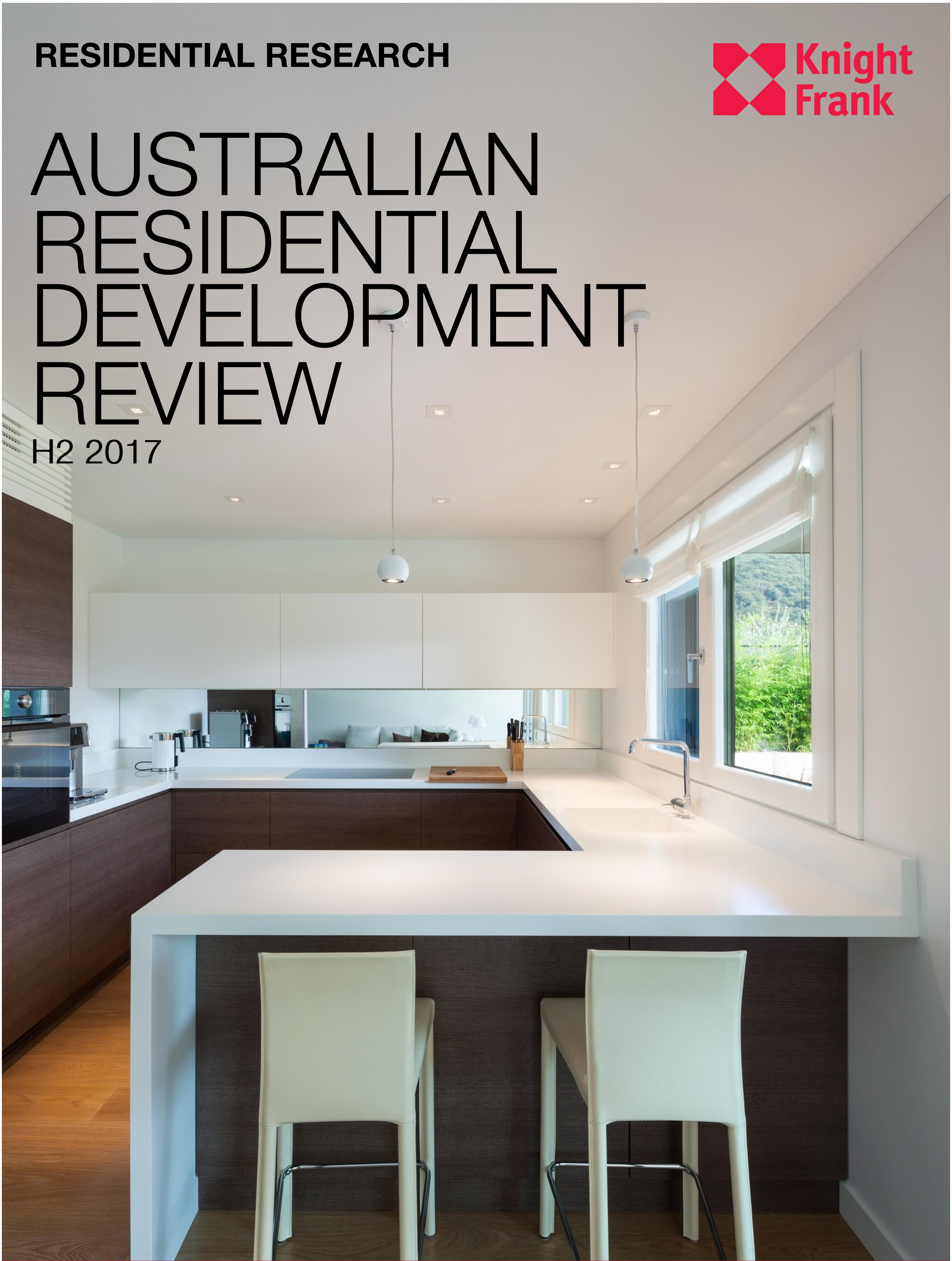
RESIDENTIAL RESEARCH

Knight Frank

AUSTRALIAN RESIDENTIAL DEVELOPMENT REVIEW

H2 2017



A REVIEW OF KEY DEVELOPMENT DRIVERS, RESIDENTIAL MARKET TRENDS & OUTLOOK

KEY FINDINGS

Residential development site sales tallied $7.1 billion in the year ending June 2017 across the five major cities, down 24.2% on the previous year. **Foreign buyers** purchased, by value, an average of 63.1% of development sites.

Across the five major Australian cites, average **higher density** site sales (ex.CBD) ranged from an indicative $18,500 to $410,000/per apartment as at 30 June 2017, with an indicative average rate of $98,900/per apartment. There were 101,586 new apartments under construction at this time. New apartment prices range significantly across the cities from $4,000/sqm to $24,000/sqm.

The trend towards **medium density** has been evident by the types of development sites being purchased. By value, the proportion of medium density development sites sold was 13.8% in 2016/17; up from 6.3% a year earlier.

Throughout 2016, 57,381 new **low density** residential land lots were released across Australia, up 3.1% on the previous year. Across Australia, the median price for a land lot stood at $287,000; a significant increase of 14.5% on a year earlier.

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Knight Frank Residential Research

AUSTRALIAN RESIDENTIAL DEVELOPMENT SITES

Over the past year developers have shifted their focus towards medium density projects along the East Coast, whilst lending remained restricted for foreign and local investors alike. What other factors are impacting residential development across the major cities?

Mainstream Residential Market

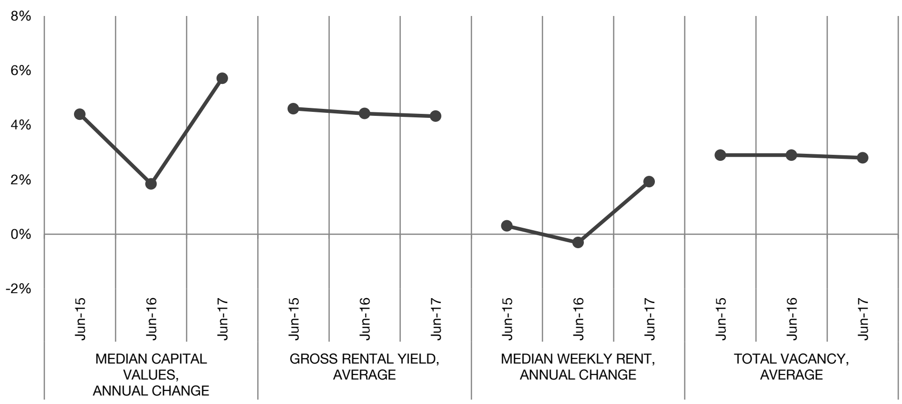
The influence by the Australian Prudential Regulatory Authority (APRA) on the lending environment for developers and investors, both foreign and locals, continues to be encouraged by the Reserve Bank of Australia (RBA) as it dampens speculative activity. In saying this, excluding refinancing, housing finance grew 8.1% over the year to August 2017, fuelled by the return of first time buyers.

Median values for Australian residential property increased 5.7% in the year ending June 2017 to $537,800. **Sales transacted** over the same time tallied to 447,235 houses and apartments, down 4.5% on the previous year. **Gross rental yields** across Australian residential properties were achieved at 4.33% in the June quarter 2017, although compressing 10bps than a year earlier. In the year ending June 2017, **median rents** rose 1.9%, to a weekly rent of $395. The Australian weighted average **total vacancy** was recorded at 2.8% at the end of June 2017, rising 10bps in the past year.

Much of the capital growth being gained in Greater Sydney and Greater Melbourne is where many first time buyers are now priced out of the single dwelling (low density) market, with a clear trend emerging towards medium density housing.

From a development perspective, this product offers developers less stringent financing practices by the major lending institutions. The less risk involved of not going vertical in construction, allows the staged development to be more controlled. It allows the developer to kick -off construction earlier than waiting to achieve a high portion of sales within the residential tower project. As more downsizers are also drawn to this product, its likely we'll see more of this type of development in this space over the coming years.

FIGURE 1
Key Residential Indicators, Australia



Source: Knight Frank Research, APM, REIA

Site Sales

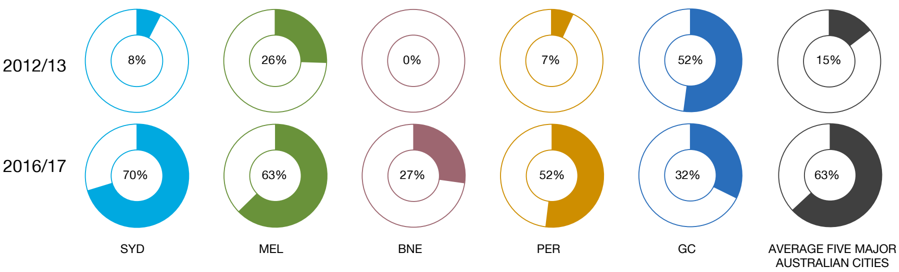
The total volume of sites suitable for residential development across the major Australian cities reached $7.1 billion in 2016/17—this included sites with low, medium and higher density. Since 2014/15, the total of $10.3 billion has yet to be surpassed with Greater Sydney dominating the flurry of buyers captured during this heightened year (figure 2).

Breaking down total site sales over the year ending June 2017, the portion of Greater Sydney and Greater Melbourne sales was close to 90.4%, with a volume of $3.3 billion and $3.1 billion respectively. While Greater Sydney total sales fell 43.8% over this year, Greater Melbourne being dominated by several significantly priced low density site sales on the outskirts, rose by 57.4%. Site sales in the remaining major cities were lower in 2016/17 than in the previous year, with Greater Brisbane recording $409.2 million, Greater Perth at $129.7 million and the Gold Coast LGA at $140.8 million.

Analysing the purchasers disclosed in these development site sales, found that the portion of foreign investors was 63.1%, by value, across the five major Australian cities in the year ending 30 June 2017. Back in 2012/13, this total was 14.6% (figure 4). Since this time many foreign buyers have become established in the market, whilst the Australian dollar is favourable. Focus remains on the Chinese Government's control on capital outflow given 43.7% of total foreign purchased site sales in 2016/17 were associated with Chinese companies or private investors. An update from Beijing is due in early November 2017 following the five-yearly National Congress of the Communist Party of China.

Greater Sydney saw 70.3% of residential sites sold to foreign investors in 2016/17 and Greater Melbourne was slightly lower at 62.7%. Four years earlier the readings were 7.6% and 25.5% respectively. Recording a much smaller total volume of sales in 2016/17, foreign investment was at 27.2% in Greater Brisbane (0% in 2012/13), Greater Perth was 51.9% (6.9% in 2012/13) while the Gold Coast LGA bucked this trend in 2016/17 with 32.3% of all sales being to foreign investors, following just over half of all sales in 2012/13.

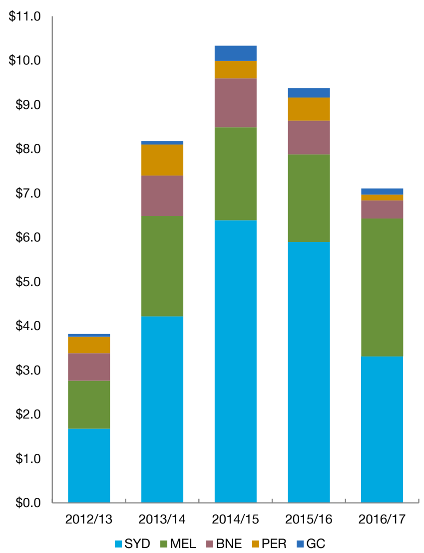
FIGURE 4
Portion of Foreign Investors, by Value, in Residential Site Sales
By total volume sales, 2012/13 & 2016/17



Foreign investors are considered as any foreign interest associated with the sale. SYD & MEL sales $5M+; BNE, PER & GC sales $2M+. Sites suitable for low, medium and high density development.

