



SEPTEMBER 2011

ADELAIDE TERRACE

Residential Apartment Market Overview

Knight Frank

HIGHLIGHTS

- ◆ It is estimated that there is 17,955 people living in the City of Perth, a growth of 59% since 2005.
- ◆ The 2009 and 2010 calendar years saw 414 apartments developed along Adelaide Terrace, with only 200 apartments completed in 2011.
- ◆ Knight Frank has seen strong rental growth for inner city apartments, with above market gross yields being achieved on apartments in the area. Fully furnished apartments have an average gross yield of 6.48% - this compared to the Perth metropolitan area median yield of 4.8% for multi-residential dwellings.
- ◆ \$77.9 million worth of apartments have settled in the first half of 2011, with the majority of apartments sold within the \$400,000 to \$650,000 price range.

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Table 1
Key Market Indicators August 2011

	Land Area (km ²)	Estimated Population Dec 2010 (no.)	Total Estimated Population Growth from 2010 to 2011 (%)	Population Density (ppl/ km ²)	Median Unit Price, June Qtr 2011* (\$)	Median Annual Average change Over 5 Years (%)	Median Rent, June 2011* [^] (\$/wk)
PERTH METRO	5,423	1,727,568	2.31	318	405,000	6.6	370
PERTH CITY							
East Perth	3.0	9,028	8.29	3,009	540,000	6.5	488
Perth	5.0	3,791	4.93	758	482,500	5.0	490
Northbridge	1.0	867	0.70	867	512,500	7.0	450
West Perth	3.0	2,776	3.24	925	547,500	7.3	500

Source: Knight Frank / ABS / Real Estate Institute of Western Australia (REIWA)

* REIWA figures are preliminary for up to 4 months after end of quarter

[^] REIWA does not release figures if there are less than 20 rentals leased

ECONOMIC OVERVIEW

Whilst some international countries are continuing to restart their economies since the Global Financial Crisis (GFC), the Australian economy has remained relatively resilient. The Western Australian economy has been particularly strong, with the WA State Government forecasting that Gross State Product will grow 4.0% over the 2010/11 year and 4.75% during 2011/12.

EMPLOYMENT

Strong economic growth has seen high employment within the WA – the unemployment rate for July 2011 is 4.0%, the lowest of the Australian States.

In July 2011, the Federal Government reclassified Perth a “country town” as part of a move to attract migrants to the city, enabling businesses access to a potential pool of 16,000 sponsored visa places.

The WA State Government anticipates that there will be a shortage of 150,000 workers by 2017 and this program will work towards easing some of this shortage.

POPULATION

The Australian Bureau of Statistics (ABS) estimated that WA’s total population reached 2.31 million people in December 2010, of

which an approximately 75% live in the Perth metropolitan area.

It is estimated that there is 17,955 people living in the City of Perth, a growth of 59% since 2005, resultant of increased dwelling development and a trend towards inner-city living.

CASH RATE

The Reserve Bank of Australia (RBA) has kept the cash rate on hold since the last increase to 4.75% in November 2010.

ADELAIDE TERRACE

East Perth is divided into two distinct areas – Claisebrook, situated to the north of Wellington Street, and Central, from the Swan River to Wellington Street.

Adelaide Terrace is situated in Central East Perth and is seen as the Causeway gateway to the city. A mixed-use building environment, it has been traditionally dominated by low-rise office and residential developments.

Local amenity in the area includes the WACA ground, the Swan River, Langley Park as well as linkages with Victoria Park and the Perth Central Business District. The area is also serviced by the Transperth Free Transit Zone.

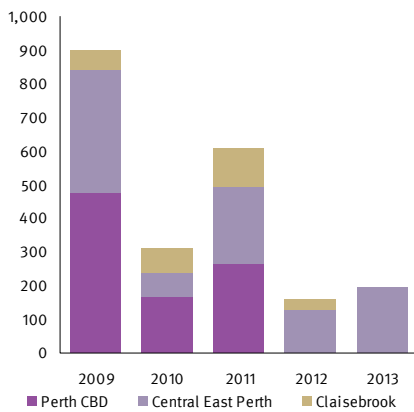




Development Activity

New apartments in the central Perth area totalled 1,212 over the 2009 and 2010 calendar years. Of this, 414 apartments were along Adelaide Terrace, being The Saint (84), Sky (117), Rise (72) and Elevation (141).

