

The month in  
*review*

SEPTEMBER

2009



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Peace of mind for your property decisions.



# 'History Repeats'

## A look at First Quarters

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*The first quarter...* as the long, heady days of summer wane, and the fancy of spring becomes a distant whimsy, it seems only natural that this is the time when we take stock of the world and consider where we are in the scheme of things. No doubt if Socrates or Confucius were an economist (and they probably were – let's face it they had heaps of time to spare), the first quarter would be their favorite economic time zone. It is a moment in the year when most of the worker bee activity in various industries comes off the Christmas period celebrations and, as the hangovers clear, we all start gearing up for what might lay ahead. Resolutions are set and tea leaves read in an endeavor to see if we can make the coming year THE year we have all been waiting for. Somewhat ironically, most of us are also waiting to see how everyone else steps off the calendar blocks before we ourselves take the plunge into the property pool - just in case the water's a bit chilly.

As you would all be aware, the past three years have demonstrated the extreme highs and depressing lows that the market can deal out to those who sit at the table and ante up for a round or two. Many of the cool hands dealt in 2007 were getting their fingers burnt at the end of 2008... but to their credit (once mummy has applied the Savalon cream and Band-aids) it seems a few have once again begun to wager.

Given the relative uncertainty we currently exist in – it appears markets are up, down or sideways depending on which headline your local broadsheet dishes up – we thought we might look at whether there has been any consistency in performance over the past three years. We have endeavored to gather some evidence and reach some conclusions as to how Quarters Numero Uno performed for 2007, 2008 and 2009 around this great brown land.

Each Herron Todd White office has gone all hunter/gatherer on the data and put together the number of sales that occurred in their given locale broken into categories reflecting 3 distinct price bands. While the total number itself provides compelling evidence, it is always the breakdown which weaves the magic.

Best of all because our lasses and lads are daily on the ground and checking the trail, the cold hard numbers can be translated into easily digestible examples of the market performance – not too shabby for readers who prefer it when a little color and light invade the dull grey of digits.

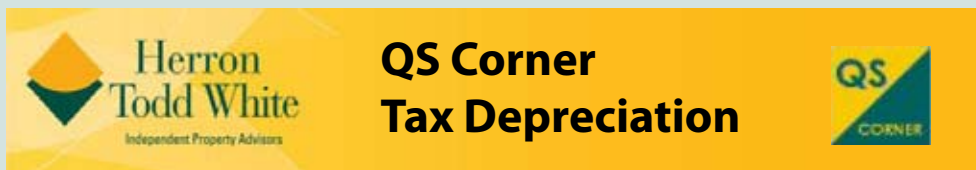
To help those of you with a commercial bent get into the fray, our sure-footed sages balancing on the business end of the property spectrum have put retail firmly in sight and taken a shot at how it has performed both past and present. Once again you'll find unbiased, insightful market knowledge that should set you straight on the shopping property horizon.

We hope that this journey back to the future of property will prove the perfect launch point for your present portfolio ponderings, but why stop at all that alliteration? Pick up the dog and bone and give us a buzz – there is a Herron Todd White professional at the other end of the line raring to go and fetch all you require to answer your major real estate quandaries.

...Now, has anyone seen the keys to the DeLorean?...

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## ARE YOU PAYING TOO MUCH TAX?

### INVESTMENTS MAY YIELD EXTRA THIS FINANCIAL YEAR THROUGH TAX DEPRECIATION

Herron Todd White property specialists are often surprised by the number of property investors missing out on the full financial benefits available under taxation legislation for depreciation allowances for investment properties.

We estimate about 70% of property owners are unaware of the benefits available to them by simply having a tax depreciation schedule prepared for their investment property. Basically, a depreciation schedule is a report that outlines the depreciation allowances property investors are entitled to under the law.

So don't miss out! There are a number of ways you can reclaim some of your tax dollars by knowing what is available to you, especially mum and dad investors. Tax depreciation can be claimed once a property becomes income-producing; for example from deriving an income through tenancy or business-related income.

#### ATO allowable deductions

Under current Australian taxation legislation deductions are allowed for the depreciation of residential dwellings built after 18th July 1985, including structural improvements built after 26th February 1992 (claimable under Division 43) and fixtures and fittings of any age (claimable under Division 40).

The Australian Tax Office allow deductions for depreciation on the main building itself, any structural improvements and fixtures and fittings such as kitchen appliances, floor coverings, hot water system, air-conditioning units and so on. The amount of these deductions depends upon the age, size and quality of the property, however generally they are in the order of \$4,000 to \$10,000 per annum for a modern house, whilst an older house may still receive \$1000-\$2000 per annum in deductions. This is a significant tax deduction each year!

Plant and Equipment (P&E) can also be depreciated in a commercial building, including floor coverings, air-conditioning, exhaust fans, staff amenities etc. In Division 40, the P&E is depreciated at an accelerated rate; thus greater than the flat rate provided by division 43.

Under relevant legislation, Plant and Equipment can be re-valued and given a new effective life from the date of settlement; meaning for each new owner, the clock starts afresh.

Ninety-eight percent of investment properties can be depreciated, meaning virtually every property investor can benefit from getting a depreciation schedule. Even though a building may not qualify for capital allowance because of its age, there will almost always be worthwhile deductions under Plant and Equipment to deliver savings to the investor.

#### Who do I call?

Herron Todd White can help you with a number of 100% tax deductible services at this time of the year including:

- a detailed site inspection of your property by a suitably qualified inspector
- identification and maximisation of Division 40 Plant Allowances
- preparation of a construction cost estimate for the purposes of determining Division 43 Capital

#### Allowances

- inclusion of latest legislation and ATO interpretive decisions.



## Residential Overview

In the cycle of a year the residential market is prone to micro peaks and troughs that repeat each annum. The post Christmas quarter is often a time of reflection for property players who are taking into consideration whatever developments were deemed important at year's end on the previous calendar. The best way to interpret how markets are performing generally is to take in the same quarter results across a variety of years which is exactly what our offices have done in this edition of the Month In Review.

Many of the results on the surface may not surprise but it is interesting to see how the different price points have interpreted their markets. There often appears to be a driving sector in one quarter that has had to rest itself come the next. Fortunately our professionals have been able to take the data and in most cases, attach it to real life experiences to help paint the picture of the markets movements.



## Sydney



The graph is a fair representation of what has occurred in the Sydney residential market over the last three years, especially in light of what has occurred post-Global Financial Crisis (from October 2008).

With historically tight vacancy rates and increasing

rental returns in 2007, investors were being lured into Sydney property market. As demand for housing continued to grow whilst supply of new housing stock remained subdued, house prices and sales were seen to head upwards. Though family income and national employment level were at a record high, the cost of living was also heading north. The rising cost of food and petrol combined with interest rate rises started to leave consumers with little spending power thus left pressures on their mortgage debts.

House sales dropped in the first quarter of 2008 in all three sub-regions assessed. This was mainly due to inflationary pressures and the upward movements in interest rates that were causing consumers to lose confidence in the market and think again before taking out new loans. The budget sector of the Western region such as Campbelltown and Liverpool were beginning to suffer from mortgage stress and were forced to sell their properties for less than they paid few a years ago.

To help stimulate the economy after being hit by the Global Financial Crisis in the second half of 2008, the government spent a total of \$19.7 billion across a range of packages aimed to keep the economy out of recession, one being the first home owner stimulus. The introduction of the stimulus in the first quarter of 2009 and the cut of interest rates opened doors for housing affordability. The further first home owner grant boost also provided renters the additional incentive to become property owners themselves. This has had an immediate effect on demand at the lower end of the price range in Sydney (in price bracket 0-\$500,000) and therefore saw an increased amount of transactions in that sector compared to the other sectors.

Agents have been reporting between over 100 people and, in some instances, 150 people going through properties over the duration of a sales campaign. This is all expected to end once the incentives are withdrawn and interest rates begin their inevitable rise. Still, investors and the more patient first home buyers may fill the breach.

In the inner Sydney sector in the mid-range - \$500k to \$1million – the flat line of the graph pretty much says it all: Steady! Home owners upgrading from units are

buying into this market, as are home owners seeking some financial relief from the upper price bracket. More stringent lending criteria is helping to keep a lid on expectations.

The Central West Sub-region middle sector has shown some exceptional growth in the first quarter of 2009. The increased first home buyer's activity has lead through to stronger demand for people upgrading to their next property thus increased activity in the upgrading market.

For properties over \$1million, where the line falls away post Global financial crisis, the number of sales have fallen from the all-time highs of the mid-2000s. (Sales over \$2 million in inner Sydney would show an even more dramatic drop.) This also has a lot to do with the fact that a lot of properties were overpriced to begin with and vendor expectations were not reduced accordingly. Those that could afford to hang onto their properties simply withdrew them from the market. Of those who had more pressing reasons to sell, like share market falls and margin calls, valuers reported a higher than usual number of resales with the prices routinely falling 10%. Demand also fell away as more stringent lending criteria would not support purchases.

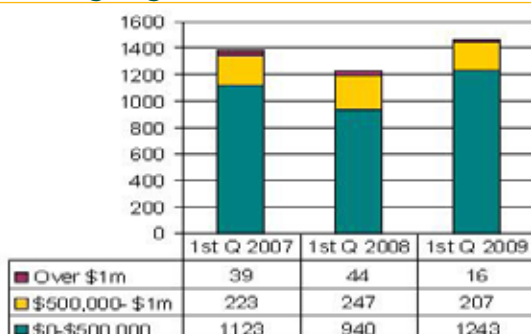
Sydney, home to 25% of Australia's financial employees, has probably felt the Global financial crisis more keenly due to job losses and the loss of some quite hefty bonuses. More rigorous lending criteria squeezed potential purchasers even further, lowering property ambitions somewhat. Previously, agents always reported that the bonus season preceded bumper sales in Sydney.

The Prestige residential sector in all the the outer sub-regions of Sydney have remained pretty stagnant over the past 3 years. They were not affected by the recession and unemployment like the other sectors due to their job security and high income earnings.

The property market is now performing well and is showing some healthy signs in these sub-regions mainly due to low interest rates and home owners grant. It should be noted that such economic factors will continue to have an impact on the number of house sales and any significant change to any of them could impact the property market significantly.



## Wollongong



As many pundits would have predicted the sub \$500,000 market i.e. first home buyers market has had a sharp increase in sales transaction over the 2008/2009 period. This is the first real upswing in transactions since the inception of the Global Financial Crisis in 2007 and has been predominantly based on the incentives generated by the government grants. The mid range market has seen sales transactions remain fairly consistent in the Illawarra hovering around 200 to 250 sales for each first quarter since 2007. Unlike the mid range market which seems to be holding on, the prestige market above \$1 million has seen a drop in sales transactions from the first quarter 2008 to the first quarter 2009.



An obvious stand out performer has been the resurgence in the lower tier market of the first home buyers over the 2008/2009 period. High turnover levels have been directly correlated to that of the government incentives and are indicative of what the market has been doing over the last 12 months. Turnover has also been boosted with many tenants looking to move out of the rental market and become first home buyers. The feed back upon inspections is that many tenants are finding that paying off a small mortgage is almost as affordable as paying the exorbitant rents that are being asked of them. The consensus amongst real estate agents at this point in time however is that the Illawarra is experiencing a drying up of stock. The message from many real estate agents is that the struggle for 2009 is in sourcing new listings. An ideal example of these exuberant turnover levels is seen in a unit at 5 Princes Highway, Figtree 2525, this property sat on the market for 2 and a half years with three different agent since 2006 and sold as soon as the first homebuyers grant came to fruition in 2008.

The mid range market has shown to be performing fairly consistently in terms of sales transactions since the inception of the Global financial crisis. Despite stock turnover being fairly consistent, we are generally not seeing values on the rise and it is unlikely to see any significant upswing while equity markets remain volatile and there is an uncertain future and employment outlook. The results of the data published in the graph is indicative of the mid range market and its performance right now showing low levels of stock turnover.

As the graph demonstrates, sales transactions in the prestige market have been in sharp decline since the first quarter 2007. Limited equity and the drying up of available capital have continued to put pressure on the turnover of prestige stock. Few examples exist in the Illawarra area of these high-end transactions, being mainly limited to the northern suburbs, and around Kiama and Berry in the south. The capital is generally Sydney based and tends to be either the grand retirement mansion or in some cases a second 'holiday' house. Any of these grand mansions in the Illawarra proper are generally those built by builders for their own home.



## Canberra

Canberra's property market has seen mixed results over the last three years when comparing sales activity in the first quarter of each year. From the graphs above, it can be seen that properties in the sub-\$500,000 market tend to form the greater volume of sales. Activity and prices for property increased markedly throughout 2007 with strong demand and reduced supply. The peak in the market was observed through mid-late 2007. The decrease in sales in the first quarter of 2008 was in response to what had been higher interest rates. As reflected above, the impact was most notable in the sub-\$500,000 bracket. On the other hand, sales of properties with a value greater than \$500,000 actually increased by some 8% supporting the argument property owners on higher income levels are less affected by increases in interest rates.

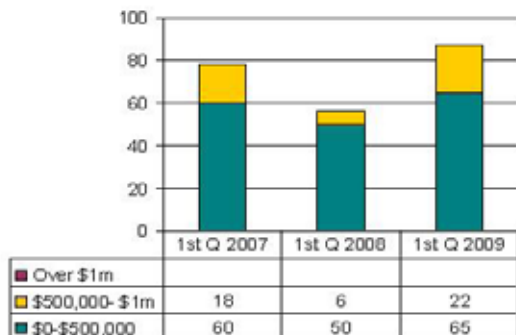
The Reserve Bank's decision to reduce the cash rate from March 2008 through to April 2009 to help stimulate economic activity and the Federal Government's initiative of increasing the First Homebuyers Grant helped incentivise demand. The result is reflected in the graph for the first quarter in 2009. Once again the sub-\$500,000 bracket of property provided the greatest activity with sales increasing by near 18% compared to the same quarter in 2008.

Currently Canberra's property market continues to strengthen particularly at the lower end, in response to a supply of more affordable housing developments, lower interest rates and Government incentives. Strong employment, population growth and high disposable incomes continue to provide sound fundamentals to the Canberra property market.



## Central, North and West NSW

### MUDGEES



From the above figures it can be easily seen that the number of properties has increased in 2009. This is mainly due to the increase in first home buyer activity from the FHOG doubling from \$7,000 to \$14,000 or \$21,000.

The lower to middle market is performing the best due to the FHOG which in Mudgees ranges from \$185,000 through to \$350,000. There has been a small flow on effect

to second and third home buyers looking to upgrade and selling their home to a first home buyer.

*...I would say that 95% of properties sold currently, are at a similar price or more likely increased than they were 3 years ago....*

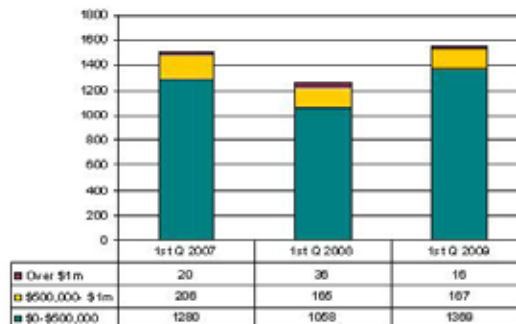
This data is reflecting what local agents have been saying over the last 3 to 6 months. This can be most clearly seen by the limited stock which is now available for first home buyers - very few. When the grant finishes on September 30 we may see a decline in this market.

I would say that 95% of properties sold currently are at a similar price or more likely increased price than they were 3 years ago.

As mentioned above the Mudgee market is performing well, especially in the lower to mid market ranges. I am confident this will continue in the very short term, however it may decline over time.



## Newcastle



The above statistics on house sales made within the Newcastle and Lake Macquarie Local Authorities show that after a lull in 2008 house sales have again strengthened in 2009. This strengthening is largely due to the increase in activity at the lower end of the market that has been primarily driven by the doubling of the government's First Home Owners Grant. We have seen houses sale volumes below \$500,000 increase from 1,058 in the first quarter of 2008 to 1,369 in the first quarter of 2009, however there has been no increase in the middle market and the prestige market has seen volumes fall from 36 in 2008 to only 16 in 2009.

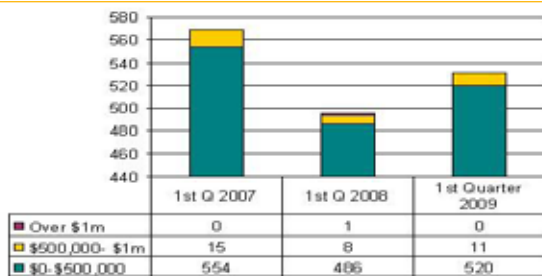


It will be most interesting to see where sale volumes go in the first quarter of 2010 when the First Home Owners Grant returns to \$7,000. We would suggest that sale volumes will fall, particularly in the sub \$500,000 price bracket, and we may see median values also fall. The governments desire to see the increased activity in the

lower end of the market transfer through to increased sales in the middle market has not occurred and we can only guess as to what may occur in the middle and prestige house markets.



### Southern NSW and Northern Vic



### ALBURY

The Albury-Wodonga property market has experienced continued stabilisation over the past 3 years, however, last year saw residential property prices across the board come back approximately 10-15%, and these reductions were felt in the budget, middle and prestige sectors. In early 2009 this was still evident due to the global financial crisis, giving rise to the many uncertainties this major problem was, and could have on property sectors across Australia. In recent months, consumer confidence has improved through increased job security, continued reduction of interest rates and the extension of the First Home Owners Grant. Within our region prices are at affordable levels for many families and individuals. Properties are currently being offered by both private treaty and auction. This spring we will be able to discover if our property prices have really taken a hit from the "boom" in 2004-2006.



Central red brick/renovated dwellings are still popular within the market place. For a typical Californian bungalow with four bedrooms, ensuite and two living areas, vendors are receiving between \$450,000-\$600,000, depending on position, quality and fit-out. Discussions with local agents have indicated that there is an increase in demand for these types of properties.

Local agents are reporting that few investors are taking advantage of the current slow market, despite State and Federal Government incentives and continue of low interest rates. "If the property is located in the right place with right the price, and purchaser has right reason to buy, we are still selling!" Local agent.

### WAGGA

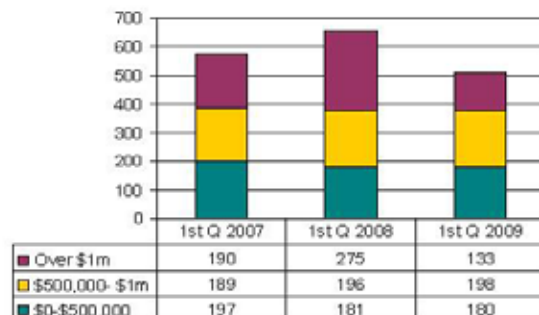
The sales statistics from 2008 and 09 definitely reflect our thoughts on where the Wagga market currently is - which are that the market is moving along at a steady pace, particularly in the budget to medium sectors. The price brackets in the graph make it difficult for us to comment accurately on just which of the sectors is performing the best, as the bulk of our residential market trades for under \$500,000. We feel that the low to mid range markets have been boosted by the First Home Owners Grant, and this has driven the bulk of the sales in our market. Local agents have recently been reporting that they are receiving an increased level of enquiry about rural residential properties and also a slight increase in the demand for \$350,000+ dwellings. Overall, the Wagga market is looking healthy at present, so lets hope it continues!!

### GRIFFITH

The number of sales has decreased over the past three years. The market which has experienced the largest decline in the volume of sales is the prestige market. The budget markets have continued to tick along and the middle market is steady, but lacks the momentum of the past. The sector which is doing the best at present is the first home buyer sector, anything cheap and cheerful is still getting a good reception. The market over the past three years has been impacted by prolonged drought and associated employment uncertainty, a lack of irrigation water entitlements, the financial crisis and a general affordability struggle. But on the whole when you considered the combined impact of all mentioned factors the market has held up reasonably well. A contraction of between 5-10% on average over the long term is a bump in their road, but if you had to sell and purchased within the last few years is has been said is like getting in the ring with a heavy weight boxer, a beating waiting to happen.



### Melbourne



In an effort to provide expert knowledge on this subject we have taken a snapshot of a portion of Melbourne suburban sales activity and concentrated our efforts in the municipality of Boroondara, considering the municipality has the highest aggregate value of residential property in Melbourne, though does not containing the highest valued individual residential holdings.

Boroondara is situated on the eastern edge of inner suburban Melbourne, leading out from the Yarra River,

sitting in between the Eastern and Monash Freeways. Housing tenure comprising owner occupied properties is approximately 65% of all residential stock.

Within Boroondara we have selected the following suburbs to focus on: Hawthorn, Hawthorn East, Kew, Camberwell, Canterbury and Balwyn and commented on the state of the residential market at the present within particular value parameters. Less than \$500,000; \$500,000 - \$1,000,000; and \$1,000,000+ and also their performance during the first quarters of 2007, 2008 and 2009.

Certainly the very low housing interest rates have contributed to increased market activity within all sectors, as appears common across Australia. The assistance to first home owners has not only caused a spike in the interest of those properties under \$500,000 but has had a carry over affect into the next value sectors, though not with the same impact. Many of those who sold out of the lower end of the market have transferred into the next value sector.

