Residential

HERRON
TODD
WHITE
RESIDENTIAL

National Property Clock
August 2017
Houses

Coffs Harbour
Newcastle
NSW Central Coast

Melbourne
Gold Coast
NSW Mid North Coast
South East NSW
Sunshine Coast

Sydney

Adelaide
Canberra
Hobart
Ballarat
Bendigo
Burnie
Devonport
Echuca
Launceston
Lismore
Mount Gambier
Tamworth

Perth
Bundaberg
Rockhampton
Toowoomba

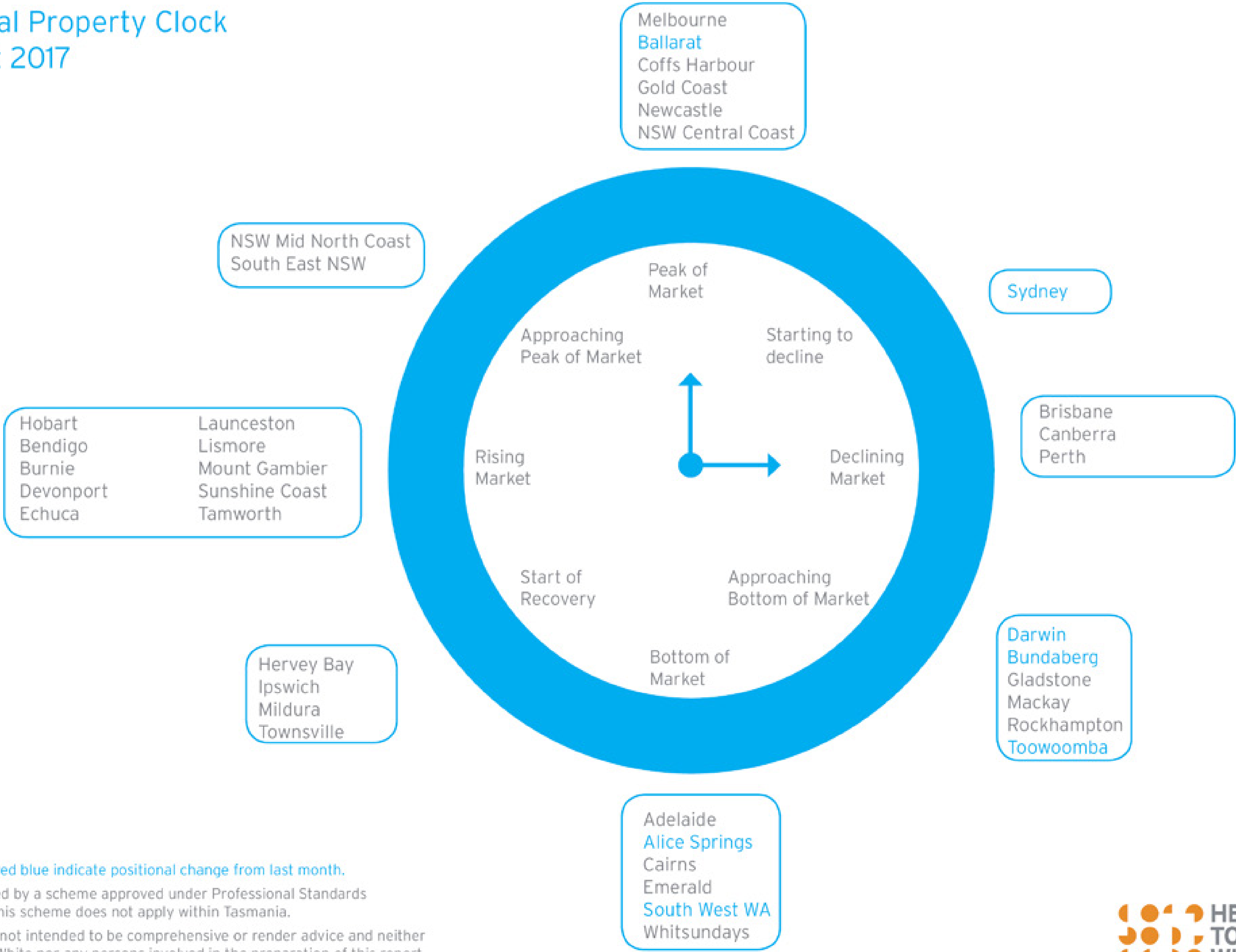
Brisbane
Cairns
Emerald
Hervey Bay
Ipswich
Mildura
Townsville
Wellington Beach
Whitsundays

Darwin
Alice Springs
Gladstone
Mackay
South West WA

Entries coloured orange indicate positional change from last month.

HERRON TODD WHITE RESIDENTIAL

National Property Clock
August 2017
Units



Entries coloured blue indicate positional change from last month.

HERRON TODD WHITE RESIDENTIAL

Overview

Investors are sometimes a hard-put-upon group, but there's no denying they have a huge effect on our property markets.

This month, our offices discuss how investors are operating in their markets, and what an investor slowdown might mean in their service area.

Sydney

It has been well documented that the Sydney market has gone from strength to strength over the past number of years due primarily to a supply versus demand imbalance as more and more players look to enter the market and maximise strong capital appreciation opportunities. With record low cash rates, strong employment opportunities and a wide range of property types, the Sydney market has property at a price point to suit many.

Sydney has long been a favourite for investors, whether local, interstate or overseas. Corelogic data from April 2017 indicates that 55.3% of mortgage demand that month in Sydney was from investors. If one in two mortgages is being driven by the investor pool, it stands to reason that this important segment has had much influence on the overall position of the market.

Sub $1 million dollars is still a driver for the broad market and in this segment the investor is really competing against the first home buyer. With housing affordability a recurring media topic, the federal government has introduced initiatives to help the first home buyer and limit the overall buying power of the investor. Whilst it is still too early to track the success of these initiatives introduced on 1 July 2017, the tightening of lending ratios and terms for investors has been slowly occurring since early this year and our queries with both agents and brokers are telling us that the impact is starting to take effect. Whether the restrictions will have a long term effect on the market is currently unknown.

Historically investors have been attracted to areas that offer strong rental demand and the possibility for solid future capital growth. Traditionally these areas tend to be located within close commuting distance of the CBD and around universities, hospitals and areas with good infrastructure and public transport options. To meet this demand, there has been a significant change in the town planning requirements which has been driven by the state government. Sydney is fast becoming a vertical city, with a change in buyer expectations and a surge in demand for apartment living. Modern, medium to high density zones are becoming increasingly common with many notable precincts springing up across the city including Green Square at Zetland, Harold Park at Forest Lodge, Discovery Point at Wolli Creek, Central Park in Chippendale as well as developing precincts in Erskineville and Camperdown (to name a few).

Another example of an investor hot spot is the area known as Kings Cross. Kings Cross is one of Sydney's highest density precincts and covers the suburbs of Potts Point, Elizabeth Bay and Rushcutters Bay. It is well established, being within two kilometres of the CBD, and has a train station, light commercial buildings and retail spaces. Recent changes to laws governing the opening hours of entertainment establishments in the area has allowed the precinct to begin to shed its reputation as a somewhat unsafe nightlife district allowing it to become increasingly popular with investors. Investors targeting this area in the past have been seeking the strong rental returns offered by the many small studio and 1-bedroom units. It seems to be the trend however that many small studio units have lower levels of capital growth than standard 2-bedroom units for example which we assume is also due to the broader market appeal.

In western Sydney the new apartment market continues in various degrees throughout all major regional zones with the Liverpool/Fairfield areas as well as Parramatta and The Hills district in particular seeing substantial development. The Norwest Railway line currently under construction from Rouse Hill to Epping has resulted in a significant increase in unit developments approved or under construction in what is typically considered the burbs, with unprecedented construction occurring particularly in Kellyville. This list in western Sydney is continually growing with a record number of unit approvals passed over recent years. What these areas have in common is that they all appear to have a high investor contingent although the future of some will depend heavily on an unknown tenant pool with oversupply perhaps becoming a future issue.

With Liverpool being the CBD of the south-west region, it has seen a large number of new developments completed in recent years. An example of this includes the 30-level Sky Haus development in Liverpool (420 Macquarie Street) which includes dual-key units selling on high yields of over 6% in some cases. Investors is this area commonly seek above average returns however it comes with limited capital growth in comparison to superior locations closer to Sydney or the Parramatta CBD. Many see it as an area of future potential however given its proximity to Parramatta, the M5 and M7 motorways and of course the future second airport at Badgerys Creek. A good entry point for investors in the Liverpool/Fairfield unit market can usually be found between $400,000 and $600,000.

Another popular option for investors in western Sydney is adding a granny flat to the rear of the allotment.

