GOLD COAST

30 YEAR MARKET PERFORMANCE

PRD nationwide

GOLD COAST LGA PROPERTY MARKET OVERVIEW

Emerging indicators suggest a likely turn in the Gold Coast market on the horizon, with exceptional buying opportunities present in the marketplace for those brave enough to test their nerve and savvy enough to buy well. A combination of transfer duty concessions and successive interest rate reductions and a continued fall in valuations during the first half of 2012 has not only improved mortgage affordability but has instilled a sense of optimism for the market in the coming years. New mortgage products are becoming very attractive to buyers, with the banks competing vigorously to win new business. Many industry experts and commentators believe the Gold Coast property market has indeed bottomed out, or perhaps is at the cusp, and while hindsight is yet to verify, the market without doubt remains a buyer's market.

In an attempt to boost activity in the construction industry, first home buyers are set to benefit from a revamped First Home Buyers Scheme which purports to replace the existing $7,000 hand out for the purchase of any property to $15,000 and stamp duty exemptions (in general) only for purchases of new/ off the plan property. Whilst vested interested groups are crying poor regarding the removal of the $7,000, it is not expected to have a material impact on the established market whatsoever, from a buyer's perspective that is. Similarly, the stimulatory effect of the First Home Owners Construction Grant (FHOCG) isn't likely to transpire to a surge in buyer activity likened to the boost in 2009, especially considering the relatively deflated purchasing segment that the grant targets. Placing the misguided hype aside, the market appears ripe for all buyers to consider entering the market with anecdotal evidence highlighting increased enquiry (particularly from first home buyers) for affordable/ well-priced property. Investors may consider re-entering the market soon enough after several years on the sideline, with rental yields firming on the back of bargain buys whilst the rental market remains stagnant. First home buyers are likely to be enticed back into the market by the FHOCG, with competition likely to relax in the established market resulting in excellent opportunities for this segment to purchase well established or new. Upgraders and downsizers that are relocating locally are likely to battle their conundrum of trying to sell their property at the highest possible price whilst trying to buy at the lowest possible price in the same market. However, upgraders from outside the region (particularly from regional areas or interstate) are looking to capitalise on the opportunity to purchase a property they perhaps could not afford until now. Downsizers from outside the region look to benefit the most with plenty of stock in the market to suit, enabling many to downsize and cash up in the current market. The signs of a struggling property market may not appeal to all potential buyers, however the risk of taking the leap given the spate of negative property data and sentiment will often yield the greatest returns, timing as always remains critical.

The Gold Coast residential real estate market continues to endure a relentless downturn in its property cycle as the ramifications of the Global Financial Crisis (GFC) that marred confidence in the once booming property market linger to the present day. Sales volumes recorded across the house, unit and land markets during the six months to 30 June 2012 have on average recorded lows not experienced in over two decades, with the median price for each market correcting to pre-GFC levels. Uncertainty remains a key barrier to entry for many prospective buyers, as prices reach a level that a majority of buyers can actually afford though are unwilling to commit to for fear of further price corrections.

