RESIDENTIAL RESEARCH

BRISBANE RESIDENTIAL DEVELOPMENT

MARKET OVERVIEW H2 2015

HIGHLIGHTS

Higher density development sites across Greater Brisbane, at the end of August 2015 averaged $71,000 (ranging from $30,000 to $120,000) per apartment, up 12.7% on the prior year.

Many interstate and foreign investors are seeing the value proposition in Brisbane against other capital cities on the east coast for both high density residential sites and off-the-plan apartments.

An additional 31,135 apartments have been added to the Greater Brisbane stock since 2011. For every one apartment built in the South, four apartments were completed in the CBD & North.

BRISBANE RESIDENTIAL DEVELOPMENT SITES

KEY FINDINGS

Greater Brisbane higher density residential development site sales tallied $685.85 million in the year ending 31 August 2015.

In the past year, by value, **58.6% of Greater Brisbane development sites were sold to foreign investors**.

Foreign investors have a proposed $2.81 billion worth of residential developments in the pipeline in Queensland.

Lone person households are projected to have the highest growth of 2.3% per annum over the next twenty years

Pipeline of committed major infrastructure projects to ramp up from 2016

Currently there are 18,190 apartments under construction in Greater Brisbane—led by the CBD & North region.

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Director—Residential Research

Brisbane has become a viable and more affordable option for those local and foreign developers unable to enter the more established cities south of the border. Over the past two years, Sydney and Melbourne markets have seen significant growth in sales turnover and values for sites with potential for higher density development.

Sales Volume

Over the two years to 31 August 2014, Greater Brisbane sales volume for major residential development sites grew substantially to reach a peak of $1.03 billion, as shown in Figure 1. This was off -the-back of several large transactions.

Although in the twelve months to the end of August in 2015, opportunities were not so readily available to the market and as a result, the volume of sales transactions was recorded at $685.85 million. In perspective, this past year's performance was higher than the $439.53 million experienced in the comparable period in 2013 and overall, sales turnover is trending significantly higher than it was in 2011 and 2012. It is possible that the sale of significant potential development sites currently on the market, such as the Hanson concrete and Parmalat sites, will exchange in the last quarter of 2015.

The North region recorded the highest volume of potential residential development site sales over the last two years to the end of August 2015, totalling $1.31 billion. This region has recently seen the completion of the Legacy Way Tunnel in June this year.

Over the same two years, the Brisbane CBD has recorded a total of $261.93 million in site sales, whilst south of the river, the South region saw $316.87 million worth of sales.

Greater Brisbane's recent major site sales with potential for higher density have been listed in Table 1.

