HERRON TODD WHITE RESIDENTIAL

Residential

February 2019

National Property Clock: Houses

Entries coloured orange indicate positional change from last month.

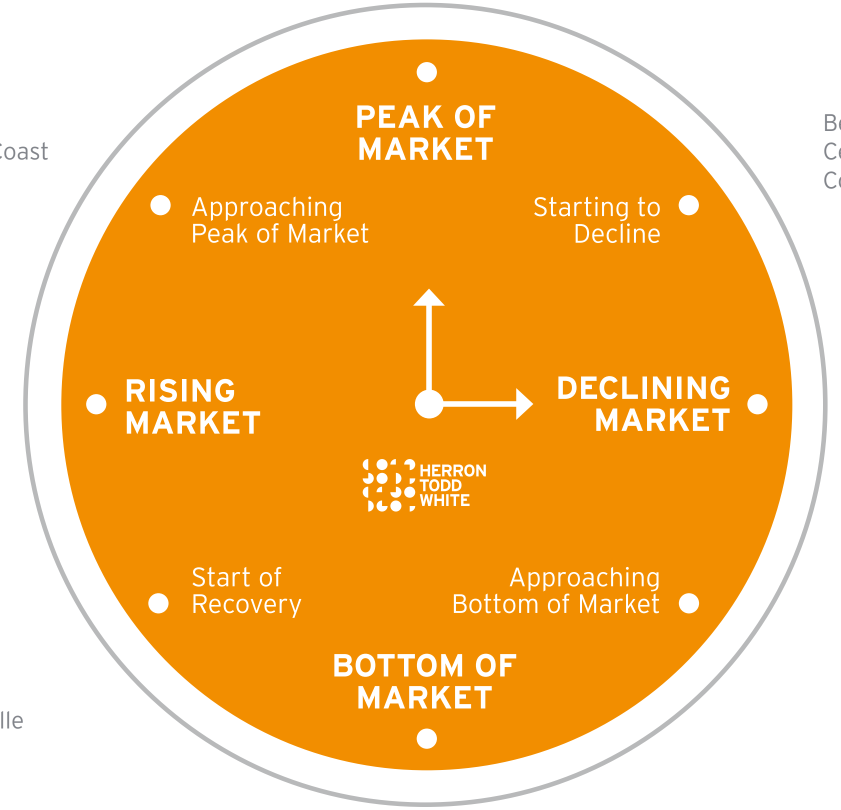
Gippsland
Lismore
Mid North Coast

Albury
Brisbane
Echuca

Hobart
Sunshine Coast

Bendigo
Central Coast
Coffs Harbour

Gold Coast
South East NSW



Adelaide
Adelaide Hills
Ballarat
Barossa Valley
Bathurst
Burnie-Devonport
Canberra

Dubbo
Emerald
Iron Triangle
Launceston
Mildura
Mount Gambier
Tamworth

Illawarra
Melbourne
Newcastle

South West WA
Sydney

Cairns
Gladstone
Hervey Bay

Ipswich
Mackay
Townsville

Alice Springs
Bundaberg
Darwin

Perth
Rockhampton
Toowoomba

National Property Clock: Units

Entries coloured blue indicate positional change from last month.

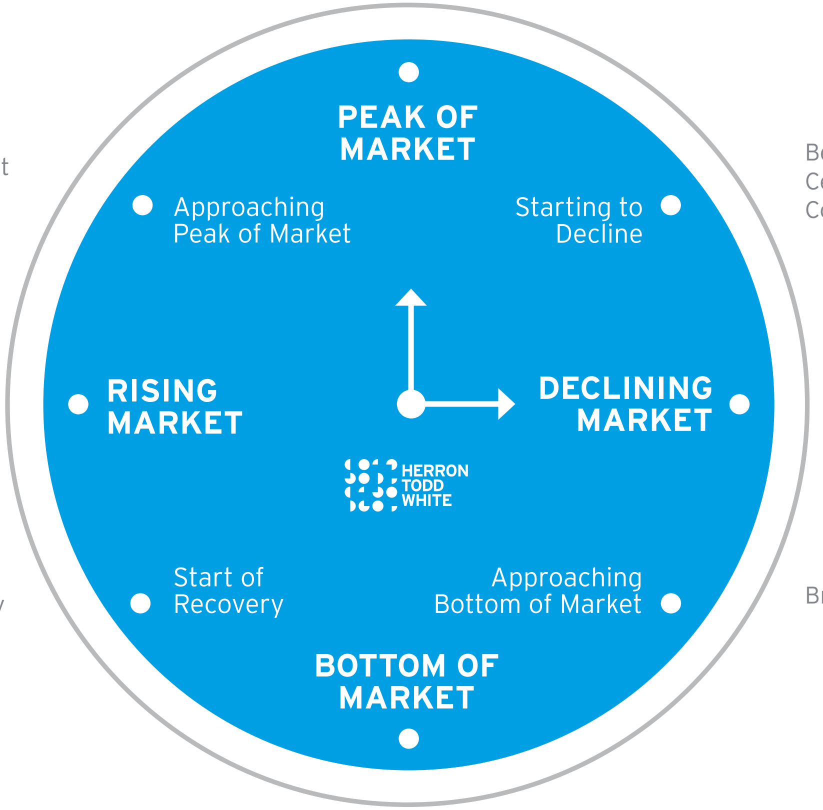
Lismore
Mid North Coast

Albury
Echuca

Hobart
Sunshine Coast

Bendigo
Central Coast
Coffs Harbour

Gold Coast
South East NSW



Ballarat
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Iron Triangle
Mackay
Rockhampton
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New South Wales

Overview

We've come off a few years of changing market conditions in Australia, particularly given the entrenched downturn in Sydney and Melbourne.

There will be plenty of significant events in 2019 that will affect property, but studying markets on a nuanced and localised level is essential to success.

Please enjoy our views of real estate across the nation in the coming year.

Sydney

Most property professionals acknowledged that we were heading into a softening Sydney market in 2018. The most surprising aspect however, was the sheer lack of activity from a purchasing and refinancing perspective. This led to a softening in the market above predicted levels, with dwelling values dropping by 8.9 per cent over the year according to CoreLogic. The other surprising aspect was that most of the other economic indicators were relatively strong and would usually point to a steady residential market. This downturn appears to have been strongly led by negative market sentiment and tightening credit availability as a result of the banking royal commission, along with previous APRA regulation changes.

The big question as we head into 2019 is how long will the current downturn last? We expect the market will continue to be slow, with value levels continuing to fall in most locations, but generally the market should begin to plateau during the second half of this year after the upcoming state and federal elections, and as the market adjusts to new lending requirements in the wake of the royal commission. This is on the assumption that other economic indicators such as interest rates, unemployment rates, and local and global economies remain steady.

8.9%
dwelling values dropped over the year in Sydney according to CoreLogic

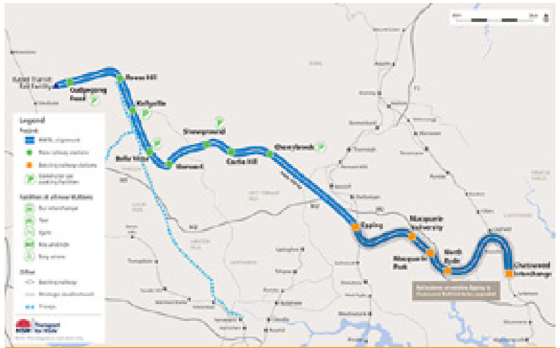
In December, APRA removed the investor lending caps introduced in 2017. We are not expecting this to have much of an impact on the number of investors entering the market given the current environment of falling prices and falling rents, along with potential changes to negative gearing and capital gains tax proposed by the federal opposition should they win this year's federal election.

Lack of investors in the market will continue to be good news for first home buyers who will face less competition in their price bracket. As a result, the lower end of the market could be one of the better performers.

The big question as we head into 2019 is how long will the current downturn last?

The fallout from the Opal Tower in Sydney Olympic Park is likely to have a flow on effect on sales of any off the plan units in Sydney, with greater concern over build quality adding to existing concerns of oversupply and values falling below contract prices. Certain suburbs have a significant number of units due for completion in 2019 which could have a significant impact on prices and rents for units in these suburbs.

The prestige end of the market, particularly for properties above $5 million in established prestige suburbs, performed the strongest in 2018, with buyers in this market less affected by tightening credit availability. We expect this market to continue to be one of the strongest in 2019, however this may still result in a slight fall in prices compared to 2018. However, any instability in equity markets, along with local and global economies, could have a significant impact



Sydney's North West rail link — Source: Transport NSW

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on this market, as we saw during the Global Financial Crisis.

Western Sydney

Suburbs worth watching this year in the south-west include Austral, Leppington and surrounding new subdivisions. As the market continues to weaken with more supply of vacant land and house and land packages, will resales of completed dwellings in these new areas begin to sell below replacement cost? We have only just begun to see a number of on completion valuations come in below the combined cost of the land and the building contract.

In the north-west, the Sydney Metro Rail Link is earmarked for completion in the first quarter of 2019. This rail link will provide rapid access for residents of Sydney's north-west to Chatswood and then on to the Central Business District, eliminating the need to drive on congested motorways. Suburbs such as Cherrybrook, Castle Hill and Rouse Hill that surround the new stations saw above average growth when the project was announced and construction began. Cherrybrook saw back to back years of double digit median price growth, registering 13.5, 19.3 and 31.4 per cent growth for 2013, 2014 and 2015 respectively. Historically there is often a second strengthening of prices when a piece of infrastructure opens, so this year we are looking to see if these suburbs will buck the trend in a weakening market.

Continuing with the infrastructure theme, as the North West Rail Link is completed, the Parramatta light rail project is just beginning. This will allow access from Carlingford to Westmead via the Parramatta CBD. We will also be keeping an eye on the values of suburbs along the line, such as Carlingford, Telopea and Dundas, to see if this project has a positive impact on prices.

On the supply side, we will be keeping an eye on Blacktown which has the potential for 1,627 units in 2019 and a total of 3,945 units by 2020, creating a 128.1% increase in potential supply in the next two years (CoreLogic). Whilst not every development will commence, this shows the potential pipeline supply for the area and serves as a warning to potential unit investors that more of the same is on its way in the coming years.

This is compared to Parramatta which has potentially 2,525 units to be built in 2019 and a total of 5,996 potential units by 2020. Whilst this is a larger number, we believe the fundamentals in this area are strong and as such is not considered as high a risk. Regardless, given the large supply, price growth will be impacted in the short to medium term.

Northern Sydney

The North Connex tunnel is a much-needed piece of infrastructure, connecting the M2 and the M1 underneath the forever congested Pennant Hills Road and is slated to be completed in 2020. Relatively affordable suburbs such as Berowra and Mount Colah are worth keeping an eye on given they will benefit from this infrastructure, allowing a smoother ride into the CBD. Currently median house values are $1.16 million for Berowra and $1.07 million for Mount Colah (realestate.com.au). Will they see a boost in anticipation of its completion or will the market take a few years to realise the benefits?

On the beaches, we expect traditional blue-chip suburbs (such as Manly, Freshwater and Mona Vale) to outperform other suburbs within the area. We are seeing products that appeal to the first home buyer and downsizer markets, as well as products that are completely move-in ready, outperforming their respective sectors of the market.

The areas currently most affordable are also those that have experienced the strongest decline over the 2018 period. The largest issues affecting the Northern Beaches market are housing affordability, lending restrictions and oversupply, with areas such as Dee Why and Narraweena coming to mind.

There is greater value in these locations, but also greater risk of under-performing the market in the future. Astute buyers can purchase a property that would have reasonably cost them 15 per cent more two years ago. We would recommend being prudent when buying in these locations; make sure the property ticks all the boxes and be mindful of buying a secondary product. Location is always key, but also consider the quality of the product, view or aspect and any future issues that might affect value. Are there any developments that will directly affect the property at some point in the future? Is the wider area being overdeveloped?

On the same trend, if you have the resources and aren't afraid of some DIY, there is definite value in buying a fixer-upper and doing the renovations yourself. Buyers would much prefer to spend extra money on a finished product and have a larger mortgage than buy an older house and have to spend the time and resources renovating it themselves. Look at what un-renovated houses in your area sell for and compare them to a similar renovated product. If the gap between the two is greater than the cost of the renovation, there is opportunity and value.

Another area of interest is Ingleside. The Department of Planning and Environment has gone back to the drawing board after an independent review of the proposed Ingleside residential precinct outlined extreme bushfire risk, identifying a potential bottle-neck during an emergency evacuation at Powder Works Road as a key issue.

