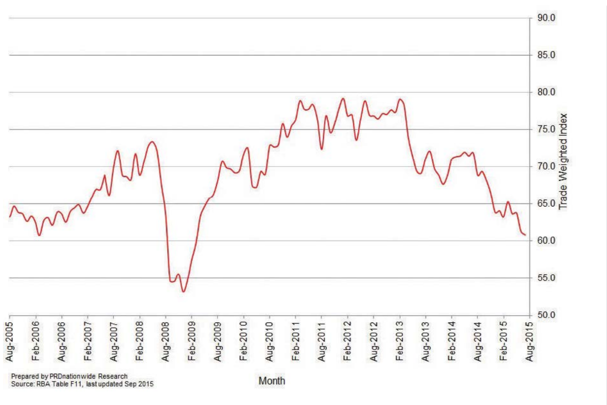
The RBA Commodity Price Index has continued its decrease over 2015, sitting at 79.7 index points in August. This decrease has largely been attributed to the unceasing decline in the prices of iron ore and oil. The Australian Dollar has decreased in value against most other major currencies, stimulating inbound investment while disadvantaging local exporters. That said Australia is not the only currency devalued in recent times, with the Chinese Yuan also weakening in 2015.

The Trade Weighted Exchange Rate Index has seen a fall consistent with that of the commodities index, as the Australian Dollar has adjusted to declines in commodity prices. The index is sitting at 60.9 index points in August 2015.

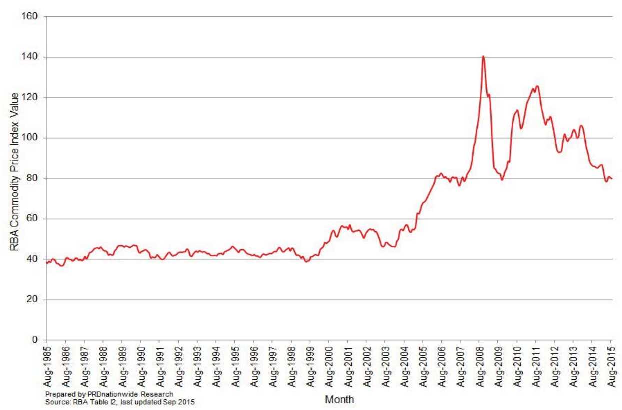
Exchange Rates

	Japan	USA	EU	NZ	UK	Hong Kong	Malaysia	China	Singapore
	Yen	Dollar	Euro	Dollar	Pound	Dollar	Ringgit	Renimbi	Dollar
	JPY	USD	EUR	NZD	GBP	HKD	MYR	CNY	SGD
Aug-2014	97.0700	0.9349	0.7096	1.1170	0.5638	7.2455	2.9510	5.7437	1.1675
Aug-2015	86.6000	0.7149	0.6355	1.1127	0.4633	5.5408	2.9990	4.5604	1.0099
% Change	-10.8%	-23.5%	-10.4%	-0.4%	-17.8%	-23.5%	1.6%	-20.6%	-13.5%

Trade Weighted Exchange Rate Index



RBA Commodity Price Index



What does this mean for you?

- A falling exchange rate may see consumers increase their spending on local goods and services, and a decrease in expenditure on online shopping and imported goods. This creates a rollercoaster effect in industries such as retail.
- For the housing market, a falling exchange rate has the tendency to boost foreign investor participation. This may result in new residential and commercial developments commencing as interest from international developers grows.
- Falling commodity prices have the potential to reduce earnings, particularly in the resource states. This suggests local owner occupiers may have a reduced capacity to secure a home loan.

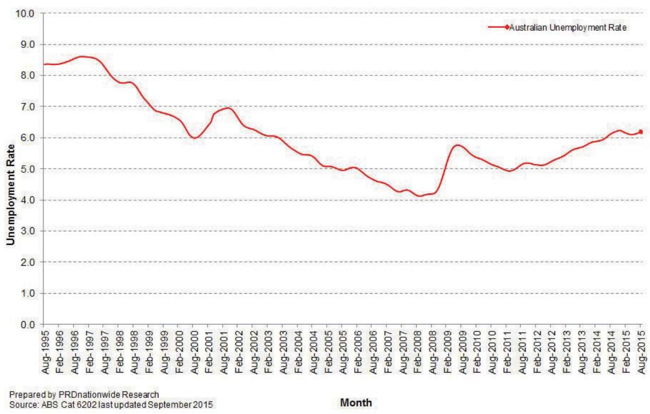
Labour Market

Unemployment rate stabilises but employment growth is two-speed

Mid-year unemployment statistics have remained relatively stable over the past 12 months, with the unemployment rate maintaining a national average of 6.1%. The July unemployment rate is at 6.1%, which is higher than levels experienced during the global financial crises of 2008-09.