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

Source: Knight Frank Research

Average Rates

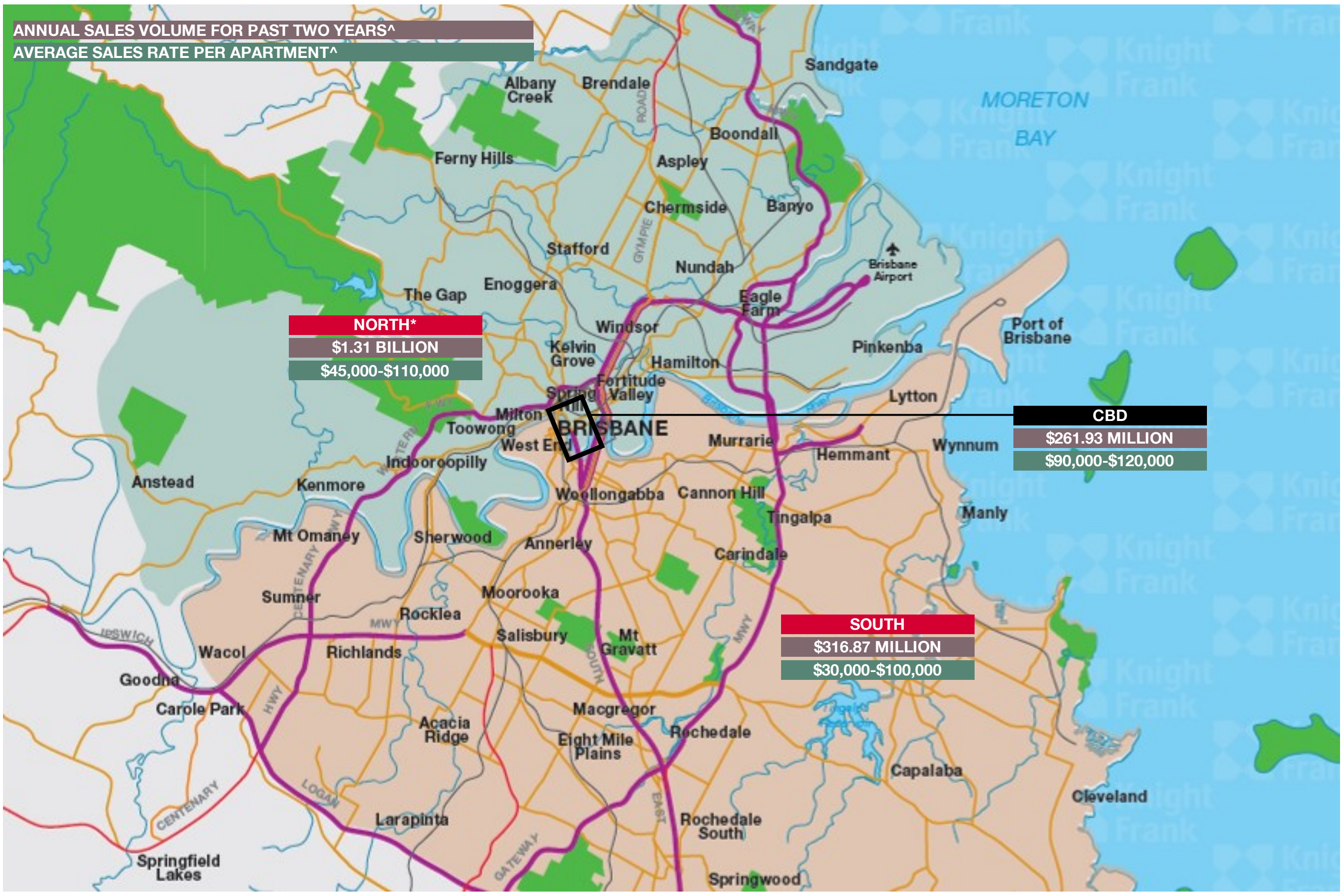
As at 31 August 2015, sites suitable for higher density development in Greater Brisbane averaged $71,000 per apartment, up 12.7% from $63,000 per apartment on the previous year.

Development site sales in the Brisbane CBD range from $90,000 to $120,000 per apartment and many projects are now well underway. The North region trended between $45,000 and $110,000 per apartment and the South trended in a lower range, being from $30,000 to $100,000 per apartment.

Type of Purchasers

Across development sites sold in Greater Brisbane suitable for higher density development, in the twelve months to 31 August 2015, the portion of foreign purchasers was approximately 58.6% by value, including the $80 million Riverside Corporate Park sale to Chinese Group R&F Properties. The property located at

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



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

25 Donkin Street, West End, sold in February and is earmarked for 988 apartments.

In addition, there was the August sale of 365 Wickham Street in Fortitude Valley to Hong Kong based Lei Shing Hong for approximately $40 million, where tower configurations are being considered for 665 to 760 apartments.

Established local purchasers also featured over this period including Cornerstone Properties, Metro Property Development and the Abacus Property Group.

The number of sales to foreign purchasers is likely to increase over the coming year as offshore developers take advantage of the lower Australian Dollar (AUD) and see better value for their

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

Source: Knight Frank Research, FIRB

upfront investment, against other cities such as Sydney and Melbourne.

Foreign investors propose to invest $2.81 billion into Queensland residential developments, according to applications submitted to the Foreign Investment Review Board (FIRB) in the financial year ending 2014.

The distribution of foreign investment proposed into residential developments continues to be dominated by Victoria ($10.41 billion) and New South Wales ($10.39 billion), as shown in Figure 2. Queensland follows with an approximate one-tenth share of investment, ahead of Western Australia with $1.32 billion earmarked. As the reporting of this FIRB application data is lagged, it's likely a higher volume for Queensland will be reported in the 2014/15 annual report.

