



Quarterly Market Insights

September Quarter 2017

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Welcome to the first edition of the Oliver Hume Quarterly Market Insights

WATCH THE VIDEO

The purchase of residential real estate is often the most important decision Australians will ever make. In addition to purchasing land, houses, townhouses and apartments across the country as owner-occupiers, Australians have also utilised the power of real estate as an investment vehicle. Millions of Australians hold a large part, if not the majority, of their wealth in the country's stock of residential property.

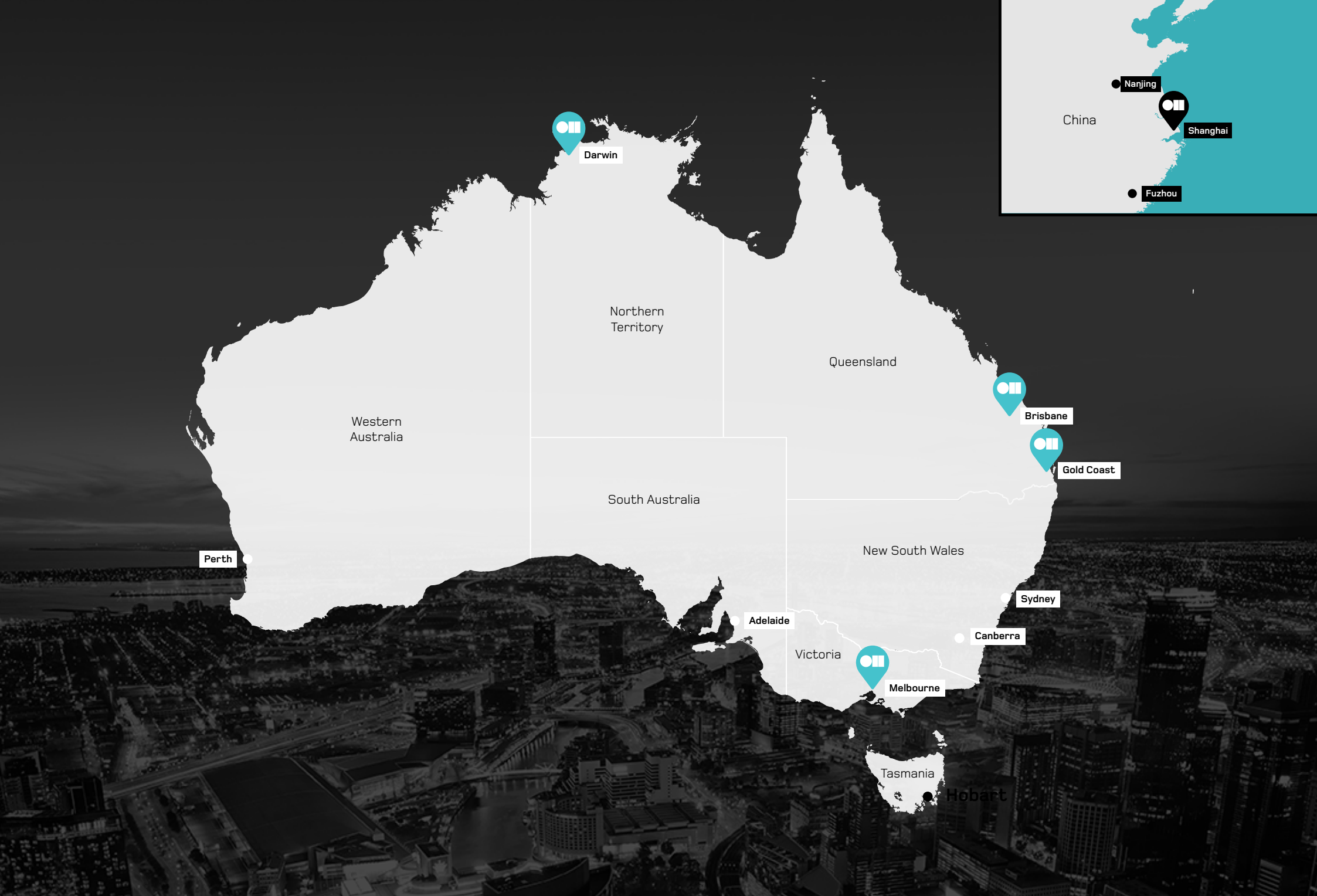
Today, the residential real estate sector underpins Australia's wealth with the sector totaling \$7.3 trillion. However, understanding what is actually driving the market can be confusing.

Oliver Hume is one of Australia's most trusted residential property services firms, having operated for over 65 years, primarily along Australia's eastern seaboard. We sell thousands of properties each year and understand the market like few others. This understanding comes from working with buyers every day.

In addition, Oliver Hume's in-house research division provides unique market insights, forecasts and in-depth analysis of the Australian residential property market. Much of our market intelligence is proprietary information that we collect, providing us with an enduring competitive advantage when analysing and understanding the market.

This quarterly market update is an example of our research and goes behind the numbers to provide you with the latest market insights from Oliver Hume.

I am sure this update will be a valuable resource for you in better understanding the market and planning for the future.





SEPTEMBER
QUARTER 2017

VICTORIA



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VICTORIA'S PROPERTY MARKET

> NEW COMMUNITIES GREENFIELD MARKET

Melbourne's new communities (greenfield) markets continue to experience record growth and activity supported by Melbourne's unprecedented population growth, a shift of lending and regulatory policy frameworks in favour of owner-occupiers, continued low interest rates and the market's traditional competitive advantage when it comes to affordability.

Both greenfield prices and sales volumes have increased strongly over the course of the year and continued growth, at least for the short to medium term, is expected given robust demand conditions.

Of special note is the rate of population growth. Victoria's population increased by over 149,000 people (+2.4%) in the year ending 31 March 2017. All drivers of population growth have either reached a new peak or are close to their previous peak.

> VICTORIA CONTINUES TO ATTRACT BUYERS

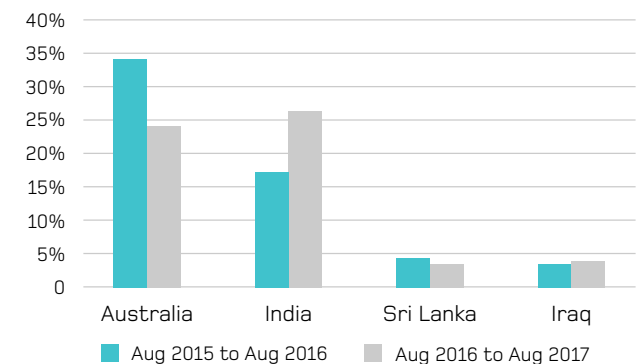
The Victorian property market is now the fastest growing in Australia, continuing to attract the interest of both local (domestic) and overseas buyers and developers.

This growth is being driven by a multitude of demand and supply factors including, record population growth and demographic change. Population growth via natural increase remains high and an increasing number of overseas and interstate migrants are now calling Melbourne's growth area municipalities home.

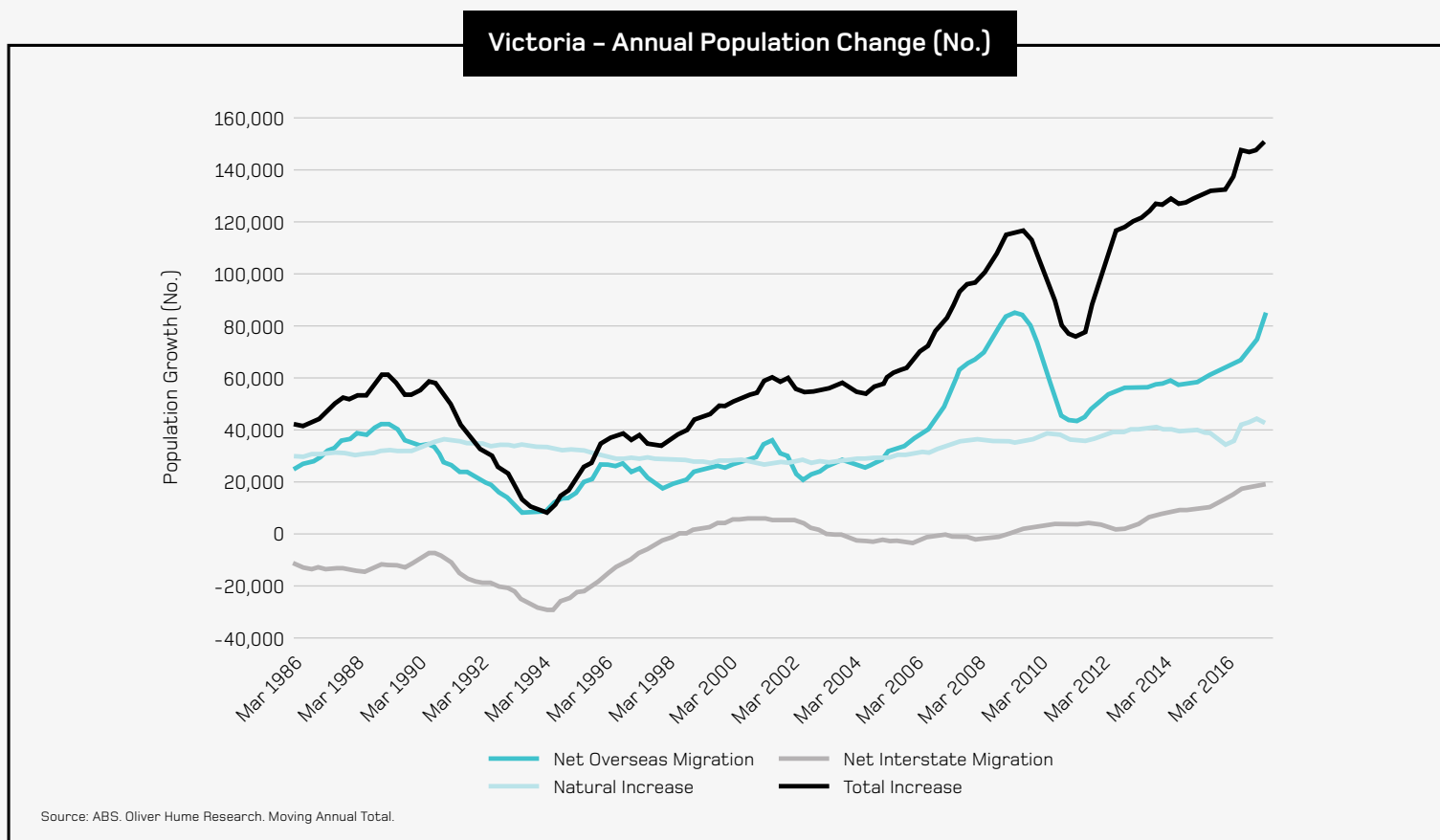
If population growth continues at current rates, metropolitan Melbourne could add over a million people in under a decade with the greenfields playing a critical role in accommodating this higher than expected population growth. While demand pressures should provide support for continued price growth in new residential land, affordability constraints may see the rate of price growth slow.

