

QUICK STATS

	Change From	
	1/2 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

- Perth's House Market is Divided
- WA Highest Regional Median House Price
- Perth's Unit Market is the Affordable Option
- Perth LGA Residential Unit Supply Pipeline
- Market Outlook for 2008

MARKET OVERVIEW

The Western Australian (WA) economy is still enjoying the benefits of the commodities boom; despite this, the residential market appears to be running out of steam. This is expected after Perth house price growth peaked at 33.3% in March 2006. Since then, price growth has halved each following year, capped by the significant deterioration of affordability. As of March 2008, Perth houses recorded a 7.21% capital growth for the year; half that of the year to March 2007.

Household disposable income increased to just over 10% in the year, well above the national average of 7.4%, and the unemployment rate is also better than the national average at an unprecedented 3.4% (March 2008 ABS). WA has the lowest unemployment rate in Australia and such employment opportunities have residents flocking to WA with an approximate 50,000 new residents entering the state in 2007.

Building approvals slowed in the latter half of 2007 and the short-fall in the residential market is now beginning to mount. Lack of sufficient rental supply has seen rents jump with the March 2008 quarter median house rent being \$330 per week. With continued economic growth stemming from the ever increasing commodity demand, higher incomes are likely to see pressure build as supply continues to tighten.

Nonetheless, over the past twelve months the Perth market has been flat resulting in Perth buyers investing in other capital cities around Australia, namely Melbourne and Brisbane.

The softening of the median house price is due to the continued activity at the upper end of the market, above \$750,000, where solid growth continues within these higher social-economic suburbs. Turnover continues however, and is higher in the lower end of the Perth house

market. One of the major factors affecting the Perth market is interest rates – the recent rises have had a dampening effect on market activity. This has been more apparent to those potential buyers who were looking to upgrade at the lower end of the market and first home buyers whose affordability was marginal to begin with. With a possible oversupply of land in some outer areas, a levelling of construction costs and existing house stock are being packaged into attractive and somewhat affordable house and land deals. These could be the best options for first home buyers and those migrating to Perth.

“The softening of the median house price is due to the continued activity at the upper end of the market, above \$750,000, where solid growth continues within these higher social-economic suburbs.”

Another option for those wanting to enter the market are units, with a surge of new unit developments in the Perth area over the last few years. Perth's CBD skyline is changing and the residential population is increasing as large mixed use developments, such as the old Emu Brewery site, come out

of the ground. The Capital Square (old Emu Brewery site) will house 1,062 units spread over two towers being 41 and 48 storeys high, will provide owner occupiers, investors and renters with a product mix concentrated to the cashed up generation x and y's. This project will be made up of 17% one bedroom units, 65% two bedroom units, and 18% three plus bedroom units. The projected completion date for the development is scheduled for December 2012.

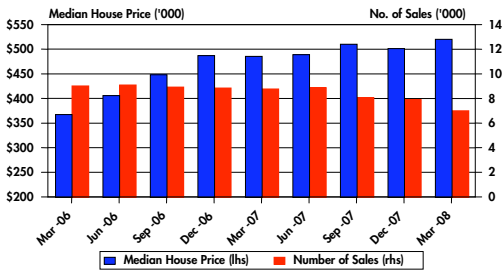
Such developments fit the changing demographics of the Perth LGA. From 2001 to 2006 there was an increase of generation x (born 1961 to 1977) and y's (born 1978 to 1994) drawn to Perth due to the resource boom and wages on offer. There has been an increase of 2,578 generation x and y's to the Perth LGA alone over a five year period, these generations drive the inner city rental market and buy within these new unit developments.

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

Suburb	No. of Sales (last qtr)	Median Price	% Growth (last qtr)	% Growth (last year)	Median Weekly Rent	Rental Yield (last qtr)
Houses						
Baldivis	35	\$495,000	6.68%	0.39%	\$305	3.22%
Wellard	17	\$588,500	6.37%	4.45%	\$295	2.63%
Warnbro	87	\$371,500	6.11%	-1.34%	\$215	3.00%
Orelia	33	\$320,000	5.83%	5.40%	\$240	3.91%
Calista	15	\$317,000	5.81%	-0.44%	\$230	3.80%
Salter Point	12	\$1,289,500	5.71%	25.49%	\$380	1.54%
North Fremantle	11	\$1,184,000	5.64%	19.03%	\$555	2.44%
Golden Bay	12	\$455,000	5.59%	1.97%	\$265	3.02%
Perth	7,024	\$521,000	3.82%	7.21%	\$330	3.31%

Source: Residex

Perth Median House Price and Sales



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

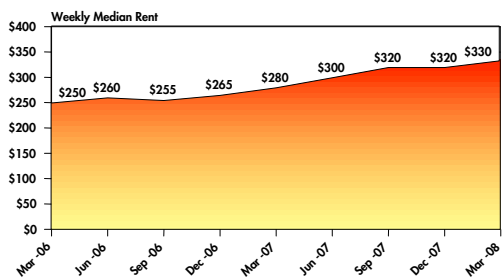


PERTH'S HOUSE MARKET

Perth House Price and Sales Volume

Like many other Australian capital cities, Perth has experienced uneven growth within the house market. Inner well located suburbs have performed best, while falls have occurred in the outer first home buyer areas. This decrease in price has enabled some buyers to enter the market, softening the Reserve Bank of Australia's four interest rate rises that put buying a home out of reach for many. Annual sales increased by 8.3% over the last twelve months to March 2008, an increase of 2,230 house sales. The majority of these sales have occurred in the more affordable suburbs, keeping capital growth below 4% (3.82%) in the March 2008 quarter. This split market activity produced a median house price of \$521,000, remaining second behind Sydney at \$584,000 yet before Melbourne at \$481,500.

