Australian Economic and Property Report 2016

Policies Polarise Property Outlook

PRD nationwide

Foreword

The Australian Economic and Property Report is an important resource for those wanting to keep well-informed of market trends in what's proving to be a rapidly evolving and disparate property market.

This year is certainly shaping up to be interesting with considerable fluctuations in consumer sentiment. Number of houses listed for sale have varied across the country and the topics of housing affordability and foreign investment remain front and centre in the political debate.

With such variance in economic and property indicators, and an uncertain political climate, the property landscape lacks both consistency and a clearly defined direction for the remainder of 2016. However, stable employment conditions and low interest rates means the talk of any property bubble should diminish.

PRDnationwide's continued leadership and innovation in Research ensures our offices and clients are on the forefront of market trends. After 40 years, the foundation PRD principles still hold true today – backed by research, data and market expertise.

Our franchise network has a strong understanding of the local market, extensive knowledge of what buyers and vendors need and a passion to see communities that we operate in flourish when fostering our *Sell Smarter* attitude.

Tony Brasier
Chairman and Managing Director,
PRDnationwide

Welcome

Welcome to our Australian Economic and Property Report 2016, prepared and released during the final stages of the Federal Government election campaign.

2015 was an exciting year, full of many firsts (for example the double rates cut in the 1st half of 2015) and a series of multi-million (some even multi-billion) dollar residential and mixed residential/commercial projects planned for construction. Undoubtedly one could say that the property market was "hotter than ever", particularly in capital cities. 2015 closed with a highly divergent property trend, with many capital and regional markets reaching peak of the market yet others at declining stages of the market.

2016 seems to be determined to compete with 2015, with the 1st half for 2016 jam-packed with events that has led a divergent property market to one that is somewhat polarising. Indeed – Australian Consumer Sentiment's fluctuating patterns in the 1st half of 2016 mirrors that of the 1st half of 2015, however at a greater magnitude of change.

Sentiment/confidence fluctuations are the result of a combination of events, such as: Reserve Bank of Australia rate cut to 1.75points – a historical low, release of the Federal Budget 2016, uncertainty in real estate specific policies, new investment and banking regulations, Federal Government election, recent world events (when economic super powers such as USA and UK are in turmoil one can only feel somewhat "lost"), and not to mention the numerous comments and scrutiny from economists and property analysts claiming that we are heading towards a crash (or burst in the housing bubble) one minute and recovering the next.

For the first time in quite a while housing affordability is a major political debate, particularly over the notion of negative gearing and capital gains tax. Both sides of the political parties have put forward their proposed policies on the matter, and judging from the vivacious debate around these topics the nation is divided.

It is without a doubt that this issue will highlight the seemingly polarised journey of many economic and property indicators. As a result it might be challenging to gain a conclusive picture and a sense of clear direction for what action to take in the property market – this is the first issue in which we have had relatively equal amounts of green, orange, and red traffic lights to illustrate the health of each economic and property indicator.

It seems that there are still too many unresolved deciding factors before we have a clear direction as to where the property market is heading for the rest of 2016. Despite the numerous comments, analysis, predictions, and warnings; unfortunately it is a matter of "wait and see".

Yours in research,

Dr Diaswati Mardiasmo
National Research Manager,
PRDnationwide

Contents

There are two key guidance points throughout this document. Traffic light indicators on the health of market conditions and highlights on what each economic and/or property graph could mean for you.

Health of the Market Indicator:

Red: cautious
Need to pay increased attention

Yellow: somewhat stable
Needs to be carefully monitored

Green: go
Healthy market conditions

Research Team Key Contributors:

National Research Manager
Dr Diaswati (Asti) Mardiasmo

Research Analysts
Dr Parisa Mahyari
Amanda Bittenbinder
Christine Ely
Cassandra Bacon
Anna Hall

About PRDnationwide

PRDnationwide is an acknowledged industry real estate leader. We've been in the business of selling and managing properties since 1976 and have a network of over 100 franchise offices spanning nationally and internationally (and still counting).

PRDnationwide Research is home to the latest and most in-depth property knowledge in Australia and beyond, establishing us as the leading property and real estate research provider. Through a series of research products we provide a wide range of direct and indirect stakeholders with the most up-to-date data and analysis, monetary and fiscal policy movements, Local Government initiatives; and relevant residential, commercial, and infrastructure project developments.

PRDnationwide are innovators in research. Our team of Research Analysts are key contributors to topical discussions relevant to local, regional, and national interests through a series of reports, conference papers, and regular media commentary. As a leader in research we work in collaboration with multiple stakeholders across a range of academic expertise, working with multinational organisations, local communities, and State Government Departments.

How We Can Help You:

If you would like to know more about key trends and the impacts of what's happening in your market speak directly to our dedicated research team today at **research@prd.com.au**.

We can provide you with secure access to all of our research and the privilege of receiving our latest market commentary, in-depth analysis, upcoming trends, and up-to-date data and research forecasts.

Partner With Us:

There is nothing worse than flying solo and attempting to navigate your way without clear directions. Our team of highly experienced research analysts strive to be your best wingman (and wingwoman), delivering strategic advice enabling you to make fully informed decisions and ensure your next project has a positive outcome. If you would like to access our range of in-depth Research Consultancy Services, contact our team at **research@prd.com.au**.

PRDnationwide Research:

About PRDnationwide Research

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

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

Our Knowledge

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

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

We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections and strategic research collaborations.

We focus on understanding new issues impacting the property industry such as the environment and sustainability, Government policy and initiatives, the economy, demographic and psychographic shifts, commercial and residential design, and forecast future implications around such issues based on historical data and fact.

Our People

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

Skilled in deriving macro and micro quantitative and qualitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance.

We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the best considered.

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

Our Services

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

We have the ability and systems to monitor market movements, demographic changes and property trends.

We use our knowledge of market sizes, price structure and buyer profiles to identify opportunities for clients and provide market knowledge that is unbiased, thorough and reliable.

Our services include:

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

Overview

The 1st half of 2016 has been quite colourful, both at a national and international level. Many national events – whether it is at Federal or State Government level – have resulted in a somewhat "confused" state as to which direction the property market is heading into. Whilst it was generally agreed that 2015 closed with a divergent property market, be it between capital cities or between capital and metropolitan (and regional) markets, the 1st half of 2016 is rife with predictions of a crash one minute and a recovery the next.

The Australian Consumer Sentiment is definitely a reflection of heightened societal uncertainty, for whilst its fluctuation pattern mirrors that of the 1st half 2015, the 1st half of 2016 moved at a greater magnitude; with the index reaching its highest level, since January 2014, in May 2016. That said there is a lean towards a positive direction as the Australian Consumer Sentiment Index has, on average, performed better than 6 or 12 months ago. In the 1st half of 2016 the index gave a positive reading three times (February – 101.3points, May – 103.2points, and June – 102.2points), whereas 12 months ago the index only gave a positive reading twice (February 2015 – 100.7points and May 2015 – 102.4points) and 6 months ago also only twice (November 2015 – 101.7points and December – 100.8points).

More than ever, the issue of housing affordability is at the forefront of Australia's conversation; with many sides weighing in on how the issue can be addressed. Compared to 2015 monetary and fiscal policy played well together this year, with the Reserve Bank of Australia cutting the cash rate by 25 points to 1.75 on 3rd May 2016 – just hours before the Federal Budget 2016 was handed down. Any budgetary announcement has traditionally caused a stir in society as people become wary of what tax and benefits changes might impact them and thus their household disposable income. The cutting of cash rates at such a timely manner eases this angst, as it signals potentially lower mortgage repayments for owners. Indeed Australian Consumer Sentiment increased by 8.5% in May 2016, a stark contrast to 2015's 6.9% decrease when the Federal Budget 2015 was handed down.

Foreign investment is once again a hot topic, with both State and Federal Government on the road to changing the rules of the game. From 1st July 2016 the Federal Government, through the Australian Taxation Office (ATO), is claimed to be targeting foreign residents, with a new tax rule applicable to any property

KEY FACTS

Consumer Price Index:	1.3 %
Standard Variable Home Loan Rate:	5.0%
Unemployment Rate:	5.7%
Average Australia Fuel Price:	$1.24/L

transactions where the market value of the property is $2M and above. Purchasers of a foreign resident's Australian real property is required to withhold 10.0% of the purchase price and pay it to the ATO unless the seller provides a variation. The new tax rule is also applicable to Australian residents, as they are required to provide a clearance certificate otherwise a withhold of the 10.0% purchase price will apply. Although the effect is currently unknown, many speculate that this will "severely impact" the high-end market in some cities and may dissuade foreign investors.