In some instances money has been moved from the share market back into this lower end property. Within the targeted suburbs of Boroondara there has been significant interest from overseas buyers for several years, however with the easing of foreign ownership regulations we have seen an upsurge in predominantly Chinese purchasers.

Boroondara has the highest concentration of private Schools in Australia and some highly recognised State facilities, both secondary and tertiary. It is now not unusual for the majority of interested parties at an auction or open inspection to be of overseas origin.

The reasons are basically a safer economic environment, excellent educational facilities and the real potential of gaining permanent residency, more than generous concessions to foreign investors by our Government.

The Chinese government media recently branded the Australian Government and its people "Sinophobic". I would suggest that is more "Sinofriendly", particularly in relation to allowing up to 50% of all properties sold in our target suburbs to be owned by foreign nationals to the detriment of the traditional purchasers.

While some of the purchases are within market value tolerances, most are at the top end and above, this effectively excluding local purchasers. The level playing field no longer exists. I believe that a similar situation occurred in parts of Sydney.

It's a bit like playing AFL and kicking into the wind for 4 quarters. The chance of a favourable outcome for the local purchaser is significantly reduced. (I wonder what Gordon Ramsay would say about this?).

Real Estate investment in these particular suburbs could be considered to be gilt edged over a relatively short period of time.

We keep being told: Location, Location, Location.

On reflecting to our past first quarter results within the designated value levels, median residential values and overall variation are shown in the chart below:

It would appear that the only sector that has withstood the storm to March 2009 has been the lower end of the market.

First quarter results by numbers of sales transacted show an even spread over the value sectors when we include all the sales above \$2,000,000 within our \$1 - \$2 million group, our highest value sector.

For the first quarter of 2007 all appears well and the market, while strengthening through 2006 to this point, still has much improvement as it makes its way towards the end of 2007.

Given generally the higher valued property that exists within the suburbs in this snapshot, those in both groups under the \$1,000,000 threshold are almost selling at the same numbers as the first quarter of 2007.

There is however a spike of some 45% in the \$1,000,000+ sector in 2008, due both the socio economic standing of our suburbs under review and the carry-over effect and brisk trading at the end of 2007. Many of the properties sold in the first quarter of 2008 were probably locked into sales and marketing agreement towards the end of 2007. People realised that the prices being achieved were too good to be true and wanted some of the action.



This was short lived however as the upper end contracted by a massive 52% through the first quarter of 2009. The Global Financial Crisis embedded itself in the economy and outlook.

The two sectors of less than \$1,000,000 continue on with little deviation in numbers from 2007 to 2009. Probably due to the lower number of properties at the lower value level within our suburbs.

In contrast to this, the current market statistics indicate the residential market has bounced back and this will probably continue to occur while interest rates stay low.

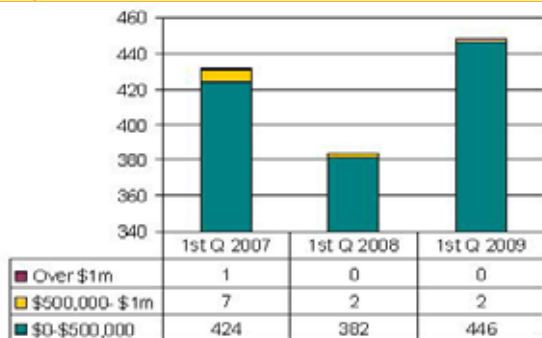
Buyers are re-entering the market in force, with Melbourne's clearance rates at an all time high, of around 80%. The government's stimulus package appears to have worked in part, with renewed confidence in the stock market pointing to general business and consumer confidence.

The litmus test for the market will be after September 30th when the First Home Owners Grant grinds to a halt. The October/December quarter, traditionally a strong period for real estate sales activity will be watched by many property professionals.

Of course there is only one way the interest rates can move and the quantum will impact on the future state of the market.



## Regional Vic



Headline to local newspaper: "Mildura real estate agents suffer burnout in July". July is a month that is traditionally slow, dull and boring in the local market, but not this year. 164 sales this last month compared to 91 in July 2008.

What has caused this you may ask. One simple answer – first home buyers. Boy, are the house/land package builders in Mildura going to be busy for the next 9 months. Signatures are going on contracts on a daily basis before the First Home Owners Grants are likely reduced at the end of September. Activity is centred on the three bedroom, two bathroom compact 150m<sup>2</sup> brick veneer houses in the \$240,000 to \$270,000 price range.

One house/land package builder presently has 25 houses under construction and commitments for a further 25 houses to commence in the next 6 months. Builders however that cater for the mid to high end of the market have been quiet and this is likely to continue in the short term at least.

Residential sales in the Mildura area softened earlier than capital cities and commenced a downturn in mid 2007 following major water restrictions due to the drought and Murray River water crisis. The downturn in both volume of sales and values continued in 2008, and whilst values in 2009 have remained soft, average monthly sales activity has increased by over 20% this year.

Nearly all sales are in the under \$300,000 price bracket with only 11% of sales this year above \$300,000.

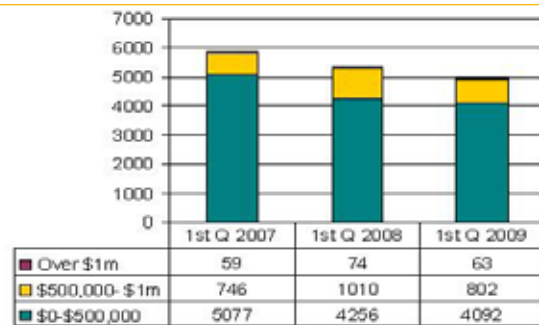
*...residential sales in the Mildura area softened earlier than capital cities...*

The top end of the market has been very quiet and a number of Murray Riverfront properties in the over \$1 million price bracket are on the market with limited interest.

The future residential outlook of the region will be dependent on the water crisis, population growth and employment opportunities. The construction of the proposed solar power farms (over \$1 billion in construction costs) over the next 2 years will benefit the market should they eventuate.



## Adelaide



Comparison of the volume of residential (house) sales in the Adelaide metropolitan area over the last three years shows a steady decline. This confirms the widely held view that the market has slowed considerably across the board, initially as a result of tightening fiscal policy but more recently as a result of global economic turmoil.

A closer look at the sectors within the comparison shows that the decline is largely due to a reduction in the number of sales in the 'budget' sector (<\$500,000). This sector dominates the statistics and accounts for in excess of 80% of the data for each of the last three years. It is also the sector that is most affected by the current economic climate, rising unemployment rates and tightening of lending requirements.

Another factor that may have contributed to the decline in sales in the first quarter of 2009 is the First Home Owners Grant Boost which has encouraged the building of new homes in preference to the purchase of existing properties. As the First Home Owner Grant is wound back to \$7,000 in September, there is speculation that the volume of house sales will slow further, although interest rates and unemployment rates are likely to have a greater impact on the housing market in South Australia.

The volume of sales in middle (\$500,000-\$1m) and prestige (\$1m+) categories have stayed remarkably similar over the last three years with the exception of a minor increase in 2008. The proportion of sales in the mid range has steadily increased from around 13% to 16% of the total. This is possibly attributable to the value of houses increasing generally during this time and moving between the various sectors – this may also account for some of the decrease in volume in the budget sector.



An interesting element to the data is to note the movement of the average house price within each of these sectors as illustrated in the graph above.

The data confirms the observation that residential house values in the medium and upper brackets across the Adelaide metropolitan area are stabilizing.

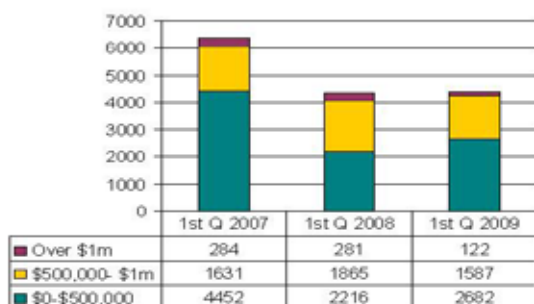
Values at the lower end of the market have held their 2008 values due to the current low interest rates in combination with the First Home Owners Grant and Boost. This sector is also the most volatile and is the mostly likely to be impacted by increasing unemployment rates and increases in the cash lending rate.

South Australians have the lowest average mortgages in the country, well below the national average. Coupled with historically low interest rates and the relatively stable housing market allows consumers to feel a certain level of security and therefore provides more inclination to spend rather than save discretionary income.

The biggest impact therefore on our retail sector is more than likely to be an increase in the mortgage lender rates which are widely expected to occur towards the end of this year. This may be the result of fiscal policy or an autonomous decision by the banks.



## Brisbane



The great southeast has been a city on the grow for a few years now and while our highs and lows are less dramatic than those of the big city southern state centres, we are still reflective of markets around Australia.

Our 1st quarter sales graph reflects results experienced on the ground by our valuers. 2007 was a bumper year that caught many players off guard. We had come off a heady run at the end of 2004 that levelled off into the 2005 and 2006 market. It seemed that that there was plenty of pent-up pressure from those buyers who couldn't ignore the relatively affordable cost of borrowing and the strong first quarter results for 2007 were the start of a solid 10 to 12 month run that that kept most of us on the hop. Sales in the affordable end of the spectrum drove us along happily – keeping in mind that \$500,000 was still reasonable amount of change with which to hit the Brisbane market.

Those upgraders in the mid price bracket made up about 25% of sales with the heady \$1M+ providing a reasonable market share given that in Brisbane your dollar can still do dramatically more than it would in Sydney's central suburbs.

The 2008 results were a little more subdued and not surprisingly. The 2007 heat had cooled a little heading into the Xmas period and it was time to see if it could crank up again for the new annum. Based on the previous 12 months, it is no surprise that buyers tread a little more cautiously at the start of this year. The prestige market was probably the most bullish of the sectors with an increase to 6.44% of the market share as opposed to 4.46% the year before. The GEC was many months away and everyone was still set to enjoy the good times. While the sale numbers were down, confidence was high as plenty moved towards upgrading. The number of half to one million dollar buyers rose only marginally but their presence was well up in the market hence increasing their market share by around 17%.

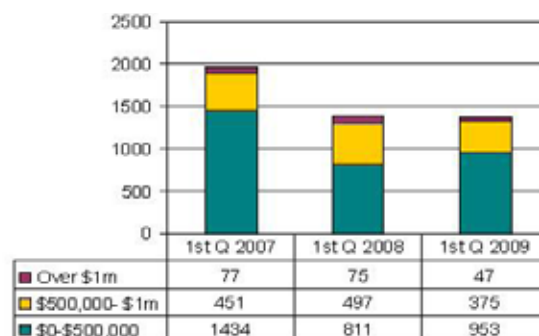
The results for 1st Quarter 2009 show just how frightening the global slowdown became. The number of sales of \$1M plus properties should have risen by rights of capital growth but the uncertain times saw the number of actual sales more than halve and the percentage of overall activity fall from a 2008 market share of 6.44% to a paltry 2.78%. The first home buyers were all keen to get in before the government grants came to an end and so drove the market hard picking up 61.08% of the market. It is evident most of these buyers were cleaning up the stock left behind by frightened investors, so the number of sellers offloading their sub half million dollar homes and upgrading closer to the \$1M mark were relatively low – most were keen to just wait and see what happened with their job prospects.

Changes afoot since the start of the year include an increase in the number of \$1M plus transactions – it seems confidence is returning. Second home buyers are still a little subdued but first home owners are keen as. Some recent stats indicate first home buying owner occupiers have increased their market share in QLD from 15% to around 28% this year which is keeping the rest of us extremely pleased – Go you good things!!



## Gold Coast and Tweed Coast

### GOLD COAST



The overall residential real estate market on the Gold Coast softened noticeably through the course of 2008 and the first half of 2009, following the relatively buoyant market conditions which prevailed in the previous two years, peaking in late 2007.

The world economic and financial markets are currently facing an unprecedented crisis, including a catastrophic fall in the share market, and as a result the Australian economy has eased significantly over the past 12 to 18 months. The current period has seen a significant softening in both business and consumer confidence and real estate investors (and financial institutions for that matter) have genuine concerns about job security, rental returns, future capital growth prospects and ultimately the ability to service mortgage debt.

In an effort to stabilise the economy, promote growth and avoid a recession, the Federal Government and the Reserve Bank of Australia instigated various economic stimulus measures during late 2008 and early 2009, including successive reductions in official interest rates by a combined 4.25%.

It appears that a combination of record low interest rates and falling property values, together with the increased Federal Government provided First Home Owners Grant, has resulted in increased activity for lower priced residential property on the Gold Coast during the first six months of 2009. This firming in market conditions typically relates to houses and units below a \$400,000 price point.

However there is concern that this market segment is being somewhat artificially inflated at present, in an otherwise soft economic and real estate climate. With unemployment on the rise and with the overall economy continuing to ease, sale prices and sale volumes in the lower priced bracket may not be sustainable at present levels, particularly if interest rates were to rise and/or once the Federal Government scales back the increased First Home Owners Grant during the second half of 2009.

As the graphic indicates, sales volumes have decreased in the last 3 years, with some sectors of the market performing poorly. The worst performing sector of the market, particularly in the last 12-15 months has been the prestige end of the property market which typically represents properties with a market value in excess of \$1,000,000.

The budget end of the market, say below \$500,000, has also seen a reduction in sales volumes, however the reduction in the last 12-15 months has not been as severe as the reduction between the first quarter of 2007 and the first quarter of 2008. This sector of the property market on the Gold Coast has been underpinned by the low interest rate environment and also the government stimulus injected into the economy late in 2008.

The middle market, say between \$500,000 and \$1,000,000 has also softened, not just in market value but also in sales volumes. There appears to have been an influx of new buyers into this sector of the market since the start of this year. These buyers are generally second home buyers who have taken advantage of the performance of the sub \$500,000 price segment.

It is unlikely that current figures would indicate an improvement in sales volumes over the second quarter of 2009. Selling agents are indicating a decrease in listings, however this is generally constrained to properties with a market value less than \$400,000. Generally, the higher the list price, the greater supply exceeds demand. It is

also possible that the small “bubble” at the budget level of the property market, created by low interest rates and government stimulus, may be burst by any future rises in interest rates and unemployment.

## TWEED HEADS

The overall residential real estate market on the Tweed Coast performed almost in line with market conditions on the Gold Coast, typified by a softening in market values through the course of 2008 and the first half of 2009, following the relatively buoyant market conditions which prevailed in the previous two years, peaking in late 2007.

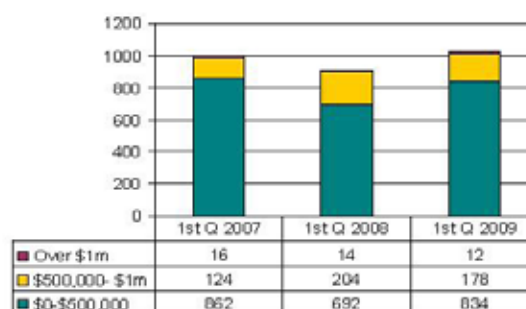
The Tweed Coast, unlike the Gold Coast, is dominated by housing for less than \$1,000,000. The above graphic illustrates this. The prestige housing market is generally restricted to the beachside estates of “Salt” and Casuarina. Market values in these estates have dropped in the past 15-18 months, as have sales volumes.

Not surprisingly the middle markets have also suffered similar fates to those on the Gold Coast with a decrease in sales volumes. Again similar to the Gold Coast, over recent months there has been a noted increase in activity in this sector of the market. Selling agents are reporting most interest is coming from second home buyers upgrading, however some interest is also being shown by those looking to downgrade and reduce debt levels.

The first home buyer market in the Tweed Coast area is generally restricted to properties less than \$350,000. First home buyers have been quite active since the end of 2008 with government incentives and low interest rates. This is reflected in the sustainability of sales volumes in this sector of the market. The Tweed Coast region has a greater percentage of property at the affordable end of the market when compared to the Gold Coast. For this reason, buyers in this sector of the market are now coming from north of the border.



## Sunshine Coast



There is nothing like a good statistic. They can tell many things, and with some statistics you can even make them say what you want. Reviewing the volume of sales and the price distribution in the first quarters of the last three years paints an interesting picture.

There is no doubt that there is a significant decrease in the volume of sales occurring from 2007 to 2008 with a reduction of approximately 30% being experienced. With

the benefit of hindsight, it is clear that in this period is where the market started to unravel. Incredibly from 2008 to 2009 the volume sales held ground. This has basically occurred on the back of the various government stimulus packages and stamp duty concessions as well as the boost to First Home Owners \Grant. Interesting data to review are the sectors of the market that helped us achieve those sale volumes.

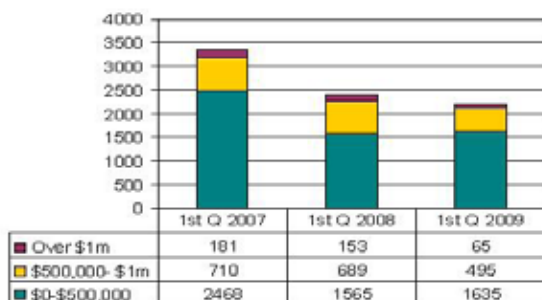
The price distribution in the graphs shows us that the lower price levels in the sub \$500,000 range are where most of the activity has occurred. This sector has increased by approximately 18% from the previous year's level. First home buyers have been one of the main drivers in the market taking advantage of the boost to the First Home Owners Grant. With this increased level of demand, we have seen properties in this sector increase in value, with the majority of increases being significantly higher than what the grants actually allows. It is questionable if these price increases are sustainable once the first homeowners boost ceases in September.

The market above \$500,000 has been hardest hit on the Sunshine Coast. The first sector being \$500,000-\$1,000,000 shows us that there has been a decrease in the volume of sales of 25%. The million dollar and above range shows the volume of sales has fallen by approximately 38%. Consumer and business confidence is one of the major impacts on demand in this sector. With this fall in demand and the significant levels of supply on the marketplace, with inevitability experienced a reduction in values. An example of this is a property at Noosa Waters which was purchased in October 2006 for \$3,770,000. This property has now being resold in May 2009 for \$3,125,000, indicating a decline of approximately 20%.

At present, there are some great opportunities out there. Certainly properties in this upper price sector have become more affordable. Subsequently, we are seeing more sale contracts and interest being experienced over recent weeks. We also have noted that investors are starting to become interested. We do however advise that buyers are being very cautious, given the flagging of potential interest rate increases in the future.



## Southern Queensland



## TOOWOOMBA

Sale statistics indicate that sales volumes in Toowoomba have generally been declining since 2003 to a low in 2008 with an increase more recently in 2009. The majority of

residential sales in Toowoomba are under \$500,000 with only around 5% of sales above this level.

The factors which have influenced the local market have generally been;

- The announcement of the restructuring/reduction of the First Home Owners Grant,
- Low interest rates,
- Housing affordability,
- Low unemployment,
- Strengthening in the agricultural/mining/energy sector,
- Increasing availability of builders for renovation and extensions.

It is considered that these factors will continue to have a positive affect on our performance moving forward.

Recently the market under \$350,000 has been strong, with the \$350,000 to \$500,000 price range considered to have levelled off. Property above \$500,000 is showing a possible softening in values and volumes.



The following examples show some individual scenarios;

A modern house in Rangeville recently sold for \$550,000 after a 9 month marketing campaign and was originally purchased in 2006 for \$591,000.



A small character house in North Toowoomba recently sold for \$235,000 after a 6 week marketing campaign and was originally purchased part renovated in 2003 for \$135,000.



Historically the eastern suburbs are the better performers where this year Rangeville and Mount Lofty have shown good growth. Overall the Toowoomba market continues to strengthen after a bottoming out in sales volumes in 2008. This growth and strength in our market has generally been underpinned by affordable housing and

supported by the growth in our agricultural / mining and energy sectors.

## IPSWICH

At the beginning of 2007 the residential property market in Ipswich was getting its second wind from the initial boom period between 2002 and 2004. Although sales volumes did not quite reach the peak of 2003, the median price for the region soared. The first quarter of 2007 had a total of 956 sales and a median price of \$247,500. This unprecedented growth continued throughout 2007 until reaching its peak in the first quarter of 2008.

Sales volumes in the first quarter of 2008 declined to 707, however the median price grew to a record high of \$310,000. The median price increased by 25% over twelve months and the market had once again reached its peak. Throughout 2008 the market was in decline with sales volumes totaling only 612 in the fourth quarter and the median price reducing to \$290,000. Although the First Home Owners Grant was increased in the middle of 2008, the full effects of this were not felt until the start of 2009.

*...throughout 2008 the market was in decline...*

The residential market was again gaining momentum with a total of 672 sales for the first quarter of 2009 and the median price increasing to \$295,000. The majority of sales were in the lower end of the market under \$300,000 as First Home Buyers went on a spending splurge. This in turn bolstered the lower end of the market but did not significantly result in the median price increasing. The flow on effect from increased activity in the lower end of the market is now being felt in the middle and slightly in the higher sector of the market. We project that the median price for the second quarter of 2009 to again be above \$300,000.



## Central Queensland

### ROCKHAMPTON

The majority of sales activity in the Rockhampton residential market is within the \$200,000 to \$500,000 price range. The confidence in the market started to fall in late 2007 due to employment uncertainty in the local mining industry and sale volumes indicated that this trend continued throughout 2008. Federal and State Government incentives and lower interest rates, in conjunction with a reduction in values during 2008, helped to stabilise the market in late 2008. First homeowners became a dominating force resulting in improved sale volumes in early 2009. The reduction of the First Home Owners Boost in late 2009 may have a slowing effect; however investors may take the opportunity to enter the market in early to mid 2010.

