PRD nationwide RESEARCH

AUSTRALIA ECONOMIC AND PROPERTY REPORT

FIRST HALF OF 2015

A TWO-PACED MARKET

PRDnationwide

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PRDnationwide Research is home to the latest and most in-depth property knowledge in Australia and beyond, establishing us as the leading property and realestate 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.

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

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ASTI WELCOME MESSAGE

As we enter the second quarter of 2015 the property market has seen its 2014 wishes come true: a rate cut in February 2015 and seemingly positive flow-on effects in transaction volume and price growth. On the other hand it is widely known that current aggregate economic key indicators point towards relatively sluggish conditions.

The dissonance between property market growth and economic conditions at large brings us to two main questions: a) is there unanimous, equal, growth rate in property markets – or is it contained in certain areas; and b) is the current price growth sustainable?

The answer lay within a two-paced market, as a reflection of the divergent economic conditions across states and within states (i.e. capital city vs regional area). A two-paced market can create an unrealistic illusion to the outsider, resulting in price pressures in specific areas only – thus forcing the area into unaffordable and unsustainable territory.

In this issue we focus on highlighting the variance between states and areas in each key economic and property indicators, arming you with a holistic picture of market conditions. We have started off the year with a flutter of excitement due to the Reserve Bank of Australia rate cuts, though slightly disabled by fiscal policy announcements by the Federal Government. It will be interesting to monitor this dance, and its impact on the market, throughout the year.

Welcome to 2015.

Yours in research,

Dr Diaswati Mardiasmo
National Research Manager
PRDnationwide

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OVERVIEW

A notable start to 2015 is the Reserve Bank of Australia's rate cut in early February 2015, down by 25 basis points to 2.25%. Mixed opinions ensued in the aftermath, with many branding the rate cut a double-edged sword. On one hand it is good for confidence and affordability (of property, among others) and on the other hand it represents sluggish economic indicators. Although the latter holds merit, it is important to note that Australia is not the only country to have experienced a rate cut in early 2015, with India, Poland, and China (amongst others) also easing its monetary policy and cutting interest rates.

Based on Gross Domestic Product (GDP) as reported by the Australian Bureau of Statistics, the Australian economy did experience a modest slowdown towards the end of 2014; however not to the extent that it is different from economists' forecasts or government expectations. New South Wales lead in growth rate thanks to a burgeoning housing market, whilst Victoria and Northern Territory ended 2014 in relatively healthy shape. The pace of the economy is slower in South Australia, Tasmania, and Australian Capital Territory. Western Australia and Queensland's final demand for goods and services was lower in the December 2014 quarter compared to 12 months prior.

It is clear that the Australian economy travels at a divergent pace across states and territories, which is mirrored in property market growth rates. In New South Wales, for example, capital city markets grew by 7.00% in early 2015, yet metropolitan and regional markets grew by 6.60% and 4.80%, respectively. In comparison, Queensland capital city market grew by 5.00%, whereas its metropolitan and regional markets grew by 0.50% and 1.10%, respectively. Similar patterns on house median price growth can be found across states and within states, suggesting a two-paced property market is indeed in effect.

The new dwelling investment sector injects good news into the Australian economy, growing by 5.30% in December 2014 quarter and 12.40% in the 2014 calendar year. This figure is expected to grow thanks to Reserve Bank of Australia's rate cut in February 2015 and the expectation of further expansionary monetary policy for the rest of the year. In part, such economic policy accommodates the Federal Government's fiscal policies (taxes and benefits) as well as economic growth and income projections.

The 2015 Intergenerational Report, released on 5th March 2015, identified economic growth rates are expected to decline gradually over the long run, due to a slowing in population growth and a declining trend in workforce participation rate as a result of the population ageing.

Furthermore, the report identifies that the Australian Government is currently spending over $100 million a day more than it collects, and it is borrowing to meet the shortfall. This in itself will have budgetary implications, passed on to Australian society and thus impacting its ability to purchase dwellings.

In response to continued increasing rate of foreign investor activity in 2014 and early 2015, the Federal Government has proposed a $5,000 application fee for properties under $1 million ($10,000 for properties over $1 million), paid to the Foreign Investment Review Board upon application for each planned property purchase. A slowdown in foreign investor activity may create more room for local investors, owner occupiers, and first home buyers, opening the market to a more equal playing field. Yet such foreign investment tax may stifle construction of new dwellings, and many criticise its 'fee upon each application' proposed rule, suggesting that a fee would be charged even if those who apply are not successful in purchasing the property. Property industry bodies have called upon the government to consider the equivalent global rates for foreign investment fee, particularly as countries such as UK, USA, and Canada do not have residential property application fees.

Interestingly there seems to be less attention on the other type of foreign investors – the indirect ones. These are foreign buyers who purchase property through family members or as part of a share purchase with parties who are of Australian citizenship or permanent residents. Perhaps it is time that there is a shift in focus to consider the impact of indirect foreign investors in the property market.

Affordability for first home buyers continues to be a hot topic, particularly as the Federal Government has spoken of the possibility in allowing young Australians to dip into their superannuation savings to fund a home deposit. Whilst this is cheered on by youngsters, economists have warned that doing so may increase private debt within the country and, if not monitored, may result in retirement savings stripped to a nominal amount. A capped percentage of allowable drawing of superannuation funds has been voiced a compromise; however the merit of such proposition is a continuing debate.

2.50% increase in regional market growth instil heightened confidence as we step into 2015.

KEY FACTS MARCH 2015:

- Consumer Price Index: 1.7%
- Standard Variable Home Loan Rate: 5.65%
- Unemployment Rate: 6.3%
- Average Australia Fuel Price: $1.24/L

PROPERTY GROWTH

Regional markets rising, capital markets recovering.

Capital city markets have, on average, recovered their title as the hottest areas for property growth; recording 8.70% growth in early 2015. This figure is higher than previous 12 months growth of 3.80%, signifying a definite boost of confidence in the market post second half of 2014 slump. Metropolitan markets continue to perform at a sustainable level, with a slight dip of 0.30% in early 2015. It is suspected that this is due to increased investment activity in capital city areas, evident through weekend auction results of over (on average) 70.00% post Reserve Bank Australia rate cut, particularly for Sydney and Melbourne.

Regional Australia property growth proves to be on the rise, with all regional markets across Australia reporting positive growth figures based on sales in early 2015. This is in contrast with the second half of 2014 whereby only New South Wales, Queensland, and Tasmania reported positive growth. Regional Victoria, Western Australia and Northern Territory markets grew rapidly, with recent 2015 sales turning previous negative growth to positive.

A lower Australian Dollar, decrease in supply (i.e. number of total property listings), and favourable interest rates conditions have spurred both investment (foreign and local) and owner occupier activity in the market. An increase in demand has created a more competitive environment, resulting in promising price growth for 2015.

