

PERTH RESIDENTIAL APARTMENT MARKET OVERVIEW

March 2018



The Perth inner city and near city suburbs apartment markets have been transformed over the last decade with significant levels of new supply adding to dwelling stock. There is now a growing acceptance of apartment living in the community. Between 2008 and 2011 (post GFC) there were low levels of apartment supply in Western Australia, creating a pent up demand from buyers. In the period 2011 to 2014 demand exceeded supply, resulting in developers becoming very active. In addition, during this period, the state witnessed robust population growth and interest rates declines, both contributing to an increase in demand for inner and near city living. Since 2014 the state has witnessed a downturn in the economy due mainly to a fall in iron ore prices and a consequent contraction in the resources sector. Population growth in WA is now lower than the national average due to declines in net overseas and interstate migration. Significant increases in supply of apartments, especially over the last three years, have led to concerns over potential oversupply. However, continued low interest rates, a cyclical upturn in the affordable property market, and to a lesser extent foreign buyer interest are providing support to the apartment market. International sales currently play a limited role in Perth's apartment market. The predominant buyers are

owner/occupiers who have down-sized. That said, investor demand appears to be improving with a sense that the bottom of the cycle has passed, and that rents and capital values may start to grow. The differential between Perth prices and those in the Eastern states should start to prove attractive to investors.

Although views differ on whether the market is oversupplied it is generally accepted that new apartment supply has increased considerably affecting key market indicators such as price growth, rents and vacancy rates.

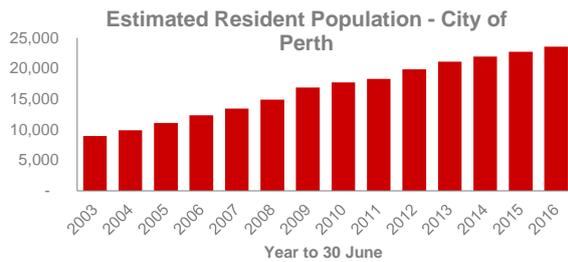
DEMAND DRIVERS

Population in the Greater Perth Area has grown by 31% over the last ten years, on average 2.7% per annum, driven by overseas and interstate migration. With the downturn in the resources sector growth in population has slowed and is now below the national average. Population growth in the Greater Perth area was 1.3% in the twelve months to June 2016. Moderate population growth is still expected in the short to medium term with a trend towards inner city living. Housing affordability, increasing urban sprawl, and traffic congestion during peak times have all contributed to this shift, resulting in higher density housing in the inner city areas and surrounding suburbs.

The City of Perth* (Local Government Area), which includes the suburbs of Crawley, East Perth, Northbridge, Perth CBD and West Perth, continues to experience higher than average population growth and underlying demand for apartments. In the ten years from 2005/06 to 2015/16 the population grew by 91%, from an estimated 12,353 to 23,549. The average population growth rate over this period has been approximately 6.7% per annum (an increase of approximately 1,120

people on average per annum). While the growth rate has slowed over the last few years, the population still increased by an estimated 3.5% in the year to 30 June 2016.

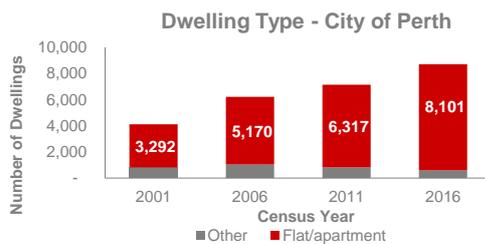
*On 1 July 2016 the geographic boundary of the City of Perth expanded to include parts of the suburbs of Subiaco and Nedlands. Population figures reflected here do not include this boundary change.



Source: PVA(WA) Research, ABS

Growth rates for the City of Perth are expected to remain higher than the Greater Perth area, with an estimated population of more than 34,000 by 2023 (Forecast.id).

There has been a significant shift in the last ten years towards medium to high density living, particular in the City of Perth which has seen high growth levels not only in population, but in the number of high density dwellings compared with other dwelling types.



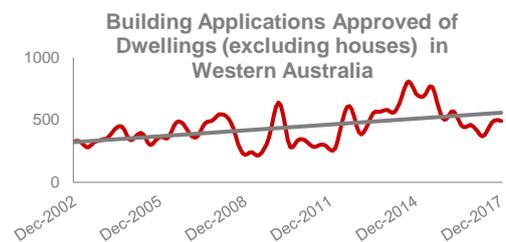
Source: PVA(WA) Research, ABS

While total private dwellings increased by 112% over the 15 year period from 2001 to 2016, flats and apartments increased by 146%, and now account for 93% of all dwelling types.

Current low interest rates continue to be a significant factor in the demand for residential properties, including apartments. The official cash rate is at a record low rate of 1.50% (as at 6 March 2018).

SUPPLY

The number of building applications approved for non-house dwellings in Western Australia has increased over the last 15 years from approximately 272 per month on average, to 440, which suggests a continued supply pipeline for this type of dwelling. It should be noted, however, that since the end of 2014 the number of multi-unit approvals appears to be trending down. At its peak, during the year to June 2015, there were on average 740 building applications approved per month.