In 2015 Victoria introduced a 3.0% stamp duty tax for foreign investors, a move that worried analysts at the time however has proven to have very little effect. In May 2016 Melbourne's house price index recorded a year on year change of 13.9%, rivalling Sydney's 13.1% year on year change. Queensland has plans of introducing a similar tax in July 2016, a move that is also worrying analysts, due to the fact that the Queensland market is dissimilar to Victoria's and its economy is still in transition from that of mining sector reliant to a more service-based industry. Indeed Brisbane recorded a 7.1% year on year change for house prices, which already pales to that of Melbourne's. The question is, can Queensland be subjected to the same stamp duty tax for foreign investors?

It is interesting to observe that the number of total listings in May 2016 has increased by 10.4% over the past 12 months, however the number of new listings have only grown by 1.3%. Even more interesting, the number of new listings in Sydney and Melbourne declined over the past 12 months, at -5.8% and -1.1% respectively. Double digit growth in the number of new listings over the past 12 months can be seen in Brisbane and Adelaide, at 10.1% and 13.3% respectively, which is a curious – however somewhat to be expected – shift as these two markets are traditionally not seen as "big" markets and, frankly, more affordable markets.

For the first time in quite a while housing affordability is a major political debate, particularly over the notion of negative gearing and capital gains tax. Both sides of the political parties have put forward their proposed policies on the matter, and judging from the vivacious debate around these topics the nation is divided.

Will a new negative gearing policy (whether a variation to the current rules or abolishing it all together) positively or negatively impact housing affordability? Is keeping things "as is" the way to go, given that property ownership and investment is still the main wealth builder for many Australians?

Various data and research houses have released their two cents worth, with comments ranging from in support of a new negative gearing policy to allow a fairer playing field for first homebuyers to those painting a "doom and gloom" fall in property prices and hikes in rental prices if negative gearing is to be limited or abolished. Multipliers effect on other industries and workforce – for example construction and trades people – have also been thrown in the mix, to further highlight how the property industry is the crux of the Australian economy and any proposed changes that may impact it need a long hard think.

New listings in Sydney and Melbourne declined over the past 12 months to May 2016, at -5.8% and -1.1% respectively. Double digit growth in the number of new listings over the past 12 months can be seen in Brisbane and Adelaide, at 10.1% and 13.3% respectively, reflective of housing affordability issues being at the forefront of Australia's conversation.

Property Growth

Thriving one minute, surviving the next.

Capital city markets are under very close scrutiny in the 1st half of 2016, with auction clearance rates and any movement in price analysed on a shorter timeframe (month to month) than usual (quarterly or half-yearly). Although not unusual following a hot market (in 2015), it can create some uncertainties for property buyers, particularly on which direction should they take: sell, hold, or buy? The 1st half of 2016 sees average growth of 3.8% for capital city markets over the past six months, which although is still positive it is lower in comparison to the average 6.6% growth over the past 12 months.

Average Growth in Median House Price

	Capital City					Metro					Regional				
	1 2014	2 2014	1 2015	2 2015	1 2016	1 2014	2 2014	1 2015	2 2015	1 2016	1 2014	2 2014	1 2015	2 2015	1 2016
NSW	11.1%	3.3%	11.8%	5.9%	8.3%	8.0%	4.9%	13.9%	6.3%	-1.0%	0.3%	1.0%	2.9%	3.1%	-0.1%
QLD	4.1%	3.4%	0.5%	5.3%	1.6%	1.8%	1.7%	1.4%	3.4%	0.3%	-3.9%	-1.9%	0.3%	8.9%	-1.9%
VIC	9.4%	3.8%	2.9%	9.7%	6.5%	3.6%	1.8%	10.0%	8.3%	0.8%	1.8%	-2.1%	3.4%	2.3%	2.8%
WA	-54.4%	0.5%	-0.2%	-2.4%	-1.2%	0.0%	2.8%	-5.6%	3.3%	-9.3%	2.3%	-5.0%	1.3%	-31.7%	0.9%
TAS	-3.1%	2.5%	2.1%	2.3%	0.9%	0.3%	2.4%	3.6%	0.8%	3.6%	6.0%	2.1%	3.7%	3.7%	0.3%
NT	0.0%	-2.4%	-4.6%	4.8%	6.7%	2.1%	1.0%	2.7%	-1.0%	-3.4%	-30.8%	-2.0%	-13.1%	10.1%	-4.4%
SA	-0.2%	-4.0%	6.6%	-6.9%	3.6%	3.4%	1.3%	3.5%	-1.6%	4.3%	0.7%	4.0%	-1.8%	-6.7%	1.1%
ACT						-1.4%	1.9%	-0.6%	13.0%	0.4%					

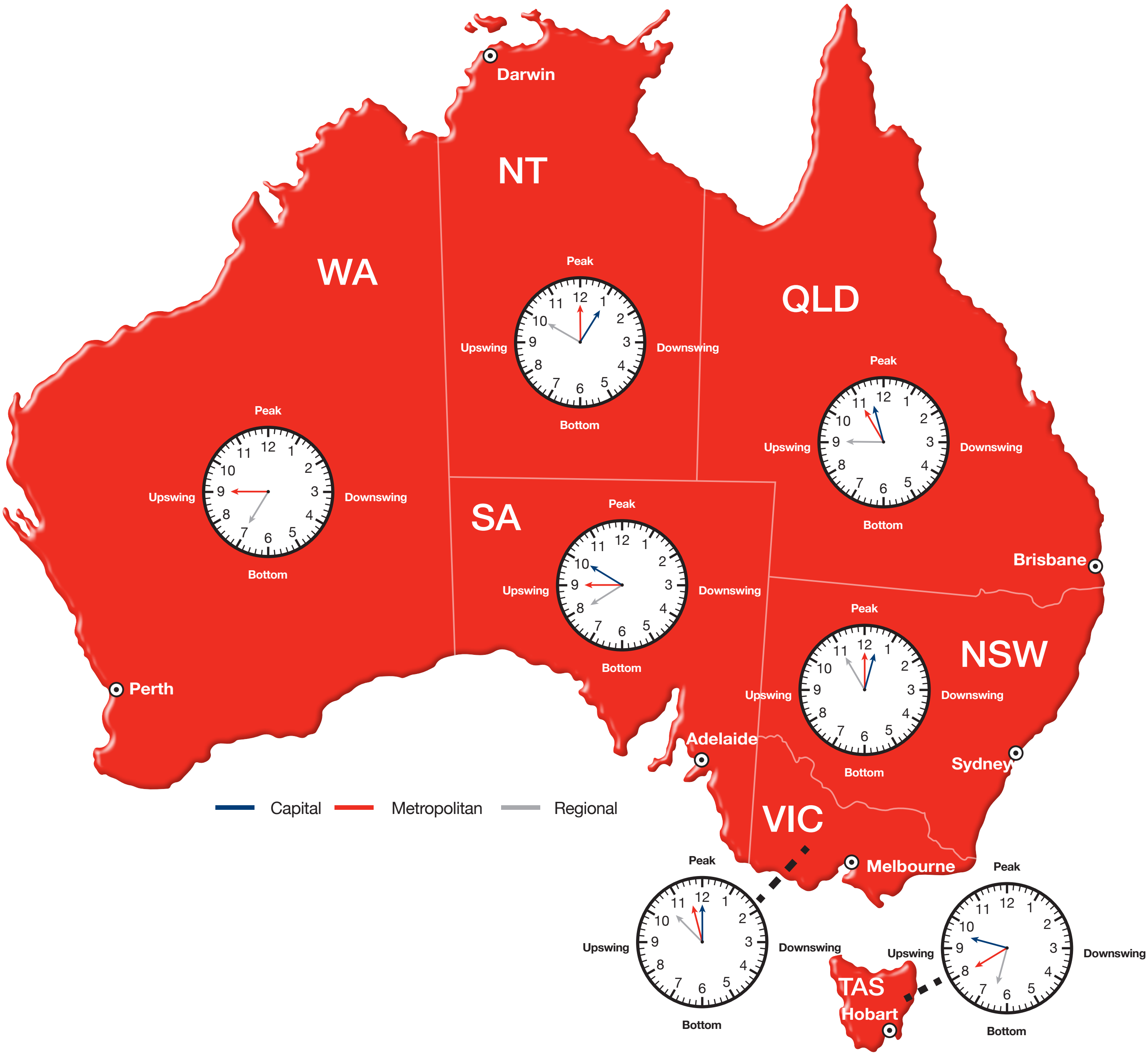
Metropolitan markets continue to perform, with the highest growth for the 1st half of 2016 reported in South Australia (4.3%), followed by Tasmania (3.6%). Other metropolitan markets – Queensland (0.3%), Victoria (0.8%), Australian Capital Territory (0.4%) – continue to record positive growth, however at figures lower than expected. This is potentially due to uncertainties within society, thanks to proposed changes in property related tax and regulations. Unexpectedly the New South Wales metropolitan market declined by -1.0%, which although not yet at worrying levels, does need to be taken into consideration when contemplating a change in policy.

