



all-time high was in the lead up to the GFC in May 2007 when the index hit 123.94 and the all-time low was in the

middle of 1990 recession when the index was recorded at 64.61.

For the past 5 years the index has bounced between 91 and 111. The significance of the current mark of 101.5 is a signal that consumers are not

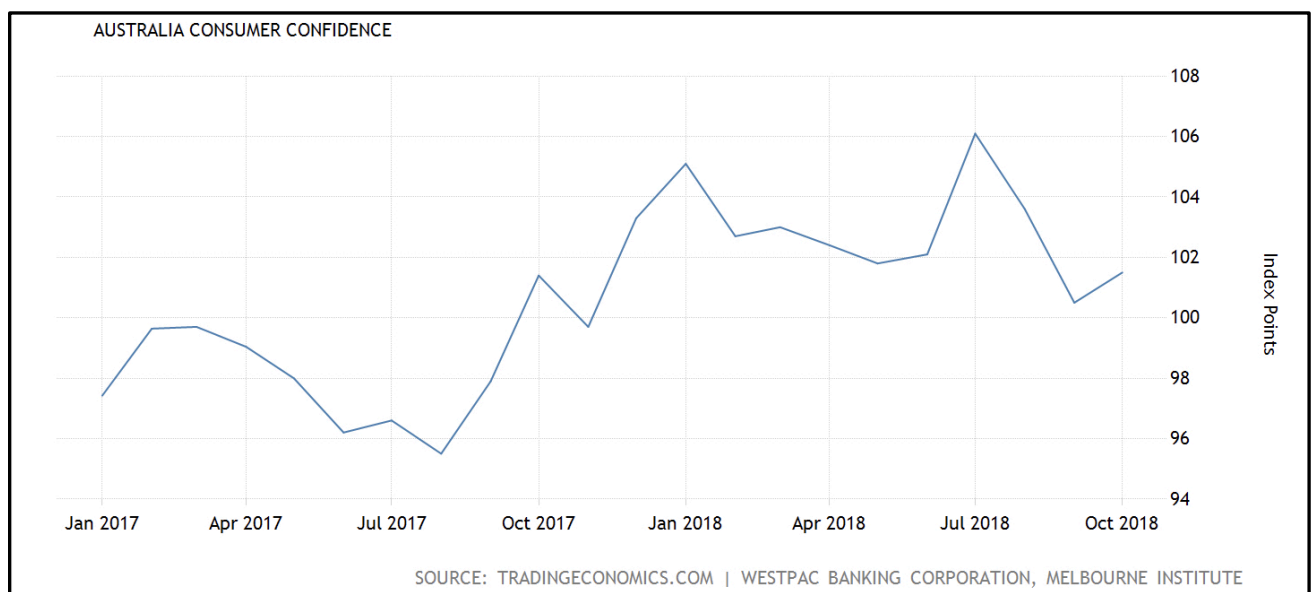
overly bearish about market conditions.

The Australian property market as a whole is transitioning through a change in cycle. However, it is not so simple to group the property market into one basket. The markets are quite complex and segmented numerous ways. The traditional sectors of residential, commercial office, industrial and retail can each be sub-segmented by buyer groups, value, specialisation, building type/use/quality and geographic region. Perhaps initially when we refer to the current state of the property market we are referring to the residential housing market and general market sentiment.

A broad, but good measure of sentiment is the Australia Consumer Confidence index which is currently sitting at 101.5. Interestingly, the 44-year average is 101.35. The

There is no doubt that demand for residential property as a whole has decreased dramatically since late 2017. Melbourne auction clearance rates have decreased from mid 70% through the first half of 2017 to just over 50% in October 2018.

