

PROPERTY WATCH®

First Quarter 2012

Surfers Paradise Market Overview

Scope

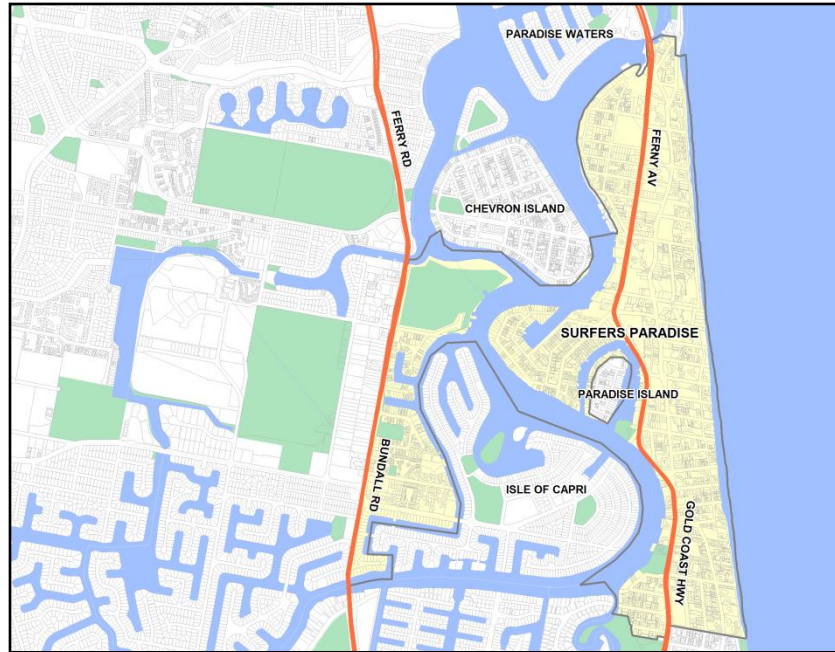
The following Property Watch report is the result of an investigation into the historic and current market trends of the Surfers Paradise house and unit markets. Analysis provided within this report focuses on highlighting the recent performance of Surfers Paradise with due consideration of prevailing economic influences.

Surfers Paradise House Market

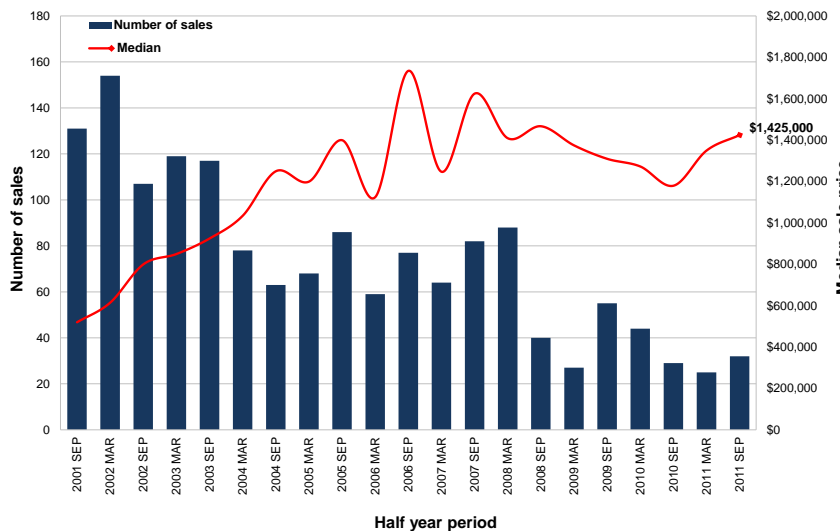
The median house price for Surfers Paradise has gained considerable momentum, recording \$1,425,000 in the year to September 2011, an improvement of 20.8 per cent. As evidenced in the House Sales Cycle to the right, the median price since the Global Financial Crisis (GFC) in 2008 has gradually softened over time. This trend has been more subtle than the volatility experienced between 2005 to 2008 which appears to have been influenced by fluctuations in sales activity. Observing the long-term performance of median house price, the five year average annual growth rate recorded was negative 3.9 per cent, consistent with what has transpired across most high-end suburbs in the Gold Coast. The 10 year long-term performance has expectedly provided a superior result to record 10.6 per cent average annual growth, due to a sustained period of exponential growth up until 2006. Recent sales activity has shown positive signs of recovery, with the median price bouncing back strong. Sales activity during the September 2011 half year period registered a total of 32 transactions, representing an increase of seven transactions from the historic low recorded in the March 2011 half year period. A majority of sales in the September 2011 half year period have been from local buyers, possibly looking to upgrade from their current residence to take advantage of heavily discounted property values brought on by a combination of realistic vendor expectations, distressed sales and mortgagee sales. The prevailing median house price is perhaps an indication that prospective buyers in the market are scouting for high-end properties that have experienced a significant correction in value since the GFC, enticing them to purchase in a higher price range where the discounts have been the most substantial. Recent reductions to interest rates may perhaps play a role in attracting likeminded buyers to enter this market as their affordability thresholds increase modestly.

