



AUSTRALIAN APARTMENTS

RESIDENTIAL MARKET OVERVIEW Q1 2015

HIGHLIGHTS

Mixed results were witnessed for capital growth with Sydney continuing to demonstrate stellar annual growth of 12.9%, whilst Canberra and Darwin crossed into negative growth territory.

Building approvals for apartments have increased over 2014, with growth prominent in metropolitan areas where zoning controls have been relaxed in previously non-traditional residential areas.

The government has released a 'Strengthening Australia's Foreign Investment Framework' options paper, with significant application fees for foreign purchasers, potentially impacting demand.

KEY FINDINGS

RBA reduced the official cash rate by 25 bps to 2.25% in February 2015; this led to a 30bps reduction in the variable mortgage rate to 5.65%.

Quarterly capital value growth was strongest in metropolitan Sydney and Adelaide at 3.6% in the last quarter of 2014; as Sydney also led annual capital growth in 2014 at 12.9%.

Gross rental yields averaged 4.84% across Australia in 2014; with Darwin continuing to lead rental returns at 5.87%.

Sales turnover increased 2.5% to total almost 151,200 apartments sold in Australia over the last year; with a total 116,000 apartments (up a modest 1.9%) being sold in the capital cities.

Building approvals totalled just over 78,000 apartments across the eight capital cities in the year to January 2015; up 9.7% on the year before.



MICHELLE CIESIELSKI
Knight Frank Residential Research

AUSTRALIAN APARTMENTS

As sales turnover for Australian apartments slowed in the last quarter of 2014, Sydney continues to drive apartment price growth across the eight capital cities.

ECONOMY

Over the last quarter, historically low interest rates have sustained housing demand for local investors, whilst the fall in the Australian dollar has continued to draw in foreign purchasers. Both continue to contribute immensely to the local economy by stimulating construction activity, and increasing housing stock across the country.

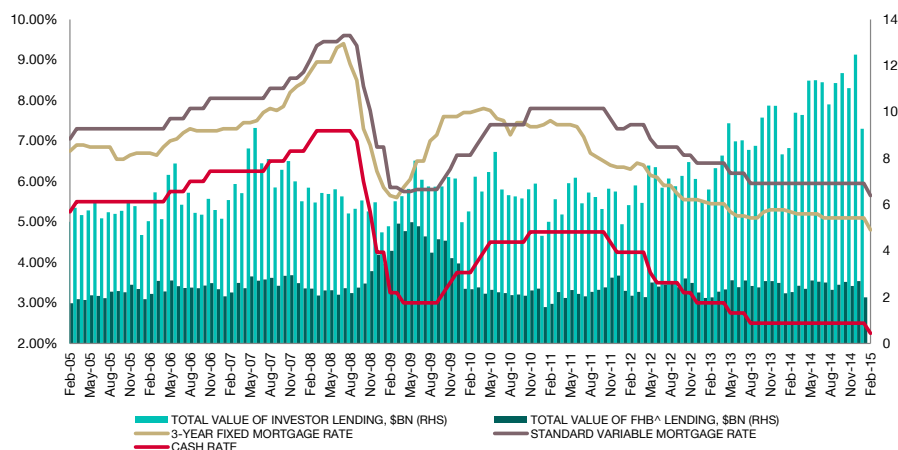
The Australian economy is currently travelling at a modest pace. Economic growth was last recorded at 2.5%, unemployment inched a little higher at 6.4%, and headline inflation was captured at a low 1.7%. To lift inflation and sustain economic growth, the Reserve Bank of Australia (RBA), reduced the official cash rate by 25 bps in February 2015, to stand at 2.25%. This influenced the standard variable rate to shift down 30 bps to 5.65%, and the 3-year fixed mortgage rate to 4.80%; consequently compressing a total 45 bps in the year to February 2015.

In the twelve months to January 2015, total value lending for First Home Buyers (FHB) totalled \$29.75 billion. This was up a modest 0.9% on the year earlier. Given

the time of the year, the total volume of \$1.99 billion for the month of January 2015, trended below the monthly \$2.58 billion average recorded over the past ten years (see Figure 1). The total value of investor lending has grown significantly since 2013, with sustained low interest rates and an overall upward growth in capital values, driving monthly volumes with an average lending of \$9.57 billion; compared to \$6.44 billion averaged over the prior seven years. The month of January 2015 recorded a total \$9.28 billion, up 13.6% over the same period the year before, whilst a total of \$128.33 billion was recorded for the year to January 2015. Investor lending for construction of new housing was \$549.5 million in the month of January 2015; up 74% when compared to the same period the year before.

We have yet to see the market being impacted by the letter issued by the Australian Prudential Regulatory Authority (APRA) to lending institutions, in December 2014. The letter outlined APRA's intention to increase the level of supervisory oversight of mortgage lending; noting concerns of high LVR loans, lenders growing the investment segment of their loan book above 10%

FIGURE 1
Ten Year Cash Rate, Mortgage Rates, Investor and First Home Buyer Loans



Source: Knight Frank Residential Research, ABS, RBA

^Denotes First Home Buyers

annually and mortgage affordability should we move into a higher interest rate environment.

The benefits of foreign investment in new housing stock may also be compromised by the restrictions proposed in the Government's 'Strengthening Australia's Foreign Investment Framework' discussion paper. It has been stressed that the changes are not designed to deter investment, rather to ensure that rules are being enforced by increased compliance via a specialised investigative within the Australian Taxation Office. The Options Paper proposes the introduction of significantly higher fees payable on application for residential property (of up to \$5,000 for less than \$1 million; \$10,000 for properties worth equal to or greater than \$1 million; with \$10,000 incremental fee increases per additional \$1 million in property value) than that suggested by the House of Representatives Standing Committee on Economics for foreign residential purchases in Australia (at \$1,500). It is envisaged that the Government will announce any changes after 20 March 2015.