The development and associated industries continue to innovate in order to meet the diverse needs of various buyer segments, offering a more diverse range of products, including greater diversity in lot sizes and type and housing products, and on-site facilities and amenities.

**Purchasers – Top Four Countries of Birth (%)
(All Growth Areas)**



Source: Oliver Hume Research - Prochaser Profiles



“The Victorian property market is now the fastest growing in Australia”

MARKET OVERVIEW

> APARTMENT AND TOWNHOUSE MARKETS

An Evolving and Dynamic Landscape

Melbourne's apartment and townhouse market continues to evolve in light of current and emerging property, demographic, economic and other trends.

Much has been written about the extent of supply in the apartment market especially in inner Melbourne. While it is true that the Melbourne apartment market has seen record new levels of completions in recent years, it is important to note that this has come at the end of an extended period of structural transformation, beginning well over two decades ago, in which the way Melbourne grew changed.

Today, apartments and other medium and high-density dwellings now make up around a third of all dwellings in Melbourne.

While it is true that some projects and sub-markets have seen prices and other market indicators adjust, reflecting the significant increases in supply observed in recent years, market-wide and sustained adjustments have not been observed. This is despite a convergence of several factors (some would say a 'perfect storm') in recent years including lenders curtailing investment lending to both local and overseas buyers (both segments being major drivers of

new apartment demand) and fundamental Government policy shifts in favour of owner-occupiers instead of investors (for example as outlined in the Victorian State Government's *Homes for Victorians* set of policies released in early 2017 which removed off-the-plan concessions on investment properties).

The market's resilience has been due to a range of factors including Melbourne's record population growth, the apartment market's relative affordability compared to other dwelling products and continued increases in inner and central city employment (which has also assisted the rental market).

Importantly, we have also seen a degree of self-correction by market participants with developers 'reading the signs' and scaling back their development plans, in some cases, to wait for the next demand cycle or an environment where underlying fundamentals might be more conducive to their particular project.

The apartment market has clearly entered new territory with the peak of the supply cycle now behind us and a shifting lending, regulatory and policy framework which had affected demand initially but is now influencing the supply side.

"The apartment market has clearly entered new territory..."

The Shift from Low to Medium Density

In contrast, we have seen renewed strength in the townhouse and broader medium density market with buyer demand shifting partially from apartments. In addition, other market segments, which had traditionally opted for low density housing, are now increasingly considering the medium density market as an option.

Today, townhouses are increasingly popular across a range of segments with demand being driven by a mix of more permanent structural/fundamental factors and more transient cyclical factors. These factors include shifting demographics, preferences and affordability constraints.



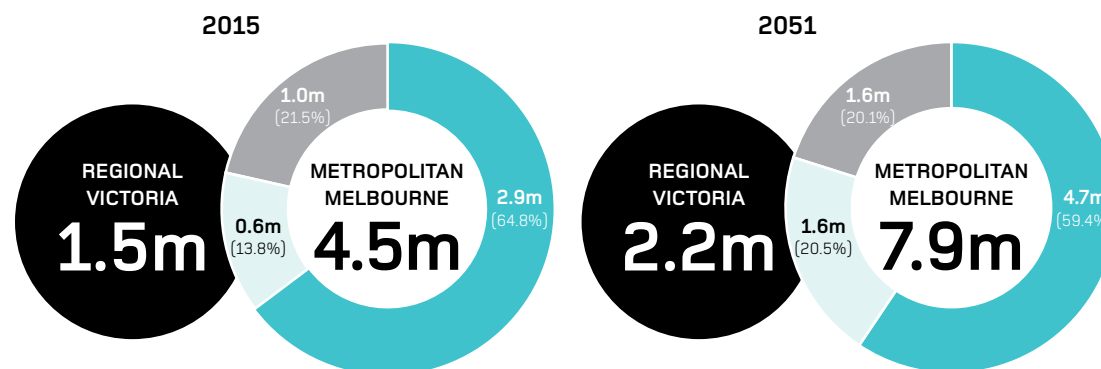
Townhome Project: Parkville by Oliver Hume.

In terms of preferences, many buyers today are seeking a landed product which is relatively low maintenance, has more internal space, is well-located in terms of employment and infrastructure and, importantly, at a more suitable price point given household incomes. Going forward, we expect to see townhouse and similar products emerge as a much more dominant housing option given these and other factors including, the focus of policy makers. Of note is the State Government's new metropolitan planning strategy (*Plan Melbourne*) released earlier in the year which aims for around two thirds of all new dwellings to be located in established area.

Going forward, both apartments and townhouses are likely to play an increasingly important role in Melbourne's property market and, indeed, many other property markets around the state especially larger regional centres (e.g. Geelong) where affordability, employment and lifestyle factors continue to attract buyers.

"Of note is the State Government's new metropolitan planning strategy (*Plan Melbourne*) released earlier in the year which aims for around two thirds of all new dwellings to be located in an established area"

Victoria's Projected Population Growth



Age groups

■ 0 - 17 years ■ 18 - 64 years ■ +65 years

† Source: Victoria in Future 2016 & Plan Melbourne 2017

> OUTLOOK

The convergence of various 'long-term' trends (for example population growth and demographic change) and the timing of 'medium-term' property market demand and supply cycles (for example, the ending of the apartment supply cycle) will dictate what stock is delivered to market, when and at what price point.

Fundamentally, however, we expect that Melbourne's population growth will remain robust over the medium to long term ensuring that many locations and product types are likely to be in demand if not undersupplied. For those looking to capitalise on Melbourne's growth and change going forward the future is exciting indeed.



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PROJECT AND CORRIDOR DATA

> ACTIVE PROJECTS

There were 179 active land projects across key markets in all Victorian municipalities in the September quarter 2017 showing an increase from the previous quarter.



Source: Oliver Hume Research

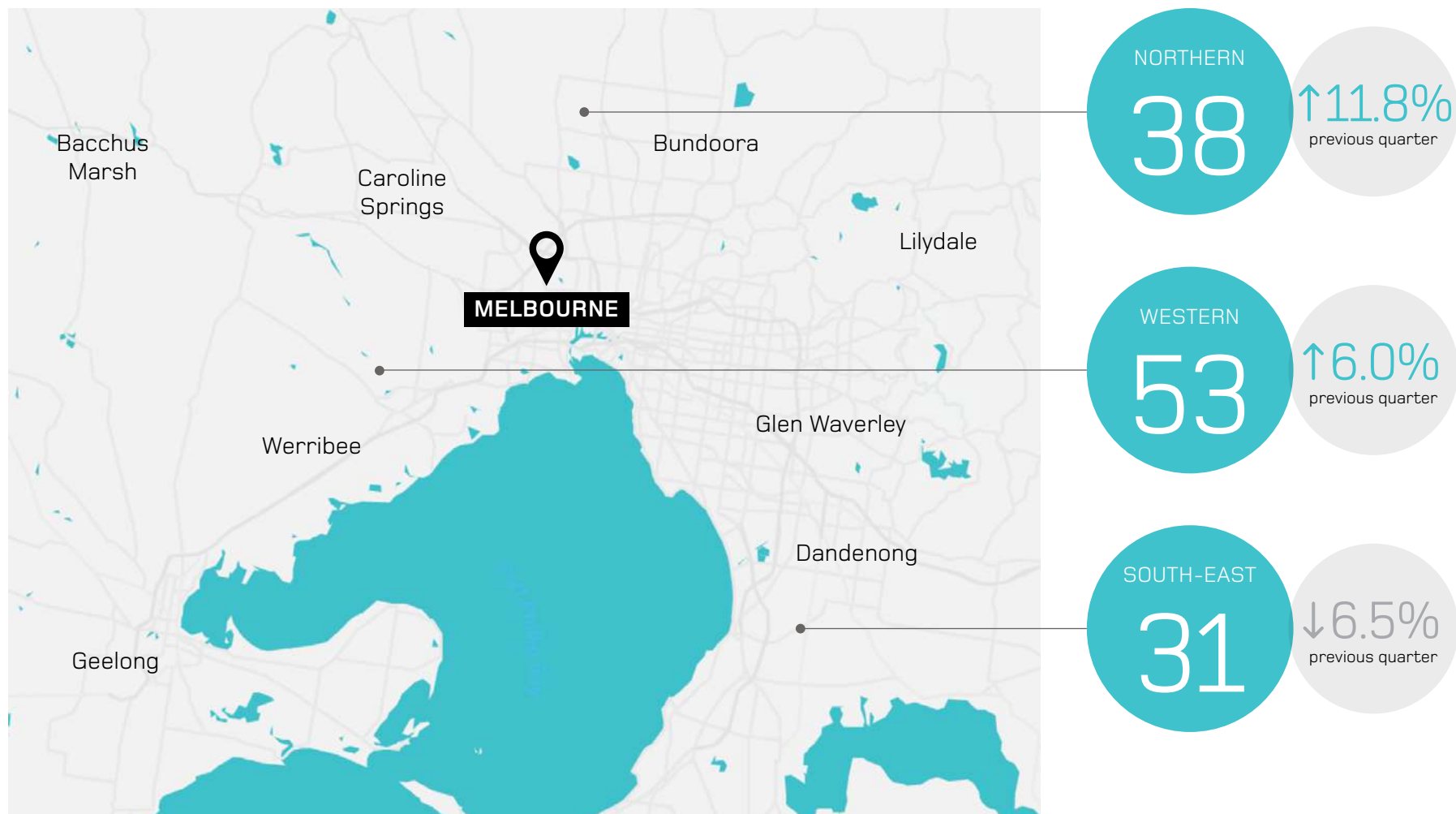
> TOTAL SALES

The September quarter 2017 saw a strong sales result with 6,790 lots sold in the quarter. This represented a 2.1% increase from the previous quarter highlighting continued robust demand.