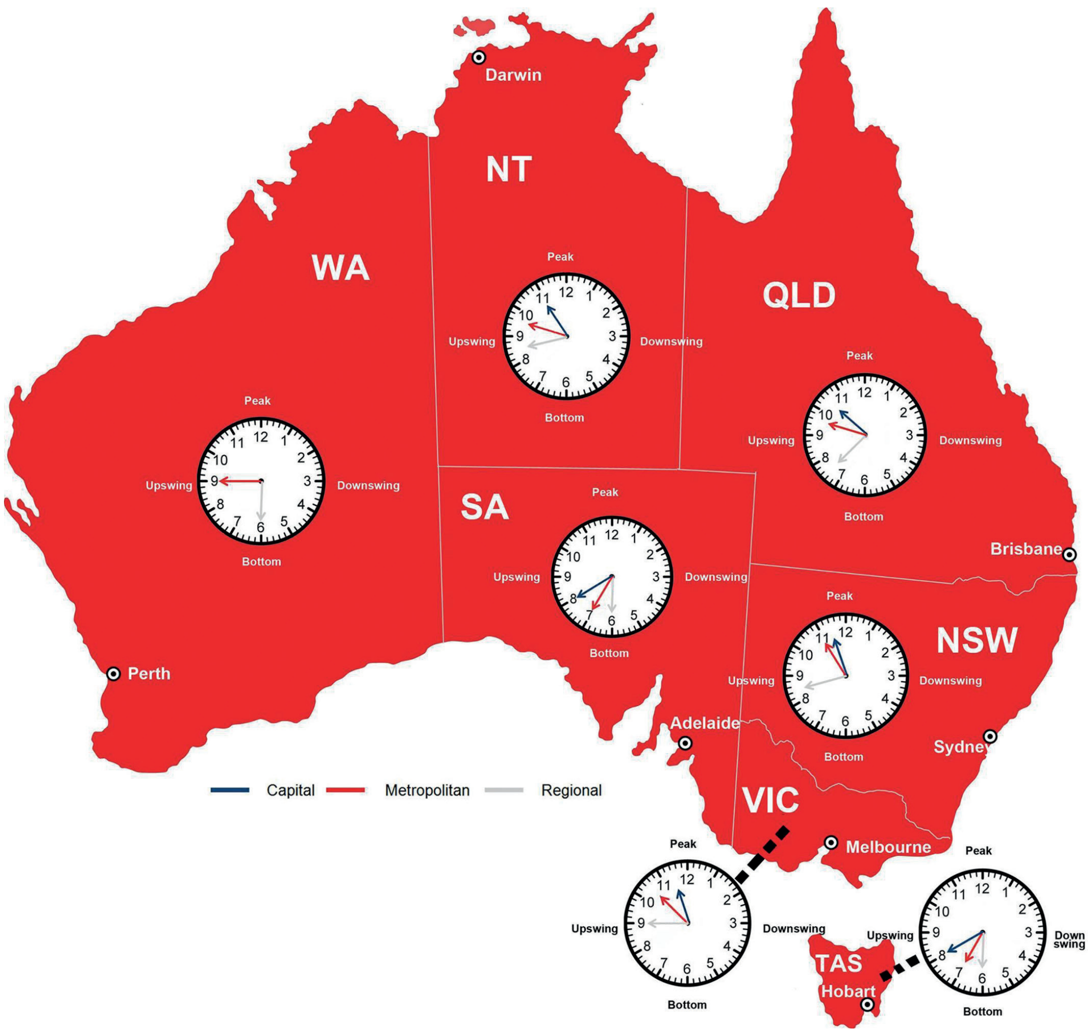
AVERAGE GROWTH IN MEDIAN HOUSE PRICE

	Capital City					Metro					Regional				
	1 2013	2 2013	1 2014	2 2014	1 2015	1 2013	2 2013	1 2014	2 2014	1 2015	1 2013	2 2013	1 2014	2 2014	1 2015
NSW	11.6%	12.5%	11.1%	3.3%	7.0%	5.6%	8.1%	8.0%	5.3%	6.6%	1.6%	9.9%	0.3%	1.8%	4.8%
QLD	1.3%	4.7%	3.8%	2.9%	5.0%	1.4%	2.2%	1.7%	1.4%	0.5%	2.2%	-0.3%	-3.9%	6.5%	1.1%
VIC	3.2%	7.0%	9.4%	3.8%	27.1%	2.3%	7.4%	3.6%	2.0%	6.3%	2.4%	3.0%	1.8%	-2.4%	9.7%
WA	4.4%	-0.3%	5.5%	-4.4%	N/A	-2.6%	3.1%	2.0%	1.2%	0.2%	1.6%	0.8%	2.3%	-2.8%	3.4%
TAS	-2.6%	6.7%	-3.1%	2.2%	5.5%	1.6%	2.3%	0.3%	2.5%	-5.6%	1.2%	-5.0%	6.0%	1.7%	6.3%
NT	3.9%	3.9%	0.0%	-2.4%	6.3%	2.0%	-0.1%	2.1%	1.9%	6.9%	5.1%	-3.0%	4.4%	-1.5%	4.7%
SA	-4.7%	-4.2%	-0.2%	4.9%	1.0%	1.6%	1.0%	3.4%	2.2%	3.8%	4.3%	1.0%	0.7%	12.3%	3.2%
ACT						3.2%	8.0%	-1.4%	5.6%	1.3%					

Average growth in house median prices in Australia's regional areas has increased by 4.70%, whilst capital city areas experienced 8.70% recovery in its growth figures. Such divergence confirms a two-paced market.

PROPERTY GROWTH

AUSTRALIA PROPERTY GROWTH MAP



MEDIAN HOUSE PRICE – CAPITAL CITY

	Capital City				
	1 2013	2 2013	1 2014	2 2014	1 2015
NSW	$960,000	$1,080,000	$1,200,000	$1,240,000	$1,326,250
QLD	$532,000	$557,000	$578,000	$595,000	$625,000
VIC	$675,000	$722,000	$790,000	$820,000	$1,042,500
WA	$950,000	$947,500	$1,000,000	$956,000	N/A
TAS	$450,000	$480,000	$465,000	$475,000	$501,000
NT	$592,000	$615,000	$615,000	$600,000	$638,000
SA	$858,125	$822,000	$820,000	$860,000	$868,500

MEDIAN HOUSE PRICE – METRO

	Metro				
	1 2013	2 2013	1 2014	2 2014	1 2015
NSW	$850,000	$902,500	$989,000	$1,025,000	$1,133,000
QLD	$399,000	$400,000	$415,000	$410,000	$400,000
VIC	$550,000	$590,000	$610,000	$625,000	$660,000
WA	$600,000	$625,000	$620,000	$630,000	$613,750
TAS	$312,500	$305,000	$310,500	$318,500	$317,750
NT	$455,000	$440,000	$450,000	$469,000	$526,250
SA	$466,250	$479,000	$490,000	$510,000	$520,000
ACT	$862,722	$936,167	$922,389	$939,944	$934,324