The Australian economy has facilitated 153,600 new employed full-time persons since January 2015. The majority of this new full-time employment has been added by New South Wales accounting for 83.9% of the total increase, while South Australia, Western Australia, Tasmania and Australian Capital Territory experienced net contraction in full-time employed persons by a combined -17.9%.

Unemployment Rate



What does this mean for you?

- ✓ Mid-year unemployment statistics have remained relatively stable over the past 12 months, with the unemployment rate maintaining a national average of 6.1%.

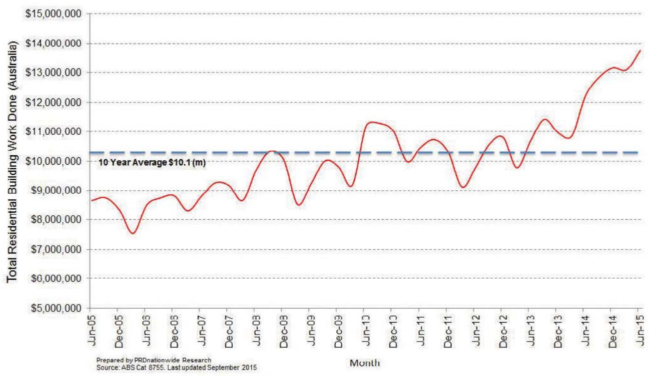
Construction Market

Residential building works continue to climb

The gross value of construction has been estimated at $26.9B during the first half of 2015 as the value of construction work continued to climb. The year on year figures showed healthy residential construction; the first half of 2015 construction value exceeded the comparative 2014 value by $3.6B, for an average growth of 2.8% over the past 12 months.

Unprecedented investor interest has underpinned growth in the value of residential construction work done, which has benefitted from low interest rates, Government incentive and a relatively low Australian dollar.

Change in Quarterly Value of Residential Construction



What does this mean for you?

- The economic stimulus provided by residential construction is expected to trickle through the economy, not only creating jobs but also providing flow-on benefits to local communities in the form of wages and consumption of goods and services.
- New South Wales and Victoria construction market continue to outperform other states, with quarterly growth sitting at 15.8% and 17.6% year on year respectively.

House Finance

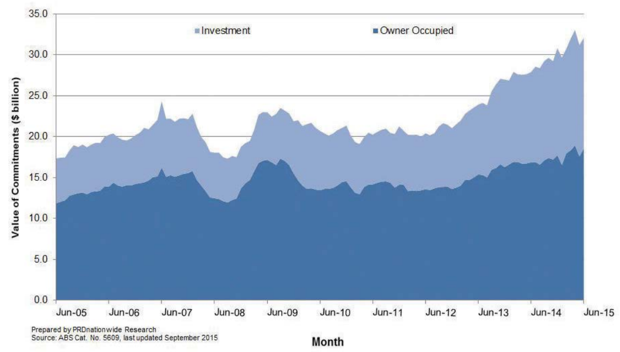
The gap between finance commitments for investment and owner-occupier is closing

The gross value of housing finance commitments have totalled $189.8B over the past six months to June, up 8.0% when compared to housing finance commitments for the second half of 2014. Whilst the six month financial commitments have increased, there are signs that the growth of housing finance commitments are slowing.

Owner occupiers have committed $109.1B to dwelling finance during the six months to June 2015, up 6.0% on the second half of 2014 figures. The majority of owner occupier commitments were made to refinance and purchase established dwellings, totalling $92.8B over the past six months.

Investor housing commitments have increased 10.7% during the six months to June 2015 to a half year volume of $80.7B in financial commitments. The majority of these investments were made to purchase properties for rental or resale by individuals, contributing $67.6B to the investor finance stream. The largest growth in the investment finance pie were made by commitments relating to the purchase of properties for rent or resale by non-individuals, averaging 4.4% growth over 6 months to June.