The price point distribution over the September 2011 half year period indicates 18.8 per cent of sales transacted in the \$2,000,000 plus price bracket, representing a moderate contraction of 5.4 per cent from the corresponding period in 2010. Interestingly the sub \$1,000,000 market accounted for 28.1 per cent of transactions in the same period, representing the lowest proportion of total sales in over three years. The evidence suggests high-end property values have been contracting considerably since the economic downturn, with more properties selling into lower price brackets. Savvy buyers with the capacity to enter the house market have been targeting such properties as they present the greatest potential for future growth.

A resales analysis was conducted to ascertain the returns home owners have achieved within Surfers Paradise throughout the September 2011 half year period. This analysis established an average annual capital appreciation of 3.4 per cent per annum, a notable improvement from that recorded in the corresponding period in 2010, albeit a relatively poor result. The combination of resales had an average holding period of just over eight and a half years, indicating many vendors purchased around a period of peak growth back in 2004, and later endured a rather volatile decline in growth that ensued.

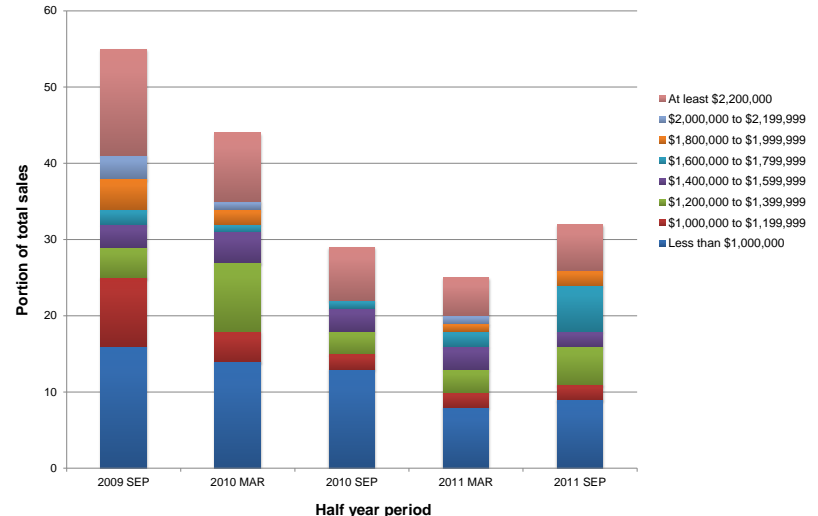


Surfers Paradise House Sales Cycle



Prepared by PRDnationwide Research. Source: PDS

Surfers Paradise House Price Point Distributions



Prepared by PRDnationwide Research. Source: PDS

Surfers Paradise Unit Market

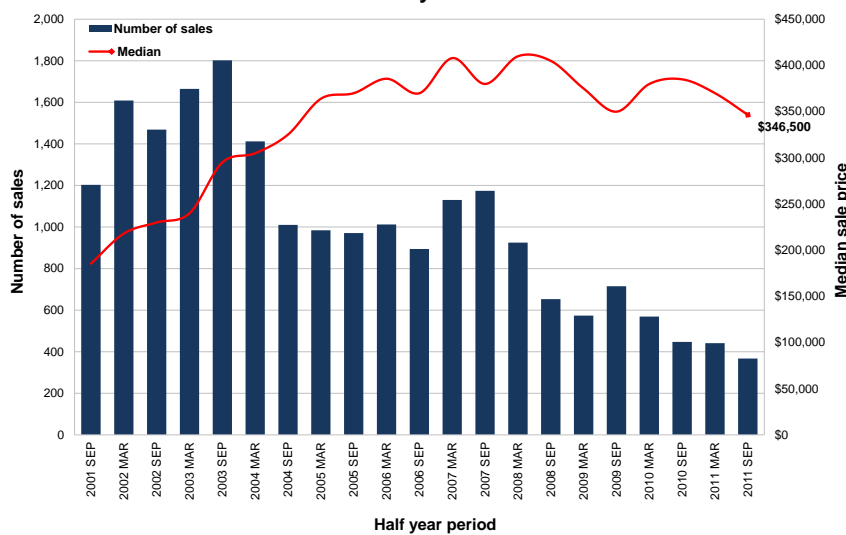
Since the median price peak of \$410,000 recorded in the six months to March 2008, the median price has softened considerably to record \$346,500 for the September 2011 half year period. The declining trend has been a slow and steady process reflecting dwindling sales volumes over the same period of time, albeit with the exclusion of the extraordinary sales volumes registered in the September 2009 half year period, where the first home buyers