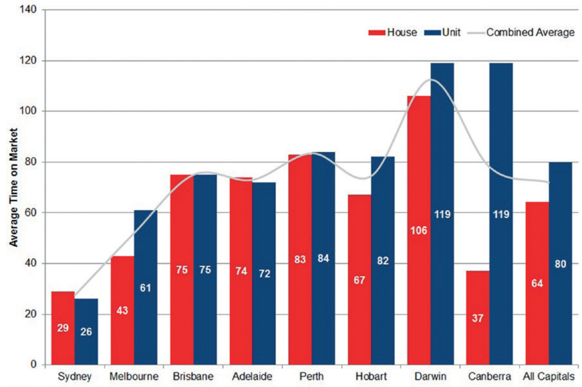
MEDIAN HOUSE PRICE – REGIONAL

	Regional				
	1 2013	2 2013	1 2014	2 2014	1 2015
NSW	$240,000	$248,000	$250,000	$269,000	$332,000
QLD	$255,250	$264,750	$267,500	$264,500	$286,500
VIC	$237,500	$250,500	$246,000	$247,000	$295,000
WA	$362,750	$354,125	$350,000	$352,500	$363,750
TAS	$230,000	$220,000	$228,000	$228,000	$247,500
NT	$268,000	$260,000	$271,500	$267,500	$280,000
SA	$228,000	$215,000	$225,000	$230,000	$256,250

Stop Press: Median price for 1st Half 2015 reflects sales up to and inclusive of 1st March 2015

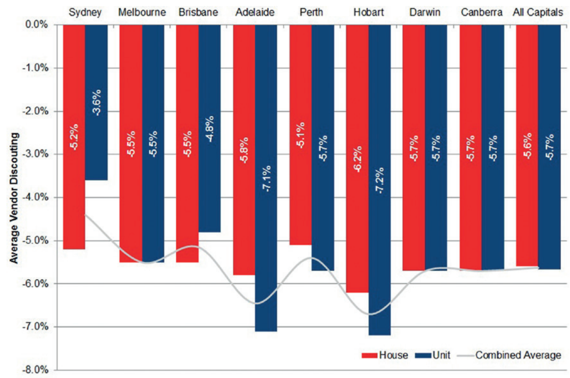
PROPERTY GROWTH

AVERAGE TIME ON THE MARKET



Prepared by PRDnationwide Research
Source: RP Data-Rismark, last updated March 2015

AVERAGE VENDOR DISCOUNTING



Prepared by PRDnationwide Research
Source: RP Data-Rismark, last updated March 2015

PROPERTIES LISTED FOR SALE

Capital City	No. of new listings	12 mth change (%)	No. of total listings	12 mth change (%)
Sydney	7,848	-8.8%	19,385	-8.6%
Melbourne	8,826	0.0%	30,379	-7.9%
Brisbane	4,614	2.9%	19,056	-0.8%
Adelaide	2,138	-5.3%	8,056	-6.0%
Perth	4,642	2.2%	19,339	10.3%
Hobart	499	-9.9%	3,004	-8.7%
Darwin	249	4.2%	1,430	32.0%
Canberra	736	-3.7%	2,398	16.3%
Combined capitals	29552	-2.4%	103047	-2.7%

WHAT DOES THIS MEAN FOR YOU?

- Median prices are expected to continue to grow nationally, with regional markets finally benefiting from a buoyant market.
- Average vendor discounting for house and units in capital cities differs by only 0.10%, suggesting similar level of demand and competitiveness for both types of properties.
- Decreasing amount of properties listed in the market hints at a more competitive market in the near future, propelling unprecedented growth in capital cities.

CONFIDENCE

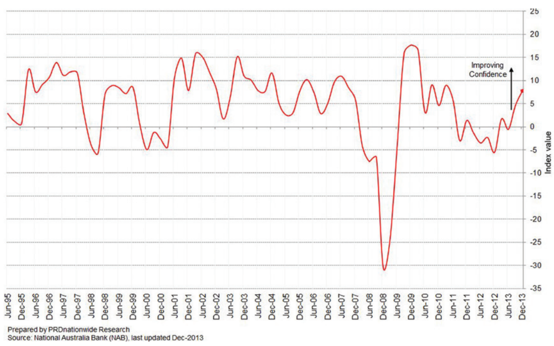
Consumer Sentiment rockets to positive level.

Australian consumer confidence witnessed a sharp recovery over the past two months to February 2015, climbing to positive levels of 100.7 points. This marks the first instance in the past 12 months that consumer confidence is at a positive level. Consumer confidence hit its lowest point in December 2014 at 91.1 points; however it was buoyed to 93.2 points in January 2015 due to the promise of a rate cut (at the time). Thus it is reasonable to attribute February's surge in consumer confidence to Reserve Bank Australia's rate cut, as a reflection of expansionary monetary policy in the face of sluggish economic conditions.

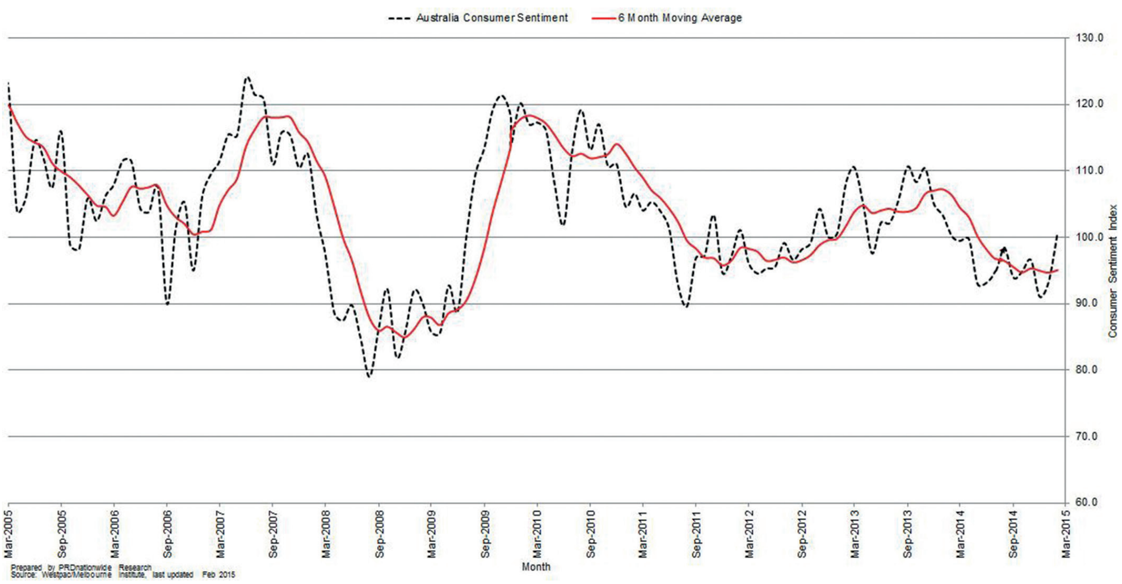
Australian business confidence has lost its momentum, with conditions falling over the past three months to December 2014 and currently sitting at 1.50 index points in February 2015. Low interest rates does bode positive effects, however limited to certain sectors. Decreased mining investment, winding down of automotive sector, and subdued non-residential approvals are contributing factors, while the lower Australian Dollar is adding import costs to some manufacturers. Interestingly, confidence in the transport and utilities sector has dropped, despite low oil prices.

