Our work suggests that Lockyer Valley is in the recovery phase of the property cycle. Not enough new homes are being built. The area is undersupplied with new housing.

Yet the area needs to ensure a steady supply of affordable housing. If so, then more residents could move from adjacent Toowoomba & Ipswich, further lifting Lockyer Valley’s population growth rate & need to build more homes.

This report was proudly sponsored by Lockyer Better Business & The Lockyer Valley Regional Council.
EXECUTIVE SUMMARY

Overall

Our investigations have found that the Lockyer Valley residential market is improving.

Several property types are in the recovery phase of the property cycle. Typically, this phase is mildly favourable to sellers.

Our general recommendations include:

- Sellers should expect a quick sale; especially if the property is well priced, presented & marketed.
- Buyers need to make sure they don’t overpay, but they can miss out if they take too long.
- Renovators need to understand the market’s limits. Overcapitalisation often happens in recovery market locations.
- Renters should consider buying or locking into longer lease terms.

Sales volumes are increasing, as too are median values. The vacancy rate remains tight & the time needed to sell as urban property is declining. Rents are rising, especially for new homes & especially for larger houses.

The area is currently undersupplied with new homes. More new dwellings are needed. Most of this demand will be for urban detached housing, but on smaller lots than traditionally supplied in the area.

Local business is increasing as are local jobs. Lockyer Valley is also being positively influenced by its larger neighbours – Toowoomba & Ipswich.

Key findings

- Local population increasing by 750 per annum. It is growing at projected trend.
- Need to build 300 new dwellings in the area each year.
- A high proportion of the housing demand in coming years will come from households downsizing and/or retiring.
- A large proportion of local residents should be attracted to suburban based homes, including smaller allotments.
- Sales volumes are currently increasing, as are weekly rents & sales prices.
- The vacancy rate remains tight & the time needed to sell an existing property is declining.
- New housing supply is currently below underlying local demand.
- Increasing employment & business operations; most work in blue collar industries, trades or services.
- At present, many local dwellings are affordable to buy & rent. This applies to new homes as well.
- Yet the area needs to ensure a steady supply of affordable housing. If so, then more residents could move from adjacent Toowoomba & Ipswich, further lifting Lockyer Valley’s population growth rate & need to build more homes.
The Locker Valley residential market, depending on dwelling type, is at various positions in the property cycle.

Existing urban houses; new urban-sized allotments & new house/land packages are at different stages of the recovery phase of the property cycle.

Established rural residential properties – many affected by the 2011 flood plus an oversupply of stock for sale – are stuck in stagnation.

In contrast to the more traditional rural residential dwelling base, demand for more urban dwellings across the Lockyer Valley is increasing.

Supply of new homes is tight. Our work suggests the new housing market is currently undersupplied. More new homes need to be built.

The peak of this current cycle depends on this supply-demand balance; local employment generation & end prices/rent. External factors such as interest rates; migration to the state plus property-related trends in the adjoining Toowoomba & Ipswich markets are also shaping local market conditions.

Our analysis & research approach, based around the strength & direction of several key real estate indicators

- Sales volumes
- Property prices
- Weekly rents
- Underlying housing demand
- New & existing housing supply

suggests that most residential property in the Lockyer Valley is in the recovery phase of the property cycle. See chart 1.

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1. Market positions – Lockyer Valley
   May 2015

1. Existing urban houses
2. New urban allotments
3. New house & land packages
4. Established rural residential properties

Peak

Upswing

Downturn

Recovery

Stagnation

Trough
Detached house sale volumes have ranged from 400 to 1,000 each year across the Lockyer Valley, depending on the property cycle.

Sales volumes have risen in recent years from a market trough in 2011 to our anticipated 650 transactions this calendar year.

The middle or median urban house price in the Lockyer Valley is currently $315,000.

Both sales volumes & urban house values have improved in recent years. See chart 2.

Median urban house values rose from $286,000 in 2013 to $315,000 today.

Over the last twelve months, median house values rose 7%. See chart 3.

We anticipate house sale volumes across the valley to continue rising – albeit slowly – in coming years.