MARKET TRENDS

In the last quarter of 2014, the Australian apartment market recorded mixed results with capital value growth of 2.0%, with an overall annual growth of 6.3% in 2014. Metropolitan Sydney continued its stellar capital growth of 3.6% and rental growth

of 1.9% in Q4; continuing to hold the highest median capital value and weekly rent of all capital cities.

At the other end of the range the metropolitan areas of Canberra and Darwin have crossed into negative territory for capital growth with rents also falling this quarter. Adelaide metropolitan experienced capital growth over the three months to December 2014, at 3.6%, after coming off a lacklustre September quarter (see Figure 2). Melbourne followed with an uptick of 1.2% in capital values across the metropolitan area, whilst in comparison, Perth and Brisbane were up 0.2% over the December quarter.

Across Australian apartments, rents increased 1.2% over the last quarter. Over the past ten years, gross rental yields have ranged from 3.57% to 6.59% across the metropolitan markets, to currently achieve 4.84%. As at December 2014, Adelaide (at 5.12%) and Hobart (at 5.73%) achieved the upper end of their ten year yield range, whilst Canberra and Sydney were closer to the lower end, at 5.29% and 4.65% respectively.

Demand

The Australian Bureau of Statistics (ABS), last counted total population for the Australian capital cities at an estimated 15.64 million persons. Most growth in population across Australian capital cities has been attributed to net overseas

migration, with an overall 60:40 split with natural increase. Population is projected to increase an annual 2.1% per annum (total 33%) to 2030; growth being led by the Perth and Melbourne metropolitan areas. Sydney is expected to remain the most populous city; at just over 5.89 million persons.

Supply

Building approvals for apartment developments have increased significantly over 2014, with growth most prominent in metropolitan areas where zoning regulations have been relaxed and close to rail in previously non-traditional residential areas.

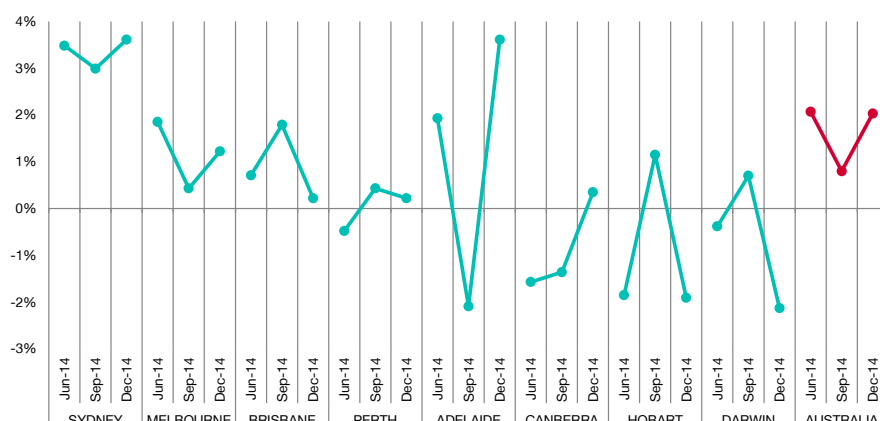
Over 78,000 apartments have been approved across the eight greater metropolitan areas over the past year to January 2015; 36% higher than a year prior. This represents close to double the number in Brisbane and Adelaide; whilst Sydney and Melbourne were up 32% and 15% respectively.

For existing property, sales turnover increased 2.5% to total almost 151,200 apartments sold in Australia over the last year; with a total 116,000 apartments (up a modest 1.9%) being sold in the capital cities. Brisbane metropolitan saw the most growth in annual apartment sales turnover at 17.5%, followed by the Melbourne area (at 4.4%). Sydney continued to sustain annual sales turnover at just over 43,438 apartments.

FIGURE 2

Capital Value Growth

%change, Apartments, Metropolitan Markets, Quarterly

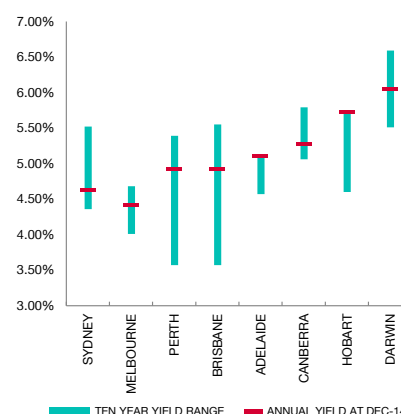


Source: Knight Frank Residential Research, Residex

FIGURE 3

Yield Ranges

% gross rental yield, Apartments



Source: Knight Frank Residential Research, Residex

SYDNEY

Last quarter saw continued growth in capital values of 3.6%; with total growth of 12.9% over 2014

Over the past year, 43,438 apartments were sold; growth in turnover stabilising at 1.5% compared to 2013

Weekly rents rose by 3.9% to \$540 compared to one year ago

Gross rental yields currently average 4.65% across the Sydney metropolitan area

Apartment Values & Sales Volumes

In the last quarter of 2014, Sydney metropolitan apartments continued to see considerable growth of 3.6%; maintaining the highest capital value across Australia, at \$606,500. Annual growth was recorded at 12.9% over 2014, with median values increasing 24.6% since the most recent lull in 2012 and 53.4% since the end of 2008. Yearly sales turnover was sustained at 43,438 apartments transacting; marginally up 1.5% on the year before.

