RESIDENTIAL RESEARCH

PERTH RESIDENTIAL DEVELOPMENT

MARKET OVERVIEW H2 2015

HIGHLIGHTS

At the end of August 2015, sites suitable for higher density development averaged $64,500 (ranging from $35,000 to $120,000) per apartment across Greater Perth, down by 5.1% on the previous year.

Major WA government infrastructure projects are now underway, as well, many apartment projects kicking-off earlier than scheduled in the inner and middle suburbs.

While the AUD remains low, offshore interest remains high in Australia, with Perth being considered as an alternative investment to the currently heated east coast markets.

KEY FINDINGS

Greater Perth higher density residential development site sales tallied $213.36 million in the year ending 31 August 2015.

In the past year, by value, **64.6% of Greater Perth development sites were sold to foreign investors**.

Foreign investors have a proposed $1.32 billion worth of residential developments in the pipeline in WA.

Lone person households are projected to have the highest growth at 3.0% per annum over the next twenty years

Strong pipeline of committed major infrastructure projects across Greater Perth

Currently there are 4,395 apartments under construction in Greater Perth—led by the CBD & Inner Suburbs regions.

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Director—Residential Research

PERTH RESIDENTIAL DEVELOPMENT SITES

Despite a slowdown in residential development sites sales across Greater Perth, the construction phase is active with many projects kicking-off earlier than scheduled due to the majority of apartments selling off-the-plan in the Inner and Middle Suburbs regions.

Sales Volume

Sales turnover of major sites, likely for higher density development in Greater Perth, grew substantially over the three years to 31 August 2014 to stand at $322.23 million, as shown in Figure 1. However, the twelve months to the end of August 2015, recorded $213.36 million worth of transacted sales, reflecting the weaker buyer sentiment in the wider Perth property market.

The sales volume achieved in the year to 31 August 2014 was a distinct benchmark given the large volume of sales transacting in that year. The most notable being the Finbar purchase of the Civic Heart site in South Perth for $27.31 million and the Mirvac purchase of the Claremont On The Park in Claremont for $20.50 million; both projects being marketed in 2015. Other recent major site sales, with potential for higher density in Greater Perth, have been listed in Table 1 on page 4.

Over the two years to the end of August 2015, the Inner Suburbs region recorded the highest volume of residential development site sales at $275.79 million, whilst the Perth CBD saw $32.90 million in sales. The Middle Suburbs region, resulted in sales in the order of $147.11 million over the same time.

There are significant infrastructure projects currently under construction that will greatly benefit not only these regions, but the Greater Perth area, including Perth City Link, Elizabeth Quay and the new Perth Stadium. The Outer Suburbs region, which covers both Perth and Jandakot airports, will also see the Gateway WA project delivered in 2016. The region recorded $79.80 million worth of development site sales over the same two year timeframe.

FIGURE 1
Total Residential Site Sales Volume Greater Perth
Potential Higher Density Development, $2M+