This not only adds value to their existing investment but can also increase yield substantially with a dual income when configured correctly. The areas that appear to have a high proportion of granny flats are generally the outer rings of western Sydney particularly within the LGAs of Penrith and Campbelltown. The comparatively lower initial entry point for the main dwelling, larger sized allotments suitable for granny flats and consistent rental demand in the area make these locations popular. Currently rental yields are approximately 2.9% within greater Sydney (as per CoreLogic Housing Market and Economic Update July 2017), however our own market knowledge indicates that dual occupancy properties (main dwelling and granny flats) in these outer ring suburbs have been selling at yields of approximately 5% in recent times. The granny flat trend has really gained momentum over the past five years with owners initially achieving higher returns but due to strong capital growth for the parent parcel and relatively stable rentals, yields in these areas have compressed.

While the positive cash flow provided by a strong yield is always a benefit, in the past year returns from capital gains have been significantly more profitable for investors who have the option of using the growth in equity to fund an additional investment property. In the future however, it may be wiser for investors to seek out strong rental returns as capital growth begins to plateau and banks continue to tighten lending criteria and increase interest rates.

The best advice we could offer to future investors is to do your research. Important aspects include good access to services and low levels of unemployment. Check your suburb profile, speak to local rental agents about demand, check if any major changes are on the cards such as future large scale infrastructure projects, re-zoning etc. Is it an area tipped for gentrification? Check the history of the developer - have their other developments proven to be popular with second buyers if you must sell quickly? Whilst investments are generally not as emotionally driven as the purchase of an individual's home, be conscious that if you want a tenant to live there, it has to be appealing especially if the tenant pool has plenty of options. Sunlight, privacy and aspect in large scale unit developments could be crucial to getting a long term tenant which is a benefit to maximise your overall investment strategy. Be thorough with your research and focus on a strong rental yield with a view to a longer term investment as the days of annual capital growth exceeding 15% are no longer expected.

Canberra

Recent changes to lending and legislation, aimed at enabling first home buyers to enter the market, has had an effect on property investors looking to expand their portfolios. These measures were introduced in an effort to allow first home buyers to be more competitive in a heated market. As a result, property investors looking for an asset with good yield and growth will have to do their research and be willing to go the extra mile to secure a profitable investment.

Unlike other states, the ACT has not introduced a scheme which cuts stamp duty for first home buyers. There are some incentives available via the government and private developers however nothing similar to those in New South Wales and Victoria.

With the increased supply of apartments coming onto the market over the next year, the ACT has seen relatively slow growth for this style of property with some properties loosing value. However, rental demand for apartments has remained strong despite the increase of supply. If property investors are chasing yields and not capital growth, purchasing a new apartment may be a good option. This is particularly relevant for apartments in the CBD and district centres such as Woden, Tuggeranong, Belconnen and Gungahlin. Apartments in proximity to University of Canberra and Australian National University also offer good investment opportunities. It should be noted that new apartments in Molonglo Valley, Gungahlin and Tuggeranong may experience low to no capital growth over the next few years due to increasing supply.

Rental yields in detached housing have remained steady but like other capital cities, capital growth has been very strong. An option for investors in the ACT may be to purchase a vacant block through the Mr Fluffy Asbestos Removal Scheme. There are several hundred blocks being introduced to the market most of which are in sought after established areas. Land banking one of these blocks and either selling or developing later may be a profitable option providing investors are able to cover the initial costs. However, developers should be wary of the changes to the Lease Variation Charge which took effect on the 1st of July 2017. These changes have significantly increased the fee required to build multiple units on residential blocks.

Illawarra

We see a few different investor types who look to invest in residential property. One is the mum and dad style investor who is either using spare cash or their self-managed superannuation fund to invest in a single residential property. This can either be a dwelling or a unit and their price point can be anywhere from $350,000 through to $1 million depending on the amount they have to invest. Another type is a local investor who has multiple properties generating income for them. Most of their properties are lower end units or dwellings (typically purchased for sub $750,000) and they can often include properties converted to allow for multiple tenancies. The last investor type is a more prominent individual or group interested in cash flow and their portfolio will comprise larger unit blocks held in one line. They can be either local, from a capital city such as Sydney or from overseas and the price points for their investments are often in the $1 million to $3 million range.

The investor market has been particularly active in the past three to four years throughout the Illawarra. Changes to self managed superannuation fund regulations and historically low interest rates have been the driving force behind this along with rising property values allowing mum and dad investors to use the equity in their owner occupied property to invest elsewhere. Residential rental prices have not been increasing at the same proportion as property values and therefore yields have dropped during this period. Some examples of recent larger style unit block sales in the Illawarra and their gross yields are as follows: ten x 2-bedroom villas in Bomaderry recently exchanged for $2.35 million and at an estimated market rental of $275 per week per villa, the sale price shows a gross yield of 6.1%. In Corrimal, a complex comprising five x 3-bedroom townhouses recently exchanged for $2.27 million and this shows a gross yield of 4.9% at the assessed weekly rental of $2,150.

We understand that investors are significant players in the residential property market and are contributing to rising property prices and the recent boom in construction of unit complexes in Wollongong. As new units continue to be released to the Wollongong market (along with more on campus accommodation at Wollongong University) there is a real threat of an over supply and heightened risk of vacancy rates rising. As always we would recommend that investors complete proper due diligence prior to purchasing and understand the rental history of their potential purchase along with any surrounding development or infrastructure changes that may impact.

Southern Highlands/Tablelands

With the continuing ripple effect from the Sydney market buoying the local market, there has been a noticeable increase in the speculative investor type of individual. This is most evident in the recent release of Retford Park subdivision close to the township of Bowral which has seen a flurry of vacant land lots coming to market. Notably these pre sales were effected in quarter 4 of 2015 and quarter 1 of 2016, with the market having strengthened a minimum 10% since this period. Some of these purchasers are of the mindset to take the gain now rather than proceed with construction of a dwelling and bring it to market, albeit that is the strategy of some investors in areas such as Renwick, (Mittagong) Darraby (Moss Vale), continuing to ride the wave from the Sydney market.

The hamlets of Colo Vale and Hilltop have seen an increase in medium term investor activity, with those locations being close to the freeway and producing strong rental returns.

Likewise, across the Southern Tablelands there has been a modest amount of speculative investor activity in the new subdivisions close in to Goulburn as well as some of the northern fringe locations of the region such as Marulan, where investors have purchased blocks, constructed dwellings and on sold.

Newcastle

Owning your own home is the great Australian dream, but what about owning two homes, three homes or even more? Investing in real estate has always been a popular way of earning an extra income in Australia and with over 50% of residential sales in the Lower Hunter in the past financial year being to investors, this region is certainly a hot spot for property investment.

The number of investment home loans has dropped nationally over the past year and this trend is predicted to continue due to the regulatory clampdowns that have been imposed. These regulations and the government's efforts to cool the housing market especially in major cities would suggest that investment should slow down nationwide.

This may not be the case in the Lower Hunter however; in fact it will probably buck the trend. Newcastle is still an enticing prospect for investors due its close proximity to Sydney, its affordability compared to the capital cities and an excellent rental market with a current vacancy rate of just 2.3%.

With Newcastle being a university city there is a high investor involvement in good rental yield suburbs close to the university such as Jesmond and Wallsend. However investors are also looking at inner city and coastal suburbs such as Cooks Hill, Wickham and Adamstown for higher capital gains.

> The Newcastle CBD is undergoing a makeover and with the construction of not only a new university campus but also numerous apartments, the area is sure to see an influx of investment in the near future.

Strong rental returns, larger blocks, competitive capital gains and the ability to find low maintenance 2- to 3-bedroom properties for under $500,000 means the region offers plenty of good investment opportunities for those who can't afford the larger capital cities, especially Sydney.

There is something for every type of investor: more expensive coastal properties, inner city properties, student accommodation, fixer uppers and larger family homes in the outer estates and suburbs. Savvy investors continue to see good returns in Newcastle and the investment market shows no signs of slowing down.

NSW Mid North Coast

Investor activity on the Mid North Coast has been hot for an extended period now, with locals and out of town investors fighting for similar stock. These are generally well solidly constructed dwellings or units that require little maintenance and appeal to the wider rental market. With the mid to lower end of the markets being the most sort after. While local investors tend to stick close to home for their investment purchase, out of town investors are happy to look up and down the coast chasing returns.

Some savvy investors within Port Macquarie and coastal towns are not only seeking yields but are also looking within the higher capital growth areas such as Shelly Beach and Lighthouse areas within Port Macquarie as well as the coastal villages to the south.

This increased activity has been sustained for an extended period now, which is pushing dwelling prices up and a steadying rental market is creating slightly reduced yields. This is moving some out of town investor to other localities outside of the main regional towns where prices are lower and yields greater.

The extensive release of land and the construction of new dwellings in the area is also attracting more cashed up investors, with an ample supply of duplex and dual occupancy style dwellings built on larger lots. This is maximising the possible rental returns via dual income streams.

We do note however that investor activity is beginning to slow somewhat with rentals returns steadying due to increased supply, and lending institutions tightening lending policies for investors. We see possible implications being a steadying of the market with less out of line sales occurring from hot bidding wars. While growth in the market will be maintained, the length of time on the market may increase. Whether this is bump in the road or a return to a more stable market, it's yet to be seen.