segment of the market dominated transactions. The level of sales activity was attributed largely to government incentives, low interest rates and favourable buying conditions post GFC. During this time, the median unit price experienced an acute softening as more affordable housing options (appropriate to this segment) were targeted. More recently, in the year to September 2011, the median unit price dropped 10 per cent, painting a very different picture than that shown in the house market. The five year average annual growth rate for the unit market was negative 1.3 per cent, outperforming the house market by 2.6 per cent. The 10 year long-term average annual growth rate was much better at 6.4 per cent, attributed to exponential growth experienced from 2001 to 2007.

A resales analysis conducted for unit product in Surfers Paradise has revealed that vendors who transacted during the September 2011 half year period received an average annual capital appreciation of 0.2 per cent per annum. Such a poor result underpins the reluctance of most vendors to sell in this market; hence the longer than usual time on the market and subsequent diluted sales volumes. Inevitably, over-committed vendors are forced to reduce their price expectations to make the sale which ultimately transpires to softening median prices. The combination of resales had average holding period of just over eight years, and likened to the house endured an even stronger decline in growth from 2004.

Sales activity during the six months to September 2011 has registered a historic low of just 367 transactions. This represents an annual softening of 17.9 per cent from the corresponding period in 2010. There is however cause for optimism in the market with recent cuts to interest rates (0.25 per cent in November 2011, 0.25 per cent in December and a further reduction anticipated in February 2012), together with the QLD Home Builders Bonus (extended recently to 30 April 2012) and softened property values, all of which are likely to contribute to an uplift in transactions in the short term.

