RESIDENTIAL RESEARCH

AUSTRALIAN RESIDENTIAL DEVELOPMENT REVIEW

H2 2016

A REVIEW OF DEVELOPMENT KEY DRIVERS, MAJOR TRANSACTIONS & OUTLOOK

KEY FINDINGS

Higher density residential development site **sales volume** tallied $7.1 billion in the year ending June 2016, collectively down 26% on the previous year across the five major cities. Over this time, **average site sales** (ex.CBD) ranged from $20,000 to $450,000 per apartment, with an indicative average rate of $103,470 per apartment.

Foreign buyers purchased, by value, a weighted average of 46% in 2015/16 (down from 51% a year earlier) of development sites in the five major cities.

There were 74,650 **new apartments** under construction throughout the five major cities in Australia as at 30 June 2016. There were a further 54,820 apartments being marketed, with an additional 99,000 with DA Approval potentially due on line by 2019.

The **cost of construction** in Australia has increased 2.7% in the year to March 2016 across the four major capital cities.

Over the past year to June 2016, **new apartment prices** have averaged an indicative $8,950/sqm across the five major cities; ranging significantly from $4,000/sqm to $22,000/sqm.

MICHELLE CIESIELSKI
Knight Frank Residential Research

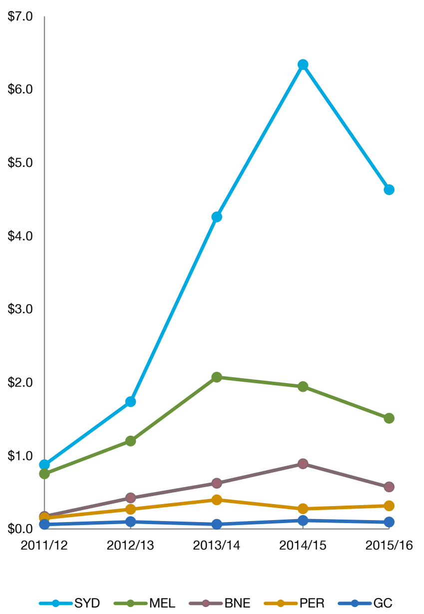
AUSTRALIAN RESIDENTIAL DEVELOPMENT

When the Federal government outlined the desire for '30-minute cities' across the country, this amplified the need for more higher density living along infrastructure corridors and around established community hubs. Only one year ago, many developers were faced with the hurdle of sites selling at a premium to foreign investors, the ongoing rise in the cost of construction, and apartments selling to a frenzy of fear-of-missing-out (FOMO), off-the-plan, buyers. How much has changed in the second half of 2016 for the greater areas of Sydney, Melbourne, Brisbane, Perth and the Gold Coast?

Sales Volume

Sales of major sites likely for higher density residential development in the five major cities of Australia, totalled $7.1 billion in the year ending June 2016. This was collectively down 26% on the previous year's volume. Greater Sydney continues to achieve the highest volume of sales, by value, totalling $4.6 billion over this time; although down 26.9% since the peak in 2014/15 (Figure 1).

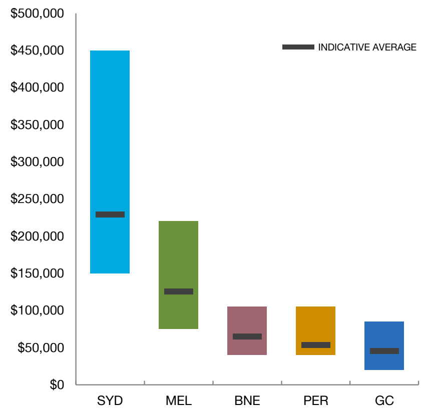
FIGURE 1
Site Sales Volume
Potential higher density development
Billion



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

Source: Knight Frank Research

FIGURE 2
Site Sales Avg. Price Range
Potential higher density development, ex. CBD
Average rate/per Apartment, as at 30 Jun 2016



For consistency across the greater cities, the site sales average rate/per apartment is calculated on the purchase price divided by the potential number of apartments at the time of sale.

Source: Knight Frank Research

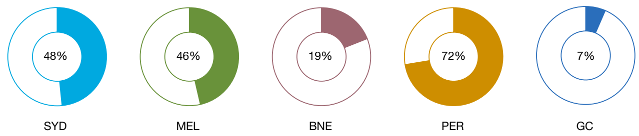
Greater Brisbane followed a similar trend in 2015/16, although was down 35.5% to $571.5 million over the past year. Starting to experience the downward growth in sales a year earlier, the greater area of Melbourne and the Gold Coast saw turnover of $1.5 billion and $91.6 million, respectively, in 2015/16. Over the same period, Greater Perth saw an uptick of 14.8% in site sales turnover (after falling 30.9% in 2014/15) with several large sites suitable for higher density transacting in this time to total $314.2 million.

Average Sales Rates

Over the year to June 2016, the average sales rate of residential sites with potential for higher density development continued to diverge (Figure 2). Premium prices were achieved for sites ticking all the right boxes in superior locations, while at the lower end of the range, gaining traction in growth proved to be more challenging.

Excluding the CBD, across these greater areas, the average indicative rate was recorded at $103,470 per apartment. Average development site sales ranged from $20,000 per apartment on the Gold Coast, extending through to $450,000 per apartment in Greater Sydney in established areas with good amenities and water views.

FIGURE 3
Portion of Foreign Investors, by Value, in Potential Higher Density Development Sites
By total volume sales, 2015/16



Foreign investors are considered as any foreign interest associated with the sale. SYD & MEL sales $5M+; BNE, PER & GC sales $2M+.

Source: Knight Frank Research

Type of Purchasers

Further analysis of disclosed purchasers of development sites with potential for higher density, found that the portion of foreign investors was 46%, by value, for the five major Australian cities in the year to 30 June 2016. A year earlier it was weighted more heavily towards foreign investors at 51%.

Although more Australian developers actively transacted sites in Greater Perth this year, the portion of foreign investors, by value, totaled 72% (up from 41% a year earlier). It's evident that foreign buyers continue to take the opportunity to become established in the market, looking for a longer term hold while the Australian dollar (AUD) is favourable. Greater Sydney saw 48% of residential sites sold to foreign investors in 2015/16 and Greater Melbourne was slightly lower at 46%. A year earlier the readings were 55% and 37% respectively. With increased interstate investment recorded, more Australian developers bought in Greater Brisbane resulting in just 19% offshore investment, (down from 51% a year earlier). This was similar on the Gold Coast when the portion of foreign investors was 7%, as shown in Figure 3.

According to the Foreign Investment Review Board (FIRB) in 2014/15, foreign investors proposed to spend $20.6 billion in Victoria and $16.2 billion in New South Wales (NSW) on residential developments in the coming years. This was followed by Queensland (Qld) with $9.4 billion and Western Australia (WA) at $2.0 billion.

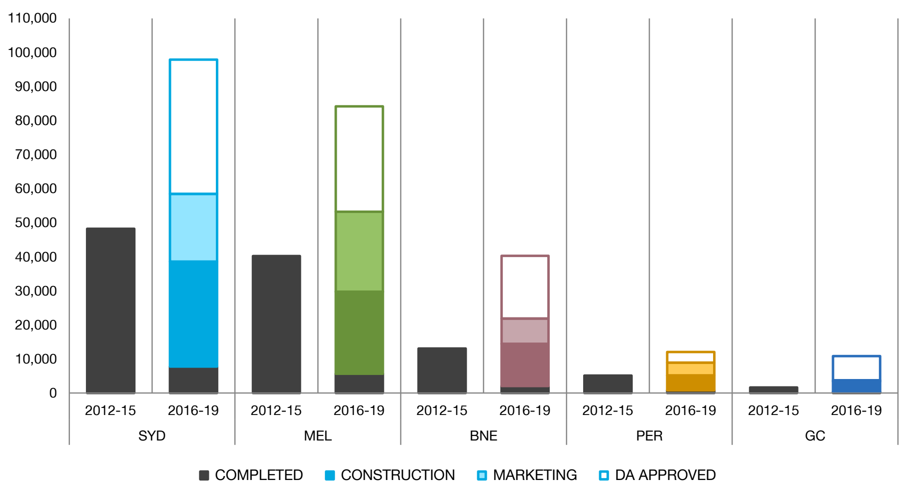
Apartment Pipeline

From 1 January 2012 to 30 June 2016, 108,400 new apartments were added to the five major cities' apartment stock, led by Greater Sydney (56,020) and Greater Melbourne (45,940), as shown in Figure 4. In total, across the five cities, there are currently 74,650 apartments under construction, with another 54,820 currently being marketed which have the potential to be on line by the end of 2019. Apartment numbers could grow further over this time should the additional 99,000 apartments currently with DA Approval commence. Given a majority of these projects will be determined by pre-sales, the market will continue to dictate when, or if, construction begins within this timeframe.