Source: Knight Frank Research

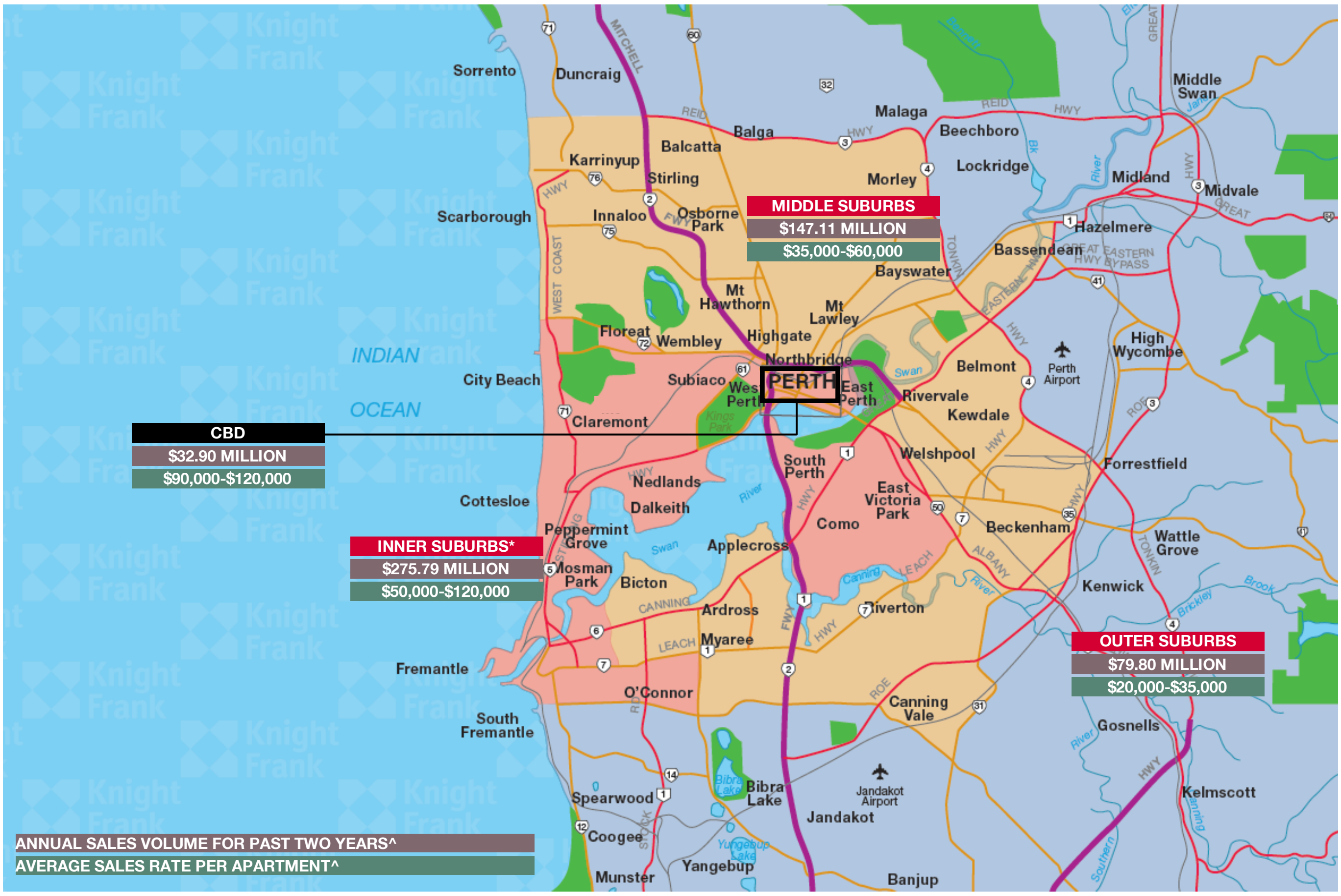
Average Rates

As at the end of August 2015, sites suitable for higher density development averaged $64,500 (ranging from $35,000 to $120,000) per apartment across Greater Perth, trending slightly down by 5.1% when compared to the previous year.

As the Perth CBD becomes a more vibrant place to live and work, inner city apartment living has become a more acceptable and suitable solution for those wanting to be close to the City. Residential development site sales rates as at the end of August 2015 averaged between $90,000 and $120,000 per apartment in the Perth CBD.

At the same time, the Inner Suburbs region trended from $50,000 to $120,000 per apartment, whilst the Middle Suburbs region ranged from $35,000 to $60,000

RESIDENTIAL REGIONS—GREATER PERTH SITES WITH POTENTIAL FOR HIGHER DENSITY DEVELOPMENT



Source: Knight Frank Research *Excludes CBD ^As at 31 August 2015

per apartment. This region includes the suburbs of Rivervale and Burswood which are earmarked for new apartments to come on-line over the next three years. In the Outer Suburbs region, development sites with potential for higher density residential trended from $20,000 to $35,000 per apartment.

Type of Purchasers

An analysis of purchaser nationalities across all development sites suitable for higher density development in Greater Perth, indicated that 35.4% of sales, by value, were to Perth based developers, dominated by Pindan, Finbar and The Match Group, in the year to August 2015. The 64.6% portion of foreign purchasers, included the purchase by Roxy-Pacific (in JV with HostPlus and Pindan) of 54 Bracks Street in North Fremantle for $59 million, as well as the sale of 374-396 Murray Street in the Perth CBD for $30 million to the Fragrance Group, both Singapore based.

FIGURE 2
Proposed Investment in Residential Developments
Distribution by Foreign Investors, when applications submitted in 2013/14

Source: Knight Frank Research, FIRB

Foreign investors propose to invest $1.32 billion in Western Australia residential developments, according to the Foreign Investment Review Board (FIRB). As shown in Figure 2, the distribution of foreign investment into residential developments continues to be dominated by Victoria ($10.41 billion) and New South Wales ($10.39 billion). Queensland follows with $2.81 billion of investment, ahead of Western Australia which comprises a share of approximately 5% of total investment across the country.