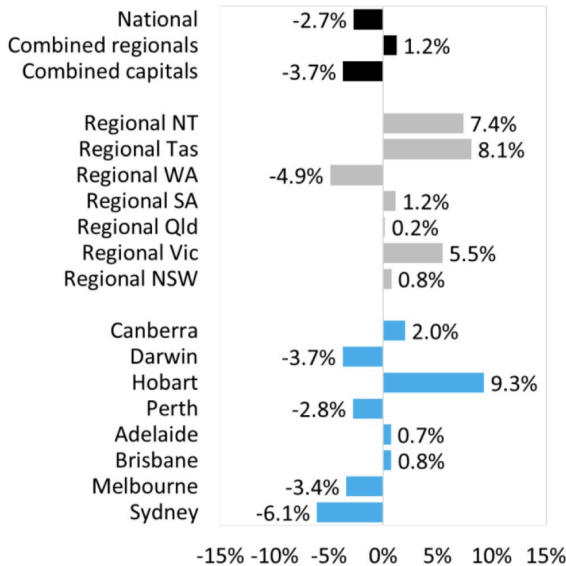
Values have reacted to the drop in demand and over a 12 month period to September 2018 have fallen by 3.4%. The falls are not equal through all sectors though. Anecdotal evidence reveal prestige housing has suffered the greatest loss, particularly in the outer east areas. Builders and land developers are reporting a drop off in buyer enquiry by one third compared to 2017 enquiries. Valuers are reporting a return to rebates being offered to entice



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purchasers. This is expected to continue as land developers attempt to maintain sales rates without reducing lot values.

Annual change in dwelling values to Sep-18

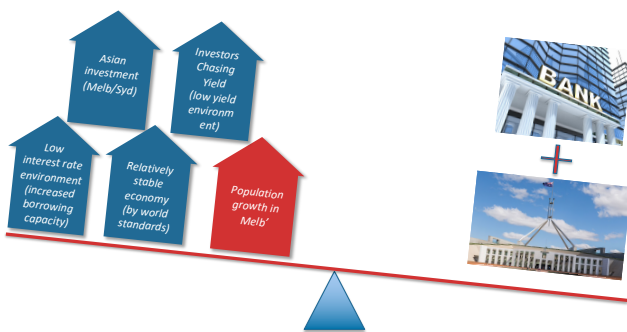


Source: CoreLogic

Sales numbers in Melbourne have fallen by 15.8% in the corresponding period which is the second largest fall next to Sydney which has fallen by 18.5%.

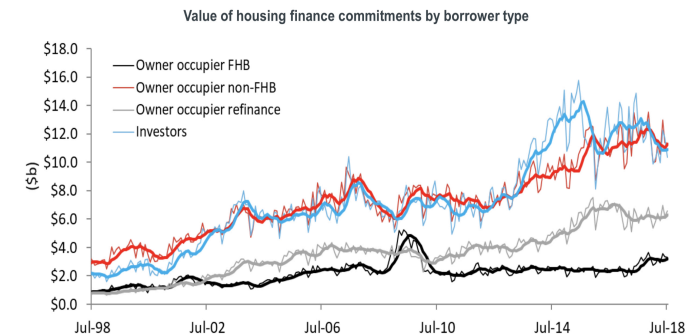
The reasons behind the change in the market cycle can be attributed to:

- APRA regulations to banks to slow investor lending.
- Fall-out of the Banking Royal Commission resulting in banks tightening lending conditions.
- Governments introducing additional foreign investor taxes.
- Values in Melbourne & Sydney becoming unaffordable.
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The investor buyer category has fallen over the past three years. This can no doubt be attributed to APRA demands of banks. On a positive note, the easing of price increases

and lower demand from investors has allowed first home buyers the chance to enter the market. This is evident in the increase in mortgage value from this sector.



Source: CoreLogic/ABS

Apartments

The apartment market has been strong for a number of years. Sales of new apartment developments 'off the plan' have been particularly strong since 2012. This has not only been from local investors but also from the upsurge in overseas (particularly Chinese) buyers. Restrictions on non-residents buying Australian property were relaxed after the 2008 Global Financial Crisis when the Federal Government instigated initiatives to stimulate investment and the domestic building industry. The upsurge in overseas buyers fuelled extensive supply of new apartment towers in Melbourne Central Business District and inner Melbourne suburbs. Since, overseas investors in Australian property can only buy new dwellings the same heat that was present in new apartment tower developments was not present in established apartment sales. As a result of strong supply of new stock combined with less demand for established stock, values for apartments have not increased in-line with established Melbourne house prices. In many instances established apartments have traded for less than their original 'off the plan' sales transaction price. In the past two to three years Federal and State Governments and APRA (Australian Prudential Regulatory Authority) have tried to cool the demand from non-resident investors. This has been done through tougher lending guidelines and higher taxes applicable to non-resident investors.