The draft plan has been scrapped and the plan is being revised to a much smaller scale and density. The changes will have a significant impact on current land owners and developers in the area. It will also be interesting to see if they plan (and fast track) any infrastructure upgrades (such as to Mona Vale Road or Powder Works Road) to remediate these issues.

Southern Suburbs

The south experienced some of the largest drops in dwelling values in 2018, dropping 10.9 per cent in the Sutherland Shire and 10.5 percent in the inner south-west (which encompasses Bankstown and St George) over the year according to CoreLogic. It is possible that these areas may be closer to their trough, as buyers begin to see increased value in these areas compared to areas where prices have not fallen as quickly.

Duplex sites have experienced significant reductions in value due to stricter lending on duplex construction loans along with falling completed duplex sale prices making these developments less profitable. Many builders we meet advise they are receiving dropping levels of enquiries for dual occupancy and townhouse developments.

Premium and high-quality properties will continue to perform well, particularly those that cater to the increasing demand from downsizers, while at the other end, suburbs such as Engadine and Heathcote are becoming more affordable for first home buyers, with a number of recent house sales below $800,000.

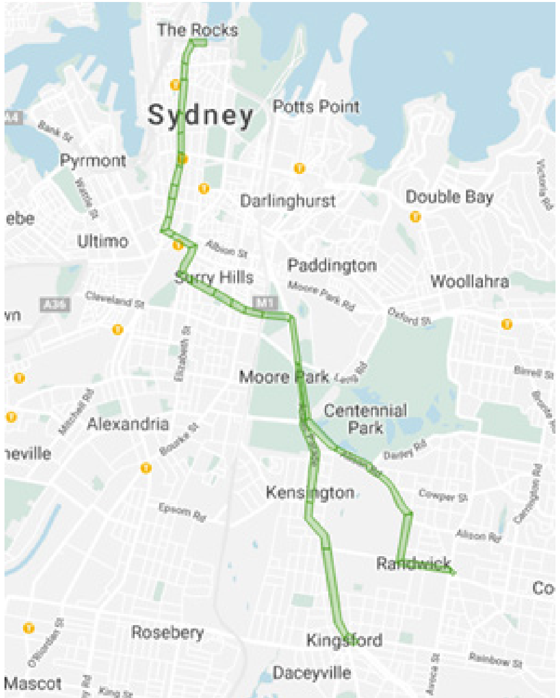
There is a strong potential for an oversupply of new units in Miranda and Kirrawee with a large number of units due for completion in 2019. We are already seeing a large number of units where the current value is falling well short of the purchase price paid

The CBD will be an interesting market to watch in 2019, provided the light rail gets within reach of completion. This will change the face of the city.

two or three years ago. This is likely to result in an increasing number of these units hitting the market as purchasers struggle to complete settlement. There is also a high likelihood of an oversupply of rental properties in these suburbs which will place downward pressure on rental prices.

Inner City and Eastern Suburbs

These areas only experienced relatively small decreases in median prices during 2018 compared to other areas of Sydney, with buyers still attracted



CBD and South East Light Rail Map Source: Transport NSW

by the proximity to the CBD, harbour, beaches and highly regarded schools.

The CBD will be an interesting market to watch in 2019, provided the light rail gets within reach of completion. This will change the face of the city, with George Street becoming more user friendly, businesses and cafes able to trade as normal, and (hopefully) decreased congestion. Moreover, developments around the Barangaroo precinct and Circular Quay area will further refresh the city centre.

Whilst most places are relatively affordable compared to 18 months ago, some areas do appear to be bridesmaid, but never the bride suburbs, such as Chippendale on the city fringe of Sydney. This area has been blacklisted by many lenders due to high supply volumes around the Central Park precinct, however the final complex, known as Wonderland, has just settled and therefore the supply pipeline in the area is largely depleted. This suburb, in close proximity to popular educational institutions, Central Station, China Town and the CBD, makes it an attractive investment or home - provided you have a 20 to 30 per cent deposit.

Suburbs along the South East Light Rail line including Surry Hills, Centennial Park, Randwick, Kensington and Kingsford may see increased demand as the line nears completion.

Homogenous investor stock in highly supplied and secondary areas should be treated with caution in suburbs such as Waterloo, Rosebery, Mascot, Botany, Ultimo and Forest Lodge.

Furthermore, properties that are treated with more caution by lenders such as those with living areas under 50 square metres or company title properties have been impacted significantly by increased lending restrictions and are therefore seeing their potential buyer pools shrink, leading to less competition and lower pricing.

Given the higher proportion of investors, proposed amendments to negative gearing legislation if Labor wins the federal election could impact these areas more than others, particularly as Labor's current policy outlines that negative gearing will remain on newly built properties. This could cause an increase in the uptake of the currently oversupplied new unit market.

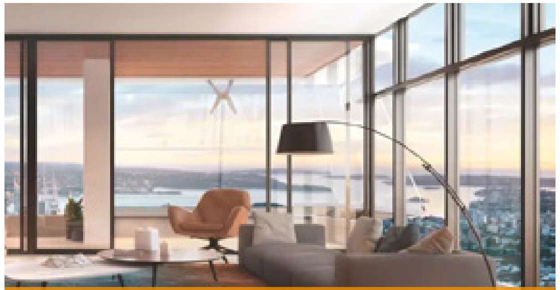
Prestige

On the back of a relatively strong 2018 which saw suburb records fall in many prestige suburbs, there are expectations that the prestige market will hold up well again in 2019.

Generally speaking, we would expect the prestige sector (above $5 million) on the Lower North Shore and within the eastern suburbs and inner Sydney to continue to stabilise throughout 2019. These markets bucked the trend for the majority of 2018, experiencing continued buoyancy up until late in the year when we started to see some stabilisation, but no significant decline in values.

The lower north shore market saw suburb records broken multiple times in 2018, even in the face of decreased overseas buyer demand. We would expect this market to stabilise in 2019 and certainly don't expect to see such a heated, record breaking year.

Vaucluse had 18 sales recorded above $10 million in 2018, while Bellevue Hill had 15 sales above $10 million, according to PriceFinder. These suburbs



Artist's impression of penthouse within Greenland Centre Source: AFR

are particularly popular amongst locals looking to upgrade and should perform well again in 2019.

The inner Sydney prestige market will be an interesting one this year, with several high-scale projects under construction or earmarked for the Circular Quay precinct and surrounds. The reported $5 billion transformation of Circular Quay is expected to revitalise the area with greatly improved ferry wharf facilities, a luxury hotel, restaurants, retail and a large increase in the supply of prestige level apartments coming to the market.

Further south within the Sydney CBD is the Greenland Centre, positioned on the corner of Bathurst Street and Pitt Street and marketed as Sydney's tallest residential tower. It is set to be completed in late 2019. It has been reported that the king penthouse is tipped to sell for $30 million, although this has yet to be confirmed. (source: Australian Financial Review).

Lismore

With the arrival of a new year, there is always an element of excitement, new goals, moving on from challenges experienced in the previous year and the prospect of opportunity ahead.

Residential real estate in the Lismore market is no different.

Lismore remains a relatively affordable area and is fortunate to benefit from some strong employment drivers including the upgraded hospital, university and a robust agricultural sector. Compared to the southern and western districts of the state, the Lismore area has managed to avoid the worst of the crippling drought affecting other areas of the country. Based on these factors, the expectation for the Lismore market is that it will hold ground with price increases unlikely but significant falls unlikely as well - a steady as she goes 2019.

Towards the end of 2018, discussions with agents indicated that supply was starting to increase. Increased stock combined with fewer eligible purchasers due to credit restrictions will provide purchasers with greater choice. It is likely that properties will be on the market for extended periods, with some discounting likely to secure a sale. The market for properties under $400,000 is expected to remain resilient due to its relative affordability, however in this sector, secondary areas, flood affected locations such as north and south Lismore, and certain areas within Goonellabah with perceived social issues are more likely to experience downward price pressure.

The market for vacant land has been steady in the Lismore area up to this point. Prices for level

Discussions with builders and agents indicate that obtaining credit for construction loans is proving to be difficult compared to previous years.

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blocks are expected to continue to remain steady, however more steeply sloping blocks requiring significant foundation works and increased construction costs may require some discounting from developers to shift.

The market for properties between $400,000 and $650,000 is likely to experience longer marketing periods, however properties in this market range typically provide good value for money and, based on this, are likely to hold firm.

Properties north of $650,000 are likely to have some downward pressure as there are fewer potential purchasers in the area and longer selling periods are likely.

The expanded Lismore Base Hospital is the most recent significant infrastructure build in the Lismore area. Properties in close proximity to the hospital continue to prove popular with investors and owner-occupiers, as do properties conveniently located to the university.

Girrards Hill, with its period cottages, was a strong area in 2018, with interest from Brisbane and Sydney purchasers. As these metropolitan markets soften, Girrards Hill may experience some downward pressure based on 2018 values.

Discussions with builders and agents indicate that obtaining credit for construction loans is proving to be difficult compared to previous years. There is a possibility that this reduction in credit availability may place downward pressure on construction costs as the major builders compete to secure the reduced work available. This competition is likely to provide those looking to build with increased bargaining power and the potential for some good purchases from builders who have secured land to sell house and land packages, especially those on sloping blocks.

Lismore is a quiet achiever - its proximity to some of Australia's best coastline and a strong employment base from government, education and rural sectors combined with its relative affordability is likely to insulate the Lismore market and maintain prices. However in a market where the expectation is that supply is likely to increase, secondary properties are most likely to experience some downward pressure and extended selling times.

In short, 2019 is not expected to be a year of growth, nor is it expected to be a year of large falls, with the market expected to fall slightly due to some softness in certain market sectors.

Casino / Kyogle

The residential market for the 2019 year ahead in the Casino and Kyogle area is likely to experience some softening, continuing on the heels of the last six months of 2018 where sales activity started to subdue following a rather strong first six months.

Key factors to potentially influence house prices include the continuing threat of projected interest rate increases in 2019, however it is the reluctance of lenders to make finance available being of most concern.

Following a tumultuous 2018, banks and lenders are now under much more scrutiny in their financing decisions which could lead to more restrictions to lending application criteria, particularly for first home buyers and property investors. We saw evidence of this in the last few months of 2018 and this is likely to continue well into 2019. Even with limited stock available, as oft repeated by local real estate agents, if prospective purchasers are dependent on mortgage finance and cannot satisfy the lender's criteria, then whatever housing stock is available is still going to be difficult to sell. This is likely to affect the majority of residential real estate property in Casino and Kyogle below $400,000.

The more well-heeled prospective purchaser who is not dependent on mortgage finance will possibly keep the market buoyant for well-presented residential and rural residential properties of above average appeal in the $500,000 plus price bracket Therefore, the coming year of 2019 for the upper end of the residential and rural residential real estate markets is likely to remain steady with possible increases for the more well-presented properties with highly valued features such as expansive views, creek or river frontage or high quality improvements.

It is interesting to note that in both Casino and Kyogle, there is very limited supply of vacant residential lots available for sale. This concern has been addressed by the Richmond Valley Council taking the initiative to acquire one of the very few residential en globo lots available for sale in Casino. The Council has some good form on this initiative, having recently completed the sale of all available vacant residential lot stock in the Settlers Estate on the eastern fringe of Casino. It is expected that due to the limited supply of vacant residential land, the demand for such a product is likely to be relatively strong, especially since the prices are still considered to be reasonable for flat land… think sub-$150,000.

The demand for rental accommodation in Casino and Kyogle is therefore likely to remain rather

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strong, particularly if first home buyers cannot secure finance and must therefore look to rent.

Ballina /Byron Bay

The coastal areas of the Ballina and Richmond Valley Shires have been relatively immune to the downturn in the market experienced throughout 2018. This can be predominantly attributed to the low levels of stock available for sale throughout these areas. As the market softens it will be interesting to see how these localities fare as local agents active in the area have generally reported reduced overall activity since early 2018. Subsequently, any increases in supply coupled with media reports of easing market conditions within the capital cities could have a significant effect on the local market. Stock levels of vacant land throughout Lennox Head could be a concern in the short to medium term and has the potential to negatively impact the wider area should supply be greater than demand.

In relation to the overall feel for the Byron Shire market and surrounds, we believe it will track steadily, with a possible slight correction in prestige property prices above $1.5 million. As 2018 ended, lack of stock was still driving the market and properties were being matched with remaining purchasers (mainly interstate). The stock level seems to be on the increase in the first two weeks of 2019 as agents advise of a drop in buyer demand.

