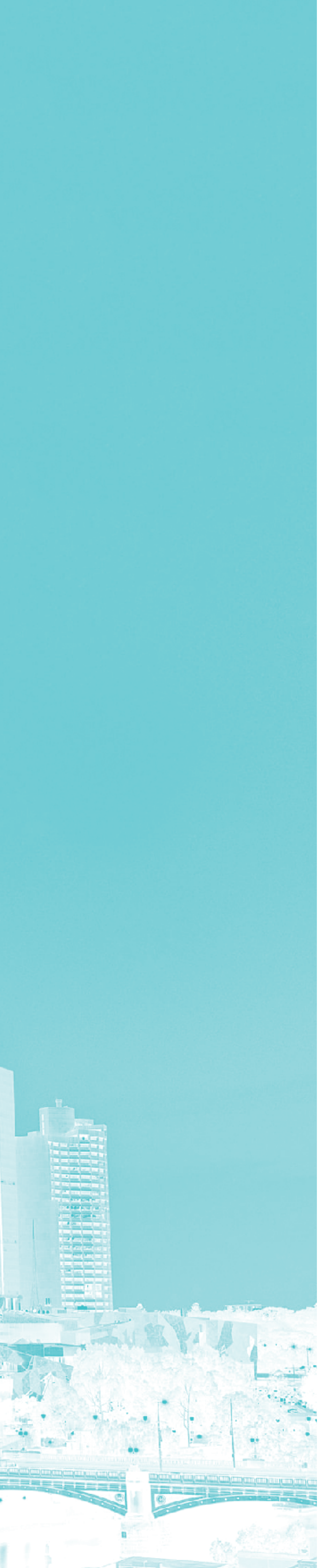
Quarterly Market Insights

December Quarter 2018

OLIVER HUME



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Julian Coppini

Chief Operating Officer
j.coppini@oliverhume.com.au

FOREWORD

Property markets in Victoria continue to moderate retreating from recent peaks.

In addition to tighter lending conditions, uncertainty regarding future finance availability and the forthcoming Federal election remain key drivers of the market.

As we have noted in previous reports, the current moderation in the Victorian property market was to be expected, not least because booming markets inevitably run their course.

However, the scene is being set for the next cycle which may commence sooner than is commonly expected.

Population growth remains at near record highs. Employment growth remain robust driven, in part, by infrastructure spending, renewed confidence and a diverse range of industries.

In Queensland the land market remains stable. While sales volumes have been relatively resilient, prices continue to edge higher.

We believe that the best days of the Queensland land market are to come.

An increasing number of people, many of them interstate migrants, are discovering the affordability, employment and lifestyle advantages of Queensland.

While also buffeted by the headwinds of tighter lending conditions, medium and high density markets also face their own unique dynamics. In particular, the moderation in the apartment supply pipeline is now well underway with approvals continuing to slide. The structural shift to medium density is also now confirmed - a necessary transformation if Australia is to manage the rapid change and population growth underway in our cities and urban centres.

In a rapidly evolving and dynamic market, Oliver Hume, led by our research team, remains committed to providing our clients and partners with the latest data, property intelligence and insights to make the right decisions.

This latest quarterly market report is an invaluable tool for strategic decision making and draws upon a range of data sets including our own proprietary intelligence.


Nanjing
CHINA
Shanghai
Fu


Darwin
NORTHERN TERRITORY
QUEENSLAND
WESTERN AUSTRALIA
Brisbane
Gold Coast
SOUTH AUSTRALIA
NEW SOUTH WALES
Sydney
Adelaide
Canberra
VICTORIA
Melbourne
TASMANIA
Hobart

VICTORIA

MARKET DRIVERS

George Bougias

Head of Research
g.bougias@oliverhume.com.au

Victoria's economy continues to grow...

Victoria's economy continues to grow supported by robust population growth.

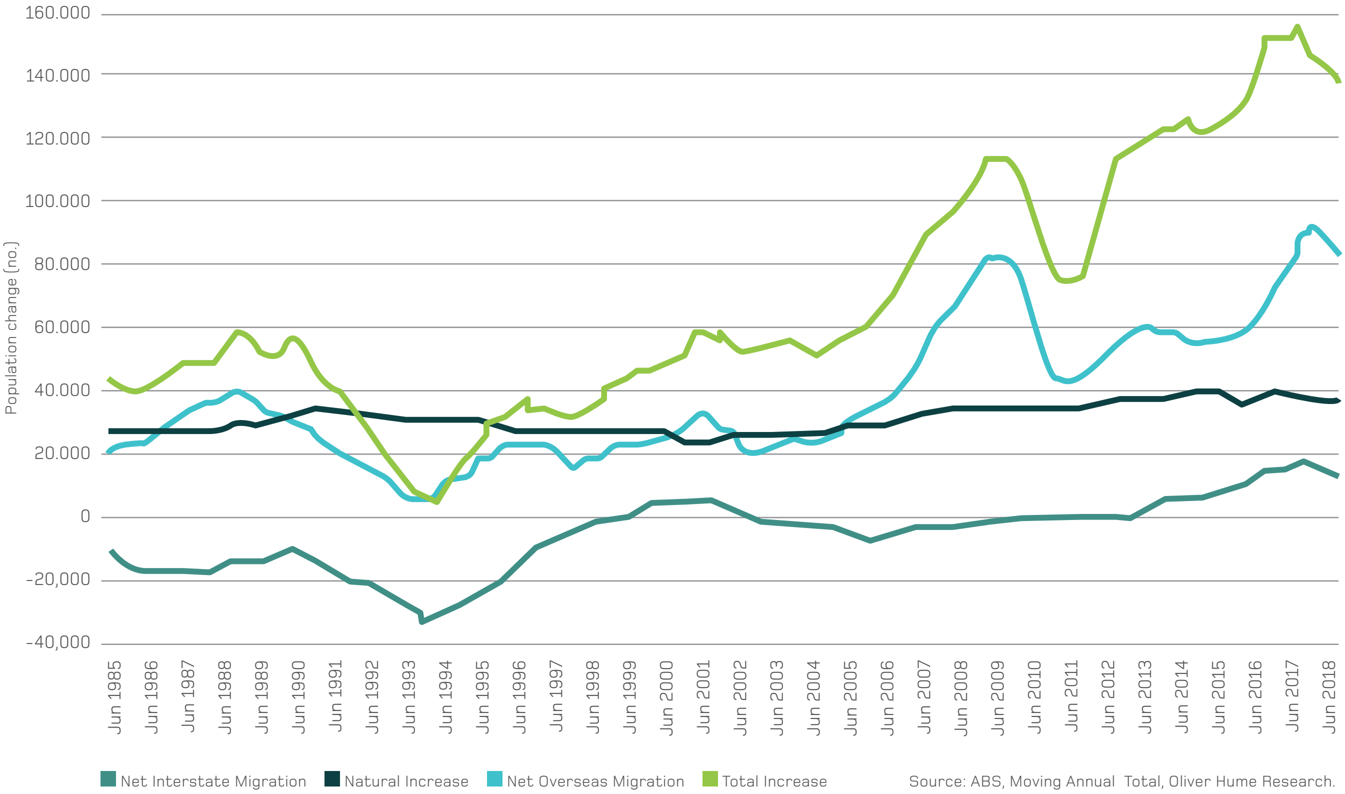
Population growth remains at near record highs.

In the 12 months to 30 June 2018 Victoria recorded the highest population growth rate of all states (2.2%).

Over the same period Victoria added over 138,000 people, the largest population increase of any state.

Strong population grow is supported by near record levels of overseas and interstate migration.

Victoria – annual population change (components)



Source: ABS, Moving Annual Total, Oliver Hume Research.

...driving jobs growth

Robust economic growth is driving jobs growth and reducing unemployment.

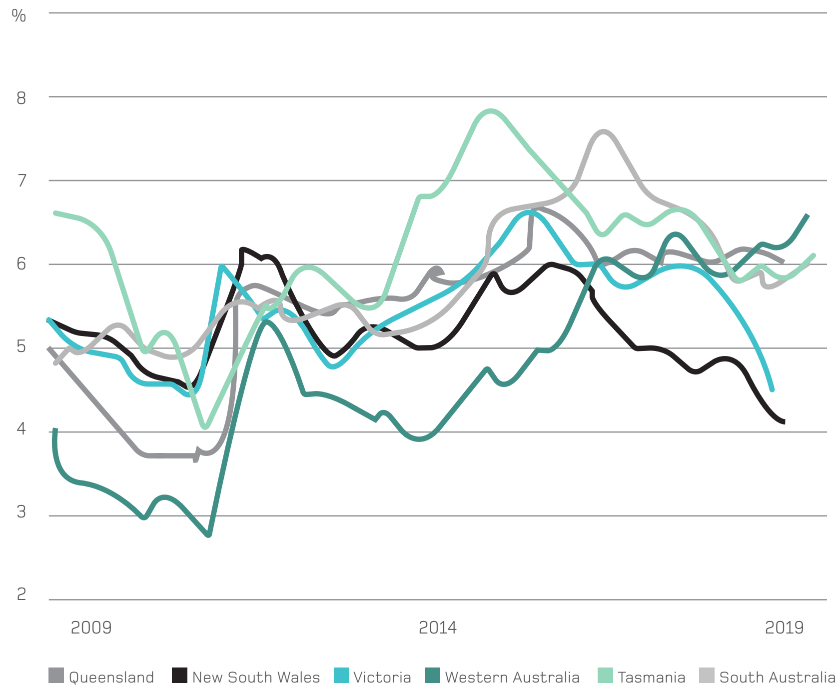
Victoria's strong economic performance reflects a broader process of structural change underway—a process which can be traced at least back to the end of the mining boom and the global financial crisis. This process has seen Australia's two largest and diversified states, Victoria and New South Wales, increase their share of national output and population, driven by growth in various industries including services and construction.

On average, Victoria's unemployment rate has been the lowest nationally over the decade and is now the lowest in more than 10 years.

In 2018 over 120,000 jobs were created in Victoria including almost 90,000 full time jobs.

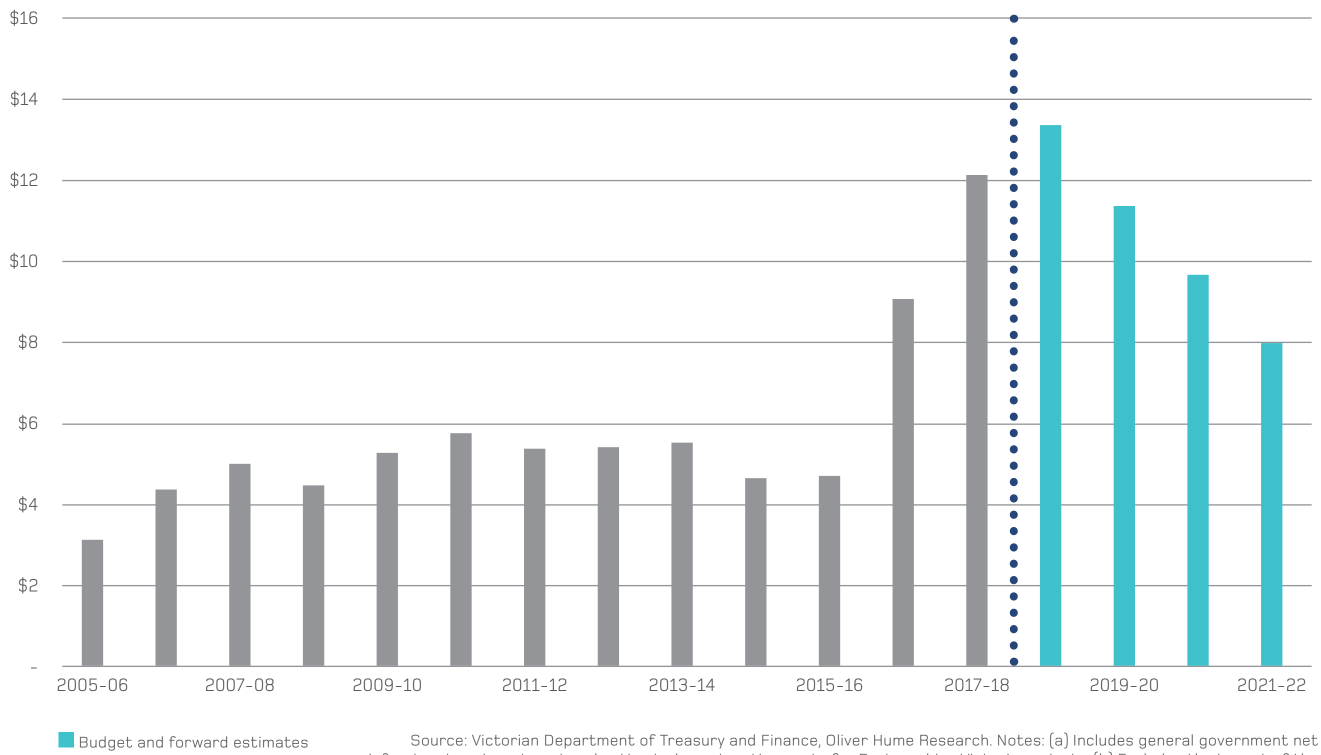
Infrastructure spending continues to support economic growth and is forecast to remain high.