In this same time period changes in planning regulations (better apartment guide) have resulted in a change in apartment design. The ultra small one-bedroom apartments have been reduced in new designs. Combined with bank restrictions on funding large CBD towers this has seen a change in development strategy. Developers are acquiring smaller apartment yielding sites and developing lower density developments and targeting owner occupiers. Empty nesters have become a prominent buyer profile, selling their valuable suburban family home and downsizing into smaller luxury

apartments on the city fringe and in the middle ring of Melbourne (Doncaster/Box Hill/Bayside etc.).

Commercial Markets

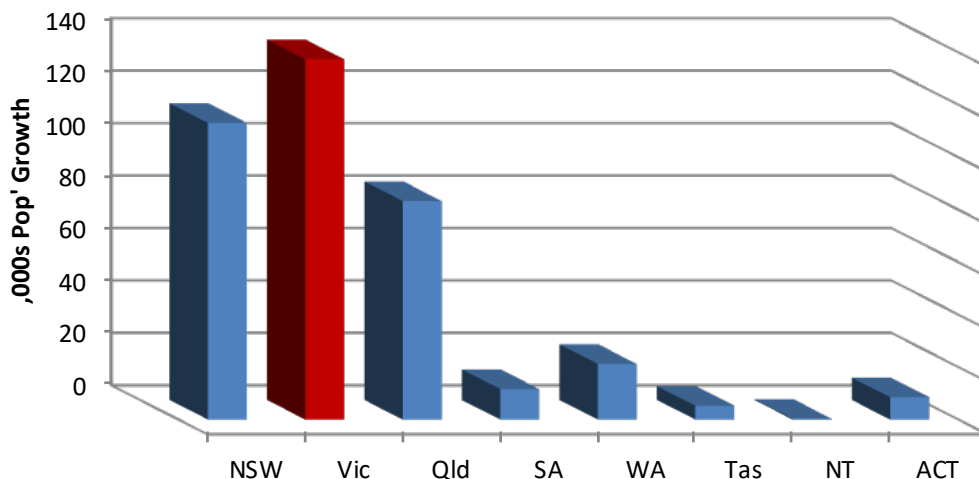
Office

Victorian population growth has led to the continued withdrawal of office assets for conversion to residential use. This ongoing trend is likely to further manifest itself with generally very limited new supply and an improved absorption forecast really starting to drive some rental growth in our key office markets. Office tenants continue to be displaced in buildings with development potential (St Kilda Rd the classic example but now this is extending into

2018 with vacancy reducing rapidly which has in turn seen prime rents rise and incentives reduce.

1980s style office buildings in traditional office areas like Hawthorn, Malvern, South Melbourne, Richmond, Doncaster are all becoming increasingly valuable because they are so difficult to replace (commercial developers cannot find land at the right price because of residential development competition and commercial constructions costs are sky rocketing simply because of the weight of the infrastructure spend happening in Victoria - i.e. there is an abundance of projects for the big construction groups.

Population Growth as at 31 March 2018



other areas as further out as Box Hill). Additionally, commercial developers competing with residential developers are rarely able to feasibly develop new Business Parks or Major Offices in suburban Melbourne, where rental levels still do not provide sufficient return on the cost of land and new building construction. This absence of new buildings is underpinning the freehold value of existing buildings. Still seems to be somewhat of a disconnect between the investment and leasing market but the gap is starting to close with rents on the move-freehold prices holding up very well with competitive bidding but parts of the leasing market are only moderate with higher incentives still prevalent.