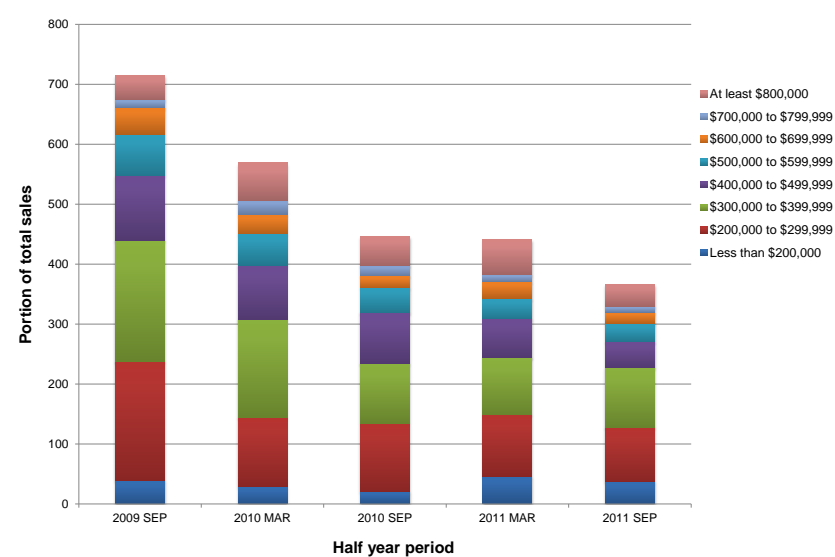
The price point distribution over the September 2011 half year period indicates that 61.9 per cent of the market had transacted in the sub \$400,000 market. The level of activity in this range was marginally greater than that recorded for the September 2009 half year period which recorded 61.5 per cent. The evidence suggests the market is once again targeting more affordable priced product, generally out of necessity. Despite reductions to interest rates, incentives and favourable buying conditions, access to finance and confidence in the property market are ultimately determining what buyers are willing and able to commit to in the current market. Couple this with current vendor expectations results in heavily diluted sales volumes. However, as evidenced in the unit sales cycle chart, and more often than not, vendors eventually succumb to market expectations which results in a downward shift into a lower price range, hence the expansion of the sub \$400,000 market in recent times. It is anticipated that vendors and buyers will very soon negotiate a happy medium which will have positive implications for sales activity at least for the short term.

Surfers Paradise Unit Sale Cycle



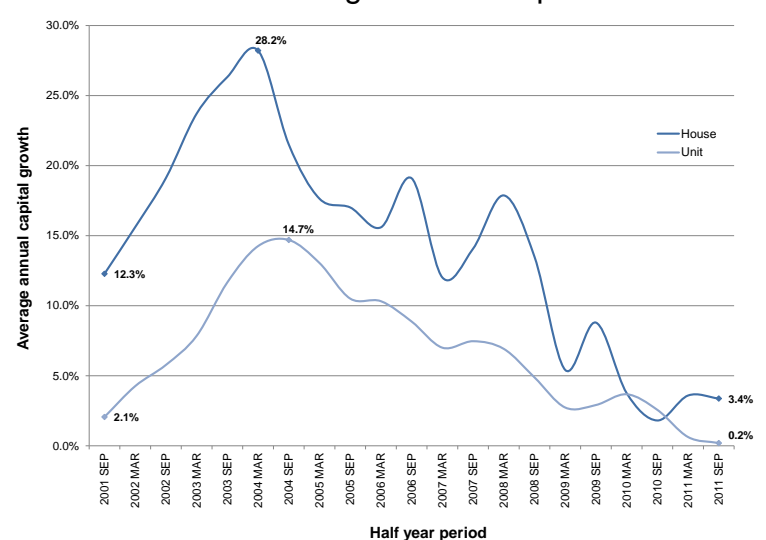
Prepared by PRDnationwide Research. Source: PDS

Surfers Paradise Unit Price Point Distributions



Prepared by PRDnationwide Research Source: PDS

Surfers Paradise Average Annual Capital Growth



Prepared by PRDnationwide Research Source: PDS

Prepared by PRDnationwide Research. Source: PDS Live. For further details contact: Robert Matta, Research Analyst, Ph: (07) 3026 3357 or Email: robertmatta@prd.com.au, Trent Scott, Principal from PRDnationwide Surfers Paradise on (07) 5588 0088 or visit our website at www.prdnationwide.com.au/research.

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