Source: Knight Frank Research

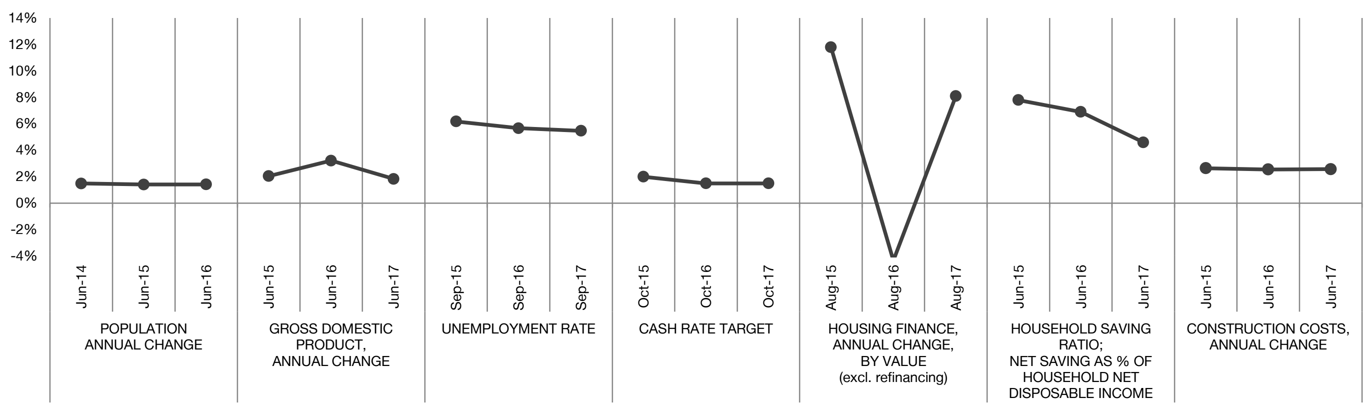
FIGURE 2
Total Site Sales Volume
Potential residential development
$ Billion



SYD & MEL sales $5M+; BNE, PER & GC sales $2M+. Sites suitable for low, medium and high density development.

Source: Knight Frank Research

FIGURE 3
Key Economic Indicators, Australia



Source: Knight Frank Research, ABS, RBA, Rawlinsons

HIGHER DENSITY DEVELOPMENT

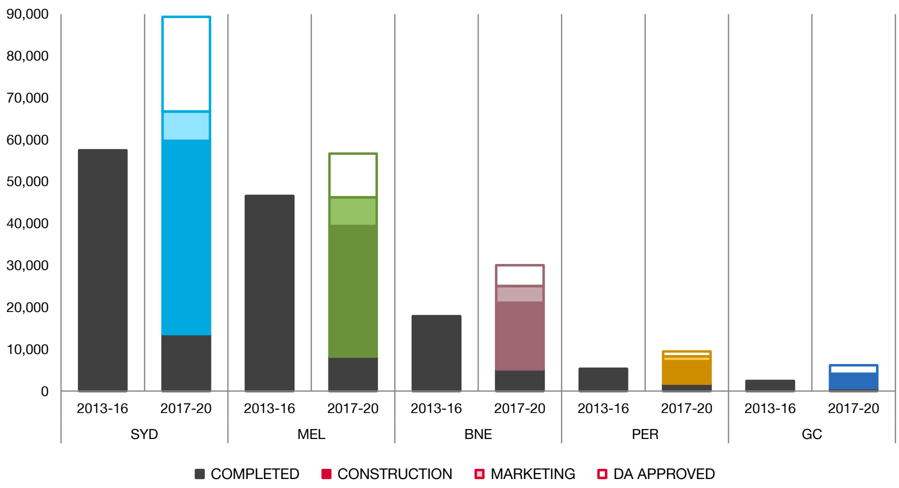
Site Sales & Average Rates

Sales of major sites likely for higher density residential development in the five major cities of Australia, totalled $5.2 billion in the year ending June 2017. This was down 34.4% on the previous year's volume. Buyers are taking longer to carry out their due diligence than demonstrated over the past few of years. Analysing multiple options and in some cases considering the benefits of income -producing assets over the short to medium term, has been noted in pockets with increased supply in recent years. This also allows the time required to submit a development application to maximise the site coverage, especially in Greater Sydney. The indicative average for a higher density site was $98,900/per apartment across the major capital cities (excluding the CBD), ranging from an indicative lower end of $18,500/per apartment in Greater Perth with an upper end of $410,000/per apartment in Greater Sydney (figure 5).

Apartment Pipeline

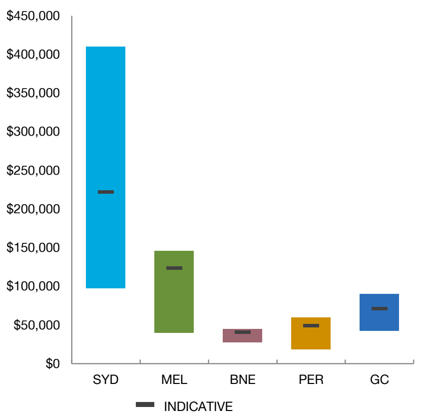
From 1 January 2013 to 30 June 2017, 159,382 new apartments were added to the five major cities' apartment stock, led by Greater Sydney (71,139) and Greater Melbourne (54,900). In total, across the five cities, there are currently 101,586 apartments under construction, with another 19,355 currently being marketed potentially due by the end of 2020. The likelihood of an additional 41,233 DA Approved apartments coming on line within this timeframe has also been charted across the five major cities (figure 6). To arrive at this total, the length of marketing and construction period of the average project of its size was taken into consideration.

FIGURE 6
New Apartment Pipeline
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

FIGURE 5
Site Sales Price Range
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2017



For consistency across the greater cities, the site sales average rate/per apartment is calculated as the purchase price divided by the potential number of apartments, at the time of sale. The range represents the average upper and lower rates.

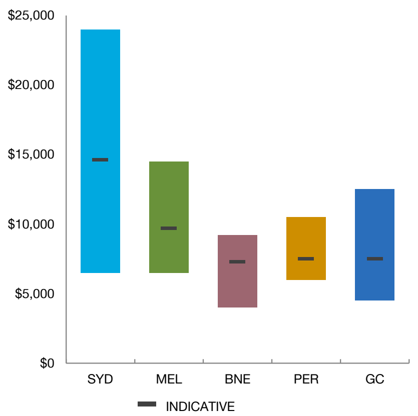
Source: Knight Frank Research

Apartment Pricing

Prices of new apartments can range substantially across the five major Australian cities from an average of $4,000 to $24,000/sqm. In the two strongest markets for capital growth, the indicative of a new apartment in Greater Sydney was $14,600/sqm (range of $6,500 to $24,000/sqm), while in Greater Melbourne the indicative was $9,700/sqm ($6,500 to $14,500/sqm), as at 30 June 2017 (figure 7).

Outside these cities, the Greater Brisbane region ranges from $4,000/sqm to $9,200/sqm (indicative of $7,300/sqm).

FIGURE 7
New Apartment Price Range
Rate/sqm, Mainstream, as at 30 Jun 2017



For consistency, a new apartment is based on an average two-bedroom apartment across the greater cities. The upper end could include an average price for an apartment with views and the lower represents the average for an entry level apartment.

Source: Knight Frank Research ^Based on GFA

When comparing the indicative average, Greater Perth and the Gold Coast LGA achieve slightly higher rates both at $7,500/sqm. With a wider range of projects available, some with uninterrupted water views, apartments in Greater Perth can be priced from $6,000/sqm to $10,500/sqm while in the Gold Coast LGA from $4,500/sqm to $15,000/sqm.

MEDIUM DENSITY DEVELOPMENT

Whilst affordability remains an issue in major Australian capital cities, many purchasers are now opting to buy into the townhouse market, or upgrading to a townhouse as the next best option when priced out of the standalone, low density, dwelling market. Owning a piece of land, although potentially under an Owner's Corporation and a traditionally smaller allotment of land than an average landed dwelling, is becoming the standard compromise for many Australian families.

The medium density market is being driven by suburban downsizers, those who don't necessarily seek a full-time tree-change, or sea-change, rather looking at a lower-maintenance home in a similar location, close to a familiar community and amenities, or to the CBD.

This concept of freehold land ownership has also become more attractive for offshore buyers, unattainable in their home country and at a time of taking advantage of the better purchasing power of the Australian Dollar (AUD). Also taking advantage of the lower AUD, expats are returning temporarily to purchase a property – with great views, close to the water, recreation and cultural precincts. This can be in preparation for when they return from their fast-pace, global postings, so a low maintenance property is ideal whilst still working offshore.

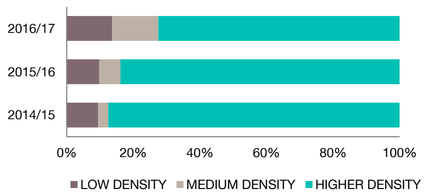
The trend towards medium density has been evident in the types of development sites being purchased. In 2014/15 the portion of medium density development sites was 3.0%, by value. Two years later, this increased to a 13.8% share of total disclosed sales in 2016/17 (figure 8).

Low density sites have also taken a greater share at 13.6% of sales in 2016/17. As a result, higher density sites have fallen from 87.5% in 2014/15, to stand with a share of 72.5% two years later.

FIGURE 8

Development Site Sales by Density

Total volume, by value, by potential density



SYD & MEL sales $5M+; BNE, PER & GC sales $2M+.

Source: Knight Frank Research

DEFINITIONS:

The definition of density ranges across Australia. For consistency in reporting, definitions adopted include:

Higher Density
Projects with more than 25+ apartments and more than four-storeys; as defined by Knight Frank Research.

Medium Density
Projects with one and two-storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three-storey block as defined by the Australian Bureau of Statistics (ABS).

Low Density
Single residential allotments "land lots" within the greenfield land market; as defined by UDIA National Land Survey Program.

LOW DENSITY DEVELOPMENT

Throughout 2016, 57,381 new residential land lots were released across Australia, up 3.1% on the previous year. By the year's end, stock stood at 9,595 land lots according to the UDIA National Land Survey Program (table 1).

The median allotment size was 407 sqm in 2016; 51 sqm smaller than two years earlier. Land lots ranged from a median size of 534 sqm in Canberra, to a median of 375 sqm in Greater Perth. Across Australia, the median price for a land lot stood at $287,000; a significant increase of 14.5% when compared to a year earlier. Greater Sydney continued to command the highest median price across the capital cities, at $465,000 as at December 2016.

TABLE 1

Residential Lots, Australia

Includes Greater Sydney, Greater Melbourne, South East Queensland, Greater Perth, Greater Adelaide & Canberra

Year Ending	Newly Released Lots (No.)	Annual Change in New Released Lots (%)	Year End Stock (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
2014	50,150	39.4	9,491	458	-	246,300	15.6	527
2015	55,656	11.0	9,851	428	-6.6	250,658	1.8	554
2016	57,381	3.1	9,595	407	-4.9	287,000	14.5	602

Source: Knight Frank Research, UDIA National Land Survey Program

SYDNEY

Population in Greater Sydney was estimated at 5.0 million persons in June 2016. Greater Sydney experienced **population growth** of 1.7% in the year to June 2016. Population is **projected** to grow 1.4% annually to 2036.

Gross State Product in New South Wales was recorded at $531,323 million in the year to June 2016; growth of 3.4% on the prior year.

In New South Wales, there are currently 17 major **infrastructure projects** under construction with an additional 12 approved and due for completion by 2036.

Unemployment as at July 2017 stood at 4.5% for Greater Sydney, trending 20bps lower than the 4.7% recorded in July 2016.

In the year to June 2017, the **cost of construction** across Greater Sydney increased 3.3%. At this time, it was estimated the cost to build an apartment was $2,635/sqm to $3,135/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in NSW—8% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Fuelled by solid population growth and strong economic performance with 17 major infrastructure projects underway, Greater Sydney commands the highest median capital values and weekly rents across the country.

Greater Sydney **median values** increased 2.6% in the June 2017 quarter; rising 14.5% over 2016/17 to $1,197,500 for houses. Apartment values rose 2.7% over the same quarter; rising 11.6% over 2016/17 to record a median of $765,900.

House **sales transacted** in the year ending June 2017 tallied 102,022 in Greater Sydney, down 7.9% on the previous year. Apartment sales were up 5.1% over the same time with a total of 129,133 transactions.

Gross rental yields across Greater Sydney houses were achieved at 3.20% in the June quarter 2017; compressing 20bps when compared to a year earlier. For apartments, gross rental yields compressed 10bps over the same time to achieve 3.90% in the June quarter 2017.

In the year ending June 2017, **median rents** rose 3.8% for Greater Sydney houses, to a weekly rent of $550. Over the same time, apartment weekly rents increased 4.8% to be on-par with houses, at $550.

