PROPERTY APPRAISAL FOR
283 City Road, Southbank

15 May 2008

Report Contents

Executive Summary

SQM Research has perused the valuation report completed by CB Richard Ellis (CBRE) for 283 City Road, Southbank as well as comparable sales, existing and future supply for the area, analysed demographics, conducted a site visit and noted existing and upcoming infrastructure in the area. SQM Research considers an investment in the apartments at 283 City Road, Southbank to be favourable for several reasons.

– The IRR expected for investors, in the order of 11% once the building is completed and occupied (excluding finance, tax and depreciation), is an attractive feature for investors. There are risks that the actual IRR could be lower if there is slower than expected GDP, higher than expected unemployment and unexpected oversupply issues, however we do not foresee that this will happen in the short to medium term.

– Other benefits include the strong reputation and experience of the developer, FDG and the builder, Probuild, for quality workmanship and timely delivery of projects. This should appeal to investors and owners alike who are looking for a quality product with peace of mind.

– Proximity to established and future infrastructure including Southbank cafes, Crown Casino and Entertainment Complex, public transport, the CBD and universities, which will attract overseas and local students are also advantages.

– One of the considerations that investors in particular will need to be aware of when looking to purchase an apartment in the project and indeed Southbank itself is that while the area is more established than Docklands, it has been affected in the past by oversupply cycles, and this may be a possibility in the long term, though it is not likely in the near future given current applications and approvals.

– The project is also highly suited to the demographics of Southbank, which is characterised by a transient and high turnover generation X and Y cohort who are attracted by the convenience and appeal of the surrounding infrastructure.

– Finally, the mid level pricing of the product (developments tend to enter the upper end of the market place in terms of price) due to the smaller than average sizes of apartments, relative to competitors, will be attractive to investors seeking an entry level and lower risk investment, without compromising on quality.

Project Strengths

– The location of the project is experiencing a greater than average population growth rate driven by overseas migration which is driving demand.

– No oversupply issues are expected, at least in the mid term (2011).

– The location of the project is established and close to existing surrounding infrastructure such as major roads, Crown Casino and Entertainment Complex, Southbank cafes and restaurants, the Victorian Arts Centre, South Melbourne Market, the Melbourne Exhibition Centre, universities, trams, trains and the CBD.

– Future infrastructure developments in the surrounding areas will add to the area's appeal in future; these projects include the soon to be completed Melbourne Conference centre including a new retail and café precinct, the new Crown Hotel, the new Melbourne Theatre Company and Recital Centre and the beautification of City Road which will occur in the coming years.

– The project ideally fits the demographics of the postcode.

– Pricing of the apartments is competitive and in line with today's current values, not inflated expected future values.

– The developer and builder have a good track record and reputation for delivering quality projects in a timely manner.

– The current low vacancy rate for the area and Melbourne as a whole will ensure rental returns to be high with IRRs in the low double digits excluding finance costs.

– Most units will have uninterrupted views of the bay or city.

Project Weaknesses

– Proximity to the Clarendon Street and West Gate Freeway, while providing easy access to and from the property, may attract some noise from passing traffic. FDG will incorporate soundproofing as per acoustic engineer’s recommendations and government regulations so internal building noise should be eliminated.

– Over the long term, as was seen in the past, the suburb may be susceptible to oversupply cycles, yet we don’t foresee this in the short to medium term.

– The current high interest rate environment is not as conducive to buying investment property and there is much uncertainty about interest rate levels and the economic climate today let alone three years away.

– Family income growth rates for the Southbank area are slightly below the state and city wide growth rates. Income growth is known to be highly correlated with property prices.

Other Considerations

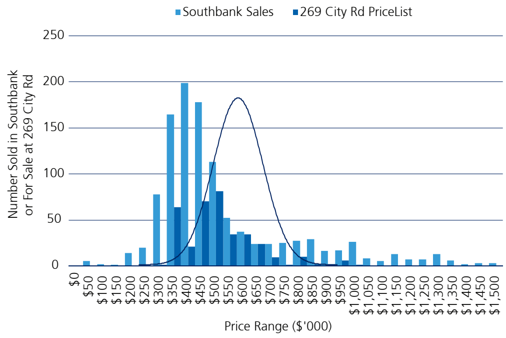
– Unit size being slightly below average for the area may detract some buyers and tenants, however the units are priced accordingly and have comparable fixtures and fittings to competitors.

– The current streetscape of City Road is characteristic of its past mixed commercial, office and industrial uses. However the beautification project planned for the street in coming years will improve the look of the area and align it with other, more recently developed residential areas.

– The median price for apartments at 283 City Road is around the $440,000, and this is expected to grow at a compounding annual rate (CAGR) of 6.5%pa to reach about $550,000 in 2011. This is higher than the actual historic 10 year CAGR of 5.9%pa and is a result of favourable factors such as the increasing demand due to population growth and no expected supply issues in the short to medium term.

Bell Curve of Project’s Asking Price to All Sales

Price Distribution of Southbank Unit Sales from 2006–2008 and Position of Property Appraisals for 283 City Road, Southbank



Source: SQM Research, FDG, APM

Site/Property Assessment

Property Details and Features

Property Details

283 City Road Southbank VIC 3006						
	Studio	1 Bedroom	1 Bedroom Plus Study	2-Bedroom	2-Bedroom Plus Study	3-Bedroom
Number on Offer (360 in total)	53	28	113	155	8	3
Average Retail Listing Price	$322,100	$373,364	$445,092	$503,232	$924,625	$807,000
Upper Range	$332,800	$459,000	$566,000	$805,000	$955,000	$822,000
Lower Range	$280,000	$322,400	$374,400	$374,400	$894,000	$798,000
Ave Price PSQM	$6,898	$6,933	$6,044	$6,230	$7,598	$7,406
Current Estimated Weekly Rent	$300–$350	$365–$415	$425–$465	$455–$650	$780–$820	$720–$780
Estimated Gross Rental Yield*	5.2%	5.4%	5.2%	5.6%	5.0%	4.8%
Ave Unit Size SQM (Incl Balcony, Excluding Carspace)	46.0	53.9	73.6	80.8	121.7	109.0

Source: SQM Research; FDG

* Calculated from Domain and realestate.com advertised rental listings

Note a carspace will result in $50pw extra rent and a furniture package (est. cost $18,000) will bring in $100pw extra for 1BR apartments and $150pw extra for 2BR apartments

The building will have 40 levels in total with 360 apartments on offer including 53 studios, 28 x 1-bedrooms, 113 x 1 bedroom plus study, 155 x 2-bedroom, 8 x 2-bedroom plus study and 3 x 3-bedroom apartments. Prices range from around the low $300,000s for the studios up to around $955,000 for the larger 2-bedroom plus study apartments.

Overall the fixtures and fittings of the apartments are expected to be of a high quality standard and value will be gained through quality at an affordable price, given the sizes of apartments on offer will be smaller than those offered by higher priced competition.

Rental returns will be around the 5.0%–5.6% for an unfurnished apartment, depending on size and number of bedrooms. Furniture packages are available to those who take this option and additional rent for a furnished apartment would be around $100 per week for a one bedroom apartment and $150 per week for a two-bedroom apartment. Body corporate fees are reasonable given that there are 360 apartments; the annual fees are kept lower than some smaller complexes that have similar facilities. The body corporate fees are expected to be in the vicinity of $1,200–$2,500 p.a.

Property Features, Fixtures and Fitting

	Comments
Age of Building	Brand new building with estimated completion date September 2011 (30 months from estimated start date of March 2008)
Building Size	40 storeys high, 360 apartments in total, with carpark at lower levels and first apartments starting at level eight
Builder	Probuild
Total Lettable Area (Excl Car spaces)	Total apartments and balconies excluding carspaces is approximately 26,091sqm
Building Type	Multi-storey residential apartment tower
Aspect (facing)	North, towards the CBD, some views also towards the bay
Levels of Units	Levels are 8 up to 40
Position on Street	City Road frontage
Views	All will have either city or bay views and uninterrupted for the most part
Kitchen	Various sized kitchens mostly open plan in design with reconstituted stone benches, polyurethane cupboards, glass splashbacks and quality appliances
Bathroom	A mixture of one and two-bathroom apartments, all with large showers with semi frameless screens, floor tiling throughout, laminate vanity with moulded basin, glass splashbacks, compact in size
Ensuite	Only in larger apartments, compact but well designed
Laundry	Separate laundry facilities in larger apartments, metal cupboard and troughs, 300mm splashbacks, tiled floor, oyster light fitting
Bedrooms	Small to medium in size, mirrored door wardrobes, 40oz carpet, oyster light fitting
Living rooms	Various sized living mostly open plan in design
Carpet	Standard 40oz carpets, provision for air conditioning only
Deck/Balcony	Median balcony size is 5.4sqm and range from about 3sqm to 90sqm, floor tiling, oyster lighting and provision for air conditioning
Parking	Each 2BR apartment will have allocated a carspace for an additional cost of $50,000 above the purchase price. Other carspaces will be allocated on a first come-first served basis. All car spaces will be on separate titles and therefore able to be on-sold to others in the complex
Facilities	Gymnasium, sauna steam, 25m pool, landscaped terrace, lounge, business centre and meeting rooms, two smart cars for use by residents managed by the body corporate, bike racks in the carpark
Air Conditioning	All apartments will have reverse cycle heating and cooling at no extra cost
Energy Efficiency Rating	6-star, solar heated common rooms, rainwater harvesting
Soundproofing	As per acoustic engineers recommendations
Overall	Proximity to Crown Casino, shops, cafes and the CBD as well as aspect towards the city and bay will be attractive features of these quality, though compact apartments in this complex
Nature of Street	Mixed use residential apartments and commercial

Source: Site Visit, CBRE Valuation Report March 2008, SQM Research, FDG. Note: above listed fixtures and fittings are subject to amendment by the developer.