We think that the market above $1 million throughout the Byron Bay, Suffolk Park and Lennox Head suburbs is the one to be treated with caution. Previous years have seen strong interest in these properties from interstate buyers and local buyers trading up as the local market steadied and if capital city markets continue to fall, this market could become under pressure.

There are areas that seem comparatively affordable in the market right now. The surrounding areas of Ocean Shores and Ballina would be considered more affordable than the coastal resorts style towns.

An interesting and unusual element likely to unfold during 2019 in this market is the ripple effect of newer subdivisions. These developments are likely to provide higher stock levels of land available which may put pressure on land values and the existing market. Another interesting element coming to this shire in 2019 is the commercial development in the form of a new shopping complex development with a new Woolworths.

The Clarence Valley

The Clarence Valley is expected to perform similarly to 2018 - positively with market momentum fuelled primarily by the Pacific Highway and Grafton Correctional Centre upgrades. Whilst these works and their associated workforce influx continue, it is predicted that the volume of sales occurring and rental rates will remain solid, with demand outweighing supply in most areas.

In 2018, the coastal township of Yamba saw a median house price of between $520,000 and $540,000 which remains affordable compared to similar nearby locations. This relative affordability, combined with Yamba's desirability and quaint beachside appeal, is likely to see sale prices remain steady or even increase.

$520,000 - $540,000
Yamba median house price 2018

$310,000 - $330,000
Grafton median house price 2018

Further south in Grafton, the median price in 2018 ranged between $310,000 and $330,000 with a steady increase observed throughout the year. A point of note for Grafton is that the rental market and high returns being achieved due to the workforce influx is a driving force for the increase in sale prices, with some properties being leased to workers occupying properties from Monday to Friday for up to three times their usual market rental value.

Whilst some primary influencing factors behind the positive property market trends of 2018 have been identified and are set to continue into 2019, it would not be unusual for the intensity of enquiry to ease as the Pacific Highway upgrade is set to be completed in 2020. This easing may see the market stabilise and the rate of increase slow.

Coffs Harbour

It has been a slow start to the year, which is normally expected over the holiday period when the majority of the public are not thinking about their property fortunes, however we are seeing a somewhat slower start to the year than normal which may be a hangover from the market surge experienced over the past few years. This surge has been predominantly underpinned by the record low interest rate environment, increase in consumer confidence, strong interest from interstate capital city buyers seeking second homes, lock-up holiday properties or good quality investment properties and the major infrastructure projects commencing and announced for the region.

However, we are now seeing some negativity creeping into the market. Buyer urgency and consumer confidence have softened somewhat as a result of continuing negativity in the media over easing market conditions due to the fallout from the Royal Commission into banking practices, plus noticeable reductions in the capital city markets, especially the greater Sydney market which traditionally represents a significant proportion of out of town buyers in this region.

We feel that the market is in a transition stage with a wait and see attitude from buyers and vendors alike. We don't think that the sky is about to fall in, but there is definitely a feeling that the market pendulum is swinging towards buyers, having been firmly on the seller's side over recent years. Good news to cashed-up buyers waiting in the wings.

The market which typically suffers the most when the pendulum starts swinging down is the prestige market (above $1 million) which is largely attributed to reduced interest from out of town (capital city) buyers who traditionally target these areas for discretionary lifestyle purchases, coupled with vendors being resistant to adjust price levels to meet changed buyer expectations.

Another sector to watch is the new estate markets to the north of Coffs such as North Sapphire Beach and Sandy Beach which have mushroomed over the past two years. We expect to see an increase in spec homes hitting the market which may cause an oversupply in the short term and if demand falls, then prices will follow accordingly.

Against the backdrop of all this doom and gloom, the region is underpinned by its endless lifestyle opportunities and major infrastructure projects in the works, especially anticipating the start of the Pacific Highway bypass of Coffs Harbour possibly by 2020.

The year is generally expected to remain steady with some possible wobble in the wheels for some market sectors, however this will remain to be seen.

Port Macquarie Town Centre Source: Hasting Council

Mid North Coast

Throughout 2018, we saw stable housing prices in the Port Macquarie area, with houses and units returning to the norm of a three to six month sale period.

This looks set to continue in 2019, with the aid of some national forces affecting our local market, such as tighter lending, weak wage growth and affordability constraints, which have affected the majority of Sydney and Melbourne markets.

However, the major influence on the housing market at the moment is the upcoming New South Wales state election and the federal election. With Labor being returned to government in Victoria in November, investors are anxiously awaiting the outcome of the federal election as this result may impact the property market further if negative gearing and capital gains tax legislation changes. This has stalled investor activity in our local region and will keep the property market subdued and values remaining stable, at best.

We predict that the local property market will remain slow and recent declining house prices being felt elsewhere may not be as severe in our local region. The assistance of major development in Port Macquarie, together with job creation, will hopefully even the keel and weather us through the predicted price decline for the first half of 2019.

New infrastructure projects include:

- **Charles Sturt University** $40 million construction of Stage 2 to commence, providing for an additional 1,800 students;
- **Pozieres Retirement Village and Age Facility** at Ocean Drive Port Macquarie, featuring 105 homes;
- **Sienna Grange Retirement Community** is near completion and will offer a 68-bed aged care facility, scheduled to open March 2019;
- **New 126 bed aged care facility** planned at Ocean Drive, Lake Cathie due to commence construction in early 2019;
- **Port Macquarie Airport Terminal** - $9.875 million upgrade which commenced in late 2018; and
- **Bunnings Store** which is soon to be completed and opened.

Due to its beachside lifestyle and facilities, Port Macquarie is still receiving influxes of families relocating to the area. Together with the added advantage of being a tourist destination and therefore prone to out of town sales, this will also assist in stabilising our real estate market. A flow on effect should occur as a result of the new aged-care facilities coming onto the market, by increasing the stock levels of local real estate agents of older or original type dwellings located within close proximity of town and in good locations and supporting the construction industry further by providing renovation work.

Unit sales within the area have also stabilised with unit development being affected by the slowing market. There were a number of centrally located higher density unit developments underway that stalled in 2018 due to a lack of pre-sales and finance options and it is unlikely that construction of these developments will recommence this year.

The higher value, prestige properties and rural-residential property markets in the region remain slow with limited demand and stable to slow falling values.

We feel that other coastal towns and villages all along the Mid North Coast that do not have infrastructure growth may be more vulnerable to declining house prices and the flow on effect from the metropolitan areas.

Central Coast

The past several years have proven to be a bountiful period for the local Central Coast region's real estate market with more success stories than we can count. This of course, is a similar scenario to many parts of the state, particularly the Sydney and Newcastle markets which the Central Coast region sits between.

We experienced some very good times indeed throughout most of 2018, but a sober review of the last quarter indicates that the market was slowing and that the year ahead will be a less prosperous one than those preceding it.

This outlook has been formed after listening and seeing the events of the past few months as they unfolded. Real estate agents report a decrease in attendees at open houses, negotiations on price and terms are leaning toward purchasers and a higher level of diligence and less urgency on the purchaser side of the market. These are confirmed from our own study.

Building activity is such that the Central Coast region has been listed on the Rider Levett Bucknell Crane Index with 18 cranes "in the air".

At a more operational level, our interaction with lenders increased toward the latter part of 2018 and we see this continuing into the year as the bite of revised lending practices is felt.

Although a reasonably good level of market confidence is present, the foregoing comments indicate to us that this confidence will wane in some segments as the year progresses and if previous cycles repeat themselves, we can expect to see a period of reduced buy and sell activity. Obvious determinants of this will include the cost of financing, stock availability and of course, the presence or absence of buyers and sellers. Less obvious, but perhaps more effective will be the role of the media.

We see the 2019 year as proving to be an interesting one for the local real estate - yes, we are saying the market has finally peaked in most segments. We say interesting because the normally reliable and predictive market indicators have or are likely to be different to those seen in previous, fairly predictive cycles. The activity and rises seen until very recently occurred over an extended and sustained period as opposed to previous cycles.

The strong local market has seen a number of new residential unit developments occurring. Although dominated by two main development companies, the opportunities available saw a few non-local developers secure development sites. In fact, building activity is such that the Central Coast region has been listed on the Rider Levett Bucknell Crane Index with 18 cranes "in the air".

This is an indication of the level of building activity occurring. A majority of these new developments have occurred within and around the Gosford CBD. So far as we can ascertain, most of the units have been sold, but there are still some available. Apart from the generally strong market experienced, we consider one of the underlying reasons for this level of activity in Gosford is a result of governmental focus to revitalise the city centre over the past several years.

In accordance with current practices, many of the units were sold off the plan for prices that both reflected the newness of the project and the current market under professional marketing campaigns.

The strong market has seen a number of suburbs experience value growth. Perhaps due to their close proximity to the M1 Motorway and appeal to young families, Woongarrah, Hamlyn Terrace and Wadalba are among these suburbs. We are now regularly seeing prices into the $700,000 to $800,000 bracket. These suburbs fit the classic mortgage belt areas of the coast and will prosper while ever confidence is high, living standards are maintained and finance is affordable. Without these factors continuing, we see affordability and retention issues arising.

While these suburbs fared well during the busy period, we think some of the less popular adjoining suburbs have yet to gain the same attention, but hold promise of potential rises yet to be realised. These include Kanwal, Gorokan, Charmhaven and Toukley. These are older suburbs populated for the most part by

similarly older dwellings with good opportunity for renovation. It's suburbs such as these that may prove to provide good opportunity and we recommend they be monitored. Prices vary of course across these suburbs, but depending on the age and condition, purchases can still be made within the $300,000 to $350,000 bracket.

Other peripheral suburbs worth monitoring include Narara, Niagara Park and Wyoming. These are close to the Gosford CBD and while somewhat popular of late for first home buyers and renovators, there are still some good opportunities available. Again, prices vary depending on the individual property, but there are still purchases available for around the $500,000 mark. These suburbs have the potential to leverage off the revitalisation of the Gosford CBD mentioned earlier.

After a period of high market activity, there will be areas that may now need to be carefully considered before diving into a new purchase. The peninsula suburbs of Umina Beach, Woy Woy and Ettalong Beach have exceeded all expectations so far as values are concerned, with increases much greater than the regional average. Much of the activity appears to have been fuelled by buyers seeking to exit the unaffordable Sydney market while remaining relatively close - these areas are a little over an hour away from Sydney.

From a valuation perspective, maintaining and sustaining the existing values is likely to be a challenge as we move into the next phase of the property cycle.

We expect that a similar level of caution needs to be exercised in the unit market in and around the Gosford CBD. As mentioned earlier, there has been much activity in this segment of the market. Whilst the take up of new units has been good, there are more units under construction and if the demand weakens or lenders look to reduce their level of exposure in this space, then an oversupply situation will likely emerge.

Newcastle

2018 was marked as a year of transition for the Newcastle and Hunter Valley residential markets. That transition, from a bullish and fast-moving market early on to a soft and increasingly brittle market by the end of the year, was always going to occur at some stage. It just happened to be 2018. This year of transition followed many years of strong and sustained growth, largely unprecedented in its length.

When writing a predictions column on the perennial "where will the market go from here" question, it is always approached with a fair degree of trepidation for the writer, especially if that writer is a valuer who deals mainly in historical data. It is even more daunting this year and the answer to that question can be likened to where the selectors of the Australian cricket team currently find themselves.

It's more likely that the market will further soften than stay the course or improve in the next 12 months.

The First XI enjoyed many years of unparalleled success but there has been a growing period of sub-par performances, which have become more frequent and obvious as times passes. Whilst on the face of it this decline appears to have happened quite suddenly, warning signs had been readily apparent for a significant period if educated onlookers are being truthful.

In the previous environment, ongoing success wasn't hoped for but expected. Hard times at present are a stark reminder that nothing stays the same for ever and failure and success cycles occur in real life and sport alike. Those who deal with the new reality the swiftest will likely be the major beneficiaries.

When the market is ever growing, it's not a stretch to predict further growth, in line with the well-established trend. This year however, the market is at a point where a set of scales is a superior visual tool for predictions over a trend line; it could go in either direction - it could pick back up after Christmas and start increasing again, it could stay balanced in the middle and not move much either way or it could sink quickly downwards. If we were told to place percentage outcomes on the likelihood of each scenario, we would go ten per cent chance of a rebound and increase, 30 per cent chance of balance and equilibrium and whatever maths is left over for further downward property values across the board.