State unemployment rate



Source: ABS

Victorian government infrastructure investment ($b)



Source: Victorian Department of Treasury and Finance, Oliver Hume Research. Notes: (a) Includes general government net infrastructure investment and estimated construction costs for Partnerships Victoria projects. (b) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

LAND MARKET

Land market is moderating

The land market is moderating with sales volumes declining and prices softening in some locations. Nevertheless, average value rates are still rising as lot sizes are reduced.

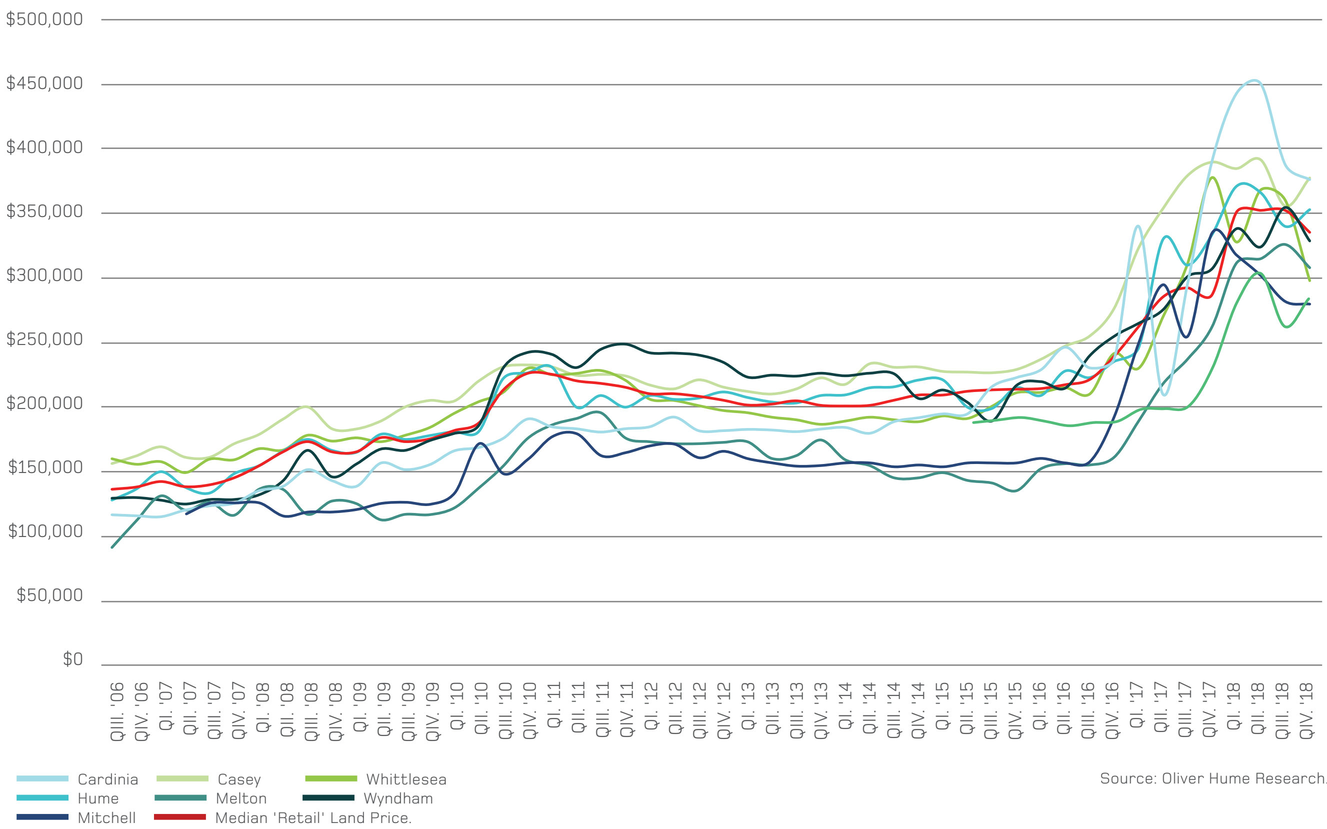
Uncertainty–especially around lending, the banking Royal Commission and, potentially, further declines in general property prices—is perhaps the major factor affecting sentiment.

The forthcoming Federal election and potential changes to negative gearing and capital gains taxation are also weighing on the market and impacting confidence.

Median lot prices – all lots

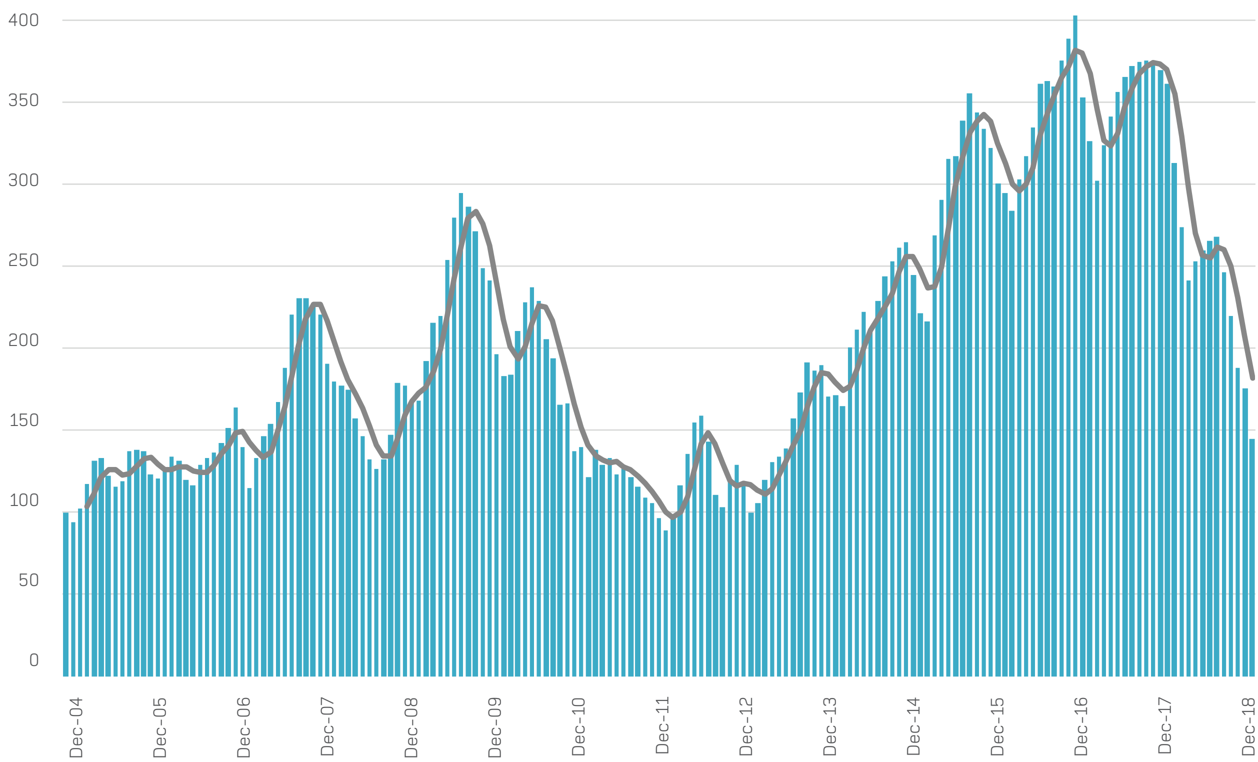
Heather = Region	17-Dec	18-Dec	Price Change ($)	Percentage Change (%)
Metro. Melbourne	$322,500	$333,950	$11,450	↑ 4%
Cardinia	$322,000	$357,000	$35,000	↑ 11%
Casey	$360,000	$337,700	($22,300)	↓ 6%
Hume	$348,000	$339,000	($9,000)	↓ 3%
Melton	$301,900	$300,000	($1,900)	↓ 1%
Mitchell	$277,000	$268,250	($8,750)	↓ 3%
Whittlesea	$322,500	$320,000	($2,500)	↓ 1%
Wyndham	$320,000	$330,500	$10,500	↑ 3%

Median lot prices (available)



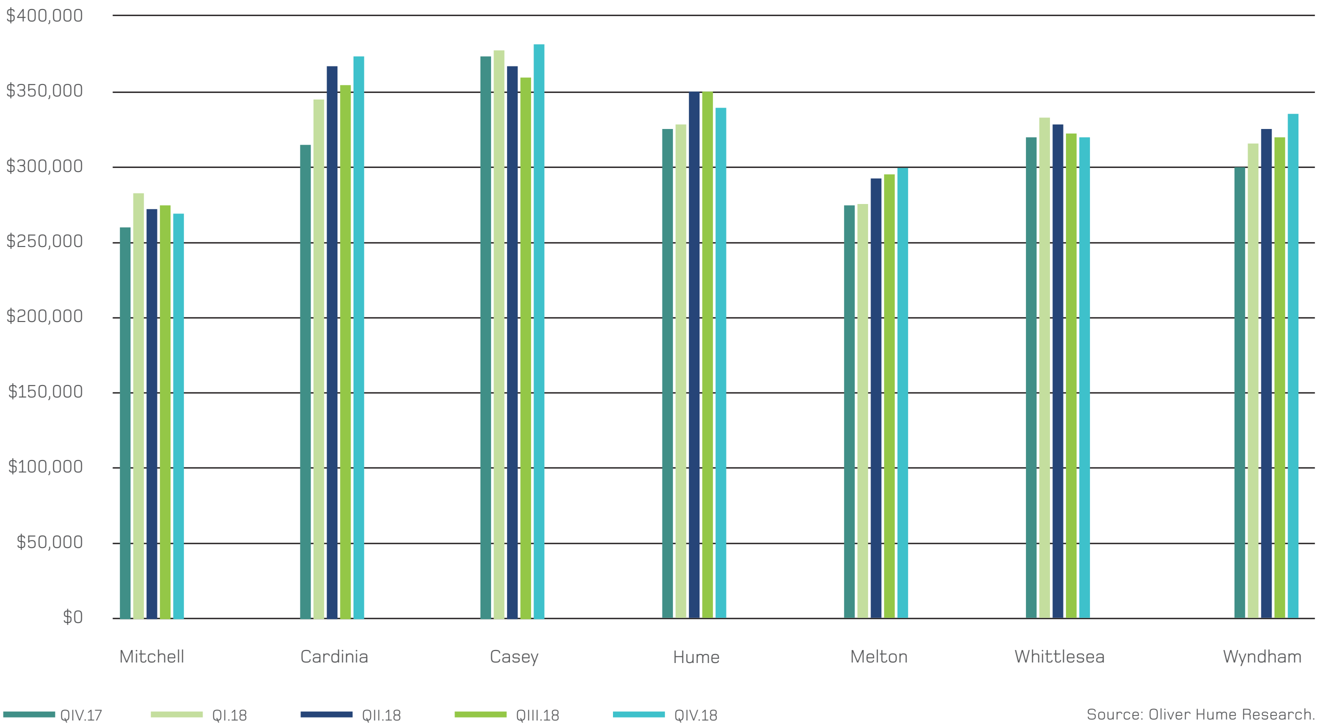
Source: Oliver Hume Research.

