

QUICK STATS

	Change From	
	1/4 Yr.	Yr.
Median Price - Houses	→	↑
Median Price - Units	↑	↑
Rents - Houses	↑	↑
Rents - Units	→	↑
Vacancy Rates	↑	↑
Yields	→	↑

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (eg., absorption could be negative, but still represent a positive trend over a specified period.)

HOT TOPICS

- Melbourne's house rents set to increase
- Victoria's housing starts lift
- Melbourne's unit price softens
- Melbourne LGA residential unit supply pipeline
- Market outlook for 2008

MARKET OVERVIEW

Melbourne's residential house market recorded significant capital gains of 20.03% for the year ending March 2008, with a current median price of \$481,500. Over the March quarter the median price growth rate eased returning the Melbourne market to a more stable state.

There is a division emerging within the Melbourne residential market. Houses located in the inner eastern and bayside suburbs of Toorak (\$2.89 million), Kooyong (\$1.73 million) and Brighton (\$1.69 million) continue to be among

the most expensive, while some of the most affordable outer west suburbs are Melton at \$188,000, Wyndham Vale \$207,000 and Werribee \$233,000. Inner and middle ring suburbs averaged three to six percent capital growth over the March 2008 quarter, whereas the outer regions were flat in comparison.

The success of Melbourne's residential growth has largely been due to its strong international population gain. Victoria attracted 44,000 overseas migrants in the year ending December 2007. Figures from the Australian Bureau of

Statistics show that over the next 30 years, Melbourne's population is due to increase by around one million people. This increase will require an estimated 627,000 new dwellings of which 90% will accommodate only one or two people.

The increase in population and rising house prices in 2007 and the start of 2008 has reduced affordability. This coupled with a total rental vacancy across Metropolitan Melbourne of 0.90% in March 2008, the first time on record below 1%, is putting pressure

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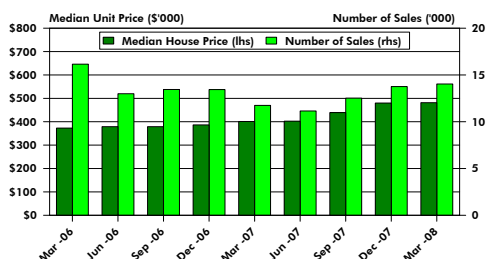
on rentals and this is expected to continue over the remainder of 2008. Suburbs located in the inner ring of Melbourne (within 0 to 4km from the CBD) are experiencing the lowest vacancy rate of 0.60%, while rental vacancies within suburbs located four to 10km from the CBD are currently at 0.90%. Those middle ring suburbs (within 10 to 20km from the CBD) recorded the largest decline over the past year from 1.4% to 0.8%. Due to record low vacancy rates, rents are expected to see significant price increases over the next year.

Melbourne's House Market - Best Performing Suburbs for the March 2008 Quarter

House Market	No. of Sales (last qtr)	Median Price	% Growth (last qtr)	% Growth (last year)	Median Weekly Rent	Rental Yield (last qtr)
Ashburton	33	\$876,000	7.72%	28.82%	\$340	2.01%
Ashwood	26	\$629,500	7.59%	30.01%	\$360	2.98%
Caulfield East	5	\$701,000	7.49%	28.66%	\$365	2.71%
Mount Waverley	111	\$645,500	7.47%	30.75%	\$335	2.71%
Glen Waverley	154	\$608,000	7.21%	27.95%	\$345	2.95%
Kooyong	7	\$1,724,500	6.98%	28.24%	\$565	1.70%
Burwood East	36	\$519,000	6.83%	27.27%	\$330	3.33%
Armadale	33	\$1,376,000	6.73%	31.28%	\$555	2.11%
Chadstone	34	\$560,500	6.68%	26.93%	\$375	3.49%
Caulfield	14	\$960,000	6.56%	24.73%	\$420	2.29%
Melbourne	14,032	\$481,500	0.31%	20.03%	\$350	3.79%

Source: Residex

Melbourne Median House Price & Sales



Source : Residex/CBRE Research & Consulting (as at March 2008)

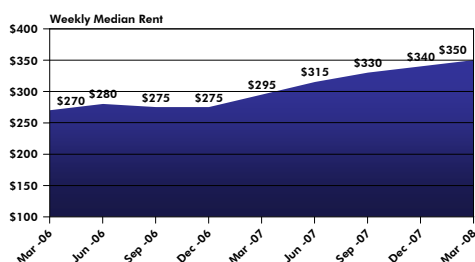


MELBOURNE'S HOUSE MARKET

Melbourne's House Price and Sales Volume is Resilient

Melbourne witnessed a total of 54,749 houses sold in the year to March 2008, 134 sales more than Brisbane. Brisbane however recorded stronger house capital gains for the year to March 2008 reaching 21.15%, followed by Melbourne with an impressive 20.03%. Such impressive performances are not likely to be repeated over the current year, with changes during the March 2008 quarter indicating more segmented growth. The Melbourne median house price remained static over the March 2008 quarter (0.31%), producing a median price of \$481,500.