The smart money is on further consolidation of the market with fewer transactions occurring and property prices most likely dipping down from present levels. We have started to see prices come back in and around Newcastle recently; not so much with verified and quantifiable data but more anecdotally. By this we mean properties advertised for prices similar to boom levels which don't sell after a period of months and are quietly removed from the market. This type of anecdotal data, whilst frowned upon in analytical circles, is a valuable tool to gauge rough temperature. It's a little like licking your finger and raising it high in the air to judge wind direction - not the most accurate tool but more than adequate to know where to light your campfire so you aren't engulfed in smoke when your holiday snags are incinerated.

Predicting market direction and, probably just as importantly, strength and length of the trend, is a fool's game. It has to be noted however that many smart developers and investors have made significant fortunes by accurately predicting future trends. As an aside, we would also argue that more have lost fortunes by gambling on market trends and getting the timing horribly wrong. Anyone currently building units in and around Newcastle presently may fall into that category given that current demand is weakening and supply is still increasing.

We don't have all the answers, we can only relay what we see and conclude on evidence that it's more likely that the market will further soften than stay the course or improve in the next 12 months.

Southern Highlands

As we kick off 2019, there is a degree of uncertainty across the Southern Highlands as to how the market will track after peaking early last year following a period of strong growth.

As we have observed for the past six months, the residential market up to $1.5 million for properties close to the main townships of Mittagong, Bowral and Moss Vale remains steady with access to infrastructure being the main driver of that growth, together with an increasing catchment of buyers from Sydney.

Signature Wollongong Source: signaturewollongong.com.au

Moss Vale continues to appeal to a broader market of first home buyers and young families, with the ongoing transformation of the Argyle Street retail strip and opening of further boutique retailing, cafes and bars and new infrastructure, including the new Southern Highlands Local Area Command Police Station coming on line in quarter four of 2018 and Aldi commencing construction of its third supermarket in the Southern Highlands to come on line in the second quarter of 2019.

The fourth quarter of 2018 saw an oversupply of residential land sub-division projects throughout the region coming on line across the main townships of Bowral, Moss Vale and Mittagong such as Renwick (Mittagong), Darraby Estate and Throsby Views (Moss Vale) and Retford Park (Bowral) which has resulted in some vacant lots being discounted to achieve a sale within a normal selling period. At the other end of the spectrum, properties in the higher-end rural acreage and rural lifestyle market segment (above $3 million) have historically been subject to higher market volatility. Sale prices (and selling periods) within this market segment are heavily influenced by individual buyer preferences and specific property attributes. Indeed, over the past twelve-month period, there has been demonstrable signs of volatility in the more isolated rural residential areas with purchasers tending to be highly discriminating in their purchasing decisions.

With the Sydney market expected to continue to soften over the current period combined with the impact of tighter credit conditions, we foresee a broadening purchaser catchment discovering the Southern Highlands region.

Illawarra

The tide has well and truly turned in the Illawarra residential property market, with 2019 shaping up to be a buyer's market. We have identified four factors that have led to the market weakening throughout 2018:

- Tighter lending practices;
- Weaker Sydney property market conditions;
- Oversupply; and
- General negative sentiment and media coverage.

We expect these factors to remain relevant in 2019 and the market to continue the softening trend of 2018 with the possibility of stabilising at the lower level later in the year.

Property types to watch in 2019 include two of the hardest hit areas - vacant land in the 2527, 2530 and 2526 post codes along with residential units in the Wollongong CBD.

Release of new land will continue in Calderwood, Tullimbar, Horsley, Wongawilli and Kembla Grange.

As at January 2019, realestate.com.au showed approximately 185 residential vacant land lots listed for sale in the above post codes. Developers are competing head to head with those who have previously purchased and are now trying to re-sell. We expect supply to outweigh demand throughout 2019 and as a result, prices for land in these areas to continue to drop. The entry price into the Calderwood and Tullimbar subdivisions has dropped back to under $300,000.

The Wollongong CBD had a huge transformation on the back of the property boom from 2013 to 2017 with an unprecedented amount of residential unit construction throughout this period. Despite the slowdown in off-the-plan and general sales, development has continued into 2019 with a number of large scale developments commencing construction including Avantè, ParQ, Signature and Skye, developments which total 544 units between them. We expect the high supply of new units to continue to affect both the newer and older style unit markets and prices. Purchasers now have more and more choice and on the back of media exposure of construction failures such as Sydney's Opal Tower, we believe they will become more informed and diligent with investigations into who is building these new unit complexes. Experienced local builders with a proven track record will remain in demand, while new builders or those who can't provide evidence of past work, may find purchasers being wary.

Work is on track to have the Marina at Shell Cove completed with the first berths anticipated to open in 2019. The Shell Cove market took a hit similar to all other residential markets recently, however continued positive construction news such as the recent Woolworths anchored Town Centre first stage along with the opening of the marina will provide a shift in market sentiment that may be able to stir up a bit of life in 2019. Other major infrastructure projects under construction or in the pipeline that will provide positive market sentiment as they progress include the West Dapto Access, Albion Park Bypass, Berry to Bomaderry link, Shoalhaven River crossing and Shoalhaven Hospital upgrade.

There will be good opportunities throughout 2019 to purchase properties at good prices. Finding a vendor who is motivated to sell can benefit a purchaser, particularly if they are the only party to have shown any interest in the listing.

Tamworth

And away we go for another year!

2019 is shaping up to be a year of steady growth in the Tamworth region, with continued interest across all sectors of the market from both investors and owner-occupiers. While we feel that the market is likely to continue strengthening, it's expected to be at a slower rate than previous years due to the ongoing drought as well as the cooling markets elsewhere in New South Wales. The enduring low interest rates and comparatively low cost of property in Tamworth continues to attract those looking for a lifestyle change from the cities as well as investors looking to capitalise on the good rental yields and low costs.

The suburbs to watch in Tamworth are the Central West area and the established parts of North Tamworth for their proximity to the CBD and their old style charm. For newer builds, Calala and the developing parts of North Tamworth are showing strong sales as recently completed homes (two to five years old) are coming onto the market as home owners begin to sell. Our number one pick would be Central West as buyers looking for older federation style homes are being priced out of East Tamworth and are beginning to look elsewhere.

Despite the relentless drought, rural residential properties (one to 20 hectares) in the areas surrounding Tamworth (such as Moore Creek, Daruka, Tintinhull and Timbumburi) are all performing well with properties selling quickly and strong growth noted. The suburbs of South Tamworth, Hillvue, Oxley Vale and Westdale all offer affordable housing without having to sacrifice a good neighbourhood. While patches of these suburbs have historically been aimed more at investors, this is slowly changing to include owner-occupiers.

The area of West Tamworth known as Coledale continues to provide reason for concern with an increase in new development located within a non-desirable location as much of the new and surrounding development consists of Housing Commission properties. While high rental yields can be achieved, the risk of damage to the property is high and the potential for capital growth is limited.

Our number one pick would be Central West as buyers looking for older federation style homes are being priced out of East Tamworth and are beginning to look elsewhere.

Victoria

Melbourne

As another year passes by, it's safe to say that we are looking forward with anticipation to what 2019 will bring in the property sector.

Last year turned out to be a turbulent year. In the latter half of the year, the property market started to cool after six years of solid growth and it was quick and dramatic. Virtually overnight, all banks tightened their lending requirements, reducing buyer competition.

It is not all doom and gloom forecast for 2019. Australia is in a good economic position. Interest rates remain at historically low levels, unemployment is down and there is strong population growth, so 2019 should be an interesting year.

CBD

We expect the inner-suburban ring property market to marginally stabilise in the second half of 2019 in suburbs such as Port Melbourne, South Melbourne and South Yarra. We expect Melbourne's inner-city apartment sector to face a slight decline, due to the large wave of off-the-plan apartment complexes coming to completion in 2019, as there are concerns that supply will outstrip demand.

Development Activity Model Source: City of Melbourne, Jan 2019

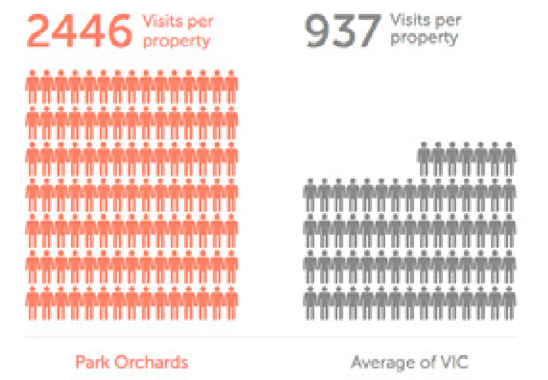
East

The property market is currently in the midst of a housing price correction. Real estate agents advise that they are suggesting to their clients to undertake longer marketing campaigns to encourage a transaction. Many are also resorting to private sales rather than auctions and approaching clients one-on-one rather than executing a market-wide marketing campaign.

Buyers in the market now have the time and opportunity to complete their due diligence and market research without the pressure of a seller's market. We predict that properties in the $700,000 to $900,000 range will have adequate demand. Values in the blue chip eastern suburbs of Hawthorn, Kew, Balwyn and Glen Waverley value fell approximately 20 per cent in 2018, though there are still pockets with demand in the greater eastern suburbs. Park Orchards and Warrandyte were the high in-demand spots, scoring the highest property views on realestate.com. The Park Orchards median as at 2 January 2019 was $1,527,280.


$979,360 - 4 Bed 2 bath 2 car Source: Kinley, Jan 2019

AVERAGE NUMBER OF VISITS PER LISTING PER MONTH OVER THE LAST 12 MONTHS



Source: Realestate.com, Jan 2019

In the outer east, we expect demand to increase as the Kinley development at the former Lilydale


$716,000 - 4 Bed 2 bath 2 car Source: Kinley, Jan 2019

Quarry was released to buyers in late 2018. It's expected that the $2 billion project will create 3,200 new homes for 8,000 people and a 70 per cent increase in Lilydale's population. House and land packages range from $700,000 to under $1 million.

Inner & Outer West

The Melbourne inner-city market slowed over the past twelve months with both the dwelling and apartment markets seeing negative growth in the latter half of 2018. Looking forward into 2019, we believe the market will stabilise however this will be heavily influenced by the findings of the Royal Commission which are to be released in February 2019. The reaction by the banks may affect the market moving forward with relation to lending criteria for both owner-occupiers and investors.

To the middle and outer western suburbs, Point Cook, Williams Landing, Tarneit, Truganina, Wyndham Vale and Werribee experienced moderate value growth in 2018 driven by a strong population boom. Vacant land and brand new homes continue to be a popular choice for purchasers with good demand coming from first home buyers and recently arrived migrants. We expect this to cool throughout 2019, however in order to counteract the negative shift in the market, developers and builders alike will be offering greater incentives to purchasers than reduced purchase prices to entice buyers throughout 2019.

Inner & Outer North

The property market has shone in the past six years, showing extraordinary growth in property prices in the northern suburbs, however after continued growth, it seems that this trend has now halted and is likely to detract going forward. Yearly median house prices have dropped significantly

19 Horne Street, Brunswick Source: RP Data

in areas such as Brunswick East (7.94 per cent), Carlton (13.49 per cent) and Abbotsford (6.72 per cent), demonstrating the downtrend (Property Value, 2019).

For example, 19 Horne Street, Brunswick sold for nearly $200,000 less in two years, dropping from $1.55 million to $1.365 million from 2016 to November 2018, demonstrating the declining prices.

Development orientated areas such as Craigieburn, Kalkallo and Mickleham may prove to be the only true affordable option for the inner and outer northern suburbs. By offering generous land areas for affordable prices, these areas may still be the choice of selection for international families moving to Melbourne or country Victorians wanting to move closer to Melbourne.

Areas going to be hit hardest will be the prestige suburbs of the inner north such as Abbotsford and Carlton. After six years of substantial growth, the inner north-eastern suburbs are predicted to drop 11.2 per cent in 2019 (realestate.com, 2019).

Overall, we expect to see inner northern property prices drop harshly and predict that the outer northern suburbs will plateau in 2019.

Inner & Outer South-East

Trent Wiltshire, an economist at Domain suggests that property prices will fall further in the first half of the year, however will moderately grow in the second half of 2019.

In the south-east region, secondary properties such as those in poor condition, located on busy roads or impacted by power lines, will struggle more as buyers have greater choice. Areas likely to perform include the usual drivers such as those close to amenities, public transport, cafes and schools such as Bentleigh, Malvern East and Caulfield. In addition, properties with longer term development potential could entice individuals as developers have slowed in the current market place, allowing for good opportunities there.

Last year, Pakenham hosted Melbourne's most active housing market with 1,114 dwellings transacting, 91.5 per cent being houses, with a median price of $522,000 (realestate.com.au). Although it is believed the market will not see such figures this year, we predict a softening in the first half of the year with a stabilising in the second half of 2019.