Perth Median House Rent



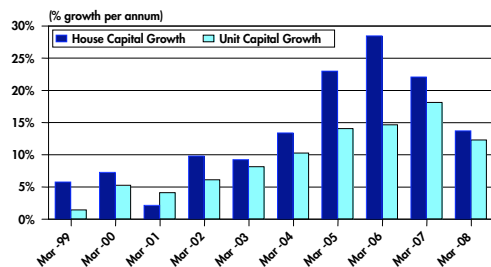
Source: Residex/CBRE Research & Consulting (as at March 2008)



House Rents and Yields

Population increase and housing affordability play a large role in Perth's rental market. The rental yield stabilised around 3.3%, which is the lowest of all capital cities. The median weekly rent for a three bedroom home was \$330 in the March 2008 quarter, having increased by \$40 per week or 13.8% in the last twelve months. Although the median rent has only risen by \$10 over the last six months, it is likely to continue upwards this year. This is due to the high demand created by new arrivals, particularly overseas migrants and an increasing number of people unable to afford to buy, with renting the next best option.

WA Country House & Unit Capital Growth



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



WA's Regional Housing Market

WA has the highest median price of country houses across Australia at \$389,500. This is largely due to continuing high demand in resource rich growth areas. There is no longer any residual affect from the housing boom and some localities north and south of Perth, which were caught up in the boom's flow on, suffered median price reductions in the last twelve months. Some suburbs where this decrease took place were Bunbury -0.17%, Eaton -1.99% and Greenfields -3.16%, to name a few. After substantial capital gains, investors are indulging in the profit and moving onto the next best investment opportunity. Such movement is increasing the number of affected areas, evident in the last three months. The median price for a house in regional WA was \$389,500 and \$324,500 for a unit, during the March 2008 quarter. The overall capital growth for the regional areas surpassed 13.5% for houses and 12.3% for units, but the whole of regional WA cannot be painted with the same capital growth brush.

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

Suburb	No. of Sales (last qtr)	Median Price	% Growth (last qtr)	% Growth (last year)	Median Weekly Rent	Rental Yield (last qtr)
Units						
Shoolwater	12	\$293,500	7.16%	17.16%	\$215	3.81%
Coodanup	10	\$352,500	7.10%	20.16%	\$265	3.95%
Bayswater	21	\$287,000	7.04%	17.38%	\$285	5.19%
Beechboro	10	\$313,500	6.75%	17.37%	\$255	4.25%
East Victoria Park	16	\$372,500	6.69%	21.05%	\$305	4.28%
Waterford	10	\$429,500	6.63%	9.91%	\$275	3.32%
Lathlain	10	\$439,500	6.56%	14.72%	\$280	3.34%
Mount Lawley	43	\$388,000	6.51%	10.42%	\$285	3.83%
Perth	1,865	\$409,500	7.07%	10.21%	\$320	4.08%

Source: Residex

PERTH'S UNIT MARKET

Perth's Unit Price and Sales Volume

Perth's unit market is limited as the city has the lowest proportion of units to total dwellings of all capital cities, under 20%. New unit complexes such as those springing up along the Swan River and at the old Emu Brewery site, are designed for the cashed up generation x and y renters and empty nester baby boomers, rather than the newly arrived migrant families looking to buy. Given Perth's small unit market, it is significant that the median price is \$409,500, which is nearly 80% of the median house price. Unit capital growth over the past twelve months was 10.2% to the March quarter. This growth mimicked the Perth house market but was however far from evenly spread. Some areas have experienced high annual growth of over 20%, such as Coodanup and East Victoria Park; while in neighbouring suburbs such as Dudley Park and Como, there has been virtually no annual growth at all. Small unit markets can be volatile with sudden changes in price, as some areas become over supplied with new units, while others have shortages.

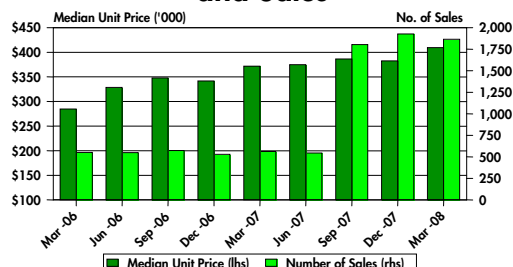
Unit Rents and Yields

Perth's median unit rent of \$320 per week is the third highest in the country. Unit rents rose by 18.3% or \$50 per week over the year to March 2008. Following strong rental increases, unit rental return has recovered to 4.08% for the March quarter; however it is still the lowest of all unit markets in Australia. In some Swan River suburbs, for example the median rent in East Perth rose by \$75 per week giving rent returns of over 5%. Perth's unit market has been labelled as boutique, presenting good growth and high rental returns in some areas of greatest demand.