Advice to the investors thinking of purchasing is to look for good return areas, do your research and focus on the right type of property that best suits your financial and lifestyle goals.

NSW Central Coast

Like so many other regions across the country, investors have a presence here within the Central Coast region of New South Wales. They are found in the northern and southern ends of the region, toward the middle and along the coastal strip.

In our region, we think of investment property types as falling into not two but three categories: traditional units, traditional houses and the holiday letting segment of the market.

Units themselves are located close to the public transport nodes or the beach areas. As a developing or evolving region, there is a mixture of old and new units available to the investor and we can't say with any certainty which is preferred by investors, but we think it's more likely a combination of price, location and age of the unit in addition of course to the return.

A popular location for units at present is within the Gosford CBD where a number of new developments have been recently completed, are under way or are scheduled for commencement. In our discussions with marketing agents and developers, pre sales and off the plan purchases have been strong and at a whole new level of price point, some of which we think are extraordinarily bullish by local standards. At the moment, there is very little availability of this new stock, but we expect these stock levels to free up a little in time through the attrition of buyers as new projects progress, but buyers change their minds or financiers change theirs - it's an interesting juncture we have reached in the marketplace. We also wonder what effect, if any, there will be on the value of older units - will values drop a little as seen in previous cycles or will they remain stable?

Away from the Gosford CBD, pre owned units are always popular in beachside locations such as Terrigal, Avoca Beach and The Entrance. An often seen strategy by investors involves a hybrid of use by the owner. That is, owners will use their properties as weekenders during the off season and holiday let them during peak periods. This has proven successful for many. Of course, there are a number of units used exclusively for holiday letting or short term stays and this provides a very good level of return.

Traditional housing as an investment vehicle has always been popular in our region.

Investors in this space have many guises ranging from first time buyers, mum and dad investors and professional investors. From what we know, there doesn't seem to be an area or location of choice for investors in traditional housing – it is spread right across the region.

In terms of price points or price bands, we think investors fall broadly into two types - those who will only buy cheaper properties that they wouldn't necessarily live in themselves but are happy in the knowledge that they are providing a roof over someone else's head. We think some genuinely believe they are providing a service to the community while building a portfolio of properties at the same time - and good on them.

The other type is a little more discerning with their choices in that it will be a better quality dwelling in perhaps a better location and is likely to be a property they could live in themselves. This will involve a higher initial outlay with the strategy of having a better return and a more predictable capital gain. We see these investors as typically being the mum and dad type of investor with a long term goal in mind of securing a comfortable future for themselves based mainly on the notion of paying off the mortgage and making that all important capital gain.

Of course there are other types of investors, but these are the main two that we see. Others include the professional investors who see investment in property as a business and structure their portfolios accordingly, others who simply collect properties, those who seek to add value and hold or divest and those that are the futurists.

Each investor has a story, but from our discussions and involvement with investors, their main point of investing in property is for the return or capital gain or both.

We don't believe there are any locations that experience more investor activity than others and we say this on the basis that Central Coast investors are spread across the region. But there is commonality in that the less expensive parts of any suburb are usually targeted.

At the minute, there has been a definite slowing down of investor activity across the region and it's no secret that this is a direct result of the regulator imposed changes and restrictions on our lenders. This means that owner-occupiers are making a comeback. This is a situation that will probably become more noticeable as a result of the renewed First Home Buyers Scheme which places direct competition in a segment of the market also favoured by the investor.

Opinions vary as to whether investors have a positive or negative impact in our region. For our part, we consider the region needs investors to keep things moving and evolving. We believe the marketplace needs diversity amongst the participants to aid this.

The biggest challenge faced by current and future property investors is where they should be looking for their next purchase. What we can see from a Central Coast perspective is that it could be any number of locations, such is the choice available. It could be a unit near the railway station, hospital or shops, a unit next to the beach, a house in the suburbs or a value adding opportunity. At the traditional investor segment of the market (low to medium price bands), returns are generally comparable and it is a question more largely answered by the individual investor's strategy of a short, medium or long term horizon.

Of all the suggestions we could make though, the standouts are to do as much research as needed and seek a totally independent advisor.

Tamworth
The Tamworth region has a strong investment sector with both local and non-local investors taking part. The trend for local investors is to buy a safe property (good location, average rent return and lower risk). On the other side we see non-local investors being more risky, with a focus on higher rent returns which tends to be properties in less desirable areas with returns of up to 8% gross but less capital gain. There has also been a notable increase in non-local investors investing in new subdivisions that are entirely aimed at outside investors. These sub-divisions become a less desirable location due to the lack of owner-occupiers and so far have appeared to enjoy little in the may of increased market value. Local investors operate within a large price range depending on their financial capacity with investments occurring from around $200,000 all the way to $600,000. Non-local investors are a bit more constrained with their investments with the lower bracket being around $150,000 (parts of West Tamworth) up to around $500,000. Each price point represents a different goal for the property with the lower end focusing on higher rental yields and the upper end focused on capital growth.

With Tamworth continuing to expand and doing quite well, the strategy of medium price point with average rental return but opportunity for capital gains seems to be the better strategy of the two. The reason for this is that with an average return of 5% to 6% gross on these properties, the return is still better than capital cities and it provides less risk than higher yield properties. Over the past 12 months we have seen an increase in investor activity within the Oxley Vale area as there is opportunity to buy both new and established homes within an expanding suburb that is not too expensive. Nice established homes can be purchased for $300,000 and enjoy a return of roughly 5.5% gross. The continual expansion of Tamworth makes investors a vital part in allowing it to grow, as more people come to town and require accommodation. At this time there has been minimal to no impact on first home owners from investors, due to the affordability of Tamworth.

Victoria

Melbourne

Investors typically operate at the lower end of the market segments within this area. While this can vary significantly depending on the asset type, investors do not typically choose to up spec dwellings, often opting for entry level or builder's range fixtures and fittings.

Within the inner, middle and outer locations, investors appear to be typically seeking higher yield properties with the underlying expectation of capital growth. Off the plan purchases should be approached cautiously as there is a growing trend of contract prices being difficult to support at settlement. High growth areas such as Craigieburn and Mickleham appear to be attractive to investors. Inner suburban locations are typically at a considerably higher price point with more limited investor activity occurring.

There has been a moderate increase in overall investor activity over the past few years as investors seek to take advantage of negative gearing, depreciation and superannuation arrangements. In the middle and outer developing suburban locations, speculative investors have taken advantage of the ongoing lack of readily available titled land, opting to on sell once the land is close to having title issued.

Given the predominantly owner-occupied nature of the middle and outer suburbs, a slow down in investor activity is not likely to have as significant an impact as some of the more investor dominated markets such as the CBD.

Investors should be aware of the current trends for off the plan purchases with values at settlement not matching contract price and the recent legislation changes limiting stamp duty concessions to owner-occupiers and property of less than $550,000. Additionally, investors should set clear objectives relating to the overall performance and expectations of their investments as simultaneous high yield and high capital growth is uncommon in the current market.

Middle to outer eastern suburbs

Units and apartments particularly appeal to investors within the outer eastern suburbs. This is similar for local and non-local investors however it seems that local investors prefer units and non-local investors prefer apartments. Generally we see investors operate in the $300,000 to $550,000 price range.

It seems investors prefer low maintenance properties with a high yield and that short term capital gains are not as important. We have seen investors being very active in new apartment buildings located close to amenities such as train stations. Suburbs such as Blackburn, Nunawading, Mitcham and Ringwood have appealed to investors with affordable entry level apartments and rental demand.

Investors are a positive for this market as they have increased development in the middle to outer eastern suburbs. If investor demand does decrease we could see apartments on the market for a longer period. Off the plan apartments have appealed to investors in the past due to the decrease in stamp duty. However with this benefit being removed we could see investors looking at alternative options.

Investors looking for long term capital gains should consider dwellings on larger allotments. This is due to the lack of supply of land which is likely to cause values to increase. Although they may need more maintenance in the short term larger allotments could prove a better investment.

Western suburbs

Within the inner western suburbs, investors tend to focus their attention on either off the plan apartments or newly constructed units. These options tend to favour overseas investors, many of whom would purchase such investments through trade shows or overseas campaigns targeted specifically at them.

Given the increased supply of apartments and units within these suburbs and therefore subdued capital growth, investors tend to purchase investment properties with a view to holding them for the medium to long term in the hope that Melbourne's popularity as a place to live continues to increase.

To the year to 30 June 2017, the average price of a unit or apartment in Yarraville was $582,000 with a rental yield of 3.8% and annual growth of 3.9%. By comparison, the neighbouring suburb of West Footscray offered investors a more affordable option, with the average price being significantly lower at $418,000 and a marginally higher rental yield of 3.9% but slightly lower annual growth of 3.2%. With the abundance of new apartment and unit developments in Footscray, the result has actually been a decrease in the average price of an apartment to $405,000 as at 30 June 2017, whereas a year ago investors would be expected to pay around $435,000. However, rental yields have remained relatively steady at 4.4% and therefore the suburb remains popular with investors.