Geelong

Geelong has been going against the downward trend of Melbourne. Affordable in comparison to the greater Melbourne market and with recent injections of major government asset and infrastructure spending, Geelong recorded some of the highest capital growth in percentage terms in Victoria over the 2018 year. Looking forward in 2019, we expect to see to a levelling off.

Geelong's northern suburbs such as Geelong West, Hamlyn Heights, Herne Hill, North Geelong and Corio have seen recent solid growth but unfortunately there has not been the injection of key infrastructure projects as seen in the south. Furthermore, with the tightening of lending credit legislation, particularly investment grade properties, we can expect to see a decrease in value as a market correction occurs before stabilising in the latter part of the year.

Similar trends are being observed in Geelong's eastern suburbs, however areas located closer to the city centre will provide good opportunities to those willing to undertake small renovations and updates with the area showing signs of gentrification. We expect these areas to increase in demand with the completion of large commercial developments such as NDIA's Malop Street project in mid-2019, increasing employment opportunities and commencement of construction for the Franz development.

The outer southern suburbs of Belmont, Grovedale and Waurn Ponds are still being perceived as providing good value. These suburbs offer larger allotments providing future development potential within close proximity to Waurn Ponds Shopping Centre, university and the Waurn Ponds train station. This area is proving to be popular with first home buyers taking advantage of stamp duty concessions and reduced competition to get a long-awaited foothold in the market.

The Surf Coast and Bellarine have softened over recent months. Agents are reporting fewer numbers through doors and longer days on market. It's the cheaper secondary areas that are proving to be popular with affordability still the key driver as buyers look for value. We expect these markets to stabilise over the coming months as vendors wait to see how the year unfolds.

Mildura

The Mildura market is expected to remain reasonably buoyant over the coming year. While there are corrections currently underway in some capital cities, the market fundamentals in Mildura do not point to any impending correction here.

We still have population growth of around one per cent per annum and our economy is growing on the back of a buoyant horticultural sector. We expect to see continued demand for both existing and new housing and anticipate that our market will grow, but most likely at a slightly lower rate than the five per cent rise experienced in 2018.

The main clouds on the horizon relate to the availability of credit and concern around whether the region will experience a shortage of irrigation water during 2019. With respect to credit, agents report that some buyers have had greater difficulty securing finance in recent months and that selling periods have lengthened as a result.

On the water issue, catchment dams are currently holding below average volumes of water. The last time we had serious issues with water availability was in the period from 2007 to 2009. During that period, buyers turned away from larger rural residential properties which require more water to maintain gardens. It's too early to predict whether this will occur in 2019, however the risk is real.

In the event that the Murray River catchment remains dry during 2019, we would also expect to see some contraction in local horticultural activity, which in turn would flow through to a weakening in our economy.

The increased cost of buying serviced lots in Mildura, combined with a limited supply, is expected to see demand improve in some of the newer subdivisions in satellite towns, including Red Cliffs and Gol Gol. Subdivisions in these locations have larger lot sizes and cheaper prices and for some buyers this will be attractive.

With regard to the top end of our market, which has grown considerably over the past few years, we expect to see some levelling out during 2019. The noise around slowing activity in city markets is likely to be picked up more by buyers contemplating spending over $1 million in our region.

Shepparton

The Shepparton property market (including Mooroopna and Kialla) has had a ten-year median price increase of just 1.5 per cent (CoreLogic), yet the region has continued to see increased sales volumes with overall average days on market falling.

Local estate agents have reported increased activity from all buyer types with a noticeable increase in interest from metropolitan investors being attracted by the higher yields. Some areas of the market (particularly the sub-$300,000 sector) have seen a price jump of up to ten per cent. Mooroopna is starting to see an increase in the $375,000-plus market, which is considered to be

The main clouds on the horizon relate to the availability of credit and concern around whether the region will experience a shortage of irrigation water during 2019.


Goulburn Valley Hospital redevelopment Source: blp.com.au

top of the market, whilst good quality established stock in Shepparton and Kialla above $475,000 is becoming more fluid. Generally, new constructions with basic upgrades (cooking appliances, bench tops etc) are in line with market parameters, however over-capitalised builds are still common in some estates.

Residential vacancy rates are sitting at around 1.5 per cent with approximately one-third of the Shepparton population being renters. Investment yields in the area are hovering around the six per cent, however it is not unusual to find properties with tenants in place being sold with yields of above seven per cent, hence the increased investor activity.

The major infrastructure project for 2019 is the continuation of the Goulburn Valley Hospital redevelopment. The state government has pledged $168 million which will see a four-storey tower, three new operating rooms, a refurbished and extended maternity ward, plus other upgrades. The hospital currently employs some 2,200 staff and is one of the largest employers in the region. Preliminary works have commenced, with an estimated completion date in 2020.

Other infrastructure upgrades on the horizon are the passenger rail upgrade which will deliver more than double the number of services to and from Melbourne and the Shepparton bypass project (which has been on the cards for 21 years and counting, but is finally starting to gain some traction).

The relatively low property values, planned infrastructure upgrades, increase in buyer activity and the region's proximity to Melbourne should bode well for an increase in residential property values over the coming twelve to 24 months.

Queensland

Brisbane

"Brisbane??? Why would you live up there?" they said. "Too humid, too hot... Couldn't stand so much sweating!"

Well, it has been a touch tepid up here since the start of the year but we've seen nothing like the 40 plus degree scorchers inflicted on other capital cities in more moderate climes.

As if the weather weren't reason enough to love us, Brisbane in 2019 looks set to offer a little more to its property buyers. We're a city with excellent potential for growth. If you've been considering a move to this, the nation's best city, perhaps 2019 should be your year.

Brisbane in the coming twelve months will, generally speaking, see a stable market across most locations. We aren't historically prone to mighty price movements in either direction. We Queenslanders and our real estate tend to take a more laid-back approach.

As mentioned in Month in Reviews past, Brisbane has been on the cusp of substantial price rises for about six years now. While there are plenty punting on the idea that 2019 will bring big gains, we prefer to think our real estate values will strengthen in a more measured way.

Like most other markets around the nation, Brisbane was affected by macro financial changes instigated by Australian regulators that resulted in constrained credit availability. Buyers were keen but if they couldn't lock down a loan approval, what was the point?

Investors in particular were hard hit. This group was dealing with restriction to interest-only lending as well as tougher rules from the banks. All in all, many decided it was all a bit too hard and got out of the way. Conversely, there were plenty of first home buyers willing to take up some of the slack with participation in this cohort on the rise.

This is the platform upon which 2019 has launched itself and while noises are coming out of the halls of power suggesting credit policy needs to be loosened, it might take some time to bring the confidence back.

Enough of the bad stuff – what are some of the positives on the horizon for our River City?

Also, our city's comparatively affordable real estate is a draw card. We are the third largest capital and have the joys of brilliant coastline, hinterland and rural lifestyle on our doorstep. To many from the south, our housing must look incredibly cheap.

Of course, we are being rediscovered, with our net interstate migration number shooting up over the past two years. It looks to have set into a positive trend and is a key leading indicator of property price growth.

Add to this the ongoing low interest rate environment. We realise that getting the banks to say "yes" has been a bit tougher, but if you do have a loan approval, the decent yields achieved through real estate investment in Brisbane will offset much of your ongoing borrowing costs.

We are the third largest capital and have the joys of brilliant coastline, hinterland and rural lifestyle on our doorstep.

Well, we are heading into a period of strong investment in infrastructure that only bodes well for Brisbane. It feels like it's been a long time coming. Apart from the obvious benefits of boosting our liveability, infrastructure drives employment and that's an area sorely in need of improvement in Queensland.

In addition, some of these major projects will have national and international appeal – the Howard Smith Wharves project and the Queens Wharf complex in particular – which have a flow on for boosting our tourism and services sector.

On to our picks for 2019. We're not going to go out on any limbs because, frankly, we don't need to.

Solid fundamentals will continue to reign. While demand is always steady for near city suburbs, property seems fully priced at present. We don't expect you'll jag any bargains within three kilometres of the CBD, but long-term gains are highly likely.

Our pick would be to shoot for some of the inner- and mid-ring addresses. This is solid real estate

RESIDENTIAL

HERRON TODD WHITE RESIDENTIAL

where our population likes to live and play. For example, this would include Enoggera out to Stafford in the north and Annerley through to Moorooka in the south.

Our tip here is to seek out specific property elements that can boost your chances of growth. Look for renovatable homes on decent size blocks, or larger allotments with good, long-term redevelopment potential.

Entry level priced property in these locations is another way to better your chance of gains. Buying below the median price provides room to grow in the value stakes.

Also, if you have the opportunity to jag vacant land, or better yet, do a small subdivision, then there is upside for you. Flexibility in these well-populated locations pays dividends for property.

If you're thinking of places to avoid, you might want to move with caution in outer lying locations along our northern and western corridors in estates that are being pitched towards investors rather than homeowners. If there's a predominance of dual occupancy and duplex structures or generic townhouse designs on offer, tread warily if your goal is capital gains. Credit restrictions have not helped the demand side of the equation in this sector either and with plenty of supply on hand, the result seems to be subdued growth if any for this real estate.

While the well-documented oversupply of apartments, particularly in inner city suburbs, has continued to dominate commentary, we do note that there has been a turnaround in fortunes. Those apartments pitched primarily at homeowners have done well of late and much of the supply expected to come through the pipeline has slowed. Savvy developers could see the writing on the wall and

Stafford Source: realestate.com.au

either reconfigured their stock or land-banked or sold their sites. We aren't recommending anyone rush back into this type of investor accommodation, but the future is looking less dire than it did a couple of years back.

2019 will be a year to watch in Brisbane. If we can accentuate the positive and eliminate the negatives, then property owners should do fine by annum's end.

Gold Coast

North West Region

Over the next twelve months, a slow easing in the market with reduction in price levels and investor activity is anticipated. We have already seen this occurring in the past six months in the north-west

Source: HTW

Source: HTW

region which consists of a large number of modern developing estates across all property types and a high proportion of investors. The royal commission into the banking sector has made investment borrowing much more difficult and has had an obvious effect on market activity.

The suburbs of Yarrabilba, Flagstone, Holmview, Ormeau and Bahrs Scrub will be the main areas to watch and with affordable price points between $400,000 and $500,000, these will hopefully appeal to both first home buyers and investors.

The construction happening in this region has most definitely slowed although there is still quite an oversupply in investment housing which is gradually getting better but still affecting investment and rental returns.

Central North Region

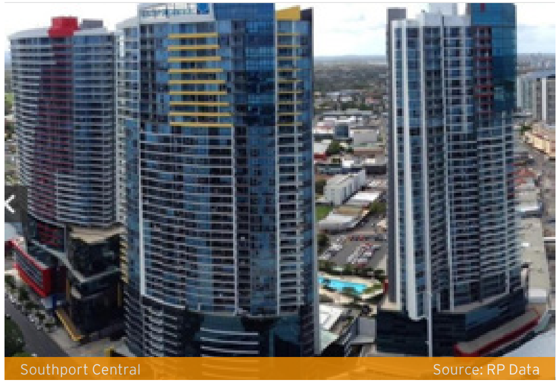
The overall feel of the property market is set to continue on from the later part of 2018. Property prices will continue to ease, with an extension of selling periods. Properties will need to be priced right in order to sell as the market has pulled back in most of the central north region since the start of 2018.

The effects of the royal banking commission that has led to tighter lending regulations, coupled with the negative media coverage on the property market due to price falls in Sydney and Melbourne has resulted in a reduction in demand within our property market too. We will continue to see poor unit performance across the region, in particular Southport, Labrador and Hope Island, with a clear focus on off the plan purchases. Construction has been slowing in the unit market due to lack of pre-sales, however there are still units available and prices have been dropping to meet demand.

A clear example of a poor performing unit is within the Southport Central Tower 2 complex. A recent contract for $378,000 in February 2019 was negotiated for a fully furnished unit. The property had a previous sale price of $390,000 in April 2015, and was purchased off the plan in September 2008 for $475,000.

Properties with good owner-occupier appeal have also seen slight price reductions and this is expected to continue into 2019. An example is a property in Pebble Beach Drive, Runaway Bay that sold in June 2017 for $750,000 and was re-sold in November 2018 for $735,000.

