



PERTH APARTMENTS

RESIDENTIAL MARKET BRIEF Q3 2014

Key Facts

Metropolitan Perth recorded annual capital growth of 4.0% with a median value of \$462,000

Building approval momentum has driven a rise in lending finance

Major residential site sales totalled \$177 million in the last year; 25% sold to foreign developers

Key transport infrastructure projects underway with a strong pipeline out to 2022



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Local and foreign developers push ahead with new projects, as the Perth residential market trends towards higher density living and maintains the strongest projected population growth for all capital cities around Australia.

Overview

A resilient Australian economy, off the back of a resources boom from mid-2000, historically low interest rates and a stable political environment have all contributed to an increase in apartment investment in Perth in recent years.

Perth has predominately been a single dwelling market but more residents are accepting the style of higher density living. With a trend emerging across the country towards inner city living and residents wanting to live closer to where they work, its likely to continue with upcoming generations but also the older population wanting to downsize, but still be close to services and part of the inner city activity.

Although unlike the east coast, apartments make up about one tenth of new supply, whilst this is closer to a quarter of all new supply in Melbourne and Brisbane, and half of all new building approvals in Sydney. As Perth population grows, more apartments

will be needed in the future to meet demand for this higher density living.

Perth has achieved the title of ninth most liveable city in the entire world – defeating 131 other global cities (including New York, Paris and London) in The Economist Intelligence Unit's Global Liveability Index. Since 2004, Perth has remained in the Top 10 rankings, indicating the resilience of this city through times of both economic boom and the global financial crisis.

Three quarters of Western Australia's population live in the capital of Perth. Over the next 30 years this population is projected by the Australian Bureau of Statistics (ABS) to rise annually by 3.5 percent to 4.2 million persons, far outstripping the projected annual Australian average of 1.7 percent.

Drilling for oil and gas, as well as, mining of gold, iron ore and other commodities are being extracted and exported from Western Australia; although the height experienced in

PIPELINE OF PROPOSED KEY TRANSPORT PROJECTS

Kwinana Freeway Project

[2015] The widening of Kwinana Freeway south-bound between Roe Highway and Armadale Road. Key to easing traffic around Jandakot to Cockburn Central.

Gateway WA [2016] A major upgrade and widening of Tonkin Highway (between Great Eastern Highway and Roe Highway) and Leach Highway, Kewdale (between Orrong Road and Perth Airport). Key to creating an iconic gateway to Perth Airport and improving access to surrounding areas.

Perth City Link [2016] The building of a new underground Wellington Street Bus Station, reconnecting the CBD with Northbridge.

Forrestfield-Airport Link [2020]

A mostly underground rail link to be built off the existing Midline railway line. Two stations will be built at Airport West and Forrestfield both also supporting a bus-train interchange. A third underground station at Perth Airport will service both domestic and international terminals. Key to improve transport connectivity to Perth Airport, the eastern suburbs and regional centres.

Metro Area Express (MAX)

Light Rail [2022] Light rail from Mirrabooka in the north to the CBD, before splitting into two branches to Victoria Park Transfer Station in the East (via the Causeway) and to QEII Medical Centre in the West (via West Perth). The tram system will be built on existing streets but separated from general traffic.

recent years has tapered back. Many are still actively employed in this field; from locals and those who fly-in and fly-out from across the country and stay temporarily.

Development Sites

A total of \$177 million worth of development site sales have been purchased in the year to August 2014. This includes all major development sites that have potential for multi-level residential development in the Perth metropolitan area. Analysing the purchaser nationalities of these development sites, we found that foreign buyers made up 25 percent of all major sales.

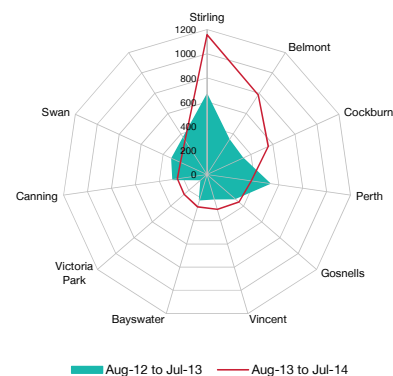
Recently a Chinese investor has purchased the former Matilda Bay Brewery at 130 Stirling Highway, North Fremantle for \$36 million. The 2.9ha site has the potential to yield between 350 and 400 apartments. In South Perth, a development site has been purchased by Finbar and joint venture partner Wembley Lakes Estate of Indonesia for \$27.3 million from the City of South Perth, and is earmarked for a 295 apartment complex to be named 'Civic Triangle'.

Planning

The total number of building permits for new apartments in WA, issued by the certifying authorities in the year to July 2014, tallied 7,036 approvals according to the Australian Bureau of Statistics (ABS). This was up 24.2 percent on the previous year. Across the top ten Local Government Areas (LGA) in 2013/14, Stirling continued to dominate with 1,157 building applications approved, followed by Belmont (at 783) and Cockburn (at 558). Over the last year Perth LGA building approvals fell 29 percent, to 371 apartment approvals (see Figure 1).

Perth has a solid pipeline of proposed key transport projects due over the next eight years. Projects include Kwinana Freeway and Gateway WA to ease congestion on the roads, whilst the Perth City Link, Forrestfield-Airport Link and Metro Area Express Light Rail have been designed to support the increased number of commuters travelling on the rail network.