Regional Australia's property growth proves to be sustainable, and is in fact faring towards positive growth. Average growth over the past 6 months to the 1st half of 2016 is at -0.2%, an improvement from growth over the past 12 months of -1.8%. Positive price growth over the past 6 months can be seen in Victoria (2.8%), Western Australia (0.9%), Tasmania (0.3%), and South Australia (1.1%); reflecting consumer confidence in regional markets. Interestingly New South Wales and Queensland both report declining figures (-0.1% and -1.9%, respectively). In Queensland this is potentially reflective of the industry shift, from a mining reliant one to that of a service-based industry.

Overall current property trends suggest that affordability concerns in both capital city and metropolitan areas are pushing buyers to outer areas. High levels of infrastructure and commercial development commitment in most regional areas are also drawcards for first home buyers and astute investors.

Policy changes are polarising the property outlook. Capital cities, traditionally leading growth, are surviving through lower positive growth. Regional markets, traditionally lagging in growth, are starting to thrive; and are on the road to positive growth.

Australian State of the Market Map



Property Growth (cont'd)

Median House Price Capital City

	Capital City				
	1 2014	2 2014	1 2015	2 2015	1 2016
NSW	$1,200,000	$1,240,000	$1,386,000	$1,468,000	$1,590,000
QLD	$580,000	$600,000	$603,000	$635,000	$645,000
VIC	$790,000	$820,000	$843,500	$925,500	$986,000
WA	$547,750	$550,750	$549,500	$536,500	$530,000
TAS	$361,667	$370,667	$378,583	$387,333	$390,833
NT	$615,000	$600,000	$572,500	$600,000	$640,000
SA	$674,500	$647,500	$690,000	$642,500	$665,500

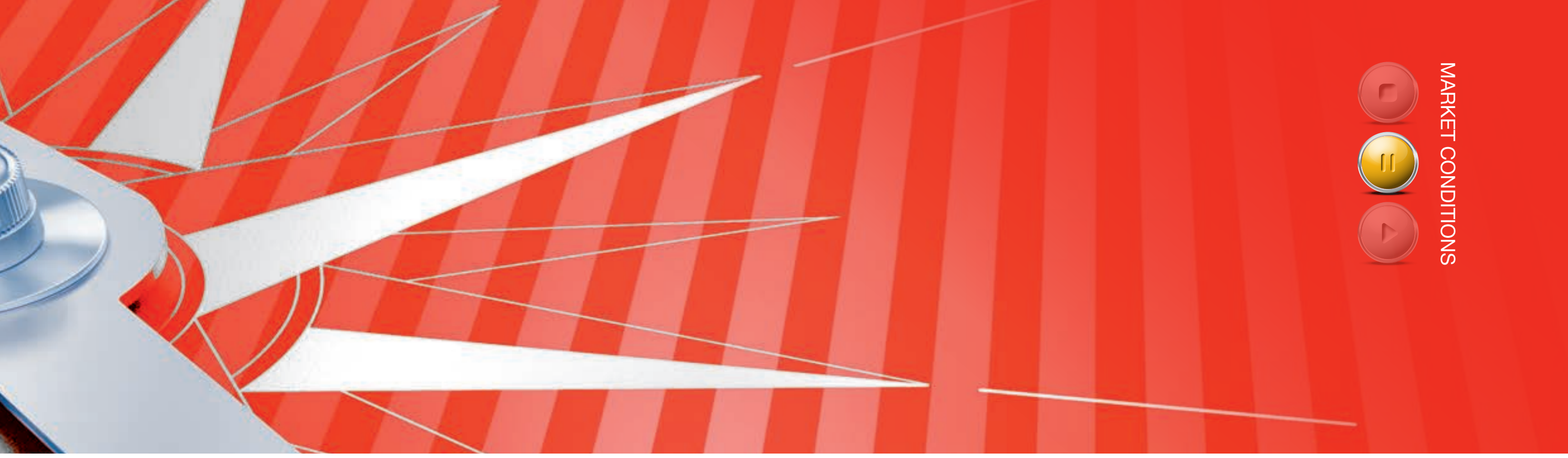
Median House Price Metro

	Metro				
	1 2014	2 2014	1 2015	2 2015	1 2016
NSW	$1,074,275	$1,126,950	$1,283,388	$1,364,215	$1,349,963
QLD	$429,800	$437,000	$442,900	$458,000	$459,500
VIC	$682,000	$694,129	$763,635	$827,331	$833,866
WA	$874,810	$899,405	$849,172	$877,136	$795,497
TAS	$331,333	$339,167	$351,375	$354,250	$367,083
NT	$496,400	$501,500	$515,100	$510,200	$492,710
SA	$525,303	$532,368	$550,737	$542,026	$565,385
ACT	$922,389	$939,944	$934,324	$1,055,389	$1,059,813

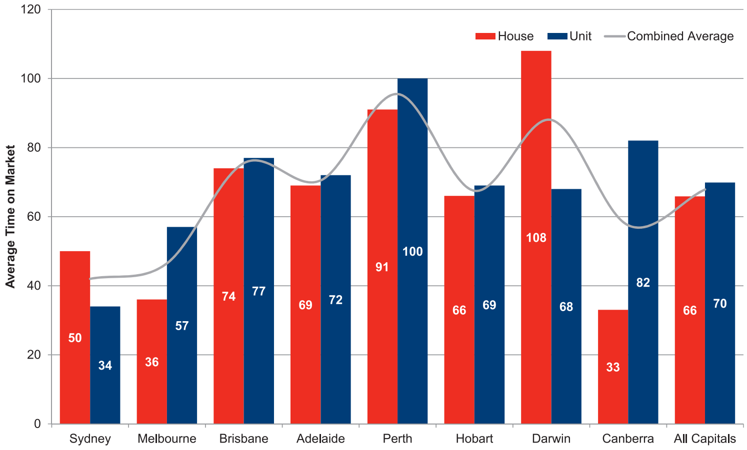
Median House Price Regional

	Regional				
	1 2014	2 2014	1 2015	2 2015	1 2016
NSW	$270,757	$273,587	$281,555	$290,412	$290,205
QLD	$251,850	$247,104	$247,803	$269,956	$264,711
VIC	$265,063	$259,438	$268,297	$274,391	$281,987
WA	$365,005	$346,788	$351,143	$239,994	$242,085
TAS	$217,087	$221,609	$229,772	$238,168	$238,902
NT	$279,188	$273,625	$237,833	$261,967	$250,375
SA	$231,008	$240,206	$235,782	$220 027	$222,521

Stop Press: Median price for the 1st half of 2016 reflects sales up to and inclusive of 30th June 2016.

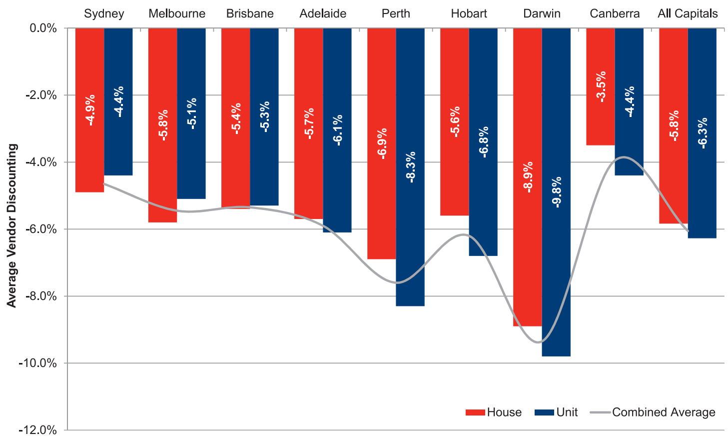


Average Time on the Market



Prepared by PRDnationwide Research
Source: CoreLogic RP Data, last updated February 2016

Average Vendor Discounting



Prepared by PRDnationwide Research
Source: CoreLogic RP Data, last updated February 2016

Properties Listed for Sale May 2016

Capital City	No. of new listings	12 mth change (%)	No. of total listings	12 mth change (%)
Sydney	6,487	-5.8%	20,956	25.8%
Melbourne	7,753	-1.1%	29,120	0.4%
Brisbane	4,614	10.1%	19,937	8.8%
Adelaide	2,127	13.3%	8,528	11.7%
Perth	4,055	5.1%	23,411	20.2%
Hobart	332	-7.0%	2,021	-27.5%
Darwin	171	-35.7%	1,678	8.7%
Canberra	554	13.3%	1,815	-4.7%
Combined capitals	26,093	1.3%	107,467	10.4%

WHAT DOES THIS MEAN FOR YOU?