Local agents advise that the improvement in the lower

end of the market is starting to have a flow on effect for residential property over \$500,000. These comments have been substantiated with recent sales in this mid to high price range improving with the majority of these sales being renovated Queenslanders located in popular south Rockhampton suburbs.

Sales of Residential property over \$1million in Rockhampton is very thinly traded with only 5 sales recorded over 2004 – 2008. Since the start of 2009, we are aware of 4 residential sales in this prestige end of the market, over \$1 million, purchased by local buyers.

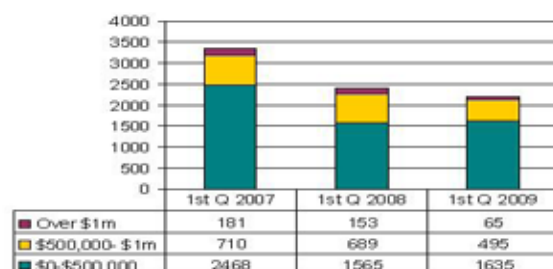
### BUNDABERG

The graph depicting volumes of sales for Bundaberg City showed interesting results. Market conditions were still buoyant throughout late 2006 early 2007, with the market moving along quite nicely. However, the sales volumes dropped sharply in the 1st quarter in 2008 compared to 2007. Reasons can be attributed to the reserve banks decision to increase interest rates in August, November, February and March by 25 basis points each. The market suffered from slow sales volumes pretty well through all of 2008. Then, comparing the statistics from 1st quarter 2009 showed sales volumes on the rise even as the economic crisis was hitting full speed. This can be attributed to two main impacts. Firstly, the Government's increase in the First Home Owners Grant in October 2008 and the reserve banks decision to drop official rates by a total of 400 basis points between September 2008 and February 2009.



The graph also demonstrates that the vast majority of sales in Bundaberg are below \$500,000, with the majority of sales still within the \$200,000 to \$350,000 range. This affordability has meant Bundaberg has been able to weather the storm of the financial crisis better than most other centres. The increased First Home Owners Grant is a significant factor in the Bundaberg market due to the affordable housing prices. Based on \$14,000 for existing and \$21,000 for new homes, the grant can comprise just under 6% deposit straight up on a \$250,000 existing dwelling or \$350,000 new spec home.

### HERVEY BAY



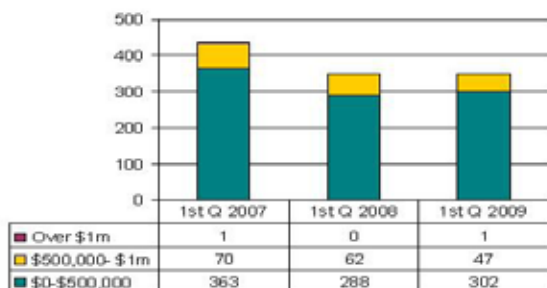
Consumer confidence and the general feel of the Hervey Bay property market is still one of caution. Although

National statistics are showing a growing confidence in the Australian economy and housing finance data indicating that finance commitments for both owner occupied and investment housing has increased during the first half of 2009, sales across all market sectors are slow, however numbers of sales in the sub \$500,000 are up on last year which is a positive sign.

The mid range property prices up to \$500,000 have traditionally showed a steady number of sales in Hervey Bay with the majority of property in this price range. The numbers of sales in the 1st quarter of 2009 are slightly above 2008 figures, which may be a reflection of low interest rates and continued population growth. The largest fall in numbers of sales is from the first quarter 2007 to 2008. This fall occurred across all price ranges. Sales above \$1m show a steady decline in numbers from 2007 to 2009 with only 65 sales in 2009. This will most likely continue into 2010 with Esplanade front property and development sites slowing due to the increase costs and uncertainty of returns on investment in the current market.

Some minor falls in re sales have been noted of residential property with vendors having to meet the market and reduce their asking prices due to increased competition. Some markets have shown a slight increase, in particular the beachside location of Toogoom. A promising resale was confirmed recently of a former display home which sold in March 2009 for \$431,000. This property had previously sold in May 2008 for \$380,000, showing a \$51,000 gain within the space of ten months. Beachside locations and suburbs close to schools and shops appear to be steady and hopefully will show a further increase in the 1st quarter of 2010.

### MACKAY



Our analysis of the Mackay residential house market includes the city and northern beaches suburbs. The statistics show that sales volumes peaked in 2007 with 434 transactions occurring in the first quarter of that year. Approximately 16% of these sales were in the price range of \$500,000 - \$1,000,000.

Sales volumes in 2008 and 2009 were exactly the same at 350 sales to show a decline in volume of approximately 19% on the 2007 figures. The decline in sales volumes in 2008 shows a levelling off in activity because of a combination of factors including the Mackay Floods of February 2008, fears of rising interest rates and an escalation of fuel prices at this time. Investors were absent from the market at this stage as confidence levels started to decline. Sales between the range of \$500,000 - \$1,000,000 represented 17.7% of all transactions.

With the onset of the Global Financial Crisis, sales volumes

did not fall any further in 2009 and were propped to a large degree by falling interest rates and an increase of the First Home Owners Grant. First home buyers were particularly active in the market in the first quarter of 2009 as shown by an increase in the proportion of sales under \$500,000. Sales between the range of \$500,000 - \$1,000,000 fell to 13.4% of all transactions.

The significance of our analysis is that the market has remained fairly solid through perhaps the worst of the Global Financial Crisis and sales volumes appear to have found a consistent lower level. Also the percentage of sales between the range of \$500,000 - \$1,000,000 has not fallen significantly from 2008 to 2009 (17.7% back to 13.4%). With a new upswing in the coal mining industry now bolstering local employment growth we contend that sales volumes will not trend any lower. While first home buyers may not be as active moving forward, they will be replaced by general buyers and the proportion of sales over \$500,000 should increase. To this end real estate agents report a strong increase in sales activity over the past 2 months and stock levels in the sub \$500,000 price bracket are now falling quickly.

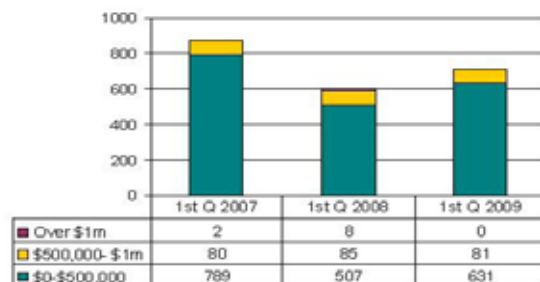
### GLADSTONE

The graphs do show the majority of the market movement to be in the middle market range, throughout these 3 periods, also showing very little market movement in 2009 in the upper market. This was mainly due to the uncertainty in 2009 surrounding Rio Tinto's layoffs and any impact that it may have had on Gladstone. Recent press releases with regards to the Coal Seam Gas proposals, and Origin stating a possible 10,000 jobs available, may generate some momentum, more so in the middle market range, which shows some good value at the moment, than the upper range.

Some recent sale prices are also showing early 2007 levels.



### Cairns



From its mini-boom in 2007, the Cairns residential property market experienced a distinct reduction in sales activity during the course of 2008, initially due to the high interest rates that prevailed for much of the year, and then the global financial crisis negatively impacting on buyer (or borrower) confidence. Volumes of property sales in the Cairns market during 2008 reduced by about 40% on those recorded at the same time of the previous year, and values decreased by an average of 5% to 10%

since the market price peak in early 2008.

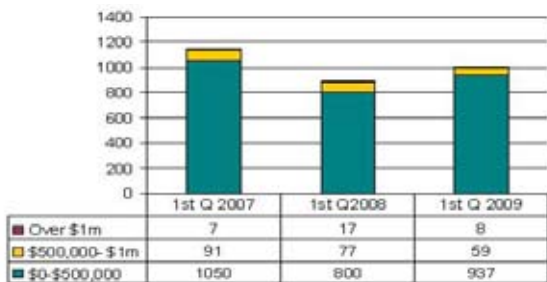
As 2009 has progressed there has been some increase in sale numbers, mainly due to first home buyers capitalising on government grants and stamp duty concessions, and values have steadied. However most of the increased demand, reflective of first home buyers, has been for affordable properties up to around \$350,000. Little movement in prices has been discerned thus far during 2009, with values generally stable.



In the most recent months the first home buyer impetus has faded, but has been counterbalanced by some rekindling of the investor market as well as increased activity from second and subsequent buyers. If sustained, this should extend the sales base, much more into the \$350,000 plus price category. Our prognosis for the Cairns market is for continued stability over the short term, with little change in sale numbers and/or prices.



## Townsville



Townsville's residential market took a hit in 2008 with substantial falls being recorded in sales activity. There is however evidence of a slight recovery in sales volumes emerging in 2009.

The residential market peaked in late 2007 with figures for the first quarter of 2008 showing a significant decrease in activity in the under \$500,000 sector compared to the previous 2007 quarter. The over \$500,000 sector generally remained steady, perhaps indicating a price point and type of buyer in the market.

The first quarter of 2009 indicates a slight recovering in sale volumes in the under \$500,000 market. This may be attributed to a number of factors including lower interest rates coupled with softer market prices persuading some buyers into purchasing rather than renting. This scenario

bears some truth within the rental market with vacancy rates showing an increasing trend. Other factors driving this sector include the injection of first home buyer activity and market savvy investors looking for bargains.

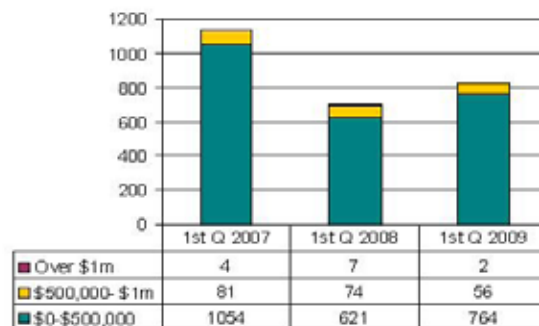
*...perhaps tougher lending procedures are also impacting on this sector...*

The over \$500,000 sector has decreased in activity levels from the first quarter of 2008. Prospective buyers within this price bracket remain somewhat cautious. These buyers perhaps have investments elsewhere or are happy to 'put their hands in their pockets' for the time being and see how the market pans out. Perhaps tougher lending procedures are also impacting on this sector. This is contrary to the first quarter of 2008, which saw this sector hold steady in volumes of sales compared with the lower price market.

Townsville's residential market is showing a slight recovery in sales volumes in particular in the under \$500,000 price bracket. Confidence is slowly starting to return, and agents are reporting that property in the sub \$500,000 bracket is gaining some momentum with a decreasing time on the market evident.



## Tasmania



For the exercise we have included the municipal areas of Brighton, Clarence, Derwent Valley, Glenorchy, Hobart, Huonville, Kingborough and Sorell to obtain the statistics.

It appears as if the house volumes in the greater Hobart area have decreased in 2008 from 2007, but have increased again in the first quarter of 2009. From the graph you can see that approximately 90% of Hobart's turnover is sub \$500,000. The top end volumes have remained relatively static but the mid market has almost halved from 2007 to the beginning of the year. The bottom end remains the bulk performer.

We decided to conduct the exercise for house prices sub \$300,000. In the first quarter of 2007 there were 698 sales, in '08 460 sales and 543 sales in 2009. This clearly demonstrates that the market eased in late 2007 and early 2008 and began a slight recovery in 2009. The recovery may be due to the low interest rate environment and the introduction of the First Home Owners Grant.

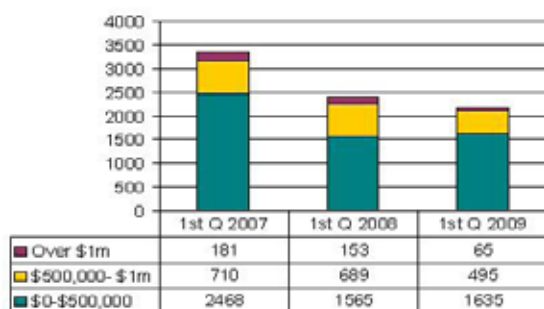
With the proposed reductions of the First Home Owners Grant in September it is expected that volumes may fall and indeed prices may decrease as well. It has long been perceived that a bubble exists in the sub \$250,000 market within Hobart. Time will tell.

Discussions with local agents are reporting that the market is again weakening with little buyer enquiry. It is a tradition that the Hobart property market is quieter over winter however it may be a sign of the times that the fire from the bottom end of the market has gone out and volumes and prices may fall.

The market however still appears to be relatively static for now with little movement in values. The top end remains weak with values coming off in past months and this can also be said for the mid market. The bottom end of the market is the key driver for now – but for how much longer?



## Darwin



Since 2007 the Darwin residential sales market has fluctuated. The first quarter of sales for 2008 represented a decrease in overall sales, whilst the first quarter of 2009 showed a significant increase from 2008, also surpassing the total number of residential sales concluded in Q1 2007.

The major movement in sales within the Darwin market for Q1 has been within the budget and middle sales brackets. Since 2007 the overall number of sales sub \$500,000 has decreased, however the number of sales in the middle bracket (\$500,000 - \$1,000,000) has more than doubled in Q1. This is as a result of large increases in land prices, a number of new sub-divisions which have hit the market, and the Build Start incentives that have been offered by the Territory Government to accompany the first home owners boost scheme offered by the federal government.



At present the middle sector of the market is where the largest change has been achieved. The prestige residential market has remained quite steady from 2007, with the

same number of sales being recorded in Q1 2007 as Q1 2009. However the sub \$500,000 market is by far the most active sector of the market. This trend has continued on from Q1 in 2007 and 2008 and is clearly the driver of the current market. This is not surprising when we look at the combined effect of the stimulated purchasers within this sector and a housing shortage leading to rapid escalations in rentals, despite interest rate reductions.

These graphs are very indicative of the Darwin market at present, by far the most active is the budget end of the market. We are seeing properties on the market for only short periods of time, with good growth also being achieved in prices within this market. The data paints a clear picture of the inflation within the sub \$500,000 sector, though what it doesn't provide is a buyer profile. These properties are almost always being purchased by owner occupiers, escaping the rental increases. There should therefore be fewer renters but now that there are even fewer properties the rents aren't slowing. Interesting for a location dependent on a transient population, eventually something has to give. When and what is the question. If owner occupiers slow, investor properties increase, rental stock increases and the rental market will slow or alternatively, Darwin becomes too expensive and the number of renters reduces to reach equilibrium. At present neither shows any sign of occurring.

However, the graphs don't paint an entirely accurate picture of the activity within the \$1 million plus market. There has been many more sales within this sector. They have been within new unit complexes yet to settle. What it does show is how few sales within this sector there really are, and the growing acceptance of units as a viable alternative to a detached dwelling rather than being seen as a secondary form of accommodation within a preferred location.

The most significant factors having an impact on the market over the last three years are follows:

LNG Gas: INPEX is the single biggest reason for the continued positive expectations across the Top End. Whether warranted or not, guaranteed or not, people's expectations are that the levels of expenditure throughout and after the projects development will continue to stimulate the economy and fuel the continued growth in both incomes and property prices. Should this development not go ahead the future expectations for Darwin are by no means bleak but it would no doubt give sufficient reason for many investors to rethink their current high levels of confidence.

**The First Home Owners Boost Scheme:** Boosts to First Home Owners Grant has had a large impact on the activity within the market and more recently the boost scheme and its expected conclusion have significantly lifted the activity in the lower market. Due to a low rental vacancy and escalating rents many people are looking to escape the rental cycle and enter the property market for the first time. However, good things always come to an end and the boost scheme will tier down and be concluded by January 2010, leaving only the original grant. Possibly investors will then enter the market taking advantage of the continued high rentals. BUT, we haven't seen any evidence of this happening yet and there may be a large void for investors to fill.

Darwin has not avoided a unit boom and there is now a high number of large unit complexes being completed around Darwin leading to an oversupply of units. This has led to many developers in planning and construction to reconfigure plans and provide fewer top end units and more small affordable units (studio, 1 and 2 bedrooms) and avoid longer sales periods and potential value contractions. A similar re-think occurred within Darwin's largest development.

**Land prices and the continued high construction cost:** Large escalations in land prices over the last 12 months has come as a result of the N.T. Governments Build Start grant, the Federal Governments First Home Owner Grant and its boost Scheme in conjunction with a fundamental lack of supply. There has been too few land releases to satisfy the demand and though there are plans for more large scale subdivisions, the government timetables for their release are clearly unrealistic, given the level of development occurring in these locations. The market has reacted accordingly and the land values have surged.

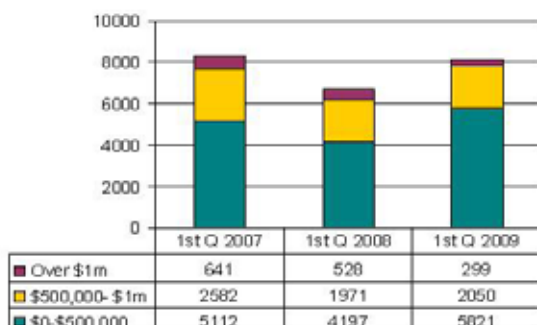
Though the current economic slowdown has apparently eased the labour shortage around the country, there remains a limited supply of labour in Darwin. A prominent Darwin developer, when asked about an ease in construction costs due to an ease in the labour market, commented "it's gone from ridiculous to just hard" referring to their ability to find trades people.

The impact of higher land values and continued high construction costs has seen many completed properties shift from the lower bracket to the middle bracket as well as recent subdivisions begin within this middle sector. A really good example of this is Rosebery, the land price of a standard residential block Of 600sqm has gone from \$170k to \$240k in 6 – 8 months. Completed home sales within this area lagged some months behind the shift in land but a good 4 + 2 home has gone from \$550K to \$630K.

This does not show any sign of easing. Large new subdivisions are some time away, though some have begun selling, nearly two years ahead of a settlement date. Yes two years wait for vacant land.



## Perth



Sales activity has increased dramatically this year, with the overall volume of sales in the first quarter returning to figures reminiscent of 2006 and 2007.

The lack of confidence in the market in early 2008 saw sales volumes drop by 20% from the year before, although the median price maintained its level at \$465,000 due largely to a continuation in activity above \$1 million.

As the graph clearly shows, the lower end of the value range has been driving the market in 2009, with 71% of all sales in the first quarter falling below \$500,000, an increase of 10% on previous years.

The imminent winding down of the First Home Owners Boost will have an interesting effect on the market as a whole. After the boost disappears at the end of the year, we would expect a decline in activity and a corresponding decline in values in the lower end of the market.

The FHOB gave the bottom end of the market the kick it required to get moving, and the increasing threat of interest rate rises before the end of the year should have somewhat of a similar effect on the remainder of the market.

The million dollar question will be whether there is sufficient optimism in the market to maintain activity in the middle and upper tiers, and how seriously those in the trade up markets are affected. One line of thought is that the middle and upper price tiers have reduced as much as they are going to, and now is the time to be upgrading whilst stock levels remain relatively high and purchaser interest is low.

Another train of thought is that current Australian house values are skewed from traditional affordability ratios and further price adjustments are required. Still another thought is that construction activity isn't keeping up with net migration and there will be further pressure placed on real estate prices well into the future.

What we know is that the Perth real estate market is well into a recovery stage, with solid activity in the lower price brackets and increasing activity in the mid value range.

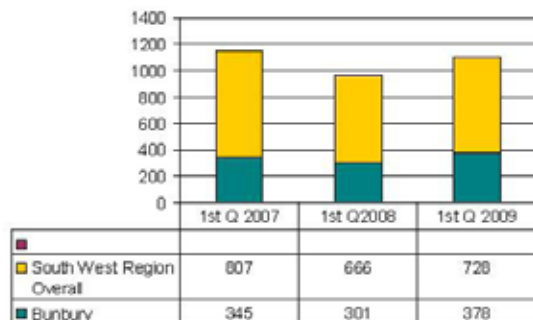
Activity in the over \$1 million bracket was down 54% in the first quarter of 2009 compared to 2007, and in many areas there appears to be the potential for growth through 2009/2010.

The recent announcement of the approval of the Gorgon gas project is a major boost for the WA resource industry. Unemployment had become a key concern throughout the industry as commodity prices decreased through 2008, however this recent announcement combined with recent increases in iron ore spot prices should inject some much needed optimism into the market.

We remain cautiously optimistic on what the remainder of the year will bring and envisage that 2010 will herald a more stable real estate market compared to the volatility we have experienced since 2006.



## South Western WA



History never repeats or so Split Enz would have you believe. As a Kiwi it is always good to quote a New Zealand band but in this case I'm not sure the market has been listening to the musicians. When I arrived in this fair part of the world in early 2006 the market was moving in an unprecedented fashion. The price of land was escalating, along with the price of building and consequently established properties were also rocketing up in value. Properties values in less desirable areas were escalating almost as fast as those on the beachside and valuers were being called back to revalue properties after only three to six months to enable clients to borrow more money to pay for the four-wheel-drive or plasma TV.