Housing Finance Commitments



What does this mean for you?

- Investor financial commitments have increased by 10.7% over 6 months to June, closing the gap between owner occupiers and investors; speculated as a result of historic low interest rates.
- Owner occupied commitments will continue to outsize investment; however investor financial commitments continue to outpace owner occupied growth, driven by investment in dwellings for rent and resale – highlighting the shifting balance of the housing market equity from owner occupiers to investors.
- Increasing levels of residential investment will potentially disrupt the current balance in the rental demand market, creating a rollercoaster effect in rental prices in popular investment areas.

Dwelling Market

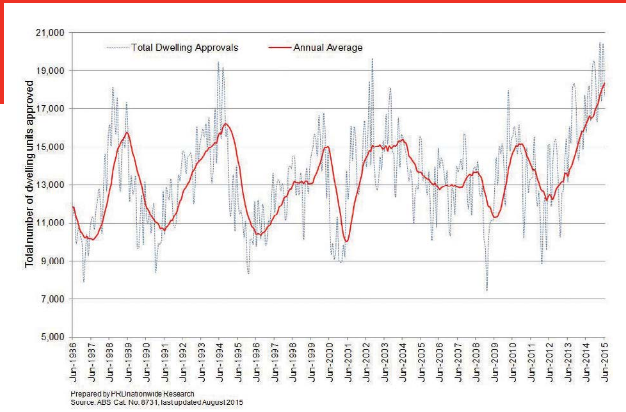
Threat of oversupply looms while time to buy show uncertain trends

Over the 12 months to June 2015 annual average monthly approvals jumped 12.9% and are now at 18,341; which is historically the largest annual average recorded. Construction industry benefits from low level of interest rate however the threat of oversupply should not be overlooked.

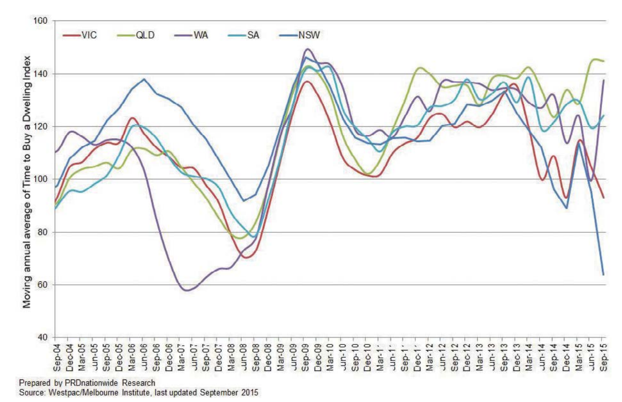
The national average days on the market has decreased in capital cities for the month of July 2015 with houses taking an average of 56 days while units are taking an average of 63 days. Of all the capital cities Sydney has continued to hold the lowest days on market for both houses and units sitting at a remarkable 26 and 25 days, respectively. The national average vendor discounting continues to remain low and is currently at an average of -5.4% for both houses and units. This is lower than the figure for March 2015 (-5.6%), suggesting buyers are even more willing to offer closer to first list price – confirming buyers' improved sentiment across all capital cities.

Meanwhile the Time to Buy a Dwelling Index has decreased an average of 4.8% across the five states over the 12 months to September 2015. This is mainly due to the recent rises in dwelling values as well as a shift to a seller's market and a sluggish national economy. New South Wales recorded the steepest decline over the year, dropping 33.6% over the past 12 months, while Queensland dropped the least out of the five states, inclining by 17.3%.

Dwelling Approvals



Time to Buy a Dwelling Index



What does this mean for you?

- Annual average monthly dwelling approvals are at a record high over the past five financial years, which indicates rising confidence. However, this could indicate potential oversupply in the medium future.
- On average the Time to Buy Index dropped 4.8% since September 2014. This is good news for landlords as potential buyers who feel priced out of the current market opt to rent.
- The Victoria and New South Wales Time to Buy Index decline is a compelling contrast to Queensland, West Australia and South Australia's positive rises; signifying a rollercoaster trend across the five states and proving that investors should look outside of primary markets in 2015.