Apartment Pricing

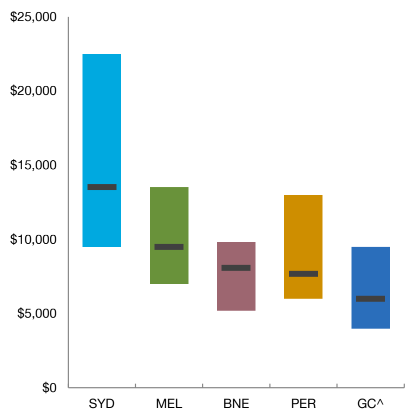
Prices for new mainstream apartments can vary significantly across the five major Australian cities, with the most variance in Greater Sydney; ranging from $9,500/sqm to $22,500/sqm (Figure 5) as at 30 June 2016. A new apartment in Greater Melbourne cost an indicative average of $9,500/sqm, whilst the Gold Coast was priced at $6,000/sqm.

FIGURE 4
New Apartment Pipeline
Number of apartments, includes projects with 4+ storeys with 25+ apartments, as at 30 Jun 2016



Source: Knight Frank Research

FIGURE 5
New Apartment Avg. Price Range
Rate/sqm, Mainstream, as at 30 Jun 2016



Source: Knight Frank Research

^Based on GFA

TABLE 1

Recent Major Sales—Development Sites With Potential For Higher Density Apartments

Address	Sale Price $ mill	Site Area m²	Price $/m²	No. Apts~	Price $/Apt~	Vendor	Purchaser	Sale Date
Greater Sydney								
Kimberley Clark building, 52 Alfred Street, Milsons Point	$130.0	2,711	$47,953	175	$742,857	Bridgehill Group ∞	Undisclosed ∞	Jul-16
Samsung building, 61 Lavender Street, Lavender Bay	$140.0	9,470	$14,784	135	$1,037,037	Barana Group	Aqualand ∞	Jul-16
Pinnacle, Berry & Park Roads, St Leonards	$80.0	7,414	$10,790	-	-	Multiple owners	China Poly Group ∞	Mar-16
47 Spurway Drive, Baulkham Hills	$210.0	80,000	$2,625	1,300	$161,538	Devus Pty Ltd	Sekisui House ∞	Feb-16
Bay Park, Burroway Road, Wentworth Point	$98.0	26,000	$3,769	678	$144,543	Payce Consolidated JV Sekisui House ∞	Piety Investments	Feb-16
657-661 Victoria Road & 4-6 Wharf Road, Melrose Park	$160.0	48,500	$3,299	860	$186,047	Aqualand ∞	Payce Consolidated JV Sekisui House ∞	Feb-16
Greater Melbourne								
517-521 Station Street, Box Hill	$51.8	7,344	$7,053	500	$103,600	Whitehorse City Council	Golden Age	Aug-16
22 Claremont Street, South Yarra	$37.9	2,125	$17,826	336	$112,738	K&E Rogers P/L	Salcon ∞	Jun-16
253-273 Normanby Road, South Melbourne	$32.0	7,661	$4,177	-	-	Oxford University Press∞	R.Corporation	Jun-16
308-326 Exhibition Street, Melbourne	$101.0	4,128	$24,467	800	$126,250	Telstra	SP Setia ∞	Apr-16
107-117 Queensbridge Street, Southbank	$32.3	1,856	$17,403	-	-	Multiple owners	Aohua Sheng Le Property ∞	Apr-16
15-87 Gladstone Street, South Melbourne	$52.0	5,984	$8,690	742	$70,081	BPM Corp	Chip Eng Seng∞	Mar-16
Greater Brisbane								
14 Ella & 7 Chester Streets, Newstead	$18.6	3,628	$5,134	376	$49,535	Urban Construct	Kokoda Property Group	Jul-16
66-98 Montpelier Road, Bowen Hills	$25.0	15,600	$5,134	550	$45,455	Metro Property Group	Undisclosed	Jun-16
44-100 Barry Parade, Fortitude Valley	$14.3	3,154	$4,547	556	$25,791	Urban Construct	UG 100 Barry Parade	Feb-16
Greater Perth								
Lot 5, 35 Leighton Beach Blvd, North Fremantle	$15.4	4,013	$3,838	-	-	Landcorp	Resort Home Development ∞	Apr-16
Myer Megamart site, 30 Beaufort Street, Perth	$50.0	9,579	$5,220	1,066	$46,904	ICD Property & EG Funds	World Trade Centre Holdings ∞	Mar-16
Elizabeth Quay, Lots 2 & 3 William Street, Perth	$85.0	6,200	$13,710	450	$188,889	MRA	CA & Associates ∞	Dec-15
Luna Maxi site, 3-7 Scarborough Beach Road, Scarborough Beach	$70.0	17,695	$3,956	-	-	CCI Group	Far East Organization ∞	Nov-15
Gold Coast								
3346 Gold Coast Hwy, Surfers Paradise	$36.5	10,499	$3,477	-	-	Orix Australia (Southern Queensland) Pty Ltd	Aquis	Apr-16

Source: Knight Frank Research

~Estimate/Potential ∞Foreign ownership associated with the sale

KEY DEVELOPMENT DRIVERS

The Economy

The Australian economy continues to strengthen supported by ongoing growth in household and public consumption, after more than a decade of a heavy reliance on the resources sector. In the past two years, the construction sector has stepped up to inject this much required stimulus to offset this transition, and as result, boosting housing stock and commencing long awaited infrastructure projects. The Australian Bureau of Statistics (ABS) reported Gross Domestic Product rose 0.5% in the quarter to June 2016; to total 3.3% over the previous year (Figure 6). This represents 100 quarters, or 25 years, without reporting a technical recession; considered as two consecutive quarters of negative growth.

Whilst the AUD remains relatively low, the price to purchase a new property in Australia is relatively attractive when foreign exchange is considered, especially for those looking for a longer term hold on the property.

Interest Rates & Lending Environment

Low interest rates in recent years have inspired investors to turn to residential property to seek not only capital gains, but the ongoing rental return, instead of holding funds elsewhere.

The Reserve Bank of Australia (RBA) held the cash rate at an historic low of 1.50% in October 2016; after last cutting the rate by 25 bps in August 2016. The RBA faces the predicament of observing a growing economy, but inflationary pressures remain weak. If inflation remains low and/or economic growth becomes sluggish, the RBA may have no other choice but to further reduce the cash rate, which is still relatively high by global comparison. Although interest rates remain low, each subsequent reduction in the cash rate over the past year has resulted in a lesser impact on property prices than previously experienced. Once the key driver for development and investment, albeit still imperative, the issue surrounding the availability of finance has become more significant for not only local buyers but foreign investors.

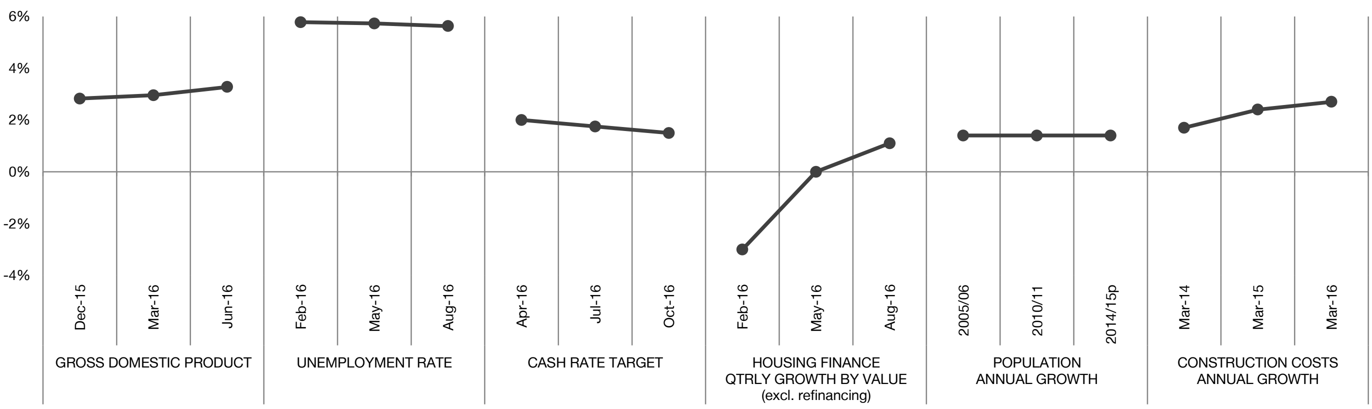
From May 2015, the Australian Prudential Regulatory Authority (APRA) endorsed stricter lending practices due to on-going concerns of an over-heated residential market, particularly driven by the Sydney and Melbourne markets. Lending institutions commenced reducing their maximum Loan to Value Ratio (LVR), introduced new variable rates and required customers to provide evidence of existing loan repayments before being accepted. This was in addition to applying serviceability repayment loading buffers to existing mortgage repayments as part of borrowers serviceability assessment in a higher interest rate environment.

The concern of settlement risk has amplified since these measures were introduced, in some instances at short notice, for local and foreign buyers alike. With a lack of data and transparency in this space, we must rely on anecdotal feedback that when a buyer has forfeited their deposit in a project, to date, there has been another buyer willing to take-up the opportunity. This portion of apartments have been gradually pushing out the settlement date, but projects have been settling within months of the scheduled completion date.