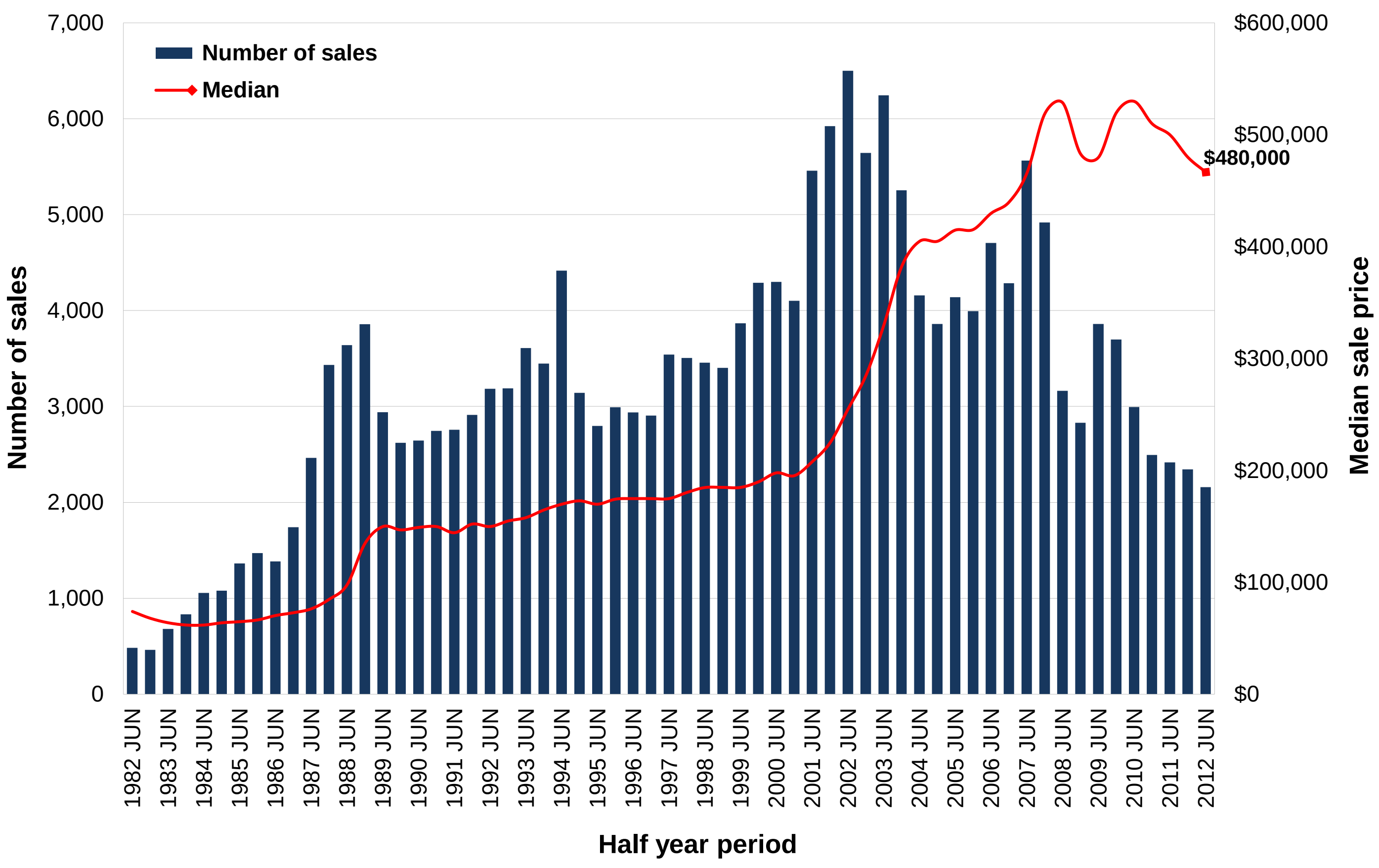
With many would-be home owners/ investors sitting on their hands in anticipation for a bottoming out in the cycle, competition between vendors has been very aggressive resulting in substantial discounts to unrealistic asking prices in order to sell within a reasonable timeframe. These revisions in price have been exacerbated by stressed sales and mortgagee in possession (MIP) sales that are still prominent in certain markets throughout the Gold Coast. The volume of MIP sales to be brought to the market before the banks financial year (i.e. 30 September 2012) is uncertain, though a push of volumes to firm their balance sheets may present more headaches to vendors whilst generating greater opportunities for potential buyers. The mentality of many active buyers today is that ordinary vendors will need to adjust their price expectations accordingly in order to compete, however many vendors have proven to be very reluctant to concede, resulting in lengthy listing periods anywhere north of 12 months, as vendors ostensibly chase the market down. The reluctance of vendor re-pricing and the apprehension of buyers, particularly investors, appears to be the key challenges the market has faced in the year to date. Overseas markets have also had a material impact on consumer sentiment and buyer confidence on a domestic level which has served to curtail any positive movement in the Gold Coast property market. Developer activity remains supressed, particularly in the unit market with very few cranes visible from the observatories of the state's tallest buildings. In fact, some of the best value on offer in the market is from excess unit stock in the higher end market with developers eroding margins (if any at all) to meet the market.

