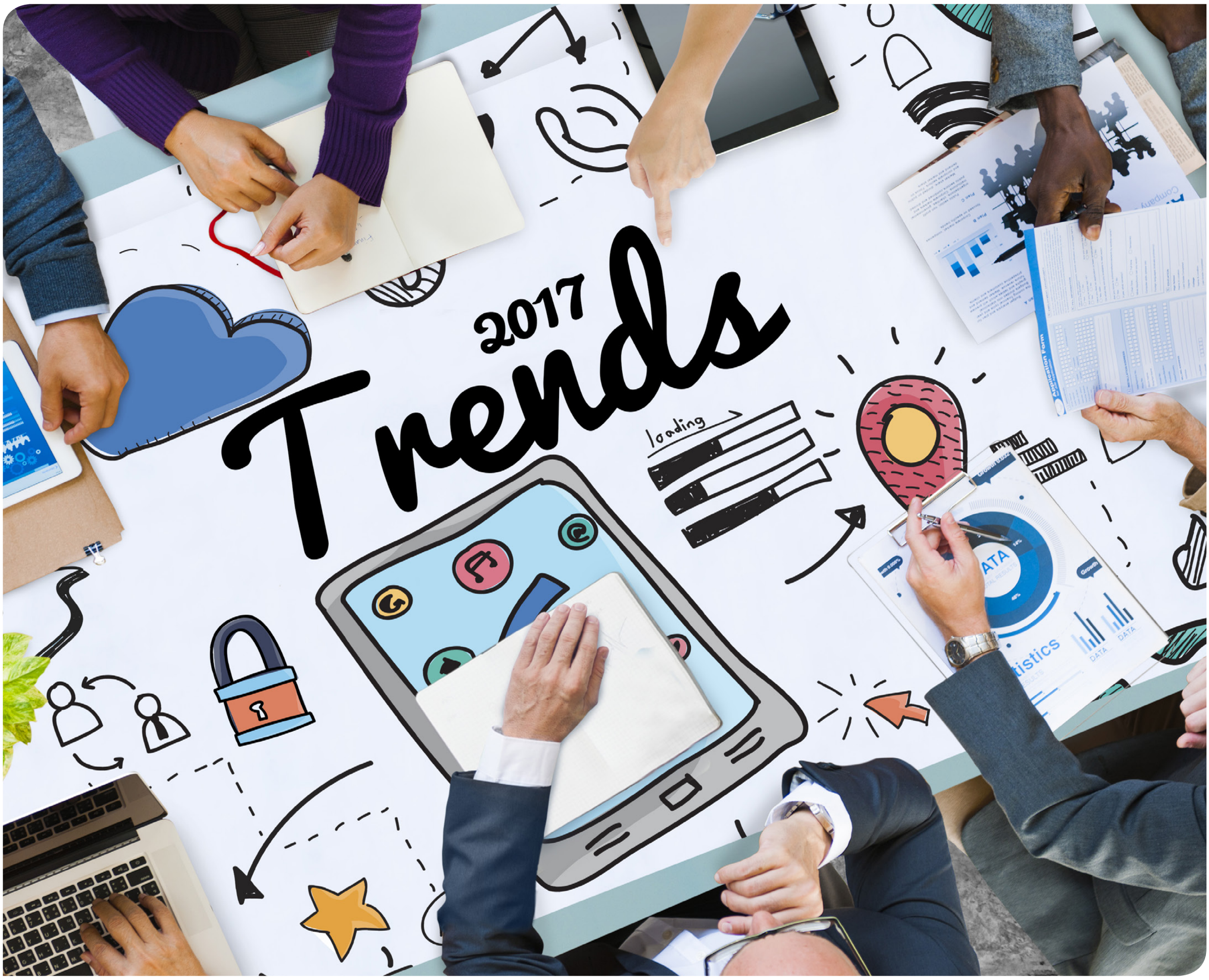