Apartment Rents & Vacancy

Rental growth for metropolitan Sydney apartments continues to climb, to stand at \$540 per week at December 2014. This was up 3.8% over the last year, with rents growing, on average, a staggering 7.1% each year since 2005. Sydney continues to hold the tightest total vacancy across the country, at 1.5% in December 2014; compressing from 1.9% in 2012. The Inner (0-10km) and Outer (20km+) rings assist in pushing down vacancy with 1.5% and 1.6% respectively. The Middle (10-20km) ring witnessed 2.1% vacancy—still well below the 3% market equilibrium.

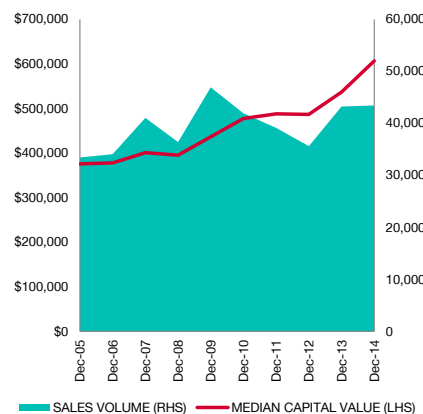
Rental Yields

Following the considerable uptick in capital values outweighing rental growth, gross rental yields had contracted 41 bps by the end of 2014, to return a rate of 4.65%.

Outlook

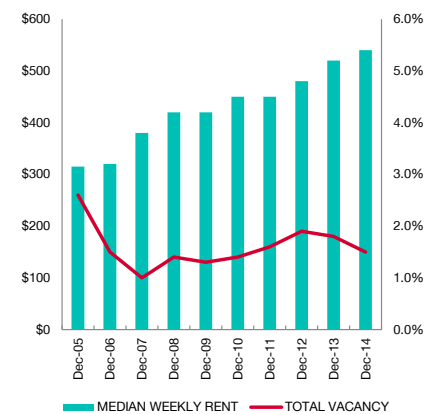
Sydney continues to outperform all other Australian cities for capital and rental growth. We expect to see further strong capital growth, although closer to circa 10% for the year. As vacancy continues a downward trajectory until new supply reaches the market later in the year, its likely that rental growth will continue to rise.

FIGURE 4
Apartment Values & Sales Volume
Sydney Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 5
Apartment Rents & Total Vacancy
Sydney Metropolitan



Source: Knight Frank Residential Research, Residex, REINSW

TABLE 1
Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Sydney*	727,000	2.6	13.5	5.66	588	755
CBD & South^	737,000	0.9	10.5	4.68	12,053	660
North^	721,000	5.9	13.0	4.45	8,930	615
North West^	563,500	4.8	14.9	4.63	10,151	500
South West^	511,000	4.3	15.6	4.67	9,810	455
Far West^	325,000	2.8	12.6	5.51	3,836	345
Sydney Metropolitan	606,500	3.6	12.9	4.65	43,438	540
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region (see back page)

MELBOURNE

Annual capital growth was recorded at 4.7%; as last quarter sustained growth at 1.2%

Sales volume increased 4.4% over the past year to 33,862 apartments

Rents increased by 3.9% over the twelve months to 2014 to \$400 per week

Gross rental yields in the Melbourne metropolitan area **currently returns 4.42%**, the lowest in the country

Apartment Rents & Vacancy

Apartment rents for the Melbourne metropolitan area rose 3.9% in the past year to \$400 a week by the end of 2014. Total vacancy was recorded at this time at 3.2%, after pushing marginally above and below market equilibrium over the past five years. Throughout this time, rents have sustained an upward trajectory, growing on average 2.9% per annum. Breaking down total vacancy in Melbourne, the Inner (0-10km) ring stood at 3.3%, the Middle (10-20km) ring stood at 3.5% whilst the Outer (20km+) ring recorded 1.6%.

Rental Yields

Gross rental yields have averaged 4.39% across the metropolitan area over the past ten years. In December 2014, rental yields achieved a little higher than this rate, at 4.42%

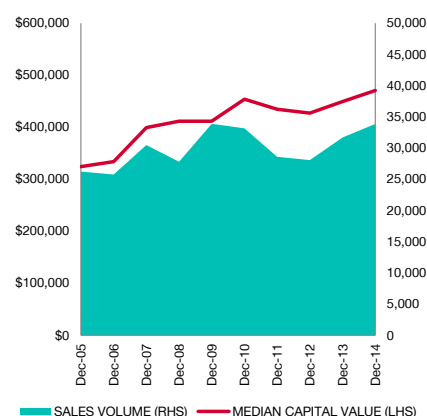
Outlook

In 2014, Melbourne was the second best capital growth performer across Australia. We see a similar result occurring in 2015 with sustainable annual growth in capital values forecast up to 5%. As total vacancy has broken north of 3%, we feel that rents will remain stable and vacancy may inch a little higher, particularly in the Inner ring.

Apartment Values & Sales Volumes

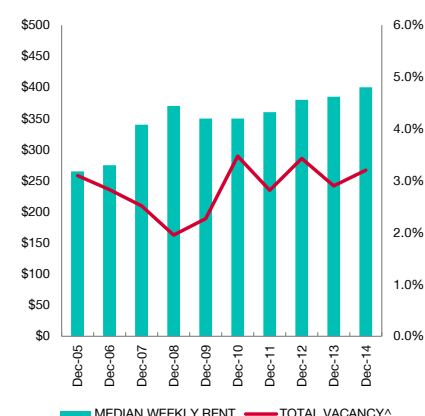
The metropolitan Melbourne apartment market has continued to remain resilient to currently record a median capital value of \$470,500, up 1.2% in the last quarter of 2014. Over the past two years to December 2014, apartments have experienced growth of 10.2%, with 2014 alone enjoying growth of 4.7%. This uptick in apartment values has followed the similar trend to sales volume, the leading indicator, with 33,862 apartments sold in 2014, up 20.6% since December 2012.