Employment

Employment opportunities have complemented increased economic activity in NSW and Victoria encouraging unemployment across Australia to fall 10 bps, to 5.6%, in the quarter to August 2016. Employment in Australia is projected to rise 8.3% over the five years to November 2020 according to the Department of Employment. With an aging population and increased Government spend on improving hospital amenities, it's projected 'Health Care and Social Assistance' employment will climb 16.4% over this time. Other industries

FIGURE 6
National Key Economic Indicators



Source: Knight Frank Research, ABS, RBA, Rawlinsons with strong projected growth over this time include ‘Professional, Scientific and Technical Services’ (at 14.8%), ‘Education and Training’ (at 13.0%) and ‘Accommodation and Food Services’ (at 12.0%).

Population

For the seventh consecutive quarter, Australia’s population growth rate remained steady at 1.4% annual growth in the year to March 2016. Although easing, net overseas migration continues to be the main driver for Australia’s population growth. Over this time, the population in Victoria expanded at the fastest rate across all states and territories at 1.9% annual growth, also the strongest in the March 2016 quarter at 0.6%. NSW is in line with Australia with annual growth of 1.4%, followed by Qld at 1.3%.

Infrastructure Pipeline

Over the next decade, there is a strong pipeline of infrastructure projects proposed by both the Federal and State governments. As displayed in Figure 7, Greater Sydney dominates the total number of projects including Australia’s largest public transport project, the Sydney Metro, expected to cost $12.5 billion. There are pockets of investment opportunities across Greater Melbourne with the Level Crossing Removal Program improving safety and traffic congestion in some of the city’s busiest hubs. In Brisbane, the Redcliffe Peninsula Line opened in October 2016 connecting Petrie and Kippa-Ring via a 12.6 km dual-track rail line with 6 new rail stations and the Anna Meares Stadium is close to complete in preparation for the Commonwealth Games hosted on the Gold Coast in 2018.

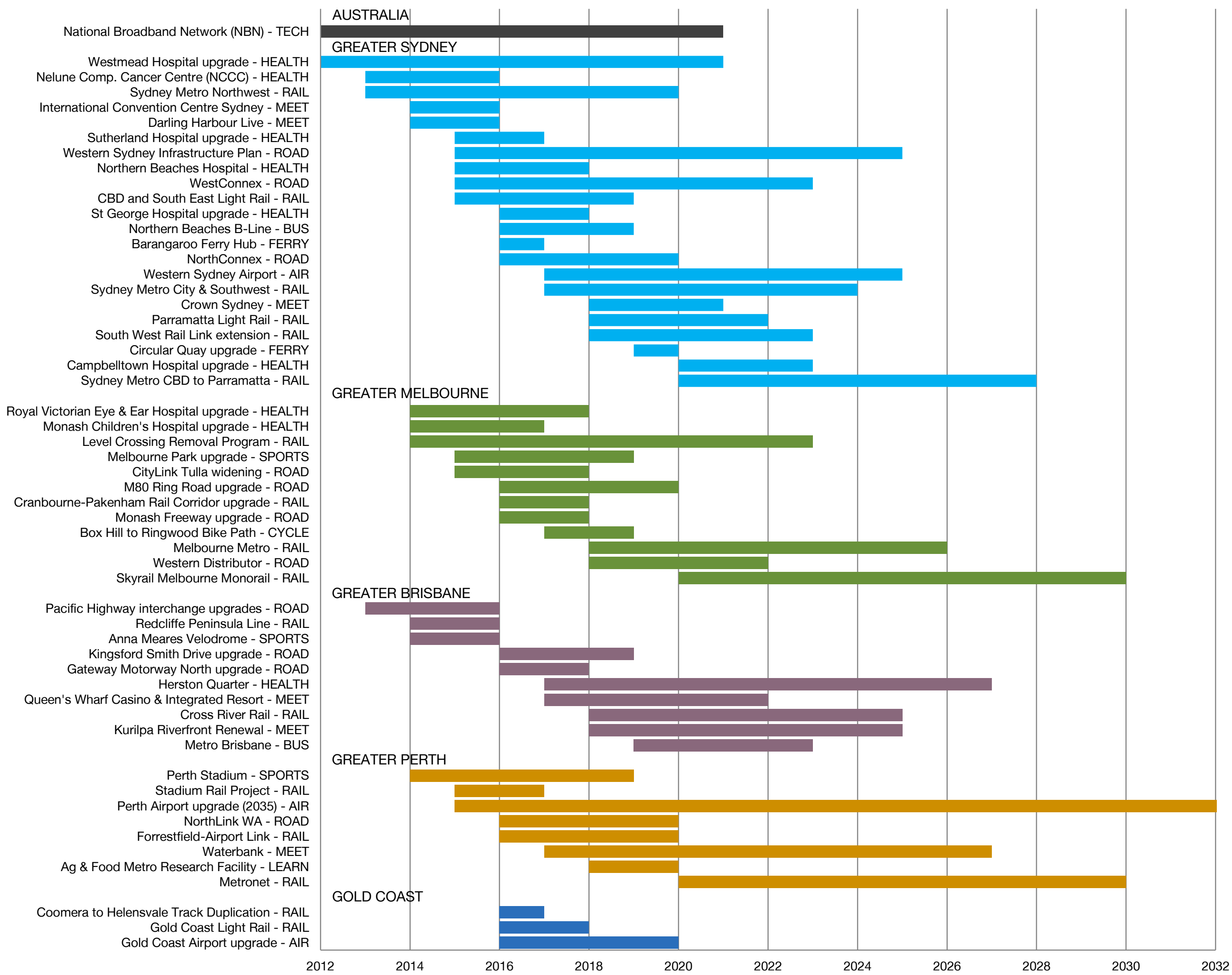
Cost of Construction

The rising cost of construction continues to plague developers, particularly those with projects along the East Coast where site sales have collectively increased

FIGURE 7

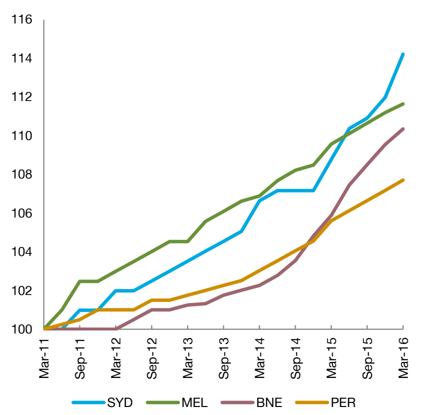
Proposed Key Infrastructure Projects

Estimated timeline, as at Sep 2016



Source: Knight Frank Research

FIGURE 8
Growth in Cost of Construction
Indexed, 100=Mar 2011



Source: Knight Frank Research, Rawlinsons

three-fold over the past five years.

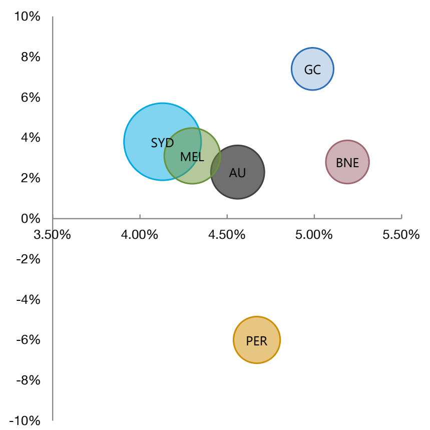
High demand for construction products and services not only attached to housing, but infrastructure across the country, has led to 2.7% growth in construction costs over the year to March 2016. This is well ahead of the sluggish average inflation rate at 1.0%. Compared with five years ago, construction costs are up 9.2%, according to Rawlinsons. Greater Sydney saw the greatest increase in construction costs in the year to March 2016, at 5.0%. Overtaking Greater Melbourne in March 2015, there are no signs of this growth easing in Greater Sydney with a solid pipeline of housing and infrastructure projects (Figure 8) underway.

Rawlinsons estimated in March 2016 that a standard high-density, multi-storey apartment project across the four major capital cities would cost on average $2,490/sqm to $3,310/sqm to build to a basic standard (plus GST). For a prime finish, the cost is closer to $3,290/sqm to $4,385/sqm plus GST. This is based on the total area of all levels measured between the inner faces of external walls.

Established Apartment Market

Australian apartment values experienced 2.3% annual growth to a median of $479,500 in August 2016 (Figure 9) according to Residex. Growth in median values has continued to ease across Australian capital cities for the residential market following lower levels of enquiry from local and foreign purchasers. In the year to August 2016, the volume of apartment sales was up 5.2% to 171,258, after reaching a height of annual sales turnover of 21.6% in November 2013. Gross rental yields for Australian apartments averaged 4.56% in August 2016, while apartment rents remained steady at $420 per week. Total vacancy for Australian residential property was also steady, last recorded at 2.9% in June 2016, still below market equilibrium.

FIGURE 9
Apartment Annual Capital Growth v Rental Yield & Median Capital Value
As at Aug 2016



Bubble size reflects median capital value, while gross rental yield is represented on the x-axis & annual capital growth on the y-axis.

Source: Knight Frank Research, Residex

Foreign Investors

When the Federal government introduced application fees payable by foreign investors from 1 December 2015, capital growth had already started to slow after an extended period of heated conditions. For this reason, it is difficult to gauge the impact of this fee introduction of at least $5,000 for all foreign investors purchasing in the Australian property market, with an additional $10,000 payable for every million dollar increment in the value of the property.