Properties over $1.2 million are experiencing longer selling periods and reductions in sale prices. Motivated sellers are being forced to meet the market if they wish to sell, which is resulting in a



Southport Central Source: RP Data

Pebble beach. Runaway Bay Source: RP Data

Coomera. Helensvale. River Links. Source: RP Data

clear reduction in value, consequently affecting surrounding property values. A clear example is a property in Coomera Court in the River Links Estate in Helensvale, where a property was previously purchased in December 2007 for $1.8 million and re-sold in November 2018 for $1.35 million.

The next twelve months will see good buying opportunities for those able to obtain finance approval and focus on good quality owner-occupier appeal dwellings that provide unique qualities, whether it be location to schools, views or convenient surrounding development. With an increasing population and low unemployment levels, property prices within the Central North region are expected to grow over the next ten years, however purchasers should keep in mind that the market will continue to experience weaker prices over the next twelve to 24 months.

Central Gold Coast

The Gold Coast property market started to cool off in 2018 and we expect it to continue to soften slightly throughout 2019. Sales volumes in the central suburbs of the Gold Coast have eased and agents have reported that selling periods have lengthened over the past six to twelve months. Whilst we have generally seen a recent trend of property prices softening across the Gold Coast, sale prices for the central coastal suburbs (those suburbs within a few kilometres from the beach) have been relatively stable so far.

Canal views are highly saleable Source: HTW

New construction finds appeal Source: HTW

Going into 2018, the residential property market was getting quite heated in suburbs such as Burleigh Waters, Broadbeach Waters and Mermaid Waters. These suburbs have become highly sought after in recent years with properties offering good owner-occupier appeal at a broad price range and there have been great opportunities for builders to renovate or redevelop old homes into prestige dwellings or even duplex pairs. It will be interesting to see if these Gold Coast hot spots will remain resilient over the course of 2019.

Despite the recent drop in confidence in the local market, we have seen a healthy level of construction activity between Mermaid Beach and Main Beach, with many small and large scale residential developments recently completed or now underway. The Ruby on Norfolk highrise development at Budds Beach in Surfers Paradise was completed prior to Christmas and other large scale highrise projects due for completion in 2019 include Qube Broadbeach at Broadbeach, Northcliffe Residences and the three-tower beach front residential and hotel project known as Jewel Residences at Surfers Paradise.

With the anticipation of tougher market conditions ahead, we understand that sales rates have been a growing concern for developers. The unit market, particularly within Surfers Paradise and Broadbeach, is heavily reliant on investors from interstate and overseas. We expect that developers will be offering various incentives or rebates for their balance stock to attract buyers as the investor market begins to shrink. The volume of new unit stock to be introduced this year on the central Gold Coast may cause an oversupply. In declining conditions, we have noticed in previous cycles that the highrise unit market, particularly in Surfers Paradise, is often the hardest hit in a depressed market. There may be some volatile

Highrise construction continues Source: HTW

times ahead for this market sector. Watch this space.

It is unlikely that we will see any significant price growth in the central suburbs in 2019. The question is "Which suburbs will hold their value well in the next twelve months?"

Suburban housing in the central suburbs of Benowa and Ashmore (both east of the M1) and Mudgeeraba (west of the M1) have been fairly strong over the past couple of years with buyers seeking affordable detached housing with close proximity to various schools and amenities. A typical price for a three-bedroom brick house in Benowa is currently $625,000 to $675,000, $575,000 to $625,000 in Ashmore and $500,000 to $550,000 in Mudgeeraba. We are expecting property values to remain stable in Benowa and Ashmore, however buyers should perhaps be cautious buying in Mudgeeraba as house prices have had a very strong run with the market becoming quite heated.

The question is, "Which suburbs will hold their value well in the next 12 months?"

In late 2017 and the first half of 2018, it was not uncommon for an entry level detached house in Mudgeeraba to sell within a two-week period. Agents have now reported signs of this market definitely cooling off and selling periods have lengthened considerably going into 2019.

The prestige end of the housing market is likely to struggle in 2019. The market for properties priced above $2 million has been historically volatile. Agents have noted that there has been a strong reliance on interstate and foreign buyers (mostly from Asia) of late. The tighter lending regulations will test both buyers and sellers in this sector in the upcoming months. We wouldn't be surprised if prices for prestige properties fell ten per cent or greater if we continue to experience similar market conditions into 2020.

Far Northern NSW

The Far Northern New South Wales coast became a very segmented market towards the end of 2018 with mixed results. Across the majority of the market, agents have advised more stock levels and longer selling periods, but relatively stable prices.

Although there's been no clear evidence that prices have eased, we believe discounts will become more evident throughout 2019 and will particularly hit properties over $1 million on the Tweed Coast. It was becoming more apparent towards the end of 2018 that the Sydney and Melbourne buyers are not as abundant as they were six to twelve months ago and this, as well as tighter lending policies courtesy of the Royal Banking Commission, will affect overall market values. Investors have also disappeared with most purchasers in the Tweed Shire being owner-occupiers.

A segment that may buck the trend and continue to stay steady throughout 2019 is rural residential properties under $1 million. There is limited stock and high demand for this property type and not only is this property type popular with local purchasers, it is also popular with Brisbane buyers looking for a tree change or a weekender.

Another segment that may buck the trend and remain steady over 2019 are properties located in prime and tightly held locations, including properties on Kingscliff Hill and Murwillumbah's Hospital Hill. These locations offer views, close proximity to town and amenities and character dwellings. In the case of Kingscliff where the new Tweed Valley Hospital is being built, agents have advised of an increase in buyer interest in the area due to the new infrastructure and job creation with the new build over the coming years.

Sunshine Coast

2018 was a good year for the Sunshine Coast property market with good levels of activity and increases in values across most sectors.

We are predicting it will start to ease over the coming year. This is not to say we are expecting a year of negative growth, however the coast market is expected to slow over the coming year and return to what could be called a normal market.

Whilst there appears to be some headwinds coming, there are so many positives for the coast.

Headwinds - Negatives

The first quarter of 2019 will be a good indicator of how the year will unfold with the continued slowing of the major southern markets of Sydney and Melbourne and to what extent that may impact the coast market. In addition, 2019 is a federal election year, so the uncertainty that generally follows an election will present a challenge. The effect of the election will be magnified given a possible change in government and potential changes to negative gearing.

Tailwinds - Positives

The massive infrastructure projects underway should attract new investment to the coast. The Maroochydore CBD and Sunshine Coast Airport expansions have been moving along with the Sunshine Coast International Broadband Submarine Cable project dovetailing in beautifully. Providing Australia's fastest telecommunications connection to Asia and the second fastest to the United States is an unbelievable opportunity for a regional centre.

It is expected that the larger estates of Aura located to the south of Caloundra and Harmony at Palmview will continuing to generate good interest from owner-occupiers and investors. We are also expected to see good interest in hinterland subdivisions in the railway townships, such as Habitat in Palmwoods, with larger land sizes being the driver.

As always, proximity to the beach given the coast lifestyle is a driving factor for purchasers and this is expected to continue. The coastal strip from Noosa to Caloundra in the sub-$800,000 price range is expected to continue to be in demand.

The northern coastal areas of the Sunshine Coast and the prestige markets in the Noosa area are expected to continue to see some good activity

Aura, Caloundra Source: realestate.com.au

throughout 2019 on the back of some record sales in 2018. However, this may be an area to watch as the prestige Noosa market is heavily impacted by the confidence of Sydney and Melbourne markets as these continue to slow.

Anecdotally we have been advised that some ex-pat and international buyers have helped fill some of the void on the back of the weak Aussie dollar.

There are a number of unit complexes under construction or proposed for 2019 which will see an increase in supply, particularly in the Maroochydore area. There are good levels of interest in owner-occupier style units within smaller complexes with low body corporates. This swing to permanent living units has been reflected in the number of new unit complexes under construction that directly target this market.

2019 is expected to see some good activity across the residential market however maybe not to the same levels achieved in the past 24 months. We will just have to wait and see.

Darling Downs/Toowoomba

2019 looms as an interesting year for the Toowoomba market. 2018 saw a continuation of the trends in 2016 and 2017, with slowing levels of sales activity and some value stabilisation following the boom period from 2014 to mid 2015. Although sales activity has been steady across the board, the market has continued to be multi-speed and property specific. There has been little consistency with variations in sale prices and buyer interest making it difficult to establish well-performing suburbs and specific property types. This is expected to continue throughout 2019.

Toowoomba is currently a hub for major infrastructure projects including the Toowoomba Second Range Crossing road construction expected to be completed early this year and the recent completion of QIC's Grand Central Shopping Centre extension. Also in the imminent pipeline benefiting the Toowoomba area will be the Inland Rail Project.

These infrastructure projects are believed to have assisted in holding vacancy rates low with many employees living in the Toowoomba area through the construction processes. This is expected to continue throughout 2019.

The key development areas for new housing included the suburbs of Glenvale, Cotswold Hills, Torrington, Kleinton, Highfields, Cambooya and Westbrook. Demand for vacant land has slowed significantly as a result of reduced investor demand and limited local buyer enquiry for lots less than 500 square metres in size. Sales rates for land in new housing estates are very slow, especially compared to recent years when projects often sold out off the plan. Developers are starting to look at buyer incentives to attract interest in their respective projects.

Toowoomba is currently a hub for major infrastructure projects.

West of Toowoomba, towns within the Surat Basin have experienced significant declines across the board following the decline of the construction phase of the mining and gas boom. These towns have reverted to levels which are more aligned with their predominantly rural-based economies, and as such, local employment factors are now contributing to the trends witnessed in each of these towns. This stabilisation is expected to continue in 2019 with enhanced interest for dwellings from owner-occupiers as affordability has returned and a significant over supply situation in the unit market which will continue to place downward pressure on the sector. The Roma market is relatively inactive and downward pressure appears to continue, while Dalby is showing good signs of stabilisation with a strong occupancy rate currently being enjoyed leading to positive movement in rental values.

Cairns

Wet season rain came early in Far North Queensland and the year in property ended with more of a whimper than a roar.

Early January is quiet with most people concerned about what 2019 might bring. The optimists amongst us are still hoping 2019 might be our year with a return of southern buyers and a counter cyclical wave as in the early to mid-2000s, discovering the great value and strong returns available up here, driving our market out of the stagnation of the previous three years.

Unfortunately, the pessimists have a fairly strong counter view with falling markets in the southern states, tighter credit and a negative sentiment for property in general.

Our best guess is more of the same with 2018-like conditions of patchy markets, some good results and other results being fairly soft. We may even end 2019 a little below where we are now in terms of median price and activity levels. We would, however, be happy to be proven wrong.

Rockhampton

2019 has all the potential to be a solid year for the Rockhampton region.

A number of new infrastructure projects are due to start construction in the short to medium term including Rookwood Weir, the Rockhampton Ring Road, duplication of the Capricorn Highway between Rockhampton and Gracemere and the South Rockhampton Flood Levy. Each project is anticipated to provide an economic benefit across a number of sectors, including employment. This, together with the stabilisation of the market throughout 2018 and the consistent tightening trend of the rental market (currently between two and three per cent) provides a sound start for the property market in the year ahead.

The sectors to watch in 2019 are expected to be the lower end of the market (up to $250,000). This sector has been sluggish for some time, however with vacancy rates tightening and some agents reporting $20 to $30 per week rent increases starting to be accepted by tenants, this sector will become more enticing to investors, particularly given the major southern markets are now starting to cool. These rent increases may see more first home buyers becoming active also.

The upper end of our local market has remained reasonably consistent over the past few years and is expected to continue this trend.

On the Capricorn Coast, 2019 is expected to see a continuation of improved market activity which really started to take hold in 2018, with some modest price rises noted for very well-presented and well-located properties. Steeply sloping vacant allotments are expected to remain slow to sell given the difficulties arising from the practicality of living on a sloping allotment and to a lesser extent, the cost of construction on such sites.

The coastal prestige market (price points over $750,000) is expected to be sporadic in 2019 after an active period in 2018.

Great Keppel Island has also provided renewed focus with the lease changing hands to an international investor and plans to start construction in late 2019.

Local agents acknowledge that there is an increase in confidence in the market with many reporting limited stock available. Further, vacancy rates on the Capricorn Coast are at their lowest point in twelve months, currently sitting at between one and two per cent.

Of course, it's prudent to consider the risk that some (or all) of these projects may become delayed or not come to fruition as expected and what effect this will have on the property market. For quite some time now, the region has been pushing for major infrastructure projects to boost employment as this appears to be our missing link to a vibrant local economy.

As we have seen with other major projects such as Adani, it can become a very long road between approval and shovels in the ground. Funding, elections, the greater economic climate and severe weather events all have the potential to delay start dates for any major project. Should there be a delay in any projects forecast to provide the economic boost the region has been searching for, it is anticipated that our local markets would remain stagnant for the course of 2019.