We also expect median house prices to continue lifting but maybe not at the same rate of escalation as witnessed during 2014. Again, see chart 3.
Vacant land sales volumes have ranged from 250 to 825 each year across the Lockyer Valley, depending on the property cycle.

Sales volumes have risen slightly in recent years from a market trough in 2011 to our anticipated 375 transactions this calendar year.

The middle or median urban land price in the Lockyer Valley is currently $135,000.

As for houses, sales volumes & urban land values have also improved in recent years. See chart 4.

Median price of an new urban allotment rose from $110,000 in 2013 to $135,000 today.

Over the last twelve months, median house values rose 11%. See chart 5.

Land sale volumes would be rising faster than chart 4 suggests if more new land was supplied. The new house & land market is undersupplied in the Lockyer Valley.

As a result, we do expect median land prices to continue lifting. A 10% per annum escalation for the next couple of years could occur. Again, see chart 5.
One out of every four households across the Lockyer Valley rents.

There are 3,600 private rental properties across urban Lockyer Valley, of which around 100 are currently reported vacant.

A vacancy rate under 2% is tight & as a result rents usually rise. Between 2% & 3% the market is balanced (see A on chart 6), so rents are stable, typically rising with costs and/or inflation. When the vacancy rate is consistently over 3%, weekly rents can fall.

The number of existing homes for sale has increased in recent years. This reflects a market in recovery.

There are currently about 575 dwellings for sale in the local area. Based on current sales rates, this equates to about an eleven month supply. See chart 7.

When it comes to existing homes or resale supply, under six months is considered tight – see A on chart 7. Often prices leap under these circumstances, especially if sales volumes are rising rapidly. Between a six & 12 month supply, the market is more balanced; often meaning slow price growth – see B. Over 12 months suggests an oversupply of homes on the market.
RENTAL MARKET

Charts 8 & 9 outline weekly rents being achieved for existing three & four bedroom detached houses.

Reflecting the increase in the vacancy rate (see chart 6, again), weekly rents for older three bedroom houses have plateaued. See chart 8.

In contrast, rents for four bedroom homes are rising. See chart 9. This suggests there is a need for more four bedroom homes. This might be because family size is increasing in the area – past Census trends support such a claim – plus more residents are sharing accommodation. Again, past polling suggest that this trend is increasing.

At present, the average older three bedroom house attracts a medium rent of $290 per week. Larger four bedroom houses attract $365 per week.

At present, there are a limited number of new detached homes in the area – so our sample is small – but for those new homes held by investors, the weekly rents are approximately 20% higher than the older Lockyer Valley stock.

Our investigations also found no new homes available for rent.
About 40,000 people currently live in the Lockyer Valley.

**Chart 10** shows that this resident population is projected to increase.

The current rate of population increase is in line with the projected trend, lifting by approximately 750 new residents each year.

Statistically, there are about 2.5 people per private dwelling across the Lockyer Valley. This includes both occupied & unoccupied stock.

This suggests that there is the need to build 300 new dwellings each year – assuming a population increase of 750 per annum – in the Lockyer Valley.

**Chart 11** shows that new housing starts – 900 dwellings in total over the past four years – are falling behind underlying demand of 300 per annum or 1,200 new homes between 2012 & 2015.

In short, the Lockyer Valley needs to build more new homes.

The new housing market is currently undersupplied.
We have determined the need to build approximately 300 new dwellings each year across the Lockyer Valley.

But what type of housing will be in greatest demand?

To determine such, we break the projected demographic into several distinct buyer segments.

Chart 12 outlines the size of each buyer segment in terms of projected increase in household numbers across the Lockyer Valley over the next ten years.

When determining most likely housing demand by product type, we cross-reference the size of each of our six buyer segments with locational-based dwelling preferences.

Over the next decade, by our calculations, the size of the housing need by product type is as follows:

- 35% - Small-lot homes & houses which facilitate two or more rental incomes
- 28% - Traditional three & four bedroom houses on standard lots
- 16% - Townhouses/villas & smaller infill apartment projects

See chart 13.
Approximately 17,000 people work in the Lockyer Valley.

Chart 14 shows that over the past decade or so, many new jobs have been created in the area.