Good news can be found in the retail, financial, and property sectors of the economy.

BUSINESS CONFIDENCE



CONSUMER SENTIMENT



WHAT DOES THIS MEAN FOR YOU?

- Business confidence continues to travel in a declining trend, with very few signs of improvement in many segments of the economy. This may propel further government action to provide industry specific monetary assistance.
- A dissonance in consumer and business confidence further signifies a two-paced economy, propelling variance in property demand between residential and commercial sectors.
- Reserve Bank of Australia's rate cut timings will be dependent on economic indicators over the coming months; however current soft economy and rising unemployment level suggest further cuts are needed to bolster the economy.

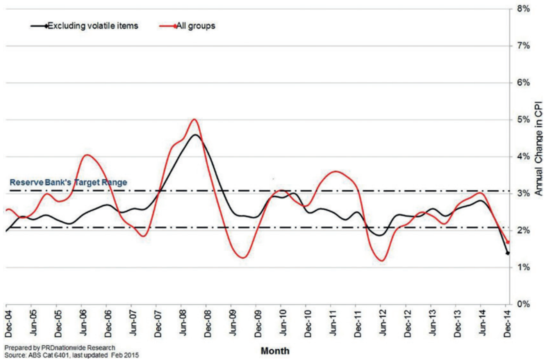
MACROECONOMIC CLIMATE

A falling interest rate will stimulate investment in the property market and growth in the overall economy.

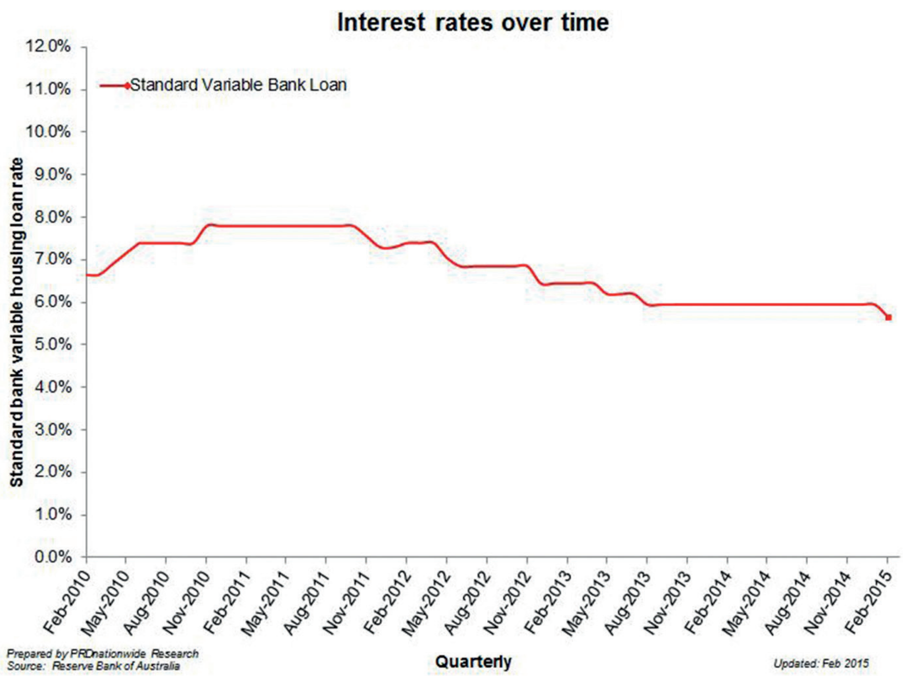
In February 2015, the Reserve Bank of Australia reduced the cash rate by 25 basis points to 2.25%; to further support aggregate demand in property and sustainable growth outcomes in the economy. There is an increasing but moderate level of economic growth due to a fall in commodity and oil prices. The Reserve Bank of Australia held its cash rate in its March 2015 meeting, despite forecasts of a further rate cut; providing stability for families. Further reduction of the cash rate is expected to stimulate demand and supply in the property market.

Inflation was recorded at 1.70% in December 2014 (a decrease by 0.50% one year prior) due to a decline in oil prices and the removal of price on carbon. Hence monetary policy has been eased, which will give short-term stimulus to economic activity. Unemployment rate increased in the year ending December 2014 and the trend has not declined. Consumer spending is supported by falling energy prices; however, this is offset by a fall in earnings due to falling commodity prices. The Reserve Bank has indicated that a reduction in the cash rate will stimulate demand and facilitate sustainable growth and dampen inflation outcomes.

INFLATION



HOUSING LOAN INTEREST RATE



WHAT DOES THIS MEAN FOR YOU?

- A sustained fall in labour cost will ensure inflation attains the 2.00-3.00 % target range.
- A two-paced economic growth condition between capital city and regional areas will be aided by major lending institutions passing on the Reserve Bank of Australia's rate cut savings.
- Low interest rate environment will maintain housing affordability, fostering further growth in property market and housing construction activity.

FOREIGN EXCHANGE AND COMMODITY MARKET

A fall in the value of the exchange rate and/or commodity is a clear indication that the Australian economy is less competitive.

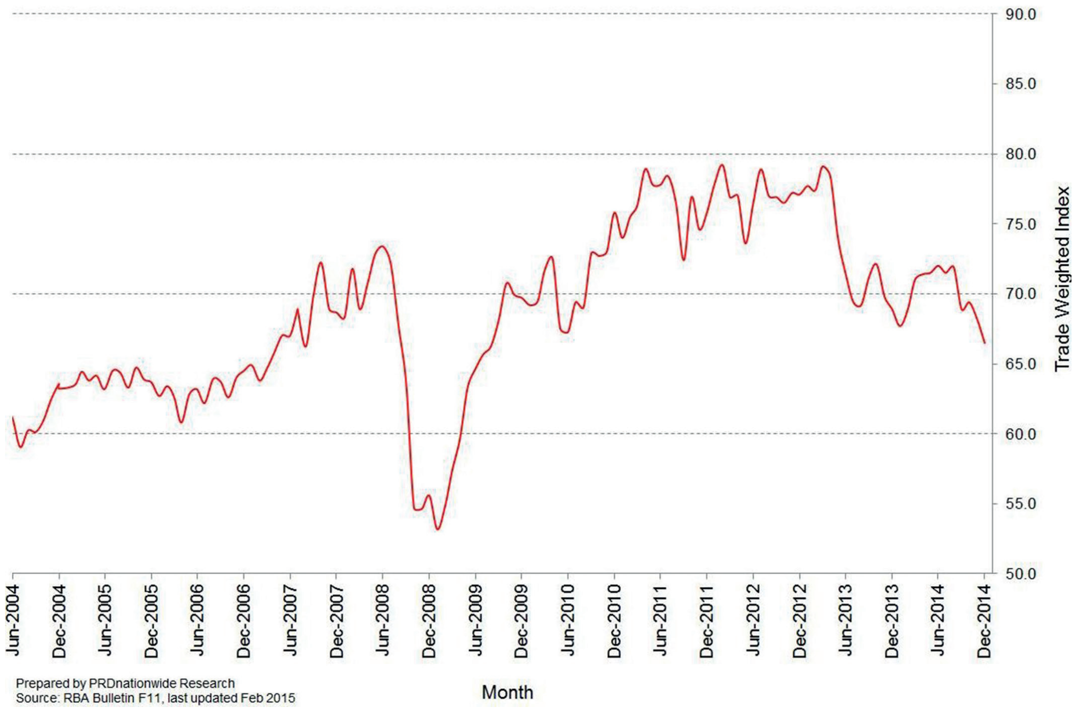
The Australian Dollar Exchange Rate Index decreased by 1.7 points from November 2014 to register an index value of 66.5 points in December 2014. Within a 12 month period (2013 - 2014), commodity prices increased marginally by 3.1 index values (in June 2014) and fell by 2.4 index values in December 2014.

