

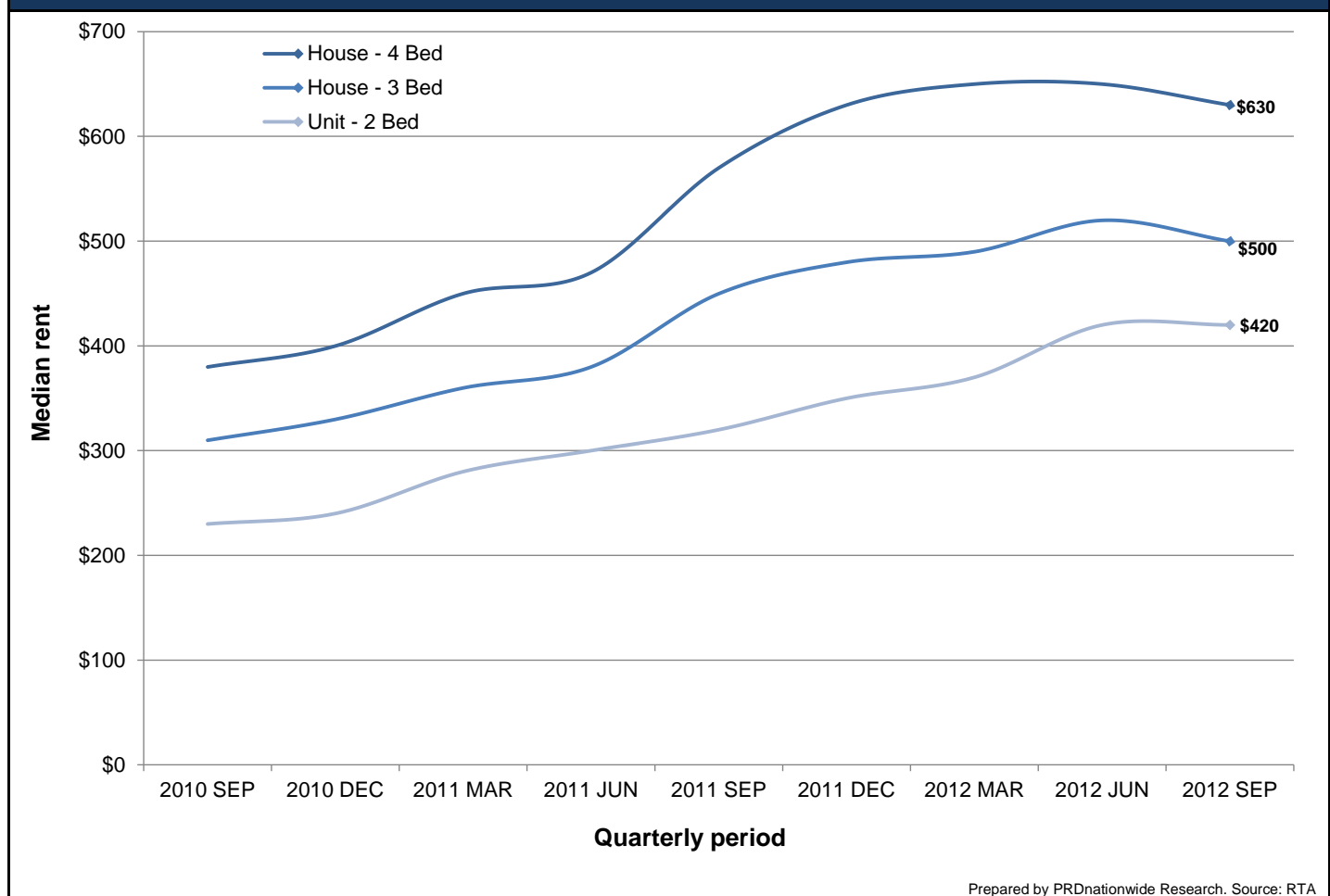
Gladstone Area

RENTAL MARKET ANALYSIS

According to the most recent quarterly median rent release by Residential Tenancy Authority, the Gladstone Area residential rental market (represented by the 4680 post code) appears to have reached a plateau after experiencing exceptional growth over the past two years. The chart below highlights the median rent movements for select house and unit dwelling types over quarterly periods from September 2010. Only dwelling types that accounted for 100 or more new bonds per quarter were considered for this study.