Greater Sydney **total vacancy** was recorded at 1.8% at the end of June 2017, remaining stable over the past year. The Inner Suburbs recorded 2.2% vacancy, the Middle Suburbs at 1.4% and the Outer Suburbs at 1.7%.

DEVELOPMENT SITES

Total Site Sales

The total volume of Greater Sydney major site sales suitable for residential development lagged annual sales recorded over the past three years. In 2016/17, residential sites tallied $3.3 billion, notably lower than the significant volume recorded in 2014/15 of $6.4 billion (of sales $5M+). It was at this time, the Government began to ramp up the encouragement of higher density residential projects being built along transport corridors and amenity hubs. Since this time, demand for Greater Sydney higher density sites has eased back towards that recorded in 2012/13.

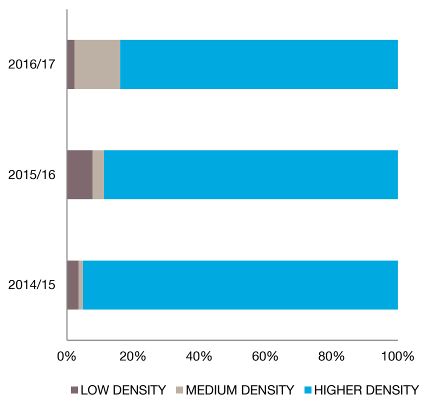
The more recent trend has emerged over the past year with developers investors opting to purchase sites suitable for medium density development. This is a result of access to debt financing and constrained supply of medium density land.

Monitoring site sales transactions, in 2014/15 medium density site sales represented 1.3% of total sales (figure 9). This increased to a 3.5% share in

FIGURE 9

Development Site Sales by Potential Density, Greater Sydney

Total volume, by value, sales $5M+



Source: Knight Frank Research

2015/16, whilst most recently recording the greatest share of 13.8% in 2016/17. Over the same time, low density sites recorded a 2.3% portion of total sales, down from a year earlier when these sales represented 7.8% off the back of some large sales selling along the periphery of the metropolitan area.

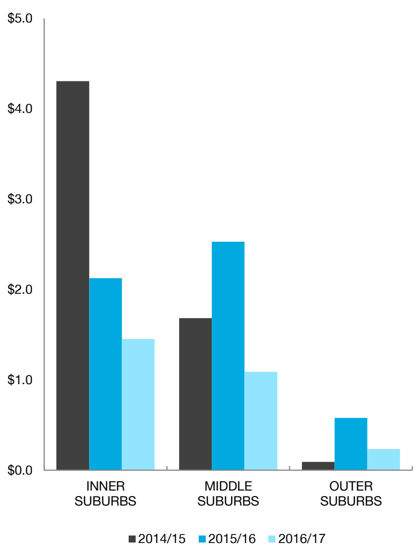
HIGHER DENSITY DEVELOPMENT

Site Sales

Sales of sites with potential for higher density residential development in Greater Sydney, totalled $2.8 billion in the year ending June 2017. This was collectively down 46.9% on the previous year's volume. When analysing those sales with disclosed purchasers, foreign buyers made up 74.5% of these higher density site sales in 2016/17.

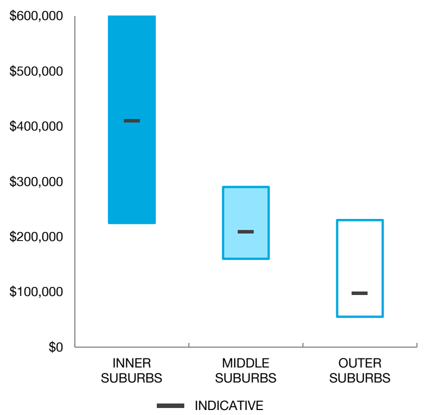
The Inner Suburbs continue to achieve the highest volume of sales, by value, totalling $1.5 billion over this time; although down 31.6% from 2014/15 (figure 10). The Middle Suburbs also recorded a lower total (at $1.1 billion) in 2016/17 than compared to the $1.7 billion sales achieved in 2014/15, but saw an elevated volume of sales (at $2.5 billion) in 2015/16—outperforming the Inner Suburbs total of $2.1 billion. The Outer Suburbs also experienced a bumper year in 2015/16 with higher density site sales being at $578.6 million, six-fold higher than recorded in 2014/15. In the 2016/17 year these type of sites, fell in volume to $235.8 billion.

FIGURE 10
Total Site Sales Volume Greater Sydney
Potential higher density residential development
$ Billion, sales $5M+



Source: Knight Frank Research

FIGURE 11
Site Sales Average Price Range Greater Sydney
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development in Greater Sydney was an indicative $222,100/per apartment as at 30 June 2017. At this time, the lower end of the indicative range started at $97,500/ per apartment, while the upper end widened to $410,000/per apartment (excluding the CBD).

Although the volume of site sales for high density was lower in 2016/17 than achieved the year before, sites well-located in the Inner Suburbs commanded a higher indicative rate than previously achieved with a limited number of sites coming to market. The range widened from $225,000/per apartment to $600,000/per apartment, the indicative being $410,000 (figure 11).

In 2016/17 within the Middle Suburbs, higher density sites sold at an indicative rate of $209,000/per apartment ($160,000 to $290,000/per apartment) whilst Outer Suburbs sites sold for an indicative $97,500/per apartment. This range also widened from $55,000/per apartment at the lower end, to $230,000/per apartment at the upper end.

Drawing a radius from the Sydney CBD, **Inner Suburbs** are located within 10km, **Middle Suburbs** are within a 10-25km ring and **Outer Suburbs** are located beyond 25km but within the Greater Sydney boundary.

Greater Sydney higher density residential development site **sales volume** tallied $2.8 billion in the year ending June 2017; down 46.9% on the previous year.

Over this time, **average site sales** ranged from an indicative $97,500 to $410,000 (ex. CBD); with an indicative average of $222,100 per apartment.

There were 46,119 **new apartments** under construction throughout Greater Sydney as at 30 June 2017. There were a further 6,986 apartments being marketed with an additional 22,594 DA Approved and potentially on line by the end of 2020.

New mainstream apartment prices ranged from $6,500/sqm to $24,000/sqm in Greater Sydney, with an indicative of $14,600/sqm as at 30 June 2017.

SYDNEY TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED SINCE 2013

Wentworth Point
Zetland
Mascot
Ryde
Parramatta
Wolli Creek
Lane Cove
Macquarie Park
Chippendale
Waterloo

UNDER CONSTRUCTION DUE BY END 2020

Pagewood
Rosebery
Parramatta
Zetland
Epping
Mascot
Wentworth Point
Wolli Creek
Forest Lodge
Ryde

DA APPROVED & BEING MARKETED DUE BY END 2020

Kogarah
Caringbah
Homebush
Rockdale
Baulkham Hills
Liverpool
Blacktown
Sydney
Miranda
Penrith

Apartment Pipeline

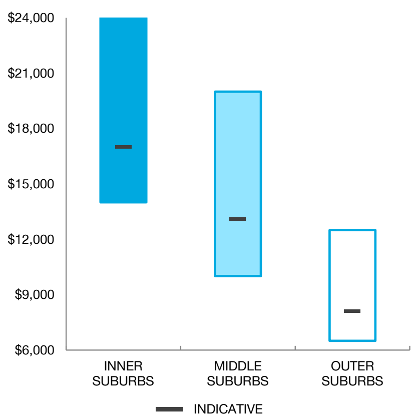
From 1 January 2013 to 30 June 2017, 71,139 new apartments were added to the Greater Sydney region, led by the Middle Suburbs with an additional 38,409 apartments over this time. The stock of apartments in these Middle Suburbs is projected to grow by another 21,035 apartments by the end of 2020 with those now under construction and an additional 3,157 being marketed (although not yet commenced).

The Inner Suburbs saw 24,076 apartments completed since the start of 2013 with 18,359 under construction and another 1,294 being marketed as at 30 June 2017, due by the end of 2020.

The Outer Suburbs saw the new supply of higher density apartments gradually grow by an annual average of 1,826 since 2013. By 2020, this is expected to grow by another 9,260 apartments currently under construction and being marketed.

The likelihood of an additional 22,594 apartments with DA approval coming on line within this timeframe has also been charted across Greater Sydney (figure 12). To arrive at this total, the length of marketing and construction period of the average project of its size was taken into consideration.

FIGURE 13
New Apartment Price Range Greater Sydney
Rate/sqm for mainstream 2 bed+2 bath, ex.CBD
As at 30 Jun 2017

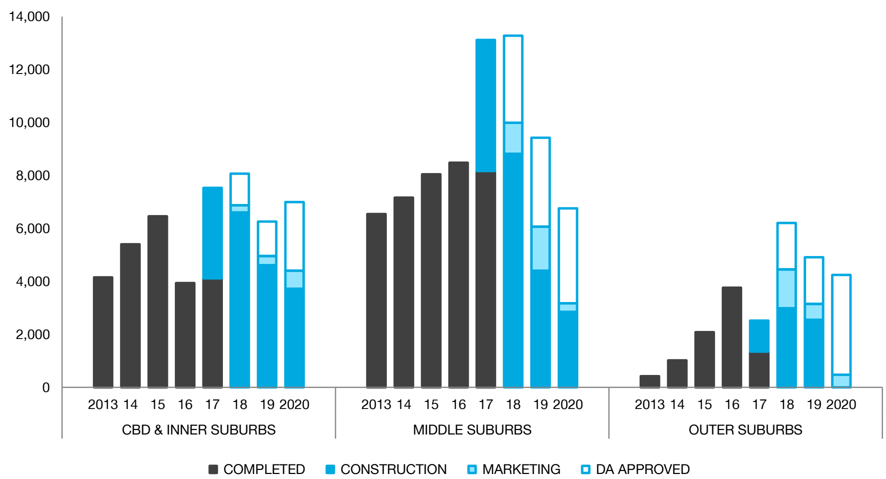


Source: Knight Frank Research

Apartment Pricing

Prices for new mainstream apartments can vary greatly across Greater Sydney; ranging from $14,000/sqm to $24,000/sqm in the Inner Suburbs (indicative $17,000/sqm) as at 30 June 2017 (figure 13). In the Middle Suburbs new apartments are priced at an indicative of $13,100/sqm ($10,000/sqm to $20,000/sqm), whilst in the Outer Suburbs, an apartment can be purchased for an indicative $8,100/sqm ($6,500/sqm to $12,500/sqm).

FIGURE 12
New Apartment Pipeline, Greater Sydney
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

MEDIUM DENSITY DEVELOPMENT

The increase in the total value of Greater Sydney medium density site sales over recent years has also been reflected in the rise of the number of buildings being approved for medium density development.

The number of dwelling units approved in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three -storey block) in New South Wales (NSW) increased 79% over the past five years - from 6,154 approvals in the year ending June 2012, to 11,005 approved in the year ending June 2017, according to the Australian Bureau of Statistics.

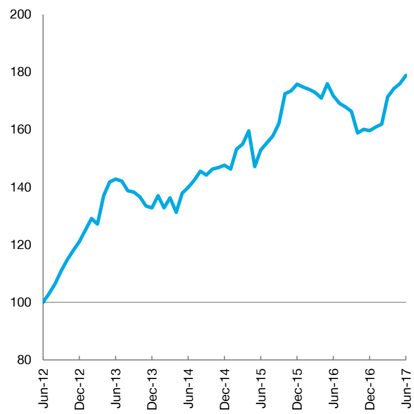
The number of buildings approved has tapered back across all residential property types in NSW, falling 1.9% in the year ending June 2017. Although over the same time, growth was recorded at 12.0% for medium density residential building approvals showing the rise in popularity of this property type.

The Department of Planning and Environment has further prepared a draft Medium Density Design Guide, identifying the “missing middle” to encourage more low rise medium density housing to be built in NSW. It is proposed the Design Guide will be used for both complying developments and development applications to promote greater housing choice and more housing affordability outcomes for medium density housing types across NSW.

FIGURE 14

Medium Density Building Approvals New South Wales

Index = Jun-12, Annual Rolling Growth



Projects with one and two-storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three-storey block as defined by the ABS.