RBA COMMODITY PRICE INDEX

TRADE WEIGHTED EXCHANGE RATE INDEX

	Japan	USA	EU	NZ	UK	Malaysian	Hong Kong	Chinese	Singapore
	Yen	Dollar	Euro	Dollar	Pound	Ringgit	Dollar	Renminbi	Dollar
	JPY	USD	EUR	NZD	GBP	MYR	HKD	CNY	SGD
Dec-13	93.9500	0.9000	0.6500	1.0900	0.5400	2.9440	6.9400	5.4000	1.1300
Dec-14	98.0000	0.8200	0.6746	1.0462	0.5271	2.8666	6.3620	5.0859	1.0836
% Change	4.3%	-8.9%	3.8%	-4.0%	-2.4%	-2.6%	-8.3%	-5.8%	-4.1%

EXCHANGE RATES



WHAT DOES THIS MEAN FOR YOU?

- A fall in exchange rates will decrease the competitiveness of Australia compared to its trading partners, reducing our purchasing power parity.
- For the housing market, a falling exchange rate has the tendency to boost foreign investor participation. This may result in new residential and commercial developments in outer-capital city areas, thus bridging the gap in a two-paced market.
- Falling commodity prices have the potential to reduce earnings, which suggests local investors and owner occupiers may have a lower ability to secure a deposit for home ownership.

LABOUR MARKET

Unemployment rate on a corrected path; labour participation rates expected to fall.

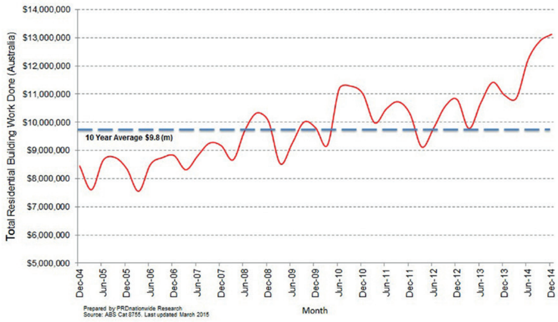
January 2015 saw an annual increase of 6.80% in the unemployment rate, rising from 5.90% in January 2014 and currently sitting at 6.40%. Seasonally adjusted February 2015 rates saw a slight correction, currently standing at 6.30%. The rise in the unemployment rate has been part of a continual pattern of slight increases, which has been predominately due to a fragile Australia economy.

The 2015 Intergenerational Report has identified that the number of people aged 15-64 for every person aged 65 and over has fallen from 7.3 people in 1974-1975 to an estimated 4.5 people in 2014-2015. This is projected to nearly halve again to 2.7 people in 2054-2055. The report also identified Australia's participation rate in the labour force is 64.60% in 2014-2015, with female employment projected to continue to increase to 70.00% in 2054-55 from 2014-2015's 66.00%.

CONSTRUCTION MARKET

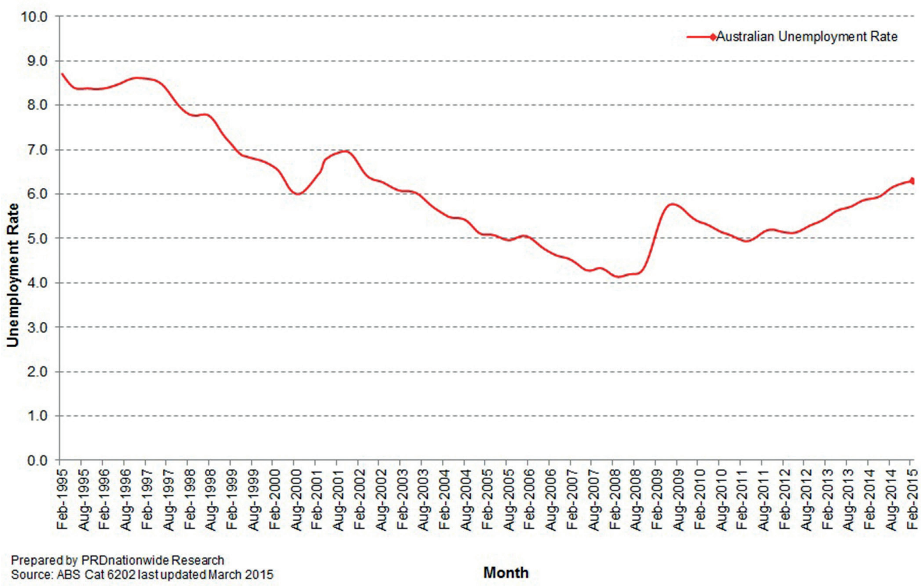
Residential Building Works Continue to Boom.

CHANGE IN THE QUARTERLY VALUE OF RESIDENTIAL CONSTRUCTION



The construction sector has been powering ahead thanks to a renewed interest in the property market. This has come from the recent growth in property values and record low interest rates in early 2015. June 2014 saw monthly value of residential work done total $13.1 million, which represents a strong annual increase of 16.40%. Over the December quarter Tasmania recorded the largest increase in monthly value of residential works done, jumping 9.10%. Meanwhile the ACT and NT dipped 12.20% and 13.90%, respectively.

UNEMPLOYMENT RATE



Prepared by PRDnationwide Research
Source: ABS Cat 6202 last updated March 2015

WHAT DOES THIS MEAN FOR YOU?

- The unemployment rate is unlikely to fall significantly until the economy is fully recovered. This is expected to continue until at least the end of 2015.
- New South Wales and Victoria continue to perform in residential construction market with quarterly with quarterly growth sitting at 2.80% and 3.50% respectively, indicating a continually strong construction market in these states. Other states report a lower figure, further signifying a two-paced market.

HOUSE FINANCE

Lenders continue to commit finance for the purchase of housing; the gap between finance commitments for investment and owner-occupier closing.