Metropolitan Melbourne growth area project land sales index*



*December 2004 equals 100

Metropolitan Melbourne median lot prices (sold)



Source: Oliver Hume Research.

LAND MARKET

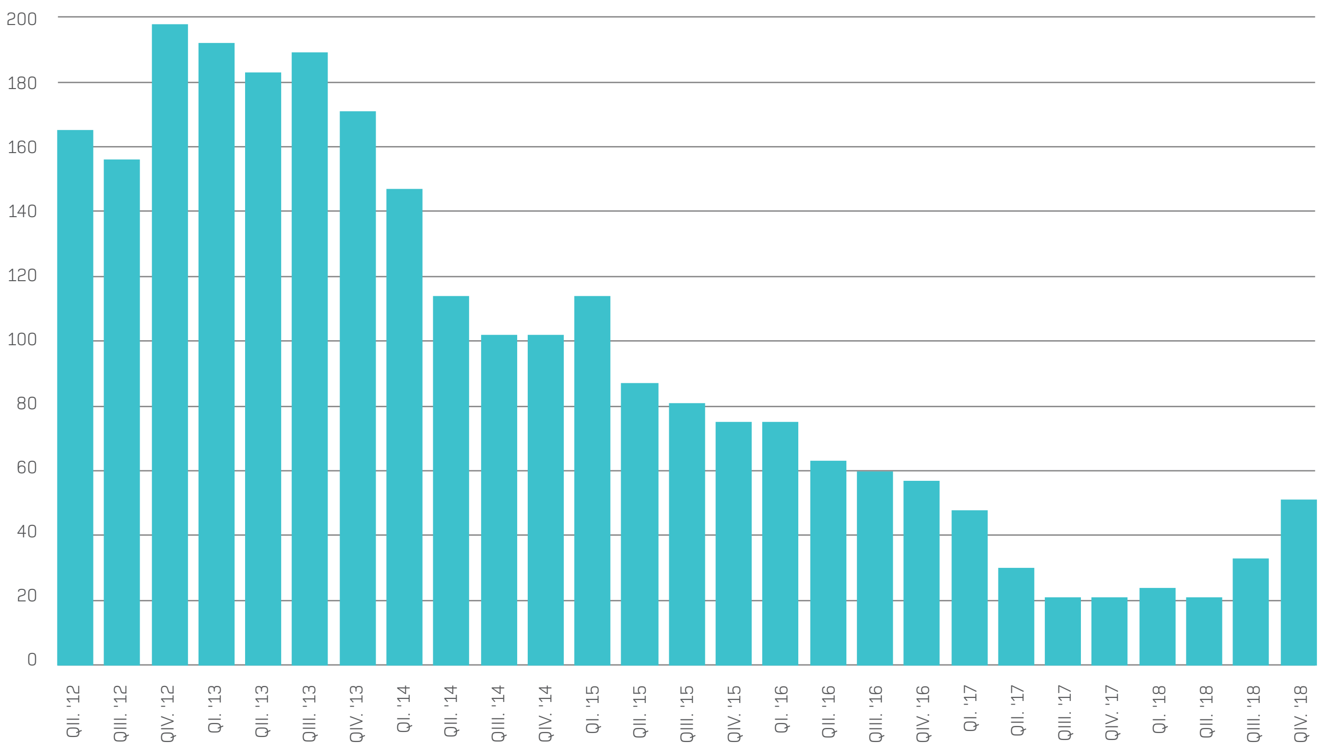
Conditions are expected to remains soft in the short to medium term

Key indicators, such as clearance rates and time on market suggest that conditions are unlikely to change in the short-term.

Clearance rates remain low with moderate sales levels being accompanied by a higher level of releases.

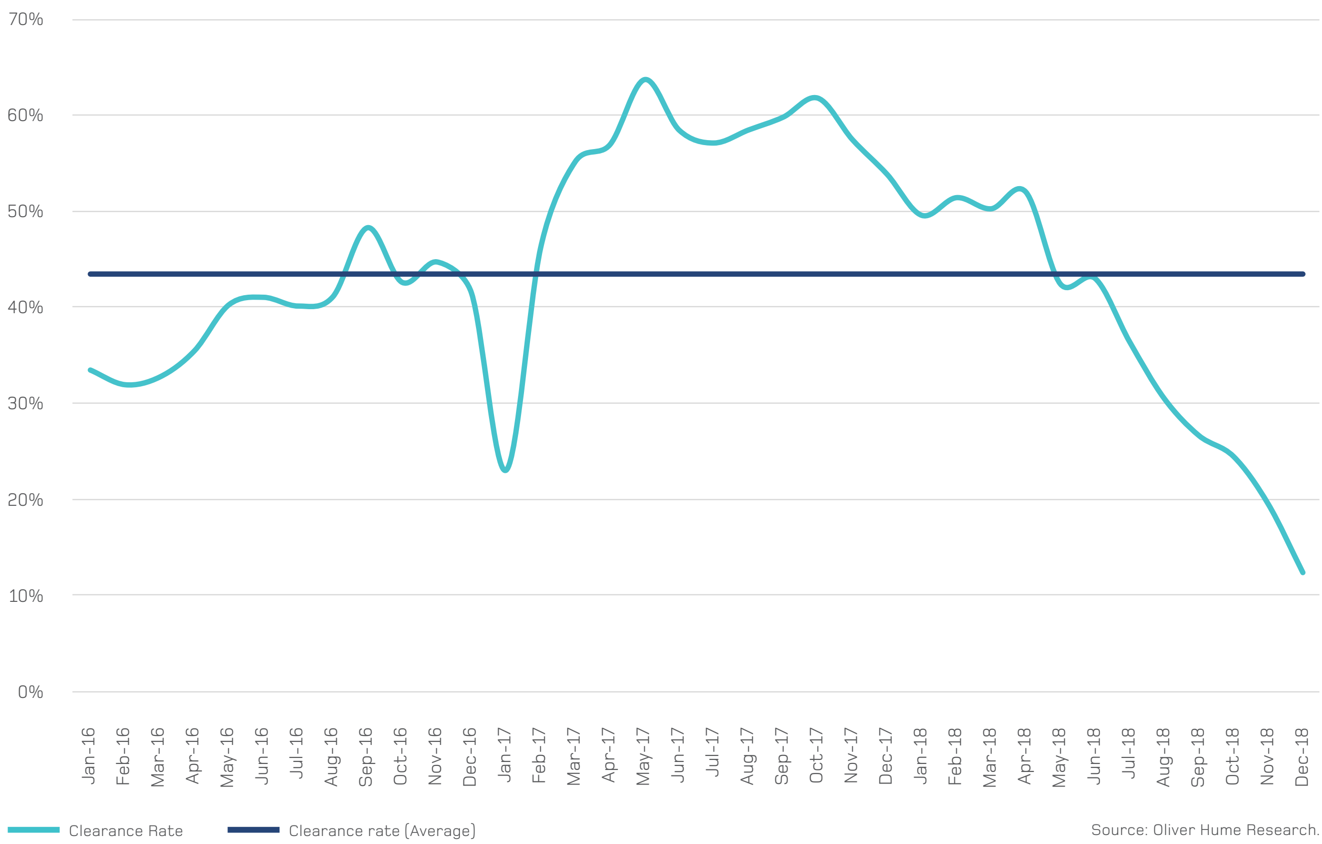
Time on market, the time taken to sell a lot from the date of release, also continues to increase and now exceeds 50 days—a recent high.

Metropolitan Melbourne, all growth area | average time on market (days)



Source: Oliver Hume Research.

Metropolitan Melbourne growth areas land clearance rate



Source: Oliver Hume Research.

APARTMENTS AND TOWNHOUSES

Townhouses are becoming a preferred option for many buyers across metropolitan Melbourne

Medium and high-density dwellings have become increasingly attractive to buyers over the last decade. The rising prices of houses has made apartments, townhouses and other products relatively affordable.

However, each markets faces its own unique opportunities and challenges.

As demand and supply fundamentals in the apartment market have softened in recent years, so too we expect an improvement over the medium term as fundamentals improve.

The improvement will be driven by the decline in the supply of new apartments, while underlying demand, as reflected in population growth, will continue to increase.

Hence, over the next few years apartment completions in Melbourne are expected to be around a third of the level observed during peak levels. This will coincide with population growth reminding at record highs.

Townhouses are becoming a preferred option for many buyers across metropolitan Melbourne.

In inner (0 to 10 km from the CBD) and middle Melbourne (10 to 20 km from the CBD), townhouses provide an affordable alternative to established housing—a market which has experienced strong price growth in the current cycle.

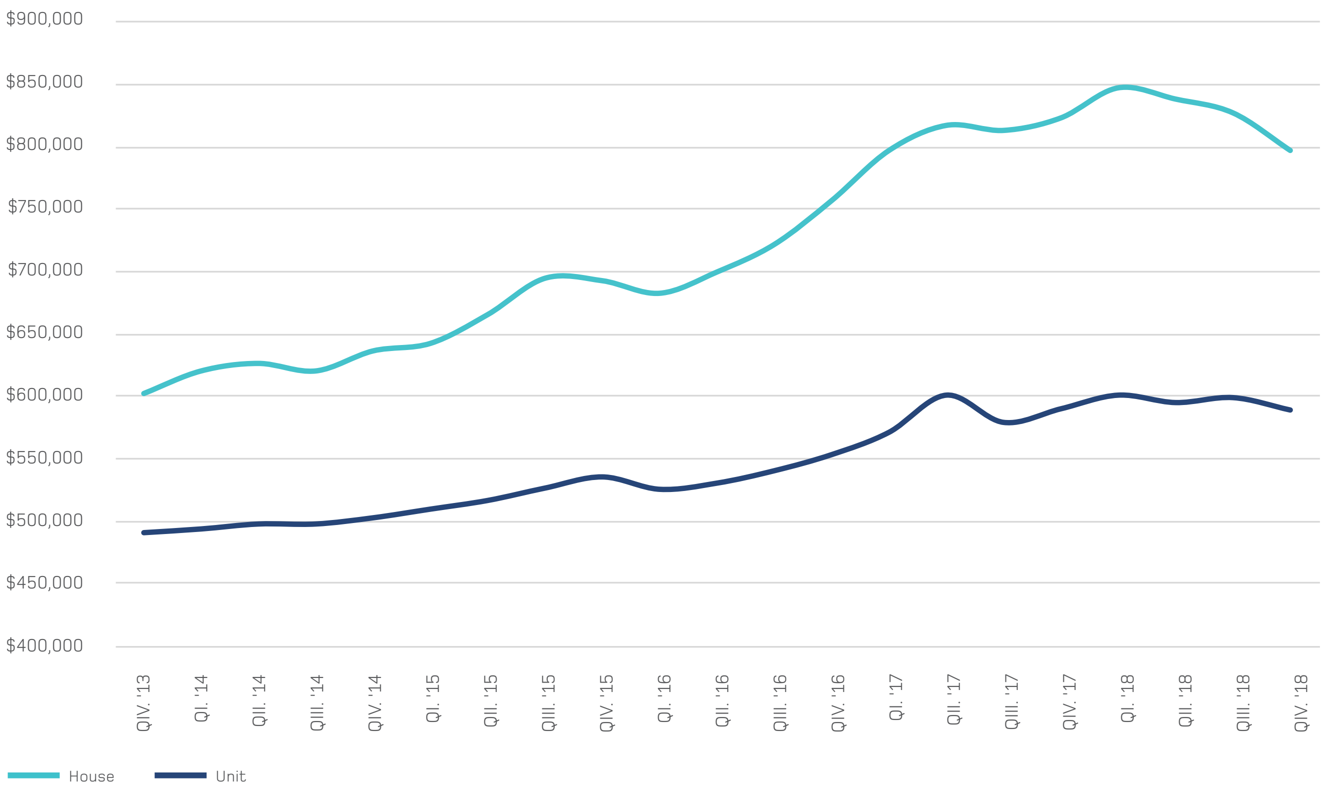
While established house prices have retreated from the record highs observed (and may see some renewed buyer interest) this is not expected to dampen townhouse demand. Townhouses are now firmly established amongst key buyer groups and, in many cases, are now the preferred option.