TABLE 1

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

Address	Sale Price $ mill	Site Area m²	No. Apts~	Price $/Apt~	Price $/m²	Vendor	Purchaser	Sale Date
365 Wickham St Fortitude Valley^	40.00	6,170	700#	57,143	6,483	Mercedes Benz	Lei Shing Hong∞	Aug-15
Terrace Office Park Gregory Terrace Bowen Hills^	30.00	7,003	521	57,582	4,286	Cromwell Property	Kingsford Development∞	Aug-15
301 Wickham St Fortitude Valley^	15.00	2,782	N/A	N/A	5,392	RSL Care	Cornerstone Properties	Jun-15
22-28 Merivale St South Brisbane^	22.15	2,733	486	45,679	8,105	Sunshine Investments International∞	Abacus Property Group & KPG Capital	May-15
183-185 Wharf St Spring Hill^	14.30	1,835	150	95,333	7,793	Silverstone Developments	Cbus Property	May-15
Riverside Corporate Park 25 Donkin St West End^	80.00	16,800	988	80,972	4,762	PointCorp & Thakral Capital	R & F Properties∞	Feb-15
255 Logan Rd Buranda^	51.30	16,946	600	85,500	3,027	Anthony John Group	Wee Hur Holdings∞	Dec-14
64 Peel & 9 Cordelia St South Brisbane^	33.62	2,571	432	77,824	13,077	Aria Property Group	Roxy-Pacific∞ JV HostPlus	Dec-14

Source: Knight Frank Research ~Estimate/Potential ∞Foreign Vendor/Purchaser #Assumed Residential Regions (see map): ^CBD & North

KEY DEVELOPMENT DRIVERS

The Economy

Like other resource dependant states and territories, Queensland is currently experiencing tougher economic conditions since the weaker price of coal, liquefied natural gas (LNG) and a slowing Chinese economy. Queensland State Final Demand in the quarter to June 2015 fell 0.8%, after recording a fall of 0.2% in the previous quarter; to total negative 3.3% growth over the past year to June 2015, according to the Australian Bureau of Statistics (ABS). Due to the lower AUD, local tourism will continue to be boosted, as well, further foreign investment into new housing stock.

Interest Rates

In September 2015, the Reserve Bank of Australia (RBA), left the cash rate at an all -time historic low of 2.00%, last cutting the rate by 25 bps in May 2015. The property market has been supported by these lower interest rates, encouraging investment into new and existing homes by investors, and many in a position to downsize, while the market has been performing reasonably well.

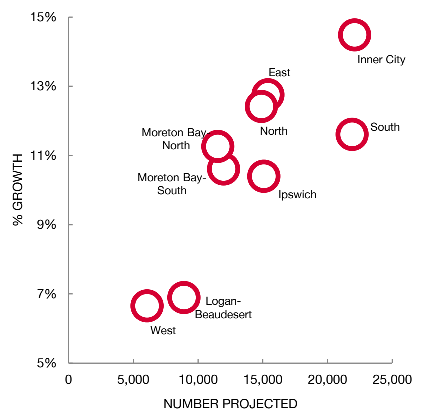
Lending Environment

A reduced and more responsible lending target was endorsed by Australian Prudential Regulatory Authority (APRA) in May 2015, after two years of strong capital growth, dominated by the investor market in the Sydney and Melbourne property markets. 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

Unemployment as at June 2015 stood at 5.3% for Greater Brisbane, trending below the 6.3% recorded in June 2014. The Department of Employment have projected employment growth in Greater Brisbane, by SA4 ABS regions. As shown in Figure 3, the traditional employment hub of the Inner City region, is likely to see the most growth in employment with an extra 22,085 jobs (14.5% growth) over the five years to November 2019. By volume, the South is projected to follow

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



Source: Knight Frank Research, ABS, Department of Employment

by with 21,895 jobs (11.6% growth); although East and North are projected to grow by 12.8% (an additional 15,395 jobs) and 12.4% (14,890 jobs) respectively.

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; coupled with the elevated price of development sites over the past two years.