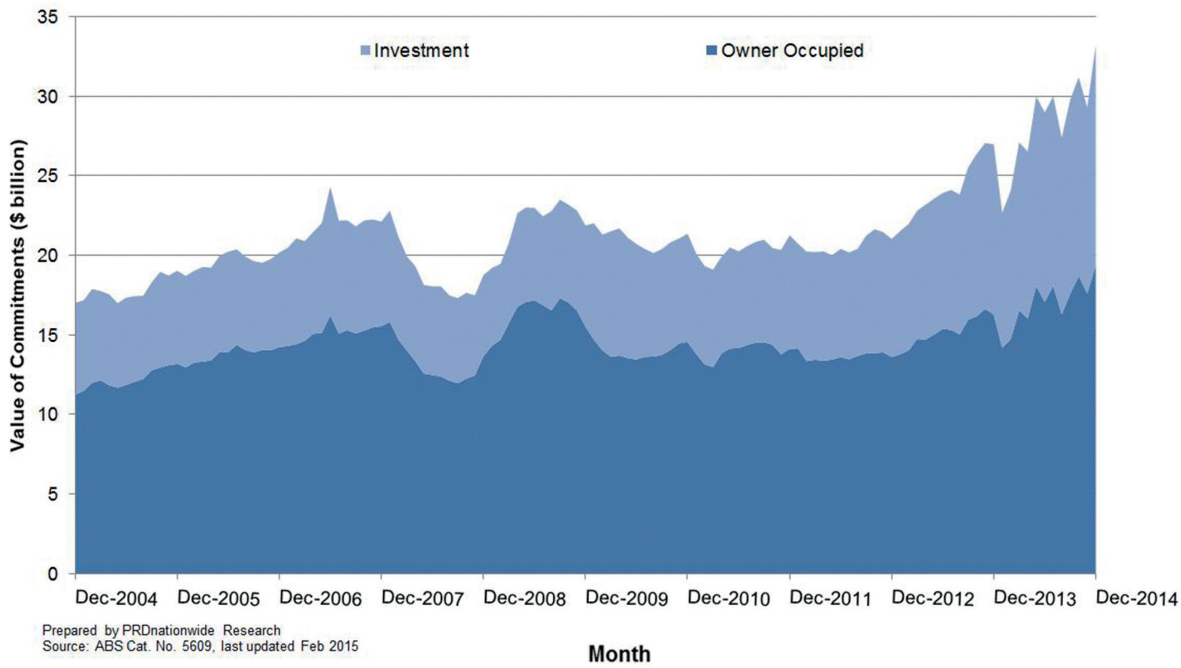
In December 2014, the gross spending on housing finance stood at $33 billion. In the quarter prior, total spending has improved by almost $3 billion equating to a 10.00% increase.

Compared to the previous year, investor spending increased by $6 billion (up 22.00%); close to the 10 year long term average of $7 billion. In six months to December 2014, investment financial commitments improved by $1.9 billion. Owner occupier expenditure increased by $ 2.3 billion.

The owner occupied financed market now amounts to 58.40% of the mortgage market, indicating an increase of 19.00% in 12 months ending December 2014.

In the 12 month period ending December 2014, the purchase of new dwellings shows an increase by 2.00% whilst purchase of established dwelling improved by 3.60%.

HOUSING FINANCE COMMITMENTS



The owner occupied financed market now amounts to 58.40% of the mortgage market, indicating an increase of 19.00% in 12 months ending December 2014.

WHAT DOES THIS MEAN FOR YOU?

- Owner occupied expenditure outperforms investment expenditure and this trend will be sustained throughout 2015.
- Average loan size for first home buyers increased by 3.50% over the December 2014 quarter. This suggests buoyant first home buyer participation as we journey into 2015.
- Reduced cash rate (by 25 points to 2.25%) is expected to stimulate and sustain investment in the residential market.

DWELLING MARKET

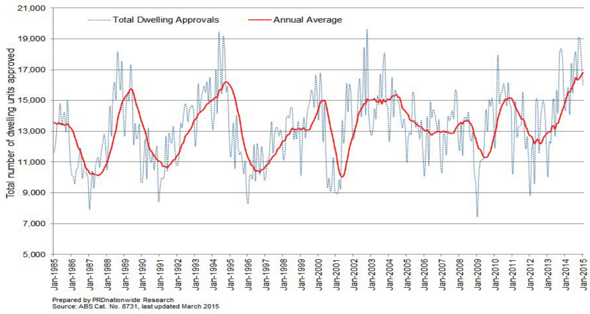
Threat of oversupply looms while time to buy drops.

2014 marked a record year for dwelling approvals. Over the 12 months to January 2015 annual average monthly approvals jumped 12.10% and are now at 16,814, which is the largest annual average ever recorded. Although increased dwelling approvals are a good sign for the construction industry it also means an increased threat of oversupply.

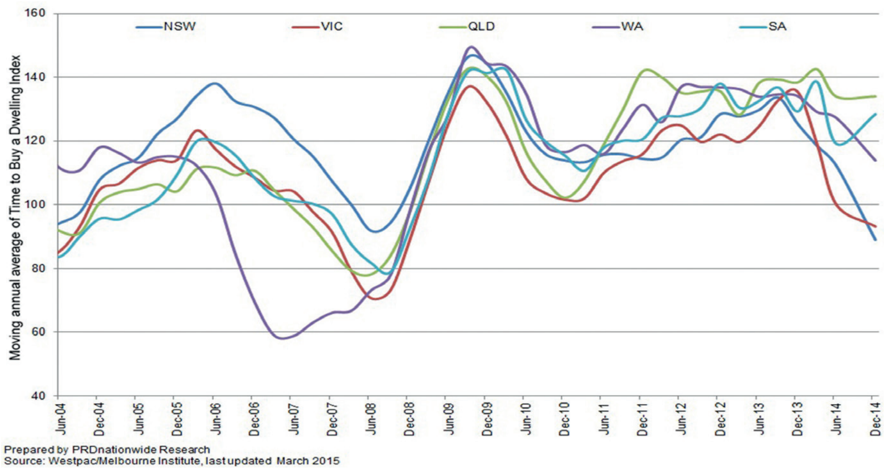
The national average days on the market in capital cities for the month of February 2015 has provided encouraging results with houses taking an average of 64 days while units are taking an average of 80 days. Of all the capital cities Sydney continues to hold the lowest days on market for both houses and units sitting at a remarkable 29 and 26 days, respectively. National average vendor discounting continues to remain low and is currently at an average of -5.60% for houses and -5.70% for units. This shows the increasing level of confidence amongst buyers across the nation willing to pay closer to the asking price to secure the deal.

Meanwhile the Time to Buy a Dwelling Index has decreased an average of 15.90% across the five states over the 12 months to December 2014. This is mainly due to the recent rises in dwelling values as well as a shift to a seller's market and a sluggish national economy. Victoria recorded the steepest decline over the year, dropping 29.00% over the past 12 months, while South Australia dropped the least out of the five states, declining by 0.70%.

DWELLING APPROVALS



TIME TO BUY A DWELLING INDEX



WHAT DOES THIS MEAN FOR YOU?