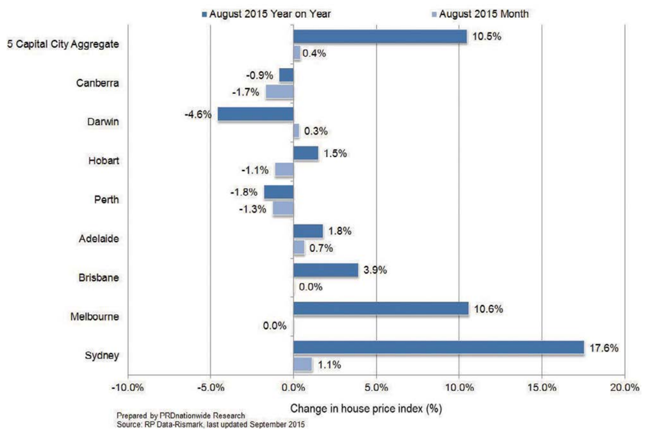
Dwelling Prices

Sydney and Melbourne lead with double digit figures while Darwin sees a correction

The RP Data-Rismark Combined Capital Cities index indicated that the property market continued its pattern in showing the highest growth in the three most populous capital cities (Brisbane, Sydney, and Melbourne) in Australia.

Throughout the annual period to August 2015 the five capital city aggregate values increased by 10.6%, an improvement from 8.6% growth in February 2015. Sydney and Melbourne are the top performers with annual growth sitting at 17.6% and 10.6% respectively; an increase from February 2015 figures of 13.8% and 7.4%. Brisbane continued to perform with annual growth of 3.9%, achieving the third highest annual growth among the capital cities. Darwin recorded the lowest annual growth of -4.6%, speculated as a result of its downturn in the mining industry.

RP Data-Rismark Dwelling Home Value Index Change by Capital City



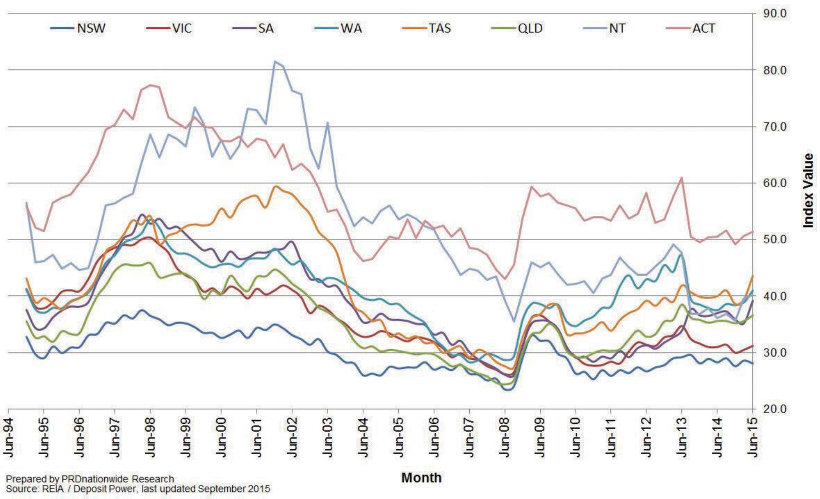
What does this mean for you?

- ✓ Five capital city aggregate price growths grew from 8.6% in February to 10.5% in August, reflecting a surge in consumer confidence due to historically low interest rates.

Home Affordability

Continuous historically low interest rates promote increasing home loan affordability

Home Loan Affordability Index



What does this mean for you?

- Australian home loan affordability increased by 4.1% across Australia over the past 6 months to June 2015, instilling higher consumer confidence for the rest of 2015.
- A high price growth in some capital cities and negative price growth in others replicate that of a rollercoaster price index, suggesting property players need to increase their awareness of local conditions impacting the market.