Underlying land value is critical and a key value driver - some small to mid-size residential developers now priced out of city and city fringe Collingwood, Abbotsford etc increasingly starting to undertake projects in more affordable areas like Footscray, Sunshine, Brunswick, Heidelberg etc. and in turn this is also impacting commercial values. CBD rents are rising quickly now in

Plus, competition for labour and material between private projects and infrastructure development is resulting in a shortage. All these factors equal cost increases for commercial projects which is keeping a lid on new commercial constructions which may not be feasible as a result. Points to upward pressure on key metrics and good news for those holding existing offices.

Overall this has simply meant tighter supply of office space which has driven yields low. Rising Land tax is a consequence of the above and places further downward pressure on holding yields. These low yields recorded are often a surrogate for the underlying land value with little relationship to long term commercial property returns historically seen in our core markets.

Industrial

Still generally very strong underpinned by Transport & Logistics based enquiry which generally require higher hardstand components.

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Port activity is very strong with good throughput, the new Federal Government \$10 container charge is a concern for many industrial businesses.

Some retail requirements are trending smaller but are supported by larger warehouses often closer to inner suburbs or 'trunk roads'

The Industrial sector is an income focussed asset class that is growing in popularity with investors, particular larger tenancies with solid lease covenants. The challenge for landlords is to 'tenant proof' their property to decrease the risk of the tenant moving to newer more efficient developments.

Industrial property is generally regarded as trading at fair value at the current time

There continues to be strong owner occupied demand from business owners purchasing in their SMSF. With lenders withdrawing from SMSF lending it may become more difficult for this trend to occur.

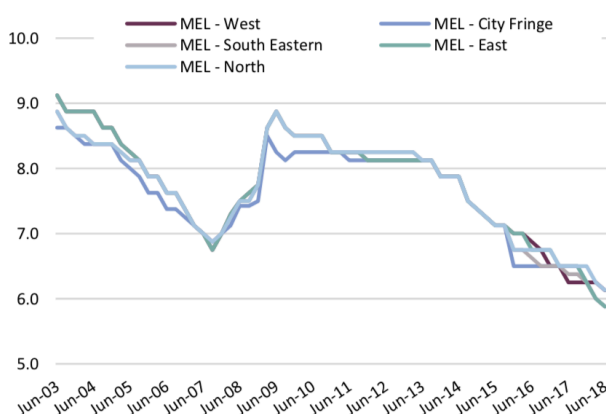
There are some latent risks (leasing demand not strong in some sectors/oversupply issues, Retail Leases Act could apply so non-recoverable land tax starting to hit this market).

There has been a shortage of good quality properties available for sale (many sold direct under mandate for international purchasers or in portfolio tranches)

market in order to gain an accurate appreciation of the likely demand. In this respect we report good demand for well-leased investments in the sub \$5million market - mainly driven by low interest rates and competitive net return when compared against residential investment. Net yields in the range of 3% to 5% are often recorded for well-located retail properties leased at market rental levels, with larger premises, secondary locations or inferior lease covenants attracting higher yields reflecting the additional risk to investors. There is a continued trend for strata titled retail properties to attract higher yields than freestanding assets which are influenced by underlying land value.

There is a clear trend emerging that some retail strip shopping centres in inner Melbourne are under-going a correction in market rental levels owing to rising vacancy rates and pressure on retailers (e.g. Chapel St); however, whilst the potential certainly exists for this to impact on capital values as yet this does not appear to have necessarily translated to significantly lower capital values for properties. It will therefore be prudent to continue to monitor capital value trends in this market as it enters the last quarter of 2018. Always seems to be some tenant groups that fall under pressure. Food based tenants are strong, fashion is weak. Rising land tax is also a sleeper in this market. Very strong demand for single tenant public covenants and supermarket-based assets. Same for fast food, service stations and now childcare seems to be flavour of the month. So some really hot sub-sectors like service stations, fast food and childcare - land rich assets with cashflow continue to be most sought after.