Melbourne Median House Rent



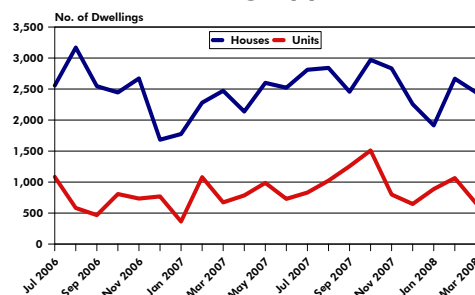
Source : Residex/CBRE Research (as at March 2008)



Melbourne House Rents set to Increase

Melbourne's current median three bedroom house rent was \$350 per week for the March 2008 quarter. This median house rent increased by 18.6% over the year to March 2008, further rent rises are likely over the remainder of the year. With Melbourne's median house rent still lower than other eastern mainland capitals, and the city's population continuing to grow, renting a house is becoming increasingly difficult as the under supplied rental market tightens. Melbourne's rental yield has remained steady over the past five years, averaging 3.79% pa.

VIC Dwelling Approvals



Source: Australian Bureau of Statistics (8731.0 Original - March 2008)



Victoria's Housing Starts Slow Despite Good Population Growth

Victoria's housing construction sector still looks better positioned than most other states. Victoria's population growth is hovering near the annual national growth rates of 1.5%, which ranks it as the best growth seen since the 1970s. Melbourne's increase in residents, mainly overseas migrants, provides a strong residential demand base. The strong demand has resulted in vacancy rates dropping below 1%. In turn this has driven house prices up in Melbourne. Victoria's housing construction has slowed in 2008. This is a result of higher interest rates and tighter lending criteria particularly evident in the first quarter of 2008. Access Economics forecasts, housing starts to lift by 7.4% in 2008 and 6.9% in 2009, before a slow down, with starts projected to fall by 4.0% in 2010.

Melbourne's Unit Market - Best Performing Suburbs for the March 2008 Quarter

Unit Market	No. of Sales (last qtr)	Median Price	% Growth (last qtr)	% Growth (last year)	Median Weekly Rent	Rental Yield (last qtr)
Footscray	46	\$230,500	6.05%	20.96%	\$220	4.95%
Flemington	23	\$276,000	5.97%	21.10%	\$230	4.36%
Northcote	44	\$333,500	5.80%	25.38%	\$255	4.03%
Ivanhoe	33	\$416,500	5.68%	21.52%	\$280	3.49%
Yarraville	23	\$331,500	5.50%	21.68%	\$265	4.15%
Brunswick West	54	\$282,000	5.43%	23.45%	\$250	4.60%
West Footscray	37	\$213,000	5.43%	23.63%	\$195	4.82%
Sandringham	28	\$509,500	5.41%	22.05%	\$360	3.70%
Newport	23	\$362,500	5.34%	24.59%	\$270	3.87%
Cheltenham	62	\$360,500	5.28%	23.89%	\$240	3.48%
Melbourne	8,182	\$366,000	2.86%	19.43%	\$300	4.28%

Source: Residex

MELBOURNE'S UNIT MARKET

Melbourne's Unit Price Softens

The Melbourne unit market recorded substantial capital gains in the year ending March 2008. The Melbourne median unit price rose by 19.43% over the year to \$366,000. Growth has slowed over the March quarter, with a modest 2.86% increase. While some Melbourne outer suburbs have seen median prices reduce, many inner western suburbs showed growth of over 5% (as shown in the table above). The number of units sold over the year to March 2008 totalled 33,269, an increase of 24% from 2007.

Melbourne's Unit Rent Stagnates

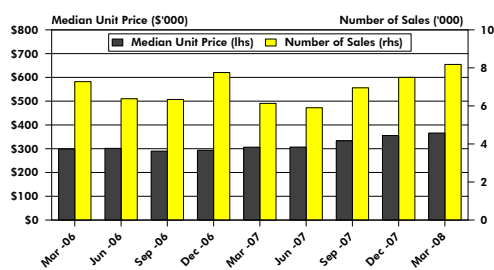
Melbourne's median unit rent rose 13.21% over the year to March 2008. Unit rents stagnated over the March 2008 quarter remaining at \$300 per week. Melbourne's rental yield of 4.28% ranks it the lowest of all Australian capital cities except Perth. A demographic shift towards the CBD has taken place in Melbourne, benefiting developments such as Southbank and Docklands. The well located new and refurbished inner Melbourne units are sort after by younger renters. These cashed up generation x and y's have driven up rents by over \$80 per week in the past year in inner Melbourne. As an example the inner suburb of Melbourne (postcode 3004) saw the median unit rent increase from \$420 per week to \$505 per week, an \$85 rise over the year to March 2008.