Source: Knight Frank Research, ABS

LOW DENSITY DEVELOPMENT

TABLE 2

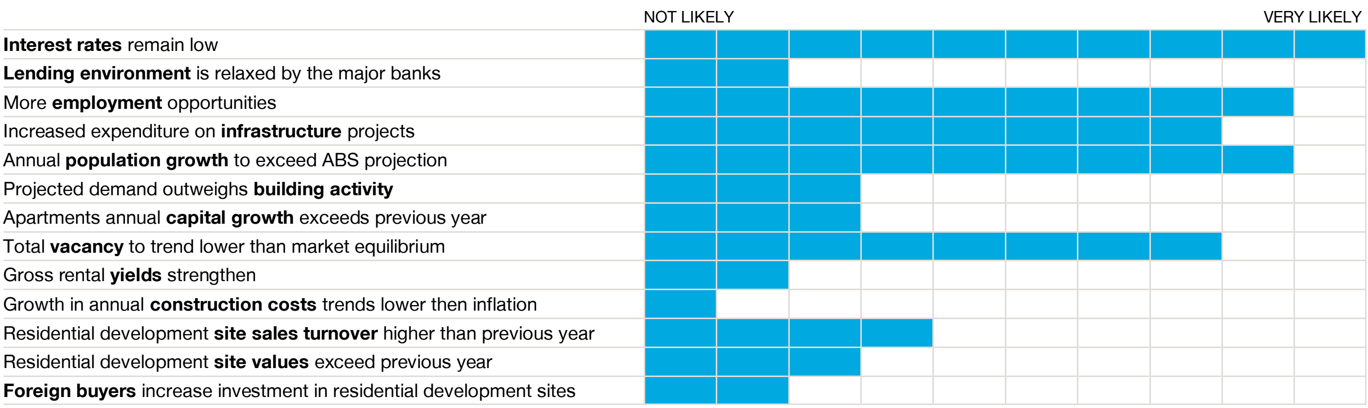
Residential Lots, Greater Sydney

Year Ending	Newly Released Lots (No.)	Annual Change in New Released Lots (%)	Year End Stock (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
2014	8,565	28.0	313	467	-8.3	339,750	5.0	745
2015	8,174	-4.6	454	454	-2.8	440,725	29.7	973
2016	10,789	32.0	396	396	-12.8	465,000	5.5	1,152

Source: Knight Frank Research, UDIA National Land Survey Program

FIGURE 15

Key Development Drivers—One Year Outlook—Greater Sydney



Source: Knight Frank Research

MELBOURNE

Population in Greater Melbourne was estimated at 4.6 million persons in June 2016. Greater Melbourne experienced **population growth** of 2.5% in the year to June 2016. Population is **projected** to grow 1.7% annually to 2036.

Gross State Product in Victoria was recorded at $373,624 million in the year to June 2016; 3.5% growth on the prior year.

In Victoria, there are currently 31 major **infrastructure projects** under construction with an additional nine approved and due for completion by 2036.

Unemployment as at July 2017 stood at 6.2% for Greater Melbourne, trending 40bps higher than the 5.8% recorded in July 2016.

In the year to June 2017, the **cost of construction** across Greater Melbourne increased 3.0%. At this time, it was estimated the cost to build an apartment was $2,580/sqm to $3,075/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in Victoria— 7% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Holding the strongest population growth across Australia in 2015/16, at 2.5%, Greater Melbourne placed in the top two capital cities for the highest capital growth and highest rental growth for both houses and apartments in 2016/17.

Greater Melbourne **median values** increased 4.1% for houses in the June 2017 quarter; rising 16.5% over 2016/17 to $876,700. Apartment values rose 5.4% over the same quarter; rising 9.0% over 2016/17 to record a median of $494,700.

House **sales transacted** in the year ending June 2017 tallied 101,023 in Greater Melbourne, up 0.1% on the previous year. Apartment sales were down 5.2% over the same time with a total of 89,304 transactions.

Gross rental yields across Greater Melbourne houses were achieved at 3.40% in the June quarter 2017, although compressing 30bps when compared to a year earlier. For apartments, gross rental yields compressed 10bps over the same time to achieve 4.40% in the June quarter 2017.

In the year ending June 2017, **median rents** rose 5.0% for Greater Melbourne houses, to a weekly rent of $420. Over the same time, apartment weekly rents increased 5.3% to $400.

Greater Melbourne **total vacancy** was recorded at 2.2% at the end of June 2017, falling 50bps in the past year. The Inner Suburbs recorded 2.0% vacancy, the Middle Suburbs at 3.0% and the Outer Suburbs at 1.8%.

DEVELOPMENT SITES

Total Site Sales

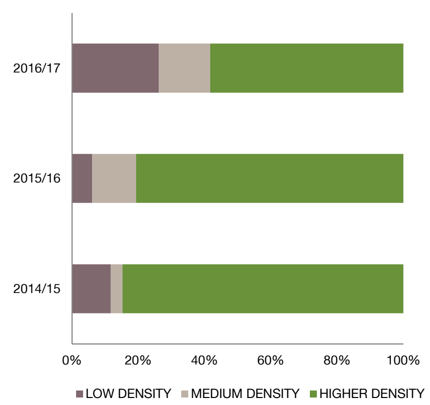
The total volume of Greater Melbourne major site sales suitable for residential development outperformed the previous four years to record $3.1 billion in 2016/17 (of sales $5M+). This was up 57.4%, by value, on 2015/16 and was dominated by several low density sales.

Overall low density sites recorded a 26.2% portion of total sales in 2016/17 (or $818 million), growing from a year earlier when these sales represented only 6.1% (figure 16).

Medium density site sales represented 3.5% of total sales in 2014/15. This increased to a 13.2% share in 2015/16, whilst most recently recording the greatest share of 15.5% in 2016/17.

The trend towards purchasing low and medium density residential sites has continued to emerge in Greater Melbourne with the sale of sites suitable for higher density representing 58.3% in 2016/17 when this was closer to 84.8% in 2014/15.

FIGURE 16
Development Site Sales by Potential Density, Greater Melbourne
Total volume, by value, sales $5M+



Source: Knight Frank Research

Many purchasers of occupied sites are taking advantage of this income stream, especially in suburban markets with tight office vacancy along the fringe with a steady pipeline of new apartments earmarked for the suburb.

HIGHER DENSITY DEVELOPMENT

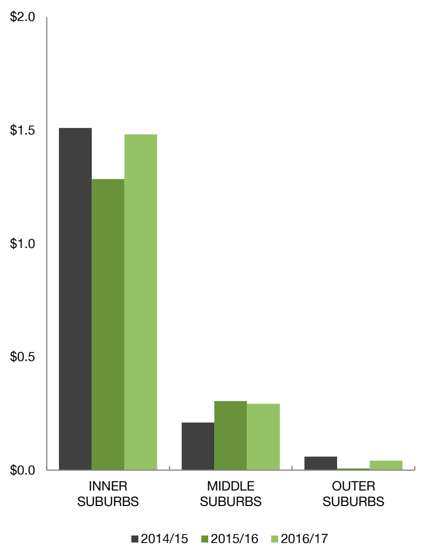
Site Sales

Residential site sales with potential for higher density development in Greater Melbourne, totalled $1.8 billion in 2016/17 for those sales valued higher than $5 million. When compared to the previous year, by value, this was up 13.7%. Foreign buyers made up 60.0% of higher density site sales in 2016/17 when analysing those sales with disclosed purchasers.

The Inner Suburbs of Greater Melbourne significantly dominate the volume of total higher density sales—representing 82% of all higher density sales in 2016/17 (figure 17).

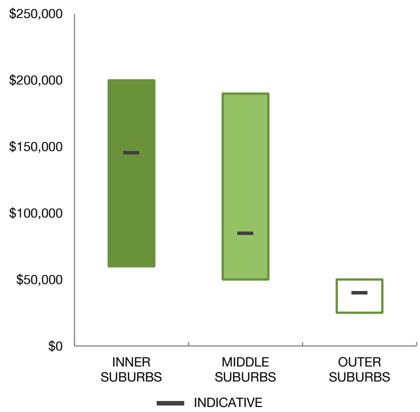
In the year ending June 2017, these sites tallied to $1.5 billion; up from $1.3 billion the year earlier. An annual 4.0% decrease in the Middle Suburbs volume was recorded in 2016/17, at $293.0 million. This total was still higher than the volume of sites purchased in 2014/15, at $210.8 million. Although 28.8% lower than the site sales volume in 2014/15, sales of higher density sites in the Outer Suburbs tallied to $425 million in 2016/17.

FIGURE 17
Total Site Sales Volume Greater Melbourne
Potential higher density residential development
$ Billion, sales $5M+



Source: Knight Frank Research

FIGURE 18
Site Sales Average Price Range Greater Melbourne
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development in Greater Melbourne was an indicative $123,500/per apartment as at 30 June 2017. The lower end of the range started at $40,000/per apartment, while the upper end was $145,600/per apartment (excluding the CBD).

The Middle Suburbs of Greater Melbourne can potentially command sales rates as high as $350,000/per apartment, with some sites well-positioned sites along the Bay (figure 18).

Higher density sites in the Middle Suburbs sold at an indicative rate of $85,000/per apartment (the average ranging from $50,000 to $190,000/per apartment) as at 30 June 2017.

The Inner Suburbs achieved an indicative rate of $145,600/per apartment at the same time, the average range widening slightly from the lower end to start at $60,000 to $200,000/per apartment, whilst Outer Suburb sites sold for an indicative $40,000/per apartment ($25,000 to $50,000/per apartment).

Drawing a radius from the Melbourne CBD, **Inner Suburbs** are located within 10km, **Middle Suburbs** are within a 10-20km ring and **Outer Suburbs** are located beyond 20km but within the Greater Melbourne boundary.

Greater Melbourne higher density residential development site **sales volume** tallied $1.8 billion in the year ending June 2017; rising 13.7% on the previous year.

Over this time, **average site sales** ranged from an indicative $40,000 to $145,600 (ex. CBD); with an indicative average of $123,500 per apartment.

There were 31,148 **new apartments** under construction throughout Greater Melbourne as at 30 June 2017. There were a further 6,829 apartments being marketed with an additional 10,435 DA Approved and potentially on line by the end of 2020.

New mainstream apartment prices ranged from $6,500/sqm to $14,500/sqm in Greater Melbourne, with an indicative of $9,700/sqm as at 30 June 2017.

Apartment Pipeline

Almost 55,000 new apartments were added to the Greater Melbourne region from 1 January 2013 to 30 June 2017. This was led by the Inner Suburbs with an additional 46,165 apartments over this time. The stock of apartments in these Inner Suburbs is projected to grow by another 25,767 apartments by the end of 2020 with those now under construction and an additional 4,169 being marketed with the potential to be delivered by the end of 2020.

The Middle Suburbs saw 7,238 apartments completed since the start of 2013 with 4,556 under construction and another 2,064 being marketed as at 30 June 2017, due by the end of 2020. The Outer Suburbs saw the new supply of higher density apartments gradually grow by an annual average of 276 since 2013. By 2020, this is expected to grow by another 1,421 apartments (figure 19).

Taking into account the average marketing and construction timeframe, an additional 10,435 apartments with DA approval have been estimated to come on line across Greater Melbourne.

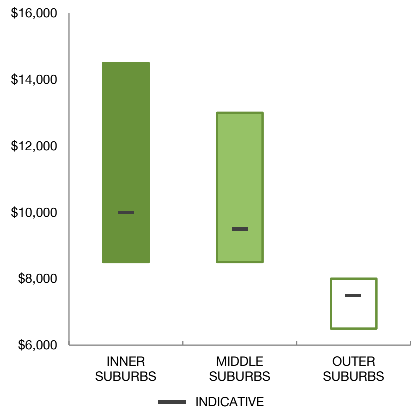
Apartment Pricing

Divergence in new mainstream apartment prices in the Inner and Middle Suburbs is closing within Greater Melbourne.