All this is well-documented along with the crash that followed. Where it all becomes historically interesting is looking back at valuations and sales that were completed in late 2005 and early 2006 only to find that the values now being attributed to these properties are remarkably similar. Metaphorically we went up the hill and down again just like the grand old Duke of York.

Currently the market appears to be percolating along quite nicely with reports from many agents of increased sales volumes right across the value ranges. This is the first time in quite some time that movement is being seen in the more expensive markets. Apartments have also seen some sales both in the less expensive and the upper valued products. To say there is a boom would be to overstate it severely but the level of confidence in the market has certainly been higher than it has been for the last two years. We seem to have got past the first home buyer only market (which we had for the previous six months) to now being a more "normal" pattern including some investors returning, although not in full force.

We have seen this trend right across the region and not just in Bunbury. I would add a cautionary note in that buyers are still looking for bargains and while there has been some price movement it is only at a limited level.

When we look at the total number of sales for Bunbury and the southwest for the first quarter of the last three years, there was an obvious dip in 2008 but then rebounded quite strongly in 2009, although more so in Bunbury. This is possibly due to larger numbers of first home buyer properties available in this market compared to the wider

southwest region, meaning the government incentives have therefore had a greater effect within the city. The increase in confidence and consequently the purchase of high-value properties has been more slowly appreciated in the higher value areas of Margaret River, Busselton and Dunsborough. At this stage there seems no reason why this trend will not continue with growth progressing at a modest level into the future provided we have no more job losses or external shocks from the world economy.

In summary, while to predict a boom would be optimistic in the extreme, the market appears to have returned to a far more stable state and with a generally much more positive outlook towards the future, even if it looks very much like the past in terms of value levels.





## Commercial Overview

The state of the markets remains one of uncertainty for many property players. While there are strong signs of recovery, second guessing continues in relation to interest rate movements and the stability of the US financial sector. Our reliance on the rest of the globe to maintain economic stability is evident – in the scheme of things we just aren't that big a player.

Retail property is one sector beholding to confidence and cycles. It requires the stability of tenants who survive on the confidence of consumers. Often a look back at past performance paints a picture of the current climate and provides a base for predictions on the short to medium term outlook of markets. It is with this in mind that our commercial offices have tackled retail in this month's edition.



## Sydney & Wollongong

Throughout the last half of 2008, the retail property market commenced its reversal of the substantial gains produced over the last decade. This has obviously stemmed from the 'global financial crisis' which has dramatically changed the economic landscape.

Retail vacancy rates have risen across all retail segments including neighbourhood, CBD, regional and sub-regional centres in the first half of 2009.

This caused rental rates to slow, as consumer and business confidence continue to be dampened. Consumer sentiment has shown signs of improvement over the months of June and July since the lows reached in the early months of 2009. Recent improvements have predominantly been driven by the large fiscal stimulus and interest rate reductions aimed squarely at consumers.

Short term or casual leasing has been on the rise, as retailers are less willing to enter into longer term leases due to the uncertain market conditions. These shorter

tenancy terms provide tenants with greater flexibility allowing them to adapt to changing market climate more quickly.

Retailer's shorter term outlook is reflected in the reduced rents landlords are willing to accept. It has been reported that asking rents for vacant retail space are being reduced by landlords across all retail segments. Sitting tenants are now in a much favourable position to re-negotiate lower rents than they were 12 to 18 months ago.

In Sydney, some segments of the retail property market appear to be quite buoyant. Quality shops in prime strip retail locations with secure long term leases are transacting at yields sub 5.0%.

A retail property comprising 2 shops, on Botany Road in Mascot, recently sold fully leased on a reported yield of 4.8%. The property sold for \$2.43 million and was leased on long term leases to both Australia Post and a national mortgage broker.

A freestanding Sydney suburban retail building leased to 3 long term tenants also recently sold for \$1.79 million. The building is located on Blues Point Road in McMahons Point and the sale reportedly reflected a yield of 4.9%.

Neighbourhood centres in general, which are usually anchored by small to medium sized supermarket retailers along with other boutique retailers, can offer more resilient trading in tougher economic climates. This is due to the fact that they mainly provide staple retail items thus being less dependant on discretionary consumer spending. They do however tend to be more vulnerable to new competition, and thus risk, which is not overlooked by lending institutions especially with the tight credit conditions currently prevailing.

A recent sale of a neighbourhood shopping centre in Wollongong's south western suburb of Dapto transacted on a fully leased basis with a passing yield of approximately 10.86%. The property was reportedly generating \$423,755 net p.a. and sold for \$3,900,000.



## Canberra

This month, let's consider the best mid term opportunities in the market at present. With the ability for some investors to pick up bargains, let's help guide them towards the locations worth considering. Are there areas with proposed infrastructure that will give the local economy a boost? Are some property types/suburbs failing to be fully recognised by the market? Have recent legislative changes made it possible for other localities to rocket ahead?

An overall view of what locations offer the greatest opportunity for buyers who are looking around now.

The commercial property market within the ACT is in a state of flux with investors generally remaining cautious and sales volumes remaining low. The market of the past 12 months has shown that initial yields in the sub 7.00% category are all but gone. Conversely it was expected for 8.00%-9.00% yields to be the new market rate, but a number of transactions have shown the yields for attractive properties has remained in the 7.00% - 8.00% category.

In recent months opportunities have emerged from a number of institutional investors and property trusts finding difficulty in raising capital or are selling down non core properties. Most recently BECTON have placed two buildings on the market within the City and City fringe locations. These buildings were initially part of a take over of Lachlan REIT and comprised a collection of well located smaller office buildings. The offering of these assets to the market has provided an opportunity for smaller investors, especially local groups and families, to purchase at a more favourable yield than 2 years ago, with some potential to redevelop in the long term.



Since the start of 2009 a number of larger office buildings have also been purchased including:

16 Watson Street, Turner. Sold vacant possession for \$10,600,000 in May 2009. An equated market yield of approximately 7.25%, initial yield fully leased at approximately 8.15% and a capital value of approximately \$5,367 per square metre of Net Lettable Area (NLA). An annual estimated gross market income of \$968,750. A recently completed two (2) level plus basement parking boutique commercial office building with a net lettable area of approximately 1,975 square metres and 62 basement car spaces. Property was sold to an embassy and would command an office market rent of approximately \$400/m<sup>2</sup>/ annum.

91 Northbourne Avenue, Turner, Sold for \$10,500,000 in February 2009. An initial passing yield of approximately 8.65%, equated market yield of approximately 8.65% and a capital value of approximately \$4,222 per square metre of Net Lettable Area (NLA). An annual estimated passing net income of \$906,074. The property consists of a low rise (three level) office building providing good office accommodation. 30% of the building is leased to the Commonwealth Government (Department of Defence) with a lease expiry to occur in 2013. Further tenants within the building include Allianz, Unisys (naming tenant), National Australia Bank and HBO+EMTB. The building has an average lease expiry of 3.17 years and an IRR of 8.40%.

10 Binara Street, City (Awaiting Confirmation). The property known as Industry House is subject to confirmation with a sale date of June 2009 for \$123,000,000 to a private investor. The property consists of a modern 'A' grade high-rise office tower with above ground parking, a café and childcare centre, leased to the Commonwealth of Australia, Resources, Energy and Tourism. Property is indicated as sold on an initial yield of approximately 7.8%. An IRR is yet to be determined due to the recent nature of the sale.

When compared to the above, sales yields for primary assets have slipped by approximately 100 basis points since the peak of the market in 2007.

The smaller end of the investment market (sub \$1m) still remains hungry for good quality property with recent auctions being well contested and prices exceeding expectations.

The remainder of the market place has shown little movement as owners tend to hold property rather than sell in a weakened market place with opportunity only emerging from finding a vendor in some financial difficulty or in need to sell.



## Central, North & West NSW

### DUBBO

Retail property activity in Dubbo has been subdued over the last 12 months with very few sales occurring and limited leasing activity. Many smaller retail businesses have experienced difficult trading periods over the last 24 months and as such have limited capacity to expand operations.

Demand for bulky goods has softened significantly over the last 12 months and this has been compounded with a relatively large increase in supply during 2004 to 2007.

The local Dubbo economy in general has weathered the global financial crisis relatively well and has not been impacted to the same degree as the metropolitan areas. The slowdown in retail spending can be attributed to the prolonged drought conditions as much as the fallout from Wall Street. Improving seasonal conditions will have

a positive impact on the local economy which is expected to flow into retail spending. This should have a positive impact on the demand for retail space over the medium to longer term.

## MUDGEES

The proposed development of a Stockland Mall at Mudgee, which created a large backlash from the local community, is currently not proceeding. We understand this was a result of the general global and local downturn in economic conditions. In addition the local coal mine has announced a reduction of employment of about 120 staff which will further impact upon the local economy.

Retail sales activity is very limited, with both investors and owner occupiers adopting a cautious approach. Sydney investors have traditionally played an active role in Mudgee property markets. We would expect that as conditions in Sydney improve then there will be a positive flow on into Mudgee.

## BATHURST

The retail market in Bathurst has undergone significant change with the development of a new regional shopping centre. To date the centre has some vacancies, however there are greater vacancies occurring in the CBD. It remains to be seen what impact the centre will have on rents in Bathurst but we believe there will be very little rental growth and probably falling rents across the board.

Investment activity in Bathurst remains subdued. A small commercial property sold at auction this month reflecting a yield of about 8% with a sale price of \$340,000. Three years ago this property may have achieved a yield of 6-7%.

## ORANGE

The retail property market of Orange remains stable with signs of increased activity. A development application is currently before Orange City Council for a spot re-zoning of a bulky goods site into retail for a new development which would incorporate an 'Office Works' and 'Target' retail store.

There has also been increased activity from investors with at least three recent sales. Two of the sales reflect yields of about 8%. In comparison to say three years ago these would have been at about 7%.

*...the retail property market for Orange remains stable...*



## Southern NSW & Northern Vic

### ALBURY

The retail market over the past three years has remained a fairly solid investment. Although vacancies have risen slightly, fewer sales are occurring and values and yields have softened it is still more robust than the other market sectors. This would be due, in part, to the few and concentrated retail trading centres constraining supply and, as usual, property in central CBD locales are a more sought after investment than in other retail localities. As with the whole economy the continuing turmoil in the debt markets has had a detrimental impact on both funding property investment and business funding. The market appears to be indicating that the bottom of the cycle has been reached - when the market will rise again is anybody's guess.

### WAGGA

The retail market in Wagga Wagga is currently tightly held with few sales over the past few years. The retail rental market has fluctuated in the early part of the year with some new rentals at rates below what would be expected to be market rates. Since then the market has stabilised with newer rentals appearing to be back at market rates.

### GRIFFITH

It is difficult to get an accurate picture on what is happening in retail as few properties in this market have been presented for sale. The lack of listings demonstrates the lack of confidence in the market, but the depth of adjustment is difficult to measure when the stats are not available to analyse. Rental vacancy in Leeton's main retail strip centre is on the rise, Griffith is steady and both centres have new shopping centres which are not full. Landlords are holding off CPI increases in the hope of keeping the pressure off tenants in smaller, agriculturally focused townships. The goal of the majority of landlords is to secure the tenancy rather than achieve rental increases. A below market tenant is thought to be better than no tenant with letting up periods extending from months to years in some circumstances.



## Melbourne

The retail market is heavily influenced by the tenant's ability to pay rent and the amount of disposable income available to consumers. The Global Financial Crises initially reduced confidence in the general economy, reduced the public's willingness to take on new consumer debts and therefore lowered retail spending. Low business confidence has had a negative impact on retail property in general and rental levels in particular with the negative economic indicators "taken on board" by tenants when negotiating retail leases and rents. We have noted an increase in recent disputes between tenants and landlords

at market rent review times and as to where the market might be heading.

To counter this fall in retail spending, the government has provided significant stimulus in the form of cash handouts for consumers and tax breaks for companies. This has had a surprisingly positive effect and has turned around previous falls in retail spending since drops in late 2008 and early 2009 in Victoria. However, June month result has shown a downfall. The volatility of retail spending, the effect of the stimulus combined with uncertainty on levels of future government help, has led us to conclude that the future of the sector is far from secure.

Historically, prime strips have been tightly held with a limited number of sales occurring. This scarcity factor tends to perpetuate low yields in the market and continued buyer demand has maintained retail yields at low levels in broad terms around the 4.0% to 4.5% mark, depending on the price bracket. Due to the relatively steady performance of the retail market, in particular low vacancy rates, which have remained around 4.0% to 6.0%, purchaser demand remains fairly resilient.

At the peak of the retail property cycle in late 2007, Chapel Street yields were typically around 4.25% assuming a market rental. Although even lower yields were then evident, these typically reflected below market passing rentals. Today, yields are generally between 3.5% to 4.5%, though very recent evidence is in short supply. Currently, vacancy levels are very low, though we understand tenants experiencing difficult trading conditions have apparently sought to sub-lease/assign their premises. This is a less transparent market which steps in prior to a vacancy happening in prime locations. Secondary locations are not supported by the sublease market and subsequently as unemployment levels increase we expect to see higher vacancy rates occur.

In recent times we have seen the re-emergence of retail strips such as Centre Road, Bentleigh, Bay Street, Port Melbourne and Brunswick Street, Fitzroy. These areas have become more desirable to a number of national as well as local tenants, often being seen as more affordable locations than many of the aforementioned 'Prime' retail strips.

Due to the current economic conditions, rental growth for the majority of retail assets experienced a modest growth in the first half of 2009. Net rental for metropolitan shopping strips is currently in the order of \$400-\$1,200 with market yields in the range of 4.0% to 4.5% for prime and 4.5% to 5.0% for emerging prime depending on location and development.

On the other hand, CBD retail vacancy rates remain low, at or about 5% for the CBD as a whole which was circa 11% in 2000. Anecdotally retail vacancies appear to be on the rise in the CBD and there are reports of lease up periods extending. Tenancy mix for the past decade has been an increase in hospitality and food outlets.

Prime retail rentals for a ground floor retail shop average \$4,000-\$6,000/m<sup>2</sup> for Bourke Street Mall and \$2,500-\$4,000/m<sup>2</sup> for Collins Street. Substantial growth in rents occurred during the 2007 financial year. However, a change in consumer sentiment and a slow down on retail spending growth will probably prevent a similar growth

in rentals over the short to medium term even with the relative lack of vacant space.

With the threat of further declines in consumer spending, there is clearly a risk that tenancy demand may drop and yields may soften, with a resultant diminution of capital values. Notwithstanding the strong growth in the retail property market in Melbourne over the last few years, economic factors, such as the potential for further rises in unemployment, suggest that the market is past its peak.



## Regional Vic

Mildura's larger retail businesses seem to have weathered the financial storm relatively well, and we have not witnessed any major shift in rental levels or occupancy levels for large, well exposed retail sites. Anecdotal evidence suggests that the larger retail chains/franchises have maintained turnover – probably helped by the recent series of federal government stimulus packages. A 775m<sup>2</sup> retail area that fronts Mildura's pedestrian mall has recently been re-let at \$160/m<sup>2</sup>, which is a slightly higher level than the outgoing tenant was paying.

Two adjoining retail premises within the mall were recently auctioned, however failed to sell. They are now being advertised for separate sale at an asking price which equates to a gross yield of slightly under 8.0%. These premises are occupied by national tenants, however the lease for the larger of the premises has only 1 year remaining – which partly explains the current buyer caution, while the smaller premises have a remaining term of 6 years. The same premises last sold in 2007, and showed stronger yields at that time of slightly above 7.0%, but on weaker rental levels.

Smaller, fringe businesses and locations have languished, however this is not a new trend, and our advice for investors continues to centre around being wary of these secondary locations. The rental demand for premises in these locations is traditionally from small family businesses, and these businesses tend to come and go at a much greater frequency.

The Fifteenth Street precinct will get a boost by the imminent construction of a new Big W and discount liquor store, which will occupy one of the last remaining vacant sites in this section of Mildura.

*...secondary locations are not supported by the sublease market...*



## Adelaide

It was originally speculated that weaker consumer sentiment and uncertainty around employment generated by the global financial crisis would have a noticeable negative impact on retail sales towards the end of 2008 and for most of 2009. In South Australia however, this has not been the case.

Retail turnover has shown strong growth, against the national trend, from the mid-late 2008 with the growth rate only moderating somewhat since the start of 2009. Retail spending in SA remains above the national average and statistically was the strongest performing of any Australian state over the year to March 2009.

Very low vacancy rates are currently being experienced across Adelaide and rental rates have also shown overall growth in all retail types over the last 12 months with the Jetty Road Glenelg being the best performer to March 2009, having the strongest rental growth for a prime retail strip anywhere in Australia.

Another factor contributing to the strength of the retail market is the rise in net migration to Adelaide in the year to date.

Recent retail events include the opening of the Gepps Cross Homemaker Centre in April 2009. This is now the largest bulky goods centre in the Southern Hemisphere at 58,000m<sup>2</sup>. The centre is anchored by Harvey Norman with another 46 retailers in the complex. Pre-commitments to the centre had a major impact on bulky goods rentals pushing them up by nearly 10% over the last year, this however follows a long period (1999-2006) of very limited growth in this sector.

There is limited refurbishment and construction of any retail type planned for the rest of 2009 and 2010 due to uncertainty, financial (lending) constraints and unwillingness from investors to over commit in the current financial climate. This may well increase the demand for retail space in prime retail strips and within sub-regional and neighbourhood centres, possibly pushing rentals up further if the current rate of retail spending continues.

### The retail market: In Brief

2007 Dominated by institutional investors seeking capital gains, pushing private investors out with unsustainable yields and risk factored out of the market. High levels of consumer spending which were unsustainable in the long term due to high dependency on use of credit.

2008 GFC has a significant impact with negative sentiment the driving force. Institutional investors selling assets to offset stock market losses and increase cash flow due to restricted access to credit.

Yields softening significantly, returning to average levels, encouraging some private investment. Consumers shocked by economic downturn tighten spending habits

significantly and try to restrict use of credit and reduce existing debt.

2009 Private investors start to return to the market buoyed by positive signs, including higher yields (many negative forecasts not occurring to the extend predicted), however investors still wary with much employment uncertainty and consumers showing a continuing level of constraint with their spending activities, although not as restricted as during 2008.

Adelaide has so far managed to side step any major impact on the retail sector as a result of the GFC, however many speculate that our turn will come and that the end of this year and 2010 will see this eventuate.

The spectre of job security remains as a dark cloud over all sectors of the market with the latest unemployment figures showing that South Australia's is roughly in line with the rest of Australia with a slight increase to 5.6%.



## Brisbane

The better portion of 12 months has seen a significant decline in the values of commercial real estate; a rhetoric which is well rehearsed amongst analysts and well heeded by investors. This is a direct result of the global financial crisis as investors flock to the security of cash and cash equivalents and banks tighten their lending belts. All sectors of the commercial market have suffered decline, however, the severity of this decline has varied.

The retail market has been somewhat resilient to the downturn; a reflection of the correlation between consumer spending and retail property. The rapidity and size of the governments stimulus package has provided significant strength to consumer spending which in turn has buoyed the retail property market. With some "green shoots" appearing in the economies of our closest neighbours and within our own, it would seem that the retail market has come through the darkest phase of the GFC relatively unscathed.

The volume of transactions is slowly increasing with the pace of transactions becoming more consistent. This is most pronounced in small to medium multi-tenanted retail centres with tenants that include necessity goods. Key health indicators such as yields and rental rates have stabilised in the past few months. Prime yields have declined from their peak of 6.00% to 6.50% and now hover around 7.75% to 8.25%. Secondary yields have also stabilised with yields sitting at 8.25% and upwards. Rental rates have peeled back very subduedly from their

peak and in some prime retail areas have increased. Notwithstanding this small decline in market rents, however, if vacancy rates begin to rise incentives will increase and effective rents will fall as landlords compete for tenants.

The retail market has certainly changed over the past 12 months, not dissimilar to other market sectors [or for that matter any investment markets]. In the peak of the market retail stock was being snapped up with great vigour by investors who were capitalised by freely and cheaply available debt. Yields tightened to levels which did not reflect the level of risk and transaction volumes and sale prices were at an all time high. In the current market, the sentiment is far more passive. Yields have softened to a point which is reflective of the risk and buyers are being far more cautious and taking their time with any purchase. The retail property market is still an attractive investment to many property investors; however, it is the investor which has the upper hand. This shift in power ensures that the bottom of the market has not been realised but there are "green shoots" which is attracting investors back into the market.



## Gold Coast

The commercial property continues to send mixed messages – increases in vacancies and pressure on rental rates, difficulty in obtaining finance and more stringent conditions on borrowers, lower volumes of transactions, but intermittent sales of larger properties at comparatively firm yields.

In terms of the retail sector, this variability of current market conditions is expressed in the following sale transactions that have all occurred during 2009. Under mortgagee in possession or duress circumstances, have been the sales of 'Le Boulevard' in Surfers Paradise, comprising a three level premises anchored by Louis Vuitton, for \$18.55M reflecting an initial yield of 8.83% and Nerang Fair Shopping Centre anchored by a Coles Supermarket for \$16.4M reflecting an 8.7% initial yield. Whilst under normal sale circumstances, the Coles Centre at Upper Coomera sold for \$10.2M and a small local centre at 7 Trees Road, Tallebudgera sold for \$4.3M, both reflecting initial yields of 7.1%. Yields for all of these property types in the boom period of the past three years (mid 2006 to late 2007) would have been from 0.5% to 2% firmer. In value terms, this translates to reductions in value from 10% to 33%.