Source: Oliver Hume Research

➤ KEY CORRIDORS – NUMBER OF PROJECTS

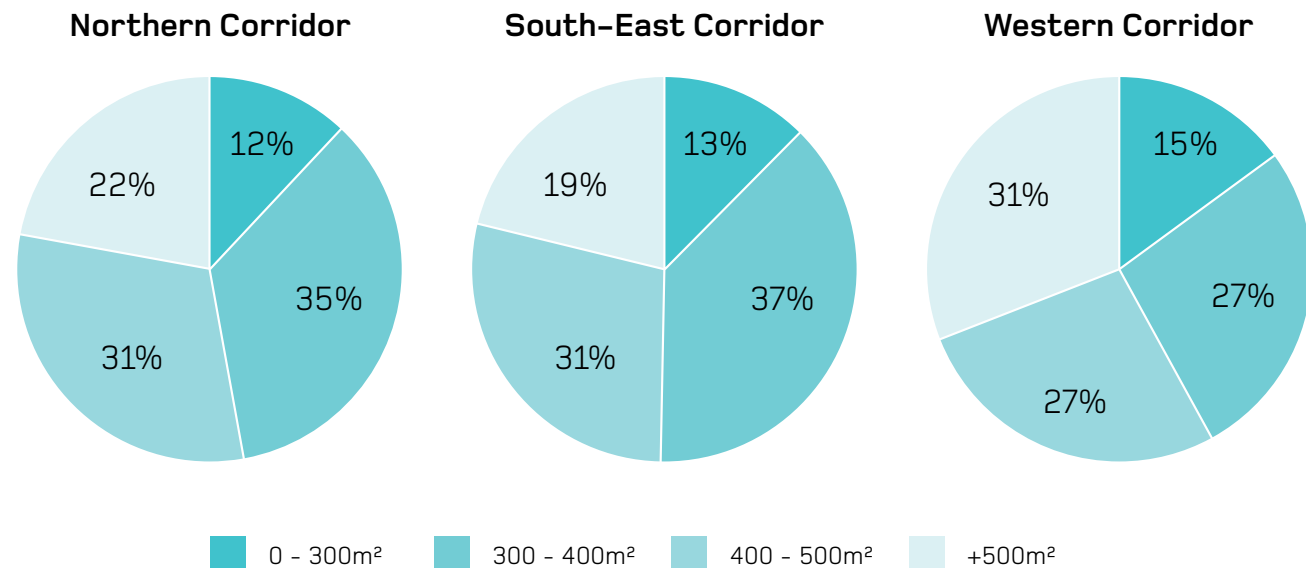


Source: Oliver Hume Research

LOT SIZES

> LOT SIZES

The Melbourne greenfield market offers a range of lots suitable for a diverse group of buyer types. In the September quarter, 15% of all lots sold in the western corridor were 300m² or less while nearly a third (31%) were greater than 500m².



Source: Oliver Hume Research

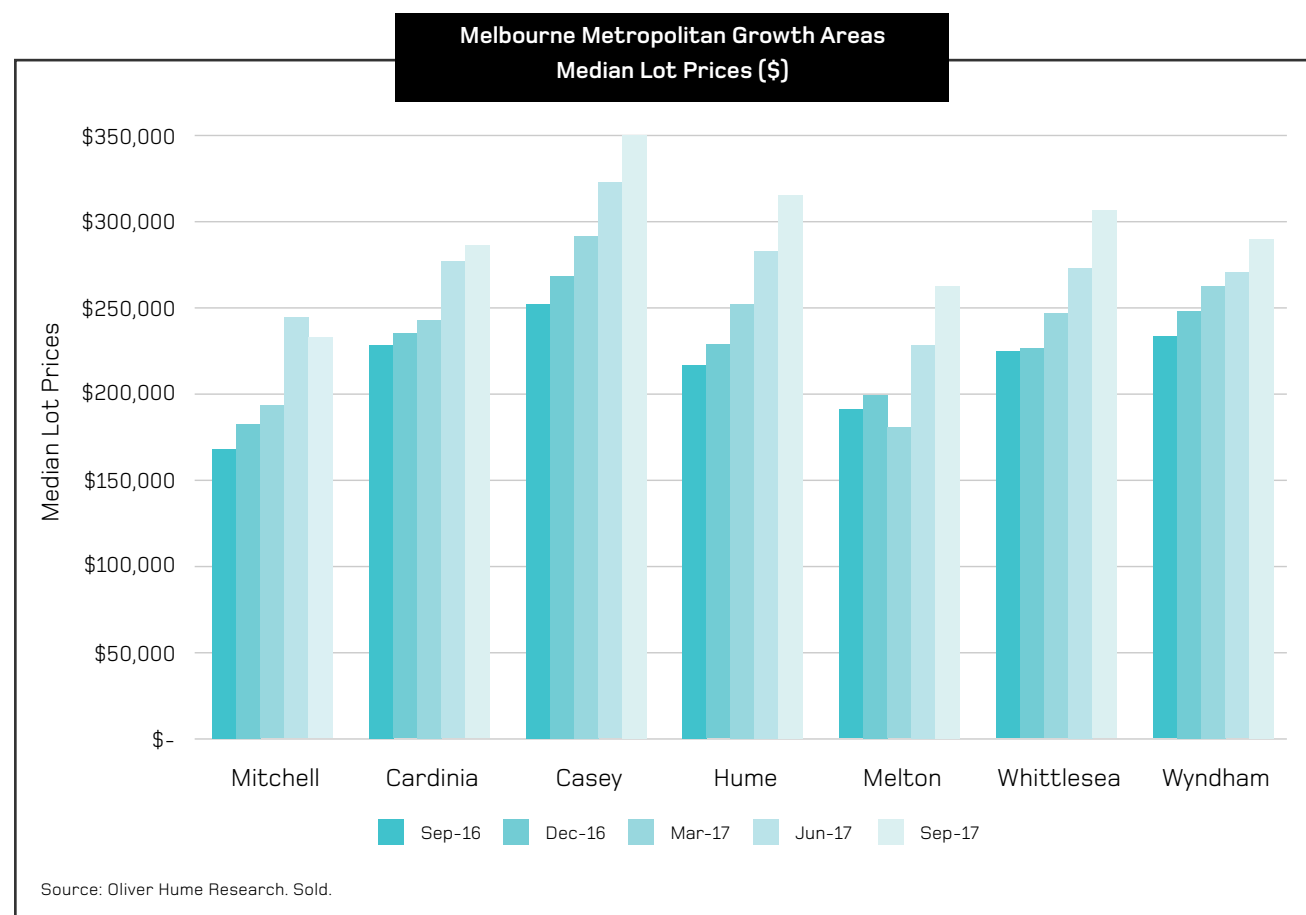
“The Melbourne greenfield market offers a range of lots suitable for a diverse group of buyer types”

LAND PRICES

> LAND PRICE GROWTH

Median lot prices continue to increase across Metropolitan Melbourne.

Lot prices
experienced
significant growth
in the September
quarter 2017



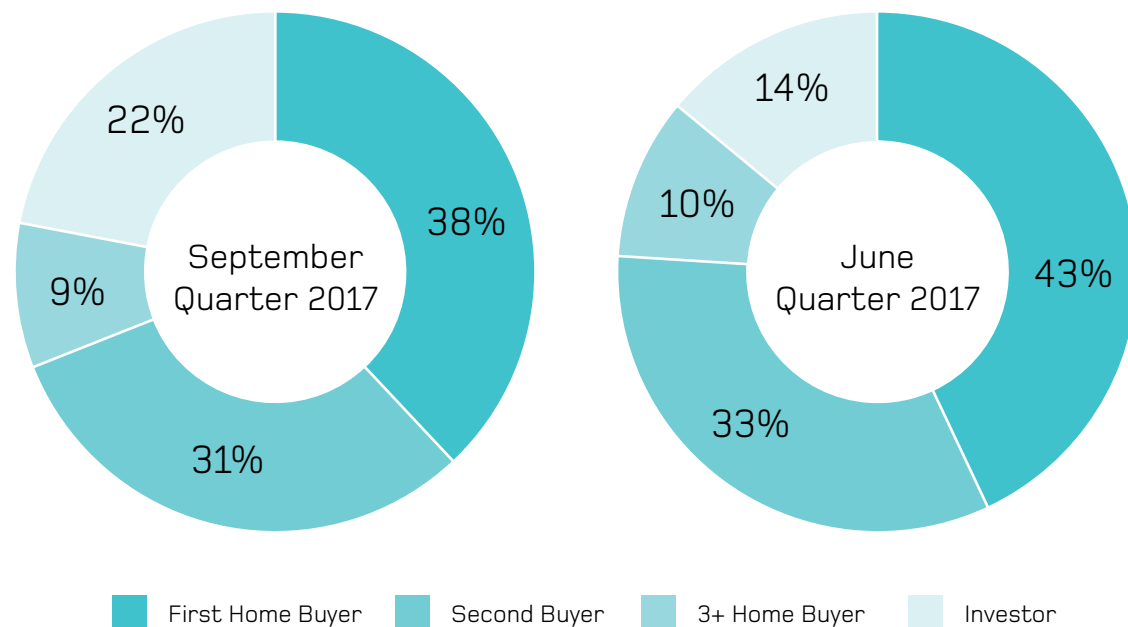
PURCHASER PROFILES

> LAND PURCHASER PROFILE

In the September quarter 2017, first home buyers accounted for 38% of all sales, down from 43% in the June quarter 2017.