The highest median rent for a single quarter period was achieved in the four bedroom house market, recording \$650 p/w back in June 2012. The highest median price achieved in the three bedroom house and two bedroom unit markets were \$520 p/w and \$420 p/w respectively, also in the June 2012 quarter. Since these peaks in median rental price, records for the September 2012 quarter show that prices have fallen 3.1 per cent (\$630 p/w) for four bedroom houses, 3.8 per cent (\$500) for three bedroom houses and remained flat (\$420 p/w) for two bedroom units.

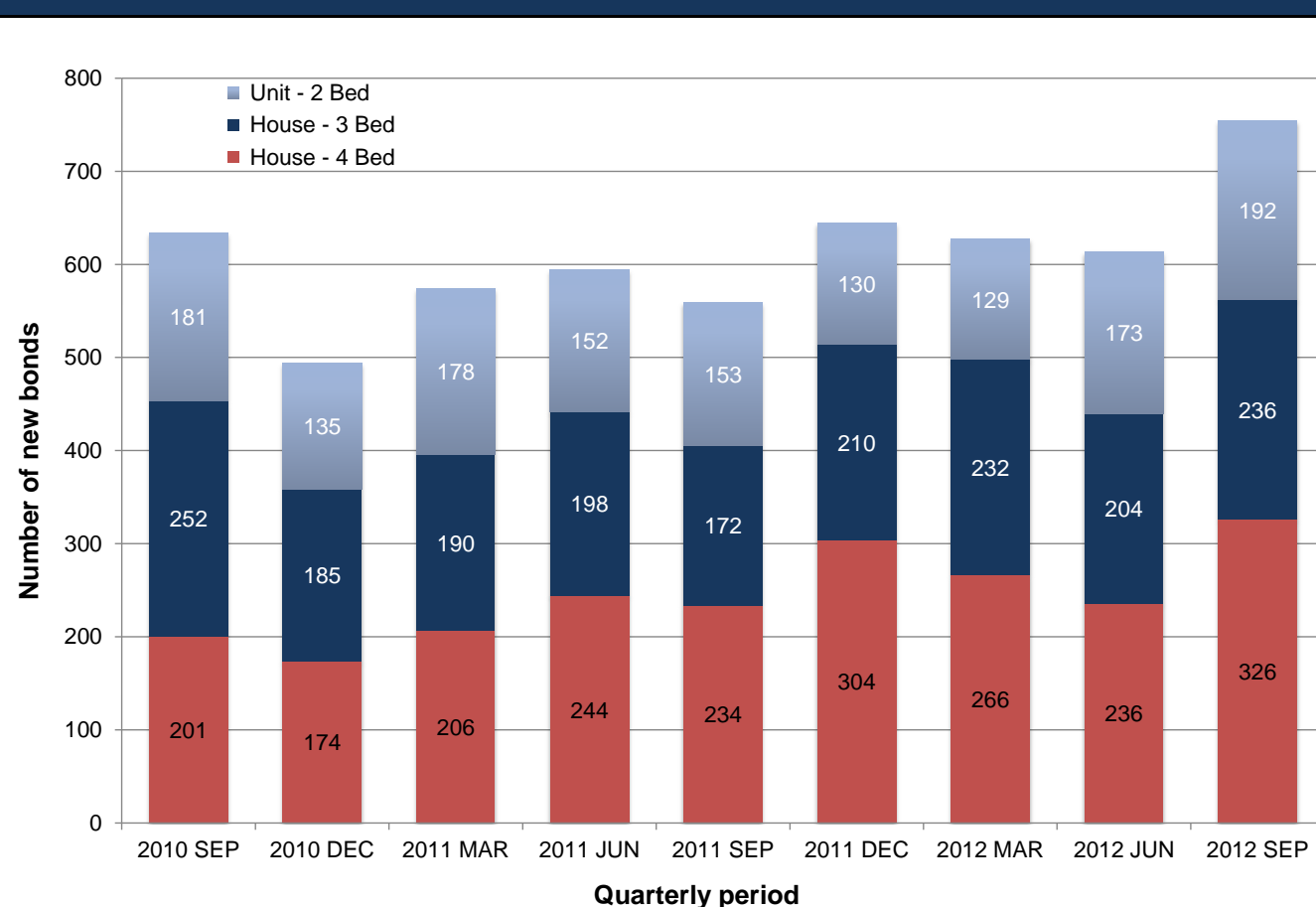
GLADSTONE AREA MEDIAN RENTAL PRICE PERFORMANCE