When the Victorian government increased state-based stamp duty surcharges for foreign investors from 3% to 7% from 1

TABLE 2
Duties Payable by Foreign Investors, Residential Property
Based on property value

New South Wales; including Sydney	From 21 Jun 2016	4%
Victoria; including Melbourne	From 1 Jul 2016	7%
Queensland; including Brisbane & Gold Coast	From 1 Oct 2016	3%

Payable in addition to standard state-based stamp duties.

Source: NSW Office of State Revenue, State Revenue Office Victoria, Queensland Government

July 2016, they were jeopardising the position the State had long-held of having one of the lowest stamp duty taxes payable for off-the-plan properties, although these discounts still remain.

Soon after, however, NSW followed suit, introducing a 4% surcharge for foreign investors from 21 June 2016, and Qld more recently introduced a 3% surcharge from 1 October 2016. No other state governments have not followed this lead, allowing foreign investors to freely invest in the residential property market, once FIRB compliant.

These introduced surcharges, in addition to the Federal application fees, has challenged not only the relative competitiveness of these states with each other but on a global platform. However, cooling measures have also been deployed in Singapore and Hong Kong over the past years and more recently in the Canadian state of British Columbia, including Vancouver, and in some municipalities throughout China.

While these additional fees and taxes, and tightened lending may deter some foreign investors, it's not likely to significantly impact the level of foreign investment activity within Australia over the medium-term. Foreign investors continue to look for a longer term return – in addition to, the Australian lifestyle, access to good education institutions and a transparent ownership structure.

The greater concern for foreign investors is the availability of funds in Australia when borrowing and the transferring of funds when settling on a new property.

SYDNEY RESIDENTIAL DEVELOPMENT

Greater Sydney higher density residential development site **sales volume** tallied $4.6 billion in the year ending June 2016; down 26.9% on the previous year. Over this time, **average sales** ranged from $150,000 to $450,000 (ex. CBD); with an indicative average of $229,000 per apartment. **Foreign buyers** purchased, by value, 48% (down from 55%) of these development site sales.

In June 2016, there were 30,780 **new apartments** under construction throughout Greater Sydney. There were a further 19,900 apartments being marketed with an additional 39,400 with DA Approval potentially due on line by 2019.

Greater Sydney experienced **population growth** of 1.7% in 2014/15. **Unemployment** as at August 2016 stood at 4.3% for Greater Sydney, trending 92 bps lower than the 5.2% recorded in August 2015.

The **cost of construction** across Greater Sydney has increased 5.0% in the year to March 2016. At this time, the standard cost to build an apartment was $2,560 to $3,060/sqm (plus GST) to a basic standard.

Over the year to June 2016, **new apartment prices** averaged from $9,500/sqm to $22,500/sqm in Greater Sydney, with an indicative average of $13,500/sqm.

In New South Wales, **foreign residential investors** must pay a 4% surcharge on stamp duty from 21 June 2016 in addition to FIRB application fees.

Across all the capital cities, Greater Sydney has the widest geographic distribution and highest concentration of development sites suitable for higher density.

The **North West** region dominates not only development site sales volume, at $2.0 billion in the year to 30 June 2016, but the number of apartments projected over the 2016-19 period (Figure 10) with 13,220 currently under construction and a further 7,630 at marketing stage. Proposed infrastructure projects such as the Sydney Metro Northwest rail line and NorthConnex will service this region from 2020.

Sydney CBD saw $263.8 million worth of residential sites suitable for higher density sold in the year to 30 June 2016, with an average indicative rate of $650,000 per apartment. Combined with the **South** region, a total 20,705 apartments are projected until the end of 2019, with 8,785 currently under construction. The South region saw development sales volume, total $1.2 billion in the year to 30 June 2016 with sites achieving an indicative rate of $280,000 per apartment. Already well underway and due by 2019, the CBD & South East Light Rail will carry passengers from the upgraded Circular Quay through to the Eastern Suburbs and sporting and entertainment precinct at Moore Park.

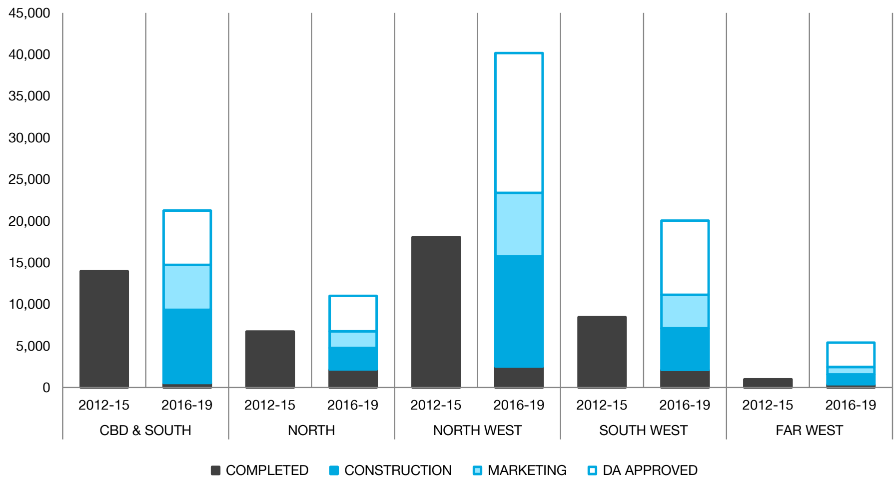
With a heavy schedule of infrastructure planned, the **South West** region is likely to see more investment in higher density residential sites over coming years. Infrastructure projects including WestConnex and Sydney Metro City & Southwest will improve connectivity not only in this area but through to the CBD and South West to the M5 motorway. There are several higher density towers underway throughout the **Far West** region, and there is likely to be further demand for higher density once the Western Sydney Airport begins to take shape.

The **North** region has experienced multiple office sales and amalgamated super-lot sales with potential for residential conversion in 2015/16, to total $924.1 million (indicative average of $380,000 per apartment). The region has the Northern Beaches Hospital and the Northern Beaches B-Line underway creating jobs and a rapid transit busway for the area.