In some ways, the presence of investors in the inner western suburbs is regarded negatively in general, due to the fact that they compete with many first home buyers and that the quality of the apartments and units constructed has diminished considerably in comparison to properties built specifically for owner-occupiers. On the reverse side however, the presence of investors particularly in suburbs such as Footscray has ensured that rents have remained at a fairly consistent level for the past five years. In 2012 this was $310 per week, while in 2017 this has increased marginally to $325.

The key piece of advice for potential investors is to remember that location is of paramount importance. Properties located within a short walking distance to local amenities, schools and other services will always be in demand and looked upon favourably by potential tenants.

Inner city

The Melbourne CBD and inner city suburbs apartment market continues to be popular with investors, both international and local, but is showing early signs of slowing down due to tighter lending policies imposed by APRA, the State Revenue Office and the federal government.

A few years ago, international purchasers, further encouraged by historically low interest rates, were able and willing to purchase 1- and 2-bedroom apartments off the plan in Melbourne CBD and surrounding suburbs, such as Southbank and Docklands, encouraging developers to drive up the off the plan purchase price. The changes introduced this year however are aimed at limiting international investment in order to increase housing affordability.

Investors in the Melbourne CBD and inner city suburbs are looking to maximise yields rather than generate significant capital gains, as the apartment market has been stable for the past several years and generally recorded no significant price growth. REIV reports an average median price increase of 1% for apartments in Docklands and a 1.8% increase for Southbank compared to last year, while median apartment prices in the Melbourne CBD and South Yarra rose by 4.2% and 5.5% respectively.

Similarly, inner city annual rental yields have seen moderate increases year on year according to REIV, with the median rent for 1-bedroom and 2-bedroom apartments growing by 2.9% and 2.2% respectively.

The Victorian Government is hoping that new financial restrictions imposed on investors and developers will reduce international demand in the Melbourne property market and therefore cool the market, while simultaneously increasing the number of apartments available for rent. Should this be the case, vacancy rates are likely to go up while rental yields drop due to increased competition.

We implore investors to be cautious when buying apartments in the Melbourne CBD, especially when buying apartments off the plan, as these properties are often sold at an inflated price pegged to a future completion date and are later re-sold in an open market to a genuine buyer at a loss within 12 to 18 months.

South-east

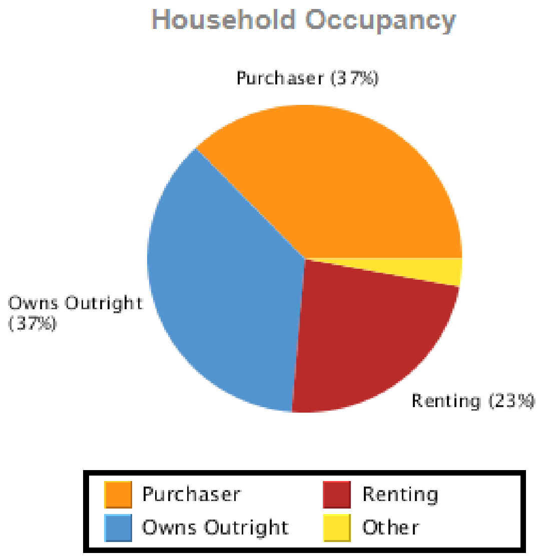
Property investment in outer south-eastern suburbs has yielded strong results in recent times. With property prices for the area deemed more affordable than inner city suburbs, the region is popular with investors wanting to get into the property market.

Location is crucial for investors in the outer south-eastern market. As a substantial part of the region is still developing, location within close proximity of shopping amenities, schools and public transport options is essential for a higher return.

Investors in the area are attracted to off the plan, relatively new or recently constructed dwellings and townhouses. Being near new or only a few years old, the likelihood for maintenance works is reduced and therefore appears to be less of a financial burden on landlords, thereby increasing their return on investment.

Suburbs such as Clyde, Clyde North and Officer have seen strong rental yields of between 4.5% and 5% recently which would appeal to many investors who are not able to achieve this yield in bay side suburbs.

Statistics show that almost a quarter of the outer south-eastern suburban population are renters which also demonstrates the strength of the property investment market for the region. Whilst sacrificing their proximity to the Melbourne CBD, the area is popular with young families due to its relative affordability compared to inner city properties, the luxury of more space and no shortage of schools, parks, shopping amenities and sporting facilities.



Source: RP Data

Geelong
Due to the high median house price in Melbourne, some investors are now shifting their attention to Geelong. Geelong is attractive to investors due to its proximity to Melbourne, public transport options, education, the beaches and strong growth over recent years.

Geelong Median House Price

Source: REIV

Many people commute to Melbourne every day from Geelong, therefore the demand for properties close to a railway station is high. 57 Carr Street, Geelong (see below) is a good example of the type of property investors are looking for. The property sold for $470,000 in March 2017 and was rented out in June for $400 per week reflecting a yield of 4.4%. It is also important to note that the property sold in January 2015 for $416,000.

Source: PDOL

Deakin University is another key reason why investors look favourably upon Geelong. In the suburb of Waurn Ponds, capital growth and yields are strong. 60 Willesden Drive, Waurn Ponds sold for $600,000 in April 2017 and was rented for $500 per week in June 2017, reflecting a yield of 4.33%.

The advice for investors looking at the Geelong market is to look for properties close to railway stations and Deakin University. Properties in these areas tend to have strong capital growth and good yields. With possible railway upgrades along the Geelong to Melbourne route on the horizon, property in Geelong will continue to be in demand for people looking to live outside Melbourne.

Bendigo

Investors from the eastern capital cities of Australia could look at regional centres such as Bendigo with great interest due to the significantly lower buy in prices.

Generally non-local investors are seen to pay above market prices for any type of property investment. New houses in new estates appear to be the most popular product with investors. Two-storey town houses located within the urban centre of Bendigo are also a sought after product. The most common price point for investors is the $300,000 to $400,000 bracket which is comparatively low compared to most metropolitan markets. The most sought after areas by investors are considered to be any of the growth corridors of Bendigo including Epsom, Maiden Gully and Strathfieldsaye. Inner urban areas in demand include the long established suburbs of Golden Square, Kennington and Flora Hill. These areas are within a short commuting distance of the Bendigo CBD. La Trobe University is located in Flora Hill and is the driving force behind investor demand in the Flora Hill and Strathdale areas.

Non-local investor interest has declined over the past five years which appears to have coincided with the down turn in mining. This reduced interest has been of little to no impact on the local market. If there was a significant decline in investor interest, possible outcomes could include a slowing of new development in the growth corridors as well as a general uplift in rent returns. This could subsequently result in an uplift in overall property prices, however this remains speculative.

For those interested in investing in the Bendigo market do not rely on short term capital growth; instead pay more attention to yields and future development potential.

Echuca

Typically investors in anything but central Echuca are looking for yield supplemented by capital growth rather than the other way around in our local markets. Changes to tax laws around depreciation have also slightly reduced the amount of items that can be claimed for dwellings in the mortgage belt. Nevertheless many centrally located residences are being successfully operated as short term accommodation (AirBnB and established holiday rental management companies along with privately owned and managed residences) with most reporting superior returns above and beyond permanent accommodation.

Mildura

Investors have always made up a significant portion of buyers of residential property in Mildura, with buyers attracted by relatively good rental yields and a growing local economy and population. In recent times, investors have mostly purchased modern 3- or 4-bedroom dwellings in the range of $250,000 to $350,000. These properties are generally attractive to tenants and often offer potential to claim some depreciation deductions.

While hard to be precise, we estimate that investors could currently make up to 20% of buyers. The percentage of investor buyers appears to have declined over the past two to three years, due to the absence of some out of town builders and promoters who had been active in building homes targeted at investors. This activity peaked in around 2013 and helped in providing additional rental accommodation at a time when there had been a shortage.

Gross yields of over 5% and up to 6% are currently achievable and even though buyers are looking for a combination of capital gain and yield, the yield is probably the aspect that influences the decision to buy in Mildura rather than a larger centre. Slightly higher yields are attainable in some smaller satellite towns such as Red Cliffs, however we would expect there to be less opportunity for capital gain in these towns.

Investors are also attracted to blocks of units which provide higher yields than stand alone houses. Unit complexes containing three or four units typically sell for between $400,000 and $475,000 and these investments appeal to buyers due to their expected low risk of vacancy.

Any slowing in investor demand would not be expected to substantially impact on the local market. The local economy is currently enjoying a period of stronger conditions and we expect to continue to see steady population growth and demand from owner-occupiers, particularly while interest rates remain low.