FIGURE 1
Building Approvals, Highest LGAs
Total number of new residential apartments

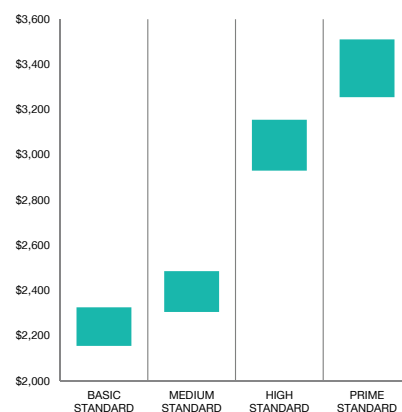


Source: Knight Frank Residential Research, ABS

Construction

Over the past ten years, according to the Rawlinsons Construction Handbook, costs of construction in Perth have increased on average 6.3 percent annually. To build a standard multi-storey apartment complex, it costs on average \$2,240/sqm for a basic finish, whilst at the other end of the spectrum, costs average closer to \$3,380/sqm. AECOM have projected construction costs to increase on average 0.3 percent, each quarter, until March 2015.

FIGURE 2
Total Construction Costs
Perth Metropolitan
\$/sqm for multi-storey, high density residential



Source: Knight Frank Residential Research, Rawlinsons Construction Handbook, 2014

TABLE 1

Key Indicators, Apartments, June 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Perth, 6000	535,500	-0.1	3.1	5.78	433	585
East Perth, 6004	569,000	0.5	4.7	5.65	449	585
Perth Metropolitan	462,000	-0.5	4.0	4.97	14,399	440
Australia	436,000	2.1	7.7	4.92	159,834	410

Source: Knight Frank Residential Research, Residex

Completions

After the direct effects of prices changes have been removed, the total value of work completed on new residential apartments in WA totalled \$1.57 billion in the year to June 2014, trending well above the ten year average of \$1.20 billion, as reported by the ABS.

The past three years have seen a recovering upward trajectory in the value of work completed in WA after a solid period of new supply from 2007 to 2011. The recent growth was also experienced in New South Wales and Victoria although recording a total value of \$5.84 billion and \$5.82 billion, respectively in the last year.

FIGURE 3

Value of Work Completed, WA

\$billions, new, residential apartments



Source: Knight Frank Residential Research, ABS

Apartment Values

Over the year to June 2014, apartment values in metropolitan Perth experienced upward growth of 4 percent, marginally less than the previous year to stand at a median \$462,000. Apartment sales volumes were up, at 14,399 sales in the last year for the Perth metropolitan area.

FIGURE 4

Median Values, Perth Metropolitan

% annual change in growth for apartments



Source: Knight Frank Residential Research, Residex

Over the past decade Perth has experienced the strongest growth across all major cities for apartments at 7.4 percent per annum; in line with the vast demand that has come with the resources sector. This outstripped Melbourne at 5.4 percent and Adelaide at 5.2 percent, both also coming off lower

bases, and Brisbane at 4.3 percent and Sydney at 4.1 percent. The last quarter apartment values and sales volume marginally tapered back, although the prospect of values lifting again is encouraged by the strong population growth projected over the next decade.

Capital growth in the Perth city was up 3.1 percent in the last twelve months to record a median value of \$535,500; whilst East Perth achieves a higher median value of \$569,000 after growth over the same period of 4.7 percent.

Apartment Rents

An upward movement in rents has also been experienced in metropolitan Perth over the past decade, currently stabilising at \$440 per week. According to the REIA, vacancy is slightly above market equilibrium at 4.1 percent. This is likely to remain steady in the coming months, although this is dependent on the rate of take-up with the growing population, supporting demand.

Gross rental yields in Perth metropolitan were up 138 bps since 2006 to yield 4.97 percent as at June 2014, with an increase of 26 bps over the past four years. Perth yields are trending above those achieved in alternative metropolitan areas such as Sydney (at 4.81 percent) and Melbourne (at 4.47 percent).

As expected, both suburbs of Perth city and East Perth achieve above average median rents at \$585 per week and gross rental yields of 5.78 percent and 5.65 percent respectively recorded.



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Outlook

- Strongest population growth to continue around Australia, projected annually at 3.5 percent over the next thirty years.
- Gross State Product in Western Australia is forecast at four percent per annum over the next five years; averaging 17.4% as a share of Australia's output going forward
- Low interest rates are forecast to remain steady with no change expected until mid to late 2015 and banks are lending at competitive rates.
- AECOM has projected overall construction costs to increase 0.3 percent per quarter until March 2015.
- Over the next six months, building approvals will continue to rise to accommodate the potential number of apartments on the development sites recently purchased.
- With interest rates remaining low and exceptionally strong population growth, the rate of capital growth is likely to remain steady heading into 2015 to allow for the new supply coming on line.
- As more new supply comes on line after a long period of work completed annually, it is likely that vacancy will continue to trend slightly above the market equilibrium of three percent for the medium term.

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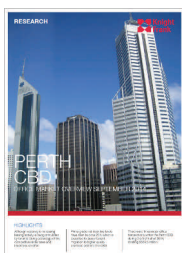
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