Over the last three years, 725 new jobs each year have been created across the Lockyer Valley.

Last year (2013/14), there were just short of 3,000 businesses registered (2,936) across the Lockyer Valley. The number of new business ventures in the area has been increasing by around 75 new registrations each year in recent years.

Despite these positive results, the Lockyer Valley workers – due to the nature of the work conducted – often have lower incomes than other areas across the state. The work – such as agriculture (see table 1) – is also somewhat cyclical, so periods of unemployment or underemployed occur.

Many living & working in the Lockyer Valley are employed in agricultural pursuits; blue collar industries; trades or often in lower paid services.

This suggests that the provision of affordable housing is paramount. There is a need for storage (tools) including, typically, several cars per household.

<table>
<thead>
<tr>
<th>Industry type</th>
<th>Lockyer Valley</th>
<th>Qld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education + health</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Retail &amp; wholesale</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Services</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>Construction</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Transport</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Tourism</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Public service</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Mining</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>Professionals + Managers</td>
<td>25%</td>
<td>31%</td>
</tr>
</tbody>
</table>
Lockyer Valley is being influenced by its larger neighbours – Toowoomba & Ipswich. See chart 15.

This is occurring because the Lockyer Valley offers more affordable housing (& generally larger homes & allotments) than its immediate neighbours. See table 2, below.

As this current property cycle gains momentum, more residents are likely to be attracted to the Lockyer Valley as values rise in both Toowoomba & Ipswich. House sizes, & especially allotment dimensions, are shrinking in both Toowoomba & in particular in Ipswich.

2. Select housing-related indicators
Lockyer Valley; Toowoomba & Ipswich

<table>
<thead>
<tr>
<th>Housing Indicator</th>
<th>Toowoomba</th>
<th>Lockyer Valley</th>
<th>Ipswich</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total population</td>
<td>160,000</td>
<td>40,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Annual growth</td>
<td>2,500</td>
<td>750</td>
<td>10,000</td>
</tr>
<tr>
<td>New housing price/rents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>House &amp; land package</td>
<td>$385,000</td>
<td>$325,000</td>
<td>$425,000</td>
</tr>
<tr>
<td>3 bedroom house rent</td>
<td>$390/week</td>
<td>$290/week</td>
<td>$350/week</td>
</tr>
<tr>
<td>Land price/allotment size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>600m2 land price</td>
<td>$205,000</td>
<td>$130,000</td>
<td>$180,000</td>
</tr>
<tr>
<td>Avg new lot size</td>
<td>750m2</td>
<td>925m2</td>
<td>500m2</td>
</tr>
<tr>
<td>Affordability benchmarks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buying a new house¹</td>
<td>x 5.1</td>
<td>x 4.4</td>
<td>x 5.5</td>
</tr>
<tr>
<td>Renting an older 3 bed house²</td>
<td>33%</td>
<td>23%</td>
<td>30%</td>
</tr>
</tbody>
</table>

¹ Buying affordability: Income to price ratio below 4 is affordable • Between 4 to 6, sustainable • Above 6, unaffordable.
² Rental affordability: Rent to income below 30% is affordable • Between 30% & 40%, tight • Above 40%, very unaffordable.
Overview

A 26 year veteran in this business, Michael Matusik set up Matusik Property Insights in 1998. Since then, Michael & his team have advised on close to 600 new residential projects throughout the country.

Michael is a qualified Town Planner with first class honours & is considered a thought leader in the housing industry. He is one of Australia’s first independent property analysts & is a member of the Future Housing Taskforce.

Reports, training & Matusik Missive

Matusik Property Insights (MPI) undertakes detailed residential consultancy work. Michael supervises all advisory investigations.

MPI also sells market outlook & focus reports, conducts in-depth training sessions & publishes a regular newsletter – the Matusik Missive.

To find out more about our Market Outlook & Focus Reports; Master Classes & a Matusik Missive subscription, visit www.matusik.com.au

Consultancy services

Our aim is to help de-risk a new residential project.

We can also provide valuable market intelligence – the power to know what the market wants, & where it wants it. This insight can significantly increase the sale-ability of your project.