Rental Market

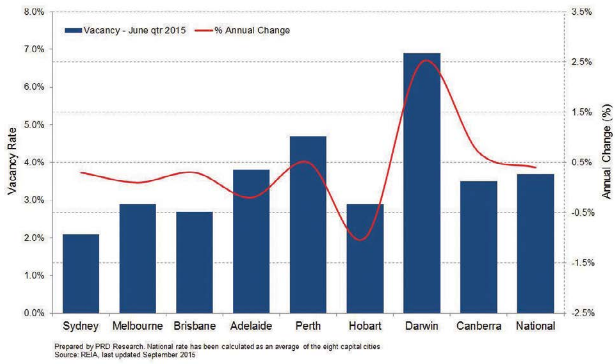
Average capital city vacancy rates increasing, demand for rental slowing

Annual median rental growth for three bedroom houses has continued on a similar trend throughout 2015. Sydney, Melbourne and Brisbane have performed consistently; showing growth at 2.2%, 2.9% and 1.4% respectively. Surprisingly in Hobart the three bedroom house market has outperformed all seven capital cities, recording 3.0% annual growth. Meanwhile, the two bedroom unit market has decreased in pace, with Perth and Darwin rental growth decreasing by -9.1% and -7.4% respectively.

Vacancy rates for all capital cities have slightly increased over the June 2015 quarter, currently sitting at 3.7%, representing a 0.2% increase over the March 2015 quarter. This indicates that demand in the rental market is slowing down.

Over the 12 months to June 2015, all capital cities apart from Adelaide and Hobart experienced a rise in vacancy rates. Sydney, Brisbane, Melbourne and Hobart recorded the lowest vacancy rates sitting at 2.1%, 2.7%, and 2.9% (Melbourne and Hobart) respectively. Meanwhile, vacancy rates in Darwin increased by 2.5% over the same period, currently sitting at 6.9%.

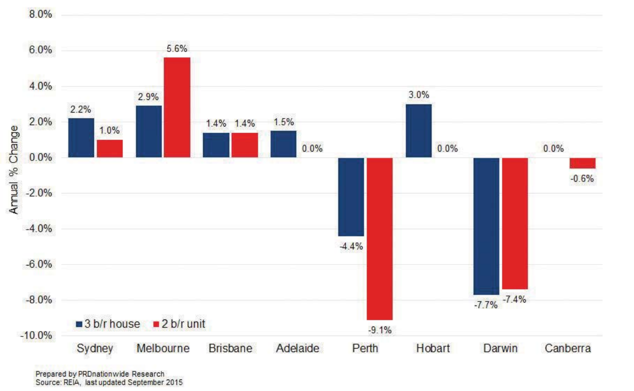
Quarterly Vacancy Rate



Annual Change to Median Rent Prices

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	$460	$360	$375	$340	$430	$340	$612	$430
2 b/r Unit	$500	$380	$370	$285	$400	$280	$448	$390

Median Rental % Change



What does this mean for you?

- Higher vacancy rates indicate that demand in the rental market is declining. This can be a result of an oversupply in rental stock hitting the market, leading to lower rental prices and therefore impacting investor returns.
- Perth and Darwin have experienced a considerable decrease in median rents over the 12 months to June 2015, which can be attributed to the slowdown in the resources sector and indicates that both of these rental markets are oversupplied.
- Sydney has continued to hold the lowest vacancy rate currently sitting at 2.1%, suggesting that there is stable and strong demand in the rental market.

Demographics

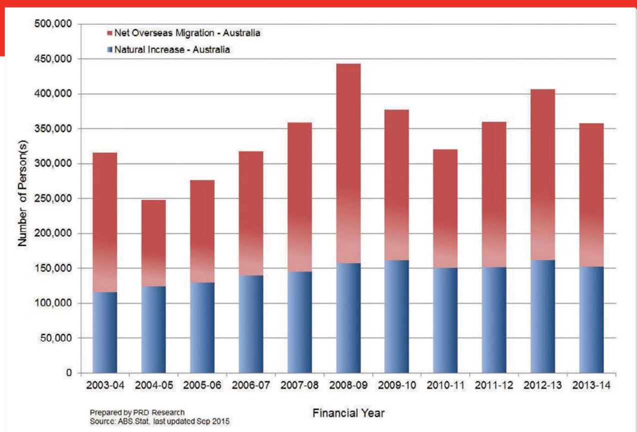
Decrease in net overseas migration may impact population growth and in turn, demand in property

Annual population growth has remained positive in each state over the 12 months to December 2014, with Victoria experiencing the highest growth at 1.7% followed by Western Australia at 1.5%. Meanwhile, Australia's natural population growth decreased by 6.4% in the 12 months ending June 2014.