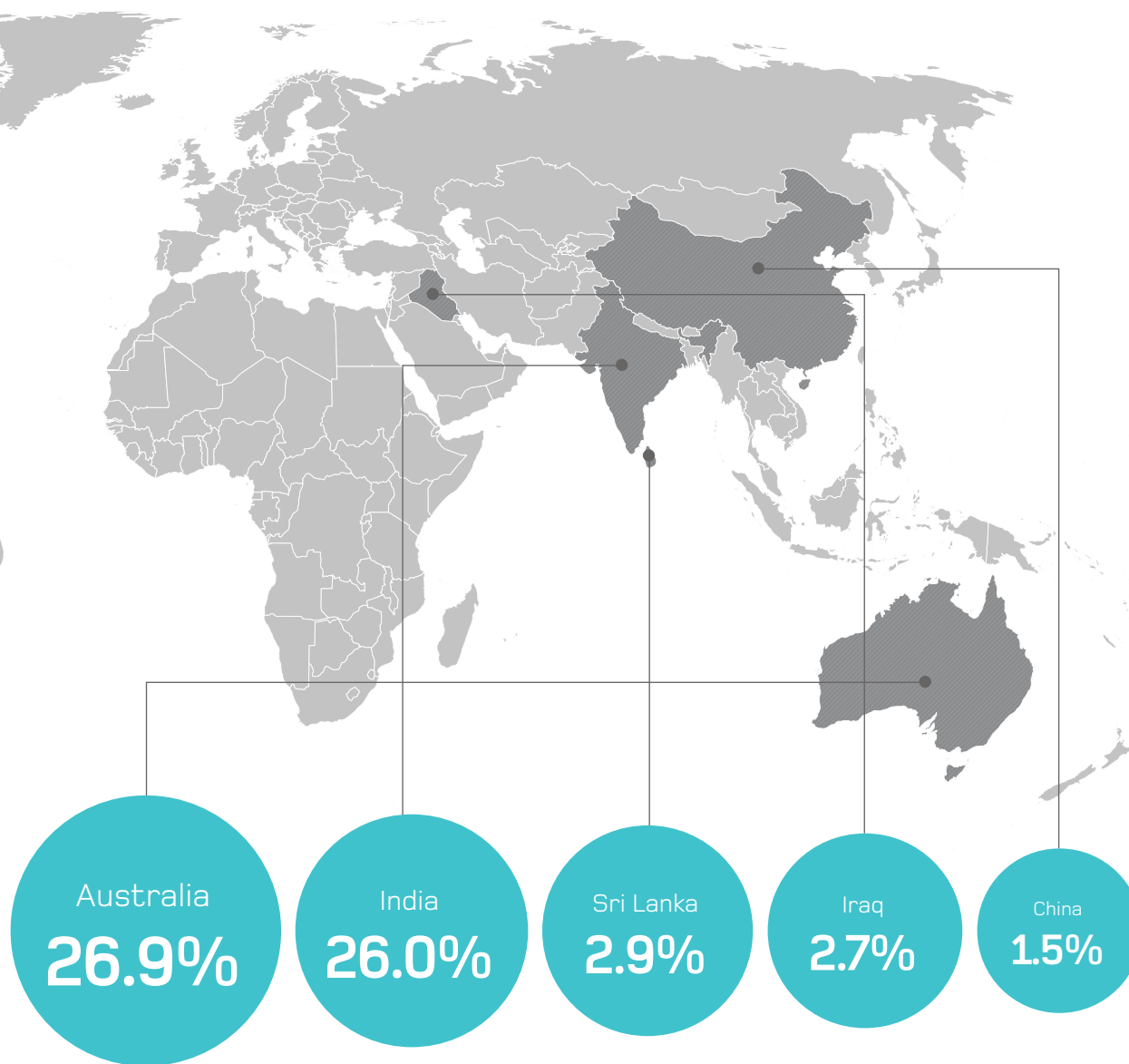
Indian-born buyers represent an increasingly important market segment accounting for over a quarter of all sales in the September quarter 2017.

**“First home buyers
accounted for
38% of all sales”**



Source: Oliver Hume Research – Customer Survey Purchaser Profile Data

“Indian-born buyers represent an increasingly important market segment accounting for over a quarter of all sales in the September quarter 2017”



Sales Volume by Country of Birth [%] – Top 5, September Quarter 2017

Source: Oliver Hume Research – Customer Survey Purchaser Profile Data



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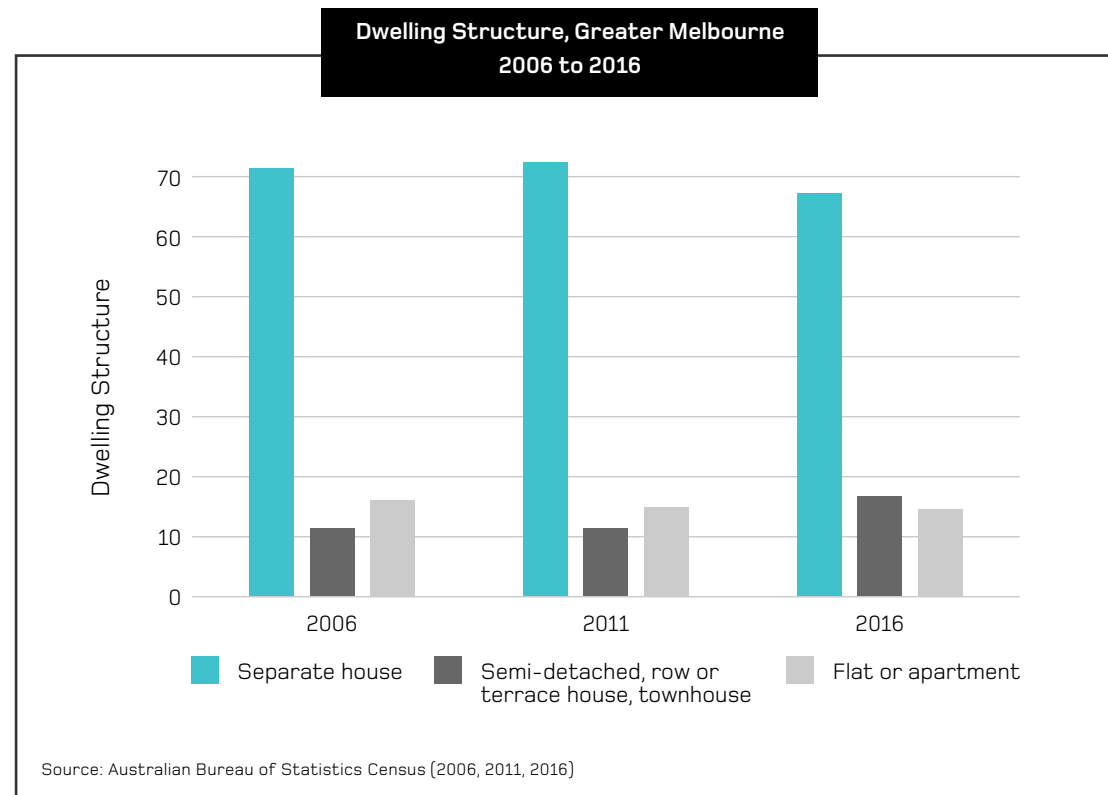
MARKET OVERVIEW

> CURRENT SUPPLY

At the time of the 2016 Census, of occupied private dwellings in Greater Melbourne over 67% were separate houses, while nearly 17% were medium density dwellings (including semi-detached, row or terrace houses and townhouses) and nearly 15% were flats or apartments.

Melbourne's medium and high-density markets are changing rapidly with the city's share of housing in these categories increasing significantly in recent years.

Continued population growth, demographic change and affordability pressures will see continued growth in the number and share of Melbourne's medium and high-density dwellings including apartments and townhouses.



➤ FUTURE SUPPLY

Forward construction indicators of future medium and higher density supply suggest that the peak of the supply cycle is behind us. In particular, building approvals continue to decline due to a range of factors including tighter finance conditions and changes in Government policy.

Victoria – Other dwellings approved*



* Private sector dwellings excluding houses. Buildings other than houses which are primarily used for long-term residential purposes. Other residential buildings includes: semidetached, row or terrace houses or townhouses; and flats, units or apartments.

Source: Australian Bureau of Statistics (ABS)

“The peak of the supply cycle is behind us.”

KEY MARKET INDICATORS

> MEDIAN PRICES AND RENTS

Although median prices were lower in the September quarter 2017 from the previous quarter, they were higher over the year.