FIGURE 20

New Apartment Price Range Greater Melbourne

Rate/sqm for mainstream 2 bed+2 bath, ex.CBD
As at 30 Jun 2017



Source: Knight Frank Research

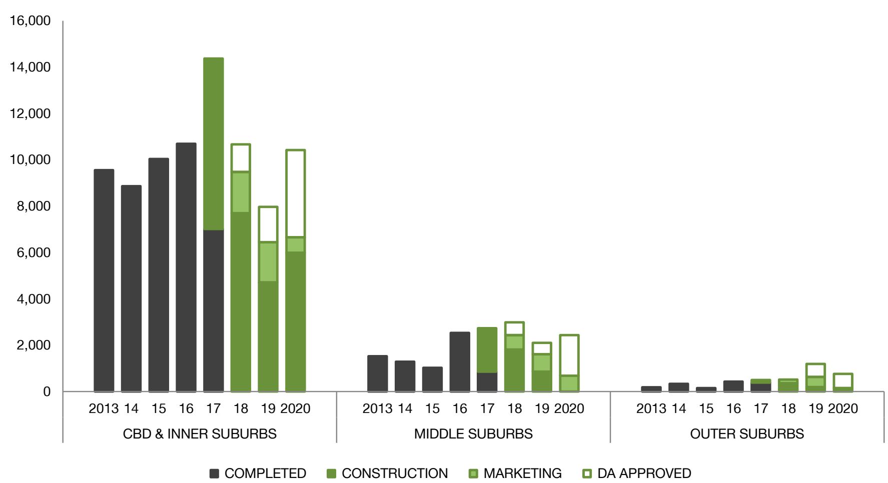
The Inner Suburbs achieved an indicative price of $10,000/sqm (range of $8,500/sqm to $14,500/sqm) while Middle Suburbs, some dotted along the Bay, was an indicative $9,500/sqm ($8,500/sqm to $13,000/sqm) at as 30 June 2017.

There continues to be a clear distinction in the Outer Suburbs with a range of $6,500/sqm to $8,000/sqm, with an indicative rate at $7,500/sqm (figure 20).

FIGURE 19

New Apartment Pipeline, Greater Melbourne

Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

MELBOURNE TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED SINCE 2013

Melbourne
Southbank
Docklands
South Yarra
Abbotsford
Brunswick East
Carlton
South Melbourne
Collingwood
Richmond

UNDER CONSTRUCTION DUE BY END 2020

Melbourne
Southbank
Docklands
Carlton
Footscray
Box Hill
South Yarra
West Melbourne
Moonee Ponds
Doncaster

DA APPROVED & BEING MARKETED DUE BY END 2020

Collingwood
Dandenong
Brunswick
Melbourne
Richmond
South Yarra
Clayton
Moonee Ponds
Carnegie
West Melbourne

MEDIUM DENSITY DEVELOPMENT

A shift by developers relying on higher density sites for redevelopment in Greater Melbourne towards medium density projects, which are considered lower risk for delivery of sales and construction, has seen an upward trajectory of medium density buildings being approved in Victoria.

According to the Australian Bureau of Statistics, the number of medium density dwelling units approved (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three-storey block) in Victoria rose 61% over the five years ending June 2017 (figure 21). Looking back to the previous five years (June 2007 to June 2012), growth in approvals for this property type increased 46%. In the year ending June 2012, 8,331 medium density approvals were granted, when compared to 13,439 approved in the year ending June 2017.

Although the number of residential building approvals have declined 3.0% in the year ending June 2017 in Victoria, medium density approvals have gone up 0.5% over the same time.

As many purchasers continue to buy into the townhouse market, or upgrading to a townhouse as the next best option when priced out of the stand-alone dwelling market, it's likely we'll see further medium density buildings being approved to meet this demand.

FIGURE 21
Medium Density Building Approvals Victoria
Index = Jun-12, Annual Rolling Growth

Projects with one and two-storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three-storey block as defined by the ABS.

Source: Knight Frank Research, ABS

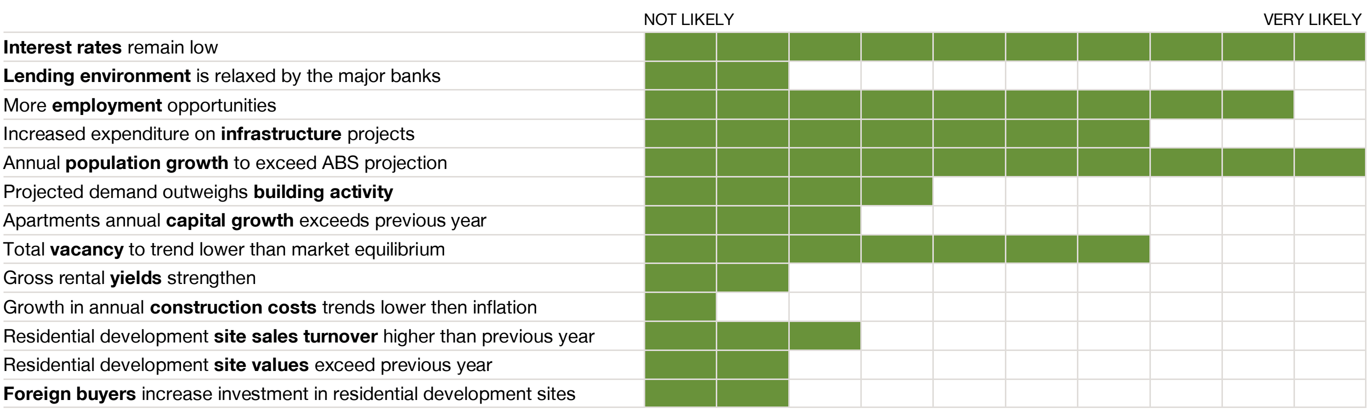
LOW DENSITY DEVELOPMENT

TABLE 2
Residential Lots, Greater Melbourne

Year Ending	Newly Released Lots (No.)	Annual Change in New Released Lots (%)	Year End Stock (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
2014	12,901	63.3	3,490	445	-0.4	203,825	3.2	458
2015	19,774	53.3	2,682	430	-3.4	211,500	3.8	492
2016	22,703	14.8	1,992	400	-7.0	237,000	12.1	592

Source: Knight Frank Research, UDIA National Land Survey Program

FIGURE 22
Key Development Drivers—One Year Outlook—Greater Melbourne



Source: Knight Frank Research

BRISBANE

Population in Greater Brisbane was estimated at 2.3 million persons in June 2016. Greater Brisbane experienced **population growth** of 1.8% in the year to June 2016. Population is **projected** to grow 1.8% annually to 2036.

Gross State Product in Queensland was recorded at $314,569 million in the year to June 2016; 1.5% growth on the prior year.

In Queensland, there are currently 28 major **infrastructure projects** under construction with an additional nine approved and due for completion by 2036.

Unemployment as at July 2017 stood at 6.5% for Greater Brisbane, trending 140bps higher than the 5.1% recorded in July 2016.

In the year to June 2017, the **cost of construction** across Greater Brisbane increased 4.0%. At this time, it was estimated the cost to build an apartment was $2,590/sqm to $3,120/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers must pay a duty surcharge in Qld—3% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Along the East Coast, Greater Brisbane still delivers the most affordable option for first time buyers and a better rental return for investors when compared to Greater Sydney and Greater Melbourne.

Greater Brisbane **median values** increased 0.3% for houses in the June 2017 quarter; rising 3.9% over 2016/17 to $549,700. Apartment values fell 1.7% over the same quarter; and overall by 1.3% to a median of $391,100.

House **sales transacted** in the year ending June 2017 tallied 85,999 in Greater Brisbane, up 7.4% on the previous year. Apartment sales were also up 10.3% over the same time with a total of 46,438 transactions.

Gross rental yields across Greater Brisbane houses were achieved at 4.70% in the June quarter 2017, although compressing 10bps when compared to a year earlier. For apartments, gross rental yields remained steady over the same time to achieve 4.90% in the June quarter 2017.

In the year ending June 2017, **median rents** were stable for Greater Brisbane houses, at a weekly rent of $400. Over the same time, apartment weekly rents fell by 1.3% to $370.

Greater Brisbane **total vacancy** was recorded at 3.3% at the end of June 2017, rising 50bps in the past year. The Inner Suburbs recorded 3.5% vacancy, the Middle Suburbs at 3.1% and the Outer Suburbs at 2.2%.

DEVELOPMENT SITES

Total Site Sales

Greater Brisbane has recorded two consecutive years of lower total sales of major development sites than achieved at the peak of the market in 2014/15—a similar trend experienced in Greater Sydney and the Gold Coast LGA. In 2016/17, Greater Brisbane residential site sales tallied $409.2 million, down 46.4% from the year earlier—for those sites valued at higher, or equal to $2 million.

Over the past three years, the portion of higher density sites purchased throughout Greater Brisbane has annually averaged 73% when calculated against all sites suitable for residential development (figure 23).

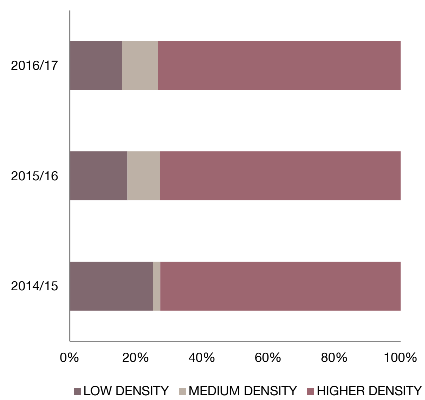
The more interesting thread to follow is the share of those sites suitable for medium density growing from 2.3% in 2014/15 to 9.8% in 2015/16; to record 11.0% or $45.0 million in 2016/17.

As the ongoing downsizer trend continued and the median value for houses in Greater Brisbane grew on average 5.1% per annum between 2014/15 and 2016/17, townhouses became a favourable option. Over this time, the share of low density sites sold dropped from 25.1% to 17.4%. In 2016/17 this portion was 15.8% or $64.5 million.

FIGURE 23

Development Site Sales by Potential Density, Greater Brisbane

Total volume, by value, sales $2M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

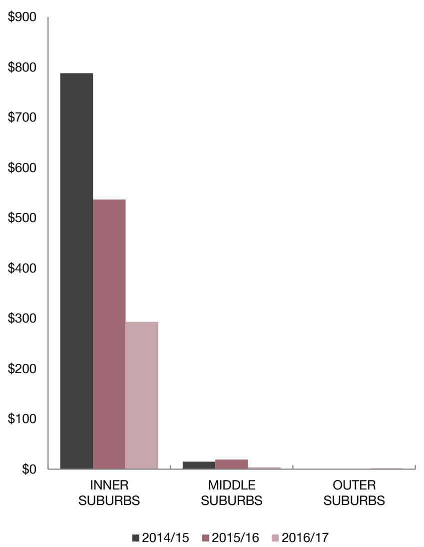
The volume of sites sold with potential for higher density development across Greater Brisbane tallied $299.7 million in 2016/17, down 46.1% on the previous year's volume.

When analysing those sales with disclosed purchasers, foreign buyers made up 37.7% of higher density sales in 2016/17.

For the past three years, the Inner Suburbs of Greater Brisbane averaged a 98% allocation of total higher density site sales (figure 24). This concentration of higher density sites also reflected in those new apartments under construction, being marketed and with development approval.

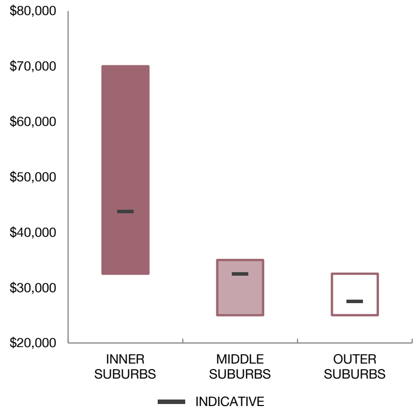
The Inner Suburbs recorded a total $294 million of higher density sites in 2016/17, down 45.3% on the past year. Higher density site sales in the Middle Suburbs also recorded a lower total, to stand at $4 million in 2016/17, while the Outer Suburbs recorded one sale, at $2 million.

FIGURE 24
Total Site Sales Volume
Greater Brisbane
Potential higher density residential development
$ Million, sales $2M+



Source: Knight Frank Research

FIGURE 25
Site Sales Average Price Range
Greater Brisbane
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2017



Source: Knight Frank Research

Average Rates

Across Greater Brisbane, the average sales rate for residential sites with potential for higher density development was an indicative $40,300/per apartment as at 30 June 2017. At this time, excluding the CBD, the indicative lower end of the range started at $27,500/per apartment, while the upper end was $45,000/per apartment.

In the Inner Suburbs higher density sites sold at an indicative rate of $43,800/per apartment at the end of June 2017, ranging from $32,500/per apartment to $70,000/per apartment (figure 25).