FIGURE 10

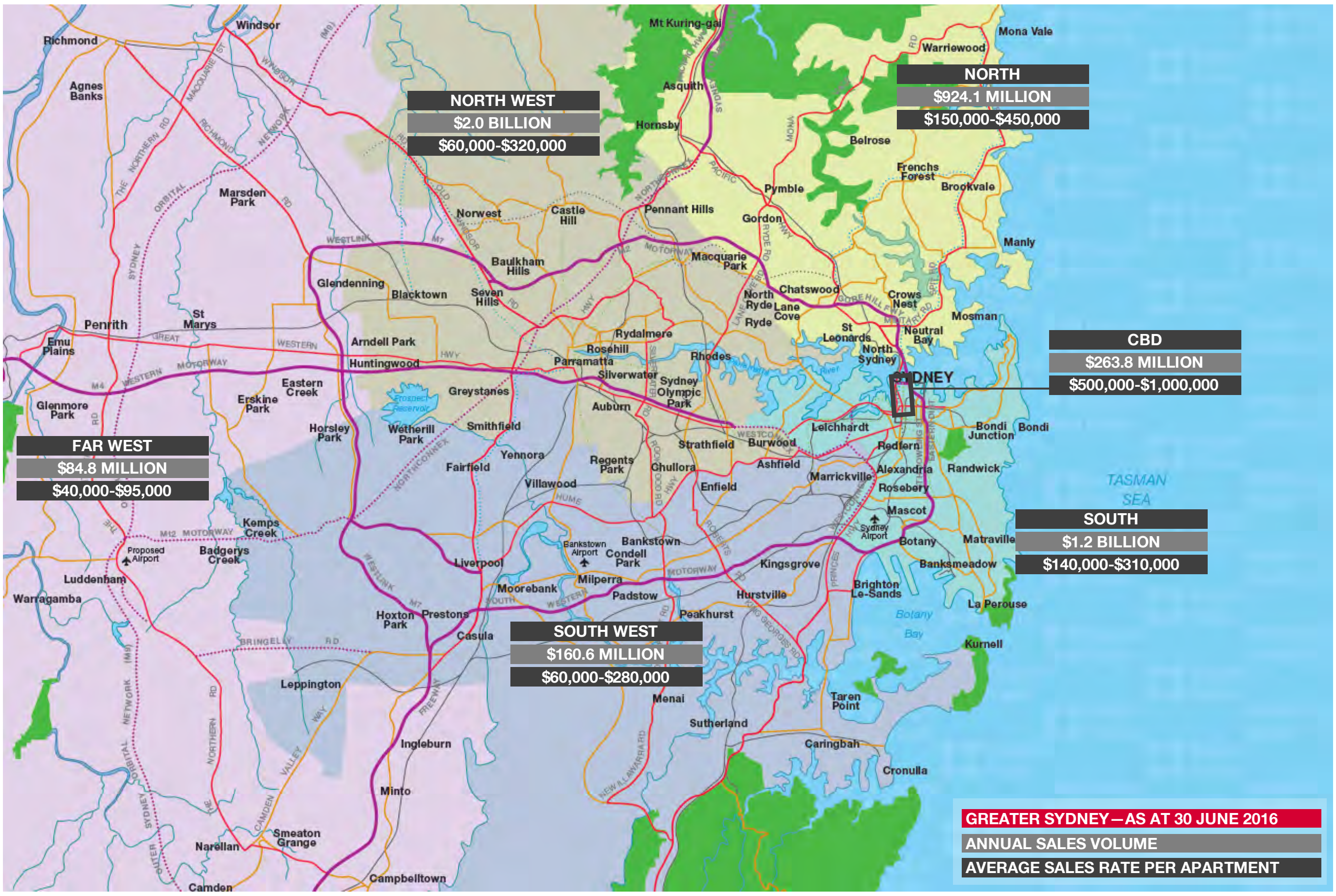
New Apartment Pipeline, Greater Sydney

Number of apartments, includes projects with 4+ storeys, as at 30 Jun 2016



Source: Knight Frank Research

HIGHER DENSITY RESIDENTIAL DEVELOPMENT SITE SALES VOLUME & RATES—GREATER SYDNEY

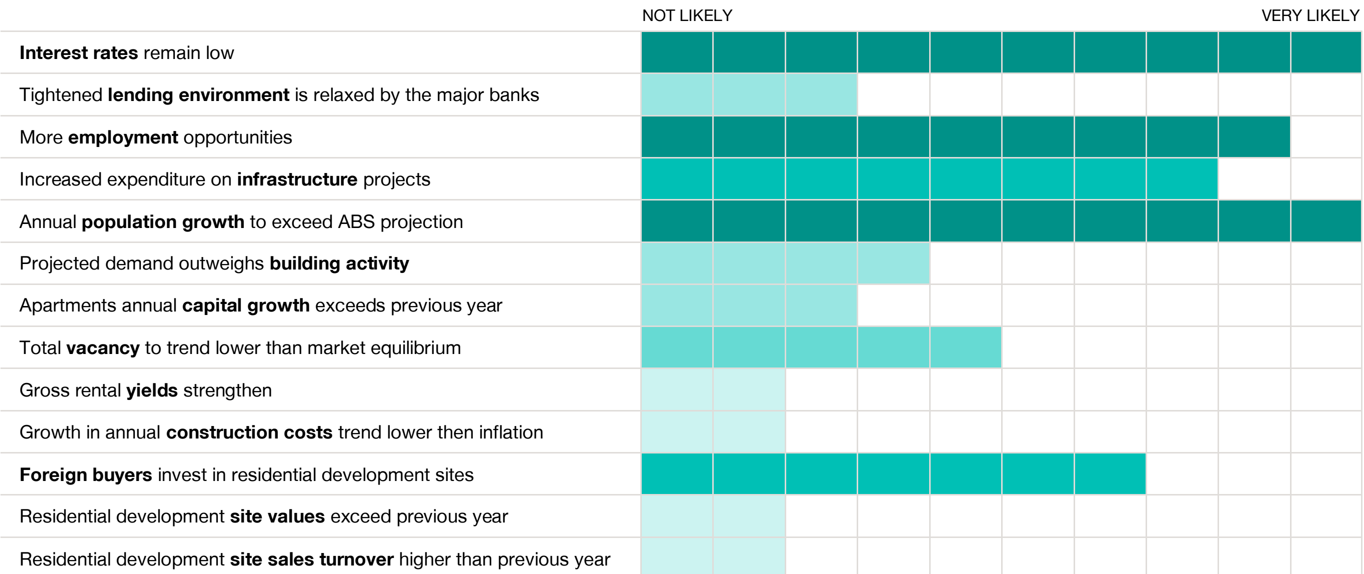


Source: Knight Frank Research

Note: Sales >$5M for Greater Sydney

FIGURE 11

Key Development Drivers—One Year Outlook Greater Sydney



Source: Knight Frank Research

Higher density residential development site **sales volume** tallied $1.5 billion in the year ending June 2016 in Greater Melbourne; down 22.2% on the previous year. Over this time, **average sales** ranged from $75,000 to $220,000 (ex.CBD); with an indicative average of $125,000 per apartment. **Foreign buyers** purchased, by value, 46% (up from 37%) of these development site sales.

In June 2016, 24,080 **new apartments** were under construction throughout Greater Melbourne. There were a further 23,475 apartments being marketed with an additional 30,900 with DA Approval potentially due on line by 2019.

Greater Melbourne experienced **population growth** of 2.1% in 2014/15 the highest in the country. **Unemployment** as at August 2016 stood at 5.1% for Greater Melbourne, trending 64 bps lower than the 5.8% recorded in August 2015.

In the year to March 2016, the **cost of construction** across Greater Melbourne has increased 1.9%. At this time, the standard cost to build an apartment was $2,560 to $3,045/sqm (plus GST) to a basic standard.

Over the year to June 2016, **new apartment prices** have averaged from $7,000/sqm to $13,500/sqm in Greater Melbourne, with an indicative average of $9,500/sqm.

In Victoria, **foreign residential investors** must pay a 7% surcharge on stamp duty from 1 July 2016 in addition to FIRB application fees.

MELBOURNE RESIDENTIAL DEVELOPMENT

Retaining the title as the 'World's Most Liveable City' by the Economist Intelligence Unit's Global Liveability Index for the sixth consecutive year in 2016, Greater Melbourne continues to be the fastest growing capital city in Australia with growth of 2.1% in 2014/15.

Melbourne **CBD** saw $243.4 million worth of residential sites suitable for higher density sold in the year to 30 June 2016, with an average indicative rate of $120,000 per apartment. Combined with the **Inner/North West**, a total 50,015 apartments are projected until the end of 2019, with 17,280 currently under construction and another 14,980 being marketed (Figure 12).

The Inner/North West region dominates development sales volume, with $651.1 million sold in the year to 30 June 2016 with sites averaging an indicative $105,000 per apartment. The region will benefit from the widening of CityLink, as well as commuters travelling from the CBD, South East and Bayside, to Tullamarine Airport, due for completion in 2018.

Bayside region saw total sales volume reach $142.0 million in 2015/16 with an average indicative sales rate per apartment of $165,000. With the broader project already underway, the region has several stations earmarked for the Level Crossing Removal Program to make travel safer and less congested around key infrastructure hubs along the Frankston railway line. There are 1,070 apartments currently under construction with a further 2,065 being marketed and potentially completed by the end of 2019.

Annual sales volume in the **North East** region totalled $330.0 million in June 2016; with an indicative rate of $120,000 per apartment. The North East has 2,895 apartments under construction whilst 3,530 are being marketed, potentially completed by December 2019.

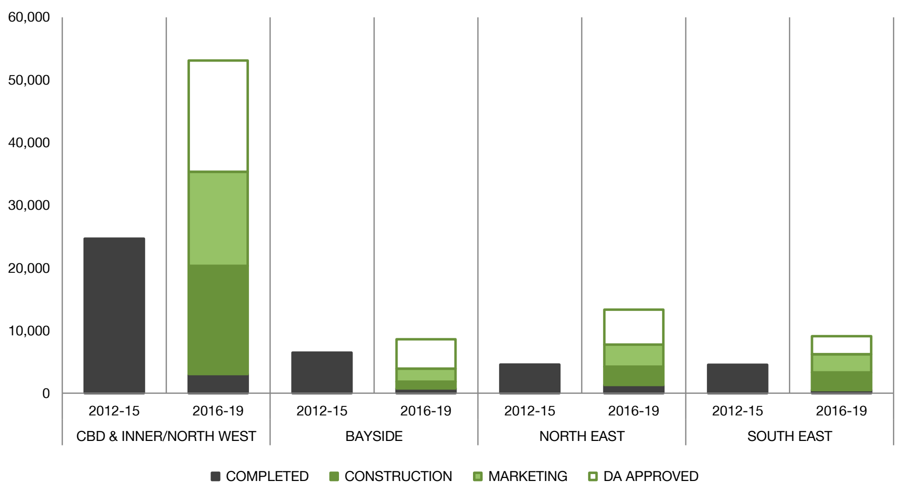
The Monash Freeway and Cranbourne-Packenham Rail Corridor upgrades are proposed to fast-track the commute from the **South East** region where 8,600 apartments are due on line by the end of 2019; either currently under construction, being marketed or have DA Approval.

The South East region saw total sales volume reach $142.7 million in 2015/16 with an average indicative sales rate per apartment of $110,000.