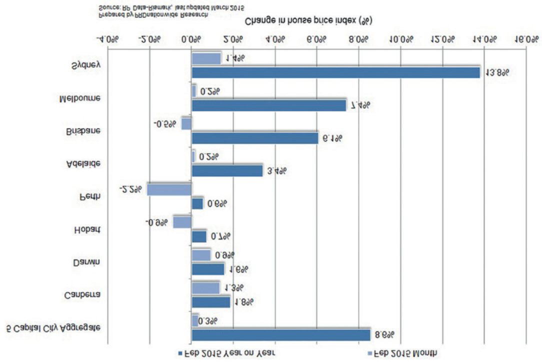
- Annual average monthly dwelling approvals are at a record high, which indicates improved sentiment and potential oversupply. This could dampen property price growth in the medium- to long-term future.
- On average the Time to Buy Index dropped 15.90% since December 2013. This is good news for landlords as potential buyers who feel priced out of the current market opt to rent.
- Victoria and New South Wales Time to Buy Index decreased the most over the year while Queensland and South Australia dropped the least, signifying a two-paced market and proving that investors should look outside of primary markets in 2015.

DWELLING PRICES

Sydney, Melbourne and Brisbane lead growth while smaller cities improve.

The RP Data-Rismark Combined Capital Cities index indicates that the property market is in a solid condition across Australia. Throughout the annual period to February 2015 the eight capital city aggregate recorded values increased by a strong 8.60%. Sydney continues to be the standout performer with annual growth sitting at 13.80%. Compared to annual growth the monthly growth across the eight capitals proved less positive. Interestingly Canberra recorded the second highest monthly growth at 1.30% despite only recording an annual rise of 1.80%. Both Melbourne and Brisbane offered a stark contrast between periods showing monthly growth of only 0.20% and -0.50%, respectively.

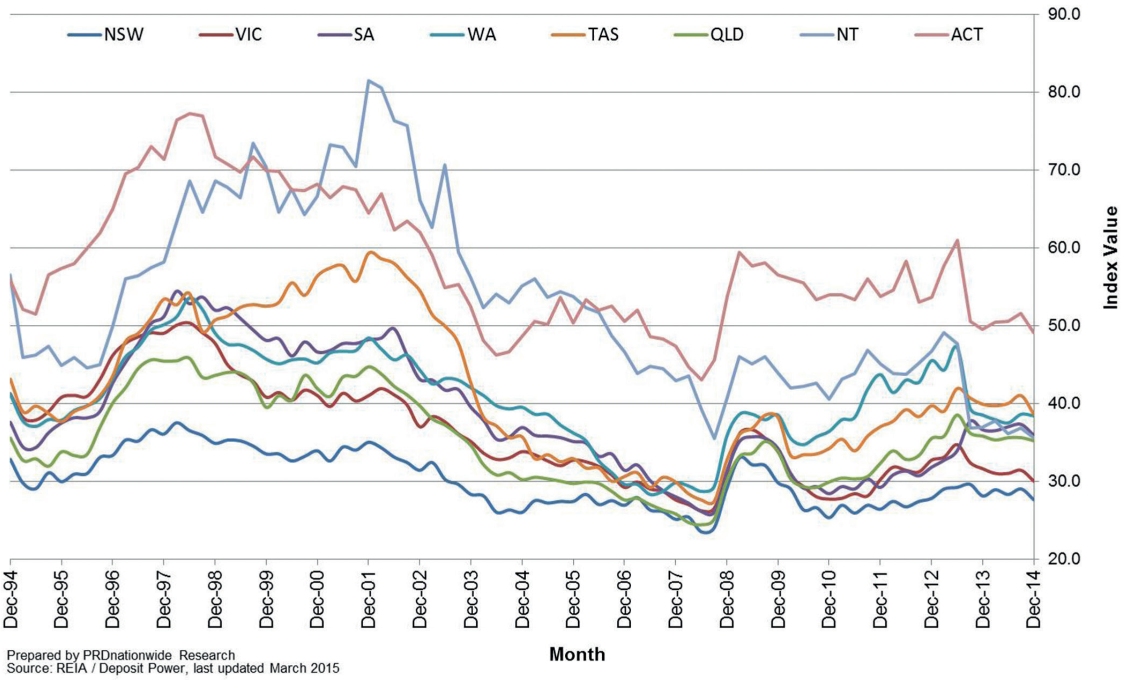
RP DATA – RISMARK DWELLING HOME VALUE INDEX CHANGE BY CAPITAL CITY



HOME AFFORDABILITY

Unexpected dip in affordability towards end of 2014 should be corrected by early 2015 rates cut.

HOME LOAN AFFORDABILITY INDEX



WHAT DOES THIS MEAN FOR YOU?

- All eight capital cities recorded positive growth over the 12 months to February which suggests a continually improving national property market.
- Australian home loan affordability decreased by a minimal 0.7 points across Australia over the past six months. Relative steadiness in affordability is predominately due to continuously low interest rates.
- Sydney led growth however Melbourne, Brisbane and Adelaide also reported strong figures. Two-paced market indicates investors can look outside of Sydney for good investment opportunities.

RENTAL MARKET

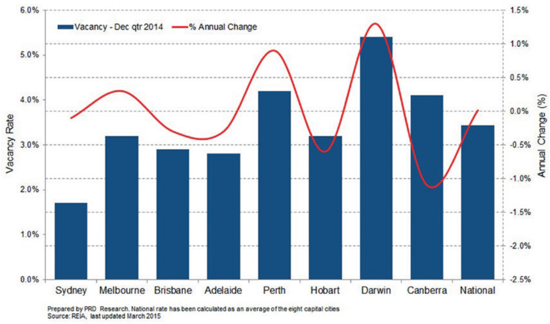
Sydney Leads the Pack While Perth, Darwin and Canberra lag behind.

Analysis of annual median rent growth across the national 3 bed house market shows a two-paced market growth with Sydney, Melbourne and Brisbane growing 2.30%, 2.90% and 1.40%, respectively. Hobart also performed well, recording the highest growth across all seven capitals with median rents rising 2.90% for houses and 3.70% for units. Meanwhile the previous rental hotspots of Darwin, Perth and Canberra recorded an average decline of -2.40%.

The weighted average vacancy rate for all capital cities stood at 3.6% for the December 2014 quarter, representing an increase of 1.00% over the second half of the year compared to a 0.10% drop in the first half of the year. This indicates that demand has cooled for the rental market.

The capitals of Sydney, Melbourne, Brisbane and Adelaide all recorded vacancy rates below 3.00% over the December 2014 quarter. Sydney continues to lead the pack with the lowest vacancy rate decreasing by 0.10% and currently sits at 1.70%. Meanwhile Melbourne, Perth and Darwin recorded increases of 0.30%, 0.90% and 1.30% respectively.