Greater Brisbane building costs have increased an estimated 4.5% over the twelve months to June 2015, according to Rawlinsons. This is substantially higher than the annual average growth recorded over the past five years of 1.4%. There are no signs of cost growth easing, with Rawlinsons expecting costs to increase by 2.0% in the second half of 2015, in total, rising to a projected annual 4.5% across 2015. Rawlinsons estimate a standard high-density, multi-storey apartment project in Greater Brisbane would now on average cost to build \$1,900/m² to \$2,910/m² for a basic finish (or equivalent to a range of \$98,900—\$106,600 per apartment) plus GST. A project with a prime finish would be closer to an average \$2,810/m² to \$4,085/m² (or equivalent to a range of \$534,000—\$575,500 per apartment) to build, exclusive of GST.

Projected Population

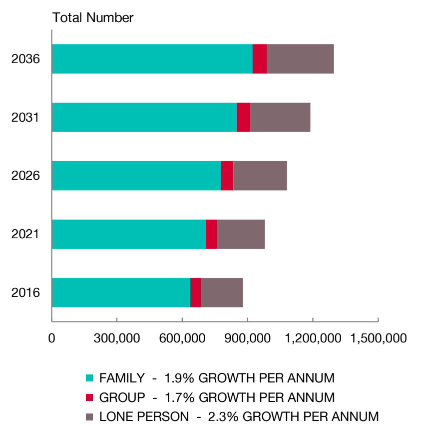
Greater Brisbane is projected to reach a population of 3.5 million by 2036, led by net overseas migration and natural increase; with less net interstate migration than experienced over the past decade, despite still recording strong results over the last year. However, this could change over the coming years as those seeking more affordable opportunities, when compared to Sydney and Melbourne, migrate north of the border. This equates to an annual growth projection of 1.8% and well above the projected Australian average of 1.4%.

Greater Brisbane experienced 1.7% population growth between June 2013 and June 2014, led by Pimpama SA2 (16.7%), North Lakes-Mango Hill (9.5%) and Bellbird Park-Brookwater (8.8%).

Projected Households

The number of Greater Brisbane households is projected to reach 1.30 million by 2036 according to the ABS; requiring the housing stock to grow an average 2.0% per annum. On closer analysis, the 'Family' type composition is still expected to dominate the mix, however the 'Lone Person' household is likely to grow the most over this time, at 2.3% annually—earmarking the potential for accommodating this type of dweller—as displayed in Figure 4.

FIGURE 4
Household Projections By Type Greater Brisbane



Source: Knight Frank Research, ABS

PIPELINE OF MAJOR PROPOSED INFRASTRUCTURE PROJECTS—GREATER BRISBANE

2015
Legacy Way Tunnel (completed)

2016
Pacific Highway—Coomera Exit Interchange upgrade

Moreton Bay Rail Link

2018
Gateway North upgrade

2019
Kingsford Smith Drive upgrade

2025
Queens Wharf precinct

2030+
Kurilpa Riverfront renewal project

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

CBD & NORTH
South Brisbane
Fortitude Valley
Newstead
West End

SOUTH
Kangaroo Point
Upper Mt Gravatt
Coorparoo
Cannon Hill

The Apartment Market

The mainstream apartment market in Greater Brisbane is currently ranked fourth in Australia according to price growth, with 3.1% annual growth recorded over the year to June 2015. Sales turnover was up 16.9% to 18,871 over the same time. Off-the-back of this capital growth, gross rental yields were down 14 bps to 5.29% in the twelve months to June 2015. Vacancy continues to trend significantly below market equilibrium with vacancy at 2.4% in June.

Projected New Apartment Pipeline

Since January 2011, 31,135 new apartments have been added to the Greater Brisbane residential stock, led by the CBD & North region, as detailed in Figure 6. In total across Greater Brisbane, there are currently 18,190 apartments under construction, with another 40,705 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 & North is forecast to see an additional 52,110 apartments, an extra 144% on the prior 2011-2014 period. The South is forecast to add another 6,780 apartments by the end of 2018, an extra 23% more built than over the previous 4 years in each region. Apartment numbers in Greater Brisbane could increase further when approval is granted for the additional 24,940 apartments currently submitted. Although if demand is not met through pre-sales, many of these projects may get pushed out beyond this time until the market has absorbed the soon-to-be completed new stock.