Although through this time, minimal sales volume were achieved in the Middle Suburbs, if a site suitable for higher density was to come to market its likely to have achieved a range from $25,000/ per apartment to $35,000/per apartment (indicative of $32,500/per apartment).

In the Outer Suburbs of Greater Brisbane, similarly a site could have achieved a rate from $25,000 to $32,500/per apartment, with an indicative of $27,500/per apartment.

Drawing a radius from the Brisbane CBD, **Inner Suburbs** are located within 5km, **Middle Suburbs** are within a 5-20km ring and **Outer Suburbs** are located beyond 20km but within the Greater Brisbane boundary.

Greater Brisbane higher density residential development site **sales volume** tallied $299.7 million in the year ending June 2017; down 46.1% on the previous year.

Over this time, **average site sales** ranged from an indicative $27,500 to $45,000 (ex. CBD); with an indicative average of $40,300 per apartment.

There were 15,932 **new apartments** under construction throughout Greater Brisbane as at 30 June 2017. There were a further 3,970 apartments being marketed with an additional 4,991 DA Approved and potentially on line by the end of 2020.

New mainstream apartment prices ranged from $4,000/sqm to $9,200/sqm in Greater Brisbane, with an indicative of $7,300/sqm as at 30 June 2017.

BRISBANE TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED SINCE 2013

South Brisbane
West End
Newstead
Fortitude Valley
Hamilton
Woolloongabba
Brisbane
Milton
Chermside
Kelvin Grove

UNDER CONSTRUCTION DUE BY END 2020

Woolloongabba
Brisbane
West End
South Brisbane
Newstead
Fortitude Valley
Chermside
Hamilton
Coorparoo
Greenslopes

DA APPROVED & BEING MARKETED DUE BY END 2020

Newstead
Kangaroo Point
Fortitude Valley
West End
Upper Mount Gravatt
Albion
Indooroopilly
Toowong
Seven Hills
Brisbane

Apartment Pipeline

From 1 January 2013 to 30 June 2017, 23,096 new apartments were added to the Greater Brisbane region, led by the Inner Suburbs with an additional 18,186 apartments over this time. The stock of apartments in these Inner Suburbs is projected to grow by another 13,897 apartments by the end of 2020 with those now under construction and an additional 2,886 being marketed (figure 26).

The Middle Suburbs saw 4,369 apartments completed since the start of 2013 with 1,882 under construction and another 1,082 being marketed as at 30 June 2017, due by the end of 2020.

The Outer Suburbs saw the new supply of higher density apartments grow by a total of 541 since 2013. By 2020, this is expected to grow by another 153 apartments.

Given a large portion of these funded projects will be determined by pre-sales, the market will dictate when, or if, the 4,991 apartments with DA Approval will commence construction and therefore be completed within this same timeframe.

Apartment Pricing

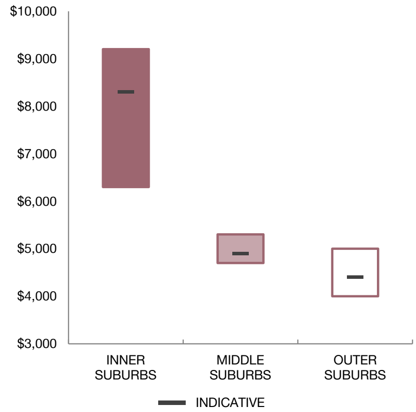
The concentration of new higher density apartments in the Inner Suburbs of Brisbane, has resulted in building completions outweighing demand. As a result, average pricing for new apartments has tapered back 9.9% over the year ending June 2017.

At this time, the Inner Suburbs achieved an indicative $8,300/sqm ($6,300-$9,200/sqm). The Middle Suburbs saw an indicative of $4,900/sqm ($4,700-$5,300/sqm), while the Outer Suburbs, with a lower indicative of $4,400, but a wider range, averaged from $4,000 to $5,000/sqm (figure 27).

FIGURE 27

New Apartment Price Range Greater Brisbane

Rate/sqm for mainstream 2 bed+2 bath, ex-CBD
As at 30 Jun 2017

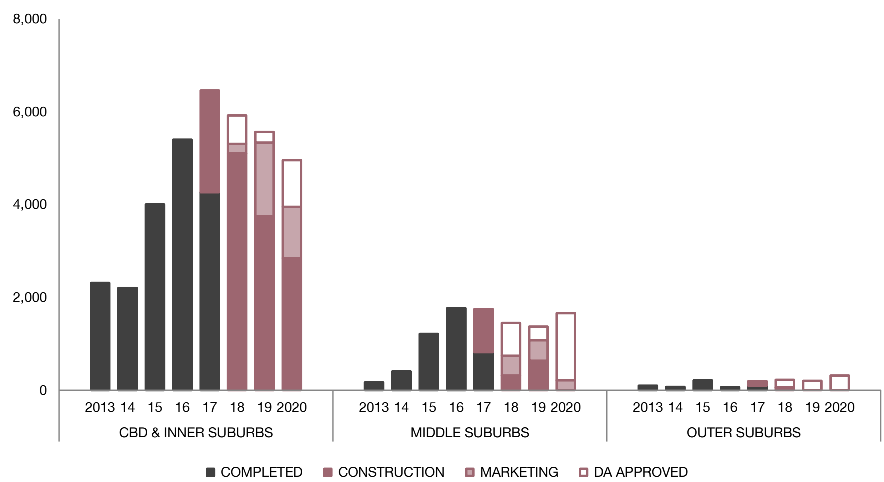


Source: Knight Frank Research

FIGURE 26

New Apartment Pipeline, Greater Brisbane

Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

MEDIUM DENSITY DEVELOPMENT

The number of dwelling units approved in in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three-storey block) in Queensland rose 59% over the past five years, according to the Australian Bureau of Statistics.

Since June 2012, this growth in medium density building approvals occurred via two rallies. The first 67% growth from July 2012, to November 2013, then more recently from November 2014—to the September 2016 peak with 33% growth.

In a heated market, the average townhouse approved site became a safer option for developers than gaining pre-sales and dedicating a lengthy construction phase for a higher density project.

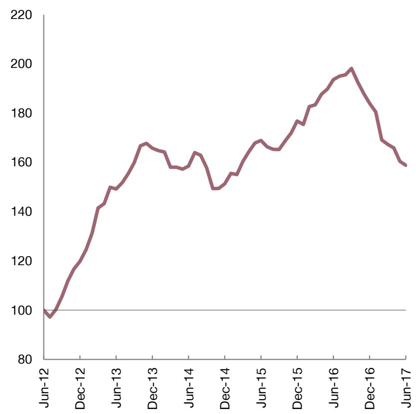
Since this time, growth has tapered back for medium density approvals despite an increased number of sites being transacted for medium density—absorbing the traditional share taken by low density site sales.

In the year ending June 2017, 8,973 medium density approvals were granted, when compared to 5,650 in the year ending June 2012. Looking back to the previous five years (June 2007 to June 2012), approvals had fallen 28.9% for this property type over this time as shown in figure 28.

FIGURE 28

Medium Density Building Approvals Queensland

Index = Jun-12, Annual Rolling Growth



Projects with one and two-storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three-storey block as defined by the ABS.

Source: Knight Frank Research, ABS

LOW DENSITY DEVELOPMENT

TABLE 3

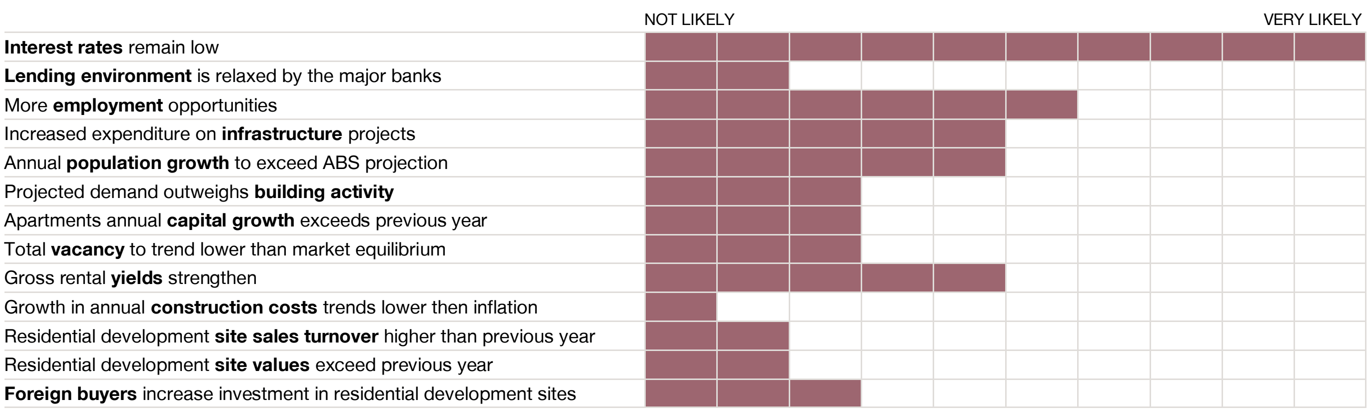
Residential Lots, Greater Brisbane

Year Ending	Newly Released Lots (No.)	Annual Change in New Released Lots (%)	Year End Stock (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
2014	10,822	54.9	2,104	509	-8.9	244,739	2.4	481
2015	11,344	4.8	2,383	488	-4.1	255,750	4.5	524
2016	12,252	8.0	2,481	471	-3.5	259,000	1.3	551

Source: Knight Frank Research, UDIA National Land Survey Program

FIGURE 29

Key Development Drivers—One Year Outlook—Greater Brisbane



Source: Knight Frank Research

PERTH

Population in Greater Perth was estimated at 2.1 million persons in June 2016. Greater Perth experienced **population growth** of 1.3% in the year to June 2016. Population is **projected** to grow 2.5% annually to 2036.

Gross State Product in Western Australia was recorded at $255,214 million in the year to June 2016; 4.5% growth on the prior year.

In Western Australia, there are currently 14 major **infrastructure projects** under construction with an additional 10 approved and due for completion by 2036.

Unemployment as at July 2017 stood at 5.7% for Greater Perth, trending 90bps lower than the 6.5% recorded in July 2016.

In the year to June 2017, the **cost of construction** across Greater Perth increased 1.8%. At this time, it was estimated the cost to build an apartment was $2,805/sqm to $3,355/sqm (plus GST) to a basic standard finish, according to Rawlinsons.

Foreign purchasers are currently exempt from duty surcharges in WA. From 1 January 2019, 4% of the purchase price will be taxed, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

Although population growth has tapered back following a slow down in the resources sector, over the past year unemployment has improved throughout Greater Perth. Capital growth in values has been impacted in recent years, however the worst of the correction in the market has now passed.

Greater Perth **median values** decreased 1.3% for houses in the June 2017 quarter and overall by 3.6% in 2016/17 to $557,100. Apartment values decreased 1.9% over the same quarter; and overall by 2.7% in 2016/17 to record a median of $368,000.

House **sales transacted** in the year ending June 2017 tallied 88,497 in Greater Perth, up 13.3% on the previous year. Apartment sales were also up 15.8% over the same time with a total of 26,690 transactions.

Gross rental yields across Greater Perth houses were achieved at 4.10% in the June quarter 2017, although compressing 10bps when compared to a year earlier. For apartments, gross rental yields also compressed 20bps over the same time to achieve 4.40% in the June quarter 2017.

In the year ending June 2017, **median rents** decreased 7.7% for Greater Perth houses, to a weekly rent of $360. Over the same time, apartment weekly rents fell by 10.4% to $300.

Greater Perth **total vacancy** was recorded at 7.3% at the end of June 2017, rising 130bps in the past year. In the Inner Suburbs, Knight Frank Property Management has recorded vacancy at less than 3% since January 2017.

DEVELOPMENT SITES

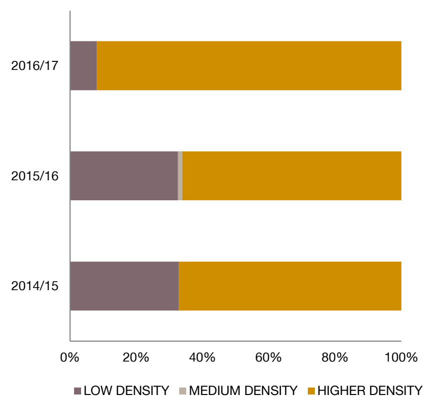
Total Site Sales

The total volume of major site sales in Greater Perth suitable for residential development lagged annual sales recorded over the past four years, for those valued at, or above $2 million. In 2016/17, residential sites tallied to $129.7 million, almost a quarter of the volume recorded in 2014/15 when Greater Perth site sales totalled $520.6 million. At this time, the total volume of development site sales peaked across the Australian market.