Facilities in the complex are on par with competitors by providing pool, sauna, gym and meeting rooms. An additional attraction is the two smart cars for use by residents and managed by the body corporate. Bike racks and storage are also available. One point of difference with competitors is that the complex does not offer a concierge service, as do some of the competitors in the vicinity; however, prices are more competitive without these additional facilities. From an investment perspective, SQM Research is more favourable to unserviced apartments. From a technological point of view, the building will have all the features required to attract the technologically savvy generation X and Y demographic.

The building is being built by reputable builder Probuild, who have a reputation for quality and timely delivery. The building itself is of a modern design and is 6-star energy rated. The proximity to motorways is convenient; however the noise from these roads will be minimised by involving acoustic engineering and by having the apartments start at level eight above the street level.

Property Proximity to Key Infrastructure

	Proximity
Railway Stations	Southern Cross Station is 1km away along Clarendon Street accessible by tram
Tram	Clarendon Street tram to the CBD is within 100m away
Parks	Albert Park Lake and the Royal Botanic Gardens are within about 2km from the site
Schools	Melbourne High School is about 3.5km away near the corner of Toorak and Punt Roads or close to South Yarra Station on the train. MacRobertsons High School is also in close proximity
Universities	The University of Melbourne and RMIT are short tram rides away just north of the CBD and Swinburne University is in close proximity in High Street, Prahan
Shops	Numerous shops are within reach in South Melbourne, including the South Melbourne Market 600m away, Southbank and the CBD within 1km away
Hospitals	The Alfred Hospital is about 3.5km away on the corner of St Klida and Commercial Roads
Cafes and Restaurants	Numerous cafes and restaurants are within reach in South Melbourne, Southbank and the CBD within walking distance of about 0.5km
Pubs	Numerous bars and pubs are within reach in South Melbourne, Southbank and the CBD within walking distance of about 0.5km
Golf Club	Albert Park Public Golf Course is about 2km from the site
Day Care	ABC Learning is 1.5km away at 77 Park St, South Melbourne
Surrounding Properties	Mixed residential apartments, commercial office and warehouses
Other Comments	0.6km to South Melbourne Market on the corner of Cecil and Coventry Streets

Source: SQM Research; Site Visit

The proximity to infrastructure is one of the main advantages of the site being within walking distance to Crown Casino, the CBD, Southbank, the South Melbourne Market and transport. A short tram ride will also take residents to universities such as RMIT and the University of Melbourne.

Return Projections on Units

Table of Unit Projections

Unit Projections – 283 City Road, Southbank						
Apartment Type	**Current Price Estimate (Median)**	**Compounded Annual Growth Rate (CAGR)**	**Price Projection 2011***	**Net Rental Yield 2011**	**IRR 2011****	**Price Projection 2016*****
Studio	$322,400	6.5%	$401,901	4.7%	11.2%	$586,430
1 BR	$355,500	6.5%	$443,163	4.8%	11.3%	$646,637
1 BR + Study	$438,000	6.5%	$546,006	4.5%	11.0%	$796,701
2BR	$487,000	6.5%	$607,089	4.9%	11.4%	$885,830
2 BR + Study	$924,500	6.5%	$1,152,472	4.4%	10.9%	$1,681,621
3 BR	$801,000	6.5%	$998,519	4.2%	10.7%	$1,456,981
All	$438,000	6.5%	$546,006	4.5%	11.0%	$796,701

Definitions:

(1) The Internal Rate of Return for an investment is the rate for which the Net Present Value of the project is zero. It reflects both the return on the invested capital and the return of the original investment. Generally speaking, a higher IRR on an investment is favourable.

(2) The Compound Annual Growth Rate (CAGR) is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered. CAGR = (End Value/Start Value)^(1/no. years). CAGR isn't the actual return in reality. The rate at which an investment would have grown if it grew at a steady rate. You can think of CAGR as a way to smooth out the returns.

* Calculated to the 3rd Qtr 2011 (3.5 years) to coincide with expected completion date

** From 2011 Qtr 3 onwards when rents start coming in

*** Calculated to the 3rd Qtr 2016 (6+3.5 years) to coincide with expected completion date plus six years (census year)

The table above calculates the IRR without adjusting for stamp duty or depreciation benefits, nor does it incorporate any finance costs including interest payments. It has been calculated on a before tax and tax benefits basis but. The net rental yield takes into account estimated expenses for body corporate (between $1,000 to $2,500 p.a.), rates and management fees.

The net rental yield has been calculated on the price projection for 2011 divided by the current estimated rents for 2011, which are projected to increase by 6.2% pa. An additional attraction to buying off the plan in Victoria is the stamp duty savings. Stamp duty is discounted for off the plan sales in Victoria and is based on the value of the land at the contract date, rather than the full contract price. On a purchase price of $440,000, Victorian stamp duty for a completed unit would be in the vicinity of $22,000, however, on an off the plan purchase the stamp duty on the same property could easily come down to less than $2,000 for example.

Sensitivity Analysis on Unit Projections – 283 City Road, Southbank			
Scenario	**GDP**	**Unemployment**	**Estimated CAGR**
Upper	Accelerating	Low	6.5%
Medium (Long Term Historic)	Stable	Stable	5.9%*
Lower	Slowing sharply	Rising	5.0%

* 5.9% is the 10 year historic CAGR

The long term 10-year compound annual price growth rate for units in Southbank is 5.9%. However, we are making our future price projections for 2011 and 2016 based on a slightly higher CAGR of 6.5%, after taking into account the key sensitivities listed below as well as the current retail listing prices of the units which are favourable to current sales prices.

Nevertheless if conditions around GDP and unemployment turn out worse than expected we could see the CAGR drop to about 5.0%, not assuming any recession.

Key Sensitivities

Correlation Table

The table below illustrates the relationship between past property price movements and the influence that certain macro (and micro) variables may have had on those price movements.

Overall, the analysis has found a very strong relationship between a number of these variables affecting unit price movements in Southbank.

Southbank		
Economic Variable	**Correlation Co-efficient**	**Time Lag (On Economic Variable)**
Local Ordinary Weekly Full Time Wages	73%	6 Months
Cash Rate Target	-55%	6 Months
Unemployment Rate	-83%	-12 Months
Housing Finance	85%	12 Months
Population Growth	81%	12 Months
Building Approvals	87%	36 Months
GDP	75%	12 Months

Source: SQM Research

As we can see, building approvals (a measure of supply) have been the top driver of property price movements with housing finance (a measure of demand), running second. Population growth is running a close third. This is interesting given the current high level of immigration into Melbourne in recent years.

It is interesting to note that building approvals are also highly correlated with property price movements as we know intuitively that most price movements in inner city apartment markets are highly sensitive to supply issues.

The level of supply expected to come on to the market in the coming few years does not, at this stage, appear to be aggressive compared to the major oversupply issues seen in the past and is likely to be absorbed by the higher than expected future population increases into Melbourne over the coming few years.

Unemployment and movements in the cash rate both had negative correlations as expected, however unemployment recorded a stronger correlation than interest rates.

The very strong correlation with wages has certain ramifications for our future projections for this area, as we have projected that while wages are higher than average in Southbank, wages growth in the area is slower than the state average. Please see the section on demographics for further information.

Property Sales Report

Please find below a local comparison of unit sales recorded between 2006 and 1st Quarter 2008.

The median price for Southbank units rose fairly steadily till the market slowed in 2004 due to the combination of interest rate increases and oversupply of the Melbourne inner city apartment market. From 2004 onwards, however, the median price for Southbank units has risen steadily from 2004 to reach a median price in 2007 of $436,500.

Comparable Sales from the Australian Property Monitors		
Address	**Number Sold 2006 – Q1 2008**	**Average Sold Price**
31–33 City Rd Southbank	18	$301,583
157–165 City Rd Southbank	48	$368,023
171–179 City Rd Southbank	43	$430,674
183–185 City Rd Southbank	36	$458,486
216 City Rd Southbank	1	$2,475,000
285 City Rd Southbank	2	$514,000
276–282 City Rd Southbank	1	$965,000
41–45 Clarendon St Southbank	2	$342,500
80 Clarendon St Southbank	23	$564,174
6–8 Cook St Southbank	11	$421,700
62 Coventry St Southbank	1	$345,000
66 Coventry St South Melbourne	1	$375,000
94 Coventry St Southbank	1	$465,000
100–106 Coventry St Southbank	3	$454,667
133 Coventry St South Melbourne	1	$465,000
77–81 Coventry St Southbank	1	$422,500
93 Dodds St Southbank	1	$390,000
114 Dodds St Southbank	4	$382,000
121 Dodds St Southbank	1	$410,000
6–8 Dorcas St Southbank	27	$327,537
88 Fawkner St Southbank	2	$427,000
Freshwater Pl Southbank	62	$847,803
2 Freshwater Pl Southbank	1	$592,000
3 Freshwater Pl Southbank	2	$678,500
17 Freshwater Pl Southbank	1	$957,000
15r Freshwater Pl Southbank	1	$1,650,000
9 Grant St Southbank	1	$2,400,000
17 Grant St Southbank	1	$1,580,000
6–8 Haig St Southbank	1	$349,000
41–45 Haig St Southbank	6	$705,833
72–82 Haig St Southbank	9	$491,444
15–17 Hancock St Southbank	1	$470,000
14 Kavanagh St Southbank	17	$364,882
18 Kavanagh St Southbank	10	$345,370
20–22 Kavanagh St Southbank	42	$427,929