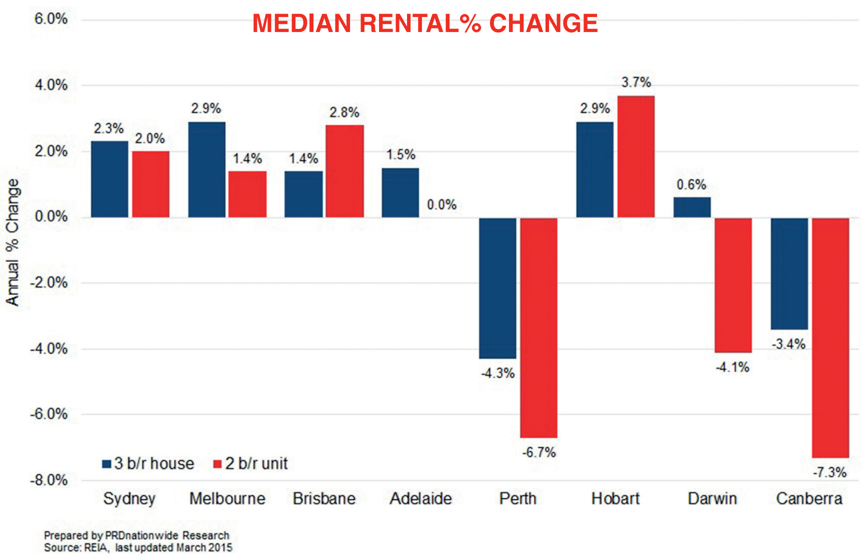
QUARTERLY VACANCY RATE



ANNUAL CHANGE TO MEDIAN RENT PRICES

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
3 b/r House	$450	$360	$370	$330	$440	$350	$640	$430
2 b/r Unit	$500	$370	$370	$280	$420	$280	$466	$380

MEDIAN RENTAL% CHANGE



WHAT DOES THIS MEAN FOR YOU?

- Continued undersupply should see Sydney remain the nation's most competitive rental market with the highest rents and lowest vacancy rates.
- Potential oversupply, particularly for units, should see the Melbourne vacancy rate continue to sit above the desired rate of 3.00%. This may impact investment growth, due to lower returns.
- The Perth and Canberra markets recorded the biggest decline in median rents over 2014 and both have vacancy rates sitting over 4.00%. This suggests these markets are currently oversupplied.

DEMOGRAPHICS

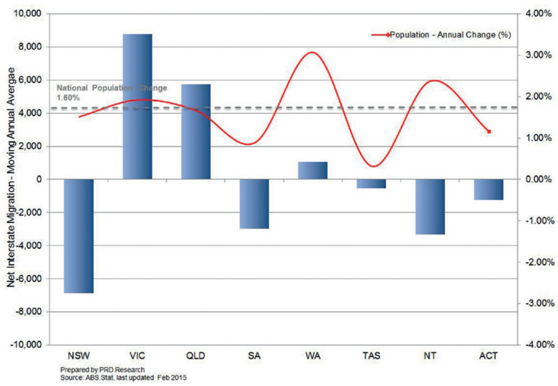
Decrease in population may reduce demand for property and the potential for capital growth.

The natural increase of Australian population fell by 6.00% in the 12 months ending June 2014. The rate has increased the most in Australia Capital Territory, up 3.50% from the previous year, followed by Western Australia at 0.10%. New South Wales, Queensland, Victoria, South Australia and Northern Territory all experienced a decline in their rate of natural increase.

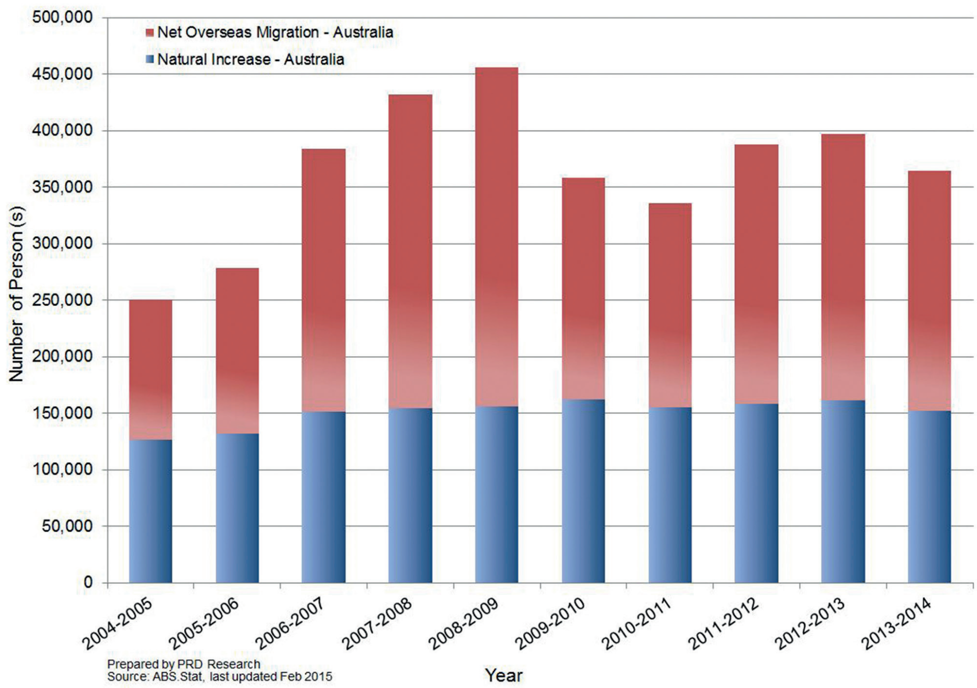
New South Wales, up by 9.40%, and Victoria, up by 4.00%, have been the targeted destinations by overseas migrants with a total of 8,597 additional residents recorded 12 months to June 2014. In 2013-2014 net overseas migration in Australia reflected an annual gain of 212,700 persons, 9.70% less than in 2012-2013. At 30 June 2014, 28.10% of Australia's estimated resident population (6.6 million) was born overseas.

Interestingly, Victoria is the leader for net interstate migration with a net 8,783 more residents (61.40% growth) moving to the state from other regions. Across New South Wales interstate migration is declining and is the lowest among all states in Australia.

POPULATION GROWTH AND NET INTERSTATE MIGRATION



COMPONENTS OF POPULATION GROWTH



WHAT DOES THIS MEAN FOR YOU?

- Victoria continues to maintain a lead in interstate migration which creates more opportunity for property growth in the region. This may lead to a widening gap in the pace of economic development between states.
- Decline in mining activity has led to a rise in the population of non-mining regions, suggesting net property growth in regional areas.
- The 2015 Intergenerational Report expects Australia's population to grow by 1.30% per year, indicating positive implications for residential growth and economic development.

GLOSSARY

BUSINESS CONFIDENCE GRAPH

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

AUSTRALIAN CONSUMER SENTIMENT GRAPH

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

INFLATION GRAPH

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

HOUSING LOAN INTEREST RATE GRAPH

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

NATIONAL RESIDENTIAL CONSTRUCTION GRAPH

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

HOUSING FINANCE COMMITMENTS GRAPH

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

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

UNEMPLOYMENT RATE GRAPH

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

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

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

RBA COMMODITY PRICE INDEX GRAPH

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

DWELLING APPROVALS GRAPH

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

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

TIME TO BUY A DWELLING INDEX GRAPH

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

RP DATA – RISMARK DWELLING HOME VALUE INDEX GRAPH

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

HOME LOAN AFFORDABILITY INDEX GRAPH

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

QUARTERLY VACANCY RATES GRAPH

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

POPULATION GROWTH GRAPH

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

NET INTERSTATE MIGRATION GRAPH

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

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

ABOUT PRDnationwide RESEARCH

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

Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sounds 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; and 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

YOUR HOME OF PROPERTY KNOWLEDGE

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