Dividing development site sales by potential density in Greater Perth, in 2014/15 and 2015/16, higher density sites represented 67.1% and 66.0% respectively. Although coming off a lower base, by 2016/17 the portion of higher density sites sold had increased to 91.8% (figure 30).

Greater Perth has not experienced the recent high level of demand towards medium density sites by developers and end-buyers as witnessed in Greater Sydney and Greater Melbourne. Many buyers in these cities are using this medium density platform as an entry-level option into home ownership. Instead low density houses are becoming more affordable for first home buyers in Greater Perth. As a consequence, the residual of total development site sales have been for low density housing, with a 8.2% share in 2016/17.

FIGURE 30
Development Site Sales by Potential Density, Greater Perth
Total volume, by value, sales $2M+



Source: Knight Frank Research

HIGHER DENSITY DEVELOPMENT

Site Sales

Site sales with potential for higher density residential development in Greater Perth, tallied $119.1 million in the year ending June 2017.

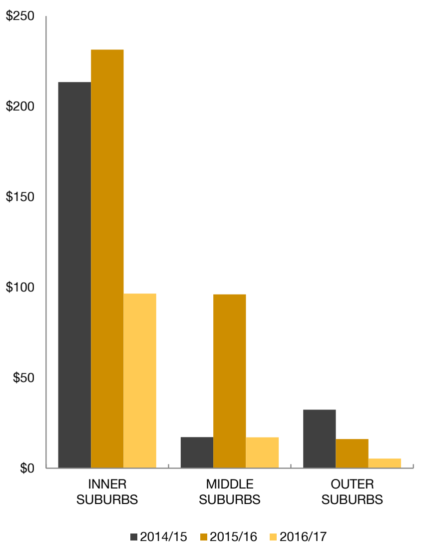
This was collectively down 65.4% across the greater region when compared to the volume recorded in the previous year.

When analysing the sales with disclosed purchasers, foreign buyers made up 23.8% of these higher density sales in 2016/17.

The Inner Suburbs of Greater Perth continue to achieve the highest volume of sales, totalling $96.6 million over 2016/17; although recording 42% of the volume from 2015/16 (figure 31).

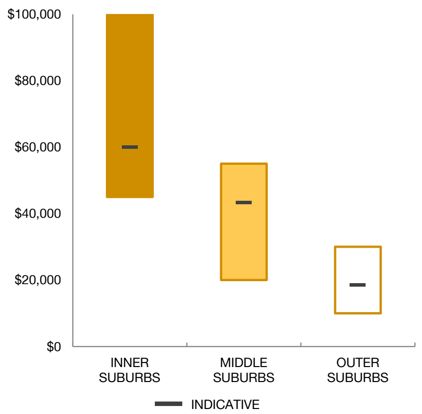
Middle Suburbs higher density site sales recorded a total of $17.1 million in 2016/17 whilst in the Outer Suburbs the total was $5.4 million.

FIGURE 31
Total Site Sales Volume Greater Perth
Potential higher density residential development
$ Million, sales $2M+



Source: Knight Frank Research

FIGURE 32
Site Sales Average Price Range Greater Perth
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2017



Source: Knight Frank Research

Average Rates

The average sales rate for residential sites with potential for higher density development across Greater Perth was an indicative $49,500/per apartment as at 30 June 2017. At this time, excluding the CBD, the indicative lower end of the range started at $18,500/per apartment, while the upper end was $60,000/per apartment.

Across the Inner Suburbs higher density sites sold at an indicative rate of $60,000/per apartment at the end of June 2017, ranging from an average $45,000/per apartment to an upper average of $100,000/per apartment (figure 32).

Throughout this time, only a small volume of sales were achieved in the Middle Suburbs. If a site suitable for higher density was to come to market it would likely have achieved an average range from $20,000/per apartment to $55,000/per apartment (indicative of $43,300/per apartment).

Similarly in the Outer Suburbs of Greater Perth, a site could have achieved a rate from $10,000 to $30,000/per apartment, with an indicative of $18,500/per apartment.

Perth **Inner Suburbs** are within the LGAs of Perth, South Perth, Victoria Park, Vincent, Subiaco, Cambridge, Nedlands, Claremont, Cottesloe, Peppermint Grove, Mosman Park, Fremantle and East Fremantle. **Middle Suburbs** are within the LGAs of Stirling, Bayswater, Bassendean, Belmont, Canning and Melville. **Outer Suburbs** are those remaining but located within the Greater Perth boundary.

Greater Perth higher density residential development site **sales volume** tallied $119.1 million in the year ending June 2017; down 65.4% on the previous year.

Over this time, **average site sales** ranged from an indicative $18,500 to $60,000 (ex. CBD); with an indicative average of $49,500 per apartment.

There were 5,381 **new apartments** under construction throughout Greater Perth as at 30 June 2017. There were a further 1,135 apartments being marketed with an additional 1,187 DA Approved and potentially on line by the end of 2020.

New mainstream apartment prices ranged from $6,000/sqm to $10,500/sqm in Greater Perth, with an indicative of $7,500/sqm as at 30 June 2017.

Apartment Pipeline

Close to 7,100 new apartments were added to the Greater Perth region from 1 January 2013 to 30 June 2017. This was led by the Inner Suburbs accounting for 4,330 apartments over this time. The stock of apartments in these Inner Suburbs are projected to grow by another 3,902 apartments by the end of 2020, with those now under construction and an additional 705 being marketed. This is a lower volume being marketed than we've seen in previous years.

The Middle Suburbs saw 1,822 apartments completed since the start of 2013 with 1,134 under construction and another 247 being marketed as at 30 June 2017; due by the end of 2020. The Outer Suburbs saw the new supply of higher density apartments grow by a total of 962 since 2013. By 2020, this is expected to grow by another 528 apartments currently under construction or being marketed (figure 33).

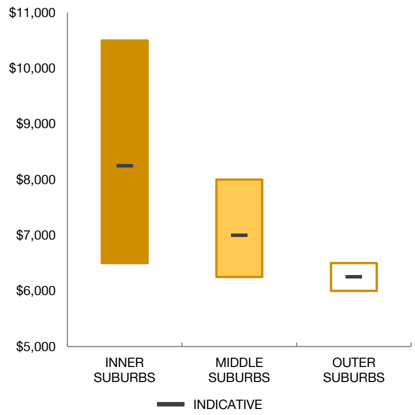
Given a large portion of these funded projects will be determined by pre-sales, the market will dictate when, or if, the 1,187 apartments with DA Approval will commence construction and therefore be completed within this same timeframe.

Apartment Pricing

Prices for new mainstream apartments range from $6,500/sqm to $10,500/sqm in the Inner Suburbs of Perth as at 30 June 2017. This is a slight decrease of 0.3% over the past year to an indicative of $8,250/sqm (figure 34).

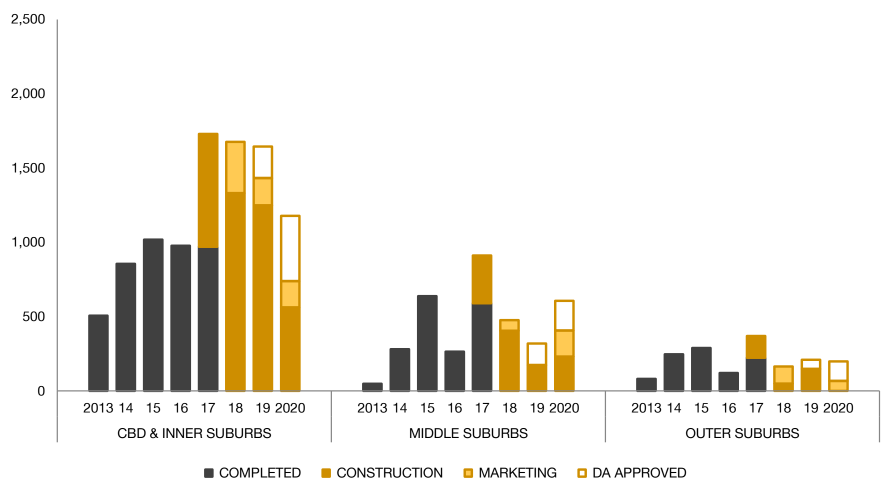
In the Middle Suburbs new apartments are priced at an indicative $7,000/sqm ($6,250/sqm to $8,000/sqm), whilst in the Outer Suburbs, an apartment can be purchased for an indicative $6,250/sqm ($6,000/sqm to $6,500/sqm).

FIGURE 34
New Apartment Price Range Greater Perth
Rate/sqm for mainstream 2 bed+2 bath, ex-CBD
As at 30 Jun 2017



Source: Knight Frank Research

FIGURE 33
New Apartment Pipeline, Greater Perth
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

PERTH TOP 10 SUBURBS NEW APARTMENT PROJECTS:

COMPLETED SINCE 2013

Rivervale
East Perth
Perth
Subiaco
Fremantle
West Leederville
Highgate
Scarborough
Cockburn Central
North Coogee

UNDER CONSTRUCTION DUE BY END 2020

Perth
East Perth
Claremont
South Perth
Mount Pleasant
West Perth
Burswood
Fremantle
Maylands
Cockburn Central

DA APPROVED & BEING MARKETED DUE BY END 2020

South Perth
Booragoon
Mount Hawthorn
Subiaco
Leederville
East Perth
West Perth
Fremantle
Alkimos
Hamilton Hill

MEDIUM DENSITY DEVELOPMENT

Over the five years to June 2017, growth in the number of dwelling units approved in medium density residential buildings (one and two-storey semi-detached, row or terrace houses & townhouses, plus flats, units or apartments in a one, two or three-storey block) in Western Australia rose 26%, according to the Australian Bureau of Statistics. In the year ending June 2017, 2,676 medium density approvals were granted, when compared to 2,131 in the year ending June 2012.

However growth in medium density building approvals has tapered back since July 2015. As capital values for single dwellings have tightened, affordability has increased for first time buyers and investors essentially lowering the demand for this type of product, for the time being.

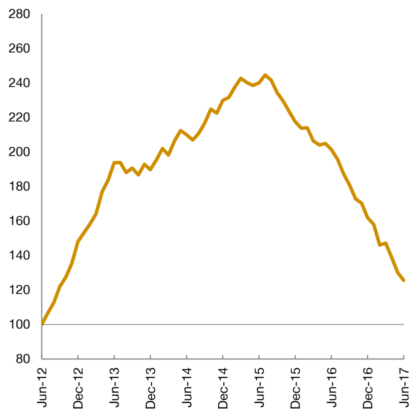
There will remain demand for medium density projects with an aging population attracted to this type of product as a downsizing option, straddling qualities of a single dwelling and a high-rise apartment; preferably serviced over the one level. In many cases, this product type allows a small, low-maintenance yard, not akin to an elevated balcony.

Although with the smallest median sized land lots across the country, this void is essentially being filled by the standard single dwelling.

FIGURE 35

Medium Density Building Approvals Western Australia

Index = Jun-12, Annual Rolling Growth



Projects with one and two-storeys semi-detached, row or terrace houses; plus flats, units or apartments in a one, two or three-storey block as defined by the ABS.