Comparable Sales from the Australian Property Monitors		
Address	**Number Sold 2006 – Q1 2008**	**Average Sold Price**
Kavanagh St Southbank	19	$341,474
88 Kavanagh St Southbank	61	$377,395
90–92 Kavanagh St Southbank	2	$300,000
100–106 Kavanagh St Southbank	43	$365,950
57–83 Kavanagh St Southbank	1	$1,495,000
70–92 Kavanagh St Southbank	1	$262,000
92b Kavanagh St Southbank	1	$218,000
25–27 Miles St Southbank	4	$359,500
111 Miles St Southbank	1	$325,000
90–94 Moray St Southbank	1	$935,000
1 Queensbridge Sq Southbank	30	$963,883
17 Queensbridge Sq Southbank	1	$756,560
83 Queensbridge Sq Southbank	319	$465,000
111 Queensbridge St Southbank	1	$750,000
63–85 Queensbridge St Southbank	1	$340,000
1 Riverside Qy Southbank	7	$447,058
7 Riverside Qy Southbank	158	$936,695
30–32 Riverside Qy Southbank	1	$1,700,000
1 Southbank Bvd Southbank	12	$426,917
31–33 Southbank Bvd Southbank	2	$402,000
88 Southbank Bvd Southbank	30	$336,333
100–106 Southbank Bvd Southbank	6	$399,750
108–110 Southbank Bvd Southbank	2	$419,500
49–59 Southbank Bvd Southbank	1	$420,000
77–87 Southbank Bvd Southbank	1	$388,000
26 Southgate Av Southbank	28	$502,361
29 Southgate Av Southbank	1	$315,000
88 Southgate Av Southbank	1	$468,000
28–32 Southgate Av Southbank	18	$498,431
250 St Kilda Rd Southbank	15	$1,215,333
320 St Kilda Rd Southbank	5	$379,000
2–128 St Kilda Rd Southbank	1	$750,000
256–310 St Kilda Rd Southbank	1	$320,000
30 Sturt St South Melbourne	2	$382,500
40 Sturt St South Melbourne	1	$300,000
98 Sturt St Southbank	1	$457,000
120 Sturt St South Melbourne	4	$392,125
135 Sturt St Southbank	1	$880,000
161 Sturt St Southbank	7	$288,046
221 Sturt St Southbank	18	$380,917
102–118 Sturt St Southbank	2	$380,600
211–229 Sturt St Southbank	1	$500,000

Comparable Sales from the Australian Property Monitors		
Address	**Number Sold 2006 – Q1 2008**	**Average Sold Price**
30–32 Wells Pl Southbank	1	$662,000
6–8 Wells St Southbank	17	$511,441
18 Wells St South Melbourne	1	$515,000
30–32 Wells St Southbank	2	$574,500
88 Wells St South Melbourne	1	$177,500
90–92 Wells St Southbank	2	$380,000
95 Wells St South Melbourne	1	$404,000
100–106 Wells St South Melbourne	1	$385,000
102 Wells St South Melbourne	4	$435,625

Source: Australian Property Monitors

Price per Square Metre Comparisons (up and coming developments)						
Address	**1 Bdrm Ave ($/sqm)**	**1 Bdrm + St Ave ($/sqm)**	**2 Bdrm Ave ($/sqm)**	**3 Bdrm Ave ($/sqm)**	**3 Bdrm + St Ave ($/sqm)**	**Overall Ave ($/sqm)**
109 Clarendon St, Southbank	$7,509 (48)	$7,601 (59)	$7,774 (77)			$7,605 (59)
"Grosvenor on Queens" St Kilda Road, Melbourne	$5,250–$8,300 (55)		$4,400–$10,500 (73–117)	$5,000–$10,000 (107–117)		$6,758 (78)
200 Spencer Street, Melbourne	$7,000 (50)		$7,333 (75)	$8,750 (112)		$7,500 (80)
"Vue Grand", 63 Whiteman Street, Southbank						$7,709 (76)
"Southbank One", City Road, Southbank						$6,850 (78)
"Northbank Place – Central", Flinders Street, Melbourne	$6,636 (51)	$6,716 (68)	$5,826 (78)	$5,968 (101)		$6,424 (57)
"Northbank Place – West", Flinders Street, Melbourne	$7,749 (46)		$6,836 (79)	$6,825 (139)		$7,154 (63)
283 City Road (Subject Property)	$6,933 (53.9)	$6,044 (73.6)	$6,230 (80.8)	$7,406 (109)		$6,349 (72.5)

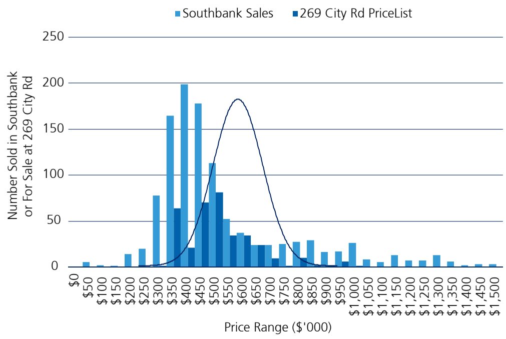
* Bracketed amounts are average unit size

Source: CBRE Valuation Report 269–283 City Road, Southbank, 27 March 2008

Based on the above data from the CBRE valuation report, the asking price for the apartments at 283 City Road, Southbank per square meter are slightly cheaper with competitors (depending upon unit type), while the unit sizes are actually in the mid point. Overall though the Developer has acknowledged that unit sizes are slightly smaller than existing products already occupied on the market place, which the average is estimated to be 81sqm.

Bell Curve of Project's Asking Price to All Sales

Price Distribution of Southbank Unit Sales from 2006–2008 and Position of Property Appraisals for 283 City Road, Southbank



Source: SQM Research, FDG, APM

The average price for Southbank units sold from 2006 to the present is in the vicinity of the mid $500,000s. However, this takes into account some larger sales of penthouses. The median over the same time period it is close to $430,000. Given that the product on offer at 283 City Road, Southbank is mostly in the range of $320,000–$600,000, (average is around $450,000s and the median around $440,000, excluding cars paces) the pricing for the apartments appears to be very competitive especially given that settlement is in a couple of years and the product is brand new.

Suburb/Regional Assessment

History of Suburb and Surrounding Economy

The area of the Yarra River and Port Phillip that is now Melbourne was originally inhabited by the Wurundjeri people of the Kulin nation. It is believed that the area was occupied by indigenous Australians for at least 40,000 years. The first British penal colony in the Port Phillip district was established in 1803 on Sullivan Bay, but this settlement was abandoned after a few months.

During the time after British settlement, the area which is now Southbank consisted of some old factories, warehouses and wharves mostly built between the 1860s–1920s when the area was part of the first port of Melbourne. It had a few old bridges, the first being the first Princes Bridge and later the Sandridge Bridge, which was formerly part of the Port Melbourne railway line from 1888 to 1987, and the Arts centre precinct which was built in the 1960s on former parkland.

Southbank was first defined as an area for redevelopment by the State Government in1984. Two years later the Government published a strategy document for the development process. However it wasn't until the recession of the early 1990s that The State Government released the first building permits in an effort to stimulate the Melbourne economy.

Denton Corker Marshall designed and oversaw the original Southbank Promenade in 1990, which paved the way for development of apartments.

Southgate, Sheraton towers and new tall office buildings for The Herald and Weekly Times Ltd and IBM were the first buildings built along with an award winning pedestrian footbridge at about the same time in late 1992, and combined with a new Sunday arts and crafts market, attracted local and tourist visitors to the area. Further buildings including the Esso headquarters were built between 1992 and 1995. Development expanded along the Yarra westward with the Melbourne Convention and Exhibition Centre ("Jeff's Shed") in 1996 and Crown Casino in 1997, stimulating the first residential towers.

In 2001, the boutique "Melburnian" apartments, designed by Bates Smart were one of the first to be aimed at the owner occupier market and included the most expensive penthouse sold in Melbourne at the time. Clarendon Towers also attracted the owner occupiers. Beginning with Southbank Towers in 2001 and the Centurion in 2002, Central Equity began a swathe of apartment towers and at the same time the neighbouring Yarra's Edge precinct of the new Melbourne Docklands began to kick off.

With a boom in apartment building and the success of the Melburnian, the areas closer to the river began to attract developers. Southbank became a hive of developer activity which created the oversupply conditions between 2003–2005. During this period, unit prices fell by 21%. The market bottomed out at the end of 2004 and has recorded steady increases since.

Melbourne is home to Australia's busiest seaport and much of Australia's automotive industry, which include Ford and Toyota manufacturing facilities, and the engine manufacturing facility of Holden. It is home to many other manufacturing industries, along with being a major business and financial centre. International freight is an important industry. The city's port, Australia's largest, handles more than $75 billion in trade every year and 39% of the nation's container trade.

Melbourne is also a major technology hub, with an ICT industry that employs over 60,000 people (one third of Australia's ICT workforce), has a turnover of $19.8 billion and export revenues of $615 million.

Melbourne retains a significant presence of being a financial centre for Asia-Pacific. Two of the big four banks, NAB and ANZ, are headquartered in Melbourne. The city has carved out a niche as Australia's leading centre for superannuation (pension) funds, with 40% of the total, and 65% of industry super-funds. Melbourne is also home to the $40 billion-dollar Federal Government Future Fund, and could potentially be home to the world's largest company should the proposed merger between BHP Billiton and Rio Tinto Group be carried out.