The declining economic conditions have affected retail spending, which in turn has impacted retail tenants. Commercial areas where rental levels are high, for example Surfers Paradise or Tedder Avenue at Main Beach, have experienced the highest level of vacancies and tenant turnover for many years.

There is anecdotal evidence of rental reductions in shopping centres, particularly for specialty tenancies,

in the order of 10%, and tenant turnover is on the rise. This situation could get worse later on in the year as many forecasters expect consumer spending to slow on the back of increased unemployment and the end of economic stimuli packages.

When economic and market conditions were stronger in 2006/07, vacancies within Gold Coast retail premises were minimal, whereas in today's market they would have doubled.

Notwithstanding these more negative indicators, Gold Coast retail floor space has increased significantly over the past few years. Several of the regional/sub-regional and neighborhood centres have had extensions. Most notably is Robina Town Centre, that is now the largest centre in Queensland following a \$300 million expansion providing a new Big W store, second Woolworth's supermarket, up to 100 new shops, a 900 seat food court and a lakeside dining precinct.



There have also been a number of new centres established, particularly in the northern growth corridor, in suburbs like Helensvale and Upper Coomera. We have also noted that within many neighbourhood centres, the supermarkets have expanded their size and undertaken significant refurbishment, becoming more attractive to the convenience shopper.

However, whilst the shopping centre category has strengthened, smaller and older centres and/or strip retailing precincts have suffered with reduced trade.

Another area of the Gold Coast market that has experienced change over more recent years has been mixed use developments that incorporate ground level retail components. These developments are most prominent in the 'high density' living areas close to the coastline, but are also emerging in TOD (transport orientated development) precincts within the outer suburbs close to railway stations i.e. Robina and Helensvale. This type of mixed use development will become more common place in the future as the state government and local council seek to house a growing population on limited commodity land resource.

The property cycle over the past three years has probably witnessed the best and worst of conditions that one might ever expect to endure. It has shown many young property professionals, and, for that matter property investors, that yields, rentals and property values can in fact go backwards, and that the time frame in which these aberrations occur can be very swift.



## Sunshine Coast

The retail market generally performed solidly from 2005 until early 2008. During that time we did note some periods of increased vacancy in certain locations, though in the main the market was positive.

Obviously since the start of 2008 the overall property market has weakened and this has been noted in all locations of the retail market on the Sunshine Coast. In a general sense sale numbers have decreased with vacancies increasing and tenants placing downward pressure on landlords to drop rentals on market reviews.

There have been few sales over the past 6 months, however the sales that have taken place have generally indicated that the coastal tourist strips of Hastings Street and Mooloolaba Esplanade are generally holding onto overall value levels far better than secondary locations. Recent sales in these two iconic strips indicate that yields have softened by about 50 – 100 basis points on previous sales that were noted in 2007. Overall this indicates that value levels are down around 10 – 15%.

In other locations we have seen yields soften by as much as 200 basis points, which is around 25% of value levels in those locations.

Interestingly, a strip that usually does not perform as well as other coastal regions, Bulcock Street at Caloundra, continues to defy the overall market sentiment and recent sales are still noting yields in the range of 6 – 7%. Traditionally this strip softens to a greater extent than other coastal locations in downturns, however local investors have kept faith in the location with strong auction results being noted.

Generally the trends that we have noted, apart from the Bulcock Street trend, have been noted in previous cycles of the retail market, with investors driven to quality locations that have good tourist numbers year round.



## Southern Queensland

### TOOWOOMBA

*...since 2008 however retail renters appear to have plateaued..*

The retail property market in Toowoomba, like most areas in Australia, has experienced varying conditions over the past couple of years.

Retail rentals in Toowoomba saw significant increases during 2006 to 2008. This was seen as both a reflection of a strong economy, as well as a need for developers to improve returns on higher land prices and construction costs. Since late 2008, however retail rents appear to have plateaued, vacancy rates slightly increased, and most landlords now concentrating on maintaining a strong tenant mix, secured with long tenure.

Similarly, retail property yields firmed during this same period, seeing values peak in early 2008. The arrival of the global financial crisis and subsequent increases in interest rates saw a definite softening of yields in late 2008 and early 2009. This period also saw a decrease in sales activity with vendors choosing to hold properties rather than sell in a declining market.

Recently there appears to have been an increase in activity from investors for property up to \$5 million. This has likely been a result of the combination of softer yields and the historically low interest rates. A lack of willing vendors may see yields start to firm again.



## Central Queensland

### ROCKHAMPTON

Rockhampton welcomed the completion of Stage One of Stockland's \$93Million redevelopment of the existing Rockhampton Shopping Fair and Kmart Plaza. Stage One comprises 45 new specialty stores and a brand new Coles and Kmart. Once fully completed, the redevelopment will provide a further 26 retail shops, making the centre the largest in Central Queensland. Completion is expected later this year. This is first major development in the retail sector in Rockhampton for some years.

Additionally, neighbourhood retail projects are planned for the Parkhurst area with Woolworths as the anchoring tenant and a similar project is planned for Gracemere.

There have been very few sales within the retail sector to enable us to gauge market sentiment. Retail vacancies throughout the city are still relatively low and a few new leases have been entered into in the East Street Mall Precinct at rates of approximately \$200 – 250 per annum gross. New leases have also been entered into in the Musgrave Street Precinct at similar rental levels. Local Agents report that they are still receiving good buyer and tenant enquiry across all commercial sectors.



## BUNDABERG

The retail market in Bundaberg has seen significant expansion in the past few years.

New neighbourhood shopping centres have been constructed in South Bundaberg and North Bundaberg. A significant expansion of the Bargara Shopping Centre took place adding a Woolworths. The Hinkler Sub Regional Shopping Centre had a major upgrade. Approvals have been granted for an additional Sub Regional Shopping Centre on the southern fringe of the city centre. Aldi set up shop in the Sugarland Shopping Centre precinct and is to expand further into a new centre off the Ring Road in Kepnock.

The market expanded rapidly from 2004 to 2007 and began to slow in 2008. The slow down became more pronounced as the financial crisis set in during the latter part of 2008. In general terms rental levels appear to have remained steady although vacant premises are staying vacant longer, and vacancy rates are increasing due to less demand. The evidence is declining asking rental rates. Yield rates declined from 2004 to 2007/08 but have increased by in the order of 1.0% since the peak. The Target centre in the city centre is currently on the market at an asking price of \$6.0 million.



## HERVEY BAY

The market for investment property with secure tenancies in Hervey Bay has been active over the past 6 months with agents reporting an increase in enquiry. Lease conditions and terms have however been a contributing factor in many negotiations. Vacant possession sales have been scarce mainly due to a lack of supply. Rental rates in highly exposed locations have risen over the last year due to a lack of supply and good demand. Good exposure is a key feature for most prospective tenants. A general trend is seeing the premium locations for retail property to be within the major shopping centres of Eli Waters, Centro, Pialba Place, Bay Plaza and Urangan Central. Rents within these centres can range as high as \$700-\$900/SQM for small sub-50SQM tenancies. The Esplanade is also seen as a premium location however uses are generally required to be tourist orientated.

A significant number of applications have been approved or received to build or extend retail shopping centres in Hervey Bay including Centro, Benchmark Supercentre, Central Avenue and Bay City. The expansion to the Centro Development will reportedly result in approximately 37,543 m<sup>2</sup> of Gross Lettable Area with 1,684 car spaces. This expansion however has been on hold in excess of 12 months. The expansion to the Eli Waters Shopping Centre was completed in late 2007 and now includes a Woolworths Supermarket and 26 Speciality Stores. This complex is now for sale by expression of interest. The

Pialba Place Expansion was completed in March 2008 with Big W as a major tenant with an additional 16 Retail Stores. The Benchmark Supercentre of approximately 25,000 sqm of retail space was approved in June 2007 and Bay City Pialba – a mixed use development comprising 257 units and 32 shops - was approved in August 2007. There is a concern that if all these projects proceed, Hervey Bay may not be able to support the increase in space which will have a negative impact on rental rates and values.

There has been one significant sale over the past six months of a retail showroom leased to Officeworks. The building was purpose built for the tenant and the sale price of \$6.7M showed a yield of 7.42%. This sale still shows that strong tenancy profile can achieve a sub 8% yield for a regional location.

## MACKAY

Historically, the Mackay central business district was the major retailing and administration centre for the Mackay Region. Fragmentation of this function commenced in 1979 with the opening of Caneland Central Shopping Centre to the west of the city heart. Continued expansion of Canelands and development of commercial nodes at Mt Pleasant further decentralised retail activity away from the city centre over subsequent years, to the point where the retailing function of the city centre became secondary to Caneland and Mt Pleasant Shopping Centres. As a consequence, the city centre has emerged as a declining secondary retail centre primarily supported by commercial office/administration functions.

Rental rates for retail premises in the city centre have softened over the past 12 months due to a lack of demand. Rental rates appear to be sitting around the \$300 - \$350 per square metre gross range.

Retail outside the city centre will experience extensive expansion and development over the coming years including:-

Lend Lease will commence expansion of Caneland Central by a further 27,000 square metres including the introduction of a Myers store.

Stockwell will upgrade and expand the Northern Beaches Central Shopping Centre by up to 6,900 square metres including re-badging the existing Bi-Lo Supermarket, proposed Big W store and further specialty retail shops.

New bulky goods precinct to be constructed to the corner of Holts Road and Mackay Bucasia Road. Anchored by Harvey Norman within a 10,000 square metre super store.

The most recent sale for a smaller retail centre consists of the Greenfields Convenience Centre at 4 Grandview Drive, Mount Pleasant. Sale price of \$3,300,000 reflected an analysed yield of 9.26%. Large sub regional and regional shopping centres such as Canelands, Mount Pleasant and Northern Beaches Central are limited in number and generally tightly held in the local market and there have been no recent sales of shopping centres of this size.

## GLADSTONE

The Retail market has showed further slowing in recent months, with a higher number of vacancies in the city centre. There are no recent sales, with little or no activity in the market. Leasing demand is subdued, while rates are holding firm.



### Cairns

The Cairns retail market had been strengthening slowly but steadily for a number of years but this trend has been fading out since the start of 2008. However it must be said that retail property sales in Cairns are extremely sporadic, and there have been no retail properties of significance changing hands for some time. Most sales involving retail property have been of mixed use retail / office buildings or tenant buyouts of single premises.

Vacancy levels in the retail sector remain low, with high exposure CBD prime retail space near fully occupied. However some increase in vacancies in lesser exposure locations and/or on the CBD fringe has been noticed. Rents as a general rule have plateaued.

Yields for commercial properties in general in Cairns have eased back by about 10% from the record low levels observed at the start of last year. Though true retail sales are rare in the Cairns market, we believe yields for retail premises at present analyse into the 7% to 8% range, from the 6.75% to 7.25% range at the start of last year.



### Townsville

Townsville's retail market has recently received a double shot in the arm with the re-announcement of two major retail developments for the city. This comes after both developments were put on hold indefinitely earlier in 2009 as the global financial crisis took hold. These two developments are the \$200M Flinders Plaza and a Myer store to be located within the expanded Stockland Townsville regional centre at Aitkenvale.

The opening of three new suburban strip retail centres over the last six months has shown minimal vacancies, although these centres had leases committed in stronger economic conditions. Vacancies are increasing in secondary retail centres predominantly where the retail product focus is predominantly on discretionary spending and not the typical newsagent, baker, butcher tenancy profile.

Despite all the doom and gloom, Townsville has a population that is heavily supported by government related employment and therefore the retail sector has to some extent been able to weather the recent economic pressures.

There have however been some victims mostly within the bulky retail sector. These included the furniture and electrical style outlets. Furthermore, demand for retail space in the city centre is quiet, as a result of the impending Flinders Street redevelopment, which has recently received funding and is expected to be completed by the end of 2010.

The prime market of shopping retail has remained steady as two of the major shopping centres steam ahead with expansions. The 13,000 square metre expansion of Willows Shoppingtown is due to be completed by the end of October 2009 with the 11,000 square metre staged development at Castletown Shoppingworld due to be completed in 2010.



The future for Townsville's retail market is looking very exciting marked by the anticipated arrival of Myer to Townsville and the first new major retail centre to be constructed in Townsville CBD in over a decade. What we have learnt over the past 12-18 months is that Townsville's retail sector is capable of weathering some global financial disruptions and will continue to expand over the next few years. We anticipate that this sector may experience limited growth/reductions in rental rates and increased levels in vacancies in the short term as new stock comes on line and is absorbed by the market.



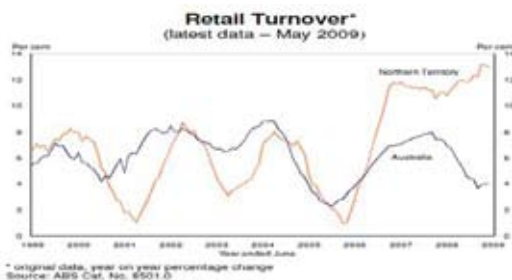
### Darwin

As we have mentioned several times before, Darwin's retail property market is quite a particular – and sometimes peculiar – one. This dates from the time when plans for the renewal of suburbs after Cyclone Tracey included suburban centres with a focus on the local communities. Since then, Darwin's retailing hub of Casuarina Square, the success of the supermarket chains, and the arrival of bulky goods as its own dynamic sector, have all played havoc with these centres. Even the local delis were affected by retailing in service stations, and all in all the best laid plans of planners, not just mice and economists, gang aft agley.

Investors should keep in mind Darwin's particularities and peculiarities. For starters, up here although we are used

to being hot we do not like getting hot and bothered. So, we really do not like large spaces between where we park our cars and where we shop. Of rueful memory, settling back into the car in unsheltered areas can cause severe bouncing to occur between seat and roof. So look for investment properties where such phenomena are less likely: for example, where there is sheltered car parking close to retailing.

The result of these differences is a full spectrum retail market performance in Darwin, from gold to lead, and much in between. So while anyone who bought industrial properties in Darwin of almost any description at market three years ago is now a lot richer, the same blanket statement cannot be applied to retail property. Mostly retail property performance has bounced between flat and steady, that is, with some exceptions, underwhelming. On the other hand, while throughout most of the country there has been a decline in retail property, the same cannot be said here. Most recent yields from retail property sales are steady at around 8 percent – much firmer than down south. But neither has there been a boom, despite the following extraordinary retail trading performance over recent years:



One area for a retail property investor that had been well within that flat to steady performance range for a very long time was the Darwin CBD. Despite their well-deserved long term disdain for the place, it may be worth investors looking back there again now - albeit carefully. The occupancy rates for retailing there are now the highest they have been for many years. The Waterfront development is proceeding well, is being well received by locals and is drawing people back to the CBD, and work is under way on a Smith Street Connection to link the Waterfront and the Smith Street Mall. With the many apartments built in and around Darwin's CBD already - 190 in 2005, 271 in 2006, and 401 in 2007, and with The Waterfront development alone bringing over 1,000 on stream from 2008 onwards - there is increased intra-CBD demand. With yet more office construction now planned, there will also be increased demand for lunch outlets etc. There is another reason for optimism, coming from the sea: as well as increased naval exercises, cruise ship numbers - which were relatively stable from 2003 to 2006 at just under 17,000 passengers and crew per annum - shot to 26,112 in 2007, then 35,952 in 2008, and will be even higher in 2009. Passengers are shuttled from the Waterfront to the CBD, and have already increased the tourism related tenancies there. Moreover, a City Centre Revitalisation Project is under way; starting at the other end of the Smith Street Mall from the Connection, public spaces, shop fronts and retail spaces are to be significantly upgraded through this Federally-funded public-private partnership.

The future of a key site for Darwin CBD's future, opposite the key area of the City Centre Revitalisation Project, is

yet to be determined, but its best opportunities may now be behind it. However, there are many plans afoot for other major developments in and around Darwin's CBD (two alone worth over a billion), and most have a retail component.



## Perth

The retail property sector is a complex market with property types broadly consisting of two sub-sectors; shops/shopping centres and showroom/bulky goods. Holding retail property, especially a shopping centre, is a complex business operating within a highly competitive market. Retail properties tend to become obsolete more rapidly than other property types, as consumers who shop more frequently and for longer periods of time tend to be drawn to newer and more modern facilities. Shopping centres have become social hubs, offering an easily accessed venue to meet friends and family to not only shop but also to be entertained. Shopping in the 21st century is no longer a utilitarian task; it has become a broader social experience. Therefore retail property owners are in the business of attracting consumers and are always attempting to improve their facilities in order to make the shopper's experience better and ultimately more enjoyable. Larger regional shopping centres commonly offer a range of eateries, cafes and entertainment venues including cinemas.

To a lesser extent showrooms and bulky goods outlets also attempt to attract consumers by offering 'one-stop' facilities with abundant parking and are mimicking shopping centres by co-locating larger numbers of competitors in the one place. Because of their generally large floor areas, many have incorporated child activity centres and even the occasional eatery like those found in Bunnings and Ikea facilities.

Overall owning or developing retail properties requires a lot of resources, such as research, planning, optimising tenancy mix, and a constant effort to keep the facility modern and attractive to users. Successful management results in higher consumer attendance and in turn higher demand for space by retailers thereby providing higher and more secure returns.

Looking back at the peak of the retail market in 2007, which had recorded approximately 550 sales in the financial year to June 30 and purchased at passing yields often below 6%, it was clear that purchasers were not simply looking at the property's revenues. At that time

underlying land values were increasing rapidly, driven by a booming economy, high population growths and unprecedented urban growth, so typically buyers in the retail property market were also factoring in capital growth into their purchase prices.

Since 2007, retail property sale turnovers declined rapidly, investors were becoming cautious and owners of retail properties which were generating good revenues were keen to hold on to these assets. Furthermore urban expansion slowed from the beginning of 2008 and in the latter half of 2008, following the onset of the global credit crisis, investors (particularly institutional investors) began to experience contractions in overall wealth and more importantly as values of their portfolios decreased, their equity ratios decreased, sometimes to unsustainable levels. The adjacent graph shows the significant declines in turnovers and aggregated values from the 2007 peak.

The most dramatic declines occurred in the owner-occupier segment, typically lying in the sub-million dollar range of purchases. This is in line with the well publicised low levels of business confidence and sentiment. Nonetheless there is some indication that activity in the premium end of the retail market may be turning around, such as the \$100M sale of the sub-regional Floreat Forum Shopping Centre, and the current negotiations underway for the major regional, Lakeside Joondalup Shopping Centre, reputedly being negotiated at around \$400M. Notably, recent sales have been by non-institutional buyers, which has also been characteristic of other premium properties in the office and industrial sectors. Clearly property funds are still languishing from the global financial and economic crises and likely to require a longer period for recovery. Similarly superannuation funds have also been absent from the market in the intervening period.

Despite preliminary signs of recovery, yields are likely to continue to soften, particularly in view of declines in consumer confidence, subsequent spending and lingering economic uncertainties. Vacancies of retail space in the city and suburbs are on the rise and the market is seeing a return of incentives in the rental market. Although it is important to bear in mind that yields are indicative of a number of property specific factors such as occupancy levels, likelihood of rental increases, level of modernity, degree of agglomeration with other retail services (such as petrol stations), size of catchment, income levels and spending habits of households within the catchment areas and number of anchor tenants, to name a few, consequently interpreting trends is difficult. It is especially important not to attempt to oversimplify buyer habits in the premium end by only considering yields, as sales are typically infrequent. Transaction times in the premium end are lengthy as they involve detailed research and careful analysis (typically projecting returns over holding periods for a minimum of seven years). Undertaking analyses of this kind requires a comprehensive understanding of property specific characteristics. Therefore it is typical to observe a wide range of yields within the premium category of retail property sales, varying anywhere between 6% and 9%. Ranges this broad are of little use in the above \$5M category as resultant price ranges are simply too broad. Certainly bid pricing in this category would involve more detailed anticipated cash flow analyses whereby bid prices are determined on benchmarking internal rate of returns. In other words capitalisation rates are of

little use on their own because property specific factors are multifarious and have a greater influence over the final bid pricing, not simply a capitalisation of passing income revenues. However, obtaining the necessary data to undertake more detailed and reasoned analyses are tightly held and difficult to acquire and often cannot be published publically.

Retail properties within the \$1M to \$5M price range categories transact more frequently and therefore provide greater certainty when analysing general trends, although here too the yield ranges are broad. Within these segments yields are also softening and those with national tenancies appear to offer comparatively good returns for investors. Recently the Cannington Homemaker Complex sold for \$4.6, at a passing yield of 8%. Sales within segment generally indicate yields ranging from 7% to 9%.

In the sub-million dollar range market activity is dominated by mostly owner-occupiers who continue to pay high rates with analysed yields ranging from inordinately low 4.5% to under 6%. Purchasers in this group are motivated by more than simply market factors, with purchases incorporating particular business and also emotional factors. Certainly with yields so low in this segment it is not surprising that investors of any kind have abstained from participating. The absence from investors in this segment, who were mostly 'Mum and Dad' investors and privately managed superannuation trustees, has seriously impacted properties in this category by a resultant excess supply.