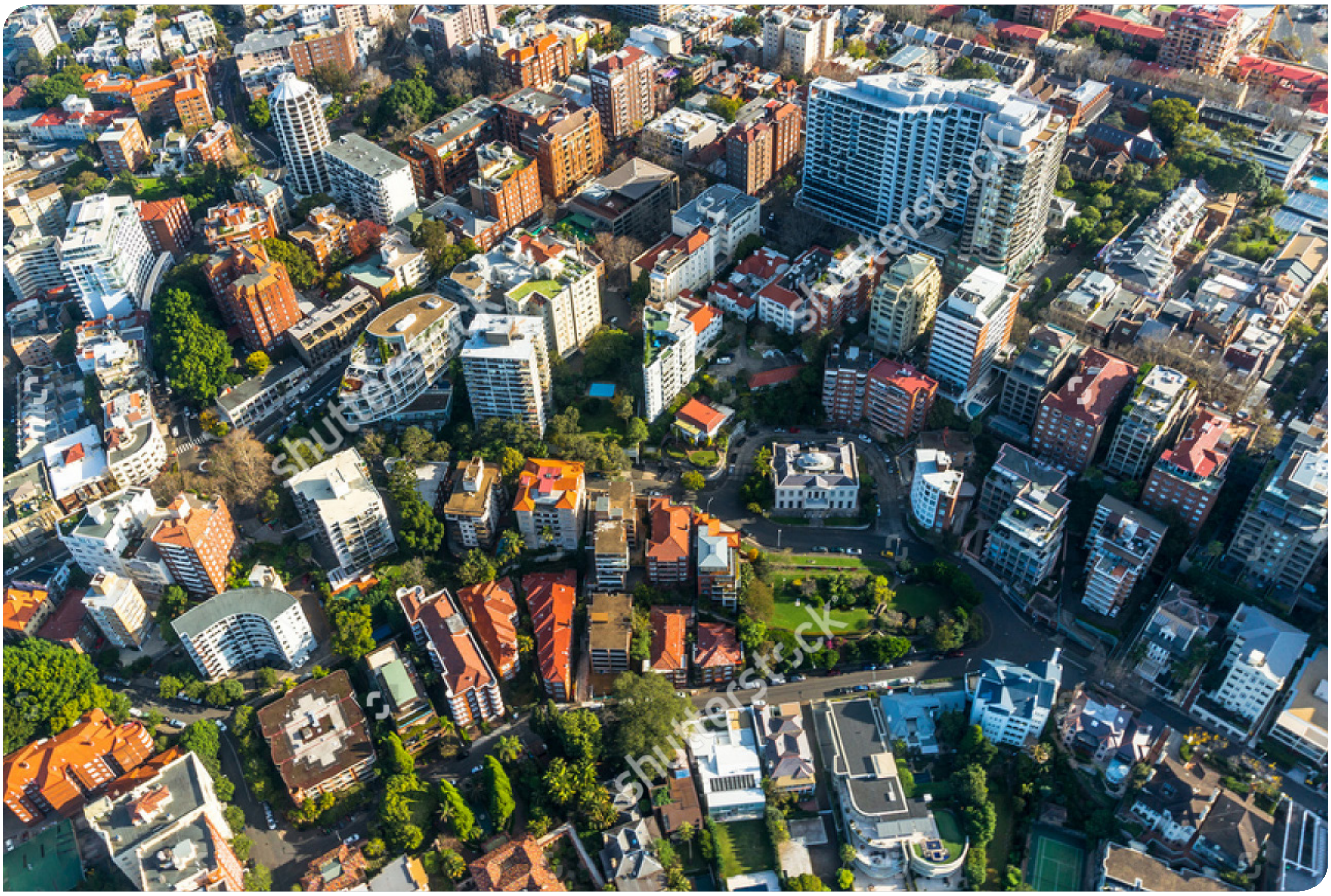