- ✓ Political and societal uncertainties in the market have created a polarising growth rate between capital city and regional markets. Median prices are expected to continue to grow nationally, albeit at a slower pace than 2015.
- ✓ Average vendor discounting for houses and units in capital cities are currently sitting at -5.8% and -6.3% respectively, an increase from 2015 figures of -5.4% for both property types. This suggests the market is slowly becoming favourable to buyers, with sellers having to further negotiate from first list asking price.
- ✓ Average time on market for all capital cities has displayed an increasing trend, by 17.9% for houses and 11.1% for units over the past 12 months. This indicates buyers are slightly cautious in their hunt for the ideal property, potentially propelled by uncertainties in the direction in which property markets are heading towards.

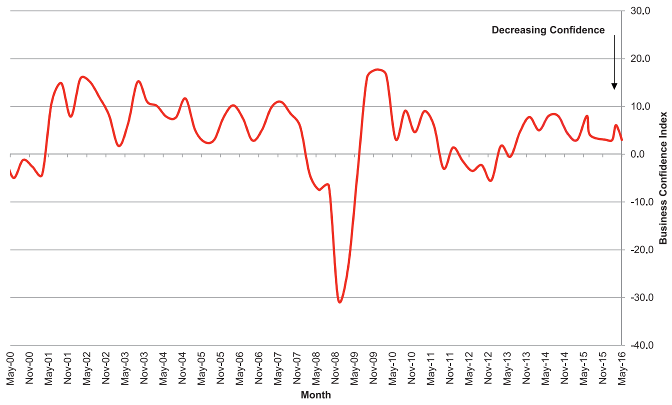
Confidence

Consumer sentiment swells in response to cash rate cut.

Australian consumer confidence recovered in May 2016, climbing to 103.2 index points. This is the highest seen since January 2014. The 8.5% increase comes after the Reserve Bank of Australia cut the cash rate to a record low of 1.75points earlier in May 2016, after it remained at 2.00points for eleven consecutive months. This move has had an outstanding impact on mortgage holders, increasing their confidence by 15.0%. In June 2016 consumer sentiment declined slightly to 102.2, however this movement is regarded as a consolidation of the improved levels rather than a declining trend, and possibly due to the uncertainty that the upcoming Federal Election in July 2016 might bring.

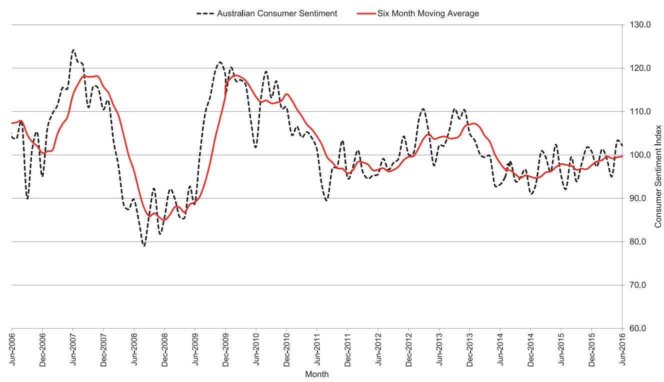
Australian business confidence has dropped 2.0 index points in May 2016 to reach the lowest level since August 2015 at 3.0 index points. This drop comes amidst steady business conditions, which have remained at an elevated level due to an ongoing recovery of non-mining sectors and the interest rate cut by the Reserve Bank of Australia. Although confidence has dipped below the long run average it has remained in positive figures since 2003, which is an encouraging sign. The upcoming election has caused a level of uncertainty that has contributed to the decline in the confidence level, although this cannot be wholly attributed to the election as not all industries have suffered the same decline. Good news can be found in the construction sector, which has seen increased confidence and now sits at 12.0 index points. Manufacturing and personal services are both sitting at 6.0 index points, signifying a confidence increase in multiple sectors.

Business Confidence



Prepared by PRDnationwide Research
Source: National Australia Bank (NAB), last updated June-2016

Consumer Sentiment



Prepared by PRDnationwide Research
Source: Westpac/Melbourne Institute, last updated June-2016

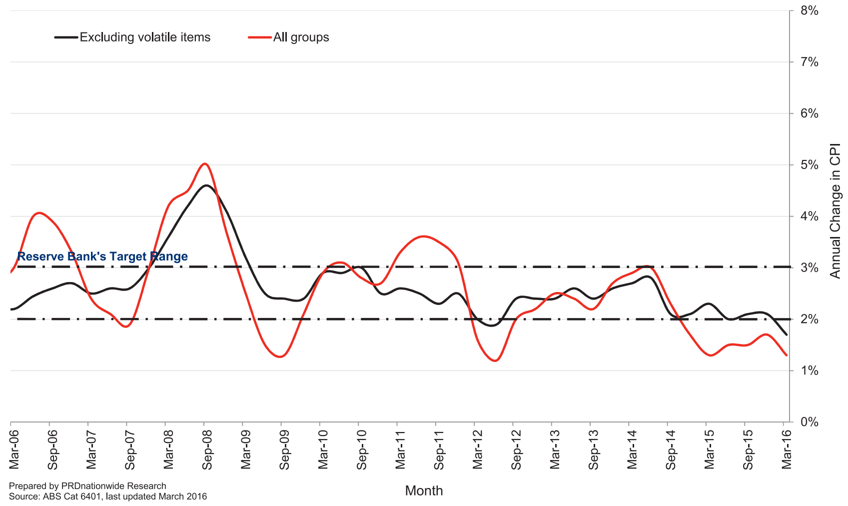
WHAT DOES THIS MEAN FOR YOU?

- ✓ Consumer confidence rebounded by 8.5% in May 2016, indicating that consumers are more optimistic and willing to spend.
- ✓ After a recovery in March and April 2016, business confidence has softened due to the looming uncertainty that naturally comes with a Federal Election.
- ✓ Business confidence is forecasted to improve as business conditions remain elevated and Australia's economy transitions to non-mining sectors for growth.

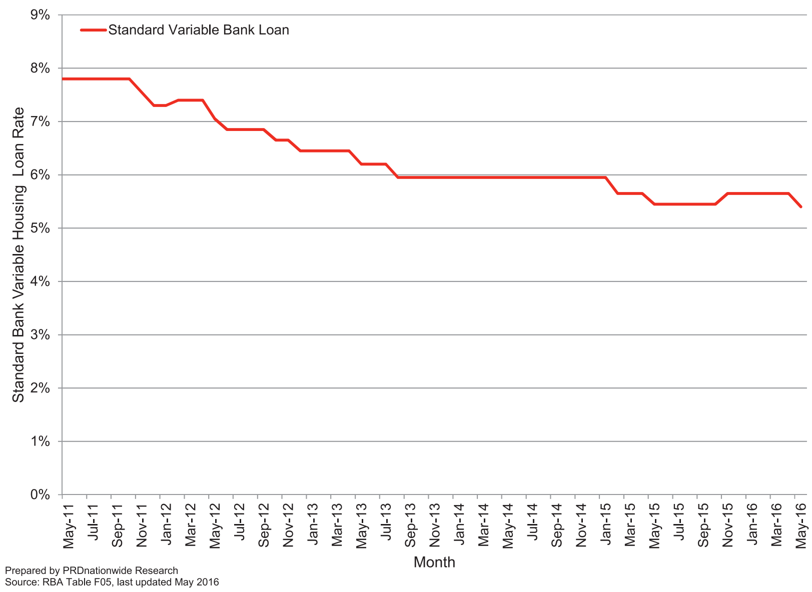
Macroeconomic Climate

Low interest rate stimulates domestic demand.