FIGURE 6
Apartment Values & Sales Volume
Melbourne Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 7
Apartment Rents & Total Vacancy
Melbourne Metropolitan



Source: Knight Frank Residential Research, Residex, REW. ^rolling 6-mth average

TABLE 2

Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Melbourne*	438,500	1.4	1.6	5.61	3,104	475
CBD & Inner/North West^	419,000	0.2	1.1	4.83	14,908	390
North East^	510,000	1.5	6.7	4.09	6,490	400
South East^	472,500	1.6	5.3	4.33	6,455	390
Bayside & Frankston^	494,500	-1.0	3.9	4.29	6,229	405
Melbourne Metropolitan	470,500	1.2	4.7	4.42	33,862	400
Geelong*	452,500	1.8	2.8	4.43	74	395
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region (see back page)

BRISBANE

Annual capital growth was recorded at 4.5% in 2014; slowing to 0.2% in the last quarter

Sales volume was up 18% over the past year to 17,185 apartments

Rents increased from \$370 to \$380 per week in the last twelve months

Across the Brisbane metropolitan area, **gross rental yields currently average 5.32%**

Apartment Values & Sales Volumes

Metropolitan Brisbane has continued to witness an uptick in apartment values with the last quarter up a modest 0.2%, with a total of 4.5% growth occurring in 2014. In the quarter to December 2014, median values were recorded at \$371,000—overtaking the last peak recorded in 2010. This capital growth has been encouraged by strong sales volume with a total 17,185 apartments transacting in 2014—22.2% more than in 2013—and volume increasing almost 60% over the past three years.

Apartment Rents & Vacancy

Over the year to December 2014, Brisbane metropolitan apartment weekly rents were up 1.3% to \$380; weaker than the average annual growth of 4.6% held over the last decade. After recording marginally above 3% equilibrium a year ago, total vacancy in the metropolitan area trended encouragingly downwards by the end of 2014, to record 2.9% at December. The longer ten year average has been 2.6% for total vacancy, which was pushed up by higher vacancies in the post-GFC, 2009-2010 period.

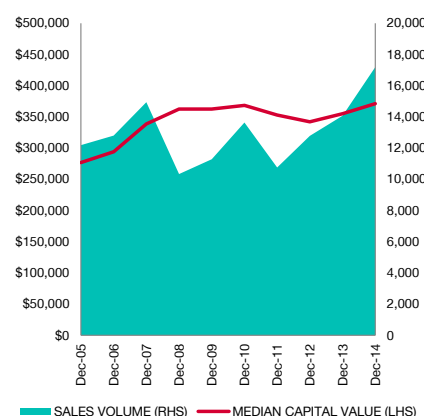
Rental Yields

Across the Brisbane metropolitan area, gross rental yields have fallen 17 bps to 5.32% in the last year, whilst median rental yield reaches as high as 6.29% in the suburb of Brisbane.

Outlook

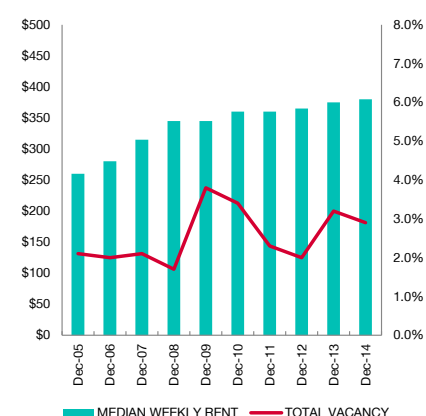
Brisbane had a better than expected 2014. We are projecting a similar level of capital growth this year of at least 5%; although as more new apartments are available to the market, its likely that rents will remain stable as vacancy straddles closer towards market equilibrium, marginally pushing down rental yields.

FIGURE 8
Apartment Values & Sales Volume
Brisbane Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 9
Apartment Rents & Total Vacancy
Brisbane Metropolitan



Source: Knight Frank Residential Research, Residex, REIQ

TABLE 3
Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Brisbane*	474,500	-1.6	4.3	6.29	737	560
CBD & North^	414,500	0.9	5.3	5.12	8,818	405
South^	348,500	0.5	3.8	5.61	6,697	375
Brisbane Metropolitan	371,000	0.2	4.5	5.32	17,185	380
Gold Coast^	339,000	-1.1	4.3	5.95	6,885	385
Noosa Heads*	611,000	3.3	6.5	5.19	235	630
Cairns*	371,500	0.1	5.1	6.02	119	410
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region (see back page)

PERTH

Capital growth over 2014 was recorded at 2.3%; with 0.2% growth in the last quarter

Annual apartment sales of 12,282 was down 12.4% when compared to 2013

Weekly rents currently average \$440; slightly down from \$445 in 2013

Gross rental yields in the Perth metropolitan area currently average 4.93%

Apartment Rents & Vacancy

Perth metropolitan median rents have stabilised in 2014 to record \$440 a week. This is up 26% from the trough of 2009, and well above the ten year average of just under \$360 a week. Calculated on the proportion of unlet residential properties to the total rent stock, total vacancy currently trends 120 bps above market equilibrium (3%), at 4.2% for the Perth metropolitan area. In comparison, total vacancy has averaged 2.6% since 2005; with a peak of 4.7% in 2009 after coming off a low of 1.0% recorded in 2006.