Observing the long term trends of the rental market, investors who purchased over two years ago have relished in super charged rental yields, particularly from the June 2011 quarter onwards. Both three and four bedroom houses experienced their largest quarterly growth during the September 2011 quarter, with a quarterly increase of 18.4 per cent and 21.3 per cent respectively. Two bedroom units enjoyed their largest growth during the March 2011 quarter, having increased its price by 16.7 per cent from December 2010. Over the past two years the Gladstone residential rental market has demonstrated consecutive growth in prices up until the most recent September 2012 quarter period. The two year average quarterly growth rate for four bedroom houses was 6.5 per cent, followed closely by three bedroom houses at 6.2 per cent. The two bedroom unit market achieved the best growth recording an average quarterly growth rate of 7.8 per cent. The increased demand and therefore competition for both short and long term accommodation in the more affordable unit market has underpinned the level of growth it has achieved proportionate to other dwelling types in the market.

The volume of rental accommodation available to the market during the September 2012 quarter appears to have satisfied a considerable amount of underlying demand as evidenced by an increase in the number of new bonds across the board. On the market insight suggests that demand for rental accommodation remains strong, with well-appointed, well-presented and above all well-priced rentals leased within days of listing. With that being said, the budgets of many prospective tenants appears to be stretched to their maximum capacity, with pricing over \$550 p/w for a non-executive dwelling deterring any interest from the market. The fact that vacancy remains tight in the current market implies that lessors are becoming more receptive to the markets price expectations in order to let up their property with minimal vacancy throughout the year. This is reiterated by the volume of new bonds for the September quarter and in the concurrent softening in rental prices.