Given that the retail property market is currently in a downward phase, there is little incentive for the development of new product. Inevitably this will in time create a scarcity problem, possibly sooner than many expect if the national and global economies are indeed on the road to recovery. On the whole the upper tier retail market shows good returns and certainly it is no surprise that there are signs that transactions are again on the rise and offer better returns than most other property sectors or indeed other asset classes.



## South Western WA

There was sound demand for commercial property throughout the South West WA region during 2006 to 2008 with steadily increasing values. However the market has remained subdued over the past twelve months with a small number of sales recorded. Activity has been predominantly for owner occupation with leasing take up rates slow and a number of commercial vacancies appearing. Leased investment properties are showing

weakening yields and capitalisation rates with rent reviews based on CPI as values generally appear to hold due to tight supply in the region.

Vacant land sales have also been slow with a number of lots still available. There is some ongoing construction activity mainly by owner occupiers who have a use for the property. There is little speculation or 'design & construct' type development occurring. Agents report a number of commercial properties for sale or lease with demand slow. New projects have been put on hold, increasing holding costs and reducing profitability, or development work if undertaken is subject to pre-sale or lease or sales over a longer time frame at reduced prices.

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## Rural – Market Directions

The rural land market across nearly all regions covered by Herron Todd White rural valuers remains subdued with low sales activity, however value levels appear to be firming along with improving confidence brought about by generally good seasonal conditions (although some regions are still a bit dry) and light at the end of the tunnel as the effects of the global economic crisis ease. There are also hopes that Australian agribusiness financing restrictions may ease.

Our Southern Queensland office reveals firming to slight falls in vendor expectations for rural properties in their area as confidence returns levels rebuild. They also report that the majority of their valuation efforts this month have not been for mortgage security work but for partnership dissolutions and sale. Meanwhile our Central Queensland office highlights that good quality cattle finishing properties are still in good demand with three strong sales at Glenwood Park, Austral Park and Orana Park (\$2,200 to \$2,300 per ha). However, they also indicate that continuing tight credit policies of Australian agribusiness financiers is dampening the market. In the Northern Territory the same supply and demand equilibrium has firmed for quality corporate style rural properties and this was reflected in the recent sale of unique floodplain property “La Belle Downs/Welltree” at a record price to RM Williams Agriculture Co. But the oversupply for the less well financed “private” type property market is likely to meet a tougher market with a wedge of properties currently on the market and there is still caution in the air.

Down in Mildura/Sunraysia, dryland property sales activity has dried with the lack of rainfall but action is anticipated come spring time - if it rains. And while the wine grapes are being pulled from the ground due to oversupply in this district, citrus is putting wealth back into the market with high performing yields and prices - as will the new \$420 million large-scale solar power plant to be built just south of Mildura. Our Mildura office also reports that there has been some positive market movement with several large pastoral property sales in the south west grazing sector of NSW that indicate strengthening value levels. In southern NSW/northern Victoria it's been the best season for years and a run of

quality properties having been listed for sale to hopefully carry on the momentum created by the good season for a successful spring selling period – but follow up spring rains are required to maintain confidence levels.

In Central NSW the good seasonal conditions are helping firm up the rural land market but it is still a little subdued by macro economic forces. Interesting will be the outcome of the first permanent transfer of a bore water allocation in the Central West which will assist our valuers to accurately ascribed values to this very secure permanent water resource in the future.

Moving across the south- Western Australia, the dairy property market in the Scott River district (350km south west of Perth) is put under the microscope, with a more detailed look at the higher potential returns achievable from dairy farms when technology enhances efficiency and economies of scale.

Overall, this Spring will be good test of the confidence level of potential buyers in the rural property market. There are a relatively large number of properties listed for sale across most regions, but many vendors appear not to be overanxious to sell. It is certainly an interesting situation when the confidence generated from improving seasonal conditions combine with a slowly emerging realization that the global economic downturn may actually be dissipating. So read-on to discover more about changes or opportunities in the Australian rural property market that might be heading your way.

Frank Peacock Ph: (08) 8941 4833

1 September 2009



## SOUTHERN NSW

The season in southern NSW and northern Victoria is continuing at this stage to be the best season we have seen for many years. Most areas have been receiving some regular steady rainfalls which have been great for cereal crops and pasture, but most areas have not as yet received large enough falls to start filling dams.

Interestingly most areas have received less total rainfall as at the end of July than we have received for the last few years, but the falls have been perfectly timed. Regular steady falls have occurred from Mid/late April up until now, but there has been little or no run off to fill dams. In the last few years a lot of the rainfall has occurred in January, February and March, and in this area rain is not wanted in summer as it is not our growing season, and only helps weeds and fly strikes. The growing season commences in April, and steady falls are required during winter, and then most areas need significant rainfalls in spring to fill the soil profile, fill farm dams and hopefully fill irrigation water storages to enable water allocations for the irrigation season.

Irrigation water storages are up a little in the last month - Hume Dam is now sitting at 19.55%, Dartmouth at 23.15%, Burrinjuck at 37.4%, and Blowering at 39.7% of capacity.

The rural property spring selling season is starting to get under way, with quite a few properties starting to be advertised by agents. The number of advertisements for rural properties has increased dramatically in The Land, Weekly Times and local southern NSW and northern Victorian papers, with most auctions so far being aimed at early spring. It will be interesting to see if these early advertised properties attract much interest from potential purchasers, and if they sell at auction. It is anticipated that more properties will be advertised in the next 6 to 8 weeks for auction in mid to late spring while properties in this area look their best.

Cereal crops are generally looking good and are starting to gain height, and some average or better than average yields are being talked about. Canola crops in many areas in southern NSW and northern Victoria are flowering, which is around 3 weeks early and farmers are worrying about frosts that have the potential to decimate yields. If cereal crops start to mature early as well and the area receives more frosts, yields for these crops can also be dramatically affected.

As usual in this area cattle prices are dropping a bit as more stock are being turned off, with steer prices dropping up to 1.5 cents per kilogram live weight in the last 2 weeks. As stock fatten at this time of year there is generally a flush of stock onto the market, and yardings have increased dramatically in the last few weeks.

Southern NSW and northern Victoria is now on a bit of a knife edge as far as the season goes. If we receive our usual high spring rainfall, and dam and irrigation storages fill, we will have the best season we have had since 2000. If we do not get good spring rain the season could go very much in the opposite direction, particularly if we get late frosts that can have the potential to decimate crop yields.

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## Regional Vic

Where's the rain gone?? After a promising start for Dryland farmers and graziers, the lack of rainfall in the past 6 weeks has dampened prospects severely. Rain is badly needed and with an apparent El Nino event predicted later in 2009 a soaking rain is required to ensure that the heads fill and finish off to ensure an at least average season. There has been no sales activity in this sector in the past month or so.

The warmer conditions experienced in late July and up to the 20th August has resulted in the earlier varieties of Table and Wine grapes, (Menindee Seedless and Chardonnay respectively) 'bud bursting' which is around two to three weeks earlier than normal. This is of concern to many growers given that significant damage and effect on yields can be caused if late frosts occur.

It has been apparent for some time that significant areas of vines (particularly wine grape vines) are being either abandoned or being pulled out, and the few recent sales that have occurred in this sector clearly suggest that the vines add no value to the property. A number of the smaller growers who have had contracts with Neqtar have been further frustrated due to that winery being placed in receivership.

One bright sector is the citrus industry with harvesting continuing with a larger crop being the norm and price levels generally holding up. Late navel, Tangelo and mandarin varieties are currently being harvested.

Irrigators are still waiting for the Murray catchment to yield some run off into the main storage facilities, noting that a zero allocation presently is in place for the 2009/2010 season on the Victorian side of the Murray River, and 8% of allocation on the NSW side.

There has been some activity on the larger Pastoral/grazing holdings in the south west grazing sector of NSW with a number of advertised and private sales confirmed with a general strengthening in value levels apparent. Again, after a good start, the pastures and blue bush country would benefit from another soaking to ensure ongoing growth through to the summer months.

The site for the Australian company Solar Systems to build a \$420 million large-scale solar power plant has been announced and is to be located at Carwarp, approximately 30 kilometres south of Mildura, with the construction phase set to commence in the latter half of 2010. The project is likely to provide significant employment to the district. A second solar farm is presently being negotiated. With the Commonwealth Governments announcement for renewable power generation to be substantially increased, Mildura's hot dry and sunny climate augers well for it to become the solar capital of Australia. – So perhaps its 'out with the wine grapes and in with the solar panels'.

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## CENTRAL NSW

Most Central Division and Central New South Wales cropping areas continue to have a positive outlook for the current winter cereal season and it appears that there is a slightly increasing level of confidence in the current season, however the majority of the cropping areas of the Central West and Central Division areas will require rain in the next three weeks or there will be negative impacts on yields for the season. One more fall of rain is all that is required to complete the season for a majority of areas. Should these rains eventuate in that time frame then we believe we will see further increases in general confidence levels across the area which will help underpin values. The far western areas of New South Wales north of Broken Hill are currently experiencing a very dry period with some areas receiving 25mm for the year to date so far. This has impacted on how this country presents and the interest that exists from the buying public. Agents have reported that the level of buyer interest has reduced markedly, however we believe that value levels are still holding although these are based on reduced numbers of sales.



The general levels of interest coming from the market would be considered below average, and this is a factor of the continuing fall out of the world macro economic situation and in conjunction with the possible increase of interest rates which will impact negatively on overall purchasing capabilities and buyer sentiment. The property which was discussed in last months review called "Bungdera" which is approximately 35km north west of Brewarrina, has reportedly gone under contract to out of state interests looking to secure the large bulk of feed currently available on the property. We believe this sale has exchanged at approximately \$74 per acre which does indicate that values may even be firming for this Brewarrina area which currently is enjoying a reasonable season and attractiveness of this to purchasers from areas which are currently in drought. Also the continual run of irrigation properties failing to sell has continued with the property "Jedburgh". The 4,800 hectare holding situated approximately 20km north of Warren was passed in at auction with no bids taken from the floor. Agents report some interest was evident however the lack of available surface water and the general trend away from irrigation properties to dryland cultivation areas will see subject properties such as "Jedburgh" difficult to market. The property is well managed and quite productive, yet could not muster a bid from the buying public.

We believe that the first permanent transfer of a bore water allocation in a water plan sharing area in the Central West is currently under way. There have been numerous temporary transfers of water between neighbours and fellow irrigators in each aquifer, but to date there have been no permanent transfers to help gauge the market's

perception of bore water value. Generally bore water values have been ascertained from piecemeal approach of properties which have been sold that include a bore water allocation. It will be interesting to see where the market sees bore water values as there is a valid argument to maintain that bore water is as secure if not more secure than high security surface water allocations. While bore water is more expensive to extract with general extraction rates around \$50-\$100 per megalitre which can be substantially more than extraction from river sources, the fact that production capacities can be maintained because of the availability of the water does override the more expensive nature of these delivery infrastructures.

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## SOUTHERN QLD

The season on the Inner Downs has deteriorated quite markedly in recent weeks due to warmer than normal seasonal conditions. Whilst most winter crops are still looking reasonable, they will require a "drink" in the next 2-3 weeks if the continuation of the recent better than average seasons are to continue. Perhaps the issue of most concern at this point, is the potential for a late frost. This would hit hard, particularly those well advanced earlier planted crops.

The same can be said for large areas of dryland wheat and barley crops in the Border Rivers. A recent property inspection once again highlighted the importance of good crop rotation and subsoil moisture. Crops planted on new ground without the benefit of a previous cropping program are suffering the effects of moisture stress. Of interest was the performance of some of the new varieties of chickpeas, which may turn out to be having an ideal season.

With regards to the rural property market in the Inner Downs and Border Rivers, there have not been many sales to report. The extent of our work this month has included valuations for reasons other than mortgage security purposes including planned partnership dissolutions and determining fair market value for sale purposes. As has been highlighted in the media recently, the changing face of agriculture is showing itself in that there are large family farms that have been developed over the past thirty or forty years, but, for many reasons, these businesses are not being taken up by the next generation.

The general feeling about the rural property market remains that as long as the fundamentals remain positive, then there has been only a slight drop in expectations regarding values. The effects of the Global Financial Crisis appear to be diminishing and this has brought with it a more positive outlook.

In future Southern Queensland Rural Reports we will look to begin a general discussion on the perceived effect the planned Emissions Trading Scheme may have on Rural property values. For example, what effect will the

ETS have on land value and what issues are there in the measurement of carbon at different points in the carbon cycle?

We have members of the Herron Todd White team who are actively participating in these discussions with the Australian Property Institute and we look forward to keeping you up to date with the latest developments.

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Stephen Cameron Ph: (07) 4639 7600



## NORTHERN QLD

For some, the pressure to change is a threat, for some, change is a benefit. There are many changes occurring in North Queensland that can be seen in an 'either way' fashion. Changes in land use transpire to changes in land value. Current issues that are dominating our environment include Government policy which affect land use includes:

1. The threat of agriculture possibly being included in the Carbon Pollution Reduction Scheme (CPRS) from 2015. At this stage, there is global conjecture as to the inclusion of agriculture in similar schemes. The inclusion of Agriculture in Australia is contrary to decisions made by the United States, United Kingdom, Canada and some European countries. Given that Agriculture is included in the CPRS then there is reason to consider that input costs of production will rise. The costs of production in Australia may then be above those of our global competitors;

2. The implications to changes in regrowth management at the cessation for the Moratorium on clearing regrowth vegetation on 7 October 2009. The reduction in productivity of a property as a result of a grazier's inability to adequately treat regrowth is an industry fear that will result in negatively affecting the viability and value of the land.

The underlying asset value of property is affected by the highest and best use to which it is put. Reducing the legal use serves to limit the rate of growth of land values. It is important to embrace change and steer for the direction that land holders seek to capitalise.

In the meantime, there does appear to be an air of positivity and confidence returning to both the sugar and cattle industries. Sugar prices at the time of writing are up from the lows of 2004/05 at US 14c/lb to 21.79c/lb for October 2009 and then settling to 16.88c/lb for the October 2011 delivery.

For the cattle industry, only a couple of properties have sold this year. We are aware of two recent sale contracts, one in the eastern Gulf of Carpentaria and the other on Cape York.

The times are changing with influences from change in policy, global commodities markets and local property markets. A recipe for a vibrant rural industry!

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## CENTRAL QLD

The Central Queensland rural property market has slowed in terms of the volume of properties selling and the rate of sales since the market peak late in 2007, however good quality scrub grazing properties improved to permanent pastures and capable of finishing cattle at premium weight for age prices have still remained in demand and held their values accordingly. Evidence of this in the last few months would include:

- "Glenwood" Arcadia Valley - \$2,268/ha (\$917/ac)
- "Austral Park" Arcadia Valley - \$2,113/ha (\$855/ac)
- "Orana Park" Bauhinia Downs - \$2,300/ha (\$930/ac)

The slow down in sales is largely contributed to the fallout from the global financial crisis affecting Australian agribusiness financiers, resulting in a tightening of credit policies and restricting competition on the rural property market. Meanwhile vendors largely remain unmotivated, enjoying good seasonal conditions and cheap finance supported by a reasonably consistent cattle market. This ultimately has created a supply and demand equilibrium and to an extent protected values for the better classes of country.



However, in the current economic climate the above trend is by no means regular. We note the following sales which would indicate a down turn in the market.

- "Mallawa" Clermont – Sold 4/2005 at \$7.9M  
Resold 10/2005 at \$9M  
Resold 09/2008 at \$8M
- "Inderi" Springsure – Sold 11/2006 at \$5.9M (inc. plant)  
Resold 03/2009 at \$4.35M (inc. plant)

In the recent weeks there has been a slight increase in the number of properties listed for sale in the CQ area and the coming months will provide a clearer picture of the market direction into the 2010 year with a number of key blocks up for sale.

"Eastmere" at Clermont (last sold June 08) and "Fitzroyvale" on the doorstep of Rockhampton will attract plenty of attention when offered at auction in September. Both carry large numbers and will likely gain strong corporate interest.

One of the few sales occurring this month was "Forrest Hills" located north east of Emerald. The property has a total area of 3448ha (8620 acres) comprising a 50-50 mix of pulled brigalow scrub and poorer quality tableland forest. Sold at auction for \$3.45M which reflects rates in the order of \$1,000/ha (\$400/ac) and \$4,300 per beast area. A good sale given the mix of country.

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## NORTHERN TERRITORY

### NT/Kimberley Pastoral Market

Looking at the supply side for NT/Kimberley pastoral properties for sale, we can see that the numbers remain well up at around 8% of total NT pastoral leases (there are around 220 pastoral leases in the NT) and they are predominantly non corporate style properties. Currently there is a lack of buyer interest or willingness to commit at current asking prices, many of which were set around twelve months ago in more buoyant times.



A list (not exhaustive) of properties currently for sale across the NT and Kimberley (W.A.) is as follows:

#### Katherine/Sturt Plateau/Roper

1. Mountain Valley 2,813 km<sup>2</sup> Central Arnhem Region and Maryfield: 2,013 km<sup>2</sup> Sturt Plateau
2. Conways: 1,392 km<sup>2</sup>.. Central Arnhem Region
3. Bowood: 323 km<sup>2</sup>.. Katherine district
4. Banjo: 578 km<sup>2</sup>.. Sturt Plateau
5. Florina: 575 km<sup>2</sup>.. Katherine
6. Aroona (East Mathison): 1,475 km<sup>2</sup>. Katherine district
7. Murrnaji: 4,383 km<sup>2</sup>. Lower Sturt Plateau
8. Dixie: 466 km<sup>2</sup>. Katherine district
9. Lonesome Dove

#### Central Australia

10. Narwietooma: 2,590 km<sup>2</sup>. Central Australia
11. Mount Doreen: 7,337 km<sup>2</sup>.. Central Australia
12. Mount Ebenezer: 1,640 km<sup>2</sup>. - Central Australia
13. Maryvale: 3,244 km<sup>2</sup>. - Central Australia
14. Amburla: 2,305km<sup>2</sup>. - Central Australia

#### Other NT/Kimberley

15. McKinlay River: 470 km<sup>2</sup>.. Darwin Region (Arnhem Highway)
16. Mary River West: 932 km<sup>2</sup>.. Darwin Region (Pine Creek)
17. Tipperary Group: 9264 km<sup>2</sup>.. Darwin Region
18. Legune: 3060 km<sup>2</sup>. - VRD Gulf - Unique flood plain property
19. Moola Bulla/Mt Amhurst – 6,608 km<sup>2</sup>. Halls Creek, East Kimberley

Pressure to sell does not appear to be a major concern for this market at this stage (apart from the well publicised few) and a stalemate between vendors and purchasers has resulted in limited sales occurring in the year to date. As a consequence, we have not seen a large correction in values yet as many had predicted, perhaps just a mild one. And with not much moving it remains difficult to forecast the possible the extent of the correction. However the recent sale of "Tarlton Downs" in Central Australia is the first sale of a non-corporate type cattle station in the NT for around eight months. This reasonably well regarded 3,034 km<sup>2</sup> breeding and fattening property 420km North East of Alice Springs on the Plenty Highway, sold to a Queensland pastoral family for \$6.5M (WIWO) after an extended selling period. This transaction suggests that in order to achieve a sale, vendors are now having to be price realistic. Still, there was reportedly good interest for this property (from most states apart from the NT), but to coax a sale in the "private/family" market these days, it needs to be a reasonably good deal.

In the year to date, the main activity has been in the top value parameter where corporate purchasers have acquired top-class portfolios using investor funds rather than borrowed capital. We note that Macquarie Pastoral, Terra Firma and Primary Holdings International/RMW Agricultural Holdings, have made some significant acquisitions of northern pastoral properties over the last six months. These have all been first class holdings with carrying capacities generally exceeding 25,000 head. This is in clear distinction to the private or "family" class of pastoral property, where as indicated above, potential purchasers are indicating their unwillingness to commit to major rural property investment until more clarity is available on the uncertainties surrounding financial markets in Australia and the global economy in general.

As long as the fundamentals underpinning the NT/Kimberley pastoral industry don't change too much for the worse and prospects remain strong for the live export market, value levels for top class pastoral property should continue to be supported by the fact that supply of high quality properties at any one time will always be limited. To highlight this, we note that the unique Darwin floodplain property "Welltree Station" (391 km<sup>2</sup>) within 150km from Darwin has sold to RM Williams Agriculture Co for \$18M plus cattle and plant. This property was last sold in early

2006 for around \$7.8M (plus cattle, plant). The property sold as part of the La Belle Downs/Welltree floodplain aggregation (total 994 km<sup>2</sup>). The La Belle Downs sale has yet to formally settle and details remain confidential at this stage, however the BAV price is expected to be in sync with "Welltree".

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## South Western WA

The Scott River district is located about 150 kilometres south west of the city of Bunbury, some 350 kilometres south west of Perth. This narrow strip follows the coast line in an east west direction with a predominant soil type of thin coastal sands and light loam over an underlying clay base having overall fair to poor drainage, very mild undulation and large areas of swamp, and not particularly good nutrient levels. The area was initially cleared of its mainly coastal scrub for run off grazing and as Scott River is poorly serviced with regards to electricity and communications, very few permanent homes were established.

In the late 1980's and early 1990's, the larger land areas compared to the wider region, typically above 200 hectares, were sought after from Japanese syndicates and MIS investors to establish plantation timber with many properties under lease for an average 21 years and now nearing expiry on many properties. However, improvements in technology and deregulation of the dairy industry in Western Australia have opened up this region for more intensive agriculture with significantly higher potential returns than considered possible a relatively short time ago.