Rental Yields

Gross rental yields across the metropolitan area have compressed after recent significant gains in capital values outweighed an increase in rental growth. Apartment yields in metropolitan Perth currently average 4.93%; trending above the Australian average.

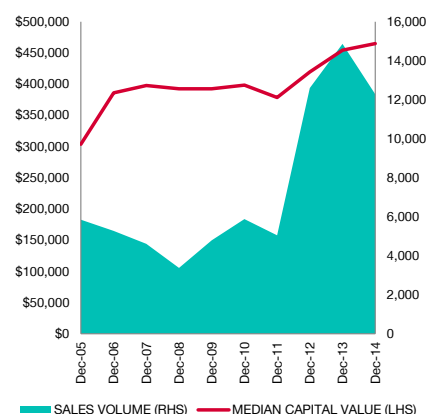
Outlook

As recovery continues from a vast lack of housing accommodation, after an active Western Australia mining industry for the past decade, its likely we will see more sustainable and stable indicators for the Perth market heading into 2015.

Apartment Values & Sales Volumes

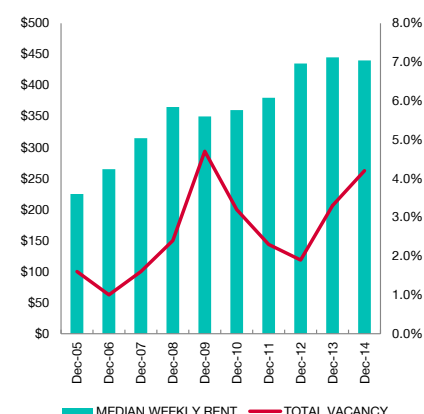
Median capital values for metropolitan Perth apartments reached \$465,000 in December 2014, after sustaining mostly upward growth for the past ten years. Across this time, an average annual 3.4% growth was recorded. The last quarter of 2014 achieved 0.2% growth while 2.3% growth was experienced over the year. Sales turnover has slowed to 12,282 apartments transacting in 2014, after coming off a height in 2013 of 14,862 sales.

FIGURE 10
Apartment Values & Sales Volume
Perth Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 11
Apartment Rents & Total Vacancy
Perth Metropolitan



Source: Knight Frank Residential Research, Residex, REIWA

TABLE 4

Apartment Key Indicators, December 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*	535,500	-1.9	1.1	5.58	411	555
East Perth*	556,000	-0.8	-1.6	5.43	419	575
North Perth*	623,500	1.8	9.8	4.82	79	565
South Perth*	574,500	0.5	-2.1	4.74	266	520
Subiaco*	623,500	0.5	-1.5	4.71	101	555
Fremantle*	604,000	-0.9	3.4	4.63	139	520
Perth Metropolitan	465,000	0.2	2.3	4.93	12,282	440
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region

ADELAIDE

The last quarter recorded strong capital growth at 3.6%; the same growth achieved between 2013 and 2014

Sales turnover grew 6.8% over the past year to 4,954 apartments

Rents increased annually by 3.3% to \$310 per week

Gross rental yields currently return 5.12% across the Adelaide metropolitan area

Apartment Values & Sales Volumes

Historically known for lagging the Sydney and Melbourne residential markets and being quite a volatile apartment market, growth in Adelaide metropolitan apartments values has continued to pick up; very close to overtaking the height experienced in 2010. In the twelve months to December 2014, capital growth recorded 3.6%; sustaining growth of 3.6% in the last quarter alone. The metropolitan area now records a median capital value of \$316,000. Sales turnover increased almost 7% over the past year to 4,954 apartments.

Apartment Rents & Vacancy

Adelaide metropolitan apartment rents rose 3.3% in the past year to \$310 per week, as at December 2014. The suburb of Adelaide achieves considerably more, at \$415 per week. With the exception of Hobart, the metropolitan area of Adelaide currently achieves the lowest rent across the country. Total vacancy in the Adelaide metropolitan area, at September 2014, was down to 2.4% from 3.1% at the close of 2013. This followed a vacancy peak of 3.4% in 2011, after averaging 1.1% vacancy in the five years, prior to that.

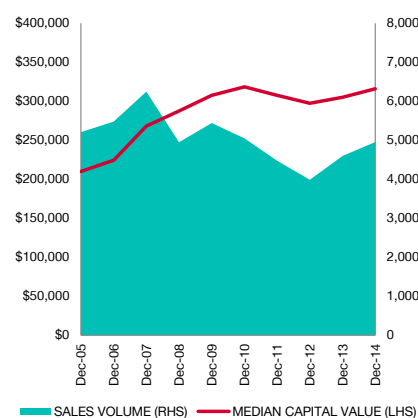
Rental Yields

Gross rental apartment yields have continued an upward momentum in the Adelaide metropolitan area as rents continue to grow marginally ahead of capital values. Yields in Adelaide metropolitan currently average 5.12%, 28 bps ahead of the Australian average.

Outlook

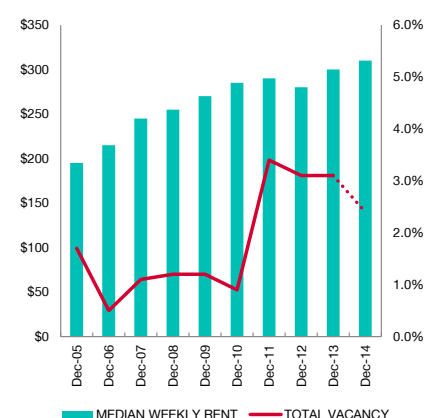
The Adelaide apartment market is likely to modestly strengthen in 2015 despite a pessimistic economic outlook for the state. This follows positive trends that occurred throughout 2014, with a reasonably sustainable volume of new supply to enter the market.