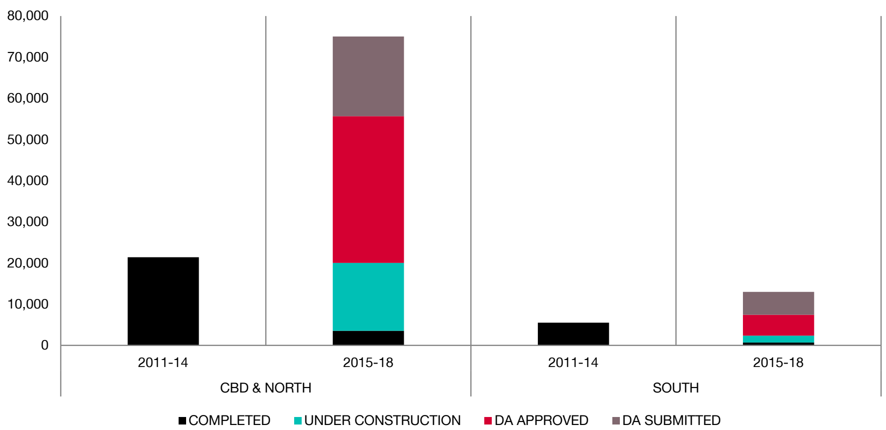
FIGURE 5
New Apartment Price Range Greater Brisbane
Average rate per m^2

Source: Knight Frank Research

New Apartment Price Range

The price of new apartments across Greater Brisbane can still vary significantly depending on distance to the city, availability of transport and the quality of finish, as shown in Figure 5.

FIGURE 6
New Apartment* Pipeline Greater Brisbane
Number of Apartments



Source: Knight Frank Research

*Includes projects 4+ storeys with 25+ apartments in complex

Average new apartments of a standard finish can range from $4,500/m^2 through to $9,000/m^2 whilst an average prime apartment currently trends between $9,000/m^2 and $10,500/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 intention is to aid the administration process and not deter investment into new property. 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 introduced similar measures. The Queensland government has confirmed they have no firm plans to introduce these types of taxes. 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 other states around the country. The proposed changes may have an impact on those marketing to foreign investors as there has already been increased concern 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 Brisbane

Source: Knight Frank Research

OUTLOOK

- Interest rates will likely remain low over the next year, with another 25bps cut possible and not being lifted before late 2016.
- The pipeline of infrastructure projects is expected to ramp up from 2016 which should bring more employment opportunities as a result.
- Population in Greater Brisbane is currently underperforming the 1.8% annual growth projected by the ABS, although this could be lifted as those seeking more affordable opportunities, when compared to Sydney and Melbourne, migrate north of the border.
- The average timeframe between the project launch, to site works, has been widening as minimum pre-sales are not being achieved as hastily as in the past. This growing timeframe is likely to continue over the next twelve months.
- Capital value growth is likely to be sustained at current levels over the next year, trending above the ten year average annual capital growth of 0.6%, as more interstate opportunists enter the market.
- Vacancy is expected to move closer to equilibrium, but there is still breathing room for this movement. Stagnant rents are likely to continue, keeping gross rental yields lower, but still experiencing the highest gross rental return of major capital cities in Australia.
- With a solid pipeline of projects, there are no signs of construction costs easing, with Rawlinsons forecasting costs to increase 2.0% in the second half of 2015, to total an annual 4.5% as at December 2015.
- As the AUD remains low and heat remains in the Sydney and Melbourne markets, it's likely that we will continue to see local and offshore interest for Brisbane property; both development sites and apartments. New FIRB fees may deter some investors, although majority of buyers are looking for longer term return, and will consider the fees to be simply part of doing business.

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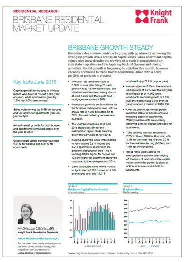

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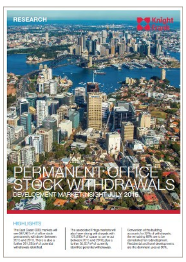
August 2015

Global House Price Index Q2 2015



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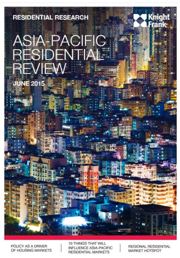

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