We are without doubt looking forward to seeing a number of these factors providing a positive influence on the property market before year's end after a period of decline over the past few years.

Gladstone

2019 is likely to be a gradual continuation from last year for the residential market in the Gladstone region with slow capital growth predicted for the year ahead. By the end of the year, we predict that all market sectors will have shown signs of recovery. The market is still being driven by affordability and we will likely see further value increases across 2019.

We expect rental levels to continue to incrementally increase on the back of a downward trend in vacancy rates. The construction of new homes for mostly local residents is expected to be ongoing and will continue to provide steady employment for local tradespersons and businesses. The supply of vacant land should remain stable, however a number of developers are in early planning stages for future lots.

Near level, 800 square metre plus allotments are in greatest demand. There is still an oversupply of small lots in Gladstone. We have seen a recent trend of developers combining two or more smaller allotments to create larger lots which suit the current demand. We expect to see more of this in 2019.

Bundaberg

The latter part of 2018 saw a softening in values in the established lower end of the market and quite the opposite in vacant land sales, with construction of new homes in both new estates and rural residential estates exceeding expectations. We forecast this will continue in 2019.

The increased scrutiny by lenders in the lower end of the market will continue to have an impact, however the recent lifting of regulations by APRA on investment loans may bring investors back into the market.

Mackay

Welcome to 2019! We hope all our avid Mackay readers had a fantastic Christmas break and are looking forward to the year ahead. With that in mind, we will give our predictions on the year ahead for the Mackay residential market.

So, what does the future hold? Well, the best indications for future events are by analysing the past.

2018 was definitely a turning point, not only for the residential property market but the general Mackay economy. During 2018, we saw the residential market gain momentum due to a buoyant resource sector and increased large infrastructure projects which caused increased employment, population growth and a more positive market sentiment. We witnessed increased demand across most sectors of the residential market, decreasing time listed for sale and modest capital growth.

On the rental market, we saw a significant tightening of vacancy rates, falling below one per cent, the lowest in regional Queensland. We saw rental values start to increase due to the increased demand.

All in all, 2018 was considered a positive year for the Mackay residential market.

So, where does that leave us heading into 2019?

We think the residential market will continue its momentum throughout 2019, following through from 2018. There appears to be no slowdown in employment opportunities related to the resource sector and infrastructure projects throughout Mackay and the adjoining Bowen Basin. These increased employment opportunities, coupled with (relatively speaking) cheaper cost of housing and rentals (compared to boom time levels) has seen many people move to the Mackay region. The tightening of the rental market will see increases in weekly rentals, which will have the two-fold effect of:

1. **Bringing investors back** into the Mackay market based on increasing yields and potential for capital growth; and

We think the Mackay residential market will go from strength to strength during 2019.

2. **Increasing demand** for owner-occupier purchases as cost of rents increase and become more difficult to secure.

Notwithstanding any major economic crisis associated with world trade and the market for our most valuable export (metallurgical coal), we think the Mackay residential market will go from strength to strength during 2019 with growth predicted in both rental values and market values.

The difficult part is predicting the extent. Momentum is a funny thing in real estate. At the moment, there is a definite shift in sentiment, both in the general economy and residential market, with all the momentum on the positive side of the ledger. We are quite optimistic about the year ahead and after the downturn we experienced between 2013 and 2017, that makes a refreshing change!

Hervey Bay

2019 is likely to be a gradual continuation from last year for the residential market on the Fraser Coast with slow capital growth and generally stable returns.

Supply and demand for house and land packages is expected to remain fairly balanced with some package prices showing signs of lifting from last year's levels. Competition between estates to attract buyers is however likely to remain strong which can limit this capital growth. The supply of vacant land appears to be rising in Hervey Bay with in-fill and balance land of estates so it will be interesting to see how quickly these sell in the short term.

Land prices are potentially going to stabilise after some improvement over the past twelve months due to supply levels. There is a risk of oversupply however this will depend on the volume of lots and the time at which developers release each stage. The construction of new homes for mostly local residents is expected to be ongoing and will continue to provide steady employment for local tradespersons and businesses.

The increase of sales of dwellings over $500,000 is expected to continue with the expansion of medical facilities and allied health providers relocating to the area.

Unit prices may see some improvement as there is very limited new stock and returns for investors are attractive. In the short term, property priced appropriately is achieving one to two month selling periods so buyers are active.

Emerald

We should see Emerald and the Central Highlands region in general continue to firm throughout 2019. The resource sector continues to demand an increased workforce through current mine expansions, closed mines reopening and proposed new mines starting to pop up again.

We are seeing wages rise and working conditions change to benefit workers in efforts to maintain workforce and to attract or poach workers from elsewhere as there continues to be a high skilled labour shortage.

This is all having a positive impact on property values with our vacancy rate low and new housing construction increasing. The level of increase in values will largely depend on how quickly the skilled workforce can be found to continue to fill job vacancies and the coal price remaining high.

South Australia

Adelaide

Negative market hysteria has been a cause of concern for many South Australian property owners over the past six months. The east-coast-dominated media attention around the state of the market has been hard to avoid for South Australians. The positive for South Australia is that we haven't had the significant highs, which should shelter the market from major downward pressures.

Agents have been reporting a reduction in open inspection viewings. The consensus is for properties which would have had 50 groups through in mid 2018 are now having 20 groups through. This coupled with the downward trend in clearance rates provides a good indication of the current demand in the market. This trend is common over the peak summer months, however could be being doubled down by the tighter lending conditions. The 2019 first quarter data will be telling in how we will track for the remainder of the year.

Suburbs in the middle ring with price points of $300,000 to $500,000 will be the ones to watch throughout 2019. These suburbs provide affordability for first home buyers and also a price point for cashed up investors who are not having to rely solely on a lending institution. Fitting this profile are the suburbs of Hope Valley, Dover Gardens and Ingle Farm.

Hope Valley is located 16 kilometres north-east of the Adelaide CBD. This suburb is characterised by 1950s to 1970s brick dwellings on 700 square metre allotments. Hope Valley has proximity to the Adelaide foothills whilst being serviced by Tea Tree Plaza and the Hope Valley shopping centre. Hope Valley has a current median house price of $397,500 and provides a more affordable price point than neighbouring Dernancourt and Highbury. An example of what can be purchased at this price point is 13 Citrine Street, Hope Valley which has an asking price range of $395,000 to $415,000. This is a well-kept original 1980s home, providing three bedrooms and one bathroom on a 600 square metre allotment.

13 Citrine Street Hope Valley Source: realestate.com.au

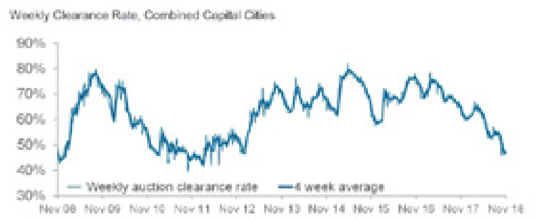
Located 14 kilometres south of the Adelaide CBD is Dover Gardens which provides a mixture of 1950s dwellings with an abundance of recent higher density infill development. Dover Gardens is serviced by Marion Shopping Centre and the South Australian Aquatic Centre and is located within 1.5 kilometres of Brighton Beach. Dover Gardens has a median house price of $470,000 providing it with a more affordable price point than those suburbs immediately adjacent to the beach. A recent example of a sale at this price point is 1B Rugby Street, Dover Gardens at $470,000. This is a circa 2016 semi-detached dwelling disposed as three bedrooms and two bathrooms on a 262 square metre allotment.

1B Rugby Street Dover Gardens Source: realestate.com.au

Ingle Farm is located 14 kilometres north of the Adelaide CBD and is characterised by 1960s and 1970s brick dwellings on 500 to 800 square metre allotments. In recent years there has been a move towards higher density living within Ingle Farm with infill development beginning to occur. The suburb is serviced by the Ingle Farm Shopping Centre and provides an abundance of parks and reserves. Ingle Farm has a median house price of $334,000 which is one of the most affordable price points within the middle ring north of the CBD. The recent sale of 15 Stuart Avenue, Ingle Farm at $324,000 provides an indication of what can be purchased at this price point. This is a traditional 1970s home which has been well kept and provides original fixtures and fittings.

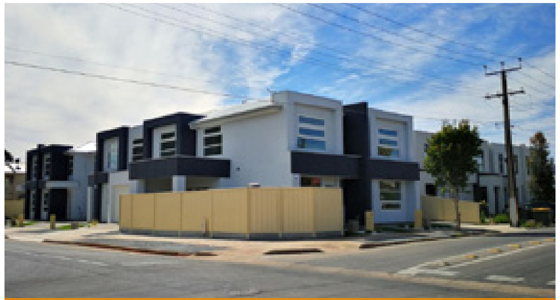
15 Stuart Avenue Ingle Farm Source: realestate.com.au

The inner ring suburbs which have traditionally seen larger volumes of properties sold by auction should be treated with some caution in 2019. These suburbs typically have a price point of $700,000 to low $1 million. This price point requires borrowers to have increased reliance on lending institutions. Agents have indicated that numbers at auctions have reduced with many potential purchasers indicating difficulty in arranging finance. This coupled with the reduction in clearance provides an indication that this market may soften in 2019.



15 Stuart Avenue Ingle Farm Source: CoreLogic

Other areas to watch in 2019 are the Campbelltown Council area, Port Adelaide and Mount Barker. In recent years, the Campbelltown Council has had one of the highest development application approval rates for medium density residential development. The zoning changes produced a sharp increase in both the prices being paid for traditional homes and the number of townhouses being constructed. The council is now in the process of increasing minimum land areas from 150 square metres to 250 square metres to combat the number of townhouses being constructed. This is expected to cause a softening in development sites and townhouses within the council area. Currently townhouses can be purchased for between $450,000 and $600,000, whilst traditional homes are ranging between $500,000 and $700,000.



Campbelltown Townhouses Source: realestate.com.au

After years in the doldrums, Port Adelaide began to gain traction throughout 2018. With the backing of Renewal SA, gentrification began to occur with a number of historic buildings being renovated and restaurants popping up in the heart of the Port. The area will act as a residential hub supporting the Osborne Naval Shipyard which is under construction. The rejuvenation of Port Adelaide is expected to have a flow on effect, helping increase the profile of the surrounding suburbs of Exeter, Rosewater, Ethelton, Glanville and Queenstown.

Mount Barker is one of the fastest growing suburbs in South Australia. Located 40 kilometres from the CBD and accessed via the South-Eastern Freeway, the suburb provides a country setting with all the typical metropolitan services and facilities. The Australian Gas Network has announced a $30 million gas mains pipeline from metro Adelaide to service the growing area whilst the local council has announced a $38 million sporting hub and expects to begin construction in early 2019. Prices fluctuate within each development with new builds available for purchase for between $350,000 and $600,000. Demand for new homes in this region has remained strong however caution is advised given the abundance of available land in the region.

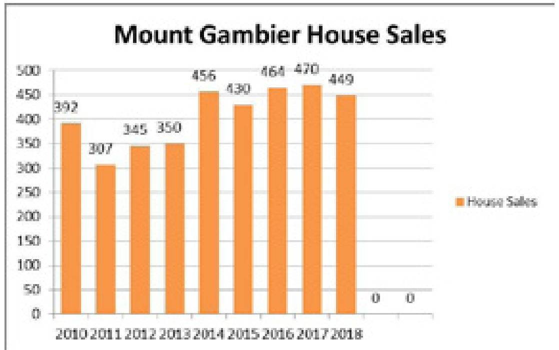
Mount Barker Development Source: realestate.com.au

So, there we have it. The crystal ball has been peered into. With a sluggish start to the year, we will eagerly await the first quarter's data which will provide an indication of where we are heading for the remainder of 2019.

Mount Gambier

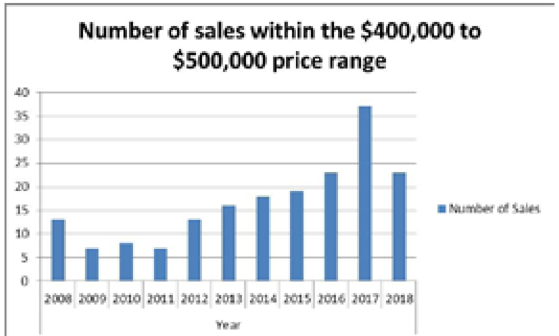
For Mount Gambier, the outlook for 2019 is that the housing market will remain stable throughout the year. We are not aware of any obvious indicators that will have a significant impact on the local economy and the property sector.