The report dives into a 30 year sales cycle analysis of the house, unit and land markets to understand where the markets stand historically and what direction they are likely to head in the short term.

GOLD COAST LGA HOUSE MARKET OVERVIEW

Activity in the Gold Coast house market continues to slide, registering just 2,158 transactions during the six months to 30 June 2012. Observing the 30 Year House Sales Cycle chart highlights the significant underperformance of the current market in contrast to other troughs experienced over the past 30 years. Sales volumes recorded since the June 2010 half year period have failed to contest the levels recorded during the past 25 years (since June 1987 period). Since the peak experienced during the June 2007 period, sales volumes have decreased on average 17.1 per cent per annum. The average number of sales per six month period since the onset of the Global Financial Crisis (June 2008 period) has been 2,884, compared to the pre-GFC peak of 5,564 recorded for the June 2007 period. Government intervention sought to underprop the collapse of the housing market during 2008 by introducing a boost to the First Home Owners Grant (FHOG) for both new and established properties. The boost (effective between the 14th of October 2008 and 31st of December 2009) together with extremely low interest rates and bullish lending practises encouraged considerable activity from the first home buyers segment. This is evidenced by the acute decline in the median price during this period as a result of a spike in activity in the lower end of the market. Whilst the stimulus provided temporary relief for the construction industry, it also artificially inflated house prices due to the misguided perception of value it established in the market. Over the past three years prices have fallen irrepressibly, exacerbated by the inflationary pressures of the stimulus. The prevailing median price of $466,750 for the June 2012 period continues to substantiate the trend of softening house values as the market dictates an acceptable price to pay for property in an uncertain economic climate. The median price house has fallen 6.7 per cent per over the year to 30 June 2012 and 11.9 per cent from the median price peak recorded in the June 2010 half year period.