Inflation



Housing Loan Interest Rate



In June 2016 the RBA decided to leave the recent cash rate cut at 1.75points. This decision was maintained as the board regarded this rate to be consistent with the growth of the economy and allowing inflation to return to its target rate over time.

The Australian economy is achieving overall positive growth despite a decline in business investment. This growth can be attributed to the above average trend of domestic demand, which has been supported by continuously low interest rates. Supervisory lending measures have increased the strength of lending standards in the residential market. The eastern capital cities have all seen recent dwelling price increases, although this is likely to be subdued by the increased supply of apartments entering the market in the near future.

While inflation was recorded at 1.3% in March 2016, below the Reserve Bank of Australia target range and lower than long term averages, it is expected to remain this way for some time due to subdued growth in labour costs and very low pressure from the global market.

WHAT DOES THIS MEAN FOR YOU?

- ✓ The sustained low interest rate is expected to facilitate spending and thus keep inflation within the Reserve Bank of Australia's 2.0 to 3.0% target.
- ✓ Differing macroeconomic conditions within each state create a polarising environment for businesses and households, pushing the Reserve Bank of Australia to stabilise with a continuous low cash rate.
- ✓ The low interest rate environment will maintain housing affordability, fostering further growth in property market and household income cash flow for mortgage owners.

Foreign Exchange & Commodity Price

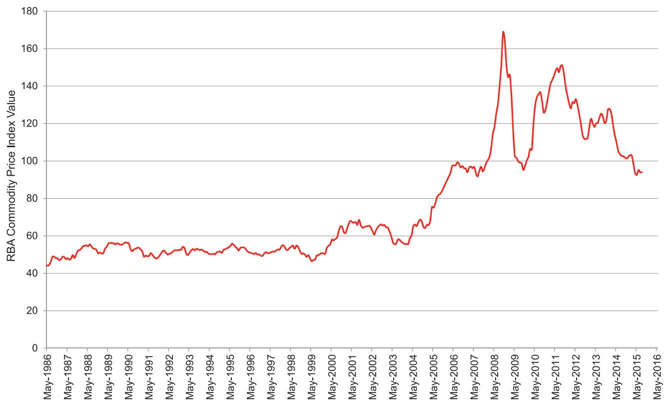
Devaluation slowly stimulates economy to a path of stability.

Exchange Rates

	Japan	USA	EU	NZ	UK	Hong Kong	Malaysia	China	Singapore
	Yen	Dollar	Euro	Dollar	Pound	Dollar	Ringgit	Renimbi	Dollar
	JPY	USD	EUR	NZD	GBP	HKD	MYR	CNY	SGD
Jun-2015	93.9200	0.7680	0.6866	1.1294	0.4885	5.9536	2.9046	4.7661	1.0340
Jun-2016	75.3600	0.7409	0.6711	1.0484	0.5528	5.7483	3.0421	4.9192	1.0059
% Change	-19.8%	-3.5%	-2.3%	-7.2%	13.2%	-3.4%	4.7%	3.2%	-2.7%

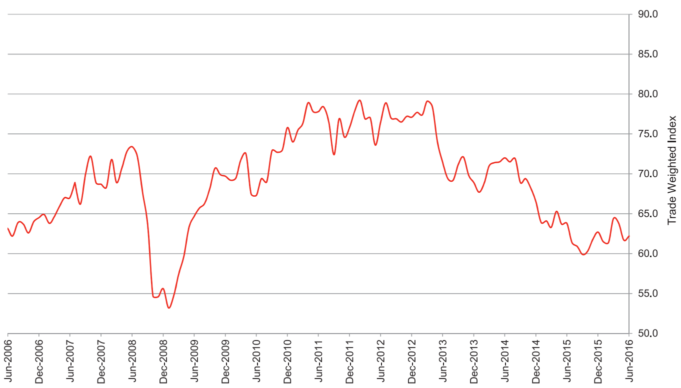
The Reserve Bank of Australia Commodity Price Index has held relatively stable over 2016, sitting at 90.3 index points in May. Stability to the Price Index is attributed to metal ores and goods and services export increases. Further contributions stem from the general increase in the value for agricultural commodities.

RBA Commodity Price Index



Prepared by PRDnationwide Research
Source: RBA Table I2, last updated June 2016

Trade Weighted Exchange Rate Index



Prepared by PRDnationwide Research
Source: RBA Table F11, last updated June 2016

The Australian Dollar still holds a weakened value against most other major foreign currencies with exceptions to the United Kingdom Pound, Malaysian Ringgit and Chinese Yuan; where the Australian Dollar has a value advantage. The Australian Currency has risen considerably since the 2015 decline, however its current weakened position continues to project a prospective stagnation to local imports. That said, foreign investors still hold an advantage thanks to the Australian Dollar, which has an indirect effect in stimulating the economy.

The Trade Weighted Exchange Rate Index also sees stability in 2016, consistent with that of the Commodities Index, as the Australian Dollar make positive adjustments to commodity price growth. The index sits at 62.2 index points in June 2016.

WHAT DOES THIS MEAN FOR YOU?

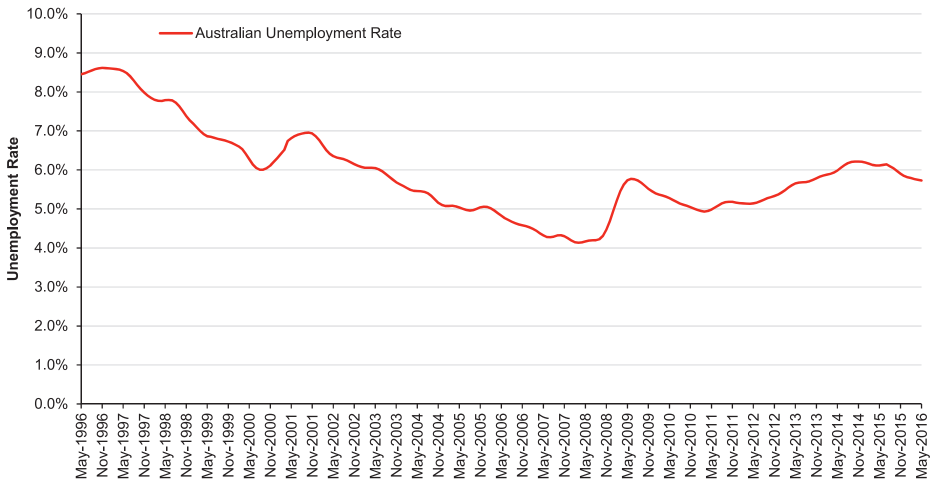
- ✓ A weakened exchange rate throughout 2015 and early 2016 has seen tourism income sky rocket. This has created a positive direction for the local retail industry, which in turn stimulated local goods consumption.
- ✓ The fallen exchange rate has boosted foreign investor participation. This could continue to grow throughout 2016, potentially stimulating more residential and commercial developments.
- ✓ As commodity prices have held stable, household disposable income also sees stability and a potential to increase. Local owner occupiers may have a prospective advantage in securing a home loan while interest rates are low and foreign investor lending regulations are tightened.

Labour Market

Unemployment rate decreases as our economic direction transitions.

Unemployment statistics have seen steady decreases over the past 12 months, with the May 2016 unemployment rate at 5.7%. This is on par with unemployment levels recorded during the global financial crises in 2009 and again in 2011. The Australian economy has facilitated approximately 236,000 new employed persons between January – May 2016. The majority of this employment has been accumulated by New South Wales and Victoria, accounting for 40.3% and 39.5% of the total increase, respectively. Meanwhile Queensland, South Australia, Western Australia, Tasmania, Northern Territory and the Australian Capital Territory are experiencing slower increases with a combined 20.3% of the total employment increase.

Unemployment Rate



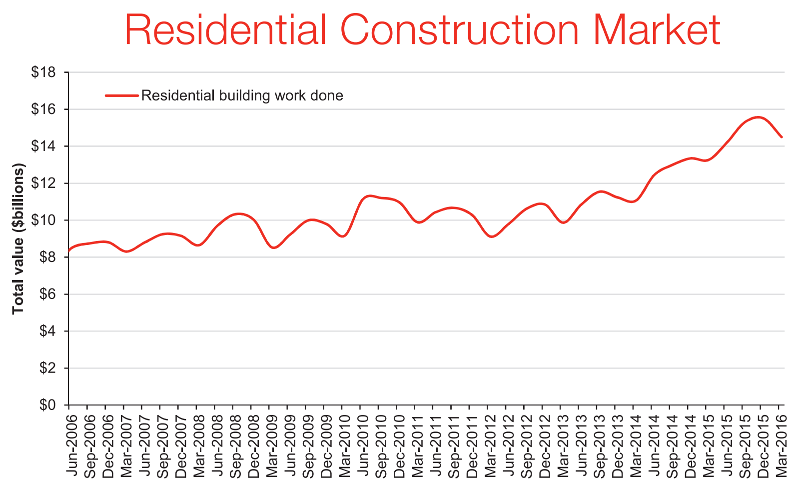
Prepared by PRDnationwide Research
Source: ABS Cat 6202. Last updated June 2016

WHAT DOES THIS MEAN FOR YOU?