Queensland

Brisbane

While our southern cousins have seen their markets heating up from 2012 through to now, Brisbane was, in general, subdued. Our city has always been a 'safe bet' for long term gains but dreams of double digit value growth over the past five years have remained just that... dreams.

We may not have fired as high or fast as many wished, but really, Brisbane is about staying the course and enjoying our forgiving troughs and tempered peaks.

When it comes to investment property, there's a thing or two that speculative out-of-towners could learn from the locals. In recent years, non-local investors have bolstered demand for new units. As has been well publicised, the result is an oversupply of this stock, and forward approvals indicate this won't be alleviated any time soon.

While there were some locals getting in on the new-unit act, most smart Brisbane-based investors were steering away from high-rise one-bedders, and dipping their toe into townhouses and detached homes. Non-locals should notice and follow their lead.

Near-city houses and townhouses situated close to transport and infrastructure are the ones to go for if you want to, as a 'rule of thumb', mitigate risk.

Brisbane is also attractive to investors keen on chasing higher rental yields. The popularity of duplex and dual occupancy style properties is on the up. It's not surprising Brisbane property yields are attracting interstate buyers of course. Those strong price gains in Sydney and Melbourne have continued to erode return on their capital outlay. The interesting thing is, in this sector, we're actually seeing a lot of this activity in the fringe rather than close in. Think Caboolture and Morayfield in the north, Logan to the south and Ipswich to the west.

When looking for movement at the investment station, price point is imperative. Most Brisbane investors are looking to outlay on entry level stock. For detached housing, that price generally varies with proximity to the CBD, with a broad observation being $500,000 to $700,000 for mid-ring suburbs and $400,000 for outer lying suburbs.

For fringe suburbs, those dual-occupancy, strong-yield investments are priced up to $550,000.

For townhouse buyers, the sweet spots are typically sub-$350,000 for outer lying suburbs and sub-$450,000 for middle ring addresses.

When investors are deciding the balance of their portfolio in relation to capital gain vs yield in Brisbane, the old rules ring true. Detached homes are more prone to value rises while attached housing is yield driven. You see, detached homes come with a land component – and we continue to have decent size blocks within a reasonable distance of the CBD in our capital, so that's always a good thing.

The other capital gain advantage is the potential to do a bit of renovation. A cosmetic tart-up in particular can have a very immediate increase in value without too much effort and cost, so this strategy continues to be of the appeal in our city.

There has been a slowdown in investor activity of late due to a confluence of factors. Uncertainty around price movements in units has been exacerbated by the oversupply. Negative media exposure and restrictions imposed by lenders responding to regulators are other factors that are seeing investors take a breather. If these influences continue and investors decide to keep vacating the market, price softening in the unit sector will likely be the most dramatic result.

That said, there's still a good variety of options at the moment, particularly for established dwellings which can offer long-term capital growth. As we said, in Brisbane it's best stay the course, think long term and remember - location, location, location.

Toowoomba

Investors have generally been attracted to low maintenance properties such as near new 4-bedroom 2-bathroom 2-car houses and 6-bedroom 4-bathroom 2-car duplex pairs. Majority of the investor market at present appears to be non-local investors with most locals purchasing to occupy. The majority of the investor market tends to operate in the sub $400,000 segment for houses and sub $550,000 for duplex pairs. In the current market it's unknown whether investors are favouring strategies to seek higher yields or focusing on capital gains. With a slow moving market at present, investors are possibly looking to use a mixture of the two strategies.

Some of the western suburbs such as Glenvale and Cranley, and nearby neighbouring suburbs including Wyreema and Cambooya have tended to be hot spots for investor activity over the past few years. This is most likely a result of vacant space able to be developed; with other suburbs to capacity and unable to spread. The investor market has been strong in the Toowoomba area over the past few years with the contributing boost in infrastructure and developments recently completed and still underway. These projects have brought workers to the area requiring accommodation. It could be argued that the high investor activity recently experienced in the Toowoomba area had a negative impact on the region with an apparent oversupply situation, rise in vacancy rates and a reduction in rents. On the other hand this has also helped bring jobs, housing and affordability.

Investor interest in Toowoomba and surrounding areas has significantly slowed in the past two years, resulting in a gradual correction of the market with vacancy rates and rents stabilising. People looking to invest in the Toowoomba area could consider purchasing in older suburbs closer to the CBD, shops and services such as Centenary Heights, Darling Heights, Kearneys Spring, Newtown, North and South Toowoomba. These areas could see higher yields with proximity for convenience and have greater potential for capital growth as these suburbs have nowhere to spread.

Gold Coast

Central

Investor activity in beachside locations remains steady to subdued with current tightening of lending policy. Local investors appear more active in the second hand unit market with body corporate fees a factor in the buying decision.

Non local investors continue to be the main drivers of new product high rise units paying premiums in excess of local market levels for similar existing stock.

Away from the beach there has been significant new construction in both medium rise developments and medium density cluster unit townhouse style developments.

Local investors have been more active in the modern townhouse style developments which provide two level 3-bedroom, 2-bathroom accommodation. Prices for new product are now in the low to mid $500,000s, with resale evidence of product selling off the plan in 2014/15 for $530,000 to $550,000 reselling this year for the same or slightly more.

Modern medium rise developments are marketing 1-bedroom plus study units for over $400,000. In general, non-local investors are purchasing these units.

Rental levels are still currently strong with no sign to date of any softening however with the large number currently under construction or nearing completion, an increase in supply should lead to a lowering in the rental levels achievable.

The investor is considered good for positive capital value growth whilst market conditions are strong. Any change in market forces such as quickly rising interest rates will have a negative impact on buyer demand in general and is more likely to have a stronger effect on the investor market with a compounding effect and softening in property values.

Coastal north

Investor activity within the coastal northern suburbs of the Gold Coast remains steady, seemingly trailing off approaching the end of this financial year. Interstate investors are more prominent than local investors which could be a reflection of the state of the New South Wales and Victorian central markets.

Interstate buyers have mostly been active in new, modern style developments. Suburbs that stretch along the Broadwater such as Southport, Labrador, Biggera Waters and Runaway Bay are offering investors 1- and 2-bedroom, modern style low, medium and high rise units with strong rental returns and low vacancies due to their proximity to amenities. Original or partly renovated units within these higher demand suburbs are usually purchased by owner-occupiers, with investors not looking for properties that require any renovation works to achieve good rentals.

If this investor market was to slow, the impact would be most notable within this property segment (new developer product).

Inland suburbs such as Western Labrador, Parkwood, Arundel, Coombabah and Helensvale are attracting local investors with more affordable 2- and 3-bedroom duplex, villa or townhouse type products. These can range from $280,000 to $400,000 with local investors willing to purchase in an original or run down condition and complete some renovation works before putting them up for rent. These properties are also attracting strong returns from family renters due to their proximity to schools.

Agents are reporting that most interstate investors are generally seeking strong yields over capital gains, with the boost in infrastructure and the nearing Commonwealth Games seen as the two major drivers for rental demand.

Agents for national companies such as Ray White have also reported investors simply giving basic parameters such as certain age, yield percentages, proximity to the light rail and proximity to a university as the only determining factors in the search for an investment property on the Gold Coast – sometimes not even wishing to inspect or see the property.

North-west

Investors in this region are still red hot for entry level, mid 1980s original housing in the Beenleigh area. Sydney and Melbourne buyers can buy three of these properties and still have change left over compared to the median house prices in their local markets, with most entry level product offering a 3-bedroom, 1-bathroom original house for a sub $300,000 purchase price.

Our local investors appear to be favouring the modern houses which are not new but less than ten years old. This way they avoid paying the premium for new housing and maintenance is minimal in the short term.

The price range for these properties is $360,000 to $400,000 in the north-western corridor.

In this region, investors are taking the lion's share of the market and if there was to be an increase in interest rates, further changes to investment lending or any other factor that would significantly slow this sector, then the upward momentum would stop and even experience a downward correction.

North-east
Investors in the north-eastern growth suburbs such as Pimpama and Coomera are predominantly interstate with this locality being dominated in recent years by construction of dwellings for the investment housing market. Property in this area is underpinned by strong investor buying activity with the majority of new land and house and land packages being sold to investors. The price points for these properties are $450,000 to $500,000.

Investors seem to be seeking yields and tax benefits with new products and we normally see the investment product being resold after four to five years. We have seen a decline in volume during 2017 with borrowing conditions for investors softening, however property values in the area have not been impacted with no sign of decline in value. There is a higher than usual proportion of investment properties compared to owner-occupied houses in the area and in the event of interest rate increases and borrowing conditions softening further, the value of properties in a strongly underpinned investment market will be impacted more than the broader market.

There are currently a large number of properties available for rent in Coomera and Pimpama with some property managers offering rent free periods and other forms of incentives to attract tenants. The ongoing supply of new investment properties on the market may result in added pressure causing increased vacancy periods and reduced rental incomes for investors in the area.