Source: Knight Frank Research, ABS

LOW DENSITY DEVELOPMENT

TABLE 4

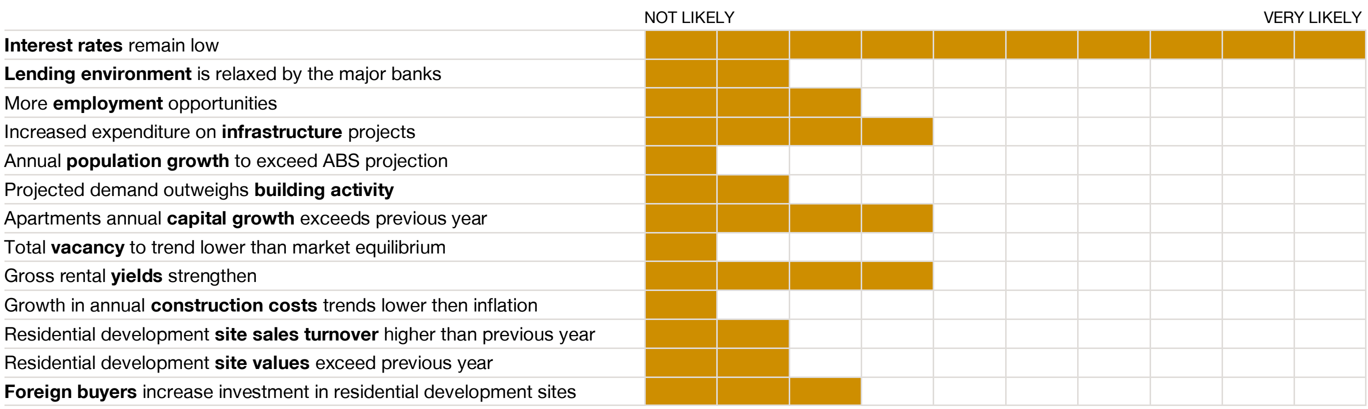
Residential Lots, Greater Perth

Year Ending	Newly Released Lots (No.)	Annual Change in New Released Lots (%)	Year End Stock (No.)	Median Lot Size (sqm)	Annual Change in Median Lot Size (%)	Median Lot Price ($)	Annual Change in Median Lot Price (%)	Median Lot Price ($/sqm)
2014	13,373	9.1	2,544	427	-4.7	261,000	9.4	611
2015	10,568	-21.0	3,175	395	-7.5	252,875	-3.1	641
2016	8,464	-19.9	3,376	375	-5.1	229,250	-9.3	611

Source: Knight Frank Research, UDIA National Land Survey Program   Note: Includes Peel

FIGURE 36

Key Development Drivers—One Year Outlook—Greater Perth



Source: Knight Frank Research

GOLD COAST

The Gold Coast LGA has an **estimated population** of 567,700. The Gold Coast LGA experienced **population growth** of 2.2% in the year to June 2016. Population is **projected** to grow 2.2% annually to 2036.

In the Gold Coast LGA, there are currently five major **infrastructure projects** under construction with an additional infrastructure project approved and due for completion by 2036.

Unemployment as at March 2017 stood at 5.3% for the Gold Coast LGA, trending 30bps lower than a year earlier.

Gold Coast LGA higher density residential development site **sales volume** tallied $140 million in the year ending June 2017; up 6.8% on the previous year. Over this time, **average site sales** ranged from an indicative $42,500 to $90,000 (ex. CBD); with an indicative average of $70,800 per apartment.

There were 3,006 **new apartments** under construction throughout the Gold Coast LGA as at 30 June 2017. There were a further 435 apartments being marketed with an additional 2,026 DA Approved and potentially on line by the end of 2020.

New mainstream apartment prices averaged from an indicative $4,500/sqm to $15,000/sqm in the Gold Coast LGA, with an indicative average of $7,500/sqm as at 30 June 2017.

Foreign purchasers must pay a duty surcharge in Qld—3% of the purchase price, in addition to standard state-based stamp duties and FIRB application fees.

RESIDENTIAL MARKET TRENDS

Mainstream Market

The Gold Coast residential market has matured following the redevelopment of Pacific Fair Shopping Centre integrating many international retail brands and the expansion of the University Hospital with a G:Link stop at the entry. It links to the Light Rail Spine through to Broadbeach. This will be on a global platform, in April 2018 when the Gold Coast hosts the Commonwealth Games. The light rail will eventually travel through to the Gold Coast International Airport and up to Helensvale heavy rail station providing a link to Brisbane City and Brisbane Airport.

Median apartment values in the Gold Coast LGA increased 0.5% in the June 2017 quarter and overall by 3.7% in 2016/17 to $420,000. **Sales transacted** in the year ending June 2017 tallied 10,275 apartments, down 4.2% on the previous year. **Gross rental yields** across Gold Coast LGA apartments were achieved at 5.80% in the June quarter 2017, gaining 10bps when compared to a year earlier. In the year ending June 2017, **median rents** rose 5.1%, to a weekly rent of $410. The Gold Coast City **total vacancy** was recorded at 1.7% at the end of June 2017, rising 30bps in the past year.

HIGHER DENSITY DEVELOPMENT

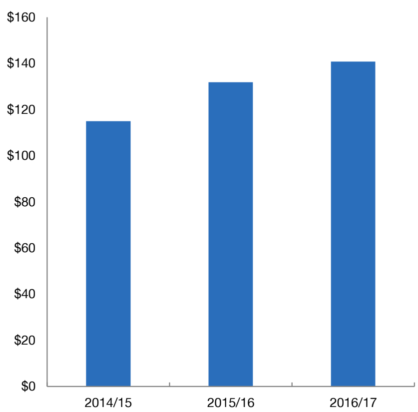
Site Sales & Average Rates

The total volume of Gold Coast LGA major site sales suitable for higher density residential development, outperformed the previous two years to record $140.8 million in 2016/17 (of sales $2 million+). This was up 6.8%, by value, on 2015/16 (figure 37). When analysing the sales with disclosed purchasers, foreign buyers made up 32.3% of these higher density sales in 2016/17.

FIGURE 37

Total Site Sales Volume Gold Coast LGA

Potential higher density residential development $ Million, sales $2M+

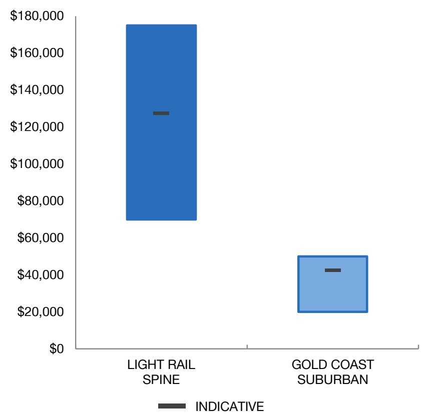


Source: Knight Frank Research

FIGURE 38

Site Sales Average Price Range Gold Coast LGA

Potential higher density development, ex. CBD Average rate/per Apartment, as at 30 Jun 2017



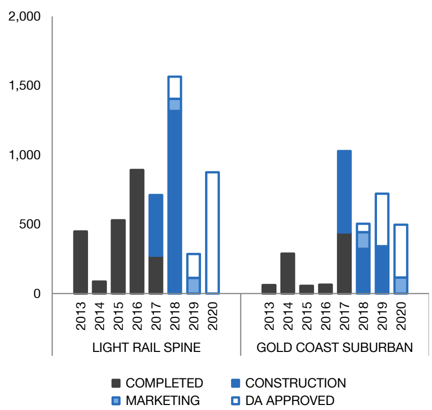
Source: Knight Frank Research

Average sales rate for residential sites with potential for higher density in the Gold Coast LGA was an indicative $70,800/per apartment (indicative range from $42,500 to $90,000/per apartment) as at 30 June 2017 (figure 38). Along the Light Rail Spine, the average ranged from $70,000 to $175,000/per apartment; whilst the Gold Coast Suburban area ranged from $20,000 to $50,000/per apartment.

Apartment Pipeline

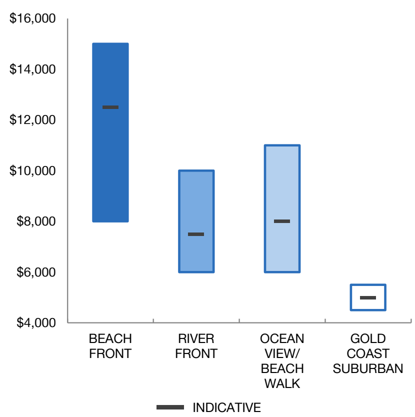
Close to 3,130 new apartments were added to the Gold Coast LGA from 1 January 2013 to 30 June 2017. This was led by those on the Light Rail Spine with an additional 2,225 apartments over this time. The stock of apartments along the Light Rail Spine is projected to grow by another 1,755 apartments by the end of 2020 with those now under construction, and an additional 201 being marketed. The timing and viability of these projects continues to be heavily reliant on pre-sales. The Gold Coast suburban area saw 908 apartments completed since the start of 2013 with 1,251 under construction and another 234 being marketed as at 30 June 2017 due by the end of 2020 (figure 39).

FIGURE 39
New Apartment Pipeline, Gold Coast LGA
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2017



Source: Knight Frank Research

FIGURE 40
New Apartment Price Range Gold Coast LGA
Rate/sqm for mainstream 2 bed+2 bath
As at 30 Jun 2017



Source: Knight Frank Research

Apartment Pricing

Gold Coast new apartment prices averaged from $8,000/sqm to $15,000/sqm along the Beachfront (indicative of $12,500/sqm) as at 30 June 2017. Those on the Riverfront commanded an indicative $7,500/sqm (range of $6,000-$10,000/sqm) while those with an Ocean View/Beach Walk were an indicative $8,000/sqm with a wider range of $6,000 to $11,000/sqm. Those new apartments located in the wider Suburban area were an indicative of $5,000/sqm, with a lower range of $4,500 to $5,500/sqm (figure 40).

Development Sites: Light Rail Spine suburbs located along the G:Link from Main Beach to Palm Beach. **Gold Coast Suburban** are suburbs outside the Light Rail Spine but within the Local Government Area (LGA) boundary.

New Apartments: Beachfront from Main Beach to Broadbeach. **Riverfront** from Main Beach to Broadbeach. **Ocean View/Beach Walk** from Labrador to Southport to Bundall. **Gold Coast Suburban** are suburbs outside the Light Rail Spine but within the LGA boundary.

GOLD COAST LGA TOP 3 SUBURBS NEW APARTMENT PROJECTS:

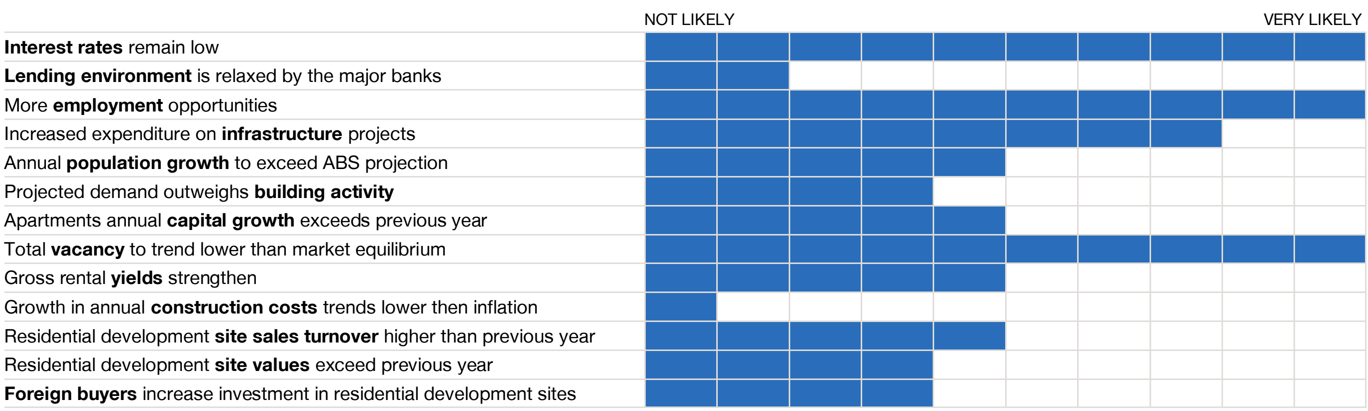
COMPLETED*
Southport
Biggera Waters
Labrador

UNDER CONSTRUCTION^
Surfers Paradise
Hope Island
Broadbeach

BEING MARKETED^
Biggera Waters
Surfers Paradise
Coolangatta

*Since 2013 ^Due by end of 2020

FIGURE 41
Key Development Drivers—One Year Outlook—Gold Coast LGA



Source: Knight Frank Research

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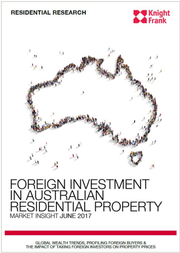

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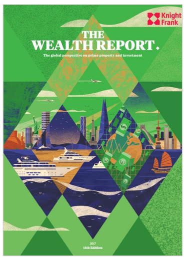

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