GLADSTONE AREA NUMBER OF NEW BONDS

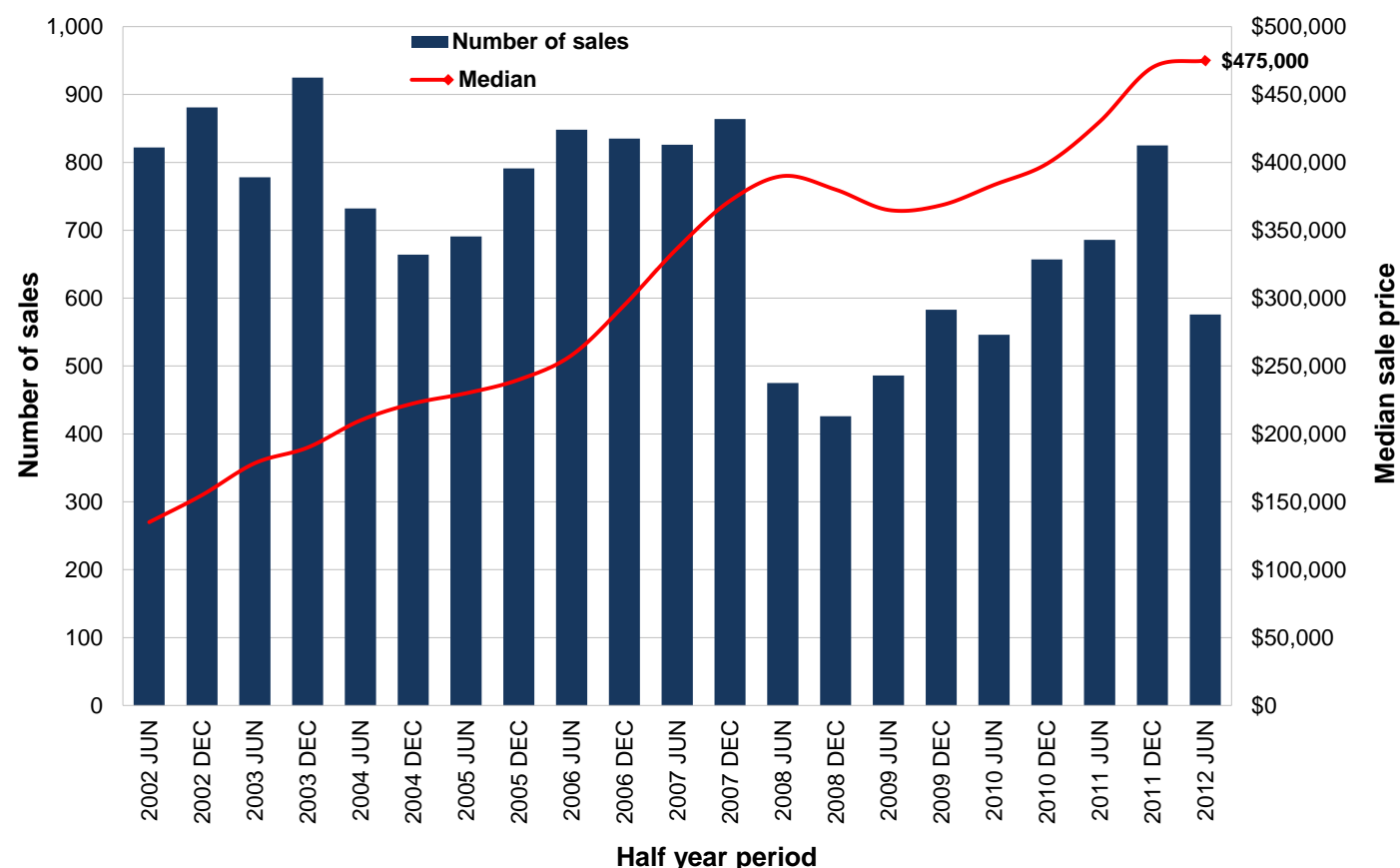


Prepared by PRDnationwide Research. Source: RTA

With the extent of new construction in Gladstone correcting the housing shortfall, it is difficult to envisage further rental price growth from hereon as the supply of new housing adds to the existing stock on the market. In the six months to 30 June 2012 only 576 houses sold in the established market, down 30.2 per cent from the previous December 2011 half year period. Over what has been an enduring and grossly underperforming five years in the property market for most of the nation, Gladstone has bucked the trend to record remarkable growth in both sales volumes and subsequent median price. The volume of sales recorded for the December 2011 period was just 39 sales short of that recorded in the pre-GFC December 2007 period. The five year average annual growth rate in the median price was an exceptional 7.1 per cent, recording a median price peak of \$475,000 in the June 2012 period. However, the start to 2012 has not provided a positive outlook for the region's property market. Currently, there is an oversupply of overpriced property on the market that is not moving, which is exacerbated by new supply additions that are being drip fed into the market to navigate competition and sustain price growth.

The acute fall in sales volumes during 2012 is the direct result of the market's appetite for affordable property and the reluctance of vendors to revise their price expectations, opting for longer listing periods and speculating on selling at their original asking prices. There is an interesting trend in which vendors are withdrawing their properties from the market after little to no interest and placing them in the renting pool with the intention of bringing it back to the market when selling conditions improve. The trend is expected to put further downward pressure on rents, much to the relief of renters, as the supply of rental properties increases towards the end of the year into 2013. In addition to influencing rental prices, there is potential for house prices to correct as well. The outlook of diminishing rental yields will be detrimental to the level of investor demand which accounts for a large proportion of the active buyer segment, particularly if vendors are not willing to budge on pricing to accommodate the change in the rental market. The current market presents a plethora of opportunities for vendors/ lessors to sell/ lease their properties within days of listing so long as they are prepared to meet a reasonable market, and have the type of property to attract competition from active buyers.

GLADSTONE LGA 10 YEAR HOUSE SALES CYCLE



Prepared by PRDnationwide Research. Source: PDS