TABLE 1

Major Sales—Development Sites With Potential For Higher Density Apartments, Greater Perth

Address	Sale Price $ mill	Site Area m²	No. Apts~	Price $/Apt~	Price $/m²	Vendor	Purchaser	Sale Date
54 Bracks St North Fremantle^	59.00	45,456	N/A	N/A	902	Caltex Australia	Roxy-Pacific (40%)∞ JV HostPlus (60%) & Pindan	Mar-15
Milligan Square 374-396 Murray St & 47-59 Milligan St, Perth^	30.00	3,560	286	104,895	8,427	Georgiou	Fragrance Group∞	Dec-14
Claremont on the Park Graylands Rd Claremont^	20.50	6,555	234	87,607	3,127	WA Land Authority	Mirvac Group	Aug-14
Civic Heart Mills Point Rd, Mends St & Labouchere Rd, South Perth^	27.31	7,206	294	92,891	3,790	City of South Perth	Finbar	Aug-14
Fmr Schweppes HQ 363 Scarborough Beach Rd thru Walters Dr, Osborne Park*	23.00	24,500	N/A	N/A	939	Asahi Group	Danzone Pty Ltd & Stockhome Pty Ltd	Jun-14
Fmr Matilda Bay Brewery 130 Stirling St North Fremantle^	39.60	29,170	400	99,000	1,358	McGilvray Family	Undisclosed Developer∞	Jun-14

Source: Knight Frank Research ~Estimate/Potential ∞Foreign Vendor/Purchaser Residential Regions (see map): ^CBD & Inner *Middle

KEY DEVELOPMENT DRIVERS

The Economy

The Western Australian economy continues to endure the aftermath of a declining mining sector, a slowing Chinese economy and the weaker price of iron ore, all contributing to the sluggish Australian economy. Although the Australian Dollar (AUD) remains low, there has been good opportunity to attract local tourism and promote foreign investors into buying new housing stock. According to the Australian Bureau of Statistics (ABS), growth in Western Australian State Final Demand in the quarter to June 2015 grew 1.5%, after recording –1.6% in the previous quarter; to a total decline in growth of 1.8% over the past year.

Interest Rates

Sustained lower interest rates have encouraged property investment over recent years, and for the time being, are supporting continued appeal into the market for those seeking longer term gains. The Reserve Bank of Australia (RBA), in September 2015, left the cash rate at an all-time historic low of 2.00%, after cutting the rate by 25 bps in May 2015.

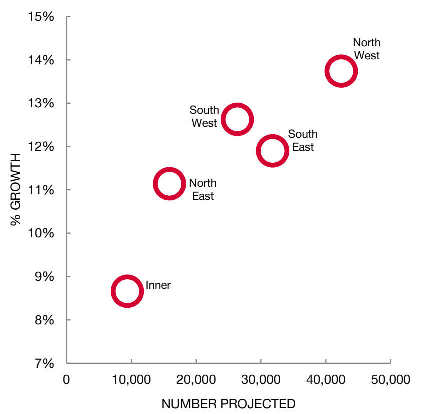
Lending Environment

With two years of significant capital growth, dominated by the investor market in the Sydney and Melbourne property markets, a reduced and more responsible lending target was endorsed by Australian Prudential Regulatory Authority (APRA) in May 2015. Since this time, banks have started to reduce their maximum LVR's, introducing new variable rates and requiring customers to provide evidence of existing loan repayments before being accepted. This is in addition to applying serviceability repayment loading buffers to existing mortgage repayments as part of borrowers serviceability assessment in a higher interest rate environment. These overall housing lending standards are only part of the concern, with APRA, more recently, commenting on the current lending environment; where house prices are high, interest rates are low and income growth is subdued. In addition, the potential for a slow but steady erosion of credit quality in home loan portfolios as investor lending (and the rate of growth) rises with interest-only loans and increased use of third-party originated lending. The tightened lending environment is expected to have some impact on investors, although the measures endorsed by APRA could be negated should any further cuts to the cash rate occur.