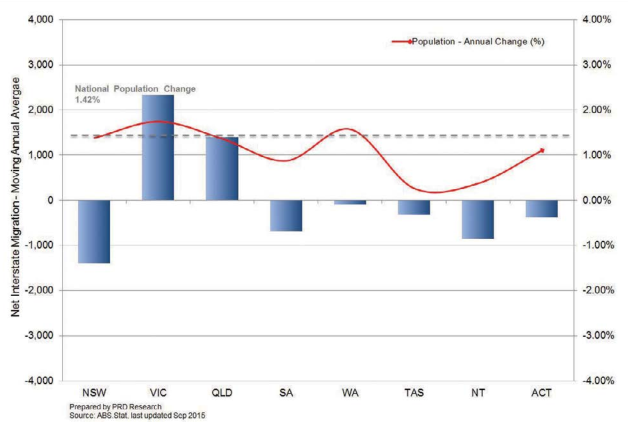
Australia has experienced a 15.6% decline in net overseas migration over the 12 months June 2014, decreasing from 243,827 to 205,823. Western Australia and the Australian Capital Territory have seen the largest decline in overseas migrants, down by 46.1% and 36.8% respectively. As at 30 June 2014, 28.1% of Australia's estimated resident population (6.6 million) were born overseas.

Interestingly, Victoria has remained the leader for net interstate migration, with an annual average of 2,334 residents moving to the state from other regions. Meanwhile, New South Wales has experienced the largest decline in net interstate migration of 1,393 residents.

Components of Popular Growth



Population Growth and Net Interstate Migration



What does this mean for you?

- The Australian population experienced an annual growth rate of 1.4% over the 12 months December 2014. However, the 2015 Intergeneration Report expects this to decline to 1.3%.
- Net overseas migration has decreased by 15.6% in Australia. A decline in net overseas migration will result in lower population growth rates and will potentially result in lower demand for property.
- Victoria has continued to maintain the lead in net interstate migration, creating more opportunities for property growth in the region. This may propel the state to a higher rise in the residential rollercoaster in the near future.

Glossary

Business Confidence Graph

The Business Confidence Index indicates expectations of business conditions for the upcoming quarter. The Index is based on a survey of approximately 900 small to large business in the non-farm sectors and is conducted by the National Australia Bank (NAB).

Australian Consumer Sentiment Graph

The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter. Based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac, it represents current and future perspectives of the broad economic climate and household financial state.

Inflation Graph

Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households. The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3%. The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel.

Housing Loan Interest Rate Graph

The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.

National Residential Construction Graph

This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85% of the value of both building and engineering work done during the quarter.

Housing Finance Commitments Graph

Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.

This graph tracks the value of loans approved for both owner occupiers and investors.

Unemployment Rate Graph

Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.

The labour force is defined as the number of people aged between 16 and 55 who were either employed or actively looking for work during the survey period.

This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.

RBA Commodity Price Index Graph

The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices, demand for housing and rental accommodation; particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia.

Dwelling Approvals Graph

Dwelling approvals indicate the number of new dwellings that have been approved for: construction of new buildings; alterations and additions to existing buildings; approved non-structural renovation and refurbishment work; and approved installation of integral building fixtures.

A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.

Time To Buy A Dwelling Index Graph

The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling. It is a component of the Melbourne Institute's Consumer Sentiment Index, which is undertaken monthly.

RP Data-Rismark Dwelling Home Value Index Graph

The Rismark Dwelling Home Value Index graph measures an annual and monthly change in dwelling values of the capital cities.

Home Loan Affordability Index Graph

The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.

Quarterly Vacancy Rates Graph

An industry benchmark for vacancy rates is considered to be 3%. Vacancy rates lower than 3% indicate strong demand for rental accommodation, whilst rates higher than 3% reflect an oversupply of rental accommodation.

Population Growth Graph

Population change tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.

Net Interstate Migration Graph

Net interstate migration tracks the net population change in each state attributable to interstate migration.

Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.

About PRDnationwide RESEARCH

PRDnationwide's Research Division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia.

Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

Our Knowledge

Access to accurate and objective research is the foundation of all good property decisions.

As the first and only truly knowledge-based property services company, PRDnationwide shares experience and knowledge to deliver innovative and effective solutions to our clients and stakeholders.