Perth's Building Approvals and Residential Supply Pipeline

Perth, with its healthy population increase and expanding residential development areas has seen the number of dwelling approvals decline over the past year, largely due to increasing construction costs and softening demand. While buyers once camped out overnight to snap up a bargain piece of land to build their new dream, agents are finding buyer enquiry rates lessening due to overwhelming prices increases. There has been a noticeable increase in unit developments over the last few years, offering buyers a more affordable option. Within the Perth LGA the number of new unit developments in the supply pipeline outweighs detached dwellings. The reason for this is due to affordability and locality to the CBD. The Perth LGA has a total of 2,724 new residential units in the development pipeline within projects of ten dwellings or more. Across the 30 developments, the majority are located in the suburbs of Perth, East Perth and West Perth. From May 2007 to May 2008, two projects have development applications lodged, 16 have development approval, four have tenders called or contracts issued, and eight are under construction. Due to the increasing construction costs and tightened debt lending, it is likely many of these proposed projects will not be constructed with some deferred or abandoned for various reasons.

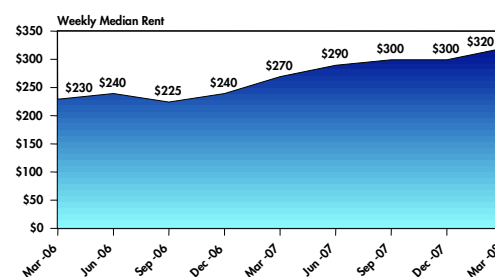
Perth Median Unit Price and Sales



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



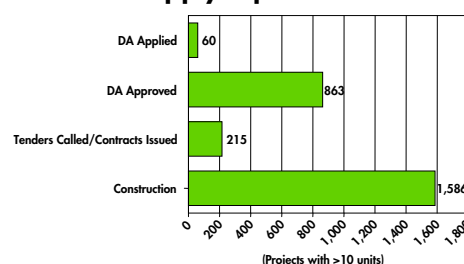
Perth Median Unit Rent



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



Perth LGA Residential Unit Supply Pipeline



Source: Reed Construction Data (May 2007 to May 2008)



MARKET OUTLOOK

Well the news is that the beginning of 2008 looks like 2007, and as remembered, 2007 was not a stellar year for Perth's metropolitan residential market. However like many Australian capital cities, well located prestigious suburbs remained strong, this was not the case for the outer mortgage belt areas.

The March 2008 quarter reflected a further softening of residential market conditions from outer established housing, new land estates, and dated units. New markets to surface included the luxury apartments, which are relatively new to Perth and still under nourished in terms of inner and near city infrastructure.

New year sentiment remains slow as buyers are inundated with choice as more properties appear in agent's windows. The latest figures show an excess of 17,600 properties on the market with an average of 71 days to sell. Price alone does not appear to be the sole contributor to these changing market conditions. A "wait and see" approach appears to be holding buyers back as uncertainty surrounds interest rates and affordability.

As observed by CB Richard Ellis valuers, Andre D'Souza and Jamie Van Burgel, entrenched in Perth's outer traditional mortgage belt areas, 2008 opened with a slight increase in buyer interest though it was not reflected in activity levels. Soon after came the release of inflation figures for the March 2008 quarter, followed by interest rate increases from major banks

without being prompted by the Reserve Bank of Australia.

CB Richard Ellis's residential western suburbs valuer, Peter St John, has seen excellent returns on property in the blue chip suburbs. Suburbs in this area experienced increases ranging from just under 13% to over 19% for the year to March 2008 – Cottesloe up 19.31%; Dalkeith up 12.86%; Mosman Park up 17.56%; Nedlands up 14.70% and Peppermint Grove up 16.82%. However, even with high demand, indicators show that this growth has softened in recent months.

“Investor yields are likely to rise, overall prices may stagnate, and rents will continue to increase – inviting investors into the market, but be prepared to stock the medicine cabinet.”

Previously reported infill land sales have been strong in well located suburbs. This market, although still keenly contested, may have also eased as a result of increased costs of debt to developers and share market volatility.

CB Richard Ellis is predicting a slow time ahead for the Perth's residential market. Until the imbalance of supply and demand eases, buyers are likely to continue to drive the market. While the resource boom continues to fuel the WA economy and the population expands, the Perth house market on a whole is likely to perform in the medium term. The normally immune upper end of the market, \$1million plus, may not escape without band-aids being required. Investor yields are likely to rise, overall prices may stagnate, and rents will continue to increase – inviting investors into the market – but be prepared to stock the medicine cabinet.

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