Employment Growth

In the Greater Perth region, unemployment stood at 6.4% as at June 2015, trending 100 bps higher than recorded twelve months earlier. The Department of Employment have projected employment growth in Greater Perth, by SA4 ABS regions, over the next five years to November 2019. As more people are trending towards living closer to where they work, this longer term projection helps to understand where growth in employment could be mirrored with new apartment opportunities. Within Greater Perth, the North West is expected to grow the most (13.7%) and with the most amount of jobs (42,370). In

FIGURE 3
Employment Growth Projections Greater Perth, SA4 level
Five years to November 2019



Source: Knight Frank Research, ABS, Department of Employment

the south, the South East is likely to gain 31,790 jobs (growing 11.9%) whilst the South West could grow as much as 12.6% with an additional 26,345 jobs in the region. The Inner region is not expected to be as strong over the five year projection, with 9,385 new jobs expected to come on line, with growth of 8.7%, as shown in Figure 3.

Cost of Construction

There has been much focus on increasing cost of construction with demand for products and services being sustained, due to the solid pipeline of apartment projects already underway.

Over the year to 30 June 2015, Greater Perth building costs have increased an estimated 2.5%, according to Rawlinsons, trending higher than the annual average growth recorded over the past five years of 1.2%. An increase in construction costs is projected by Rawlinsons to be sustained with another 1.0% rise in the second half of 2015, in total rising a projected 4.5% over the year to 31 December 2015. Rawlinsons estimate a standard high-density, multi-storey apartment project in Greater Perth would now on average cost $2,200/m² to $3,250/m² for a basic finish (or equivalent to a range of $114,400—$123,300 per apartment) to build, plus GST. A project with a prime finish would be closer to an average of $3,320/m² to $4,650/m² (or equivalent to a range of $631,000—$680,000 per apartment) to build, exclusive of GST.

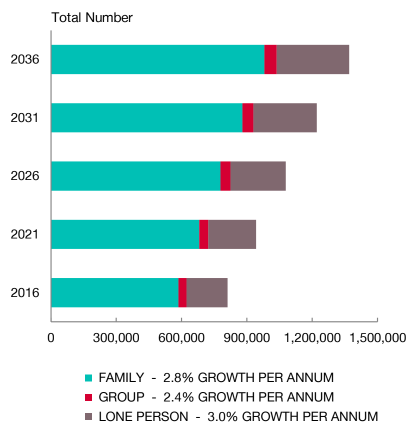
Projected Population

The population of Greater Perth has been projected to reach 3.6 million persons by 2036, according to the ABS long term series. This would equate to an annual growth projection of 2.5% and far outstrip the Australian average of 1.4% per annum. The assumptions are based on net overseas and net interstate migration remaining relatively strong. As mining has eased since the base date of these projections, this ambitious target may not be reached. In saying this, in the year to June 2014, Greater Perth experienced population growth of 2.5%, led by Forrestdale-Harrisdale-Piara Waters SA2 (21.8%), North Coogee (20.7%) and Anketell-Wandi (17.9%); therefore matching the longer term projection.

Projected Households

The number of households in Greater Perth have been projected by the ABS to reach 1.37 million by 2036—growing annually by 2.8%. Analysing the configuration of these households, it was found that 'Lone Person' Households would grow the most over this time, at 3.0% per annum to total an additional 172,465 households required to be suitable for this type of dweller. The 'Family' composition still dominates household structure as highlighted in Figure 4.

FIGURE 4
Household Projections By Type Greater Perth



Source: Knight Frank Research, ABS

PIPELINE OF MAJOR PROPOSED INFRASTRUCTURE PROJECTS—GREATER PERTH

2015
Kwinana Freeway upgrade

2016
Gateway WA

Perth City Link

2018
Elizabeth Quay

New Perth Stadium

2019
NorthLink WA

Waterbank, Riverside

Belmont Racecourse re-development

Claremont on the Park, Claremont re-development

2020
Forrestfield-Airport Link

2025+
Metro Area Express (MAX) Light Rail

KEY SUBURBS FOR APARTMENT PROJECTS DUE BY END 2018— GREATER PERTH

CBD & INNER SUBURBS
Perth CBD
East Perth
Subiaco

MIDDLE SUBURBS
Rivervale
Burswood
Maylands

OUTER SUBURBS
Cockburn Central
North Coogee
Rockingham

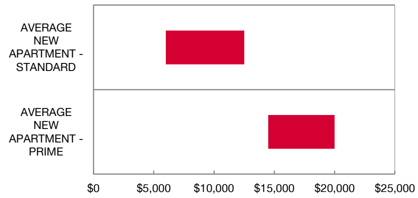
The Apartment Market

The Greater Perth mainstream apartment market has remained steady with 0.2% capital growth over the past twelve months to June 2015. Sales transactions were down 10.4%, to 11,774 apartments, over the same time. As at June 2015, the total residential vacancy in Greater Perth was at 4.7% and gross rental yields stood at 4.72%.