We note that there has recently been a significant increase in activity in Eagleby by interstate investors. Investors are also becoming more prominent in the market as the low interest rates and strengthening rents on the back of low vacancy levels have improved the yield potentials of properties. This is very evident in the lower end housing, townhouse and unit market where there has been a significant increase in sales volumes in the under $300,000 price bracket.

What would be your best advice for any investors thinking about buying in your market? Purchase new product in predominantly owner-occupied estates.

Tweed
Investor activity in the beachside locations of the southern Gold Coast and Tweed region remains steady at present. Local and non-local investors generally target similar product such as the established housing and unit market where rental returns are strong.

The price point at which we generally see local and non-local investors active is under $1 million.

Non local investors continue to be the main drivers of new product in low rise and medium rise developments and pay premiums, in particular in Varsity Lakes.

The investor market has been steady over the past two years. If the investor market was to slow, the impact would be most notable on new product (development stock).

Investor activity in any market is generally seen as a positive. Investors generally provide capital growth value in the property market, however any change in market conditions such as interest rates rising or firmer lending policies for investors will have a negative impact on buyer demand, resulting in a softening of property values.

Note: With regard to the Property Clocks, these are general and vary between locations and property types.

Sunshine Coast
Investors in the Sunshine Coast property market have been pretty active over number of years. Market sentiment had improved which has intern instilled confidence in the marketplace. The main driver of this sentiment was the construction of the new Sunshine Coast University Hospital,, one of the largest hospital facilities and infrastructure projects constructed in the southern hemisphere over that time. That combined with the uplift in the market cycle, that was well over due, has led to the Sunshine Coast having their day in the sun.

The coastal areas have been very popular with investors.

Typically the price levels are up to $500,000 with the original suburbs seeing a good uplift in values over that time.

The master planned estates have had the benefit of the small lot phenomenon and the ability for developers to bring built product to the market at the sub $500,000 price point. Rental returns remain around the typical 5% gross yield.

Inland, the price point tends to drop down to the $350,000 to $450,000 level. The main centres with good local infrastructure such as schools and shops etc. have been the most popular areas. There is the potential to get a little better yield then in the coastal areas however capital growth opportunities may not be as great.

In the prestige market, we have started to see an increase in the number of investors. This market is typically difficult to gauge given that there's a number of different drivers in the investment decision. This market is closely related to the southern markets of Sydney, Melbourne and Brisbane so at the moment has been somewhat good. A number of investors in this segment are certainly purchasing for position and lifestyle choice and in quite a number of cases, with a view to the investment being a future retirement home/principal place of residence. The majority of activity in this market is occurring up to the $1.5 million mark running right along the coast from Caloundra up to Noosa.

Considering all of the above, the investment market on the Sunshine Coast has been fairly healthy. The good news is, there are a number of infrastructure projects in the pipeline that will help with maintaining market sentiment in the area.

Hervey Bay

Investors are typically attracted to standard house and land packages which start at an affordable $330,000 for a basic 4-bedroom, 2-bathroom home with double garage. Lot sizes have been steadily reducing over the past five years as Council looks to promote higher density living particularly within the newly established estates located in the fringe areas of Hervey Bay. Over the past few years we have seen many duplex style dwellings constructed, with the floor plan providing 3-bedroom, 2-bathroom accommodation (with single garage) on one side, with an attached 2-bedroom, 1-bathroom flat (with single garage). These have been very popular with investors with most yielding 6% to 7% gross return, along with attractive tax depreciation benefits. This type of property is currently being marketed to interstate investors and we are yet to see a resale of this type of duplex. Investors who choose to purchase on the Fraser Coast have a very wide range of property to choose from, with new estates offering a range of turn-key quality inclusions to attract buyers.

Bundaberg

The Bundaberg property investment sector could currently be described as soft. Rental returns of approximately 6% with no to limited capital growth over the past few years coupled with the increase in interest rates solely to investors by the banks has made this sector particularly cautious.

The RBA increasing rates to slow up the southern property markets has managed to slow our already slow market.

The areas with older timber dwellings that need a complete renovation seem to be the areas to find a bargain.

Regardless of the soft market, the Bundaberg area is still considered to be an affordable place to invest.

Emerald

Investors in the Central Highlands region have been nearly non existent. There are some local speculators picking up some basic properties at the bottom end of the market hoping for a capital gain return over the next two years. Other than that there have been a few multi unit properties sell to investors showing a gross yield range of 7% to 12%.

Gladstone

Investor activity in the greater Gladstone region has been very limited over the past two to three years on the back of significantly declining value levels and high vacancy rates.

Now that the market has bottomed, we have seen a very slight increase in investor activity, however owner-occupiers and first home buyers in particular, still dominate the market. The investors who are buying into Gladstone are mostly non locals and they do not appear to be buying any specific product. Yields are very low and vacancy rates still sit at about 5% (above average) for the region, therefore long term capital growth is currently the strategy of most investors. With value levels the lowest Gladstone has seen in over a decade, the timing is ripe for investors to snap up bargains in the area.

Rockhampton

The recent life and times of the residential property investor has been interesting as both government instructed and financier initiated changes have caused adjustments in property investors' behaviours. With respect to the greater Rockhampton market, investors have traditionally favoured the lower price end of the market where potentially higher gross yields can be achieved. Compared to non-local investors, locals have typically been more discerning in their investment choices, often favouring better quality products than non-locals who have been more focused on returns.

The majority of the investor market has historically invested in the $250,000 to $300,000 price bracket, however a softening housing market has reduced this to $200,000 to $250,000 for similar quality properties. The greater Rockhampton market has typically provided higher gross yields than its capital city counterparts, but characteristically has not achieved similar capital growth rates.

Investors chasing higher yields at the lower price point end of the market have generally been the hardest hit due to a softening local economy and an oversupply of rental properties. Renters have taken the opportunity to upgrade the quality of property they are renting, whilst paying the same or less in rent. Secondary locations and older style properties have had weaker demand from renters, with only price point or generous incentives enticing renters to occupy these properties. Owners of better quality properties in sought after locations have been able maintain better occupancy rates than secondary locations.

Historically, Gracemere has been the most active market for non-local investors who sought to take advantage of the growth in the mining industry. A significant number of these sales were to non-locals on the promise of guaranteed rental returns. The downturn in the mining industry that followed, coupled with an oversupply of newly constructed dwellings, meant that at the end of the guaranteed returns, the rent able to be achieved in the market was significantly less. This decrease in rent caused many investors to off load properties resulting in an oversupply of properties for sale.

In recent years, the investor market has been limited due to a weaker local economy and softening house prices which has eroded both investor equity and confidence. Investors, however have the ability to have a very positive influence on the greater Rockhampton market. This can be achieved by investing in the established lower value properties throughout Rockhampton which will provide a floor in the market. Should investors tend towards purchasing new off the plan properties at inflated prices with guaranteed rates of return as they have in the past, this will only seek to further saturate the rental market which would be detrimental to the Rockhampton market.

The investor has generally missed greater Rockhampton and the opportunities that it presents.

Rockhampton has a more diversified economy than some of its neighbouring cities and whilst it may be too early to determine where the market is on the property clock, it is certainly more towards six o'clock than twelve o'clock. The short term outlook for investors is mixed; those who purchased properties at inflated prices will have to wait a longer period to potentially recoup their initial purchase price, however the discerning buyer could see gains much sooner, highlighting the importance of research prior to investing. Our advice to any investor looking to invest in the Rockhampton market is to do their research and to have a realistic time frame for their property investment goals. Whilst in the immediate short term, capital growth may be limited, the market does present opportunities for prudent investors at lower price points than in capital cities.

Mackay

There has been very little investor activity since the downturn in the mining sector which saw rental values fall up to 50%. Significantly lower market values have seen the typical renovator or builder and some non typical investors such as parents and son or daughter quartets joining the market. They are purchasing the renovators delight and doer uppers to renovate and flip for capital gains.

Single units are not very attractive for investment in the current market however duplexes and quadplexes are ideal for investors looking for higher yields. Older style duplexes have been selling for between $240,000 and $300,000 with gross yields between 7% and 8%. Quadplexes have been selling at between $440,000 and $510,000 with gross yields between 8.5% and 9.5%.

During the last quarter of 2016, rental vacancies were sitting at 6.9% and market values appeared to have reached the bottom of the market cycle. Market values began to stabilise during the first half of 2017 and rental vacancies are currently sitting at 6.4%. This could be seen as a positive indicator for investors.

Townsville

Over the past few years, local and out of town investors have typically been more attracted to housing product over unit stock as the rental market, particularly for units, remains in oversupply along with ongoing buyer aversion due to high body corporate expenses. Local investors appear to be typically attracted to entry level stock in the sub $300,000 price bracket, whilst out of town investors are generally in the $300,000 plus price bracket.

The rental market is continuing to indicate an excess of supply with the vacancy rate for houses as at June 2017 standing at 4.75% and units at 6.50%. This excess supply of property available in the rental market relative to demand over the past three to four years has been filtering through to on-going trend reductions in the level of median rents. In trend terms median rents in March 2017 for both houses and units are 11.7% below their corresponding levels in March 2012.