Townhouses are also seeing strong buyer interest in outer Melbourne (20 km from the CBD).

Affordability and a sharp price point are key drivers of demand for townhouses in these locations.

First home buyers and investors are amongst the principal buyers. However, townhouses are increasingly popular with other buyer groups. These include couples, singles and professionals.

Median dwelling prices – metropolitan Melbourne



December quarter 2018 median prices

Region	Dec-2018 Quarter	Sep-2018 Quarter	Percentage Change (%) Quarter	Annual
Metropolitan Melbourne				
House	$796,500	$827,000	-3.7%	1.4%
Unit and apartment	$589,000	$599,000	-1.7%	1.8%
Regional Victoria				
House	$411,000	$401,000	2.5%	5.5%
Unit and apartment	$314,000	$285,000	10.2%	2.8%
Inner Melbourne				
House	$1,380,500	$1,447,000	-4.6%	-4.1%
Unit and apartment	$588,500	-$595,000	-1.1%	0.0%
Middle Melbourne				
House	$906,000	$965,000	-6.1%	-2.2%
Unit and apartment	$646,000	$657,500	-1.7%	0.3%
Outer Melbourne				
House	$647,000	$671,000	-3.6%	3.1%
Unit and apartment	$519,500	$521,000	-0.3%	8.1%

Source: Real Estate Institute of Victoria (REIV).
Houses include detached houses, terraced houses, semi-detached houses, holiday houses, duplexes and granny flats. Units & apartments include flats, units, apartments, townhouses, penthouses, villas, residential warehouse conversions and bed-sits.

SPOTLIGHT - FOREIGN INVESTMENT

Foreign investment into Australia's real estate sector plays an important role in increasing dwelling supply

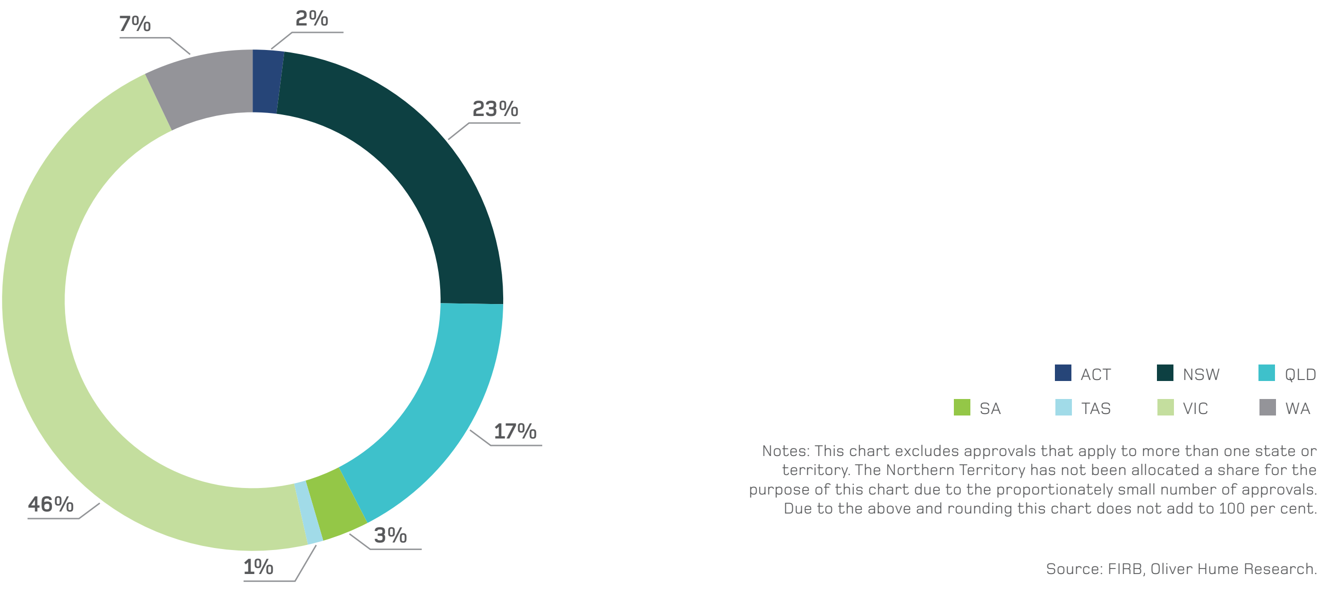
The latest annual report of the Foreign Investment Review Board (FIRB) highlights key current and emerging trends and drivers shaping foreign investment into Australia including especially the residential market.

Foreign investment into Australia's residential sector plays an important role in increasing dwelling supply.

Some of the key highlights from the 2017-18 FIRB annual report include:

- The value of residential real estate approvals fell $17.5 billion (58%) between 2016 and 2018. This was due mostly to a moderation in foreign demand for residential real estate
- For the first time since 2012–13, the United States (and not China) was the largest source country for approved proposed investment across all sectors (both real estate and non-real estate). However, a major increase in real estate was a key factor
- The decline in new dwelling related approvals from China was driven in part by tighter capital controls from China
- Although Chinese demand for residential real estate has declined the majority of residential real estate approvals was for Chinese entities
- The vast majority of approvals (84%) by number was for categories, including new dwellings and vacant land for development, that increase Australia's housing stock
- There was a decline in New South Wales' share of residential real estate approvals. This was offset by increases in Victoria and Western Australia's shares.

Share of residential real estate approvals by state and territory in 2017–18, by number

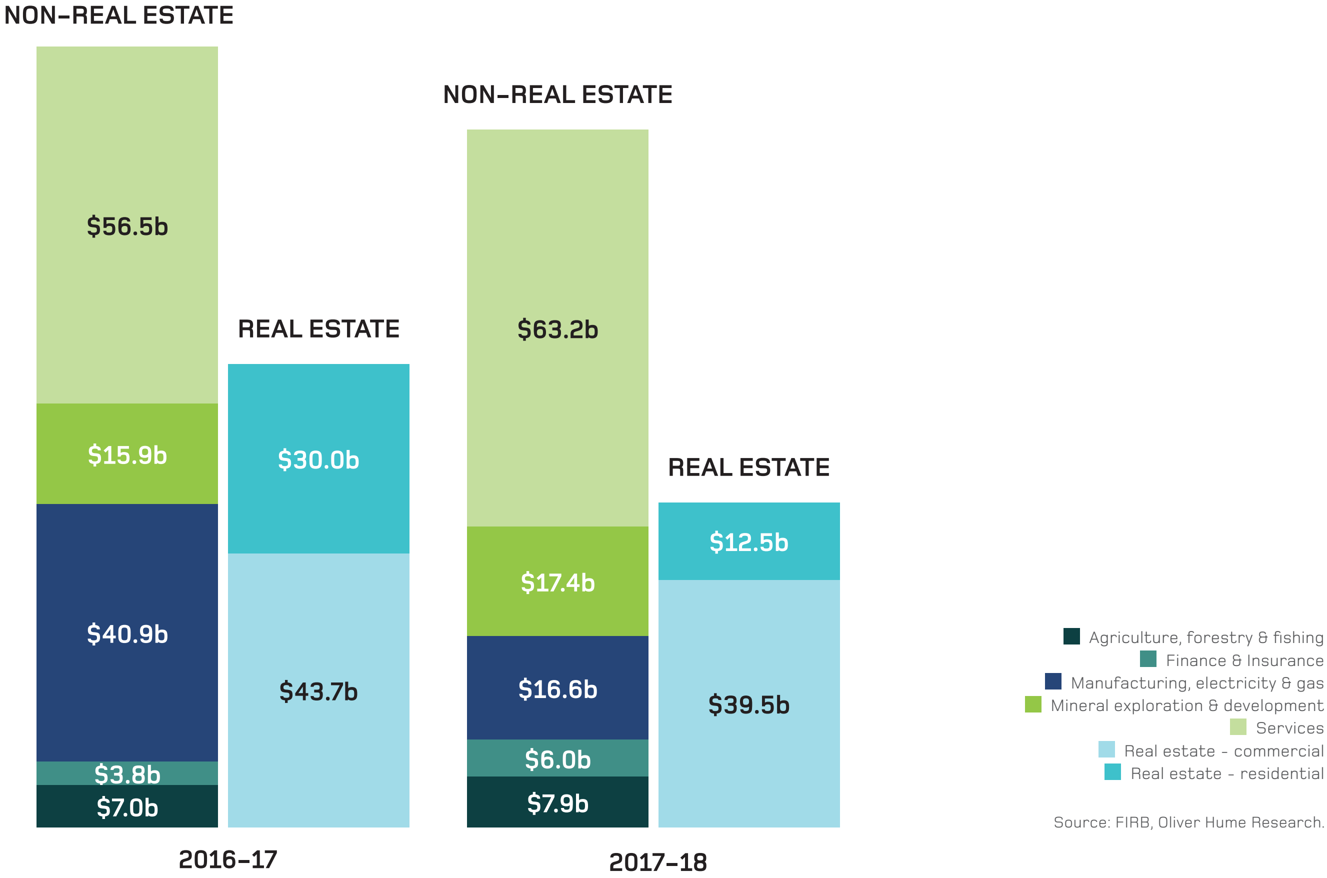


Notes: This chart excludes approvals that apply to more than one state or territory. The Northern Territory has not been allocated a share for the purpose of this chart due to the proportionately small number of approvals. Due to the above and rounding this chart does not add to 100 per cent.

Source: FIRB, Oliver Hume Research.

Approvals by industry sector

2016–2017		2017–2018	
14,339 Approvals	$197.7b Value	11,060 Approvals	$163.1b Value



Source: FIRB, Oliver Hume Research.

QUEENSLAND

MARKET DRIVERS

Amanda Bittenbinder

Senior Research Analyst
a.bittenbinder@oliverhume.com.au

An increasingly diverse economy is supporting Queensland's economic growth

The Queensland economy includes a range of industries such as construction, tourism, manufacturing, agriculture, resources and services.

Although recent growth has been steady, Queensland's economy has traditionally outgrown the national economy, and is expected to return to trend.

In the year to the June quarter 2018, Queensland recorded robust jobs growth (3.1%). Around 165,700 new jobs were created.

Strong jobs growth has seen incomes rise, further supporting household spending. Indeed, Queensland's household consumption grew by 2.5% in 2017-18. This was the fastest growth since 2013-14.