- ✓ Unemployment statistics are experiencing steady decreases to a 5.7% average over the past 12 months. As unemployment decreases and disposable income increases, wages and consumption of goods and services can be expected to increase also. This brings a positive direction to home loan seekers.
- ✓ Victoria's unemployment level increased by 39.5% in May 2016, reflected in the state's positive property growth prices at capital, metropolitan, and regional levels.

Construction Market

Transition period softens residential construction.



Prepared by PRDnationwide Research
Source: ABS Cat 8755. Last updated March 2016

According to the Housing Industry Association the residential building industry contributes an estimated value of $77.0B in taxes to the Australian Government. The industry accounts for 1.3 million Australian jobs and builds new homes for more than 350,000 people/annum. The gross value of residential construction has been estimated at $14.5B during the 1st quarter of 2016, representing a 12.7% drop from record high levels seen in the December 2015 quarter. Year on year growth similarly reflected this decline, down by 6.2%.

Whilst this suggests a transition period, unparalleled foreign investor interest has fortified growth for new residential construction and the value of work done; which has benefitted from Government incentives, record low interest rates and a weakened Australian dollar. This is likely to have a multiplier effect on the confidence of residential development related industries as well as income for professionals engaged directly and indirectly with the sector.

WHAT DOES THIS MEAN FOR YOU?

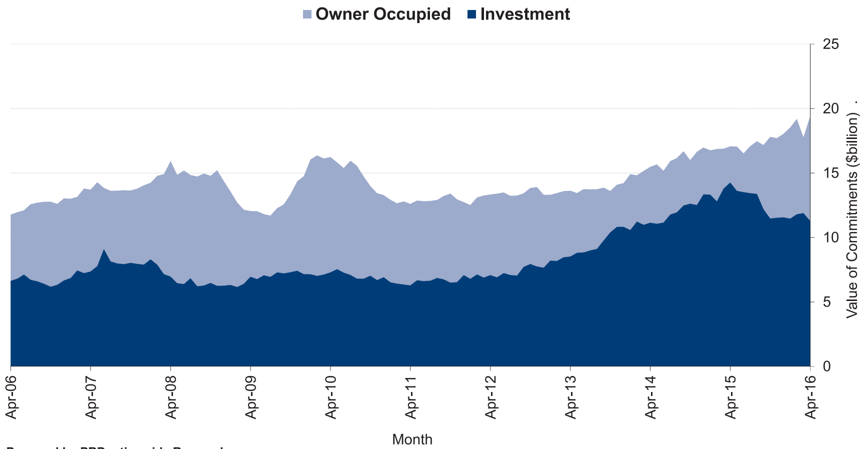
- ✓ New South Wales and Victorian construction markets continue to outperform other states, with growth for March quarters sitting at 21.5% and 9.8% higher than that previous period last year.
- ✓ A declining construction market has the potential multiplier effect of impacting directly and indirectly related industries, with repercussions in business confidence and household income.

House Finance

Investment policy uncertainty frightens investors whilst bolstering owner occupiers.

The gross value of housing finance commitments have totalled $180.1B over the past six months to April 2016, down 0.3% when compared to housing finance commitments to the half year prior. Slow growth in housing finance commitments reflected reduced levels of investor commitment, whilst owner occupiers saw continued increases.

Housing Finance Commitments



Prepared by PRDnationwide Research
Source: ABS Cat. No. 5609, last updated April, 2016

Owner occupiers have committed $110.6B to dwelling finance during the six months to April 2016, 6.8% up from the previous six months. Owner occupiers reflected 63.2% of housing finance commitments in April 2016, representing the largest share of commitments since 2012.

Investor housing commitments saw a sharp reduction over the year to $69.5B, down by 11.6% compared to the previous half year. This reduction however, followed record levels of investment seen in April 2015. Investments were relatively even in distribution between construction of dwellings, purchase for rent or resale and purchase for rent or resale by others. Reductions in investment, despite historically low cash rates, are speculated to be as a result of policy uncertainty following possible changes to negative gearing and capital gains tax outlined in February 2016 and in the wake of a Federal Government election in July 2016.

WHAT DOES THIS MEAN FOR YOU?

- ✓ Decreased investor levels were seen over 2016 following fluctuations in consumer confidence levels. Coupled with historically low interest rates, this is good news for buyers seeking to purchase as an owner occupier.
- ✓ Investor housing commitments reduced by 11.6% in contrast to the past half year. This is likely to see reductions in rental supply and subsequent increases in rental prices.

Dwelling Market

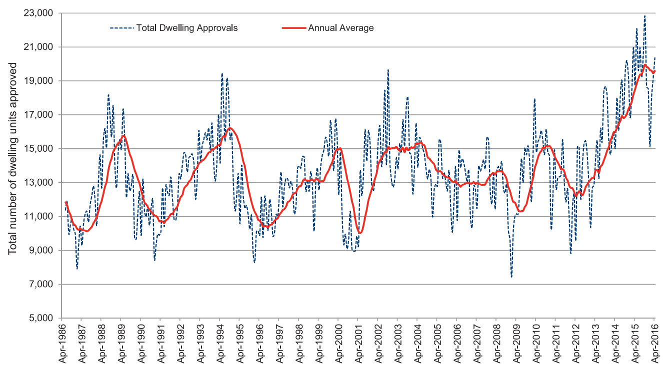
Dwelling approvals start to reduce, whilst Time to Buy Index sees consolidation.

Over the 12 months to April 2016 annual average monthly approvals increased by 8.2%. Total dwelling approvals peaked in October 2015 at 22,830 dwelling approvals, before showing an overall reduction to 20,357 approvals in April 2016. The construction industry has seen benefits from historically low level interest rates, which have encouraged higher rates of proposed dwellings. The threat of oversupply however, should not be overlooked.

The national average days on market has increased in capital cities for the month of February 2016 with houses taking an average of 66 days while units are taking an average of 70 days. Of all the capital cities, Canberra held the lowest days on market for houses which are sitting for an average of 33 days, whilst Sydney had the shortest days on the market for units at 34 days. The national average vendor discount continues to remain low for houses at -5.8% as well as units at -6.3%. This is a slight increase from the August 2015 figures of houses and units average vendor discounts (both were at -5.4%), suggesting buyers are becoming less willing to pay asking prices.

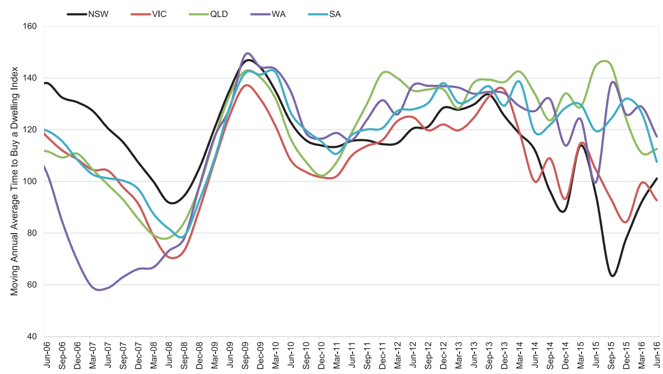
The Time to Buy a Dwelling Index has decreased an average of 6.0% across the five states over the 12 months to June 2016. This is mainly due to the recent rises in dwelling values as well as increasing political uncertainty and deed direction of property related taxes and benefits within each state. Queensland recorded the steepest decline over the year dropping 22.3% over the past 12 months, followed by Victoria which saw declines of 11.4%. Western Australia rose the most of all states, inclining by 17.9%.

Dwelling Approvals



Prepared by PRDnationwide Research
Source: ABS Cat. No. 8731, last updated June 2016

Time to Buy a Dwelling Index



Prepared by PRDnationwide Research
Source: Westpac/ Melbourne Institute, last updated June 2016

WHAT DOES THIS MEAN FOR YOU?