Investors in the current market appear to be seeking capital gains. With both the median house price and median rents at soft levels, this puts investors in a good position to capitalise on the upswing in market conditions.

The latest federal budget has tinkered with property market settings to address housing affordability including the implementation of changes to residential investment property depreciation. These changes along with tighter financial controls for investors appear to be one size fits all adjustments applied to correct Sydney and Melbourne markets, however they have the potential to negatively affect regional markets such as Townsville, where the primary concern is consolidating a recovery process, not affordability.

Cairns

Investors, especially outside investors, have been progressively shrinking as a force in the Cairns market in recent years.

Our analysis shows that overall, outsiders buying into the Cairns market have reduced from nigh on 50% of the market in 2003 to around 22% of the market today. The switchover is especially noticeable for units, where outside buyers have reduced in activity from near 70% in the heyday of the market in 2003 to approximately 34% of a much smaller market in 2017.

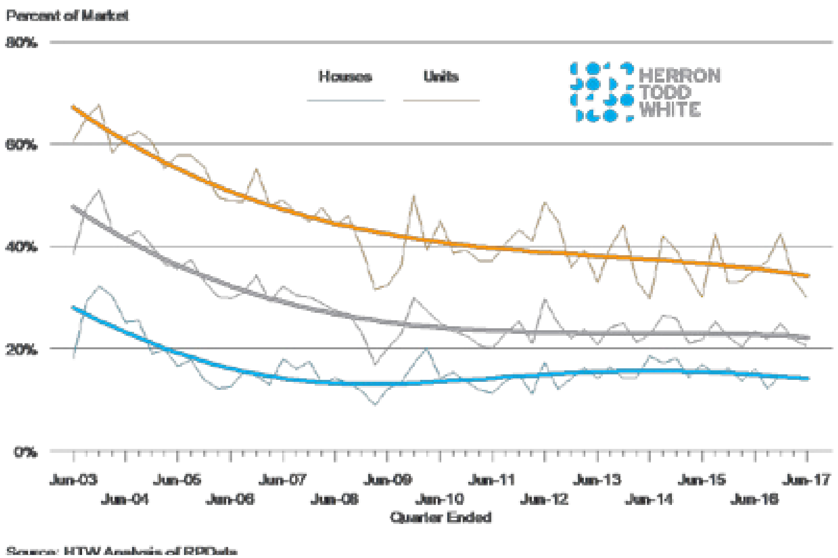
Over the same twelve-year period, investor yields have improved. For instance a new 4-bedroom, 2-bathroom house on the northern beaches of Cairns that can be currently bought for around $420,000 would typically rent for $440 per week. Yields for units are even higher, though it must be said that the increased yield is in many cases is frittered away

by higher ownership costs, particularly through escalated building insurance charges.

Part of the explanation for the investor slowdown over the period has been the absence of new housing construction, especially of units. Even though building conditions have improved significantly in Cairns over the past three years, building levels are still patchy and only a fraction of normal.

By rights Cairns should be an investment hot spot given its relative affordability especially compared to investment in capital cities, and its good prospects as the economy continues to improve on the back of increased tourism. Its rental market fundamentals also remain strong, with a very low vacancy rate, strong yields and low levels of new rental housing construction.

Outside buyers in Cairns



South Australia

Adelaide

The property type that appeals to investors will largely depend on location and proximity to the CBD. It has typically been detached housing that has attracted investors in suburbs outside the CBD, however increasing higher density in-fill development within many suburbs is resulting in investment in townhouse and group dwelling style accommodation. This is becoming more prevalent due to varying zoning changes in council areas across Adelaide. Whilst non-local investors are also active in these newer markets, they have typically been attracted to apartments in the CBD due to proximity to services and facilities as well as stamp duty concessions.

Price point is difficult to quantify but typically $450,000 to $600,000 for detached housing and $300,000 to $500,000 for group dwelling style housing. This will vary largely depending on location.

The Adelaide market has remained fairly stable over the past few years. Investors are generally seeking yields with a view to longer term capital gains. There are also investors seeking properties in areas undergoing in-fill development with many holding properties to develop in the medium to long term.

There has been ongoing activity in areas such as Morphett Vale, Campbelltown, Prospect and Windsor Gardens. This appears to be due to investors purchasing newly built group style dwellings. Investors seem to find these properties appealing because they are low maintenance, well serviced by local amenities and have the potential for possible taxation benefits.

The investor market has remained largely stable over the past few years.

Whilst not a bad thing for the property market in general, investors can make it difficult for first home buyers seeking to enter the market. If they are perhaps looking to purchase a detached dwelling on a larger allotment, they may find they are competing with an investor purchasing to develop in future. This can be frustrating for purchasers in that market segment.

This would result in a slowing of the property market in general for Adelaide. It would also impact on the construction and related industries employed in the residential construction area.

There are limited hidden gem suburbs in Adelaide. Whilst there have previously been suburbs that have gone under the radar, this is no longer the case. Suburbs previously not as highly regarded have increased in popularity in recent times. An area such as Flinders Park in the western suburbs is a good example of this. Situated adjacent to Linear Park and within proximity of areas such as Torrensville, Underdale and Lockleys, the market has continued to be strong in that area. Given the increased investor activity, selling agents are reporting that first home buyers are finding it difficult to compete with the investor market.

Our advice to investors is to purchase a property in a well serviced area with proximity to shopping and transport facilities. This will improve chances of attracting tenants and securing rental income in the long term.

Mount Gambier

Investor interest in the Mount Gambier region has been relatively good in recent years. A range of property types, such as units, maisonettes and house and land packages in modern divisions, appeals to investors in the area

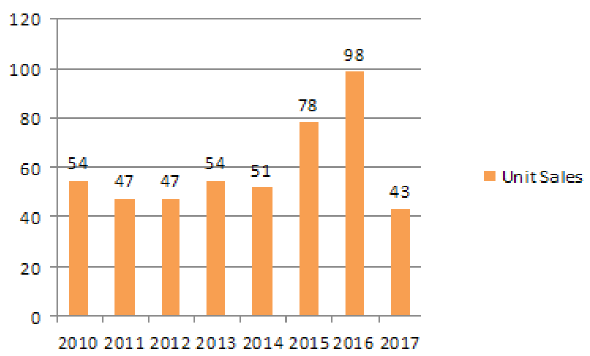
Local and out of town investors are purchasing properties in Mount Gambier. Local investors typically spend less on a property and will generally lean towards units rather than house and land packages. In comparison, out of town investors often have larger budgets and will invest in properties that provide good yields, such as flats or house and land packages. Local investors generally look at properties in the mid range whereas out of town investors look at properties in the low or high range.

In recent years there has been limited capital growth in the Mount Gambier region. However, in comparison to cities and other regional areas, the returns on properties within the region are considered quite good and are therefore attractive for investment properties.

New modern divisions have been targeted by out of town investors in recent years. These modern divisions have had bigger marketing campaigns that purely focus on drawing in investors.

In recent years the number of unit sales occurring has been increasing and in 2016 unit sales were almost double what they were in previous years. As seen in the graph below, last year there were 98 unit sales, whilst in 2013 and 2014 there were only approximately 50 unit sales. A high percentage of these unit sales tends to be to investors.

Mount Gambier Unit Sales



Investors are generally seen as a positive for the Mount Gambier region. With the recent creation of the James Morrison Academy of Music, there has been more interest from investors because there are more people looking for rental properties.

If investor activity were to slow within the Mount Gambier region we do not consider this to significantly impact the current market. There would likely be a bigger impact if investors were looking to exit the market altogether, as this could create an oversupply of properties.

If we could give any advice to investors who are thinking of buying in the Mount Gambier market, it would be to do your research on locations and look deeper than just the yield. It would be beneficial to look at the local industry and employment within the region and also the health of the local economy.

Tasmania

It appears Tassie's secret is out, that low interest rates, rental vacancy rates and capital entry levels partnered with stable rents translate to good investment yields and these factors appear to be the reasons behind growing investor participation in our residential market.

Comparative to other states investors have not traditionally played a large part in the Tasmanian residential real estate market, however reports on recent data by the Real Estate Institute indicate that investor activity has grown from 14% to 21% compared to the same period last year with small gains in interstate investor activity.

Currently first home owners in Tasmania are eligible for a $10,000 grant when purchasing a home however if they purchase either a newly built home, engage a builder or build themselves they are eligible for a further $10,000. State Revenue Office statistics reveal that grants paid to those purchasing new properties have declined by approximately 38% over the past twelve months indicating that first home buyers are forgoing the full $20,000 grant by purchasing established properties as they often represent better value. In doing so first home buyers are directly competing with investors in the sub $275,000 price bracket.