GOLD COAST 30 YEAR HOUSE SALES CYCLE

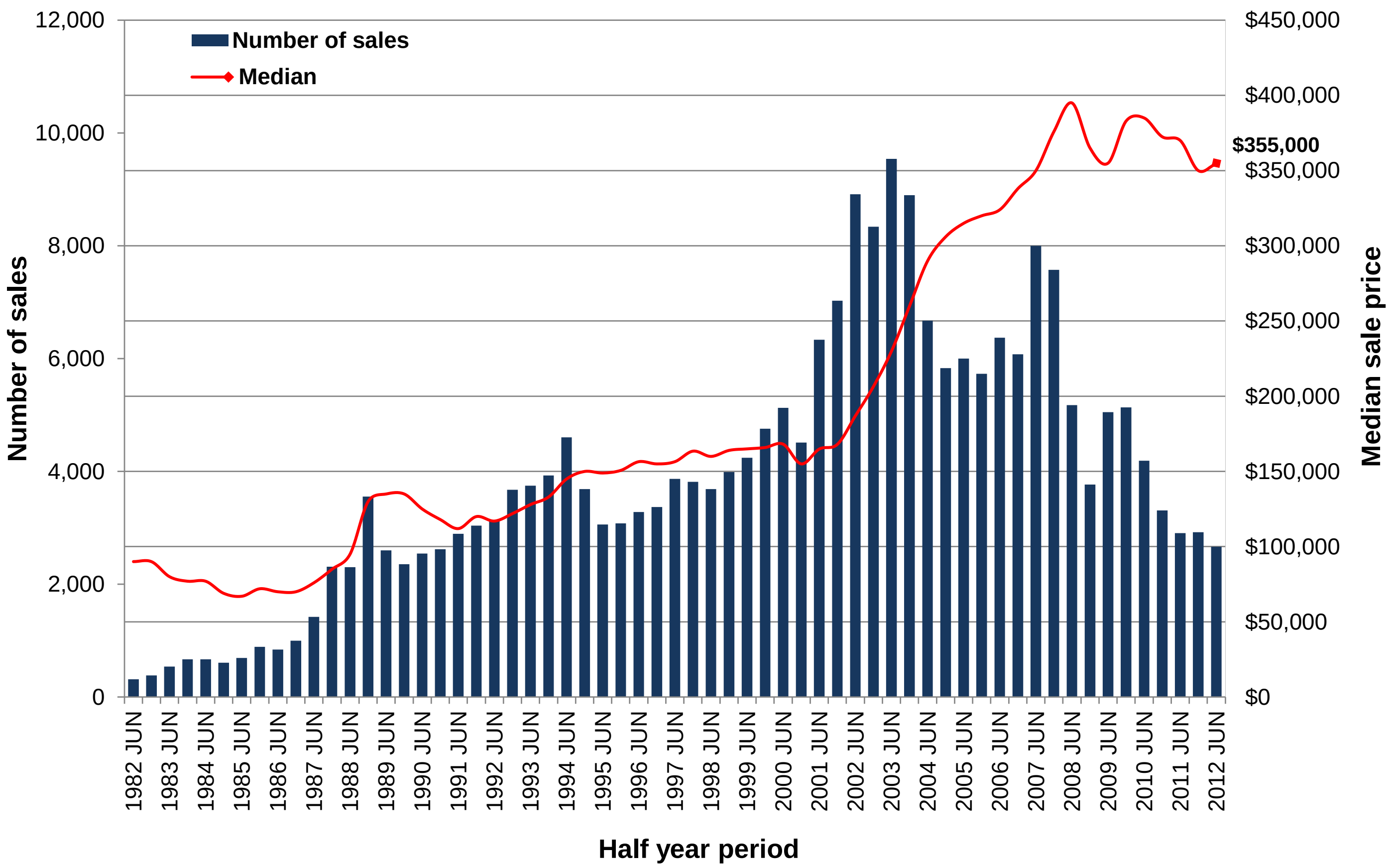


Prepared by PRDnationwide Research. Source: PDS

GOLD COAST LGA UNIT MARKET OVERVIEW

The Gold Coast unit market (apartments and townhouses) has generally followed the trends identified in the house market, with volumes down by a third from the level recorded in the June 2007 half year period and a sustained correction to the median price to record $355,000 for the June 2012 period. The number of transactions registered during the June 2012 period was 2,663, representing a level of activity that hasn't been recorded in over two decades. Since the peak experienced during the June 2007 period, sales volumes have decreased on average 19.8 per cent per annum. The average number of sales per six month period since the onset of the Global Financial Crisis (June 2008 period) has been 3,902, compared to the pre-GFC peak of 8,002 recorded for the June 2007 period.

GOLD COAST 30 YEAR UNIT SALES CYCLE



Prepared by PRDnationwide Research. Source: PDS

The current median price trend reflects an oversupply of high end and investor grade stock in the Gold Coast unit market, brought forward by a strong tourism base and even stronger demand from investors (both domestic and international) in the early 2000's. Unit values in these categories have been subject to heavy discounts in recent years with several developments going belly-up and the roll on effect impacting values across the wider market. Developer activity in the unit market since the GFC has been heavily subdued, with the investor segment dissipating in the wake of softened property values, weak rental price growth and poor confidence in the prospects of a short-medium term recovery.