FIGURE 12
Apartment Values & Sales Volume
Adelaide Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 13
Apartment Rents & Total Vacancy
Adelaide Metropolitan



Source: Knight Frank Residential Research, Residex, REIA

TABLE 5
Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Adelaide*	361,000	2.4	0.7	5.93	373	415
CBD & Inner^	340,000	2.2	2.2	5.03	3,279	325
Outer^	266,000	1.6	3.6	5.47	1,674	280
North Adelaide*	431,000	3.1	4.5	4.76	100	395
Glenelg*	425,000	0.6	1.4	5.19	127	415
Adelaide Metropolitan	316,000	3.6	3.6	5.12	4,954	310
Mt Gambier*	172,500	-0.9	-1.2	5.47	62	180
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region (see back page)

CANBERRA

Capital values fell 2.2% over the year to December 2014; but strengthened by a modest 0.4% in the last quarter

Sales volume decreased 25% over the past year to just 2,927 apartments sold

Weekly rents now average \$405; down from \$425 one year ago

Gross rental yields currently average 5.29% across the Australian Capital Territory

Apartment Values & Sales Volumes

The Australian Capital Territory (ACT) continues to be hardest hit by the Government's current policy of lowering federal debt, given the prominent number of government workers residing in the capital. ACT apartment values have strengthened 0.4% in the final quarter of 2014, to stand at \$399,500; after falling 2.2% since December 2013. The total number of apartment sales transacted has also reduced significantly, from 3,886 in 2013 to 2,927 in 2014. This was the greatest fall in sales turnover across the country, trending below the ten year annual average of 3,250 apartments sold.

Apartment Rents & Vacancy

Rents were also impacted in the ACT with apartments witnessing a fall of 4.7% in 2014, to record a median of \$405 per week, however the fourth quarter of 2014 saw an uptick of 2.5%. Canberra City was stable in the quarter to achieve \$460 per week whilst Deakin saw growth of 5.8% to a median \$640 per week. Total vacancy in the ACT was 4.3%, as at September 2014. This had fallen from a height of 5.2% the year prior, and a welcomed, albeit small, relief for the rental market.

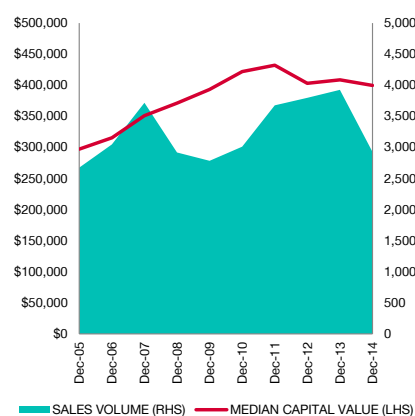
Rental Yields

Gross rental yields across the territory have compressed to 5.29% as rents have fallen faster than capital values, and have jumped around for the most part of ten years reflecting the volatile Canberra apartment market.

Outlook

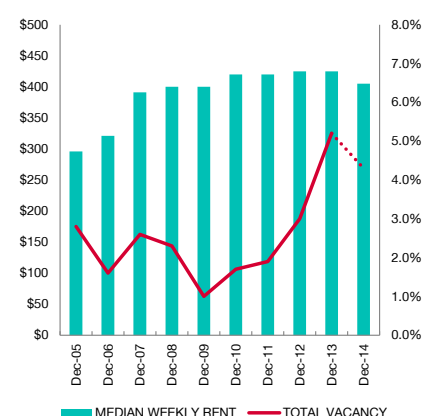
As the federal government continues to tighten employment, directly impacting the ACT, it is very likely that we are not going to see a recovery of the apartment market in the first half of 2015. Although as vacancy moves towards equilibrium, we may see the fall in rents easing; lifting rental yields once again.

FIGURE 14
Apartment Values & Sales Volume
Australian Capital Territory



Source: Knight Frank Residential Research, Residex

FIGURE 15
Apartment Rents & Total Vacancy
Australian Capital Territory



Source: Knight Frank Residential Research, Residex, REIA

TABLE 6

Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Canberra City*	443,500	-1.6	-1.7	5.43	273	460
Braddon*	415,000	-1.4	-1.5	5.36	203	420
Belconnen*	360,000	-1.6	-4.8	5.27	150	365
Deakin*	728,000	0.1	2.1	4.55	19	640
Kingston, ACT*	486,000	0.4	-0.2	5.23	166	485
Gungahlin*	334,000	0.9	-2.3	5.33	32	345
Australian Capital Territory	399,500	0.4	-2.2	5.29	2,927	405
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region

HOBART

Capital growth was recorded at 0.4% over 2014; while last quarter growth was down 1.9%

Over the past year, the number of apartments transacted grew 7.6% with a total 611 sold

Rents at \$285 per week, rose by 1.8%, compared to twelve months ago

Across the Hobart metropolitan area, **gross rental yields currently average 5.73%**

Apartment Values & Sales Volumes

Sales turnover volume in the Hobart metropolitan area has recovered significantly since 2012, but yet to reach the height of 2009. A total 611 apartments sold in the year to December 2013; an annual increase of 7.6%. Over the same time, apartment values rose 0.4% to a median \$259,000, although this has slowed to fall 1.9% in the last quarter.