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections and strategic research collaborations. We focus on understanding new issues impacting the property industry such as the environment and sustainability, government policy and initiatives, the economy, demographic and psychographic shifts, commercial and residential design, and forecast future implications around such issues based on historical data and fact.

Our Services

PRDnationwide provides a full range of property research services across all sectors and markets within Australia.

We have the ability and systems to monitor market movements, demographic changes and property trends. We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

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Our People

Our research team is made up of highly qualified researchers who focus solely on property analysis.

Skilled in deriving macro and micro quantitative and qualitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the best considered.

Our experts are highly sought after consultants for corporate, communities, and government bodies; their advice has helped steer the direction of a number of property developments and secured successful outcomes for our clients and stakeholders.

Our services include:

* Advisory and consultancy
* Market analysis including profiling and trends
* Primary qualitative and quantitative research
* Demographic and target market analysis
* Geographic information mapping
* Project analysis including product and pricing recommendations
* Rental and investment return analysis
* Competitive project activity analysis
* Economic indicators
* Social science research, including empirical data collection methods

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Disclaimer

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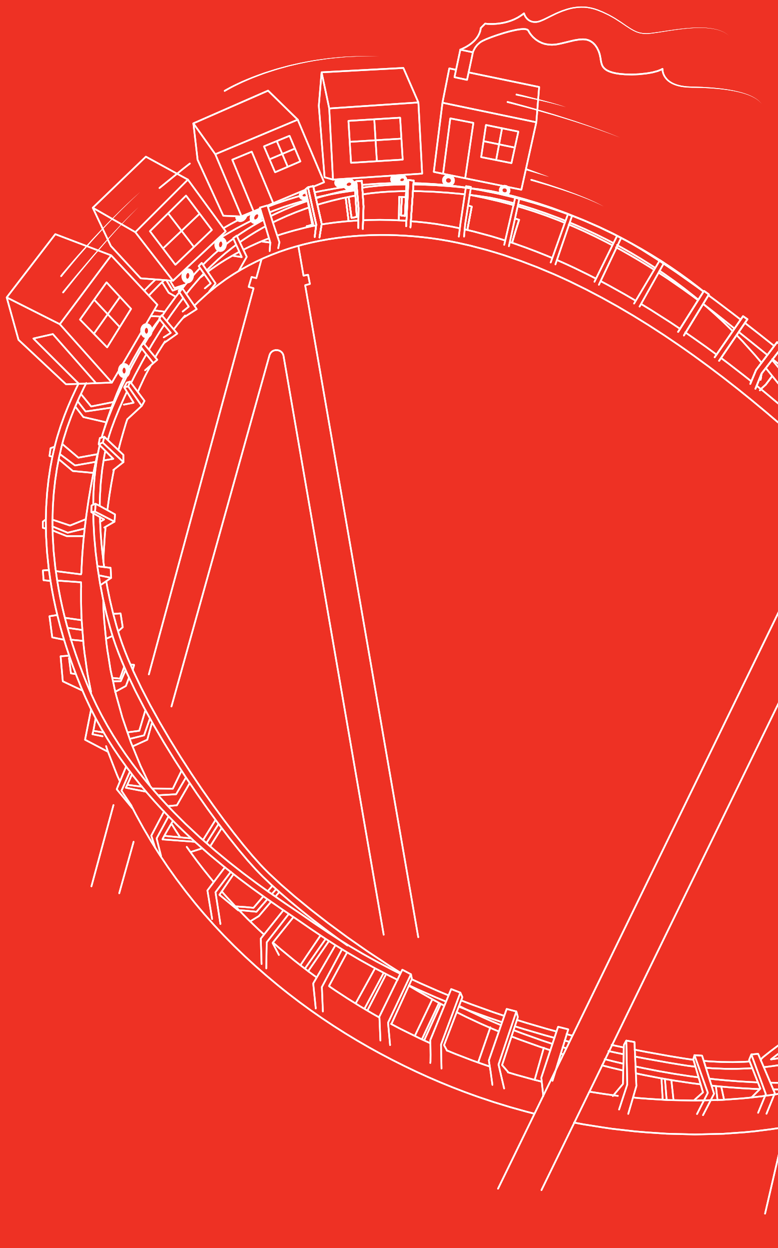

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