Exports are an increasingly important component of the state's growth. Queensland's export earnings exceeded $94 billion in 2017-18, a new record.

Consistent with broader trends nationally, Queensland's business investment levels remain high after surging in 2017-18.

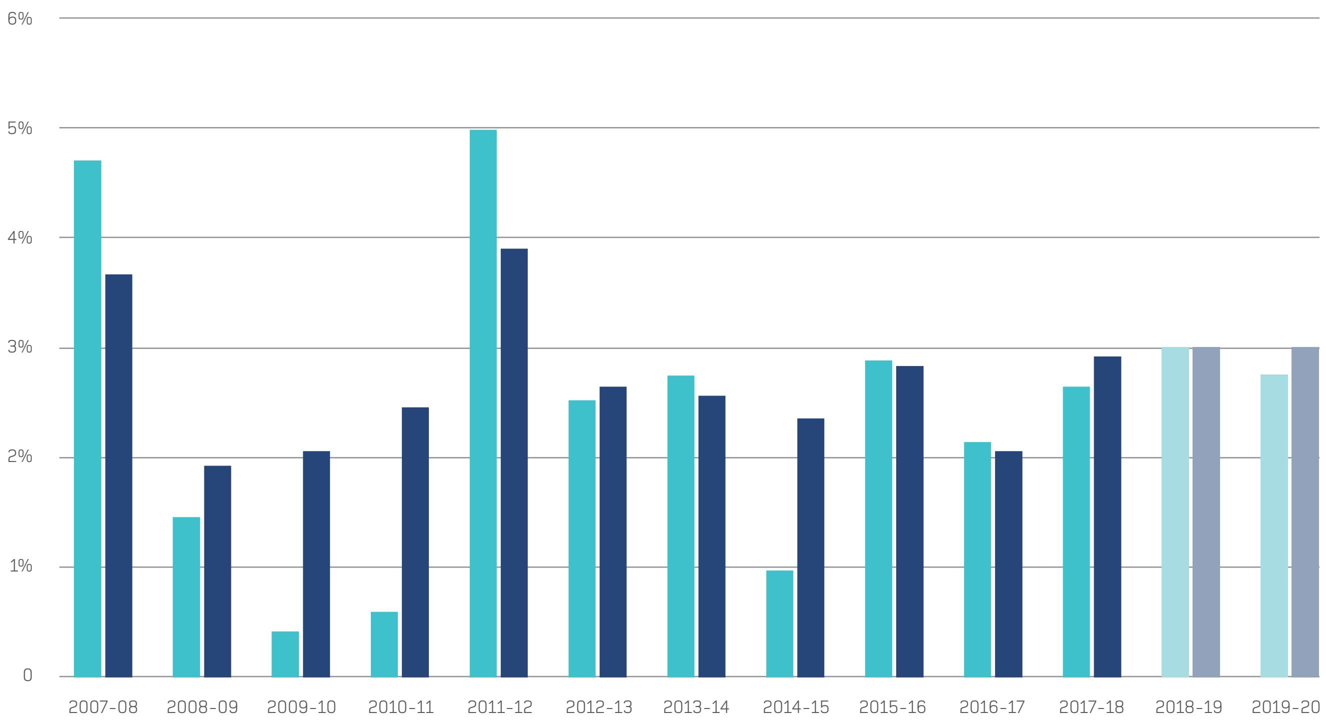
Going forward the state's economic growth is expected to reach 3% in 2018-19 and 2.75% in 2019-20.

Continued employment growth should see the State's unemployment rate decline to 6% by mid-2020.

Growth will also be supported by infrastructure spending. The Government's $46 billion infrastructure program includes several major projects such as the Cross River Rail, upgrades to the M1 and the Bruce Highway, and the Cairns Convention Centre and Townsville water pipeline.

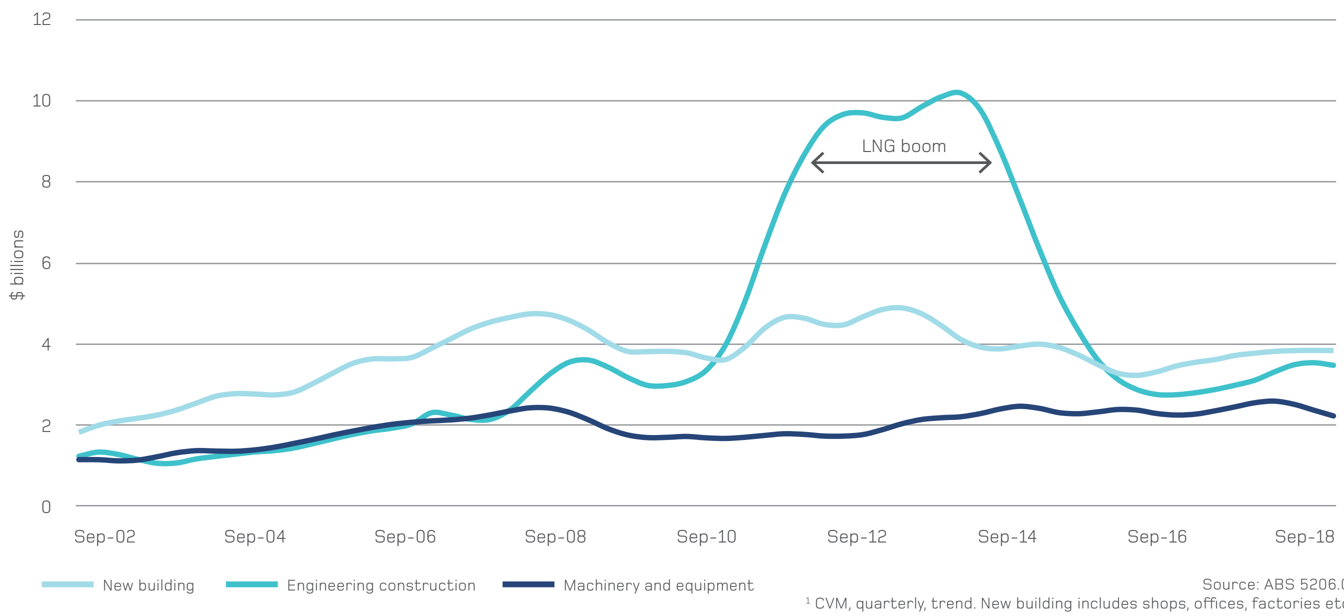
Source: The State of Queensland (Queensland Treasury) Mid Year Fiscal and Economic Review 2018-19.

Real economic growth[1], Queensland and Australia



[1] Gross State/Domestic Product. Chain volume measure (CVM), 2015-16 reference year. 2018-19 and 2019-20 are forecasts.
Source: Queensland State Accounts - June quarter 2018 for historical data, Queensland Treasury for Queensland forecasts, and 2018-19 Commonwealth Budget for Australia forecasts.

Business investment, Queensland



Source: ABS 5206.0.
[1] CVM, quarterly, trend. New building includes shops, offices, factories etc.

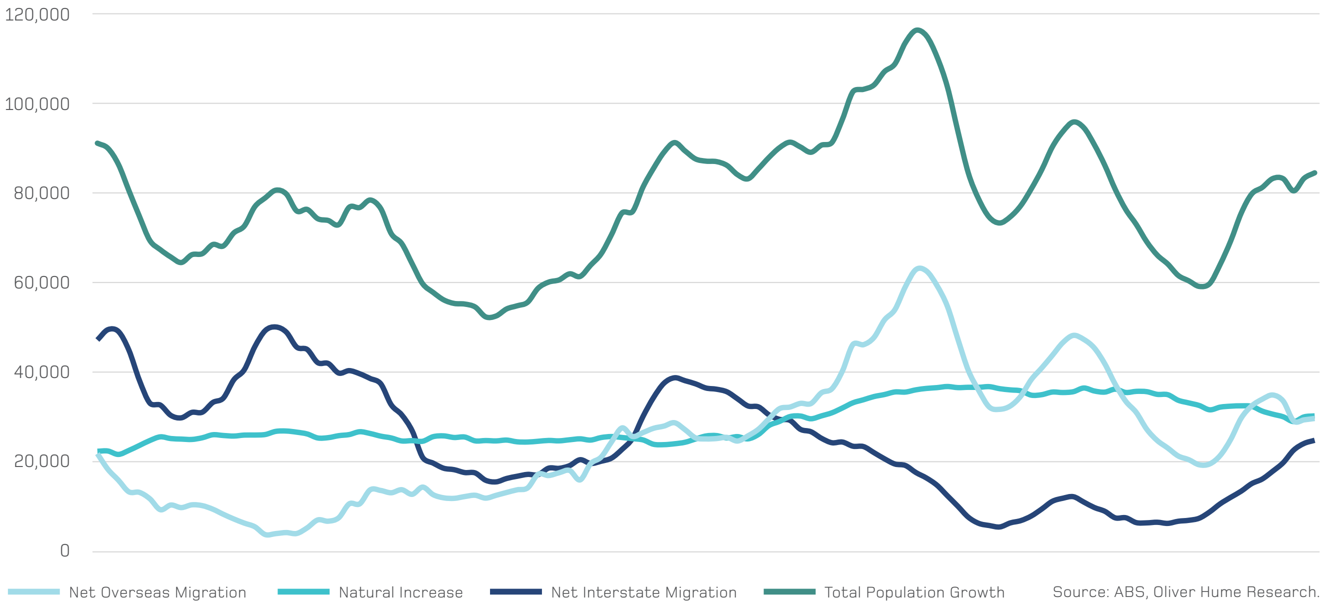
POPULATION GROWTH

Queensland's population continues to rebound...

Queensland's population continues to rebound supported by increasing levels of interstate and overseas migration.

Although growth remains below that of some other jurisdictions, especially Victoria which is the national population growth leader, Queensland's population growth continues to strengthen. In the year ending 30 June 2018 Queensland's population reached 5 million people growing by 84,500 people and 1.7%.

Queensland population change, growth components



Source: ABS, Oliver Hume Research.