Figure 1
Apartment Development
No. completed, under construction and planned



Source: Knight Frank

Times2 is the only development to complete on Adelaide Terrace to date in 2011. With 200 studio, one-, two- and three-bedroom apartments, 99% of these have sold. Sales rates in this development have averaged between \$6,400/m² to \$9,100/m².

Fairlanes (181 Adelaide Terrace) will complete in 2012 and has 128 two- and three-bedroom apartments. Situated on the southern side of Adelaide Terrace the top level apartments achieve river views. Sales rates range from \$6,322/m² (no river views) to \$9,892/m² (river views). Penthouse apartments on average priced at \$13,652/m². To date 91% have sold.

Beyond this, *iSpire* at 176 Adelaide Terrace (78 apartments) and QIII at 10 Adelaide Terrace (265 apartments) are both selling off-the-plan.

Vacancy and Tenant Demand

Vacancy for apartments in the inner-city area appears to be the tightest market in the Perth metropolitan area, and as a result is

achieving some of the highest median weekly rents due to the strong demand.

Traditionally many apartments for lease came unfurnished. Trend is showing that tenants are demanding furnished apartments, with quality modern furnishings commanding higher rents.

Rental Levels

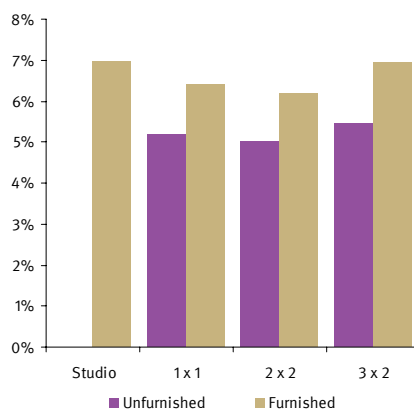
Increased demand for apartments in the Perth CBD/East Perth area is placing upward pressure on rental levels.

Fully-furnished apartments command approximately a 21% premium on the average rental rate per week over unfurnished apartments along Adelaide Terrace.

Gross rental yields for multi-residential dwellings in the Perth metropolitan area have increased by 0.3% to 4.8% for the June 2011 quarter.

Knight Frank analysis shows that the average gross rental yield for a fully furnished apartment on Adelaide Terrace is **6.48%**. Unfurnished apartments average 5.12%.

Figure 2
Rental Yields – Case Study, Times2
Average yields of apartments sold



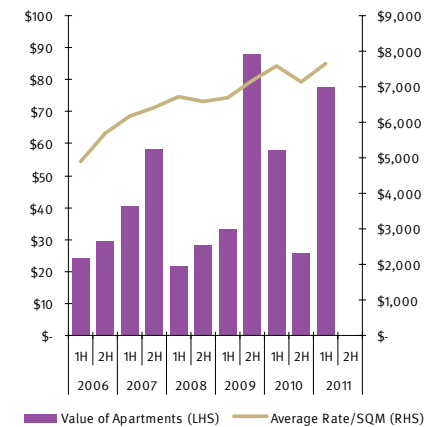
Source: Knight Frank

Investment Activity

Sales activity along Adelaide Terrace has picked up in the first half of 2011, with settlements totalling \$77.9 million over this period. This is compared to the 2010 calendar year which totalled \$83.6 million.

Figure 3
Apartment Sales

Value of apartments sold (\$Million), with rate/sqm



Source: Knight Frank

The majority of sales in the last six months have occurred in the \$400,000 to \$650,000 price range, though Adelaide Terrace is not limited to this price and apartments with river views, particularly on the southern side of the terrace do achieve higher sales prices.

The highest price paid along Adelaide Terrace was \$1.18million for a 3-bedroom apartment (\$10,351/m²). However, most sales rates per square metre have ranged between \$6,500 - \$9,200/m².

Outlook

Developers have put in a greater range of product mix to meet market demand for price points within the \$400,000-\$650,000 range and with design and layouts having improved apartments are appealing to a new and expanding audience.

Market reports have touted that inner-city demand for apartments will average around 1,200 dwellings per annum, based on increasing population growth in WA.

Interest has been garnered by investors who are seeing higher yields achieved for apartments in the Perth CBD. Knight Frank anticipates that this interest will continue, maintaining and increasing sales rates achieved and driving higher gross rental yields.

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