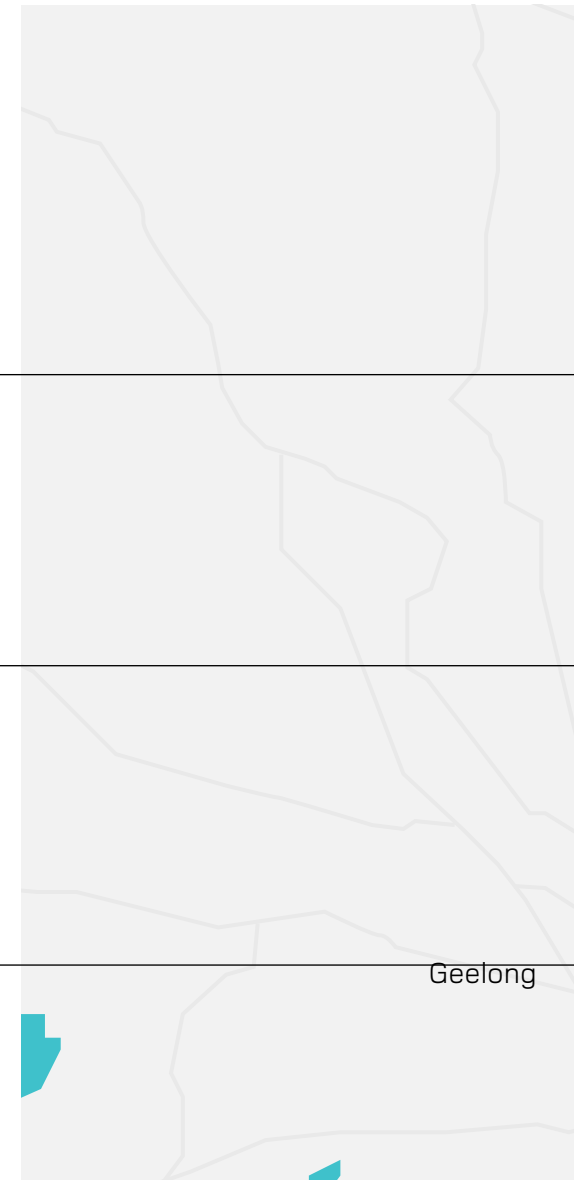
“Median unit and apartment prices were higher over the year”

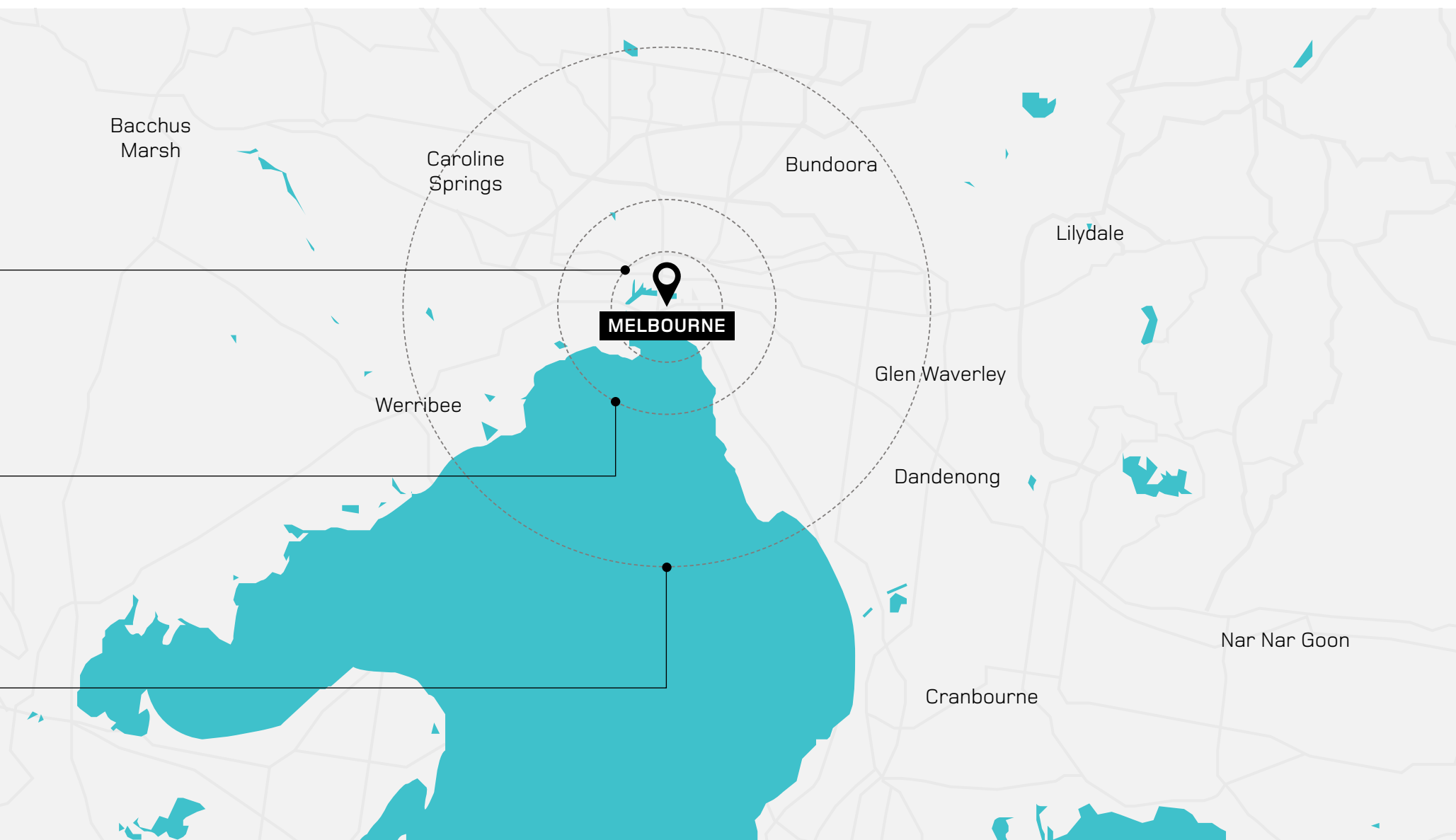
Inner Melbourne (<10kms)	
Unit/Apartment Price	\$595,000
Quarterly Change	↓ 5.3%
Annual Change	↑ 7.1%
Rent	\$430 pw

Middle Melbourne (10-20kms)	
Unit/Apartment Price	\$638,000
Quarterly Change	↓ 5.6%
Annual Change	↑ 10.3%
Rent	\$413 pw

Outer Melbourne (>20kms)	
Unit/Apartment Price	\$482,500
Quarterly Change	↓ 0.9%
Annual Change	↑ 10.7%
Rent	\$350 pw

Source: Real Estate Institute of Victoria (REIV).
'Units & apartments' classification includes flats, units, apartments, townhouses, villas and bed-sitters.
Rents are for units for the month of September 2017.







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DEVELOPMENT SITE CASE STUDY

➤ HOW AN EXCEPTIONAL RESULT WAS OBTAINED BY OLIVER HUME DEVELOPMENT SITES

By understanding the intricacies of Local and State Government policies, Oliver Hume determined that the land was not subject to GST and benefited from a generous Development Contributions Plan credit. This added significant value to the land, the sale of which broke the price record for developable residential land in Kurunjang.



413 MINNS ROAD
439 MELTON

Project

413 Minns Road

Location

Kurunjang, VIC

Yield

120 lots

Development Site Sales

Development Site	Suburb	Size	Yield
132 Geelong Road	Werribee	9 HA	171 lots
1313 Leakes Road	Rockbank	12.14 HA	174 lots
Eynesbury Township	Eynesbury	1,200 HA	4500 lots
413-439 Minns Road	Kurunjang	12 HA	120 lots
38 Saric Court	Plumpton	20.18 HA	250 lots
235 Beattys Road	Plumpton	62.7 HA	880 lots
Lots 1, 2 & 5 Alfred Road	Werribee	36.71 HA	500 lots

Source: Oliver Hume Research

A NEW CATEGORY OF PURCHASER

> STRENGTH OF FOREIGN INVESTMENT

Foreign investment levels into Australia's real estate market remain high, led by a strong flow of capital from China. In 2015-16 China was the largest source of real estate foreign investment approvals (by the Foreign Investment Review Board) by both value and number.

A wave of Chinese money has shifted from the slowing Melbourne apartment market and into key new growth corridor markets, where lot sales totalled well over 18,000 in the 12 months to September 2017.

Oliver Hume Research estimates that Melbourne lot prices rose 33% over the year to a median price of \$299,000 in September 2017, while median lot sizes declined and now average just 414m².

Many of the buyers are Chinese developers who have until recently been only operating in the eastern seaboard apartment market, but have now redeployed their capital into the Melbourne land market.