Prime Average Market Yield by Precinct



Source: Savills Research

Retail

As with most categories forming the real estate market, it is necessary to segregate the different sectors of the

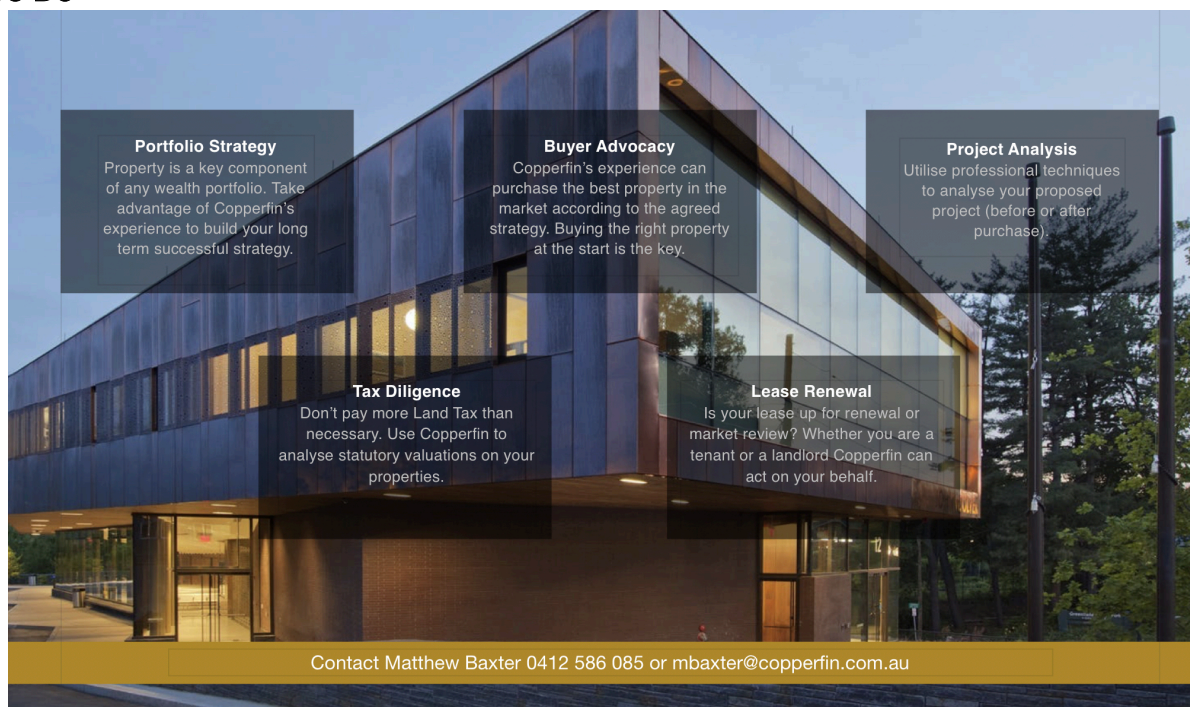


October Retail Sale in Clayton - sold on a 3.6% yield for \$4.7 million (\$1.3m over reserve)

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What We Do



About Copperfin

Copperfin is a property advisory business that aims to provide strategic advice to help its clients achieve an edge when it comes to property purchases, sale, management and development.

Through deep research, market analysis, commercial acumen and industry connectivity Copperfin uncovers hidden value that may not always be immediately obvious to the general market.

Copperfin's managing director, Matthew Baxter has 30 years of experience in the property industry. His background has been both in agency and valuation practice. He holds an Estate Agents License and is a Certified Practising Valuer (CPV). He holds current memberships with Australian Property Institute (API) and the Royal Institute of Chartered Surveyors (RICS).

Matthew's previous role was as a director and partner at Opteon. Opteon is a leading provider of valuation advice and completes over 450,000 valuations in Australia and New Zealand.

- ✓ Associate Member of the Australian Property Institute (CPV)
- ✓ Member of Royal Institute of Chartered Surveyors (RICS)
- ✓ Member of Professional Institute of Property Investors (PIPA)
- ✓ Bachelor of Property (CQU)
- ✓ API - Professional Certificate - Giving Expert Evidence
- ✓ Certificate IV in Estate Agency Practice (Licensed Estate Agent)
- ✓ Advanced Certificate Accounting (Chisholm)
- ✓ Grad Certificate in Entrepreneurship and Innovation (Adelaide University)
- ✓ Currently completing a Masters in Entrepreneurship (Swinburne University)



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