Trends to watch out for in 2017

Booms, busts, bubbles, oversupply, undersupply, strong growth, no growth ... the property market has attracted plenty of headlines over the past 12 months. However, in reality, markets in 2016, generally, tracked like they did in 2015.

This is because the fundamentals that drive real estate markets - interest rates, supply, employment and population growth - saw little change over the year. If anything, these metrics moved further in favour of buyers with interest rates being cut twice and the national unemployment rate tightening over the course of 2016.



Quick 2016 market wrap

The most noticeable change, over the past year, has been the significant decline in the number of transactions with 2016 expected to finish with 25% fewer sales then during the last peak in 2002.

In **Sydney and Melbourne** the number of properties listed for sale fell well below normal levels. However, buyer demand remained high thanks to record low interest rates and the strong performance of the New South Wales and Victorian economies. This mismatch between supply and demand saw prices grow strongly; although slightly less than last year.

Brisbane saw a slight improvement in conditions compared to last year. Buyer demand has remained robust, listings remain tight and price growth has been steady. The main difference was some inner-city pockets saw an increase in the supply of new apartments.

Hobart, Canberra and Adelaide have performed quite well. Price growth has been a little stronger than last year due to fewer properties on the market for sale and increased buyer demand, which was due to low interest rates and higher affordability levels compared to other capital city markets.

Perth and Darwin property markets have continued to remain soft. This is in-line with the performance of their respective economies. Listings in both markets have continued to track higher and buyer demand has remained soft thanks to rising unemployment rates.

So what will be the major trends that affect Australian property markets over 2017?

1. Picking apartment pockets

The biggest change to the fundamentals in 2017 will be supply especially in Melbourne, Sydney and Brisbane. These markets have experienced near record levels of dwelling approvals, over the past 12 to 18 months, and 2017 is expected to see a large number of these developments reach completion.

So is this the "oversupply" issue that has been widely talked about?

Yes and no. On the yes side, a small number of inner-city Melbourne, Brisbane and, to a lesser extent, Sydney suburbs will be "oversupplied". On the no side, the vast majority of suburbs across all our capital cities are made up of detached houses and have seen very little, if any, apartment building occur.

So if you are looking to buy an apartment in 2017 you need to "pick your pocket" carefully. Ensure that you do your research into what development has occurred within your chosen suburb and what is planned for the future.

2. Rise of the renter

A combination of factors which have evolved over the past few years will culminate in 2017 to see a rise in a preference for some households to rent a property and put their search to buy a home on hold.

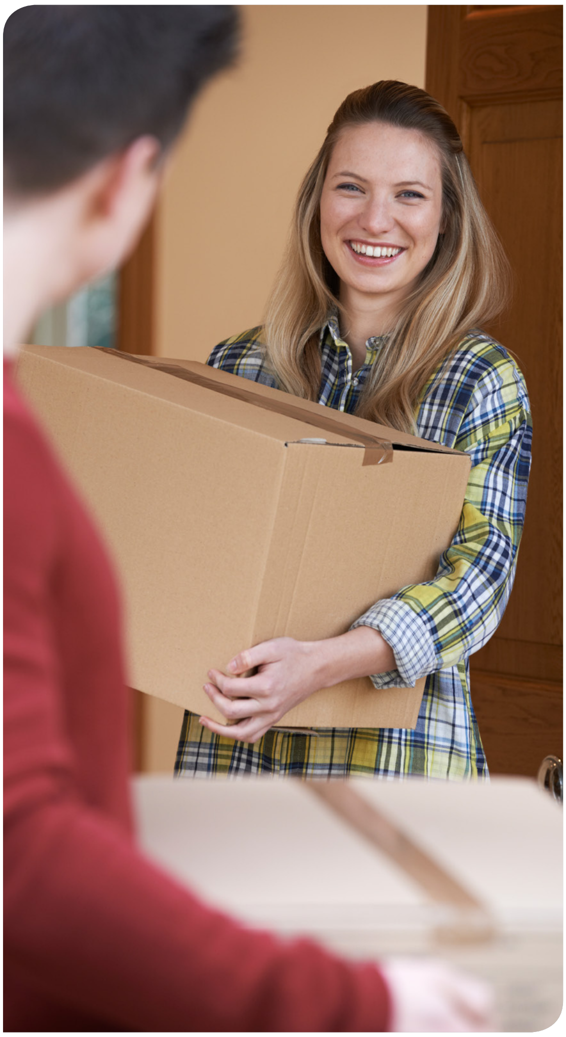
These factors include:

Affordability
Strong sales price growth has seen housing affordability deteriorate over the past 12 to 18 months. This will see some households re-evaluate their budgets and weigh up the cost of renting versus paying a mortgage.

Investor demand
An increase in the number of investors buying properties over the past two years will see rental vacancy rates rise. This will provide more choice for tenants and continue to see rental growth, in general, remain flat.

New supply
As identified in the first trend, the number of developments set to reach completion is expected to rise in 2017. This will see considerable growth in the number of new apartments available for rent, especially in popular inner-city suburbs.