As seen in the graph below, house sales for 2018 were at similar levels to where they have been since 2014 and it is expected that this trend will continue throughout 2019. The median housing price has increased slightly in recent years, however there is still a large supply of housing and land for sale, which does impact on growth in the region.



Source: RP Data

The next graph shows the number of house sales within the $400,000 to $500,000 price range for the past ten years. There was a significant drop between 2009 and 2011, however there has been a steady increase in sales since then, with sales within this range now the highest they have been in the past ten years. This may be something to watch this year to see if sales within this range continue to increase or if we start to see a few more house sales above $500,000.



Source: RP Data

The $200,000 to $250,000 price range is affordable and it's where the most number of sales are occurring. The houses within this range appeal to families and first home buyers and are generally of good quality, including three or four bedrooms, one or two bathrooms, a garage and a pergola area, situated on 600 to 800 square metres. This is affordable compared to other cities such as Adelaide, where $250,000 will generally get you a small two-bedroom, one-bathroom unit or house situated on a small allotment of around 200 square metres.

Small regional towns are heavily reliant on a small number of industries. These towns should therefore be treated with caution as they are dependent on local employment. History has shown in these regions that decreases in employment will impact negatively on the property market.

Overall, we are expecting this year to be fairly similar to last year with no major fluctuations in the local market.

Tasmania

Hobart and Launceston

While Hobart remained strong in 2018, there is evidence that the historic high levels of growth are slowing.

We saw eight per cent growth in 2018 compared with around 13 per cent in 2017 (admittedly off a lower base). Tightening of lending requirements appears to be biting in the investment market with our own in-house observations noting a fall in interstate buyers.

The inner-city suburbs that led the charge from 2016 to 2018 appear to be flattening in price growth however those in the middle (such as Claremont) to outer ring (such as Brighton) continue the march forward as they are at a more affordable price point.

Simply due to the strength in the local economy, population growth, near nil vacancy rates in the rental market and ongoing housing shortage, we feel that 2019 will deliver softer growth and perhaps a less active market in Hobart but certainly we remain positive with regard to overall pricing.

In the north of the state, it would appear that Launceston is about twelve months behind the Hobart market. 2018 was this city's standout year (not 2017). Again, for all the same reasons stated above we are expecting Launceston to be softer in 2019 but certainly positive with regard to pricing. Double digit growth might be a bit optimistic but we are expecting in the five to ten per cent.

The north-west coast has its own economic challenges and in some regions continues to struggle. We are expecting Devonport to continue with the momentum of 2018. Burnie has no doubt turned the corner and the upper end has shown some recent activity, however we are predicting softer growth for 2019.

The areas to watch for 2019? Look out for the coastal towns especially those that offer medical or close by medical facilities such as St Helens (has medical facilities) and Orford (one hour from Hobart). We are expecting to see the sea-change effect to continue, especially from Queensland, as buyers seek to relocate to a milder climate. Cashing in the family home, buying a very nice holding on the Tassie coast and having dollars left over in the bank to play with - what more could you want?

Wishing all our readers the best for 2019.

Cashing in the family home, buying a very nice holding on the Tassie coast and having dollars left over in the bank to play with - what more could you want?

RESIDENTIAL

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Northern Territory

Darwin

To echo the comments of our Director, Terry Roth, in this month's commercial column, due to the Territory's current financial position, tough expenditure decisions are going to have an impact on all aspects of the economy – the residential property market is unlikely to show much growth under these conditions and, critically, sentiment will likely remain weak across many aspects of the economy.

The residential property market is likely to track in a similar state to that experienced through the back end of 2018. What we have seen is fluctuating transaction numbers month to month with limited to no capital growth.

An analysis of month to month figures can be somewhat deceptive, potentially showing only seasonal changes, rather than whole market movements. Critically important to monitoring change in the market is the year-on-year results that provide a greater degree of comparability, having a larger sample from which to draw conclusions. Yes, a recovery is generally shown in the first instance by a greater number of transactions occurring in a given period and that's what makes predicting the peaks and troughs of the property market difficult.

In the case of the Darwin residential market, there appears to be some reluctance on the part of prospective purchasers to buy now, for fear we have not reached the bottom – typically this can only really be determined in retrospect. By the time you've realised the market has bottomed out, it's already shifted.

The most important aspect at this point in time and when faced with a market such as this is to do your homework. It's most certainly a buyer's market considering where the market was at during the peak of 2014. Consider your own personal circumstances, do the market research and be realistic in your expectations for capital growth. You are unlikely to yield much growth in the short to medium term.

Alice Springs

The residential market in Alice Springs is generally more active over the spring and summer period, however overall sales activity for the quarter to 31 December 2018 did see a decline of 9.4 per cent in transaction numbers from the previous quarter. Demand continues to be somewhat soft and the market historically quietens from early to mid-December through until late January when people begin returning to town, preparing for the new year. The searing heat may also deter people from leaving their air-conditioned sanctuaries in search of new abodes. Relocations and defence force postings are common in January and it is expected that the current quarter will show an increase in activity.

The market has shown mixed results in recent months, which is likely to continue. The Old East Side market has been less active, with Gillen and rural residential properties proving popular with purchasers.

Units continue to be generally soft, with an abundance of stock on the market and a number of development projects underway which will further saturate the market. House prices remain steady, with some encouraging sales pointing towards a levelling out of the recent declining market.

9.4%
decline in transaction numbers for the quarter to 31 December from the previous quarter

As locals return from their Christmas breaks and settle in to another year, it is expected that activity will ramp up in the residential market although it remains to be seen what negative outcomes there might be from banks reviewing their lending policies in the wake of the Banking Royal Commission.

Western Australia

Perth

With 2018 behind us we can focus on what the new year has in store for Perth. For the past few years, stories have been told of both significant gains and significant losses and we are possibly writing a similar narrative in 2019, just with a touch more confidence this time around. We are currently running on a two-speed property cycle with vast differences between Perth's inner and outer suburbs.

The median house price in Perth increased 5.2 per cent to $510,000 during the February 2019 quarter. Real Estate Institute of Western Australia (REIWA) President Damian Collins's outlook for 2019 is stated as follows: "While we don't expect to see rapid growth in the Perth property market in 2019, REIWA's outlook suggests sales volumes could start to increase this year. With house prices in Perth remaining relatively affordable and consumer confidence levels on the incline, this could translate into increased activity in 2019."

REIWA statistics show that Perth's median unit price settled at $385,000 for the December quarter – down 1.3 per cent from September. Suburbs that saw big increases in the median price of units were Mount Lawley, Yokine, West Leederville, Victoria Park and Mandurah.

Perth is currently the most affordable city for housing in Australia according to a new study by the Real Estate Institute of Australia (REIA). The REIA recently released a report outlining that Western Australia's average proportion of income required to meet loan repayments improved to 22.7 per cent in the September 2018 quarter. That is a 1.2 per cent decrease compared to the June 2018 quarter. The average loan size has also reduced 4.6 per cent to $339,943, likely due to low consumer confidence, tight restrictions on finance and Western Australia's high proportion of first home buyer activity. Damian Collins said: "By comparison, in New South Wales, the proportion of income required to meet loan repayments is 36.6 per cent, while the average loan amount is $469,589 – significantly higher than Western Australia. In addition, Western Australia continues to have the highest proportion of first home buyers in its owner-occupier market at 35.1 per cent, compared to 23.2 per cent in New South Wales."

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As shown on the Herron Todd White Property Clock, Perth Inner is currently situated at the bottom of the market cycle and arguably moving much closer towards the start of recovery. This has been the case going as far back as 2016 in some localities as the prestige and upgrader market has been a strong performer. This has kept Perth's median house price afloat over the past three years.

Perth Outer, however, is still on the decline. First home buyer locations suffering from chronic oversupply are continuing to struggle. Suburbs such as Ellenbrook, Baldivis, Alkimos, Byford and Wellard aren't being given any breathing space. A lack of demand as a result of population reduction coupled with constant supply driven by government and private sector incentives and once-in-a-generation low pricing on land and construction costs is driving values downwards.

It's not all bad news for these areas though. Rental prices have not declined at the same rate as house values and this is producing very lucrative yields. Our research shows that gross yields are drifting towards seven per cent in some areas. Mix this with the current affordability of housing around Perth and it creates a real opportunity for investors to re-enter the market. On top of this, the recent changes to lending criteria is going some way towards freeing up the availability of finance as the Australian Prudential Regulation Authority (APRA) has removed the cap on interest-only loans for residential property. This was long overdue for struggling markets such as Perth and hopefully in the future we see a targeted, state-to-state approach to lending criteria instead of the current national blanket approach which helps some states but hinders others.

Perth has seen a stable median rental price for more than five quarters now, however the median house rental (not including units) has actually risen through the February 2019 quarter to $360 per week. This is a good sign for things to come and an indicator that population growth may be on the rise. Mr J-Han Ho, Property Researcher and Senior Lecturer in the School of Economics, Finance and Property at Curtin University said, "the State Government's International Education Strategy and Graduate Skilled Migration list that was introduced in 2018, along with changes to immigration policies by both State and Federal government in 2019, could be the catalyst for an increase in demand for housing". The resources sector has also claimed to be securing 20,000 employment opportunities over the next few years. This demand for skilled workers may give a boost to Western Australia's net migration figures in the near future, which should also increase dwelling commencements significantly.

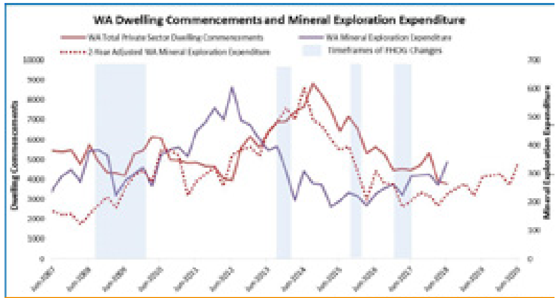

Figure 1 - WA Dwelling Commencements and Mineral Exploration Expenditure
Source: UDIA, 2019

The graph above shows the relationship between Western Australia's mineral exploration expenditure and dwelling commencements. As we can see, the peaks and troughs of the two figures shows an average period of just over two years between our expenditure in the mining sector and private sector dwelling commencements. With a number of resource industry project announcements occurring and BHP's $4.8 billion South Flank iron ore project being well under way, we may see an increase in construction activity within the coming years.

Developers may be a little more cautious this time around though, as there is still an abundance of vacant land available on the market in Perth's newer suburbs and adding to this oversupply will only extend the negative impact on values.

In 2019, we expect to see improving market conditions for some regional centres. Investment in the resources sector has increased significantly and we hope to see improved demand as a direct result of this. Damian Collins said recently that "Port Hedland, Karratha and Kalgoorlie are areas to watch, with the new mining projects going a long way to restoring confidence in these regions. These projects are expected to create thousands of new local jobs, which should continue to support population growth, improve demand for housing and aid recovery." However, REIWA cautions against expectations of a rapid recovery over the next twelve months and our predictions align with this caution.

To summarise, we are currently concerned that the gap between value growth and therefore wealth creation in the inner suburbs versus the outer suburbs will continue to widen. Perth inner has passed the bottom of the market and will continue a slow and cautious rebound driven by upgrade buyers identifying the opportunity to move from their existing residence to a superior location. In many cases, the upgraders understand that the value of their existing dwelling has bottomed out or recovered slightly and they see good value for money in superior locations. The message for inner suburbs is cautious optimism. As consumers begin to understand that the market has bottomed out, they will become more confident in making purchase decisions. This will coincide with the APRA changes to lending criteria surrounding investment and interest only lending freeing up liquidity in what has been a very tight market over the past six months.

The outer suburbs will continue to struggle for traction throughout 2019. As a result of current economic forces, our valuers continue to see home prices drifting downwards every day in a large number of outer and in particular new suburbs. We shouldn't see much change in this market until Western Australia's net migration figures rise with employment and wage growth.

The best positive news for the market is the clear commencement of the rebound in the rental market. Rents across Perth look to have bottomed out with slight increases demonstrated across a wide range of suburbs. With the APRA changes to lending criteria, investors should get excited about being able to buy at record low prices. Coupled with a decreasing vacancy rate and certainty of rental income, the capital value decreases have made yields look very attractive. The key in this market is the smart money, early decision makers, most of whom have already made their move. It will be interesting to see what this year will bring for Perth, but for now our predictions show that we will have a fairly stagnant beginning to the year, with 2020 being the time for growth in the Perth market and economy as a whole.