We welcome enquiries from developers at any stage of the project, however, we provide the most value at the beginning, in your planning stages. However, it’s never too early or too late to contact us.

We have worked for over 450 property-related clients over the past 17 years & in essence, we offer four consultancy services:

1. New Project Advice

Pertinent advice on a new residential development opportunity. This typically involves a briefing meeting, site visit & short report.

2. Project Positioning

An in-depth analysis outlining the rationale & need for the given project/property in the general area. Best used with due diligence; potential end buyers, especially investors; other property-related professionals; potential joint venture partners & to help sell the subject site.

3. Matusik Advocacy

Matusik advocacy support is limited to our Project Positioning clientele. Advocacy clients may choose from a range of Matusik promotional products & services. We offer exclusivity – in terms of public support – for our advocacy clients – terms & conditions apply.

4. Presentations & workshops

Michael Matusik is also available as a speaker for real estate events. His presentations are insightful, fact based, engaging & candid. We often bundle a tailored public report in with our speaking engagements. An attractive progressive payment plan is also available.

For a free consultation & quote:

Email office@matusik.com.au
Phone (07) 3368 2878
Website www.matusik.com.au
RISKS OF INVESTING IN PROPERTY

Direct investment in residential property, like all investments, involves a number of risks. If these eventuate, your income might be lower than expected. There may even be none. In addition, the capital value of your investment could fall.

The key risks of investing in property are outlined below:

- The property purchased may not provide the income or capital gains the asset was expected to produce.
- There is a risk that your property may, for periods of time, lie vacant & hence not generate income. Maintenance & repair costs are the investor’s responsibility & can vary, and at times be significant. Such costs are sometimes recoverable from rental bonds or under insurance policies.
- There are a number of factors that affect the general property market including increases in supply & falls in demand; the cyclical nature of property values; increases in taxes & operating expenses; overall economic conditions; demographic changes; changes in town planning laws; casualty & condemnation losses; environmental risks; regulation on rents; detrimental new developments in the area; increases in interest rates; similarly, inflation & changes to bank funding policies.
- Gearing increases the volatility in the value of your investment. In the early stages of residential investment, a significant fall in the property’s value may see balances fall to less than the total amount of borrowings.
- Increases in interest rates often increase the cost of borrowings.
- Changes in laws or their interpretations including taxation, superannuation & corporate regulatory laws, practice & policy could have an impact on your investment. You should seek professional tax advice before investing in residential property.

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TYPICAL DATA SOURCES

Matusik database; Qld Government; Qld RTA; REIA; REIQ; SQM Research; BCI Australia; ABS; realestate.com & RPData.
Nestled at the foot of the Great Dividing Range, the Lockyer Valley is little more than an hour’s drive from Brisbane and the Gold Coast and approximately 30 minutes from Ipswich and Toowoomba.

We have the wonderfully relaxed lifestyle offered through country living all within close proximity to everything a major capital city has to offer.

With a population of approximately 38,000 and forecast to rise by 2.6 per cent a year over the next ten years, it’s an exciting time to be living in the Lockyer Valley.

The Lockyer Valley is home to 26 public and private schools, 16 early childhood education and care centres as well as the world renowned Gatton Campus of the University of Queensland.

Being located so close to the Warrego Highway, we have easy access to every major road network in Australia making us the ideal location transportation and logistics operations.

The Lockyer Valley boasts the seventh most fertile soil on earth producing more than 100,000 tonnes of fresh produce annually, in fact the Lockyer Valley produces the majority of Australia’s premium winter vegetables.

With affordable housing and land, the Lockyer Valley makes the perfect destination for first home buyers and investors alike.

Over the years the role of government has changed dramatically. No longer are we merely considered the level of government for roads, rates and rubbish, the reality is we are the level of government that has the closest connection to its residents and investors.

For us as a Council, it’s about the people and creating an area they can be proud to call home. We fully understand every decision we make as a local government has a direct impact on the lifestyle people want and expect by choosing to live here, and as an organisation, we embrace the important role we play in the community.

I would encourage anyone interested in buying land, a pre-established house or an investment property to consider the lifestyle and conveniences offered here in the Lockyer Valley.