Tourism plays an important role in Melbourne's economy, with approximately 7.6 million domestic visitors and 1.88 million international visitors in 2004.

The city is headquarters for many of Australia's largest corporations, including five of the ten largest in the country (based on revenue)[37] (ANZ, BHP Billiton, the National Australia Bank, Rio Tinto and Telstra); as well as such representative bodies and think tanks as the Business Council of Australia and the Australian Council of Trade Unions.

Melbourne rated 34th within the top 50 financial cities as surveyed by the Mastercard Worldwide Centres of Commerce Index (2007), between Barcelona and Geneva, and second only to Sydney (14th) in Australia

Melbourne has also been attracting an increasing share of domestic and international conference markets. Construction began in February 2006 of a $1 billion 5,000-seat international convention centre, Hilton Hotel and commercial precinct adjacent to the Melbourne Exhibition and Convention Centre to link development along the Yarra River with the Southbank precinct and multi-billion dollar Docklands redevelopment.

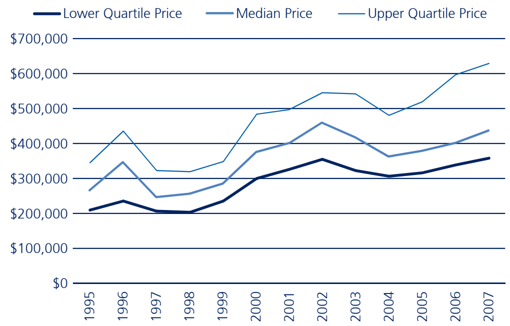
Source: Wikipedia

Historical Median Suburb Prices and Sales

Year	Number Sold	Lower Quartile Price	12 month change (%)	Median Price	12 month change (%)	Upper Quartile Price	12 month change (%)
1995	227	$210,000.00		$267,000.00		$343,000.00	
1996	140	$235,000.00	11.9%	$347,500.00	30.1%	$435,000.00	26.8%
1997	137	$205,000.00	-12.8%	$248,000.00	-28.6%	$320,000.00	-26.4%
1998	482	$203,000.00	-1.0%	$258,000.00	4.0%	$318,000.00	-0.6%
1999	783	$236,000.00	16.3%	$286,000.00	10.9%	$346,000.00	8.8%
2000	717	$300,000.00	27.1%	$375,000.00	31.1%	$485,000.00	40.2%
2001	824	$325,000.00	8.3%	$400,000.00	6.7%	$497,000.00	2.5%
2002	929	$356,000.00	9.5%	$459,000.00	14.8%	$545,000.00	9.7%
2003	426	$324,000.00	-9.0%	$417,000.00	-9.2%	$542,000.00	-0.6%
2004	407	$308,000.00	-4.9%	$363,750.00	-12.8%	$480,000.00	-11.4%
2005	496	$316,000.00	2.6%	$380,000.00	4.5%	$520,000.00	8.3%
2006	488	$340,000.00	7.6%	$400,000.00	5.3%	$598,000.00	15.0%
2007	624	$358,500.00	5.4%	$436,500.00	9.1%	$630,000.00	5.4%
3-year CAGR		4.6% p.a.		4.7% p.a.		6.6% p.a.	
5-year CAGR		2.0% p.a.		0.9% p.a.		3.1% p.a.	
10-year CAGR		5.9% p.a.		5.4% p.a.		7.1% p.a.	

Source APM

Historical Suburb Prices and Sales



Source: SQM Research, APM

Since 1998 Unit prices in Southbank have recorded compounded annual growth rates (CAGR) of approximately 5.4% p.a. with the upper end of the market recording 7.1% p.a. while the lower end of the market recording 5.9% p.a.

Over the same period the Melbourne apartment market recorded a CAGR of 9.1% p.a.

For Southbank, it appears that the upper end of the market has outperformed the lower and middle ends over the long term. It is illustrated in the chart recording the ratios of upper to lower quartiles where the lower end has been historically priced at 40% to the upper end.

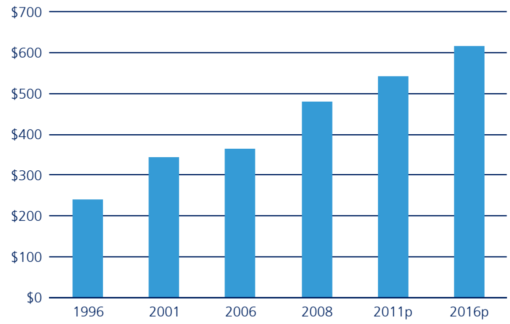
The ratio of 0.4 to one has held largely constant over a 10-year period, except in the last three years where the gap between the upper and lower ends of the market has slightly widened.

While the top end of the market has outperformed, it has come with a higher volatility in price movements compared to the lower end and therefore the top end of the Southbank market appears to have a higher risk profile. The middle end of Southbank apartments appears to have the highest volatility to return profile and quite clearly it was the part of the market that suffered most during the 2003–2005 downturn.

Overall, the historical prices imply that on a risk adjusted basis, the lower end has been the better performer.

Historical and Projected Rents

Year	Weekly Median Unit Rents (Southbank)	Compounded return on previous period	Compounded returns since 2001
2001	$345		
2006	$365	2.2%p.a.	2.2%p.a.
2008	$480	11.7%p.a	4.8%p.a
2011p	$543	6.2%p.a	5.2%p.a.
2016p	$617	3.7%p.a.	4.7%p.a.

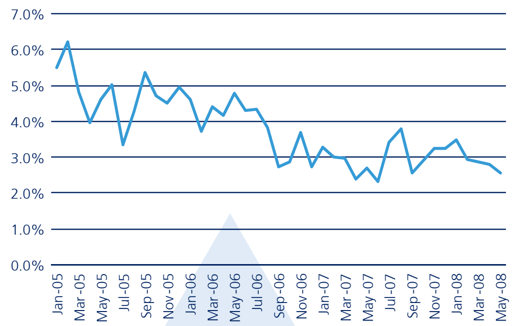


Source: ABS, REA, SQM Research

CAGR: 6.5% p.a.

Note: 2008 based on March Qtr

Vacancy Rates



Source: SQM Research

Rents for Southbank have been rising steadily at a CAGR of 4.8% p.a. since 2001, which is slightly below average compared to Melbourne (5.4% p.a.) over the same period.

Median rents for a 2-bedroom apartment stand at $480 a week. Asking rents are currently higher, running at $520 a week. So far the indicator suggests vendors are receiving such rents, suggesting the rental market will continue to rise at above 6% for the short to medium term future.

Our projection is based largely on our assumptions for up and coming supply to 2011, which is expected to be moderate. Our projection is below the projection of the rest of Melbourne, which is 7.8% p.a. over the same period. Supply is a key sensitivity to Southbank and investors should scrutinise development approvals going forward. Please see the section for number of established properties for more details.

Along with the rest of Melbourne, vacancy rates in Southbank have been steadily falling since late 2005 and are at a tight 2.5%. Recent rental stock listings have been reducing and so it is quite feasible that vacancy rates will fall from these levels given the lack of immediate supply relief.

Historically, vacancy rates over 5% tend to stall rental growth, while rates under 4% tend to accelerate rental growth.

As illustrated in the graph the beginning of 2005 was a time of oversupply in the market place with nearly 7% of all established properties on the market. While the back series for 2004 and earlier is not available, it could be deducted that the available stock was even higher in that time due to the many developments completed in that time. However, since that time the oversupply of stock has been gradually absorbed to the point where there are more normal levels of turnover and listings.

Thus far in 2008, stock levels have risen moderately. Seasonality (where stock levels are higher between February and April) explains this rise, however it may also have been partly due to recent interest rate rises.

New Stock on Market for Sale

Up and Coming Supply

Source: Google Earth; Site Visit

Other residential apartment buildings which are being developed over the next few years in Southbank include two towers being built by Central Equity, including "Vue Grand" and "Southbank One". Both of these projects have sold out already. Vue Grand is only one block from the site but slightly closer to Crown Casino and the CBD on Whiteman Street. It will have 35 levels and contain 312 apartments, slightly larger in size than those on offer at 283 City Road. Southbank One will be 37 levels and will be located at 180 City Road, Southbank, also slightly closer to the CBD than the building at 283 City Road.

Once they are complete there will be some competition in the rental market to have the apartments tenanted, however this is not expected to affect vacancy rates for the area in the longer term and there may be a couple of months where there are apartments vacant waiting to be filled.

The apartments on offer at 283 City Road are expected to be completed slightly later than Vue Grand and Southbank One which will be good for investors looking for tenants on completion of the developments.