Home rental
This is a growing sector in society who preference is to rent and have no interest in owning their own home. This could be a lifestyle choice, due to affordability constraints or maybe they are investing in their own business or prefer to "rentvest".



3. Love thy neighbour

The rapid expansion of our cities has amplified the need for more dwellings and led to the densification of suburbs around Australia. This has seen councils rezone residential, commercial, industrial and rural land to allow higher density development. The rezoning of land has created the opportunity for neighbours to team up, amalgamate their properties and offer them for sale in-one-line.

This trend has grown exponentially over the past two years and ongoing demand from developers for well-positioned amalgamated sites is expected to continue in 2017

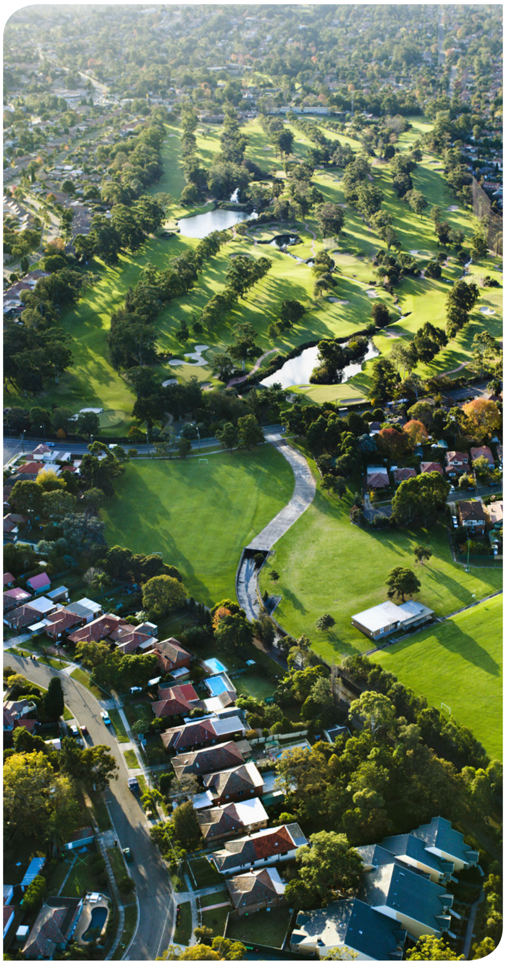
4. The "sharing economy"

New "disruptive" and innovative technologies will continue to shape how we live and how we interact with the built environment. This includes everything from how we control devices and appliances within our own homes to how we interact with businesses and the delivery of products and services.

Looking forward these technologes and services will not only change the way we build new homes but "sharing" services will also affect the way we use our existing homes to live, make money, save money and maximise our leisure time.

- Short term and sharing accommodation services such as Airbnb are changing the way we use our spare rooms or how we rent our investment properties.
- Ride sharing companies like Uber are modifying the way we move about our cities and suburbs.
- Shared private parking rental services such as Divvy are changing the way we use our parking spots, driveways and garages.
- Shared car services such as GoGet are now being provided by councils, developers and strata managers, reducing the need and demand for private and on street parking spots

The ability of these technologies and services to make you money, save you money or free up time will ensure that their take-up and popularity continues to rise over the coming year.



5. The cost of change

The high transactional cost of selling, buying and moving home has continued to grow. This has now reached a point where people are reconsidering and/or delaying their next property move. For downsizers, upsizers and first home buyers the additional costs associated with buying or selling a home has forced many to remain in, or renovate, their current home.

Property price growth and low affordability is a key contributor to this trend; however, the biggest factor at play here is rising state government taxes, fees and charges. The growth in stamp duty is a prime example: a recent study by the Property Council of Australia found that "In NSW, the government collects more than $32,000 in stamp duty from a typical Sydney property. Twenty years ago it collected $4,685 from the same property – that's a 750 per cent increase."

The growing cost of moving is now forcing people to stay in their current home for longer. This has major ramifications for the economy and property markets. Firstly, it reduces the mobility of the labour force, meaning that people don't take jobs elsewhere within the state, or in other parts of the country, due to the cost of moving. Secondly, if existing home owners are not willing to downsize, upsize or move then this has a knock-on effect to the rest of the property market because it reduces the supply of properties for sale and choice for prospective buyers.