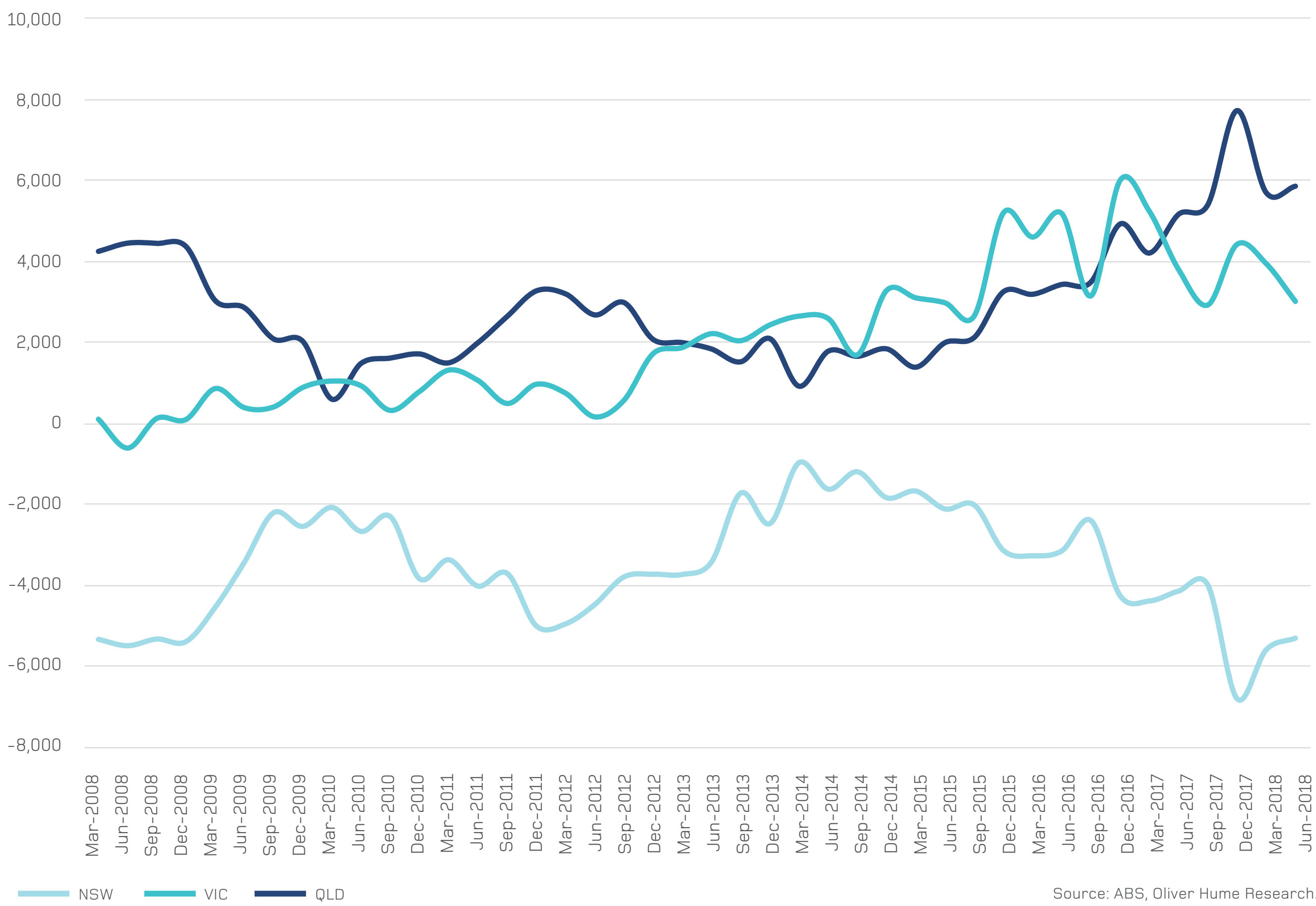
...supported by both interstate and overseas migration.

Queensland's interstate migration, in particular, has been a key driver of overall population growth.

In the year ended 30 June, Queensland's interstate migration was the highest in Australia reaching 24,700 people, an increase from 17,800 people in the previous year.

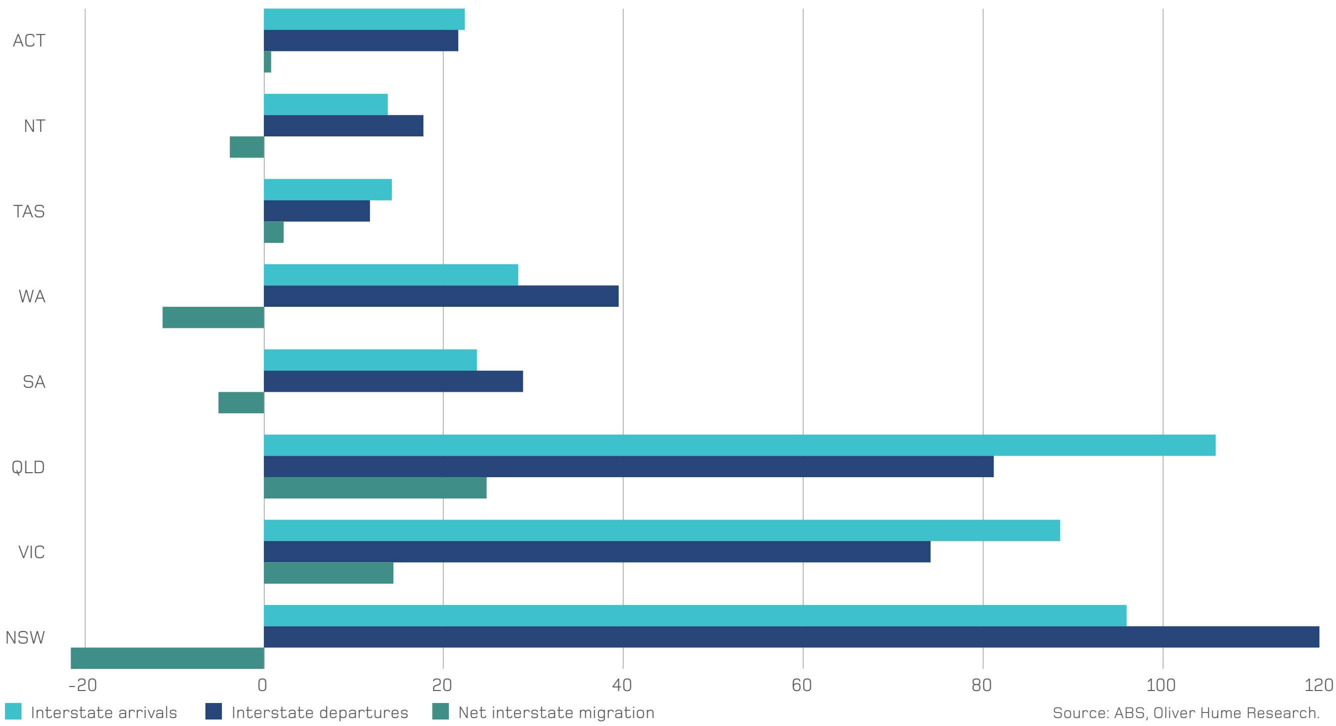
Queensland's interstate migration was considerably higher than all other jurisdictions with only three other states and territories recording positive net interstate migration – Victoria (14,300 people), Tasmania (2,400 people) and the Australian Capital Territory (600 people).

Net interstate migration (qtrly)



Source: ABS, Oliver Hume Research.

Interstate migration



Source: ABS, Oliver Hume Research.

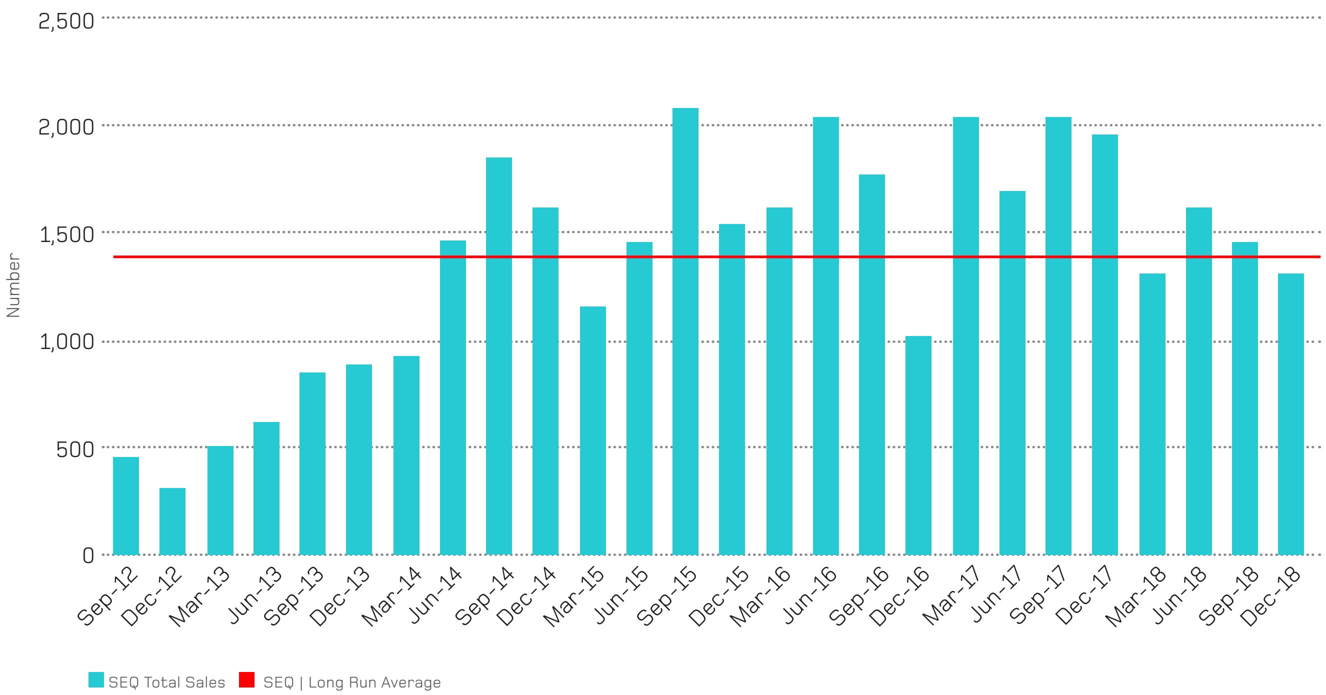
LAND MARKET

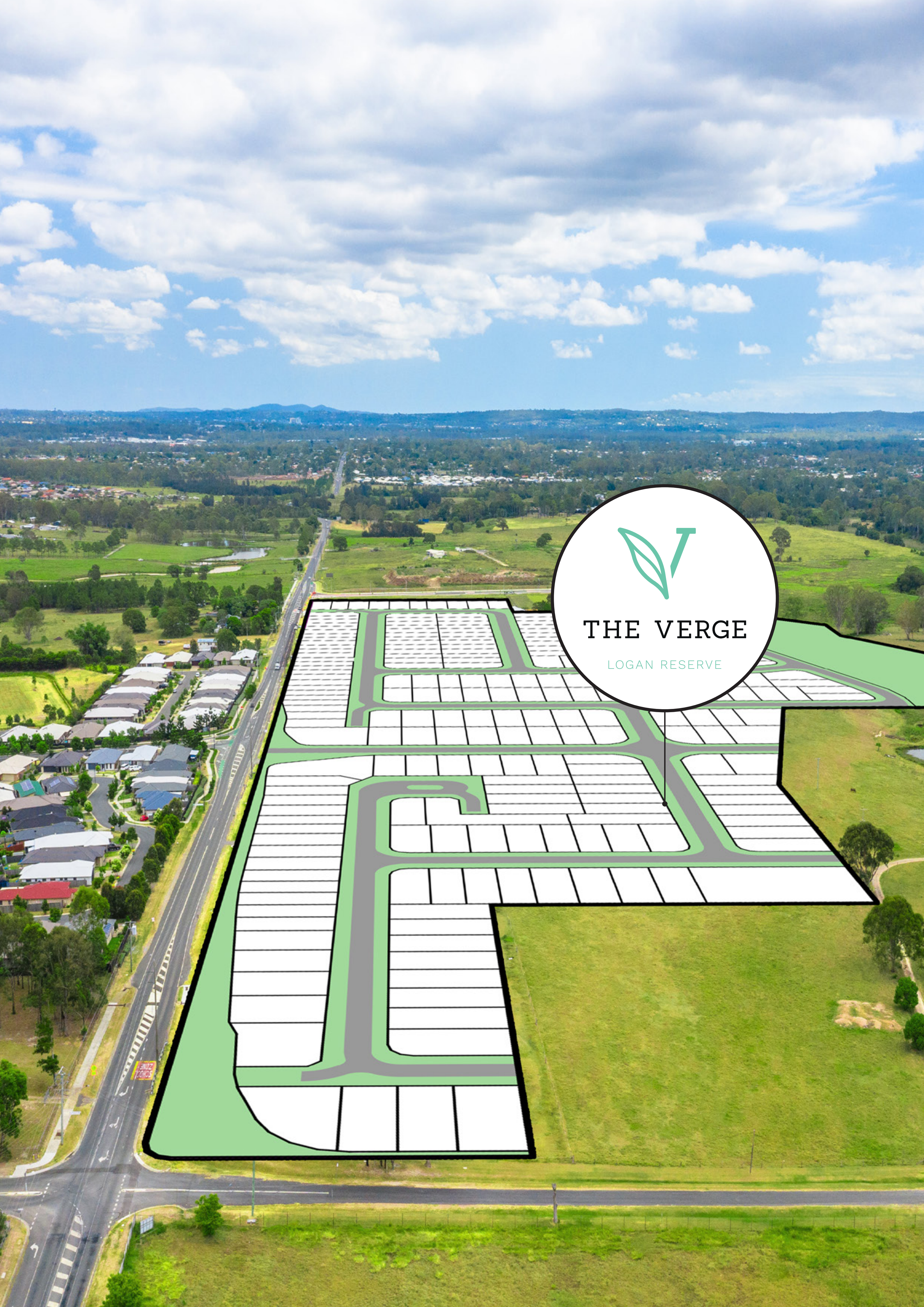
Although sales transactions have dipped toward the end of 2018 the market remains steady

Although sales transactions have dipped toward the end of 2018 the market remains steady.