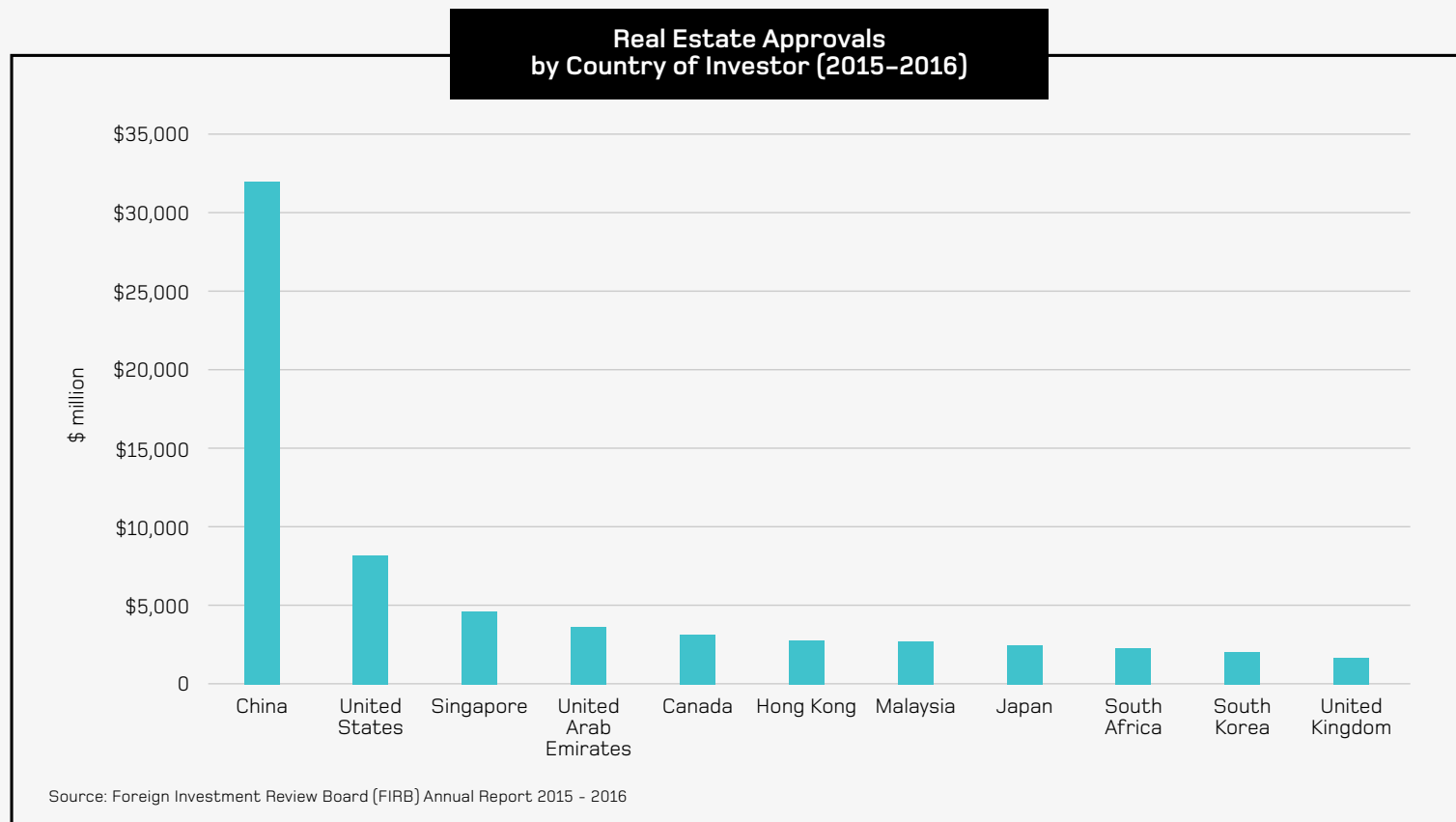
Recently, Chinese developer Country Garden spent \$400 million on a PSP approved 336 hectare development site in Black Forest Road, Wyndham Vale from ASX listed developer Phileo Australia.

Over the past 12 months Chinese developers including Dahua, Fucheng Group and Country Garden have spent over \$1 billion acquiring hundreds of hectares of residential land in a major land-banking push.

In addition, broadhectare land prices in parts of Melbourne's growth areas have surged in the last 12 months to above \$1 million per net developable hectare.

This push by Chinese developers into Melbourne's growth areas shows no signs of diminishing.

"Chinese developer Country Garden spent \$400 million on a PSP approved 336 hectare development site..."



“Broadhectare land prices in parts of Melbourne’s growth areas have surged in the last 12 months to above \$1 million per net developable hectare.”



SEPTEMBER
QUARTER 2017

QUEENSLAND



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QUEENSLAND'S PROPERTY MARKET

➤ NEW COMMUNITIES GREENFIELD MARKET

The South-East Queensland (SEQ) land market continues to display strong demand, supported by an improving economy and sound underlying fundamentals. Affordability underpins the majority of the growth in the area, with interstate buyers and investors taking advantage of entry level prices that sit well below that of many other major Australian states. Local buyers are also drawn by the affordability of the market, with many buyers being priced out of the inner Brisbane market, causing them to seek more affordable options in SEQ growth areas.

Due to a lack of stock available within the Moreton Bay and Gold Coast regions, purchasers are moving towards the Ipswich and Logan corridors. Consistent with the trend shown in the greenfields market within Victoria, smaller lot sizes and rising lot prices now characterise the SEQ land market.

➤ APARTMENTS AND TOWNHOUSE MARKETS

The SEQ apartment market is underpinned by a diverse range of submarkets, specifically the Gold Coast and Brisbane markets, with each currently at different stages of the cycle.

Following a period of high supply and weaker demand fundamentals, oversupply issues continue to present risks to the Brisbane apartment market and will continue to limit price growth and development activity in the short to medium term. Forecast completions are expected to remain relatively subdued with several projects having been deferred. One estimate is that over 30% of future Brisbane apartment projects are on hold or unlikely to go ahead, with more restrictive bank lending and weaker sales key reasons for deferrals. As a result, some sites will be land banked or sold to release cash.

Around 12,200 apartments are currently under construction within inner Brisbane and are expected to be completed over the period 2017 to 2019. Furthermore, an additional

6,300 apartments are being actively marketed (although it is unlikely all projects will carry through to construction). Finally, inner city apartment building approvals are down by around a quarter, compared to the same time last year.

Compared to the broader SEQ market, fundamentals are stronger in the Gold Coast market which continues to remain popular with both renters (supporting investor activity) and buyers. The upcoming Commonwealth Games should provide future opportunities that continue to support demand.

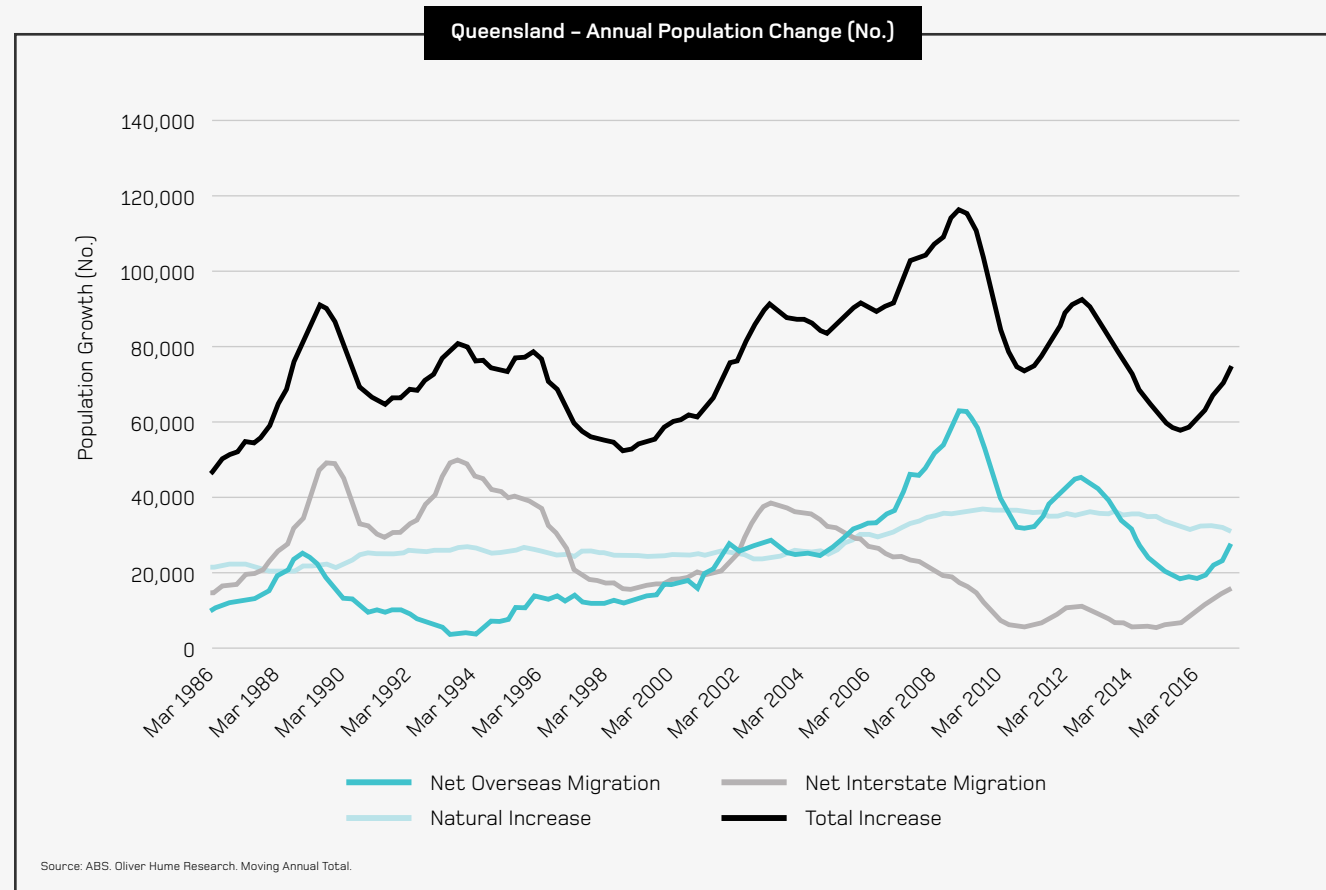
Although the respective sub-markets continue to be characterised by different conditions, the overall market remains relatively affordable and yields are also more attractive (especially when compared to the larger capital cities).

➤ OUTLOOK

The SEQ market is strengthening with population and economic growth rebounding.

We see the Gold Coast as the strongest property market in Queensland with population growth remaining robust and supported by several initiatives and infrastructure projects including the Gold Coast 2018 Commonwealth Games.

The Gold Coast residential vacancy rates remain below 3%, suggesting good underlying fundamentals, especially when compared to the Inner Brisbane market.



“We see the Gold Coast as the strongest property market”



Brinton Keath

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PROJECT AND CORRIDOR DATA

> ACTIVE PROJECTS

There were 125 active land projects across all South-East Queensland municipalities in the September Quarter 2017 showing an increase from the previous quarter.