Up and Coming Supply

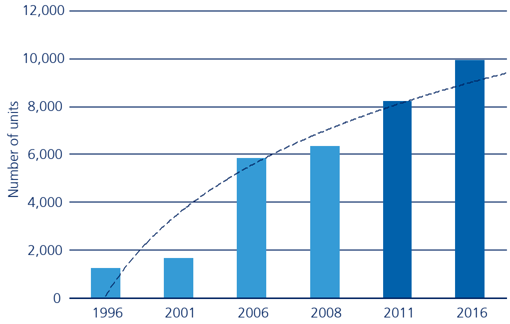
Future Projected Supply of Residential Property - Southbank

Name	Address	Description	Levels	Units
City Road	283 City Road Southbank	Subject property	40	360
109 Clarendon	109 Carendon Street, Southbank	FDG's existing development, which as at the time of writing was 90% sold out.	33	173
Vue Grand	63–67 Whiteman Street, Southbank	Vue Grande development, at levels six and seven in February 2008. To be a 35-storey residential tower comprising 312 units, 349-car parking spaces and ground level commercial space. Developer Central Equity, builder L U Simon. Formerly the site of two concrete and brick office buildings to Clarendon Street and to Whiteman Street, built in 1986 and demolished in 2007.	35	312
Southbank One	180 City Road, Southbank	Southbank One development, at excavation stage in February 2008. To be a 37-storey residential building with an eight-storey commercial podium, the new head office of Central Equity. The building will comprise office space over the first to seventh floors, residential above and a penthouse on the 36th floor. To be complete by the end of 2009. Developer, Central Equity. Originally this was the site of the proposed 39-level Imperium Tower development (a Central Equity Project), put on hold in January 2003.	37	320
	46-50 Haig Street, Southbank	Multi-storey mixed residential and office		200
	31-49 Queens Bridge Street Southbank	Development of the land for the purposes of a 65-level building (225 metres) comprising 483 dwellings, restricted retail premises and car parking (617 spaces) and development over a public acquisition overlay	65	483
			Proposed	1,848
			Existing 2007	6,374
			Total Supply 2011	**8,222**

Source: Cityscope

The future supply for Southbank is estimated to be around 8,222 units for 2011, taking into account the existing established properties and those new number of dwellings expected to come on over the next few years that have already been approved. Please note a number of these developments have recorded significant presales.

Total Number of Established Properties



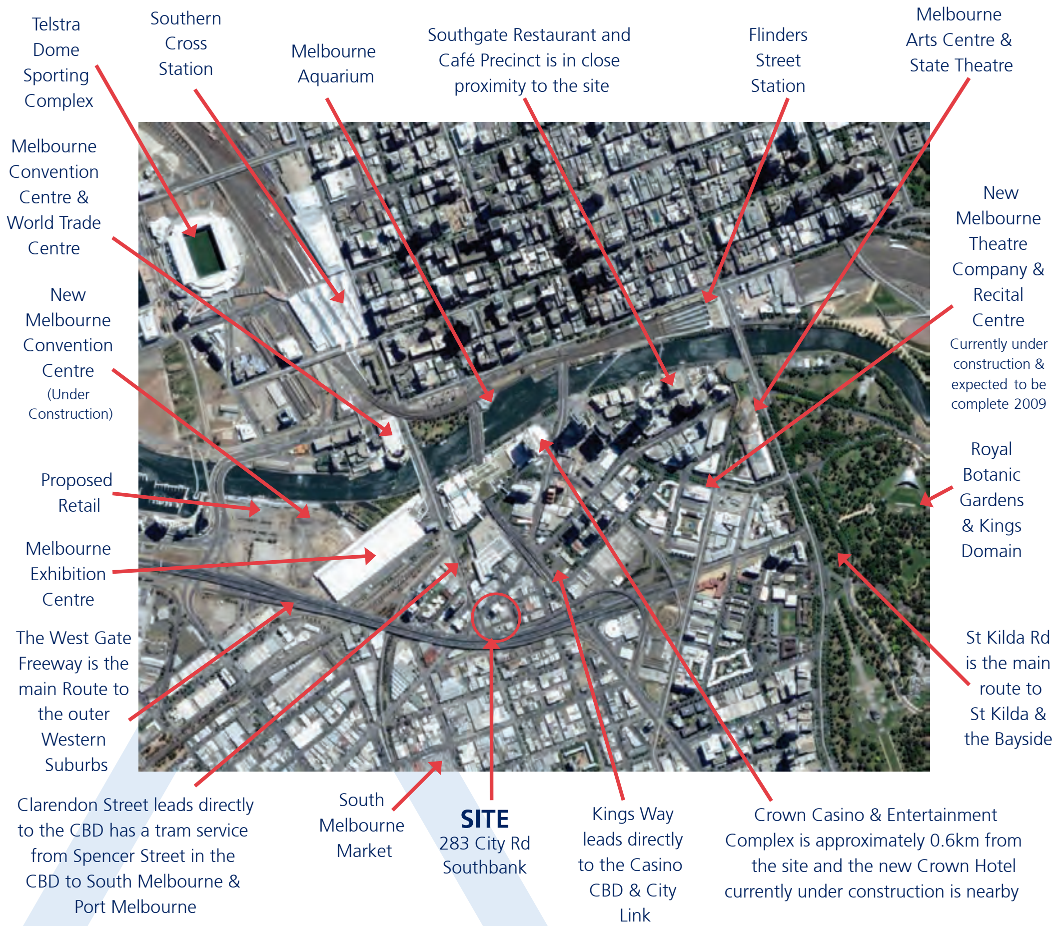
source: SQM Research; ABS
Note the numbers projected are:
2011 – 8,222 properties
2016 – 9,919 properties

Percentage Change in Established Properties – Southbank

2001	2006	2011	2016
36%	249%	40%	21%

There was a huge increase in the number of properties in Southbank constructed from 2001 to 2003, which culminated in the downturn of 2003–2005. However, since then the growth in supply of properties in Southbank has dropped markedly and is expected to increase by about 40% from 2006 to 2011 and 21% for the six years to 2016.

Map of Infrastructure



Source: SQM Research; Site Visit

Discussion of Current Suburb Infrastructure

The key feature of 283 City Rd is its location, being close to major key infrastructure. The site is just a block from Crown Casino and Entertainment Centre and the new Crown Hotel currently under construction.

The property is also in close proximity to Southbank cafes, restaurants, shops, the Melbourne Arts Centre, the Exhibition and Convention Centres, Clarendon Street Tram, South Melbourne Market and cafes, Southern Cross Railway Station and Universities such as RMIT and the University of Melbourne are a short tram ride, less than 2km away.

Of course, the site is within walking distance (15 minutes) to the centre of Melbourne's Central Business District.

The site has major arterial road access with the Westgate Freeway less than 500 metres away. Travel time to Melbourne international airport is less than 45 minutes from this location during peak hour.

The streetscape of 283 City Road is still quite characteristic of the area's industrial and commercial past. However, there is a planned beautification project to take place in the area over the coming years, which will give the street a more residential feel to it thereby impacting future property prices in the area.

Demographics

Demographics have a longer term influence on property prices in an area. They can be particularly influential on new developments. Build a property that doesn't suit the area's demographic profile and the probabilities are that the property will underperform and have low occupancy rates.

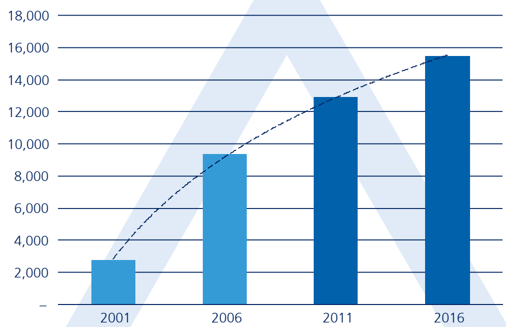
SQM Research has found that the Demographic profile for Southbank is, on average, made up of a younger generation that is degree-qualified, occupy managerial positions and earning far higher incomes than the state average. They will tend to be single or double income renters who intend to stay in the area until they start a family at which point they will move out into the suburbs. They may also be overseas visitors on long term working visas.

In our opinion, 283 City Road has been built with this target demographic in mind. The bulk of the units available are one and two-bedroom and the location of the property is very close to entertainment facilities and work. Importantly, the units are largely affordable.

Please see a break up of the demographic profile below:

Population Table

Southbank Population

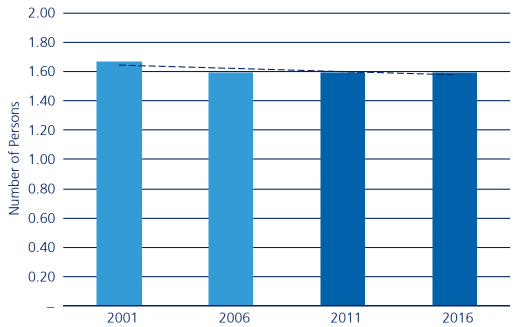


Source: www.sqmresearch.com.au; ABS

The population in Southbank is expected to grow quickly at 7.6% p.a. (compared to the state average of 1.5%) over the coming years after a large jump from 2001 to 2006, which was due to the increase in supply of units over that period.

Population in Southbank is largely supply driven, therefore it is not surprising that the projected population for the area over the coming few years has the same general trend as the projected supply expected to come onto the market. The danger for developers and investors would occur if there were an oversupply situation that could not be readily absorbed as has occurred in inner city Melbourne in the past, however this is not expected to be repeated given current applications and permits.

Persons per Household – Southbank



Source: www.sqmresearch.com.au; ABS

The number of persons per household in Southbank continues to be around 1.6 persons per household, typical of the number of one and two-bedroom apartments in the area. This number is expected to stay relatively stable going forward into future years with developers typically building a larger proportion of one and two-bedroom apartments which will suit the demographic of younger singles and couple choosing to live in the area. One and two-bedroom apartments will continue to attract investors and tenants.

Median Age

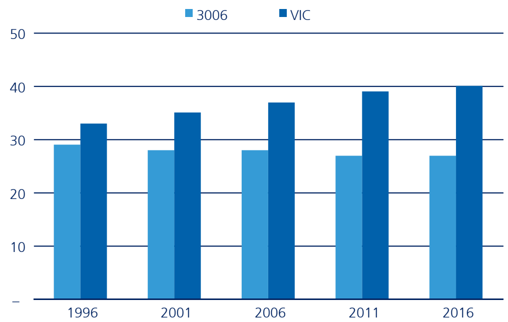
The age statistics for Southbank record that the Median age stands at 28. The median age for Southbank is significantly under the state average of 37.