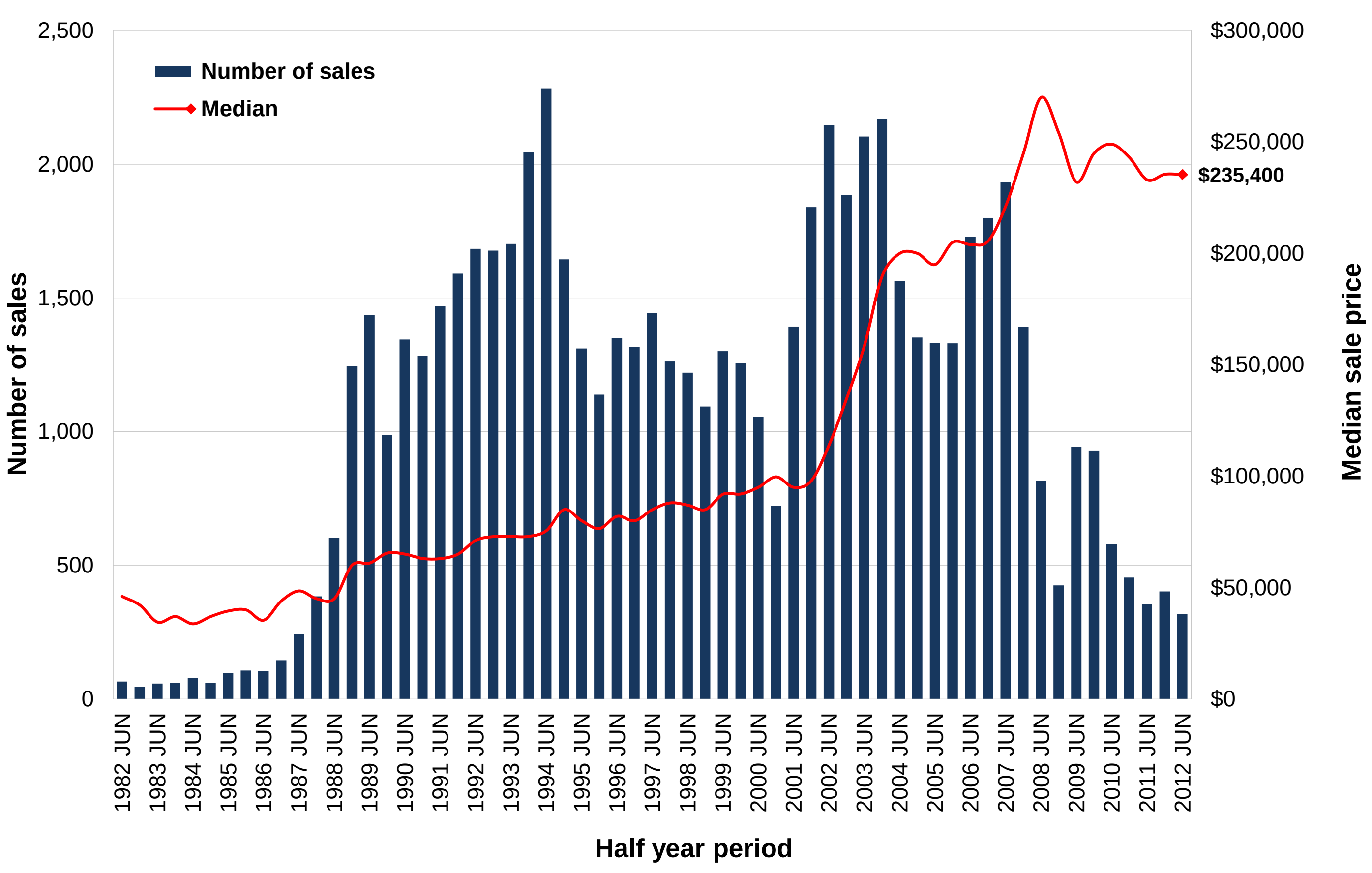
Anecdotal evidence suggests enquiry levels from end users (particularly first home buyers and those looking to downsize) have increased since the beginning of 2012, influenced by increased mortgage affordability, sustained price corrections and a notable price disparity between the house and unit market. The widely criticised $10,000 Building Boost Grant (effective between the 1st of August to the 30th of April 2012) was introduced as an incentive for all market segments to benefit from so long as the property purchased was new/ off the plan. Observing the Gold Coast 30 Year Unit Sales Cycle chart, it can be seen that a poor take up rate of the incentive resulted in little impact to improving sales volumes during the time, and perhaps contributed to a marginal kicker in the median price as a result of the inflationary outcomes mentioned earlier.