Apartment Rents & Vacancy

The rental market has traditionally been volatile for metropolitan Hobart apartments. Over the past ten years, rents have averaged \$260 per week while vacancy has trended at circa 2.8%. Over 2014, rents for Hobart apartments rose 1.8% to stand at a median \$285 per week for the metropolitan area. This upward trajectory follows a downturn in vacancy since 2012, to witness a total 3.6% in September 2014. The suburb of Hobart achieves a median weekly rent of \$455 whilst the prestige suburb of Battery Point is closer to \$425.

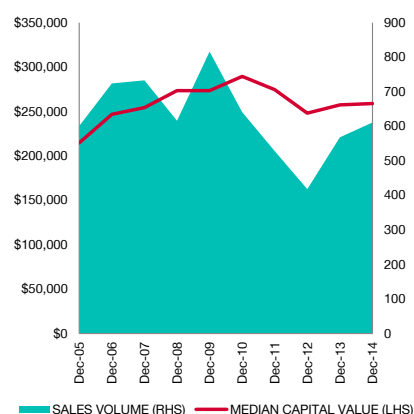
Rental Yields

Gross rental yields across the metropolitan area have improved after a recent rise in median rents. Apartment yields in metropolitan Hobart now average 5.73%, well above the Australian average of 4.84%.

Outlook

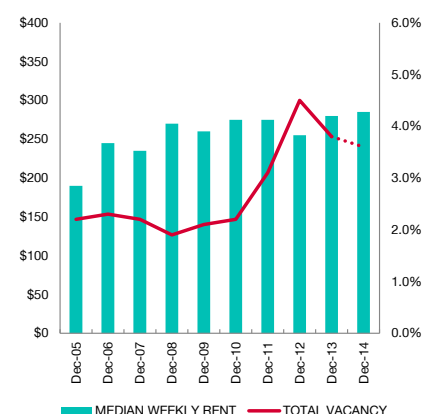
Despite apartment values in Hobart remaining relatively stable, sales volumes have increased and likely to rise further into 2015. As total vacancy continues to fall towards equilibrium (3%), rents are forecast to steadily rise.

FIGURE 16
Apartment Values & Sales Volume
Hobart Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 17
Apartment Rents & Total Vacancy
Hobart Metropolitan



Source: Knight Frank Residential Research, Residex, REIA

TABLE 7
Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Hobart*	482,000	-0.7	4.7	4.86	17	455
Battery Point*	461,500	-2.6	0.9	4.76	17	425
Kingston, Tas*	268,500	0.4	0.0	5.79	41	300
Hobart Metropolitan	259,000	-1.9	0.4	5.73	611	285
Launceston*	262,000	2.3	10.8	6.67	31	320
Devonport*	202,000	-2.7	0.5	6.07	41	230
Burnie*	171,000	-3.1	3.6	6.06	2	190
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

*Denotes Suburb ^Denotes Residential Region

DARWIN

Capital values decreased 2.1% in the last quarter of 2014 and 1.8% over the year

Annual apartment sales of 740 was down 12.5% when compared to 2013

Weekly rents currently average \$475; softer than the \$485 witnessed in 2013

Gross rental yields in the metropolitan area currently average **5.87%, the highest in the country**

Apartment Values & Sales Volumes

In the three months to December 2014, median values for Darwin apartments fell 2.1% to \$423,500; while over the past twelve months they decreased 1.8%. As capital growth continues to slow, we look to sales turnover volume as an indicator to lead an upswing in growth; which currently is signalling a pessimistic outlook for 2015. Apartment sales are currently totalling just over one-third of that experienced in the Darwin metropolitan area a decade ago; with 740 sold in the last year and 172 in Q4.

Apartment Rents & Vacancy

Darwin metropolitan area still holds the second highest position for apartment rents in Australia, at \$475 per week, despite falling 2.1% over the past twelve months. Weekly rents in the suburb of Darwin achieve significantly higher at \$655. Based on the proportion of unlet residential properties against total rental stock, total vacancy in metropolitan Darwin in September 2014 was 5.2%. This is significantly higher than market equilibrium and with this trend continuing upwards over the coming year, rents are likely to continue to be impacted.

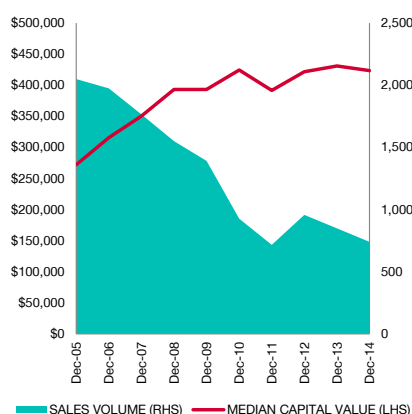
Rental Yields

Across the metropolitan area, gross rental yields currently average 5.87% — the highest return in the country. This has resulted from falling capital values imbalanced with significantly high rents.

Outlook

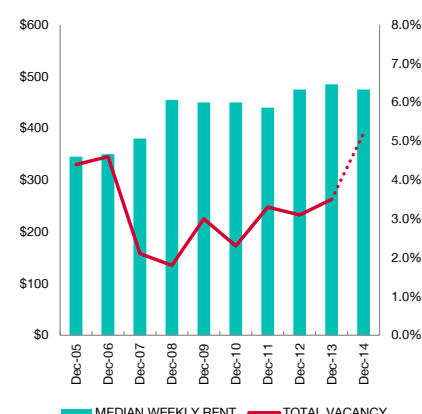
With vacancy trending upwards, and rents contracting at a faster rate than capital values, it is likely that gross rental yields will fall from the height experienced off the back of the elevated market throughout the mining boom experienced over the last decade. Capital values are also likely to taper down further.

