

CRANES CONTINUE TO DOMINATE THE METRO SKYLINE

The Melbourne metropolitan apartment market has sustained growth in median values and rents in the past twelve months despite significant construction projects underway.

Key facts June 2014

Population projected to increase by 2.1% on an annual basis out to 2029

Over **12,600 apartments currently under construction** in metropolitan Melbourne

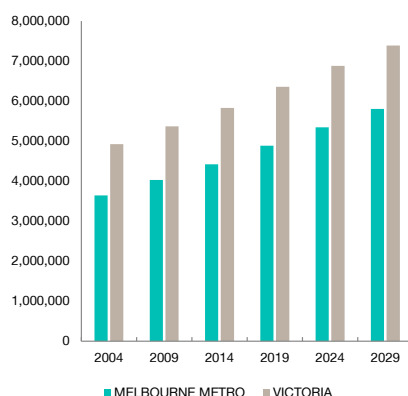
Vacancy fell 40 bps to 2.8% in May, while **rents climbed to \$390** per week, as rental yield averaged 4.51%

Metropolitan Melbourne saw **annual capital growth of 5.9%** with **median value of \$454,000**

Melbourne remains an attractive market for developers, investors and owner occupiers; with a sound transport network, internationally recognised education and sporting facilities and a multicultural community embedded within the metropolitan area. Together with the resilient Australian economy throughout the recent global downturn, foreign investors continue to favour Melbourne as a safe haven within the Asian Pacific region. With safe, transparent investment regulations complimented by the federal government's incentive for foreign investment into the local market, have all aided to sustain demand in the Melbourne apartment market.

Population has been steadily rising in metropolitan Melbourne with this trend positively projected by the Australian Bureau of Statistics going forward. As shown in Figure 1, population has grown on average by 2.1% over the past ten years and this is projected to continue at the same rate on an annual basis out to 2029.

FIGURE 1
Melbourne Population
total number of persons

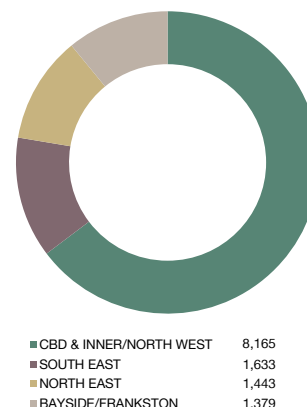


Source: Knight Frank Residential Research, ABS

Due over the next three years, there are just over 12,600 apartments currently under construction in metropolitan Melbourne, with

a number of significant projects still proposed in the pipeline. Encouraged by urban renewal and migration towards inner city living, the CBD & Inner/ North West has witnessed a significant number of medium-high density apartment projects built to support this population growth; with presales continuing to support further projects.

FIGURE 2
Melbourne New Apartments
total number under construction



Source: Knight Frank Residential Research

The CBD & Inner/North West region of Melbourne comprises 64.7% of the apartments currently under construction. This includes 568 Collins Street, being developed by the Stamoulis Group with a total 588 apartments and the Prima Pearl project on Queensbridge Street, Southbank with an estimated 670 apartments. Both are due for completion by the end of 2014. The remaining third of apartments are close to evenly distributed across the South East, North East and Bayside/Frankston regions.

A high concentration of apartment stock built over the past decade has caused vacancy in metropolitan Melbourne to rise from 2.1% in May 2009; to average 2.8% over the past five years. However, in the twelve months to May 2014, the REIV had reported that vacancy had fallen 40 bps to stand at 2.8%.



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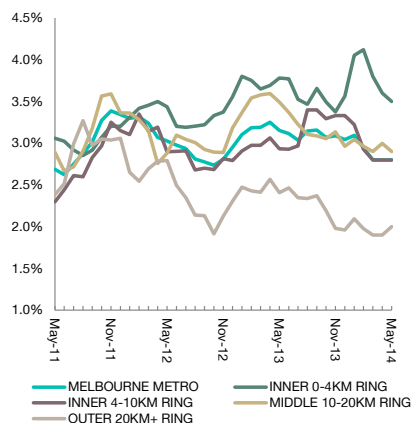
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RESIDENTIAL MARKET UPDATE JUNE 2014

At this time the 'Inner 0-4km ring' recorded a contraction in vacancy, down 30 bps to 3.5%; but trending higher than the five year benchmark of 2.9%. This was a similar trend for the 'Inner 4-10km ring' where vacancy hit 2.8%. The 'Middle 10-20km ring' recorded vacancy at 2.9% and the 'Outer ring' at 2.0% as at May 2014.

FIGURE 3
Melbourne Vacancy
% total of residential investment stock

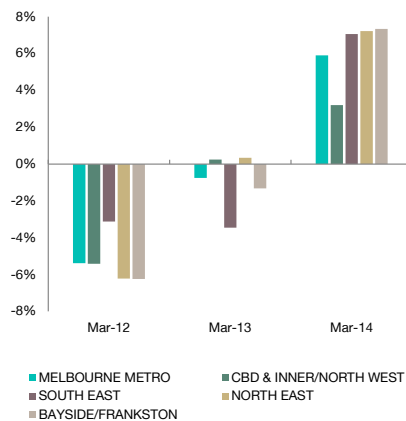


Source: Knight Frank Residential Research/REIV

Rental market

With a downward movement in vacancy, apartment median rents in metropolitan Melbourne have continued to climb in the twelve months to March 2014 to \$390 per week, whilst gross rental yield averaged 4.51%. The South East region recorded the highest growth in rent over this time at 4.0%. This was followed by the North East at 1.3%, to both achieve a weekly median rent of \$390; and rental yields of 4.47% and 4.17% respectively. Bayside/Frankston recorded the highest weekly rent at \$405 whilst the CBD & Inner/North West region, on the lower end, was closer to \$385 per week.

FIGURE 4
Melbourne Apartments Median Values
% change in capital growth



Source: Knight Frank Residential Research/Residex

Capital values

The historically low cash rate has been a major driver for the increased investment in residential property with a current rate of 2.50% whilst the standard variable mortgage rate at June 2014 stands at 5.95% - 133 bps below the ten year average of 7.28%.

As at March 2014, apartments across metropolitan Melbourne saw annual capital growth of 5.9%, with a median value of \$454,000. This is projected to stabilise at 4.0% per annum over the next five years. Highest capital growth was experienced in the Bayside/Frankston region at 7.3% over the last year, closely followed by North East at 7.2%; while both realising a median value of \$486,000.

The South East was also up, achieving growth of 7.1% to \$453,500. Although the CBD & Inner/North West region witnessed subdued capital growth when assessed against the other regions at 3.2%; it has been projected that the next five years average growth will reach 5% per annum.

“The CBD & Inner/North region of Melbourne comprises 65% of the apartments currently under construction”



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Knight Frank Residential regions are defined as:
CBD & Inner/North West – postcodes 3000 to 3079
North East – postcodes 3080 to 3140
South East – postcodes 3141 to 3180
Bayside/Frankston – postcodes 3181 to 3207
Melbourne Metro – postcodes 3000 to 3207

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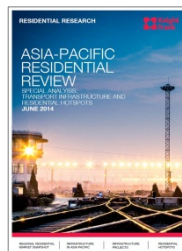
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