Since 2004/05, large scale dairy operations have been commenced utilizing centre pivot irrigation over perennial pastures with areas under each pivot taking about two years to become fully established. Each pivot covers 40 hectares and one bore can service two pivots. At present, there are five properties in operation with a sixth under construction. Pivots per property range between 6 and 9 in number with an ideal stocking rate of 200 cows per pivot. It has been found actual water usage is less than for our more traditional dairy areas due to lesser fluctuation in temperature as the coast is within 5 kilometres from the furthest property and frosts are largely nonexistent to affect pastures.

Modern dairies are established on these properties being 60 head rotational, steel framed and sandwich panel clad with raised concrete ramps and platform, sluice jets, effluent ponds and yards. Including plant, the latest establishment cost for this component of the whole property alone is about \$1,500,000. Further infrastructure costs for bores, liquid fertilizer tanks, and pivots then are added on top creating an initial sizeable capital expenditure with stock purchases also required.

The large outlays required to establish projects of this size, as well as transport costs from what is an isolated

area, should be offset over time by the economies of scale in being able to milk up to between 1200 and 1800 head per property with minimal labour costs as the operations become fully established. No properties have been sold, however it is considered appropriate to value the area under pivot in line with the more traditional irrigated values in the south west of WA, as productivity reaches similar returns, which currently is within the vicinity of \$25,000 per hectare. Dryland returns in Scott River are currently about \$5,500 per hectare with land under plantation leases considered to have a value around \$3,500 to \$4,000 per hectare.

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## Comparative Property Market Indicators - August 2009

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 & MENA 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
Horsham	(03) 5382 6541
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 - August 2009

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 & MENA 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 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:

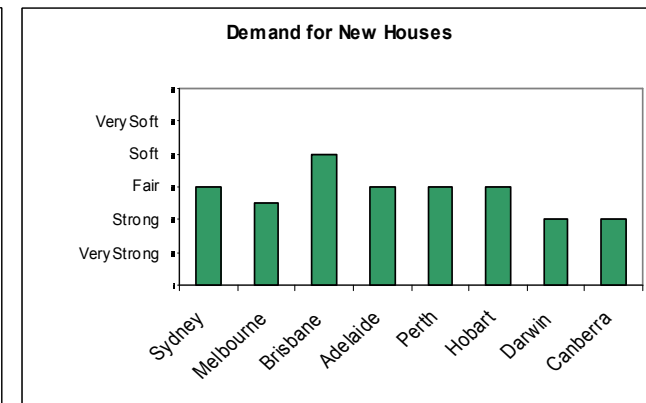
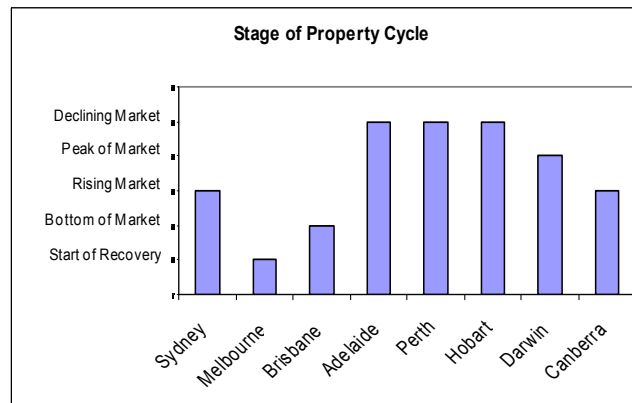
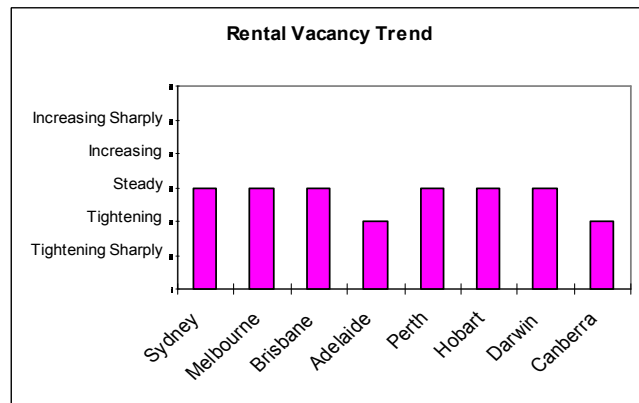
Adelaide	(08) 8231 6818
South West WA (Bunbury/Busselton)	(08) 9791 6204/ (08) 9754 2982
Perth	(08) 9388 9288
Darwin	(08) 8941 4833

## Capital City Property Market Indicators as at August 2009 – Houses

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

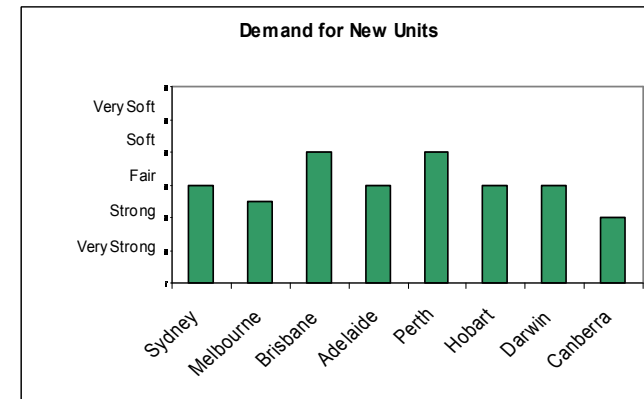
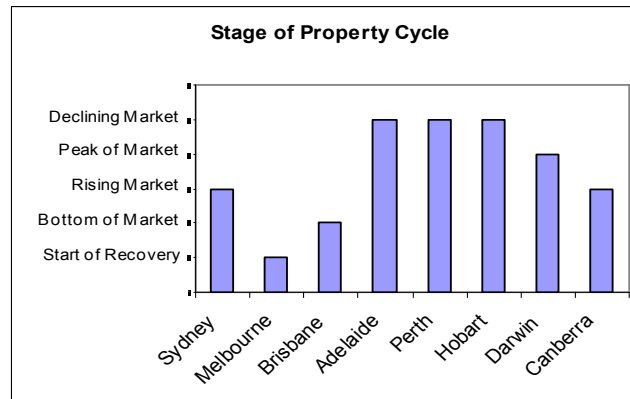
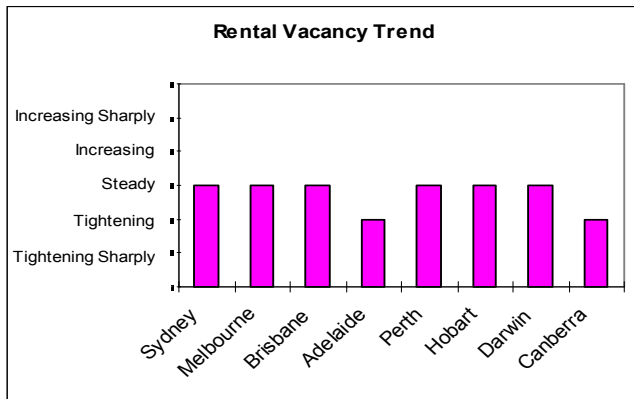


### Capital City Property Market Indicators as at August 2009 – Units

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

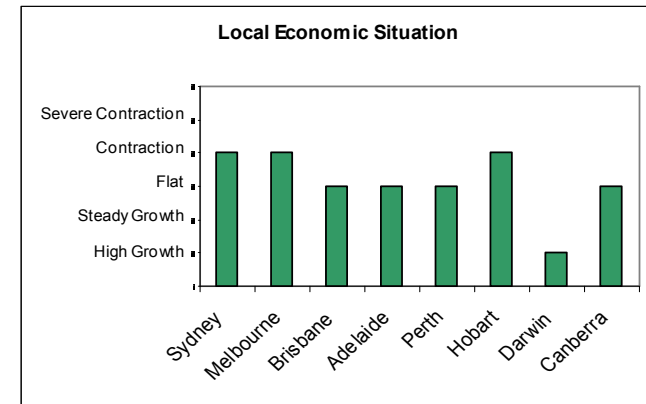
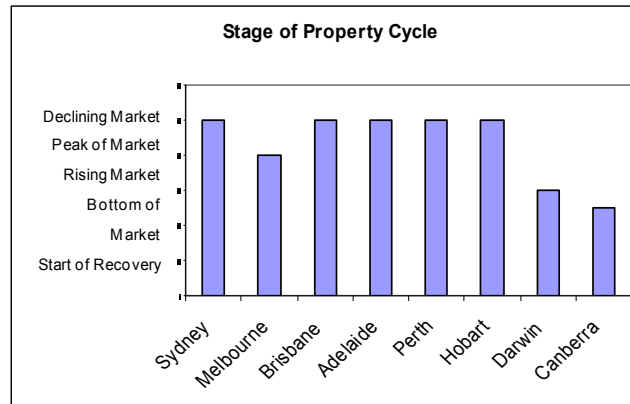
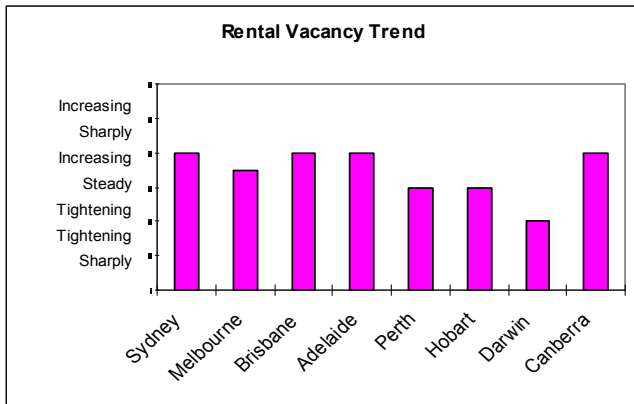


## Capital City Property Market Indicators as at August 2009 – Retail

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

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

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

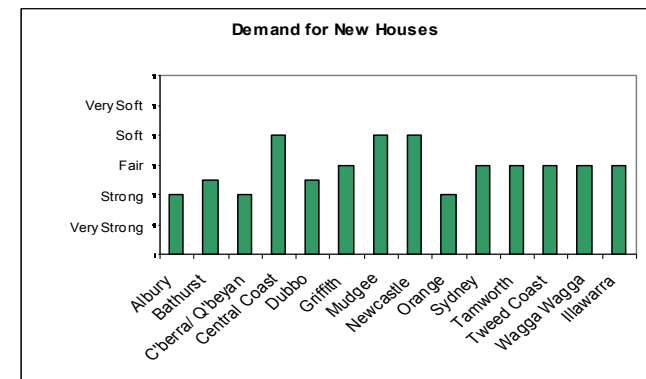
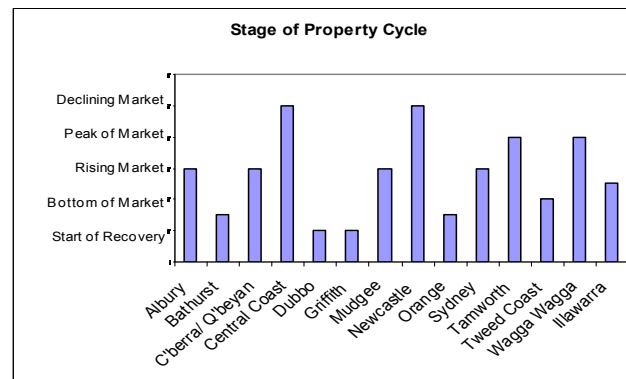
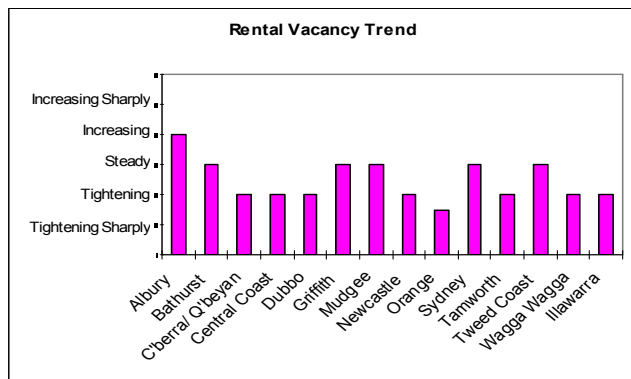


## New South Wales Property Market Indicators as at August 2009 – Houses

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

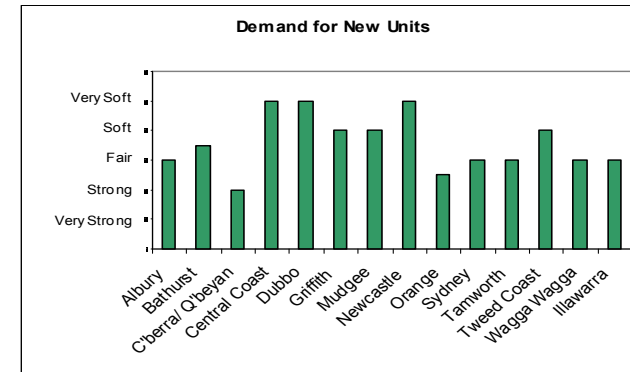
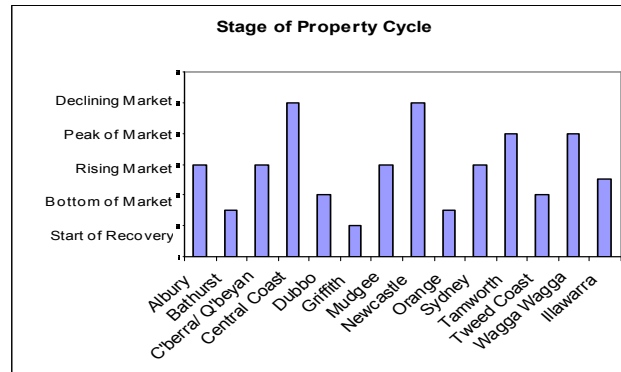
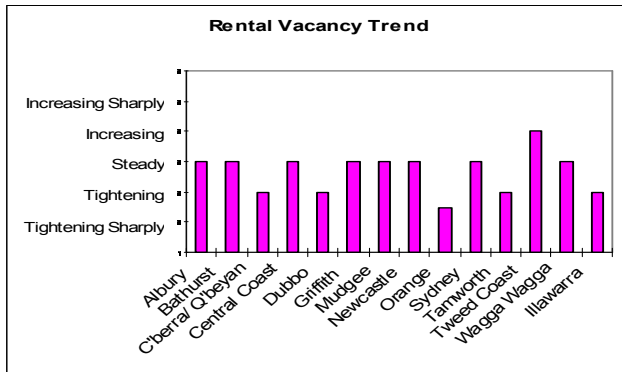


## New South Wales Property Market Indicators as at August 2009 – Units

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

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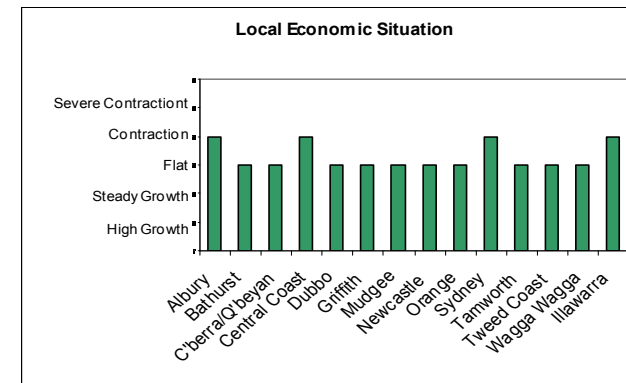
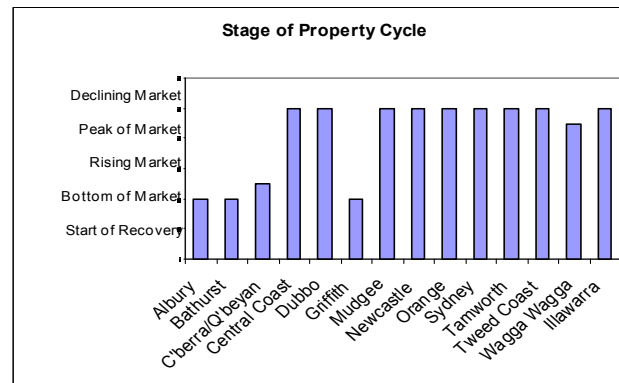
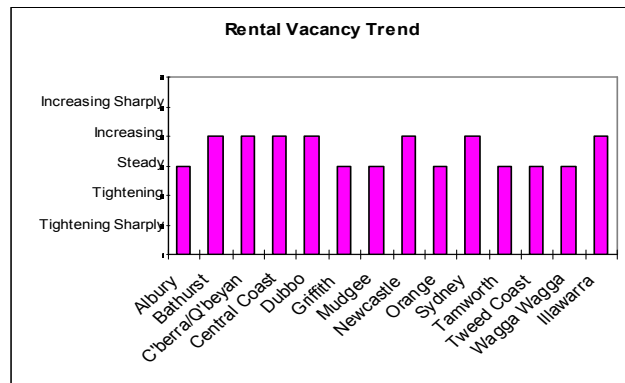


## New South Wales Property Market Indicators as at August 2009 – Retail

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	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Steady	Increasing	Increasing	Increasing	Increasing	Steady	Steady	Increasing	Steady	Increasing	Steady	Steady	Steady	Increasing
Rental Rate Trend	Stable	Stable	Declining - Stable	Declining	Stable	Stable	Stable	Declining	Stable	Declining	Stable	Stable	Stable	Declining
Volume of Property Sales	Declining	Steady	Steady	Declining	Declining	Declining	Steady	Declining	Declining	Steady	Declining	Declining significantly	Steady - Declining	Steady
Stage of Property Cycle	Bottom of market	Bottom of market	Bottom of market - Rising market	Declining market	Declining market	Bottom of market	Declining market	Declining market	Declining market	Declining market	Declining market	Declining market	Peak of market - Declining market	Declining market
Local Economic Situation	Contraction	Flat	Flat	Contraction	Flat	Flat	Flat	Flat	Flat	Contraction	Flat	Flat	Flat	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small - Significant	Significant - Large	Large	Significant	Large	Significant	Large	Small	Significant	Significant	Significant	Significant	Significant

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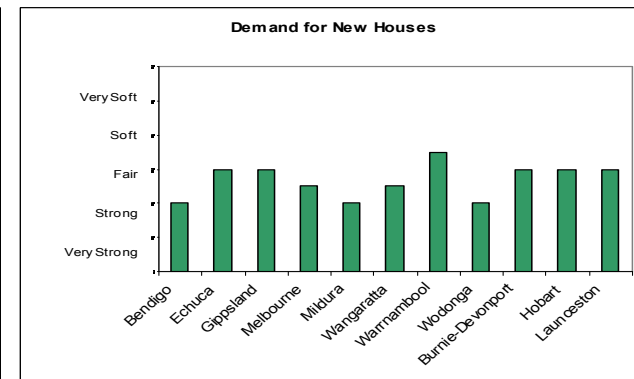
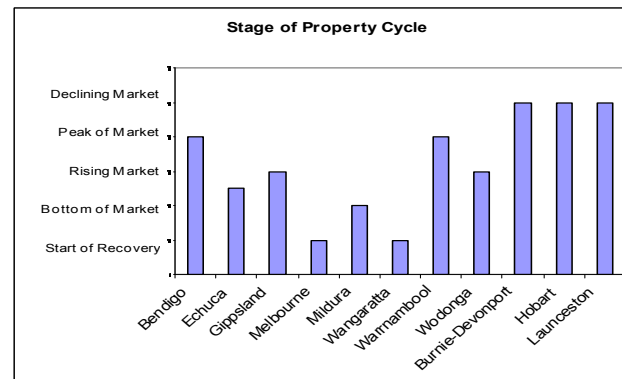
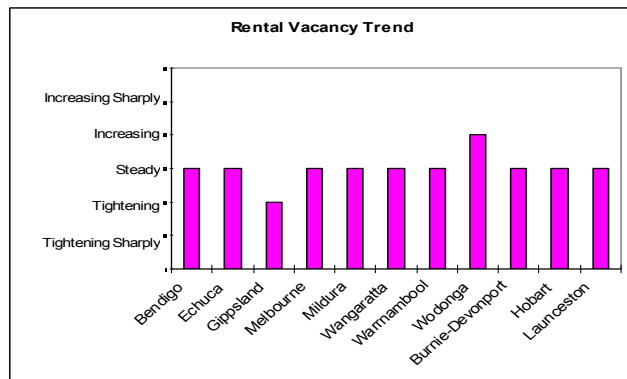