- ✓ Annual average monthly dwelling approvals have seen a slowing trend into 2016 after reaching a peak in October 2015. This indicates a potentially saturated market which is likely to see future downward trends; allowing current supply to be absorbed by demand.
- ✓ On average the Time to Buy a Dwelling Index has dropped an average of 6.0% across the five states over the twelve months to June 2016. This is good news for landlords as potential buyers who feel priced out of the market opt to rent.
- ✓ A recent increase in the Time to Buy a Dwelling Index of New South Wales in the 1st half of 2016 is a compelling contrast to other states, revoking the belief that New South Wales market is heading towards a crash.

Dwelling Prices

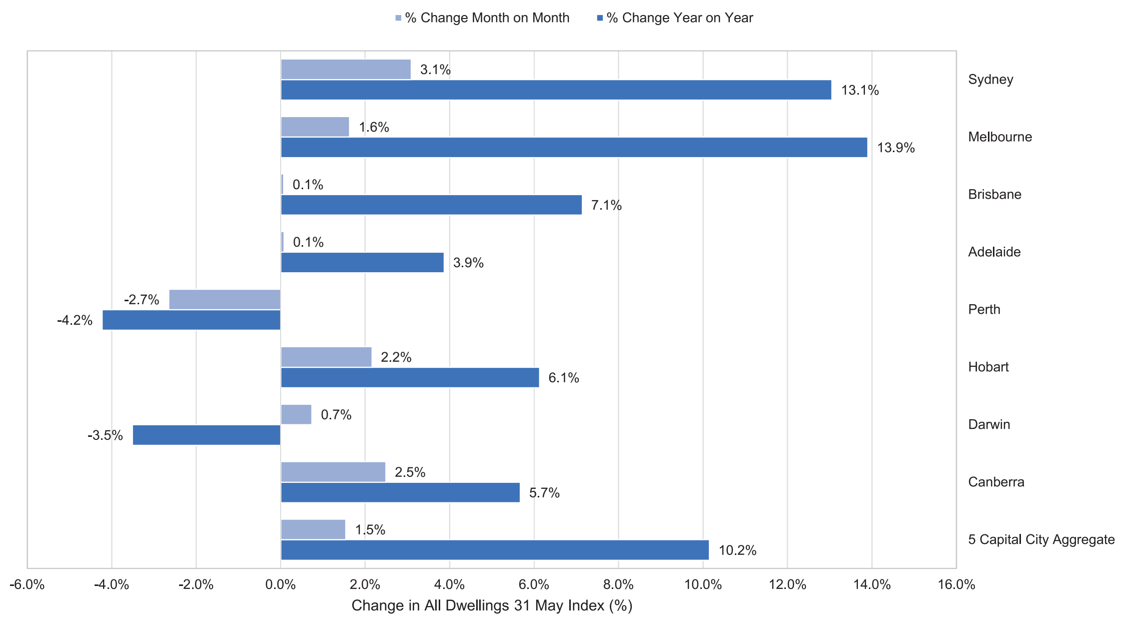
Sydney and Melbourne continue to lead with double digit growth figures, while Perth lags further behind.

The CoreLogic RP Data Combined Capital Cities Index indicated a continued growth trend in the three most populous cities: Sydney, Melbourne and Brisbane. Hobart however, also shows strong levels of growth.

Throughout the annual period to May 2016, the five capital city aggregate values increased by 10.2%; which is an improvement of 1.5% from the previous annual period to April 2016.

Melbourne and Sydney were the top performers with annual growth sitting at 13.9% and 13.1% respectively; an increase of 1.6% and 3.1% from April 2016 figures. Brisbane continues to perform with an annual growth of 7.1%, achieving the third highest annual growth among the capital cities. Perth recorded the lowest annual growth of -4.2%, speculated as the result of a downturn in the mining industry and low ore prices.

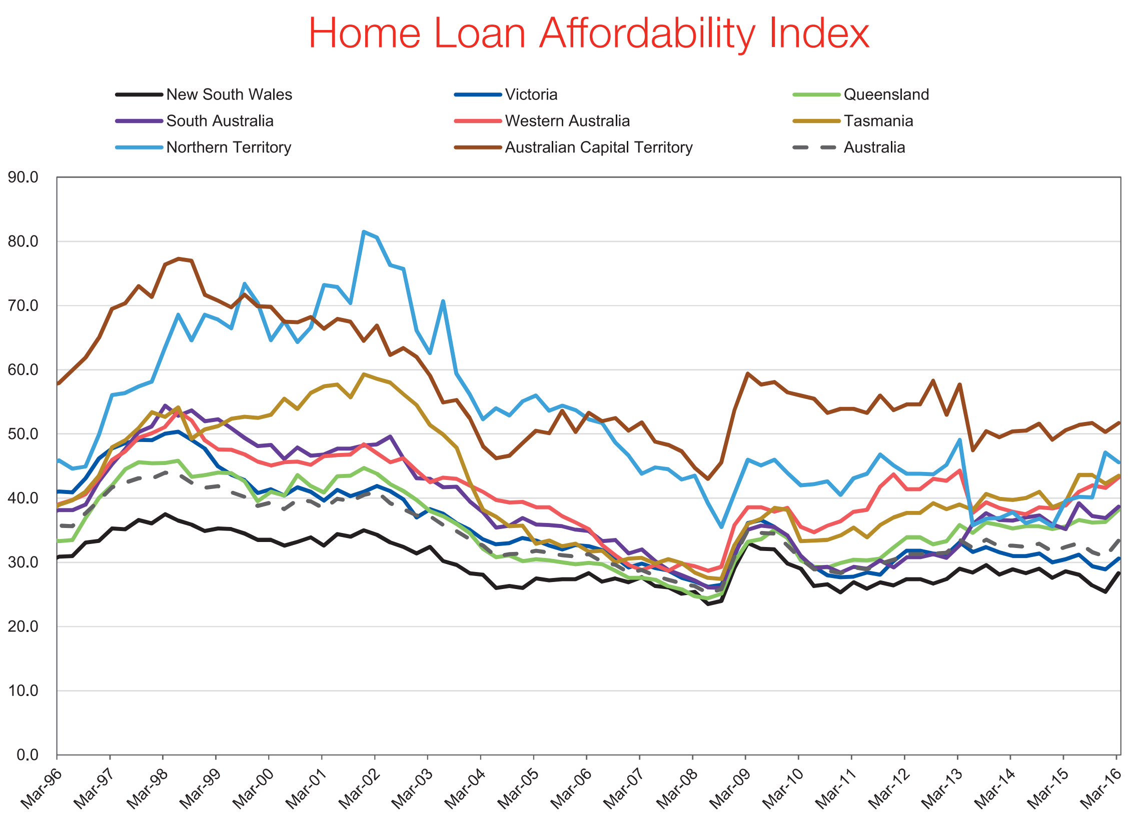
CoreLogic RP Data Dwelling Home Value Index Change by Capital City



Prepared by PRDnationwide Research
Source: CoreLogic RP Data, last updated June 2016

Home Affordability

Housing more attainable as affordability is supported by low interest rates.



Prepared by PRDnationwide Research
Source: Real Estate Institute of Australia

Last updated: March 2016

WHAT DOES THIS MEAN FOR YOU?

✓ The five capital cities Aggregate values grew to 10.2% over the past 12 months to May 2016. This reflects sustained high level of housing finance commitments, driven by owner occupiers.

✓ Australian home loan affordability increased by 3.0% across Australia over the past 12 months to March 2016, due to the price of homes in capital cities starting to cool and becoming more attainable. This potentially instils higher consumer confidence for the rest of 2016.

✓ Sydney and Melbourne continue to perform, debunking the myth of a downwards direction in market conditions. Brisbane and Hobart prove to be strong markets, providing property buyers with an alternative capital city at a lower entry price.

Rental Market

Darwin and Perth: the two misfits of the rental market.

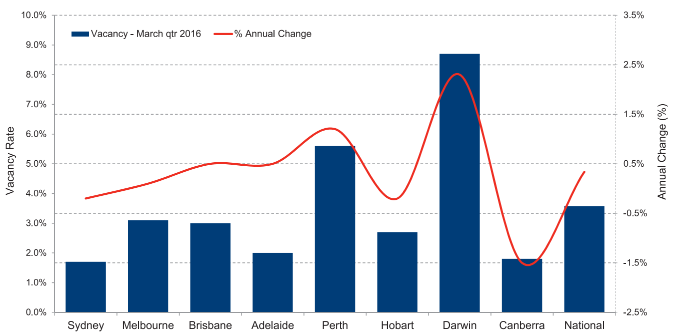
Over the past year, the median house rent for a three bedroom house increased in Sydney, Melbourne and Brisbane. Sydney recorded the highest growth in median rent (6.6%) and Melbourne came second (5.6%). While Canberra, Hobart and Adelaide saw no changes; Perth and Darwin recorded decreases, down by 11.1% and 10.6% respectively.