The trend for Southbank suggests that its residents will be slightly younger in 2011 at 27. This goes against the trend for the state and the nation where the median age is forecasted to grow older to 39.

The age group in Southbank is on the border of the generation X and Y demographic, they are technologically savvy, have grown up with visual media, computers and entertainment. They expect convenience and are socially driven. They change jobs often. Many are not sure of their ultimate direction in life. They are looking for real life role models and moving away from any particular religious faith.

Generally speaking, the younger the residents of an area, the likelihood that incomes will be lower. However, Southbank is the exception in this case with family incomes way above the state average as illustrated below.

Median Age –Southbank & Victoria (Actual and Projected)

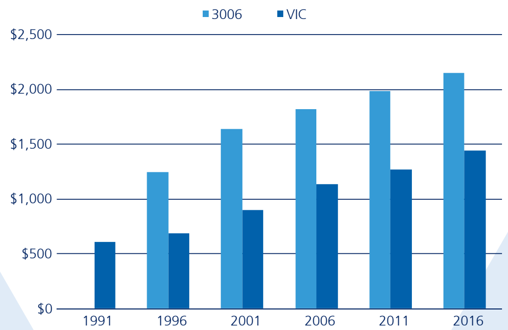


Source: www.sqmresearch.com.au; ABS

A younger area also usually means a higher percentage rate of renters and mortgagors. And this is the case in Southbank as also illustrated in the 'Owner Occupiers to Renters' section, further below.

Family Incomes

Weekly Family Income – Southbank & Victoria (Actual and Projected)



Source: www.sqmresearch.com.au; ABS

Average family weekly incomes (before tax) in Southbank are considerably higher at 1.6 times the state average.

However, the rate of income growth (3.9% p.a. between 1996 and 2006) has been below the state average of 5.2% p.a. and below the citywide average of 4.4% p.a. over the same period. Average weekly family incomes are projected to rise to $2,143 by 2011 from $1,819 recorded in 2006.

SQM research has found that income has a strong influence of real estate price growth; more so than population growth, over the long term.

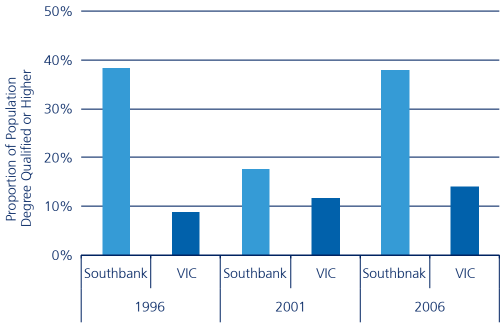
Given that income growth rates are correlated with property price increases a slower rate of income growth does translate into slower capital growth. SQM Research has factored this into its projections given in the site assessment section. Nevertheless the high absolute incomes are good news for investors as they translate into higher rents being achieved relative to other locations. SQM Research has projected a higher rental yield available to investors once the project is completed and occupied.

The high absolute incomes are good news for investors as they translate into higher rents being achieved relative to other locations for the time being and this is consistent with the large proportion of investors buying in to the area, relative to other locations.

Average weekly Family Incomes are projected to rise to $2,143 by 2011 from $1,819 recorded in 2006.

Education

Education Demographics – Southbank & Victoria



Source: www.sqmresearch.com.au; ABS

Education demographics for the Southbank postcode reveal that the number of residents holding a bachelor or higher degree is over-represented relative to the state average. This is consistent with the higher than average incomes observed in the area as well as the occupation statistics which show a higher than average proportion of professionals.

The projections going forward on the proportion of residents with a degree or higher in Southbank are for the number to remain higher than the State average and grow at the same or a slightly higher rate than that of the State average.

The important fact to note here also is that the area is dominated by generation X and Y people, who are highly educated and technologically savvy. The implications would be that the apartments that these people will be attracted to will be those with features that they have come to expect in the current technological age, such as high speed, relatively accessible internet. In addition, this cohort of people will be well informed and conscious of the trend towards environmentally sustainable dwellings, which will cost less to run and maintain in the long run.

Occupation

Occupation Demographics Southbank & VIC

	1996		2001		2006	
	Southbank	VIC	Southbank	VIC	Southbank	VIC
Professionals, Managers and Administrators	79%	31%	52%	33%	49%	33%
Associate Professionals	0%	11%	13%	11%	16%	11%
Advanced Clerical and Service Workers	0%	12%	3%	3%	4%	3%
Intermediate Clerical, Sales and Service Workers	10%	14%	18%	13%	17%	14%
Elementary Clerical, Sales and Service Workers	0%	3%	5%	8%	7%	8%
Tradespersons, Labourers and Related Workers	10%	15%	5%	22%	5%	22%
Intermediate Production and Transport Workers	0%	9%	1%	8%	1%	8%
Other	0%	5%	2%	2%	1%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: www.sqmresearch.com.au; ABS

The occupation demographic data for the area of Southbank show an over representation of professionals, managers and administrators in the area relative to the rest of the state. In the 2001 and 2006 census data, about half of Southbank residents were in these occupations, compared with only one third for Victoria.

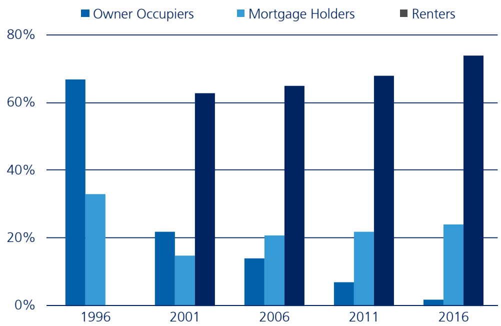
However, the historic trend over time in Southbank appears to show a shift towards more semi professional areas including associate professionals, intermediate clerical, sales and service workers. Indeed, the number of managers, professionals and administrators in Southbank in 1996 was way above the State at about 80% of residents compared to about 30% for the State. This dropped back to half, however in 2001 and 2006 whereas the proportion for the state rose, albeit slightly.

Occupation demographics in Southbank are consistent with the higher than average incomes in Southbank as one would expect managers and professionals would generally have higher incomes than semi-professionals.

The fact that the trend is away from the higher income occupations is also consistent with the trend in income growth dropping relative to the rest of the state. Given the inner city apartment market is supply driven, and the perils of oversupply seen in the past, the right pricing of product going forward will be crucial to the success of any apartment investment in these areas.

Owner Occupiers to Renters

Occupant Type – Southbank & Victoria (Actual and Projected)



Source: www.sqmresearch.com.au; ABS

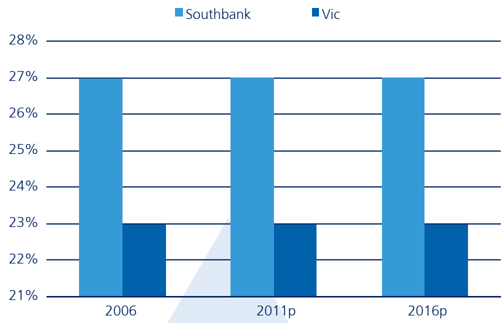
The current owner-renter split is around 35%–65% in Southbank which differs markedly from the State average which only has about 20% of renters.

There is an interesting trend showing a switch from 100% owners or mortgage holders to 65% renters in the six years to 2001. However, this does not imply that owners have been moving out to make way for renters. The shift towards renters in Southbank is supply driven; a result of the influx of large apartment complexes in the area over recent times. The large number of residential apartment buildings also means that there is a large existing base of available stock for rent or being rented which can result in an increased risk of oversupply of rental properties, higher vacancy rates (although they are currently at record low levels) and lower rental growth.

This high proportion of renters coming in to the area is consistent with the average age of the area being 28, as more young people tend to rent rather than own.

Mortgage Repayments to Incomes

% Mortgage Repayments to Total Household Income before Tax



Source: www.sqmresearch.com.au; ABS

The proportion of mortgage repayments to Household incomes in Southbank is higher than the average for the rest of the state at about 27%, compared with 23% for Victoria. Note that this number only includes those residents living in the area paying off their property, not investors that have bought into the area and live elsewhere.

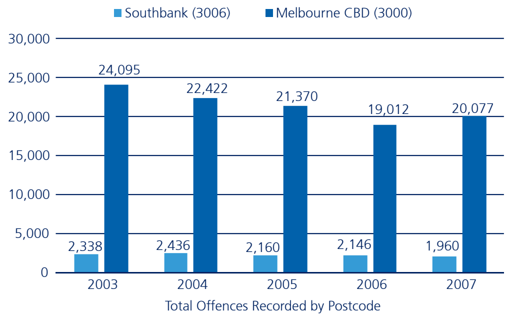
Crime Statistics

As one would expect, crime rates are higher in city areas compared to outer suburban and rural areas. The city centre area of Melbourne is no exception. Crime rates for all various types of crime are higher than the state wide average. Certain types of crime have been on the rise in the last two surveys, such as break and enters, assaults and theft from motor vehicles.

It should be noted that Southbank has recorded significantly fewer criminal offences than the city centre and the good news is that these numbers have been trending down.

Even so, what the numbers illustrate is that it is important to have secure residential premises and we would go so far as to recommend that a parking spot be included for car security as part of any apartment purchase.