Local investors appear to be purchasing residential property in the lower regions of this bracket with a view to renovating it themselves for either an investment yield by building their rental property portfolio or flipping it for capital gain. By contrast, interstate investors appear to be seeking investment yields or purchasing properties to retire to and renting them in the interim. Depending on the depth of their pockets, in some cases interstate investors are spending anywhere up to $500,000 plus.

Tasmania's slower population growth has resulted in greater diversity of property types in each suburban area where small cottages can sit next to mansions which may explain why unlike other states, investors don't tend to focus on any particular suburb. Investor focus, of which the lion's share is local, appears to be on either properties ripe for renovation or those with development potential.

In Tasmania's south, the commuter suburbs of Glenorchy and Claremont, approximately ten and fifteen kilometres respectively north-west of Hobart along with New Norfolk, (a slightly longer commute being approximately 35 kilometres also to the north-west of Hobart) have been strong performers in recent months in this price bracket. The Museum of Old and New Art (MONA), a popular tourist destination sits within an approximately three kilometre radius of both Glenorchy and Claremont.

The most economical areas in the north where the greatest volume of residential sales has occurred in recent months include George Town, Newnham and Mowbray. George Town is a satellite town of Launceston with a commute of approximately 40 minutes. The majority of sales in George Town were well under $180,000 and marketed for extended periods. Newnham and Mowbray are located near the University of Tasmania Launceston campus and are therefore popular with students.

Northern Territory

Darwin

Following the extensively reported contraction in the residential market over the past 18 months, levels of market demand have waned across all buyer profiles, including the investor market segment. This follows a strong period of growth where high rents were driving investor demand which presented yields of up to 7% or 8%. However investors have recently seen a contraction in annual returns and dramatically reduced prospect of capital growth, particularly within the CBD unit market, where they have traditionally been most active (particularly interstate investors).

Despite this and whilst we acknowledge the reduction in demand, we have not experienced a mass exodus from this market segment which could have been expected and there are some investors still actively seeking new residential units with reasonable lease terms. Just this week, this office has seen a contract of sale for the purchase of a new residential CBD unit by an interstate investor which, on analysis, showed a yield of 7.4%, being an oil and gas industry related lease. Is this the exception rather than the rule? Certainly the oil and gas industry operates on another level compared to the balance of the market players, preferring to retain efficiencies in personnel logistics over and above seeking the best deal from across the city which typically sees above market rents being paid. Investors are being sold a guaranteed return typically higher than the market, however there is almost no prospect of capital or rental growth and certainly that return will diminish at the expiry of the lease with rents reduced to market levels.

In regard to lease terms, probably the most distinct difference in the market we are currently in compared to the market 18 months ago is that lease terms are significantly shorter. Previously we have seen lease periods of up to three or four years at an annual fixed percentage increase, however as we move down the construction time line for some of Darwin's major projects and the closer we get to completion, those lease terms are naturally becoming shorter, now negotiated on multiple lots of six month periods for up to 18 months or so.

The other major player in the investor market outside of the oil and gas industry is Defence. Defence Housing Australia (DHA) is still very active in the market place in seeking properties to rent, sale and lease back agreements and off loading ageing assets that no longer meet current requirements. There are major differences between a Defence related lease agreement and one which is associated with the oil and gas industry. With higher risk, you expect a greater return. This rule also applies when comparing the two types of investor properties. A lease with DHA will typically give you a lower return. You could expect as much as 5% to 5.5% (gross) property dependent, down a couple of percent from the example above in the oil and gas industry. However, leases are typically for extended periods of time up to nine to twelve years plus options. Rents are reviewed annually and adjusted to be in line with the market, however depending on the nature of the agreement, some leases include ratchet clauses maintaining the original rent as a minimum, incentives and make good requirements which see that minimal maintenance is required by the owner and is more of a set and forget type arrangement - a management fee is detracted from the annual return and can be up to as much as 16.5% including GST.

Returns in the private sector are not too dissimilar to that of DHA, typically hovering around the 5% mark, although leases are more subject to market movements and susceptible to the particular circumstances of the tenant and landlord. These types of leases are typically for periods of one year, with management fees of around 8% to 12% per annum.

So, is Darwin an attractive place for investors? If looking solely at the returns on offer it would appear so, being a couple of percent stronger than some other capital cities. However, capital growth in the short to medium term cannot be expected given the over supply of properties for sale and rent and if market conditions continue to weaken, particularly in the CBD unit market, capital values and annual rents will be adversely impacted. Traditionally Darwin investors chase yield, whilst eastern state investors chase capital growth. While the eastern state capitals of Sydney and Melbourne continue to explode it is likely that we will have continued limited investment.

Alice Springs

During the market correction experienced in Alice Springs post 2014, investor activity was noticeably reduced and has not yet recovered to previous levels. Some savvy investors remain however and are keen to jump on good opportunities. The Real Housing for Growth head leased properties were the most popular while they were available as they offered strong ten year leases plus options and were only available on new properties which offered the added depreciation benefits. These opportunities aren't currently on offer for new properties although some pop up from time to time for resale.

> The stronger end of the investor market has traditionally been the sub $500,000 category which is still generally the most sought after.

Units at this level now offer gross yields of in excess of 6.5% for units, particularly older units however the returns can be reduced by high strata levies in certain areas. Houses sold for investment are less frequent, however typically offer a lower gross yield of closer to 6%.

Local investors are typically well educated in the market corrections that have occurred in recent years and will be seeking strong yields in return for lower capital gains. With early signs now evident that there has been some stabilisation in the market we should see more activity. There are still some entry level units selling for significantly less than a few years ago and entry level houses that require some TLC and upgrades that will see investors find some good returns going forward.

Western Australia

Perth

Residential investment activity hasn't exactly been the most exhilarating BBQ conversation in Perth over the past 12 months. It's like a problem gambler – you only ever hear about the wins! However as the market approaches (or potentially is already at) the bottom of the cycle, it might be time to start studying the form guide again.

The rental market in Perth remains oversupplied and subdued but has stabilised.

However there are no indications that the rental market is likely to rise by any significant amount any time soon, hence investors would be wise to target capital growth opportunities, of which there are many.

Many off the plan investors are finding that their previous strategy of signing contracts through 2014 to 2016 has not gone to plan, with the declining market conditions resulting in valuation pressures at settlement. However a reversal of the strategy could pay dividends, particularly if the developer is holding a proportion of the apartments but cannot or is unwilling to re-price the product until post settlement of current contracts. Once this difficult period has played out, the developer may be willing to negotiate to a far higher degree on the last remaining stock and bargains may be had.

Due to the influx of modern apartments, slightly older apartments appear to have been oversold by the market, with value reductions of 30% in 18 months not unheard of. Hence there are some great opportunities in both the new and established inner city apartment market.

In order to take advantage of this strategy though, investors need to do a significant amount of research and ensure they are comparing apples with apples. There is a vast amount of product available, with each complex offering a confusing assortment of benefits, and investors should ensure that the benefits they are considering are what the market actually wants. Local independent advice can be the difference between a great investment and an ordinary one.

Development sites in particular have been on the nose over the past three years and the development potential premium in many instances has evaporated almost entirely. These opportunities in our mind are the best for above market returns in the short to medium term, but caution needs to be exercised. Investors considering this path need to tread carefully, with many sites purchased during the last cycle no longer likely to be developed to the same standard or density depending on location.

Locations that come to mind include Nollamara and Craigie in the north and St James and Coolbellup in the south. In many locations however, two or three lot sites can be found with a minimal premium to be paid above a single dwelling value and they offer a holding income until development plans have been finalised. What makes many such areas additionally appealing is that profit can be made without building new dwellings, as there is sufficient demand for small vacant allotments given the price attractiveness. We strongly encourage any one considering such an option to seek professional advice as there are many pitfalls for the uneducated.

The other point worth noting is that Perth is currently in the midst of a property cycle at polar opposites to the rest of the country. For our eastern states investors, it may be worth investigating a counter cyclical play with Perth appearing to be in the driver's seat in comparison to many other markets throughout Australia.

South West WA

Investors in the south west tend to be directly competing with first home buyers at the lower end of the market i.e. the $350,000 to $500,000 price bracket. They tend to be more active in the new housing market within major developments such as Treendale, Dalyellup, Provence, Vasse and Brookfield. Rents remain relatively high historically offering yields of between 4% and 5.5%.

A growth area for investors is smaller homes on cottage size blocks which are more affordable and have less maintenance of lawns and gardens. They are however also competing in this section with the retiree purchasers also looking to downsize with lock and leave style properties.

There has been some developments associated with the National Rental Affordability Scheme (NRAS) which have attracted investors with dual key properties which provide good rental returns however the entry cost on a house and land development basis are at the upper end of the value range.

There is a definite lack of affordable rental properties in the region particularly in smaller 2- and 3-bedroom, 1-bathroom dwellings or units for which there is strong demand. However this is a section of the market that investors appear reticent to enter. These would also prove affordable alternatives for first home buyers.

In short investors are still active in the south west market albeit predominantly at the lower end of the new housing market.