FIGURE 12

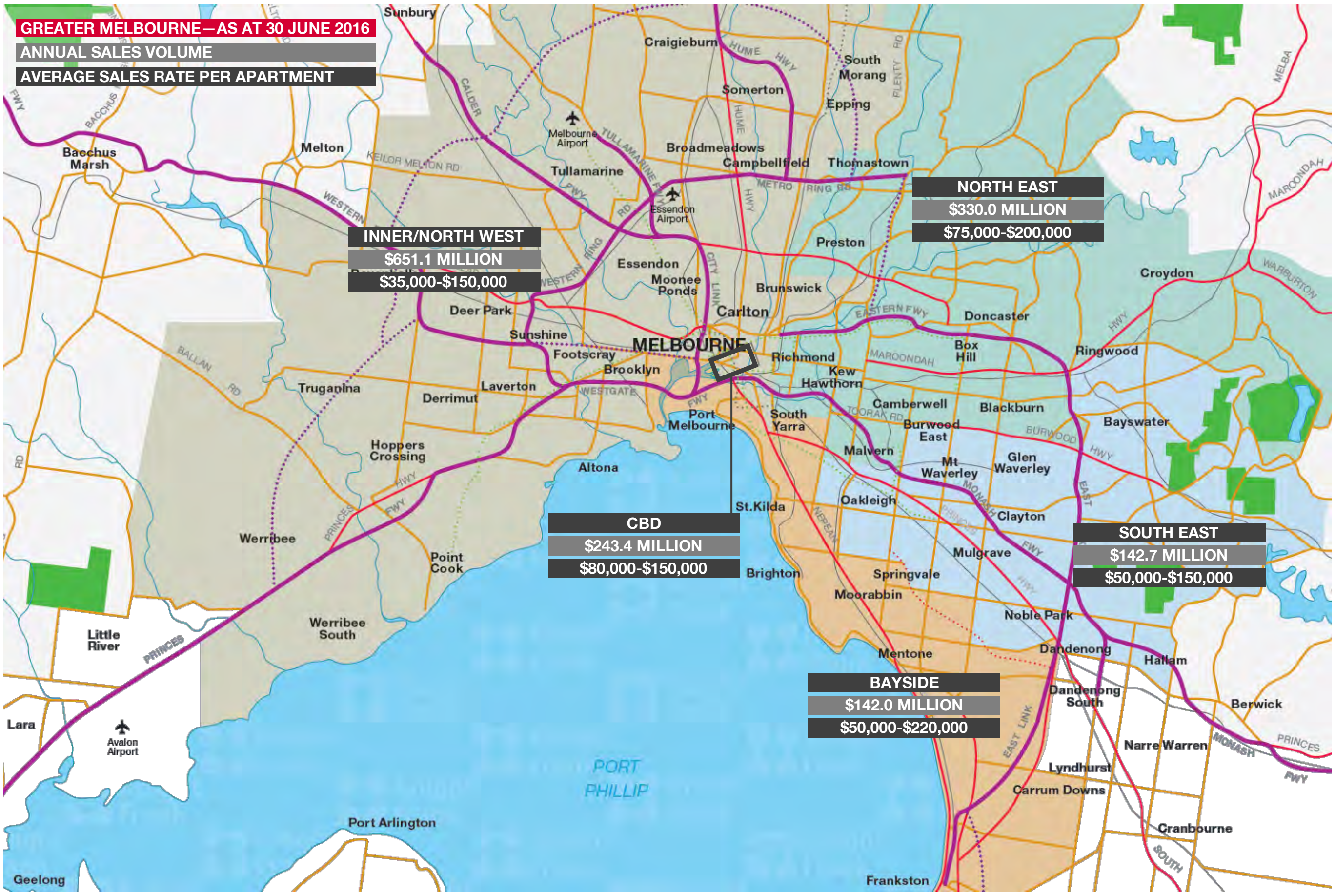
New Apartment Pipeline, Greater Melbourne

Number of apartments, includes projects with 4+ storeys, as at 30 Jun 2016



Source: Knight Frank Research

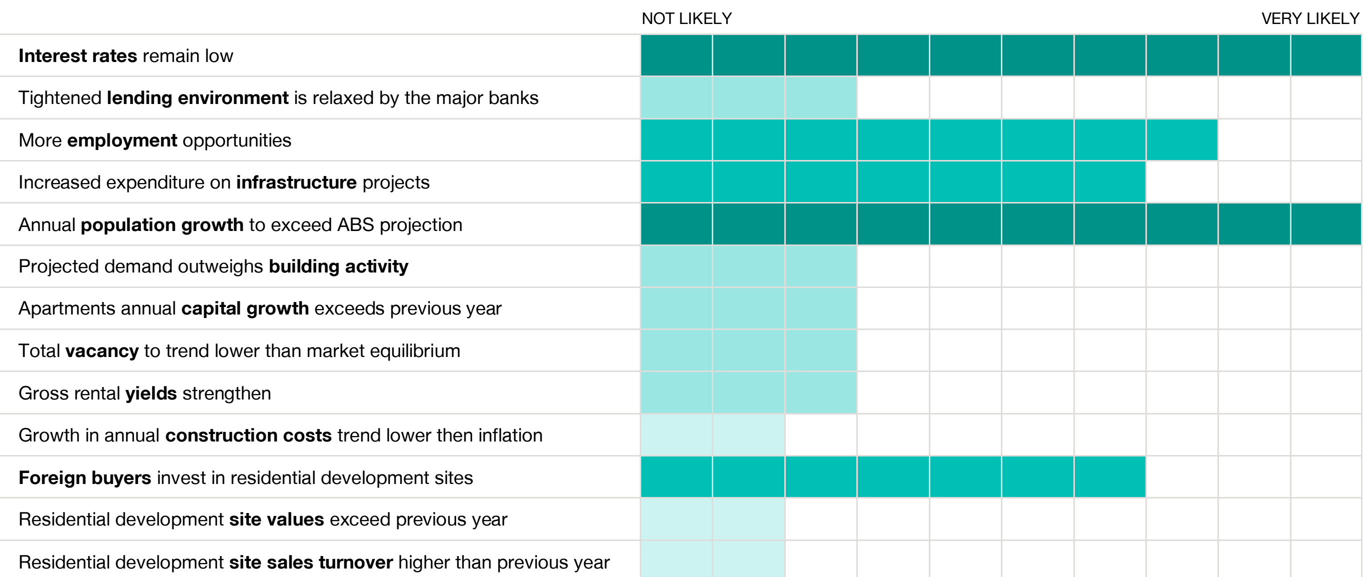
HIGHER DENSITY RESIDENTIAL DEVELOPMENT SITE SALES VOLUME & RATES—GREATER MELBOURNE



Source: Knight Frank Research

Note: Sales >$5M for Greater Melbourne

FIGURE 13
Key Development Drivers—One Year Outlook Greater Melbourne



Source: Knight Frank Research

BRISBANE RESIDENTIAL DEVELOPMENT

Greater Brisbane higher density residential development site **sales volume** tallied $571.5 million in the year ending June 2016; down 35.5% on the previous year. Over this time, **average sales** ranged from $40,000 to $105,000 (ex.CBD); with an indicative average of $65,000 per apartment. **Foreign buyers** purchased, by value, 19% (down from 51%) of these development site sales.

There were 12,400 **new apartments** under construction throughout Greater Brisbane in June 2016. There were a further 7,420 apartments being marketed with an additional 18,425 with DA Approval potentially due on line by 2019.

Greater Brisbane experienced **population growth** of 1.6% in 2014/15. **Unemployment** as at August 2016 stood at 6.0% for Greater Brisbane, trending 61 bps higher than the 5.4% recorded in August 2015.

The **cost of construction** across Greater Brisbane has increased 4.2% in the year to March 2016. At this time, the standard cost to build an apartment was $2,490 to $3,015/sqm (plus GST) to a basic standard.

Over the year to June 2016, **new apartment prices** have averaged from $5,200/sqm to $9,800/sqm in Greater Brisbane, with an indicative average of $8,100/sqm.

In Queensland, **foreign residential investors** must pay a 3% surcharge on stamp duty from 1 October 2016 in addition to FIRB application fees.

When Sydney and Melbourne were experiencing significant growth in turnover and value in higher density development sites in 2013/14, Brisbane was seen as a viable option for local and foreign investors priced out of these markets. Since this time, the southern market has shifted with better priced options available in Australia's two largest capital cities.

Brisbane **CBD** saw $16.1 million worth of residential sites suitable for higher density sold in the year to 30 June 2016, with an average indicative rate of $90,000 per apartment. By 2022, Queen's Wharf accommodating the new Brisbane Casino, and integrated resort, will breathe new life into the George Street sector of the CBD.

Together with the **North** region, a total of 29,280 apartments are projected until the end of 2019, with 9,560 currently under construction, 5,885 being marketed and further 13,840 were sitting with DA Approval as at 30 June 2016 (Figure 14).

The North region not only dominated the number of apartments projected, but development site sales volume in the year to 30 June 2016. A total of $513.4 million was sold, with the average rate ranging from $40,000 to $105,000 per apartment (with an indicative average of $70,000 per apartment). The region will benefit from proposed infrastructure such as the redevelopment of the Herston Quarter, an estimated $1.1 billion mixed-use precinct for health, residential, commercial and recreational activity due for completion by 2027.