Melbourne LGA Demographics and Residential Supply Pipeline

Between the Australian Bureau of Statistics 2001 and 2006 Census, the Melbourne LGA has seen an additional 11,898 dwellings with the average household size falling to 1.9 people per dwelling. The majority of residents living in the Melbourne LGA predominantly work and socialise in the city. Therefore, Southbank and Docklands have increased in popularity given their proximity to the CBD and amenity offered.

Within the Melbourne LGA there are 64 proposed new unit developments with a total of 9,011 residential units/townhouses in the supply pipeline (projects of ten dwellings or more). Across the 64 proposed developments, the majority are located in the suburbs of Melbourne CBD (2,417 units), North Melbourne (412 units/townhouses) and Southbank (2,366 units). From May 2007 to May 2008, 14 projects have development applications lodged, 26 have development approval, nine have tenders called or contracts issued, and 15 are under construction. Due to the increasing construction costs and tightened debt lending, it is likely some of these proposed projects will not be constructed with some deferred or abandoned for various reasons.

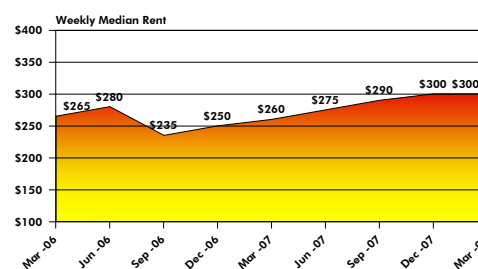
Melbourne Median Unit Price & Sales



Source: Residex/CBRE Research & Consulting (as at March 2008)



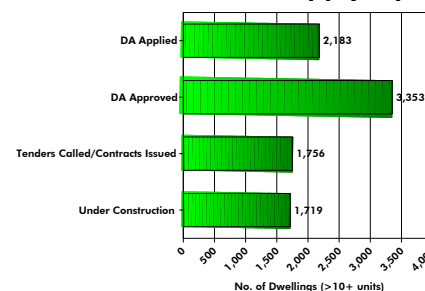
Melbourne Median Unit Rent



Source: Residex/CBRE Research (as at March 2008)



Melbourne LGA Unit Supply Pipeline



Source: Cordells/CBRE Research & Consulting (May 2007 to May 2008)



MARKET OUTLOOK

With a stabilisation of the residential market and the boom times of the previous 18 months subsiding, Melbourne's metropolitan area is likely to remain in relatively good shape over 2008. The current market is returning to normal conditions but it remains to be seen if further interest rate rises will tip the balance.

The residential property market continued to perform ahead of any other Melbourne property sector in the first quarter of 2008. This has been supported by strong underlying market fundamentals including positive net population gains, and a low rental vacancy rate.

Positive market conditions in the inner city areas have caused an increase in the number of new high rise apartment developments in these areas. Adding to the existing strong investor demand are potential new owner occupiers, currently renters, hoping to purchase a unit and break the rising cost of renting. This demand is only likely to materialise, however, if interest rates remain stable or fall.

Further restrictions in finance availability have resulted in a number of tightly held residential development sites now becoming available for sale. These sites have been keenly considered by established property development companies.

Caution is evident in the Melbourne residential market, particularly surrounding the uncertainty relating to future interest rate rises in 2008 and of the continued affordability crisis. Despite the shortage of dwelling and apartment stock, this may result in a stabilisation of property prices over the short to medium term.

“Further restrictions in finance availability have resulted in a number of tightly held residential development sites now becoming available for sale. These sites have been keenly considered by established property development companies.”

Evidence suggests that the length of time it takes to complete a sale has increased for properties currently on the market, given the recent increase in homes for sale and an increasing differential between expectations

of sellers and buyers in some suburbs. The rental market however is likely to remain tight due to the difficulty and cost in getting finance to purchase a property.

LOCAL OFFICES

MELBOURNE

Level 32
Rialto North Tower
525 Collins Street
Melbourne VIC 3000
T 61 3 8621 3333
F 61 3 8621 3330

MULGRAVE

Ground Floor
Nexus Corporate Park
37 Dunlop Road
Mulgrave VIC 3170
T 61 3 8541 3333
F 61 3 8541 3330

SOUTH YARRA

Level 10, Como Centre
650 Chapel Street
South Yarra VIC 3141
T 61 3 9863 5333
F 61 3 9863 5330



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CB Richard Ellis Pty Ltd ABN 57 057 373 574
Licensed Estate Agent
Level 26, 363 George Street, Sydney, NSW 2000 T 61 2 9333 3333 F 61 2 9333 3330

For more information regarding the ResiLine, please contact:

Toni McKnight

Senior Manager, Residential
CB Richard Ellis (C) Pty Ltd
ABN 64 003 205 552
Level 33, Waterfront Place
1 Eagle Street
Brisbane QLD 4000
T 61 7 3833 9773
F 61 7 3833 9830
toni.mcknight@cbre.com.au

Tom Edwards

Regional Director
Residential Mortgage Valuation Services
M 61 408 787 880
thomas.edwards@cbre.com.au