Source: PVA(WA) Research, ABS

It is important to note that the Inner Perth apartment market is an integral component of the broader Perth apartment market. In the 12 months to December 2017 there has been a high growth of multi-unit building approvals in areas such as Rockingham, South Perth-Kensington and Riverton-Shelley-Rossmoyne. The following table outlines areas which have had more than 100% growth in multi-unit building approvals over the 12 months to December 2017 (areas with more than 50 approvals in the 12 months to December 2017).

Top Growth Areas – Multi-Unit Dwelling Approvals			
Area	No of Approvals 12 months to December 2017	No of Approvals 12 months to December 2016	Growth
Victoria Park – Lathlain - Burswood	319	28	1,039%
South Perth - Kensington	243	16	1,419%
Rockingham	161	7	2,200%
Karrinyup – Gwellup - Carine	145	18	706%
Riverton – Shelley - Rossmoyne	106	8	1,225%
Mount Lawley - Inglewood	77	8	863%
Belmont – Ascot - Redcliffe	76	33	130%
Success Hammond Park	68	26	162%
Melville	62	0	-
Duncraig	60	16	275%

Source: PVA(WA) Research, ABS Building Approvals by Statistical Area in Greater Perth Metropolitan Area (over 50 multi-unit approvals; with greater than 100% growth over the 12 months)

The short to medium term suggests a considerable number of apartments in the pipeline. There are currently a number of apartment projects under construction, or about to begin, in the Perth metropolitan area. While there is some apartment development currently underway in the inner city area, the majority of current projects are centred in the outer/near city suburbs, such as West Perth, South Perth, Burswood and Rivervale. To a lesser extent, major thoroughfares such as Canning Highway, Stirling Highway and Albany Highway, are experiencing development along with established café/High Street locations such as Subiaco, Mt Lawley and Leederville.

A selection of current major projects, either recently completed, under construction, awaiting approval or about to start, are outlined in the following table:

Apartment Projects Pipeline				
Project Name	Suburb	# Apartments	Status	Comments
Oracle	Perth	140	Completed	Completed August 2017
Stirling Cross	Innaloo	154	Completed	Completed September 2017
The Bottleyard	Perth	125	Completed	September 2017
The Towers	Perth	379	Construction	Expected completion 2019
Aire	West Perth	178	Construction	22 levels. Expected completion April 2018
Cirque	Mt Pleasant	109	Construction	Expected completion late 2018
Aurelia	South Perth	118	Construction	Expected completion May 2018
The Precinct	Mt Pleasant	192	Construction	Expected completion Early 2020
Liv Apartments	Fremantle	166	Construction	Expected completion 2018
The Crest	Burswood	169	Construction	Expected completion 2019
Vantage	Rivervale	217	Construction	
NV Apartments	Perth	401	Construction	Expected completion 2019
Essence - Claremont on the Park	Claremont	143	Construction	6 levels. Estimated completion September 2019.
Verdant Apartments	Perth	136	Pre-sales	19 levels. Expected completion Early 2019
Eden	Floreat	98	Pre-sales	Perry Lakes Reserve
Circa	Rivervale	132	Pre-sales	10 storeys
Golden Eggs Farms site	Palmyra	258	DA approval	9 three storey buildings in 2 phases
Canning Bridge Towers (Phase 1)	Applecross	179	DA approval	Three towers in three phases, with 452 apartments in total. Phase 1 expected completion 2020.

Source: PVA(WA) Research

SALES AND RENTAL MARKET

Increases in vacancy rates have impacted significantly on rentals. According to REIWA the median weekly rental has been on a downward trend since the June 2013 quarter. Median weekly unit rentals were \$460 in that quarter. In the December 2017 quarter the median weekly rental for units was \$320.

According to REIWA, the median unit/apartment sale price in the Perth Metropolitan area has decreased over the year to December 2017 by 3.0% to \$410,000. In most instances prices peaked between 2013 and 2015.

OUTLOOK

While industry sources are citing renewed confidence in the Perth apartment market, it is likely to remain subdued during 2018. Due to a lag of 18 to 30 months from start to completion, any developing oversupply of apartments will continue to build throughout 2018. However, any pick up in sales will coincide with a slowdown in the commencement of new projects, leading to a reduction in stock levels in the medium term and potentially an increase in price. Some industry sources are predicting an undersupply of apartments by 2020.

Tighter lending criteria by banks is having a negative effect on apartment sales. While there are many large scale developments proposed for construction it is likely that a number of these will not achieve the required pre-sales for bank finance and therefore will not proceed to construction. Achieving pre-sales is also proving difficult as many potential buyers are nervous about purchasing off-plan and prefer to buy into a completed building.

Housing affordability, increased traffic congestion and insufficient public transport are all likely to contribute to a higher demand for apartment living in and around the inner city areas. There is a growing acceptance in Perth that urban sprawl is unsustainable. Development in the suburbs is gaining momentum, though the challenge is in gaining council and community approval.

Compared with other cities in Australia, such as Sydney and Melbourne, which may be in a mature phase of the demand cycle, Perth is still a developing market with apartments making up a relatively low percentage of total dwellings. Affordability relative to Sydney and Melbourne markets could see renewed investor interest in the Perth market.

There is potential demand for *Build to Rent* in Perth, which is the development of dwellings for lease rather than private treaty sales. Longer term and affordable tenancies via a professional landlord may become an attractive proposition, particularly to a younger demographic who cannot afford or may not wish to buy property.

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