Projected New Apartment Pipeline

Since January 2011, 5,145 new apartments have been added to the Greater Perth residential stock, led by the CBD & Inner Suburbs region, as detailed in Figure 6. In total across Greater Perth, there are currently 4,395 apartments under construction, with another 6,490 with DA approval which are expected on-line by the end of 2018. Over this time, taking into consideration higher density apartment projects under construction and DA approved, the CBD & Inner Suburbs region is forecast to see an additional 4,765 apartments, an extra 80% on the prior 2011-2014 period. The Middle Suburbs and Outer Suburbs region are forecast to add another 4,425 and 1,695 apartments, respectively, by the end of 2018. This is an extra 363% in the Middle Suburbs and 147% more built in the Outer Suburbs than over the previous 4 years in each region.

FIGURE 5
New Apartment Price Range Greater Perth
Average rate per m^2



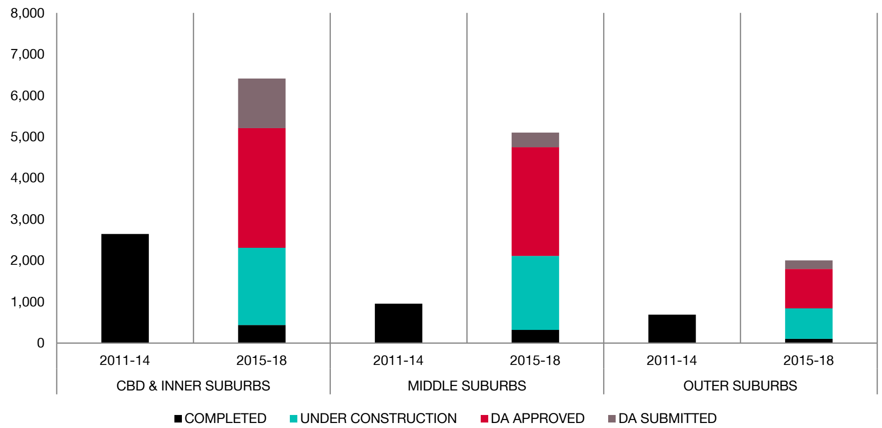
Source: Knight Frank Research

Apartment numbers in Greater Perth could grow further when approval is granted for the additional 1,770 apartments currently submitted.
As determined by pre-sales, the market dictates when new apartment projects get underway, so for most local developers, there is a strong chance that these projects may be pushed beyond this timeframe.

New Apartment Price Range

New apartment prices across Greater Perth can vary according to the quality of finish, those with views of the Swan River and the distance and ease of transport into the city, to beaches as well as food and entertainment precincts. As shown in Figure 5, an average new apartment of standard finish can range from $6,000/m^2$