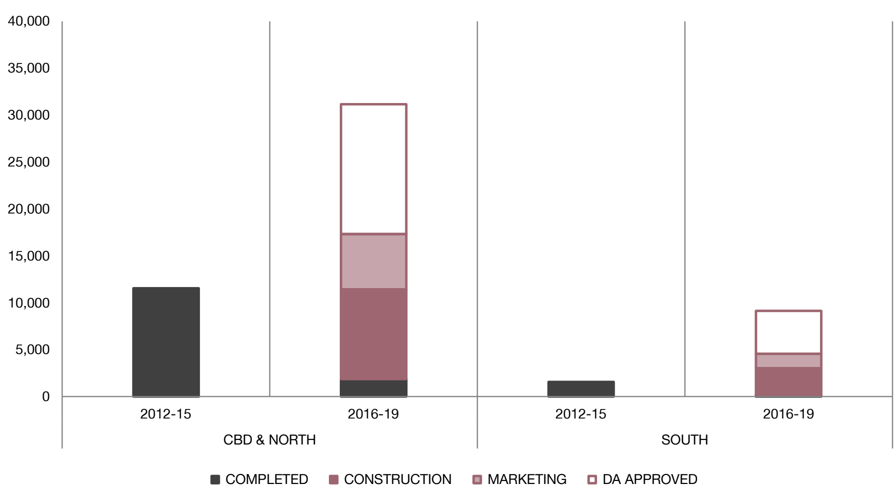
The **South** region saw total sales volume reach $42.1 million in 2015/16 with an average sales rate per apartment of $30,000 to $95,000 (indicative rate of $60,000 per apartment). Approximately 2,845 apartments are under construction in the South region whilst 1,535 are being marketed, potentially completed by December 2019.

Two key infrastructure projects in Greater Brisbane are the Qld Government's Cross River Rail and Metro Brisbane projected by 2025. Both will play a critical role in ensuring rail and bus networks can meet the city's future public transport needs. Once the allocation of key sites along the route is determined and access to funding is sourced, both projects will provide a good injection of stimulus into the Greater Brisbane economy.

FIGURE 14

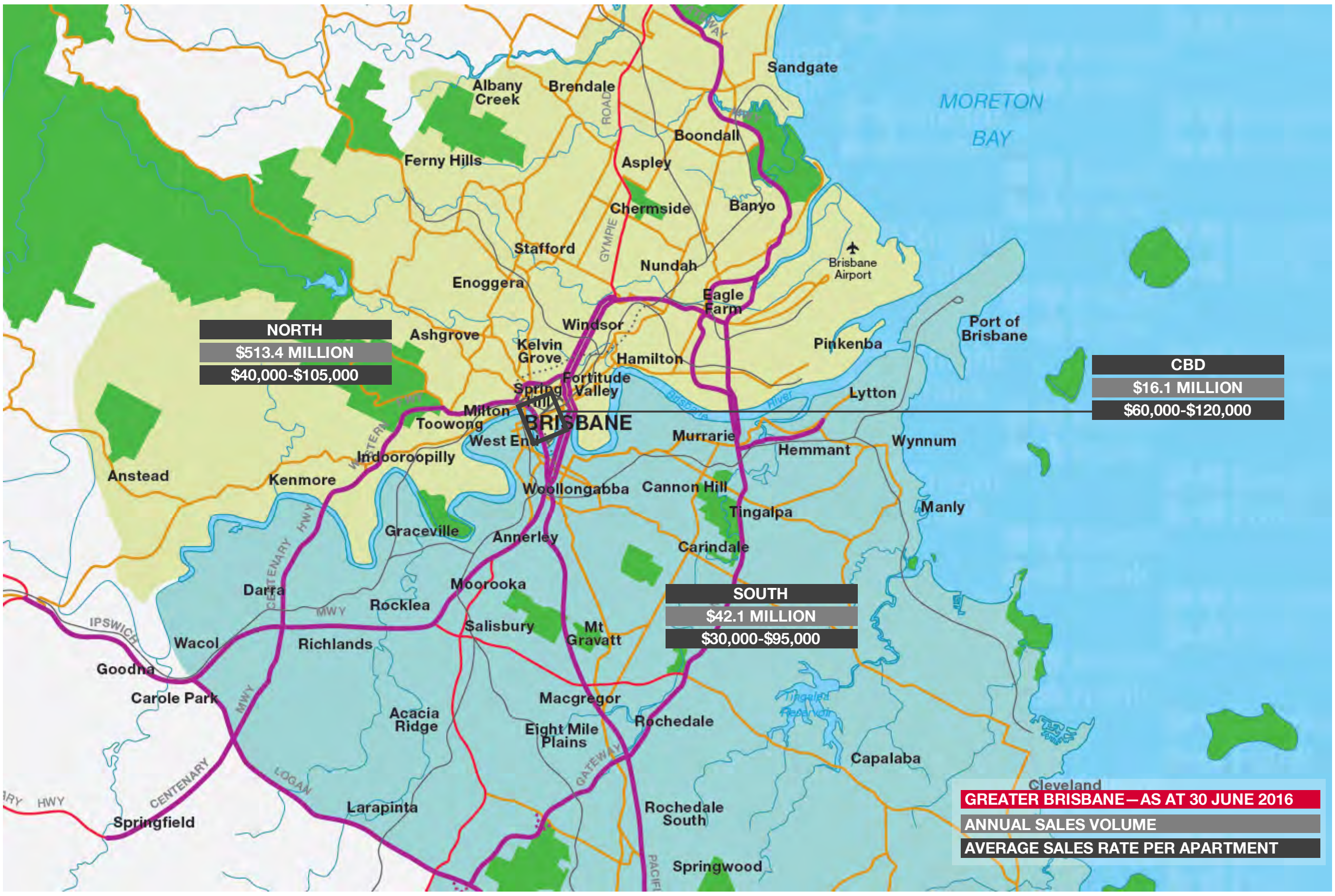
New Apartment Pipeline, Greater Brisbane

Number of apartments, includes projects with 4+ storeys, as at 30 Jun 2016



Source: Knight Frank Research

HIGHER DENSITY RESIDENTIAL DEVELOPMENT SITE SALES VOLUME & RATES—GREATER BRISBANE



Source: Knight Frank Research

Note: Sales >$2M for Greater Brisbane

FIGURE 15
Key Development Drivers—One Year Outlook
Greater Brisbane

	NOT LIKELY → VERY LIKELY
Interest rates remain low	
Tightened **lending environment** is relaxed by the major banks	
More **employment** opportunities	
Increased expenditure on **infrastructure** projects	
Annual **population growth** to exceed ABS projection	
Projected demand outweighs **building activity**	
Apartments annual **capital growth** exceeds previous year	
Total **vacancy** to trend lower than market equilibrium	
Gross rental **yields** strengthen	
Growth in annual **construction costs** trend lower then inflation	
Foreign buyers invest in residential development sites	
Residential development **site values** exceed previous year	
Residential development **site sales turnover** higher than previous year	

Source: Knight Frank Research

Higher density residential development site **sales volume** tallied $314.2 billion in the year ending June 2016 in Greater Perth; up 14.8% on the previous year. Over this time, **average sales** ranged from $40,000 to $105,000 (ex. CBD); with an indicative average of $58,350 per apartment. **Foreign buyers** purchased, by total value, 72% (up from 41%) of these development site sales.

There were 4,375 **new apartments** under construction throughout Greater Perth in June 2016. There were a further 3,725 apartments being marketed with an additional 3,130 with DA Approval potentially due on line by 2019.

Greater Perth experienced **population growth** of 1.6% in 2014/15. **Unemployment** as at August 2016 stood at 6.7% for Greater Perth, trending 23 bps higher than the 6.5% recorded in August 2015.

In the year to March 2016, the **cost of construction** across Greater Perth has increased 2.0%. At this time, the standard cost to build an apartment was $2,760 to $3,310/sqm (plus GST) to a basic standard.

Over the year to June 2016, **new apartment prices** have averaged from $6,000/sqm to $13,000/sqm in Greater Perth, with an indicative average of $7,680/sqm.

The Western Australian state government allows **foreign residential investors** to freely invest in the residential property market, once FIRB compliant.

PERTH RESIDENTIAL DEVELOPMENT

Over the past year, as economic activity picked up along the East coast, mostly in Sydney and Melbourne, Perth has entrusted in housing construction and state government spending on public infrastructure and amenity to compensate for the declining growth of the resources sector.

In recent months, developers in Perth have strategically reevaluated their pipeline of projects to ensure those being marketed will achieve a large proportion of pre-sales and ultimately reach construction stage.

As a result, the timing of many projects with DA Approval have been pushed back beyond 2019 or land-banked until the current pipeline is absorbed.

Perth **CBD** saw $135.0 million worth of residential sites suitable for higher density sold in the year to 30 June 2016; influenced by the Elizabeth Quay, two parcel sale, to CA & Associates in December 2015. Generally, residential site sales in the CBD would achieve from $80,000 to $120,000 per apartment, with an indicative average of $100,000 per apartment. Combined with the **Inner Suburbs** region, a total of 5,620 apartments are projected until the end of 2019, with 1,580 currently under construction and another 2,180 being marketed. The Inner Suburbs alone saw a total of $63.9 million residential site sales in 2015/16; ranging from an average $50,000 to $120,000 per apartment (an indicative average of $95,000 per apartment).