Total Offences Recorded by Postcode



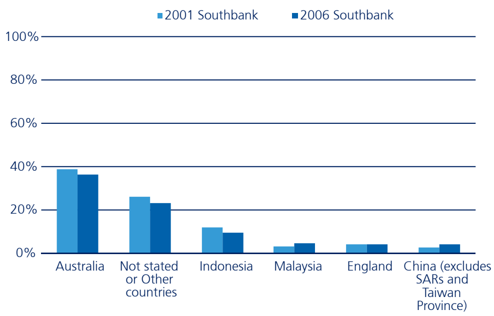
Source: State of Victoria; Victorian Police

Nationality

Nationality Demographics Southbank & VIC						
	1996		2001		2006	
	Southbank	VIC	Southbank	VIC	Southbank	VIC
Australia	82%	73%	38%	71%	36%	70%
Not stated or Other countries	0%	7%	26%	9%	23%	11%
Indonesia	0%	0%	12%	0%	9%	0%
Malaysia	0%	1%	3%	1%	5%	1%
England	0%	4%	4%	4%	4%	3%
China	0%	1%	3%	1%	4%	1%
New Zealand	0%	1%	4%	1%	3%	1%
India	0%	1%	1%	1%	2%	1%
Singapore	9%	0%	2%	0%	2%	0%
Hong Kong	0%	0%	2%	0%	2%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: ABS

Nationality Demographic – Southbank & Victoria

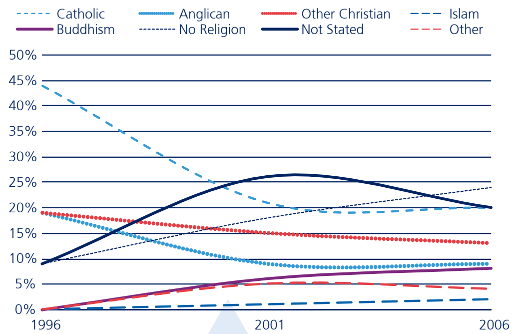


The nationality demographic reveals a slight trend away from Australian and Not Stated nationalities towards Malaysia, England and China. Relative to the state average, the main stated countries that are over-represented in Southbank are Indonesia, Malaysia, England, China, New Zealand, India, Singapore and Hong Kong. Australian born residents in Southbank are largely under-represented relative to the rest of the state at only 36% of residents compared with 70% for the state.

This is consistent with the age, education and occupation statistics, suggesting that younger, working age migrants (and potentially some students), especially from Asia, are attracted to the convenience and lifestyle opportunities that exist in the area.

Religion

Religion – Southbank Postcode 3006



Source: ABS

There has been a shift in the religious faith of Southbank away from Catholic, Anglican and Other Christian and towards No Religion, Not Stated, Buddhism and other. While some of the original Catholics, Anglicans and Other Christians may simply no longer be stating their religion; there is a definite upward trend in Buddhism and no religion.

Citywide and National Statistics and Outlook

Economic overview

Macroeconomic Indicators				
	Calendar Year Averages			
	2006	2007	2008 (p)	2009 (p)
World GDP (real)	5.0	4.9	3.7	3.8
China	11.1	11.4	9.3	9.5
ASEAN 5* – GDP	5.7	6.3	5.8	6.0
US GDP (real)	2.9	2.2	0.5	0.6
Australia GDP (real)	2.8	3.9	3.2	3.1

Source: ABS Cat 6202, 8731, RBA, IMF April 2008 update, SQM Research

* Includes Malaysia, Indonesia, the Philippines, Singapore and Thailand

GDP

GDP has an indirect and considerable direct influence and correlation to unit prices. Since GDP is essentially a measure of real incomes, consumption and production in the economy. A high GDP will tend to encourage greater employment growth and rising real disposable incomes which directly influence property prices.

Going forward, world GDP is set to slow from current levels due to ongoing credit turmoil and a slump in the US economy.

Australian 2007 GDP (seasonally adjusted) was stronger than expected at 3.9% for the year and is forecasted to slow to 3.2% for 2008.

The rate rises of 2007/08 may yet cause consumers to struggle with higher debt servicing payments. That said, high income gains and tax cuts will more than likely provide support as they did in 2006. The key risk is that the RBA may overshoot on interest rate rises causing the economy to slow sharply.

At this stage, while the Australian economy is set to slow, it is very unlikely a recession will occur due to positive impact of ongoing (albeit slower) GDP growth from Asia.

Forecast State Population

Population Numbers: Historical and Forecast					Forecast	
	1991	1996	2001	2006	2011	2016
State and Territories						
Victoria	4,420,400	4,373,520	4,612,097	4,932,442	5,198,275	5,477,736
Queensland	2,961,000	3,368,850	3,585,639	3,904,532	4,175,356	4,463,197
NSW	5,898,700	6,038,696	6,311,168	6,549,177	6,910,000	7,305,000
SA	1,446,300	1,427,396	1,458,912	1,514,377	1,553,876	1,597,367
WA	1,636,100	1,726,095	1,832,008	1,959,088	2,072,057	2,188,553
Tas	468,800	459,659	454,841	476,481	480,482	488,893
NT	165,500	195,101	202,729	192,898	211,513	220,495
ACT	289,300	299,243	309,184	324,034	335,611	348,007
Other	0	3,323	2,667	2,319	1,766	1,264
Total	17,286,100	17,891,883	18,769,245	19,855,348	20,938,935	22,090,511
Cities						
Melbourne	3,156,700	3,138,147	3,338,704	3,592,591	3,870,925	4,100,147
Sydney	3,672,900	3,741,290	3,948,015	4,119,190	4,360,000	4,626,473
Brisbane	1,358,000	1,488,883	1,608,820	1,763,131	1,914,526	2,041,650
Perth	1,188,800	1,244,320	1,325,592	1,445,078	1,539,088	1,639,467
Adelaide	1,057,200	1,045,154	1,066,103	1,105,839	1,133,050	1,163,393
Hobart	186,900	189,944	190,161	200,525	204,124	209,415
Darwin	76,700	85,743	106,476	105,991	119,651	129,775
Canberra	288,200	298,847	308,764	323,056	334,431	346,536

Source: 2901 ABS Census Directory, SQM Research

Population Summary Points

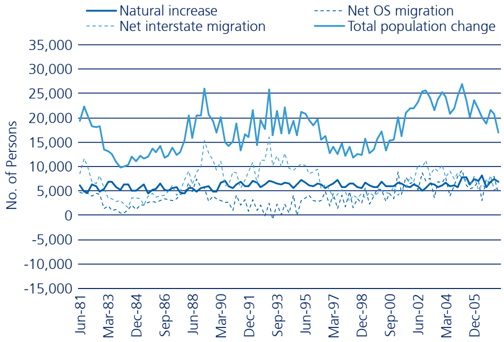
- After years of significantly above average population growth, the rate of population growth in Queensland appears to have peaked, primarily due to a decline in the contribution of interstate population from Victoria and NSW.
- SQM Research forecasts an increase in the population growth rate for Victoria, primarily due to an expected increase in State GNP compared to previous years and a narrowing of the house price gap between Victoria and QLD.
- Nationwide, the average number of occupiers per property has been falling over the past 96 years (since 1911). Recent census results suggest there might be a mid term reprieve, however we forecast that over the medium to long term the trend will continue downwards. Overall, a lower number of occupants per property increases the demand for residential units.

Local Population Size and Growth Rates

It has been well documented that South East Queensland including Brisbane has been experiencing a far higher population growth rate than the national average over the past forty years and indeed this has been supported once again by the latest census data which shows Brisbane growing at a considerably faster rate than Melbourne and Sydney.

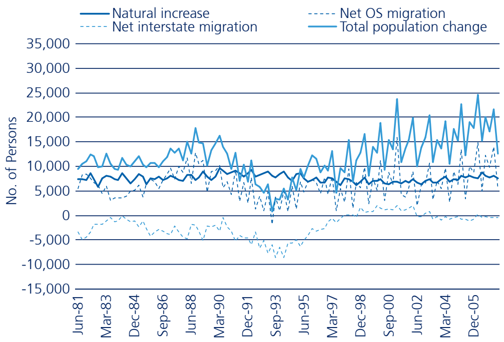
One of the major drivers behind this is that up until recent times, Queensland has for a considerable period of time been experiencing positive net interstate migration at the expense of Victoria and NSW.

Queensland Population Change (on previous quarter)



Source: ABS

Victoria Population Change (on previous quarter)



Source: ABS

The reasons behind this phenomenon have been due to two major factors including above average economic growth rates compared to its southern counter parts and a better standard of living on offer, primary due to cheaper house prices in Queensland. Of course other factors that cannot be easily measured have also played their part such as the warmer climate and political initiatives to encourage interstate migration.

However, the gap between house prices and relative affordability levels have significantly narrowed in recent years, particularly when one compares Victoria to Queensland.

There have also been recent issues in Queensland covering infrastructure and water which may make the populace think twice about moving north.

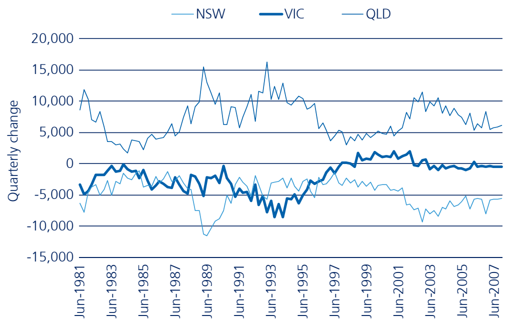
In our opinion, these recent events have sparked a recent downward trend in the rate of population growth. This can be illustrated in the quarterly population change series provided by the ABS, which clearly illustrated the new downtrend.