## Victoria/Tasmania Property Market Indicators as at August 2009 – Houses

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

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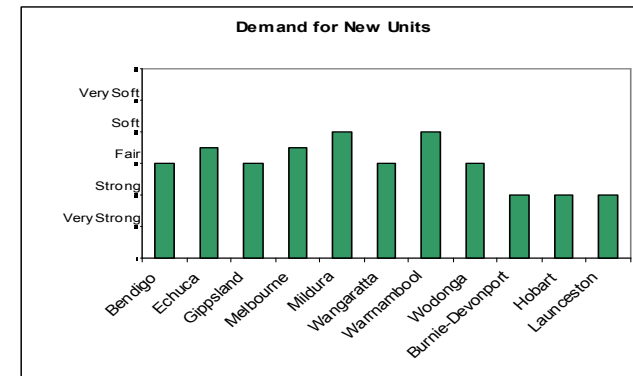
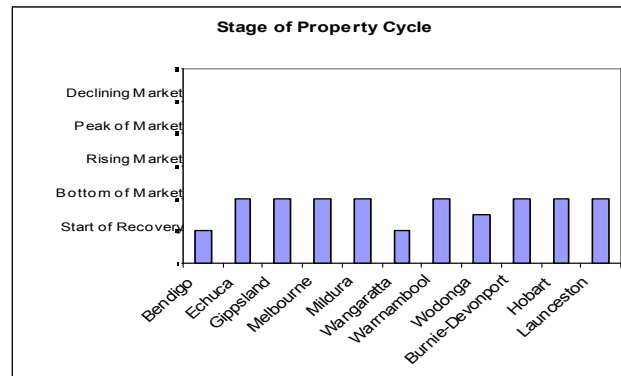
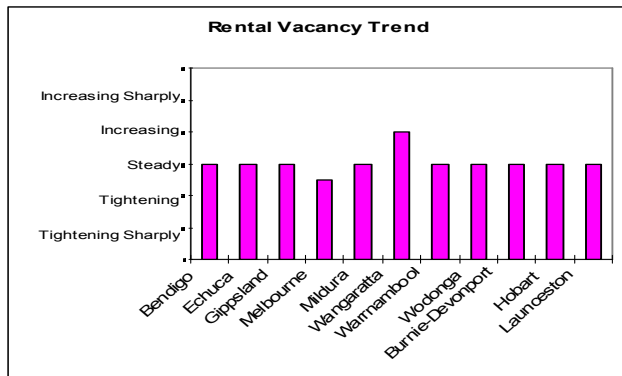


## Victoria/Tasmania Property Market Indicators as at August 2009 – Units

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Wangaratta	Warrnambool	Wodonga	Burnie - Devon-port	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand - Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Tightening	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady
Demand for New Units	Fair	Fair	Fair	Fair - Strong	Fair	Fair	Fair	Fair	Fair	Fair	Fair
Trend in New Unit Construction	Steady	Steady - Increasing	Steady	Steady - Increasing	Increasing	Steady	Increasing	Steady	Declining	Declining	Declining
Volume of Unit Sales	Steady	Steady	Steady	Increasing - Steady	Steady	Steady	Declining - Declining significantly	Steady	Declining	Declining	Declining
Stage of Property Cycle	Peak of market	Bottom of market - Rising market	Rising market	Start of recovery	Bottom of market	Start of recovery	Bottom of market	Rising market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Occasionally	Almost never - Occasionally	Occasionally	Occasionally	Occasionally

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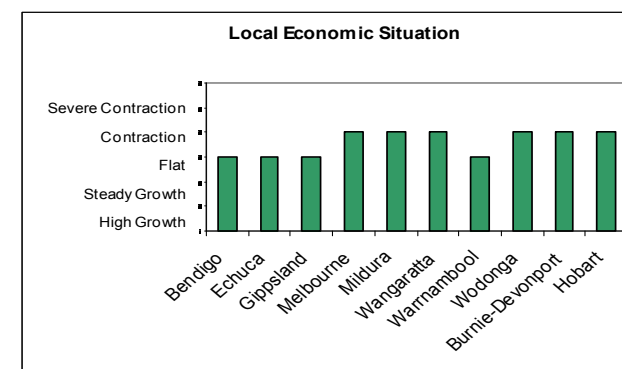
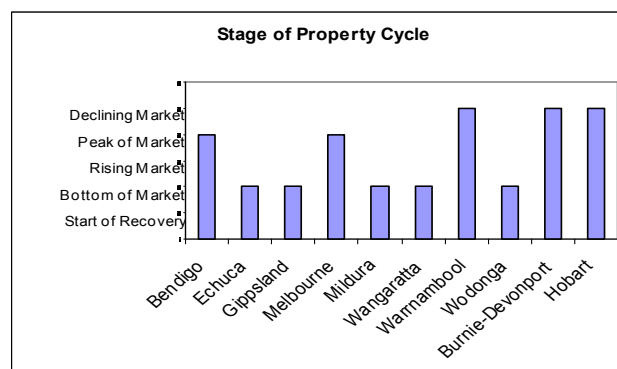
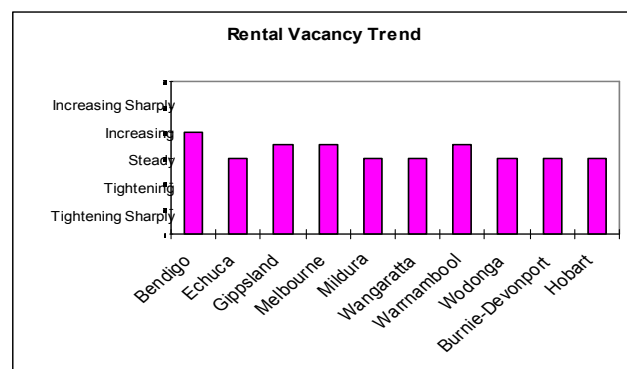


## Victoria/Tasmania Property Market Indicators as at August 2009 – Retail

Factor	Bendigo	Echuca	Gippsland	Melbourne	Mildura	Wangaratta	Warrnambool	Wodonga	Burnie - Devon-port	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Increasing	Steady	Steady - Increasing	Steady - Increasing	Steady	Steady	Steady - Increasing	Steady	Steady	Steady	Steady
Rental Rate Trend	Stable	Stable	Stable	Declining - Stable	Declining	Stable	Declining - Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Declining	Declining	Steady - Declining	Declining	Steady	Declining	Declining	Declining	Declining	Declining	Declining
Stage of Property Cycle	Peak of market	Bottom of market	Bottom of market	Peak of market	Bottom of market	Bottom of market	Declining market	Bottom of market	Declining market	Declining market	Declining market
Local Economic Situation	Flat	Flat	Flat	Contraction	Contraction	Contraction	Flat	Contraction	Contraction	Contraction	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Small	Small	Significant	Significant	Small	Significant	Small	Small	Small

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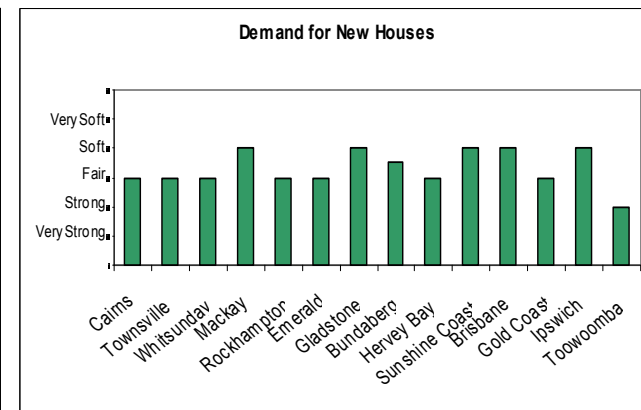
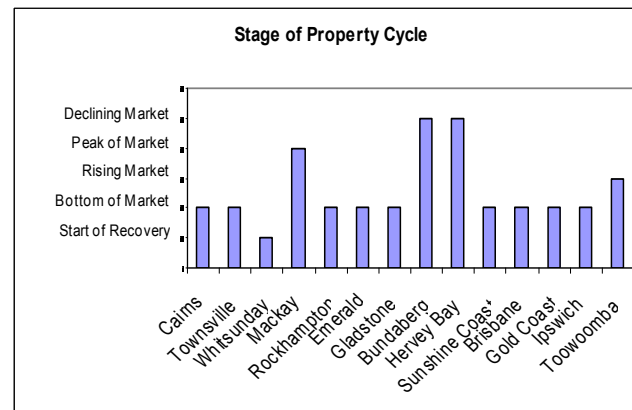
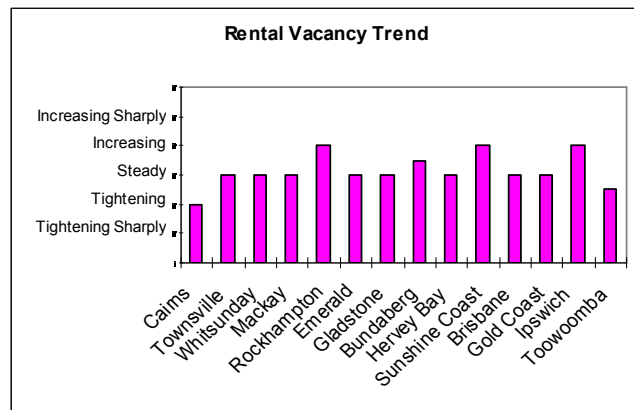


### Queensland Property Market Indicators as at August 2009 – Houses

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

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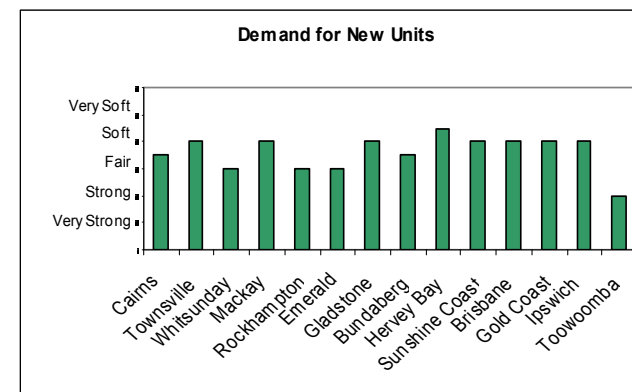
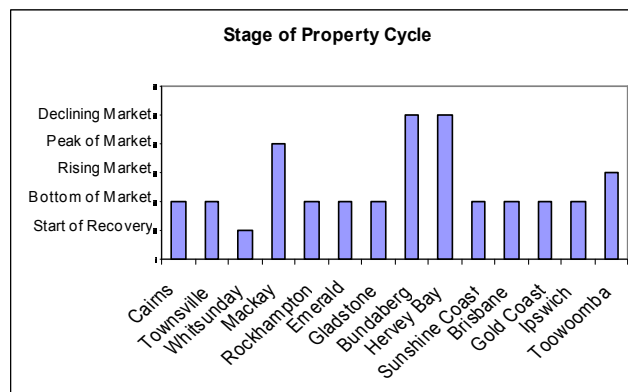
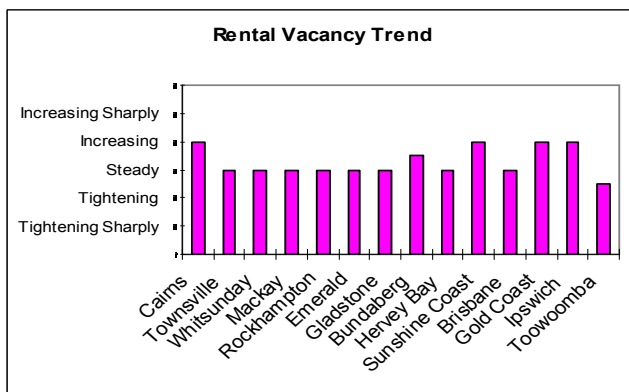


## Queensland Property Market Indicators as at August 2009 – Units

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

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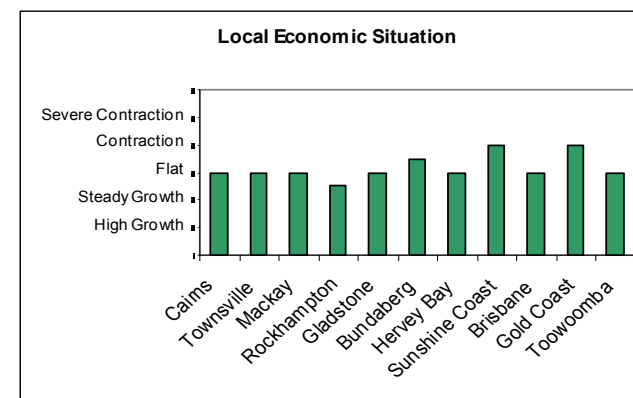
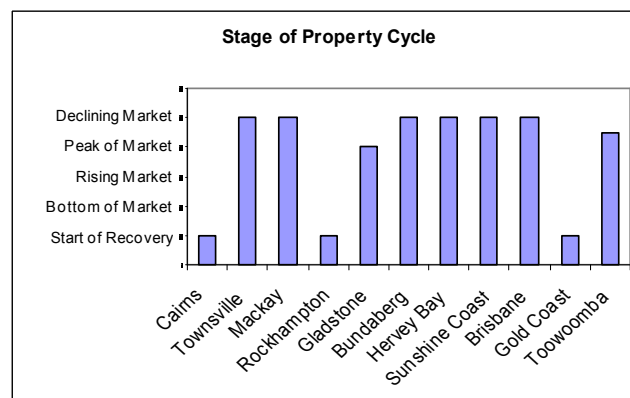
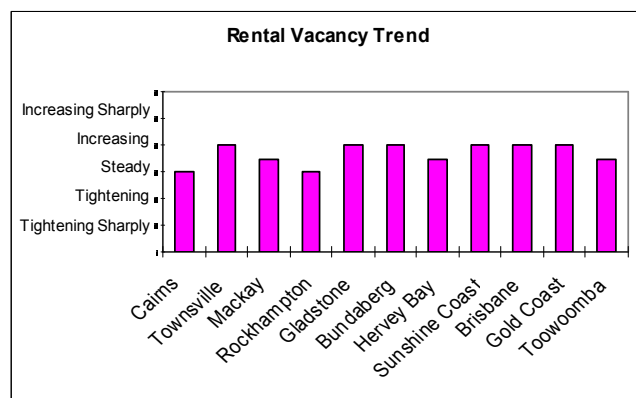


## Queensland Property Market Indicators as at August 2009 – Retail

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

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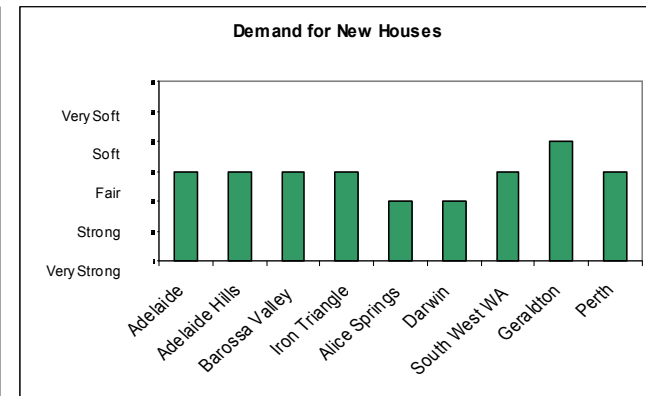
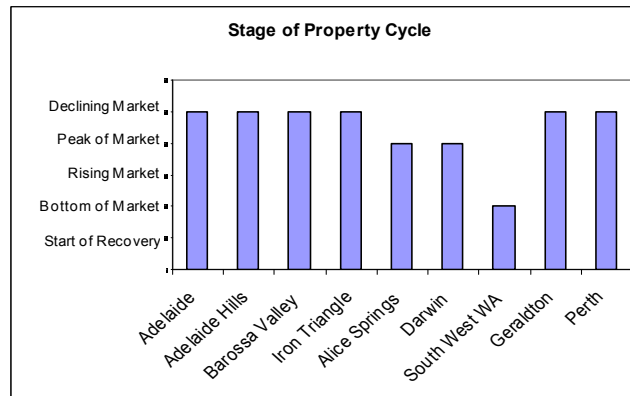
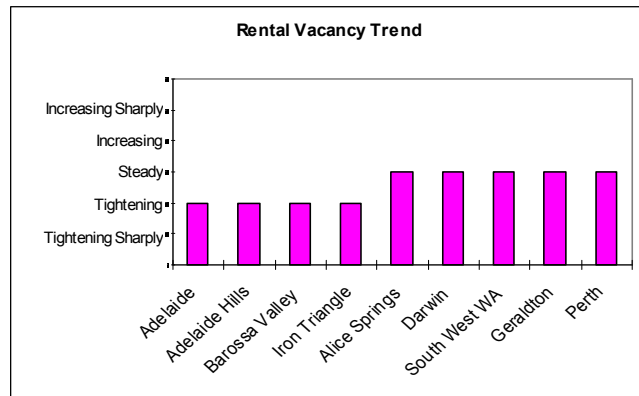


## Northern Territory, South Australia & Western Australia Property Market Indicators as at August 2009 – Houses

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Alice Springs	Darwin	Bunbury	Busselton	Dunsborough	Geraldton	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Tightening	Tightening	Tightening	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening
Demand for New Houses	Fair	Fair	Fair	Fair	Strong	Strong	Fair	Soft	Fair	Fair	Fair
Trend in New House Construction	Steady	Declining	Declining	Declining	Steady	Steady	Steady	Steady	Steady	Steady	Declining
Volume of House Sales	Declining	Declining	Declining	Declining	Steady	Increasing	Increasing	Declining	Increasing	Declining	Declining
Stage of Property Cycle	Declining market	Declining market	Declining market	Declining market	Peak of market	Peak of market	Bottom of market	Declining market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Frequently	Frequently	Almost never	Occasionally	Occasionally	Almost never	Occasionally

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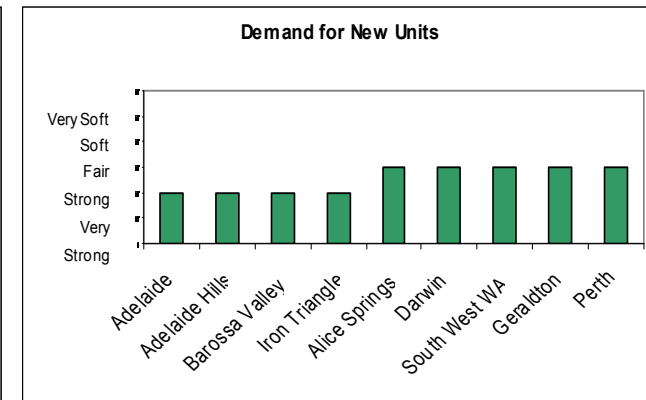
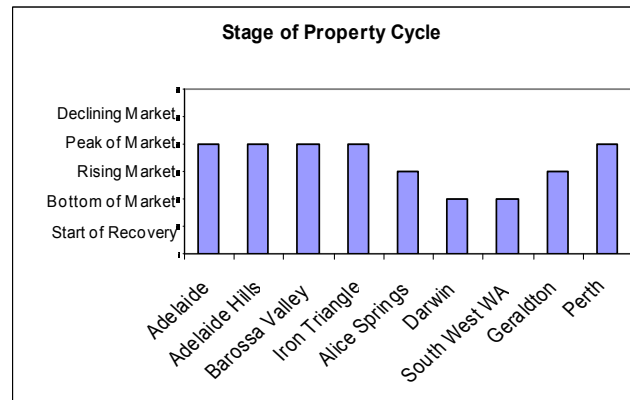
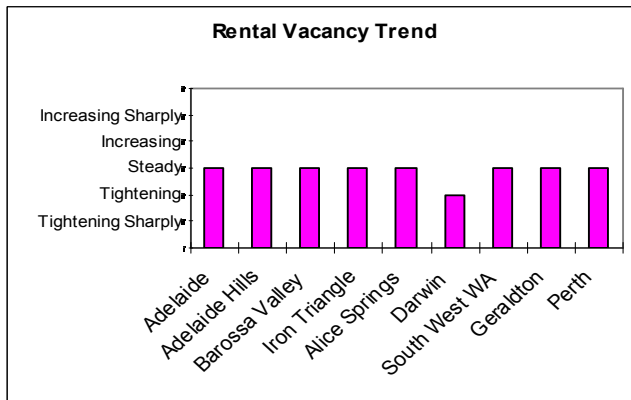


## Northern Territory, South Australia & Western Australia Property Market Indicators as at August 2009 – Units

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Alice Springs	Darwin	Bunbury	Busselton	Dunsborough	Geraldton	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market
Rental Vacancy Trend	Tightening	Tightening	Tightening	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening
Demand for New Units	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Fair	Soft	Fair	Fair
Trend in New Unit Construction	Steady	Declining	Declining	Declining	Steady	Steady	Steady	Steady	Declining	Steady	Declining
Volume of Unit Sales	Declining	Declining	Declining	Declining	Steady	Increasing	Increasing	Steady	Declining	Declining	Declining
Stage of Property Cycle	Declining market	Declining market	Declining market	Declining market	Peak of market	Peak of market	Bottom of market	Declining market	Declining market	Declining market	Declining market
Are New Properties Sold at Prices Exceeding Their Potential Resale Value	Almost never	Occasionally	Occasionally	Occasionally	Frequently	Frequently	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 August 2009 – Retail

Factor	Adelaide	Adelaide Hills	Barossa Valley	Iron Triangle	Alice Springs	Darwin	South West WA	Geraldton	Perth
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market - Over-supply of available property relative to demand	Balanced market	Balanced market
Rental Vacancy Trend	Increasing	Steady	Steady	Steady	Steady	Tightening	Steady	Increasing	Steady
Rental Rate Trend	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Declining	Declining	Declining	Declining	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Declining market	Peak of market	Declining market	Declining market	Rising market	Rising market	Peak of market	Declining market	Declining market
Local Economic Situation	Flat	Flat	Flat	Flat	Steady growth	High growth	Flat	Flat	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Small	Small	Small	Significant	Small	Small	Nil	Significant

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