In contrast to the volatility observed in the broader Melbourne and Sydney residential markets —and in the Melbourne new land market—conditions in the South-East Queensland residential market and the land market specifically have been much more stable.

South East Queensland project land sales (qtrly)




THE VERGE
LOGAN RESERVE

PROJECT AND CORRIDOR DATA

Matt Barr

Project Director- QLD
m.barr@oliverhume.com.au

ACTIVE PROJECTS

The number of active projects in all South-East Queensland municipalities was up for the December quarter, with various estates launching. Overall, the total represented a 5% increase on the previous quarter. This number is likely to decrease next quarter as several developments are reaching maturity.

December quarter 2018

139

↑5.0%
from previous quarter

TOTAL LOTS RELEASED

The number of lots released over the quarter declined by 7%, when compared to the previous quarter.

December quarter 2018

1,585

↓7.0%
from previous quarter

TOTAL SALES

The December quarter 2018 saw an overall decrease in the total lots sold. The results, however, reflect a common trend typically experienced over the December period. The reduction of overall sales has been attributed to the availability of stock.

December quarter 2018

1,216

↓17.0%
from previous quarter

TOTAL UNSOLD

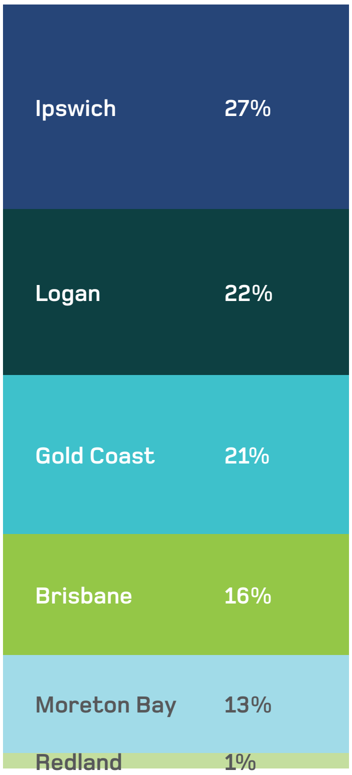
Total lots remaining unsold at the end of December quarter decreased, with a total 'overhang' of over 2,100 lots, 10% lower than that of the previous quarter.

December quarter 2018

2,161

↓10.0%
from previous quarter

Project land sales



Source: Oliver Hume Research
(Land sales between 0 - 1,000 Sqm.)

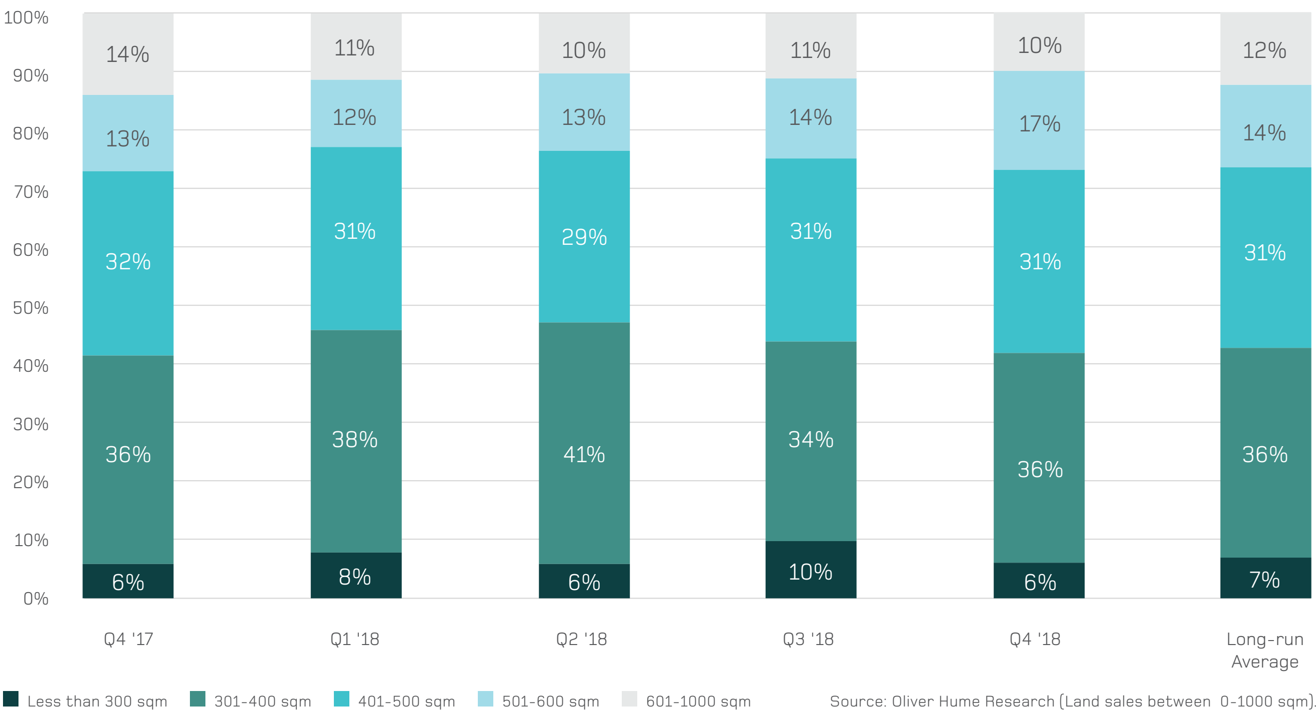
LOT SIZES

Buyers are remaining focused on small to medium sized blocks with most sales transactions occurring in the 301-500 sqm size bracket.

Median prices by lot size segments, December quarter 2018

LOT SIZES	MARKET SHARE	MEDIAN PRICE
0 – 300 sqm	6%	$210,000
301 – 400 sqm	36%	$235,250
401 – 500 sqm	31%	$240,750
501 – 600 sqm	17%	$244,000
> 600 sqm	10%	$300,000

SEQ project land sales market share by product type



Source: Oliver Hume Research (Land sales between 0-1000 sqm).

PROJECT AND CORRIDOR DATA

LOT PRICES

Over the quarter, the South East Queensland median land price increased by 3% when compared to the same period in 2017 while the median land size over this period decreased by 3%.

South East Queensland median land price (Rolling annual average of project land sales)

Region	Median land price	Quarterly change	Annual change
BRISBANE	$385,625	↑5%	↑2%
GOLD COAST	$339,188	↑2%	↑8%
IPSWICH	$208,113	0%	↑2%
LOGAN	$216,688	↑1%	↑2%
MORETON BAY	$253,250	0%	↓2%
REDLAND	$303,125	0%	↓1%
SOUTH-EAST QUEENSLAND	$242,125	↑1%	↑3%

Source: Oliver Hume Research.

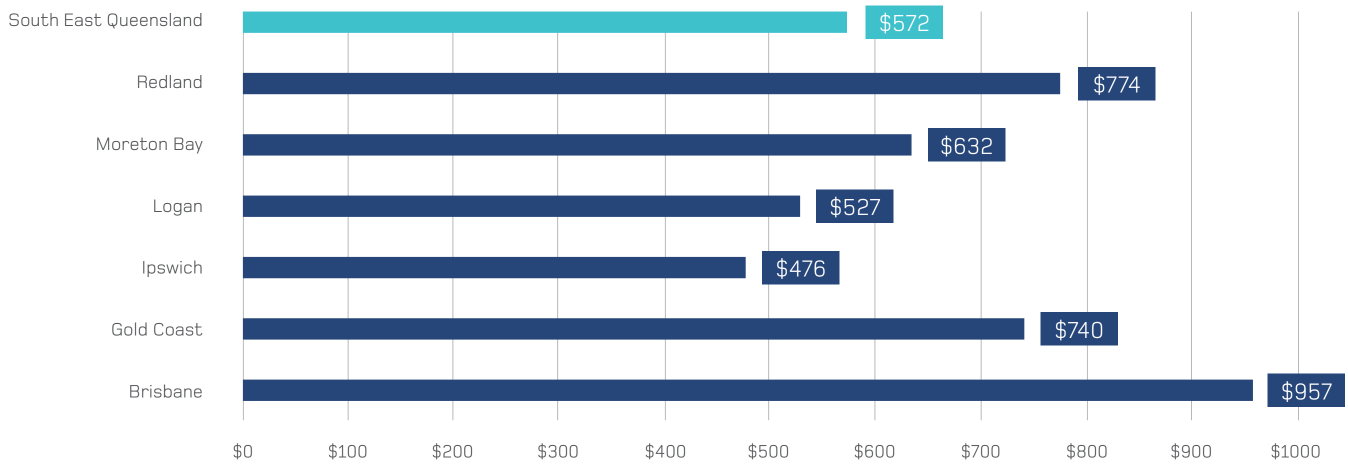
VALUE RATES

Average value rates continue to increase due to declining lot sizes. Average value rates have now risen for the fourth consecutive quarter.

South East Queensland's average value rate rose by 7% compared to the same period in 2017 and now sits at $572 per sqm.

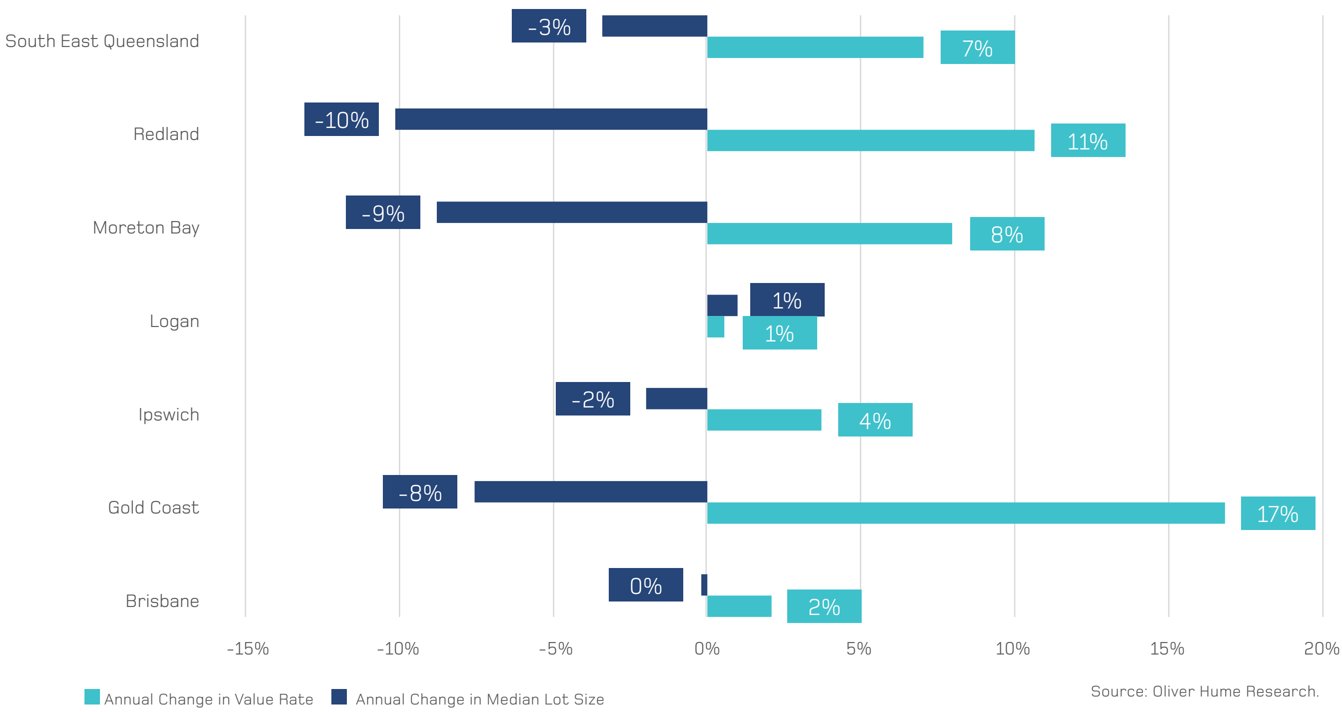
Brisbane remains the most expensive market at $957 per sqm, while Ipswich leads as the most affordable local government area ($476 per sqm).