The largest growth for two bedroom unit rent was recorded in Hobart (5.5%), followed by Melbourne (2.6%). Brisbane recorded a growth of 1.3% for both two bedroom units and three bedroom houses.

The average vacancy rate for all capital cities currently sits at 3.6% in March 2016, representing a 0.3% increase over the past twelve months. This indicates rental market demand is embarking on a slower direction, however a 0.3% increase is within the normal equilibrium parameters and is not yet a cause for worry. The Darwin rental market has slowed the most, increasing by 2.3% over the past twelve months. In contrast, Canberra's rental market saw a revival, with its vacancy rates decreasing by 1.5%, the most out of all the capital cities.

Melbourne recorded a vacancy rate of 3.1% in March 2016, which is a very slight increase (0.1%) from March 2015. It is potentially starting to point in an oversupply direction; however, it is so slight that it is not yet an area of concern. Vacancy rates in Brisbane are 3.0% in March 2016, a 0.5% increase compared to the year before. This sounds alarm bells for developers, as the vacancy rate in Brisbane has been on a rising trend since 2014. Indeed, the vacancy rate in Brisbane and Melbourne was at its lowest (2.1%) in March 2014. In Sydney the rental market is tight with the lowest vacancy rate for all capital cities, at 1.7% in March 2016. This suggests a strong demand for rental properties in Sydney, thanks to a surge in infrastructure development.

Quarterly Vacancy Rate

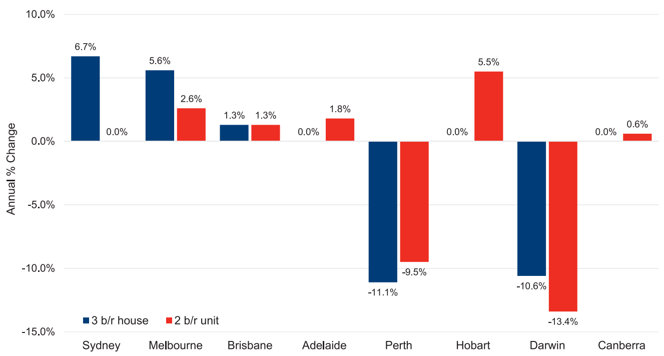


Prepared by PRDnationwide Research, National rate has been calculated as an average of the eight capital cities
Source: REIA, last updated March 2016

Annual Median Rent Prices

MEDIAN RENTAL PRICE

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	$480	$380	$385	$340	$400	$350	$535	$450
2 b/r Unit	$520	$400	$390	$290	$380	$290	$406	$400



Prepared by PRDnationwide Research
Source: REIA, last updated March 2016

WHAT DOES THIS MEAN FOR YOU?

- ✓ Only Melbourne and Brisbane have experienced annual growth in median rent for both three bedroom houses and two bedroom units. With a relatively low annual vacancy rate change, this points Melbourne and Brisbane as favourable markets for new investors.
- ✓ Sydney continues to hold the lowest vacancy rate, at 1.7% in March 2016. A stable and strong demand in the rental market continue to lead investors in Sydney's direction.
- ✓ Perth and Darwin have experienced a considerable decrease in median rents over the 12 months to March 2016, which can be attributed to an oversupply of rental accommodations.

Demographics

Victoria – where the potential increase in property demand lies.

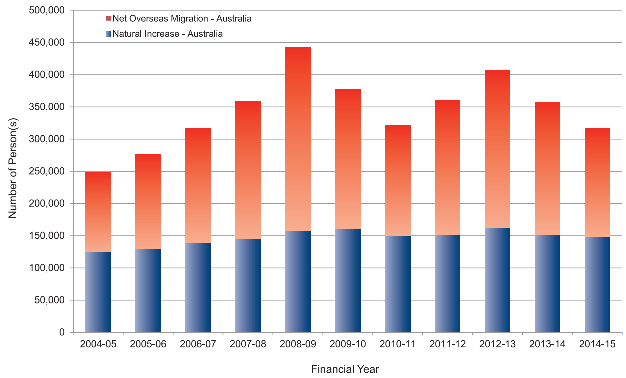
National population has increased by 1.3% since June 2014. Apart from the Northern Territory, all states have experienced a positive annual change. The largest increase was recorded in Victoria (1.7%) followed by New South Wales (1.4%) and the Australian Capital Territory (1.3%). Queensland's population increased by 1.2%, which has slowed over the past years due to a slowdown in the resource sector.

Natural increase of Australia's population was recorded at 148,900 in June 2014-2015 and net overseas migration was 168,183 - the lowest in the past seven years. New South Wales recorded the highest natural population increase of 44,819 residents in 2015, Victoria came second with 35,129 residents, and Queensland came third with 33,436 residents.

In 2014-2015 Australia's net overseas migration experienced a larger decline (-18.3%) than the year prior (-15.6%). The Australian Capital Territory was the only state that experienced a positive growth for overseas migration at 21.4%. This suggests that among all the states, the Australian Capital Territory has become a more desirable place for overseas immigrants.

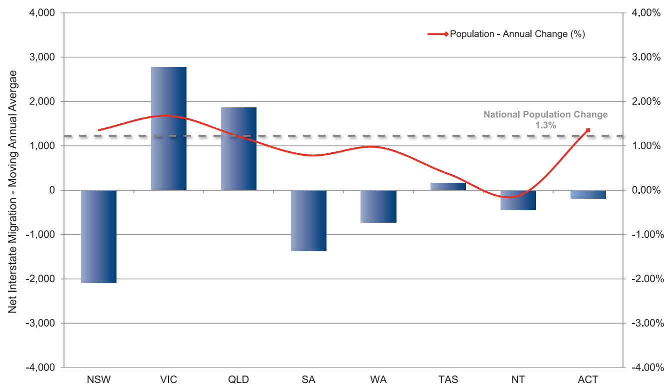
Despite the Australian Capital Territory being the only state experiencing positive growth in net overseas migration, New South Wales remained the leader for net overseas migration; with 66,086 residents moving into the state. This is followed by Victoria (54,052) and Queensland (19,076). However, New South Wales experienced the largest decline for net interstate migration (-2,087), while Victoria had the highest net interstate migration of 2,777 people; followed by Queensland (1,865 people). The Northern Territory has recorded a decline in annual population change and net interstate migration; while Tasmania, Queensland and Victoria have recorded growth in both.

Components of Population Growth



Prepared by PRDnationwide Research
Source: ABS Statistics, Catalogue 3101.0 Table 2, last updated June 2016

Population Growth & Net Interstate Migration



Prepared by PRDnationwide Research
Source: ABS Statistics, Catalogue 3101.0 Table 4, last updated June 2016

WHAT DOES THIS MEAN FOR YOU?

- ✓ The Australian population experienced an annual growth rate of 1.3% over the 12 months from June 2014. The continuation of a growing population is likely to create more demand for property and absorb current residential developments in the short run.
- ✓ Net overseas migration has decreased by 18.3% in Australia. A decline in net overseas migration might result in lower population growth rates in the long run, impacting new housing and rental property demand in the future.
- ✓ Victoria has continued to maintain the lead in net interstate migration and annual population change, creating more opportunities for property growth in the region.

Glossary

Business Confidence Graph

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

Australian Consumer Sentiment Graph

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

Inflation Graph

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

Housing Loan Interest Rate Graph

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

National Residential Construction Graph

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

Housing Finance Commitments Graph

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

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

Unemployment Rate Graph

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

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

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

RBA Commodity Price Index Graph

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

Dwelling Approvals Graph

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

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

Time to Buy a Dwelling Index Graph

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

RP Data-Rismark Dwelling Home Value Index Graph

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

Home Loan Affordability Index Graph

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

Quarterly Vacancy Rates Graph

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

Population Growth Graph

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

Net Interstate Migration Graph

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

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

40 Years of Leading Property Industry Research

Contact us:

PRDnationwide Corporate Head Office

Phone: +61 7 3229 3344

Email: info@prd.com.au

Address:
32-36 Doggett Street,
Newstead, QLD, Australia

www.prdnationwide.com.au

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