Source: Oliver Hume Research

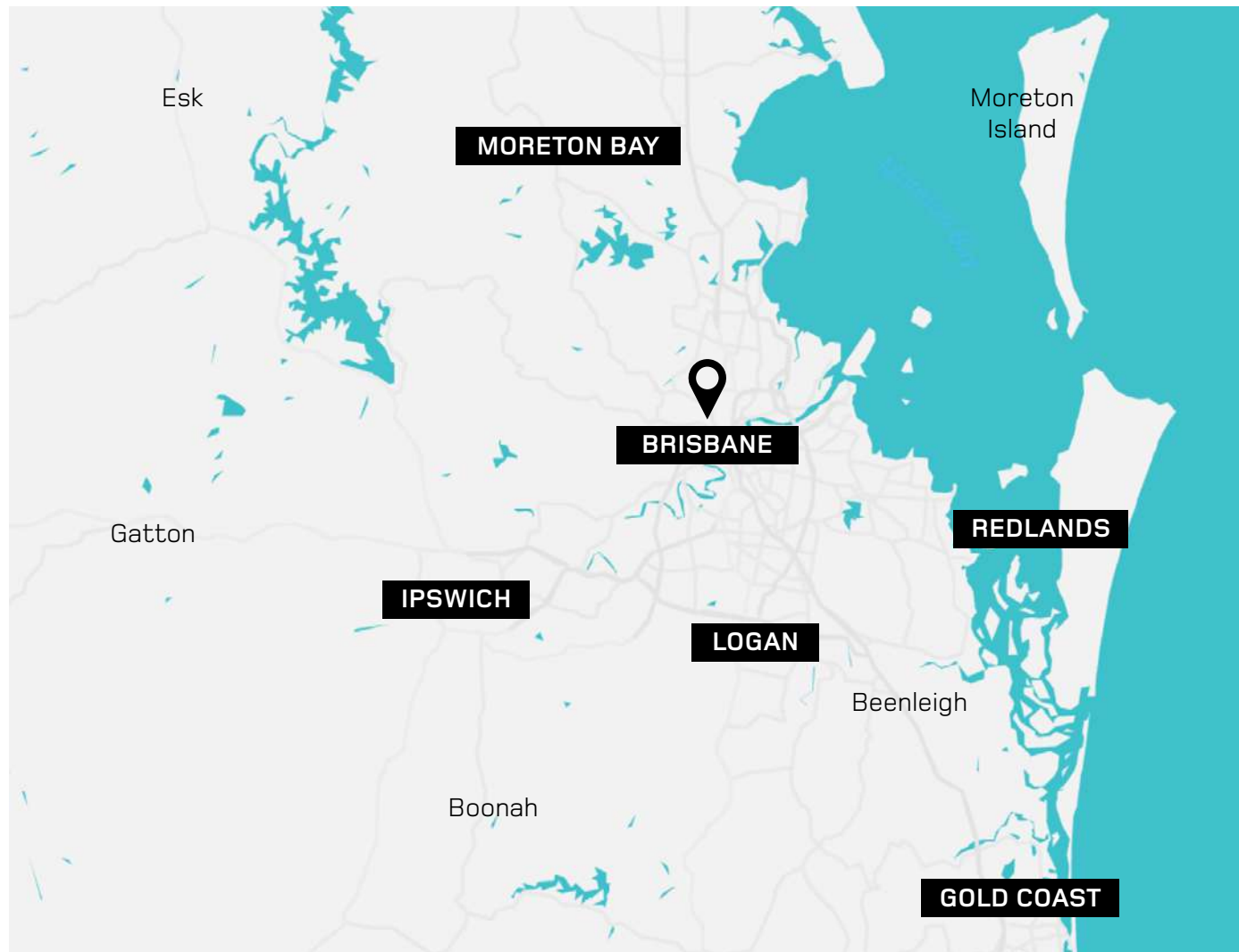
> TOTAL SALES

The September quarter 2017 saw a strong sales result with over 2,060 lots sold in the quarter. This represented a 0.34% increase from the previous quarter.



Source: Oliver Hume Research

> KEY CORRIDORS – NUMBER OF PROJECTS (September quarter 2017)



MORETON BAY

30 ↑ 11.0%*

BRISBANE

16 0%*

REDLAND BAY

07 ↑ 75.0%*

IPSWICH

27 ↓ 3.6%*

LOGAN

22 ↑ 15.8%*

GOLD COAST

23 ↑ 9.5%*

*From previous quarter

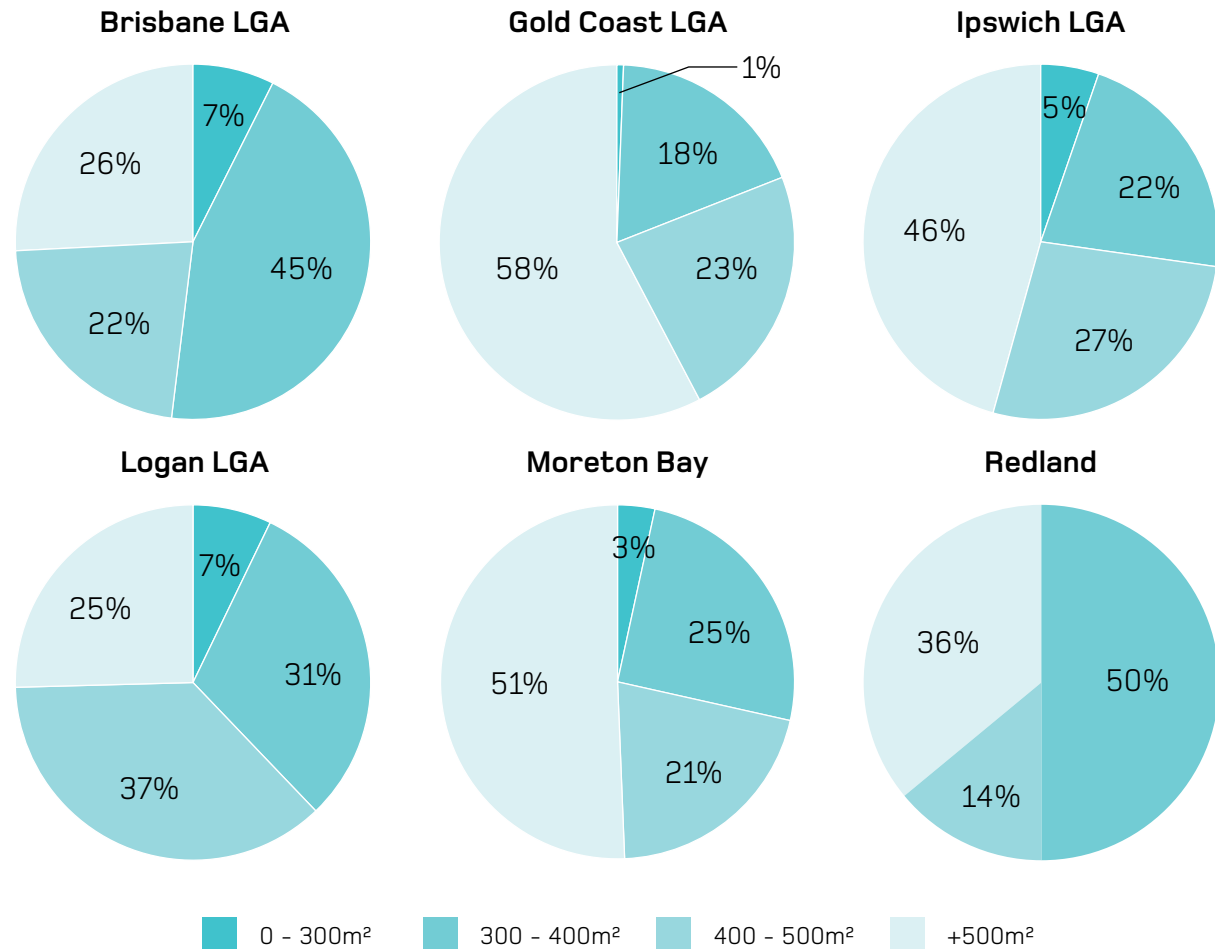
Source: Oliver Hume Research

LOT SIZES

> LOT SIZES

The SEQ market offers a diverse range of lot sizes suiting a range of market segments. A significant share of recent sales in the Gold Coast Ipswich & Moreton Bay markets have been of larger lots (500m²) while the Brisbane market has seen a large share of lots sized 301m² to 400m².

“The SEQ market offers a diverse range of lot sizes suiting a range of market segments”