GOLD COAST LGA LAND MARKET OVERVIEW

The Gold Coast Land market has also recorded the lowest sales volumes in 25 years, with a total of 318 transactions registered during the six months to June 2012, representing a 21 per cent fall from the December 2011 period. The short-lived uplift in volumes and stabilisation in median price during the December 2011 period can perhaps be attributed to the implementation of the Building Boost Grant. However as seen in the Gold Coast 30 year Land Sales Cycle chart, the stimulatory effect was marginal with low take up rates leading to an extension of the April 2012. As history has shown, subsequent to a period of stimulus, volumes begin to drop followed by land values. With that being said, it is difficult to envisage land volumes falling further especially in a market that has strong fundamentals in population growth and an adequate provision of land to accommodate. A comparison of resident population statistics between the 2006 census data and the most recent 2011 release indicates that the Gold Coast's northern growth corridor has experienced the largest growth in population over the past five years. The suburbs of Upper Coomera and Ormeau were the highest ranked suburbs in the Gold Coast, having both increased their population by above 25 times that recorded in 2006.

This comes as no surprise considering a majority of the developable land (existing and future) within the Gold Coast is within the designated northern growth corridor. Whilst there are several land estates active in the Gold Coast northern corridor, developer activity across the Gold Coast remains scarce, with several developers holding onto substantial land banks awaiting an upturn in the market whilst others are selling up to cover their losses. The negative implications this has had on the construction industry have been extensive, prompting the newly elected state government to introduce yet another form of stimulus, aimed primarily at revitalising the lacklustre construction industry that has battled to survive in the Gold Coast for the past 5 years. The FHOG has been revamped under the new State budget, providing buyers of new/ off the plan property with a total of $15,000 in addition to stamp duty exemptions on property under $750,000. The new First Home Owners Construction Grant (FHOCG) does not include any monetary handouts to those purchasing existing property, with the former $7,000 base grant removed as at the 12th of September 2012 (date of effect for FHOCG). Active developers that are delivering a diverse mix of housing options at an affordable price point are those likely to enjoy success on the back of these cash injections, with many would-be first home buyers to consider building/buying new to take advantage of substantial savings that can be used as equity in a property in addition to enhancing their borrowing capacity.

GOLD COAST 30 YEAR LAND SALES CYCLE



Prepared by PRDnationwide Research. Source: PDS

It is anticipated that the trend of declining volumes will turn markedly in the coming years as competition between the banks drives variable mortgage products to affordable lows, providing yet another incentive for first home buyers to enter the market. Banks however must continue to exercise stringent lending practices with a focus on applicant's normal income to navigate the potential for overcommitted burrowing in the possible event prices correct further. The relaxation of credit during the first boost to the FHOG in 2009 and the devaluation of land since have resulted in a market swamped with stressed sales and mortgagee in possession sales that is still prominent in today's market. First home buyers in general have wised up from experiences of others during the initial FHOG boost period, with many probing the market in search for a bargain buy, equipped with substantial genuine savings as a testament to their patience and new market savvy. As a result, this segment represents a very small pool of potential buyers amidst continued economic uncertainty and poor confidence in the Gold Coast property market, and thus it is likely that the construction industry will experience a much slower and perhaps more sustainable uplift in activity than in previous attempts by the government to stimulate the property market. As established properties are considerably more affordable then new build (when comparing like for like in the same area), and understandably so (their new homes), the new FHOCG is unlikely to be to the detriment of the established market, despite the removal of the $7,000 FHOG. In some cases, building/ buying new can be priced competitively if not cheaper than property in the established market; however buyers often see better value in buying an older though bigger house on a larger lot for the same money. If anything, perhaps vendors in the established market will feel the pinch as demand from the first home buyers segment dries up competition for entry level housing, therefore provisioning for a possible $7,000 discount in their price expectations.

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