FIGURE 6
New Apartment* Pipeline Greater Perth
Number of Apartments



Source: Knight Frank Research

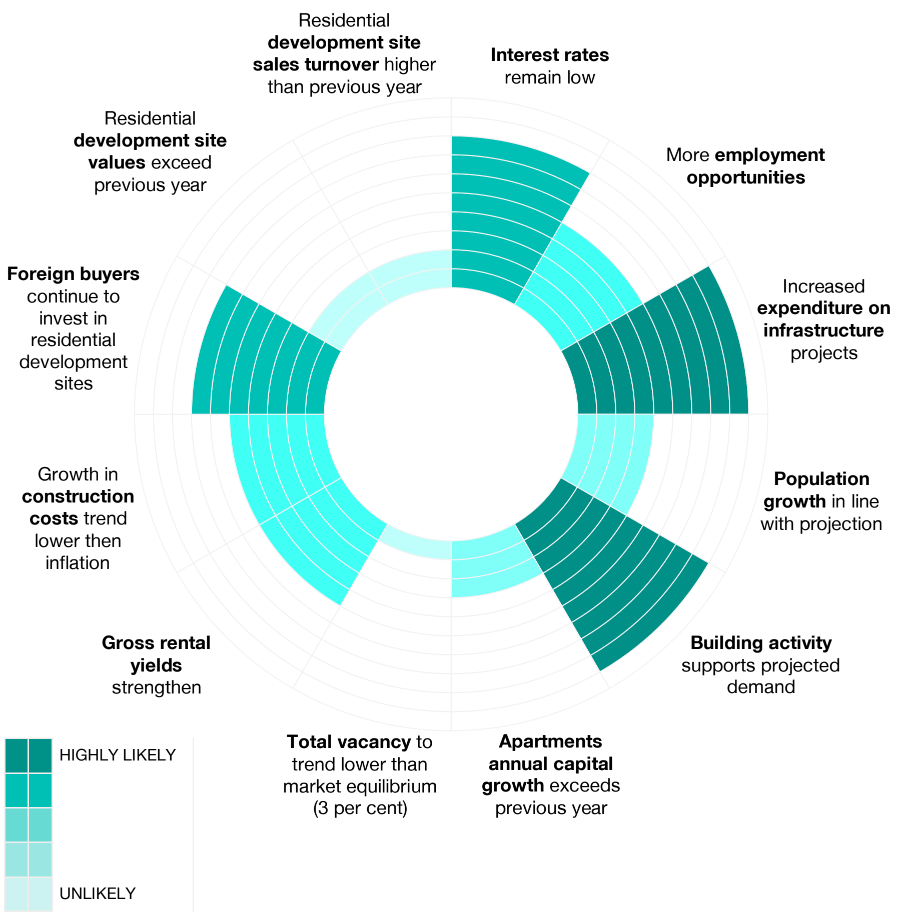
*Includes projects 4+ storeys with 25+ apartments in complex through to $12,500/m^2 whilst an average prime apartment currently trends between $14,500/m^2 and $20,000/m^2.

Foreign Investors

The Federal government has confirmed it will proceed with an initial fee of at least $5,000 for all foreigner investors purchasing into the Australian property market, with an additional $10,000 payable for every million dollar increment in the value of the property; slated from 1 December 2015. The Victorian government has also introduced an additional two taxes: A 3% surcharge on the purchase price for a foreign investor and an on-going land tax fee for absentee owners. As yet, no other Australian states and territories have indicated they plan to introduce similar measures. Given Victoria has previously held one of the lowest stamp duty taxes payable for off-the-plan properties, this will now increase the relative competitiveness of the other states around the country.

The proposed changes may have an impact on those marketing to foreign investors as there has already been increased enquiry from offshore, but mostly surrounding the new penalties being introduced. While these additional fees may deter some foreign investors, they are not likely to significantly impact the current level of foreign investment activity within Australia, as foreign investors are looking for a longer term return – the lifestyle, good education facilities and a transparent ownership structure.

FIGURE 7
Key Development Drivers—One Year Outlook Greater Perth



Source: Knight Frank Research

OUTLOOK

- The next twelve months is likely to see interest rates remain low, with the possibly of another 25bps cut; before potentially being lifted later in 2016.
- Major WA government infrastructure projects are now underway, which is expected to take-up some of the slack of the mining industry over the next few years, with more employment opportunities created as a result.
- The Greater Perth population is projected by the ABS to significantly outpace the Australian average, at 2.5% per annum. As mining has eased since the base date of these projections, this ambitious target may not be reached within this timeframe.
- It is very likely that the average timeframe between the project launch, to site works, will widen over the next twelve months as minimum pre-sales may not be achieved as hastily as in the past.
- As new supply comes on-line, the total vacancy is expected to move further away from equilibrium. Rents are likely to become more competitive, therefore resulting in lower gross rental yields.
- For apartments due to kick-off, an increase in construction costs is projected by Rawlinsons to be sustained with another 1.0% rise in the second half of 2015, in total rising a projected 4.5% over the year to 31 December 2015.
- The increase in construction costs could result in upward pressure on apartment prices as developers pass the cost onto purchasers.
- While the AUD remains low, it is likely offshore interest for Perth residential development sites suitable for higher density located close to the City and infrastructure hubs will continue; as an alternative to heated east coast markets, being priced significantly lower.
- Greater Perth will continue to attract Asian investors, being located closer than Sydney and Melbourne, and for most Asian cities, Perth is within the same time zone.

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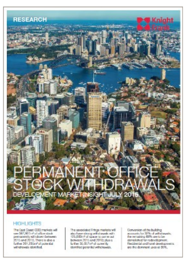
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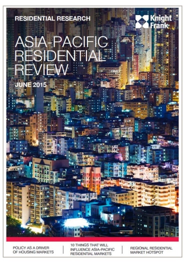
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