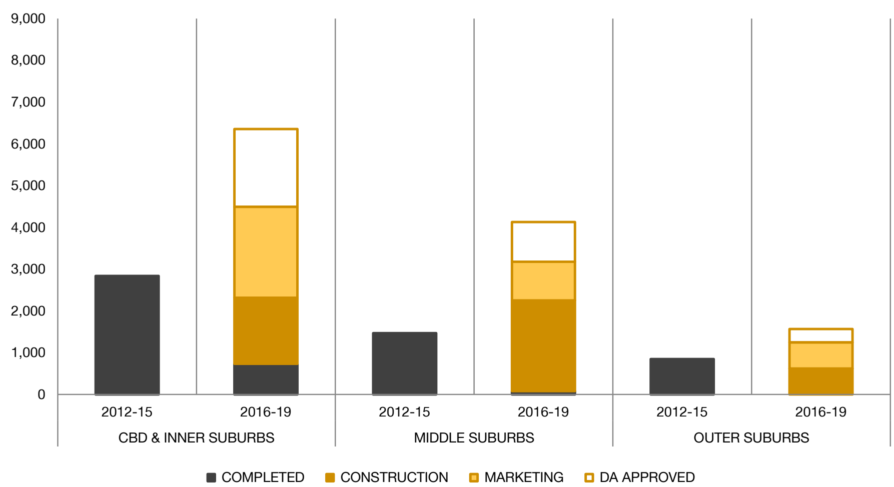
The **Middle Suburbs** region saw total development site sales volume for higher density residential reach $115.3 million in 2015/16. An average sales rate was $30,000 to $55,000 per apartment with an indicative average of $50,000 per apartment for sites suitable for higher density. The region has 2,070 apartments under construction whilst 925 are being marketed, potentially completed by December 2019.

Residential sites in the **Outer Suburbs** could potentially range closer to $15,000 to $35,000 per apartment (indicative average of $30,000); although no suitable higher density sites greater than $2 million were recorded in the year to 30 June 2016. A total of 625 apartments are currently under construction in the region with a further 625 apartments being marketed.

FIGURE 16

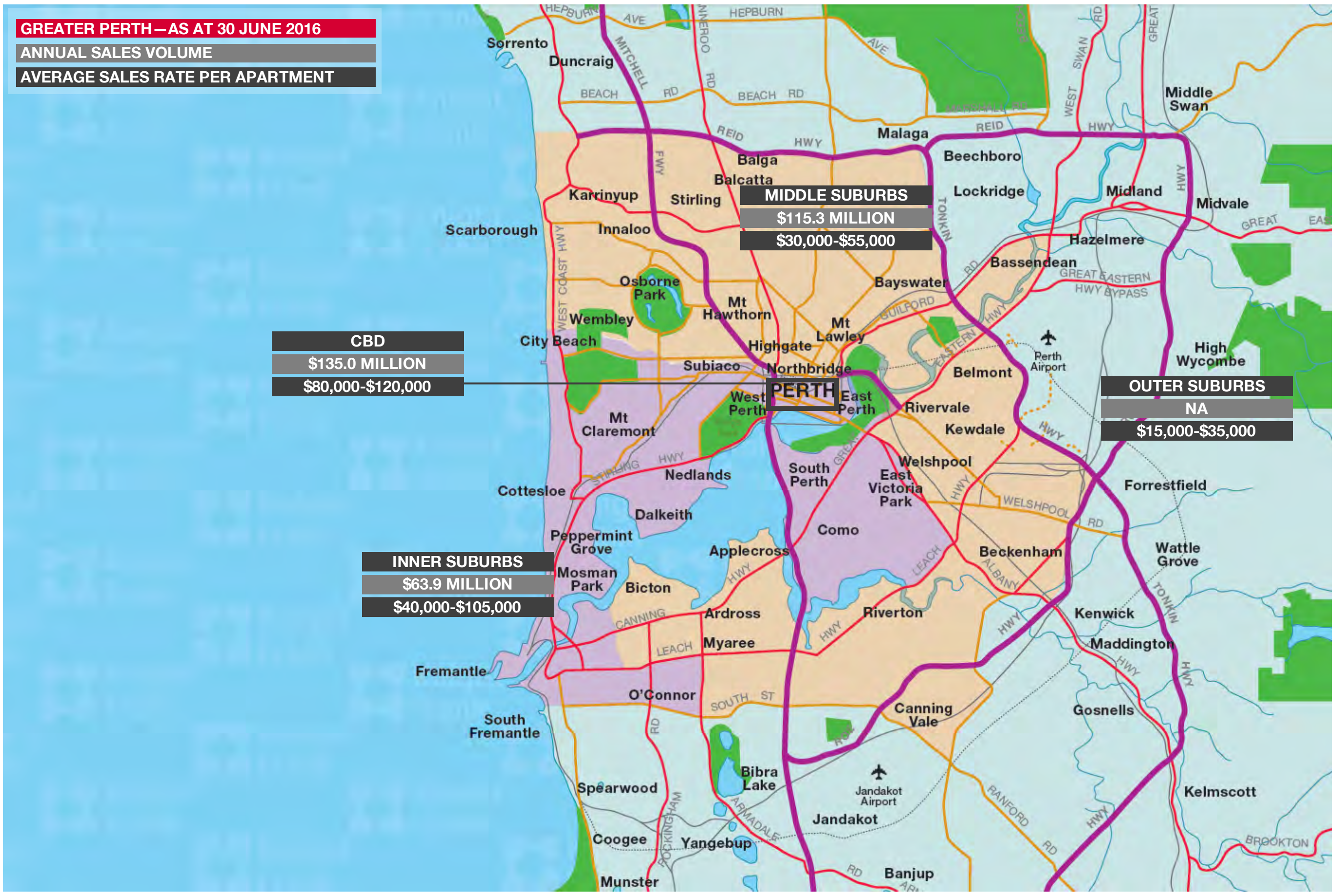
New Apartment Pipeline, Greater Perth

Number of apartments, includes projects with 4+ storeys, as at 30 Jun 2016



Source: Knight Frank Research

HIGHER DENSITY RESIDENTIAL DEVELOPMENT SITE SALES VOLUME & RATES—GREATER PERTH



Source: Knight Frank Research

Note: Sales >$2M for Greater Perth

FIGURE 17

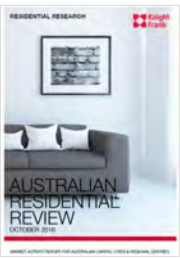
Key Development Drivers—One Year Outlook Greater Perth

	NOT LIKELY									VERY LIKELY
Interest rates remain low										
Tightened **lending environment** is relaxed by the major banks										
More **employment** opportunities										
Increased expenditure on **infrastructure** projects										
Annual **population growth** to exceed ABS projection										
Projected demand outweighs **building activity**										
Apartments annual **capital growth** exceeds previous year										
Total **vacancy** to trend lower than market equilibrium										
Gross rental **yields** strengthen										
Growth in annual **construction costs** trend lower then inflation										
Foreign buyers invest in residential development sites										
Residential development **site values** exceed previous year										
Residential development **site sales turnover** higher than previous year										

Source: Knight Frank Research

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

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Australian Residential Review
October 2016

First Home Buyer Incentives Guide
September 2016

Taxing Foreign Investors in Australia
July 2016

The Wealth Report 2016

Knight Frank Research Reports are available at **KnightFrank.com.au/Research**

RESIDENTIAL RESEARCH
Michelle Ciesielski
Director, Australia
+61 2 9036 6659
Michelle.Ciesielski@au.knightfrank.com

Matt Whitby
Head of Research and Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

RESIDENTIAL SITE SALES
Paul Henley
Head of Commercial Sales, Australia
+61 3 9604 4760
Paul.Henley@au.knightfrank.com

Eugene Evgenikos
Head of Metropolitan Sales, NSW
+61 2 9036 6769
Eugene.Evgenikos@au.knightfrank.com

Tim Holtsbaum
Director, Sydney
+61 2 9036 6615
Tim.Holtsbaum@au.knightfrank.com

Danny Clark
Head of Commercial Sales, Melbourne
+61 3 9604 4686
Danny.Clark@au.knightfrank.com

Adam Willmore
Associate Director, Brisbane
+61 7 3246 8896
Adam.Willmore@au.knightfrank.com

Todd Schaffer
Head of Commercial Sales, Perth
+61 8 9225 2402
Todd.Schaffer@au.knightfrank.com

James Branch
Director, Gold Coast
+61 7 5636 0802
James.Branch@au.knightfrank.com

Dominic Ong
Head of Asian Markets
+61 2 9036 6747
Dominic.Ong@au.knightfrank.com

RESIDENTIAL PROJECT MARKETING
Michael Robinson
Head of Project Marketing, Australia
+61 3 9604 4775
Michael.Robinson@au.knightfrank.com

VALUATIONS
Chris Sutton
Director, Sydney
+61 2 9036 6604
Chris.Sutton@au.knightfrank.com

David Way
Joint Managing Director, Melbourne
+61 3 8548 6824
DWay@vic.knightfrankval.com.au

Chris Murphy
Associate Director, Perth
+61 8 9225 2422
Chris.Murphy@au.knightfrank.com

TOWN PLANNING
Mark Grayson
Director, Sydney
+61 2 9036 6687
Mark.Grayson@au.knightfrank.com

Knight Frank