FIGURE 18
Apartment Values & Sales Volume
Darwin Metropolitan



Source: Knight Frank Residential Research, Residex

FIGURE 19
Apartment Rents & Total Vacancy
Darwin Metropolitan



Source: Knight Frank Residential Research, Residex, REIA

TABLE 8
Apartment Key Indicators, December 2014

Region	Median Capital Value (\$)	Capital Growth Last Quarter (%)	Capital Growth Last Year (%)	Gross Rental Yield (%)	Sales Volume Last Year (no.)	Median Weekly Rent (\$)
Darwin*	540,500	-1.8	-1.0	6.47	26	655
Larrakeyah*	446,500	-1.2	-0.1	6.08	88	520
Stuart Park*	486,500	-1.3	-5.7	5.89	67	550
Fannie Bay*	518,500	1.0	2.4	5.62	34	560
Coconut Grove*	414,000	-1.9	-3.3	5.71	43	450
Nightcliff*	364,000	-0.3	0.4	5.99	47	405
Darwin Metropolitan	423,500	-2.1	-1.8	5.87	740	475
Australia	448,500	2.0	6.3	4.84	151,193	415

Source: Knight Frank Residential Research, Residex

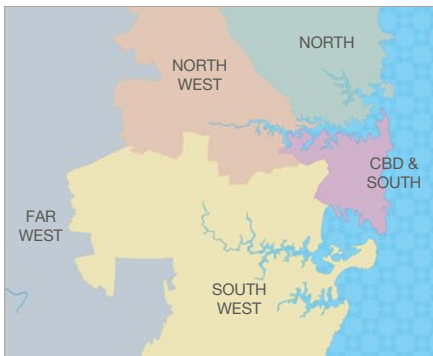
*Denotes Suburb ^Denotes Residential Region



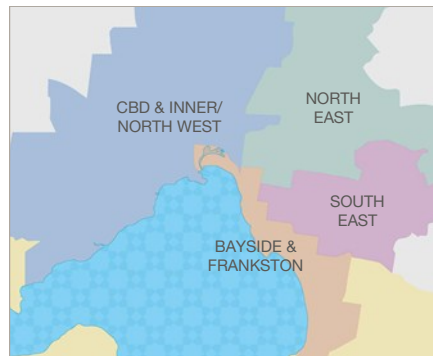
GLOBAL BRIEFING

For the latest news, views and analysis on the world of prime property, visit KnightFrankblog.com/global-briefing

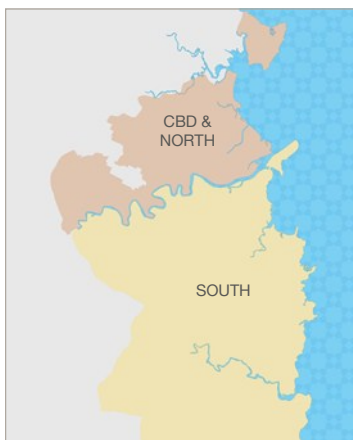
RESIDENTIAL REGION MAPS



SYDNEY METROPOLITAN



MELBOURNE METROPOLITAN



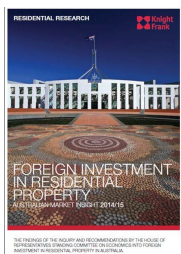
BRISBANE METROPOLITAN



ADELAIDE METROPOLITAN

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Residential Research
Insight March 2015



The Wealth Report
2015



Asia Pacific
Residential Review
January 2015



Global House Price
Index Q4 2014

RESIDENTIAL RESEARCH

Michelle Ciesielski

Associate Director, Residential

+61 2 9036 6659

Michelle.Ciesielski@au.knightfrank.com

Matt Whitby

Head of Research and Consultancy

+61 2 9036 6616

Matt.Whitby@au.knightfrank.com

RESIDENTIAL PROJECT MARKETING & KEY STATE CONTACTS

Andrew Drury

Director, Sydney (NSW)

+61 2 9036 6713

Andrew.Drury@au.knightfrank.com

Daniel Cashen

Director, Melbourne (Vic)

+61 3 9604 4749

Daniel.Cashen@au.knightfrank.com

Neil Kay

Director, Perth (WA)

+61 8 6210 0112

Neil.Kay@au.knightfrank.com

Ben McGrath

Managing Director, Brisbane (QLD)

+61 7 3246 8814

Ben.McGrath@au.knightfrank.com

Peter McVann

Managing Director, Adelaide (SA)

+61 8 8233 5210

Peter.Mcvann@au.knightfrank.com

Terry Daly

Managing Director, Canberra (ACT)

+61 2 6221 7869

Terry.Daly@au.knightfrank.com

Scott Newton

Chief Executive Officer, Hobart (Tas)

+61 3 6220 6999

scott.newton@au.knightfrank.com

Matthew Knight

Managing Director, Darwin (NT)

+61 8 8982 2502

Matthew.knight@au.knightfrank.com

INTERNATIONAL PROJECT MARKETING

Erin Van Tuil

Director

+61 2 9036 6699

Erin.VanTuil@au.knightfrank.com

CAPITAL MARKETS

Paul Henley

Head of Commercial Sales

+61 3 9604 4760

Paul.Henley@au.knightfrank.com

Dominic Ong

Senior Director, Asian Markets

+61 2 9036 6747

Dominic.Ong@au.knightfrank.com

© Knight Frank 2015 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.