SEQ project land sales – average value rate (December quarter 2018)



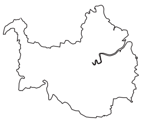
Source: Oliver Hume Research.

Annual change in land size and value rate



Source: Oliver Hume Research.

MARKET SNAPSHOT



BRISBANE

MOST POPULAR SELLING LOT TYPE	301-400 sqm (56%)
MEDIAN PRICE	$385,625 (2%*)
MEDIAN VALUE RATE	$957 (2%*)

*annual change

GOLD COAST

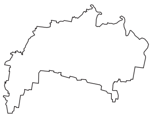
MOST POPULAR SELLING LOT TYPE	401-500 sqm (36%)
MEDIAN PRICE	$339,188 (8%*)
MEDIAN VALUE RATE	$740 (17%*)

*annual change

REDLAND

MOST POPULAR SELLING LOT TYPE	301-400 sqm (50%)
MEDIAN PRICE	$303,125 (-1%*)
MEDIAN VALUE RATE	$774 (11%*)

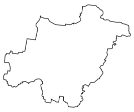
*annual change



IPSWICH

MOST POPULAR SELLING LOT TYPE	301-400 sqm (32%)
MEDIAN PRICE	$208,113 (2%*)
MEDIAN VALUE RATE	$476 (4%*)

*annual change



LOGAN

MOST POPULAR SELLING LOT TYPE	301-400 sqm (35%)
MEDIAN PRICE	$216,688 (2%*)
MEDIAN VALUE RATE	$527 (1%*)

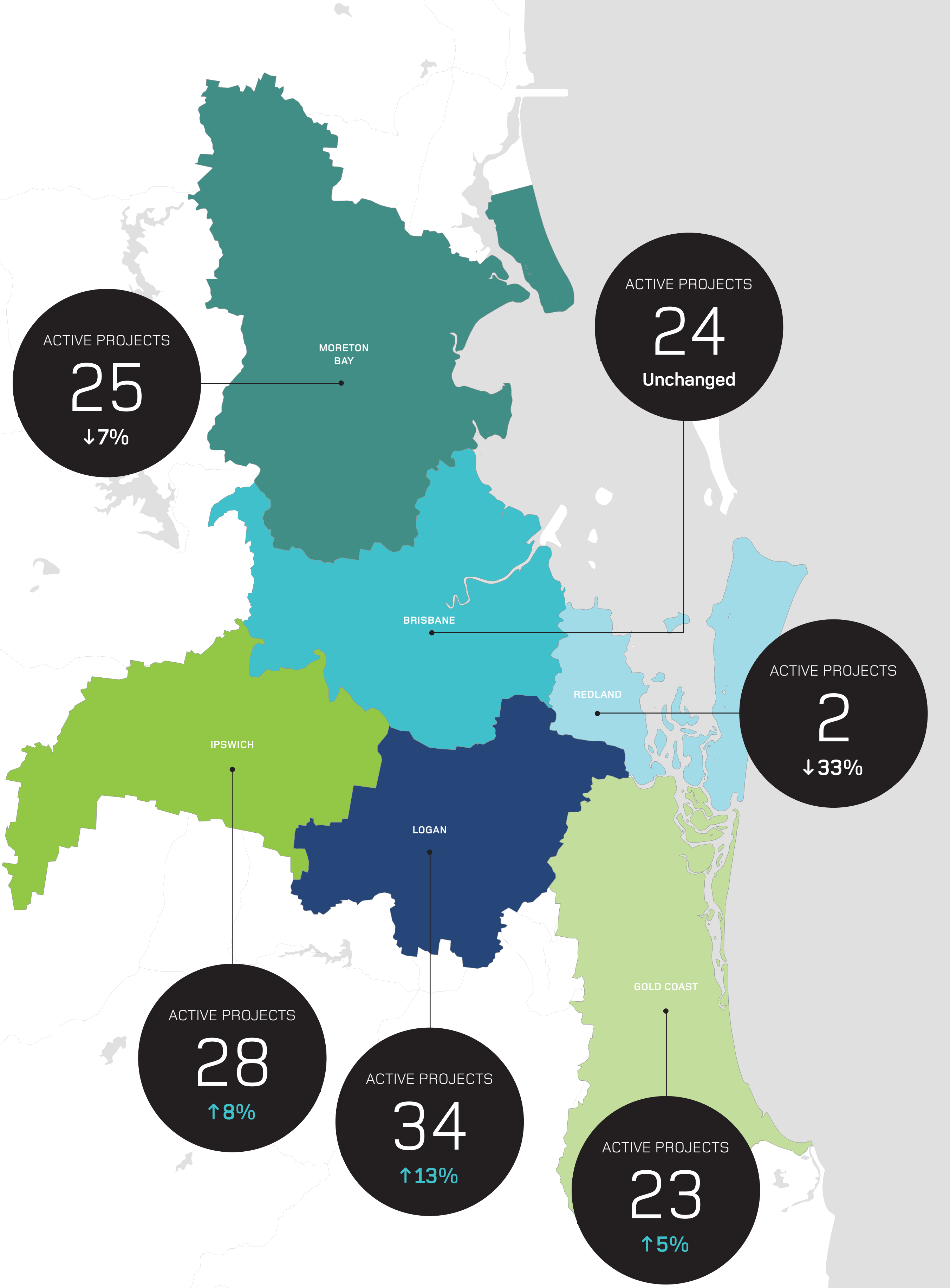
*annual change

MORETON BAY

MOST POPULAR SELLING LOT TYPE	301-400 sqm (48%)
MEDIAN PRICE	$253,250 (-2%*)
MEDIAN VALUE RATE	$632 (8%*)

*annual change

KEY CORRIDORS
– Number of active projects



APARTMENTS AND TOWNHOUSES

The Brisbane and Gold Coast apartment markets continue to operate independently

The Brisbane and Gold Coast apartment markets are now being driven by different dynamics.

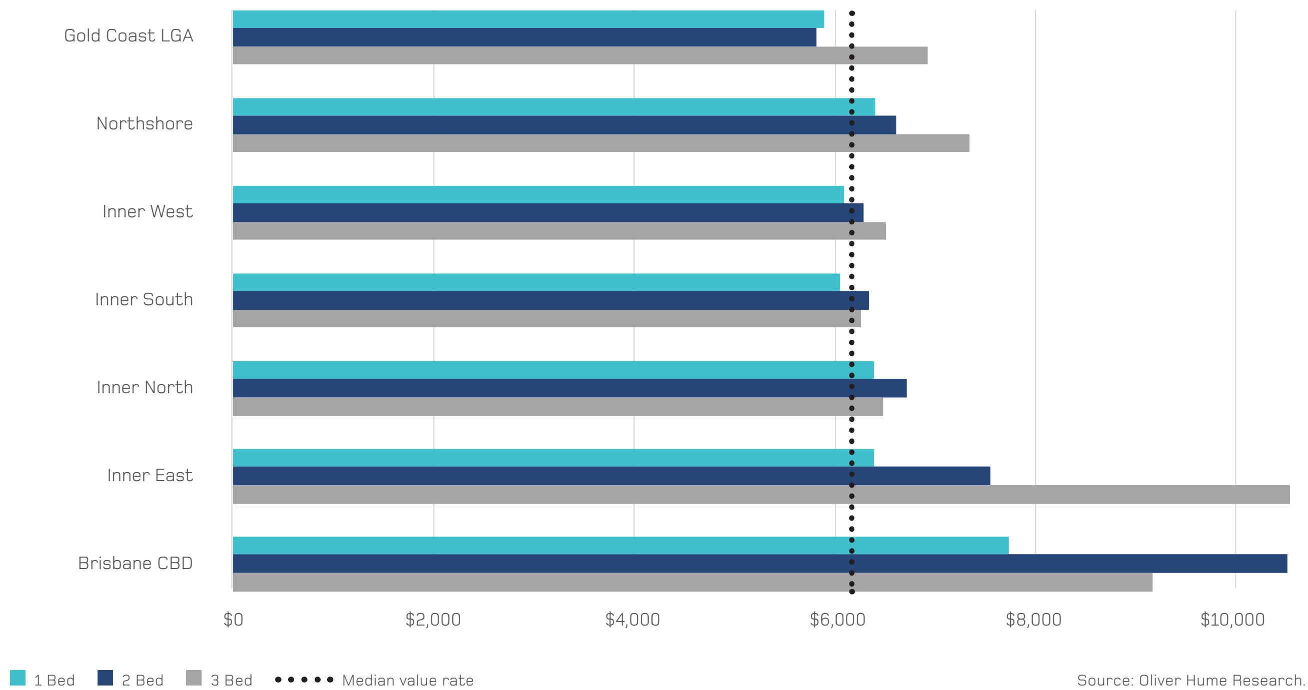
Brisbane conditions remain subdued as current supply is absorbed slowly, while the Gold Coast records strong sales for the year. A common theme throughout both markets is the pressure felt by developers to produce owner occupier products as investor demand continues to dissipate.

The current Brisbane market is still feeling the pressure of tighter lending conditions as well as negative sentiment surrounding the apartment market. In response to these factors, some projects are being deferred and abandoned.

At the opposite end of the spectrum, the Gold Coast market continues to record good sales results.

Over the past year the Gold Coast has experienced higher supply levels but the future pipeline is expected to decrease as funding has become more difficult to obtain.

Brisbane inner city and Gold Coast apartment average value rates



Source: Oliver Hume Research.

OFF-THE-PLAN MEDIAN PRICE AND VALUE RATES

BRISBANE CBD

Apartment Price	$747,500
Price per sqm	$9,462
Active Projects	3

GOLD COAST

Apartment Price	$577,500
Price per sqm	$5,651
Active Projects	67

INNER WEST

Apartment Price	$599,000
Price per sqm	$6,240
Active Projects	15

INNER SOUTH

Apartment Price	$507,000
Price per sqm	$6,186
Active Projects	31

INNER NORTH

Apartment Price	$560,000
Price per sqm	$5,803
Active Projects	15

INNER EAST

Apartment Price	$582,500
Price per sqm	$7,644
Active Projects	12

NORTH SHORE

Apartment Price	$555,000
Price per sqm	$6,453
Active Projects	10

Source: Oliver Hume Research.

NATIONAL HEAD OFFICE
Level 2, 4 Riverside Quay
Southbank VIC 3006

+61 **3 9669 5999**
oliverhume.com.au