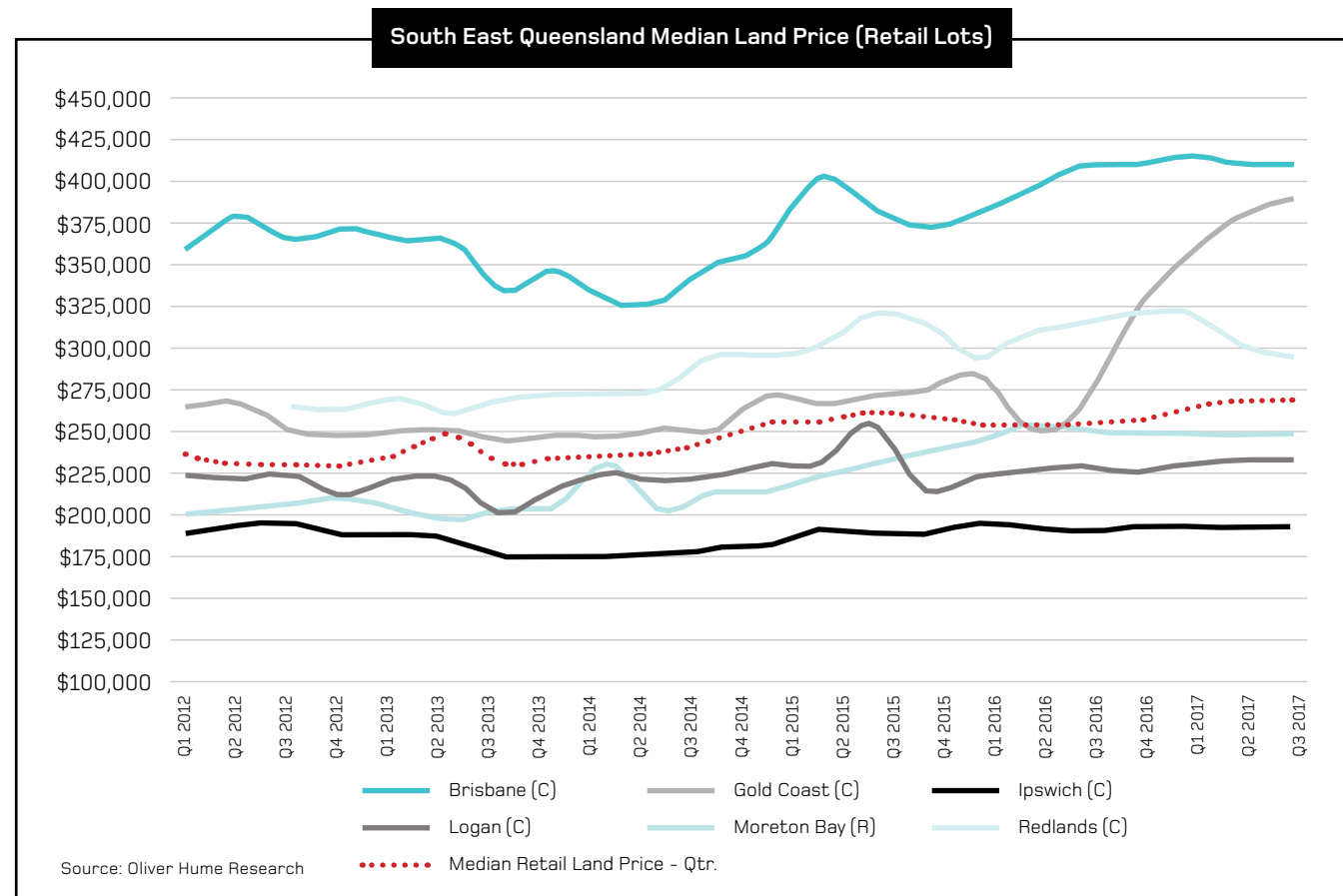
Source: Oliver Hume Research

LAND PRICES

> LAND PRICE GROWTH

The SEQ land market continues to display signs of strong demand. With increased demand and low retail supply, land prices have been on the rise. Overall, the median retail land price currently sits at \$270,000.

“The SEQ land market continues to display signs of strong demand”

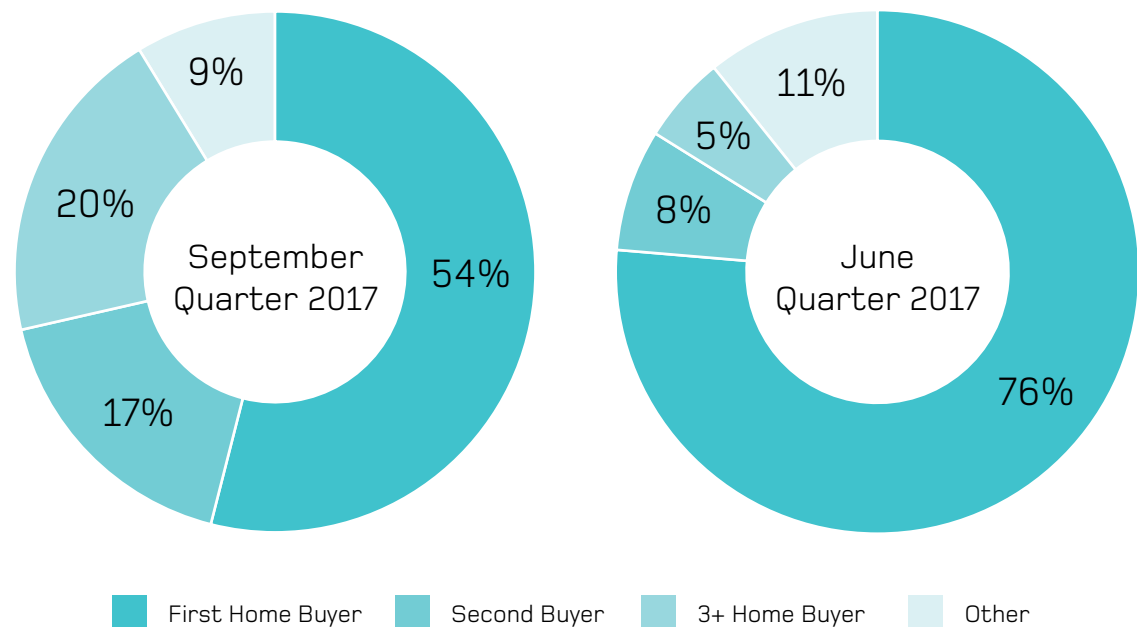


PURCHASER PROFILES

> LAND PURCHASER PROFILE

First home buyers continued to account for most purchases in Queensland, though the share of these buyers decreased from 76% to 54% from the June and September quarters respectively.

“First home buyers continued to account for most purchasers in Queensland”



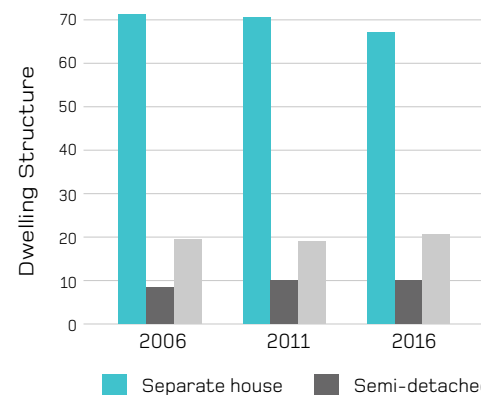
Source: Oliver Hume Research-Customer Survey Purchaser Profile Data

MARKET OVERVIEW

> CURRENT SUPPLY

At the time of the 2016 Census, of occupied private dwellings in Brisbane LGA, over 67% were separate houses, while 10% were medium density dwellings (including semi-detached, row or terrace houses and townhouses) and 21% were flat or apartments. Conversely in the Gold Coast LGA over 58% were separate houses, over 20% were medium density and remaining flats or apartments taking over 19%.

**Dwelling Structure, Brisbane LGA
2006 to 2016**



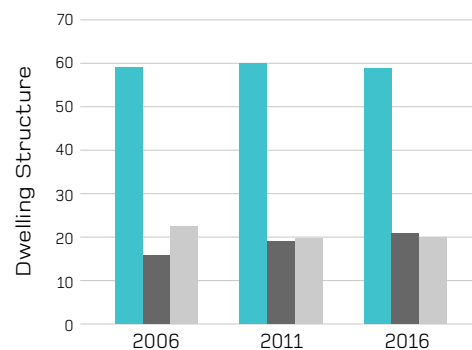
Source: Australian Bureau of Statistics (ABS), Oliver Hume Research.

> FUTURE SUPPLY

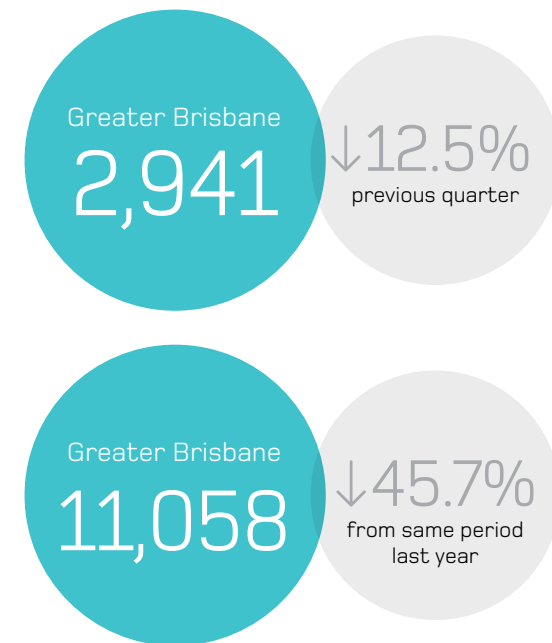
Brisbane's building approvals are declining suggesting the peak of the supply cycle is behind us.

Gold Coast LGA has reported a contrasting trend as residential construction has increased due to the upcoming Commonwealth Games – the increase in construction is expected to continue beyond the event in 2018.

**Dwelling Structure, Gold Coast LGA
2006 to 2016**



Dwellings Approved
(3 Months to August 2017)



Source: Australian Bureau of Statistics (ABS)

KEY MARKET INDICATORS

> MEDIAN PRICES AND RENTS

Price and rental growth have varied across SEQ locations reflecting a range of factors including differences in new supply levels, population growth and rental demand.*

“Price and rental growth have varied”

4 Inner South Unit Price \$488,750 Quarterly Change ↑ 6.0% Annual Change ↑ 2.0% Rent \$350 pw	Brisbane CBD Unit Price \$568,250 Quarterly Change ↑ 17.0% Annual Change ↑ 14.0% Rent \$400 pw	2 Inner East Unit Price \$505,000 Quarterly Change ↑ 2.0% Annual Change ↓ 3.0% Rent \$370 pw	3 Inner West Unit Price \$416,000 Quarterly Change ↓ 12.0% Annual Change ↓ 15.0% Rent \$430 pw
5 Inner North Unit Price \$492,000 Quarterly Change ↓ 2.0% Annual Change ↓ 4.0% Rent \$380 pw	6 North Shore Unit Price \$490,000 Quarterly Change ↓ 3.0% Annual Change ↓ 1.0% Rent \$415 pw	Gold Coast LGA Unit Price \$410,000 Quarterly Change ↓ 2.0% Annual Change ↑ 3.0% Rent \$420 pw	

Source: Pricefinder. *As at June 2017