Forecast

Victoria's annual population growth rate is forecast to rise from the current 1.5% to 1.6% over the next five years. The positive turnaround in net interstate migration levels will hold but not materially increase from this point onwards. Victoria now has the cheapest housing out of the three states and this will ensure that leakages to the northern states will be kept to a minimum.

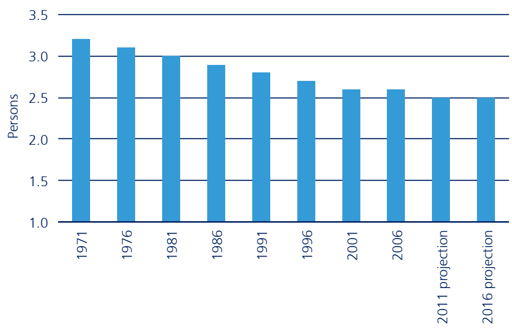
Importantly, Victoria has been greatly benefiting from overseas migration; more so than Queensland and NSW. Up to 15,000 new overseas residents per quarter have been arriving in Victoria and have been primarily locating themselves in Melbourne.

Net Interstate Migration



Source: ABS cat. 3101.0

Average Number of Occupiers per Property



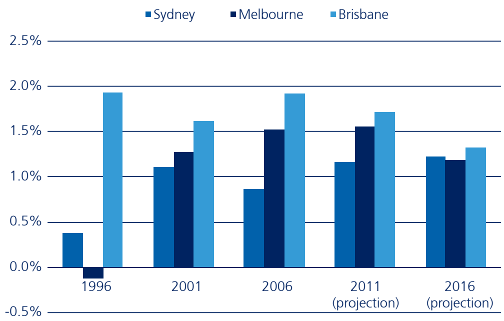
Source: ABS 3101.0, SQM Research

There has been a long term decline in the number of occupiers per household. The trend actually commenced back in 1911 and has been in a slow but constant downward trend to present day.

Much of this decline can be attributed to reductions in completed family size and the increase in one and two-person households. The number of one-person households has grown largely as a result of population ageing combined with longer life expectancy of women over men. Population ageing, increased childlessness among couples and an increase in the number of one-parent families also contributed to the increase in the number of two-person households.

The significance of this is the demand for smaller dwellings has increased and will continue to increase over the medium to longer term, albeit at a small, incremental rate.

Annual Population Change



Source: ABS Census, SQM Research

Demand and Supply

There are a number of methods to measure housing demand in Australia.

Demand over the short term is influenced by interest rates, employment and wage growth as well as government initiatives and announcement such as the First Home Owners Grant scheme and cuts in Capital Gains tax, which can influence the level of investor demand in the sector.

Over the long term, Demographic factors have a large influence over underlying demand as previously discussed.

Absolute population growth rates which, in Australia are significantly influenced by Interstate and Overseas Migration levels and to a lesser extent, the natural rate of population change have one of the largest influences on demand for dwellings.

And housing formation also has a significant influence. As previously discussed the number of persons to each household has been gradually reducing in Australia since 1911.

All of the above determine what our accommodation needs are.

As a snapshot, SQM has estimated and forecasted underlying demand based on the current population in VIC and our estimates based on household size.

What is important in calculating underlying demand is the actual and projected change in population from period to period.

Our estimates are as follows:

Underlying Demand in Victoria		2001	2006	2011 (est.)	2016 (est.)
Victorian Population		4,612,097	4,932,442	5,300,000	5,620,000
change (actual and projected)			320,345	367,558	320,000
(% change)			6.9%	7.5%	6.0%
(annual % change)			1.4%	1.5%	1.2%
Household size		2.6	2.6	2.50	2.50
Estimated accommodation required (No. of dwellings)		1,773,883	1,897,093	2,120,000	2,248,000
Total New Stock Required	5-year change		123,210	222,907	128,000
	Annual change		24,642	44,581	25,600

The forecasts reveal that underlying demand for dwellings should rise from 24,600 dwellings (houses and units) per year between 2001 and 2006 to over 44,000 per year between 2007 and 2011.

Our primary assumptions are that the Victorian annual population growth will rise by 1.5% a year to 2011. This was the current rate as reported by the ABS for 2007.

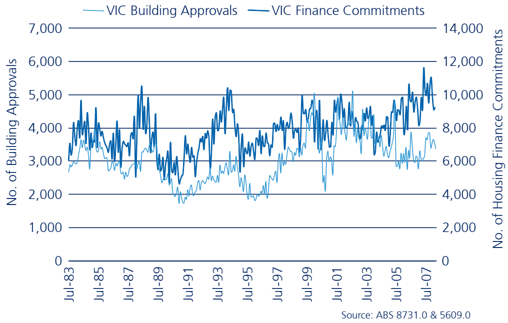
This is a significant change from previous years' requirements, driven predominantly by an improving Victorian economy, reduced outflows from net interstate migration levels, increases in the overseas immigration intake and a slight decline in the household size.

Is such a change plausible or out of the realms of reality?

The answer may lie in what is actually happening right now in Victoria.

Let us consider current housing finance approvals against building approvals. Both measurements are strong leading indicators of demand and supply.

Victorian Building Approvals Vs Housing Finance – Demand Running Ahead of Supply



The chart reveals that Victorian housing finance, excluding recent weakness, has been following an upward trend since the end of 2003. Unlike NSW, which is recording a three-year slump in building, Victorian approvals have been keeping with demand.

Building Approvals

While being a supply indicator, building approvals tend to be a very demand sensitive measurement. Gone are the days when apartments were built on speculation. Pre-approval commitments demanded by the banking sector mean builders and developer will not proceed to commencements unless there is signed up interest.

Historical Unit Prices

Melbourne's – Historical Unit Price Performance				
Quarter	Lower Quartile Price	Median Price	Upper Quartile Price	Inflation Index
Jun-96	$84,000	$117,000	$167,000	119.8
Jun-97	$88,000	$125,000	$181,250	120.2
Jun-98	$100,000	$140,000	$198,000	121
Jun-99	$118,000	$167,000	$249,500	122.3
Jun-00	$131,500	$190,000	$279,500	126.2
Jun-01	$154,000	$220,235	$316,000	133.8
Jun-02	$190,000	$265,000	$360,000	137.6
Jun-03	$202,500	$273,000	$370,000	141.3
Jun-04	$210,000	$275,000	$365,000	144.8
Jun-05	$217,500	$285,000	$372,000	148.4
Jun-06	$227,850	$299,950	$400,000	154.3
Jun-07	$245,000	$335,000	$435,000	157.5

Year	Lower Quartile		Median		Upper Quartile		Inflation
	Compounded Capital Growth Rate (1996 base yr)	12-month % change	Compounded Capital Growth Rate (1996 base yr)	12-month % change	Compounded Capital Growth Rate (1996 base yr)	12-month % change	Compounded Capital Growth Rate (1996 base yr)
1997	4.8%	4.8%	6.8%	6.8%	8.5%	8.5%	0.3%
1998	9.1%	13.6%	9.4%	12.0%	8.9%	9.2%	0.5%
1999	12.0%	18.0%	12.6%	19.3%	14.3%	26.0%	0.7%
2000	11.9%	11.4%	12.9%	13.8%	13.7%	12.0%	1.3%
2001	12.9%	17.1%	13.5%	15.9%	13.6%	13.1%	2.2%
2002	14.6%	23.4%	14.6%	20.3%	13.7%	13.9%	2.3%
2003	13.4%	6.6%	12.9%	3.0%	12.0%	2.8%	2.4%
2004	12.1%	3.7%	11.3%	0.7%	10.3%	-1.4%	2.4%
2005	11.1%	3.6%	10.4%	3.6%	9.3%	1.9%	2.4%
2006	10.5%	4.8%	9.9%	5.2%	9.1%	7.5%	2.6%
2007	10.2%	7.5%	10.0%	11.7%	9.1%	8.7%	2.5%

Source: RP Data, Australian Bureau of Statistics

– Since 1996 unit prices in Melbourne have grown between 9.1% p.a. and 10.2% p.a. using a compounded measure of returns.

– The lower end of the market has actually outperformed the middle and top ends.

– Between 2004–2006, Melbourne unit prices slowed in growth to under 5% p.a., predominantly due to the interest rate rises over this period and an over supply of stock.

Factors that have caused unit price movements

SQM Research have conducted a correlation analysis using the Pearson's correlation co-efficient between the Australian East coast (including Melbourne, Sydney and Brisbane) unit price movements between 1996 and 2007 and various economic variables to understand the factors that have influenced price movements.

Effectively, results revealed that GDP growth, wages and employment growth have a significant influence over a short period of time, while demographic factors have an underlying influence over a longer period of time with a greater lag effect.

Economic Variable	Correlation Co-efficient	Time Lag (on Economic Variable)
Gross Domestic Product	85%	6 months
Cash Rate Target	-69%	12 months
Housing Finance	63%	6 months
Building Approvals	59%	12 months
Local Ordinary Weekly Fulltime Wages	49%	12 months
Affordability	-81%	3 months
Employment Growth	83%	9 months
Population Growth	62%	15 months

Source: SQM Research

It should be noted the factors are not mutually exclusive and can have ripple impacts upon other variables, which in turn can have a 'multiplier' effect on unit prices. One individual factor can also be overridden by another competing causation 'pulling the other way'.

Such is the case with the three interest rate rises of 2006. Normally a 75 basis point increase would have a negative influence upon unit prices. However, it appears the market was saved by a stronger than expected economy (as measured by GDP) and employment growth continuing its strong run.

Melbourne Unit Price Forecasts					
Cash Rate @ 7.25% (May 2008)	0 year (2008 March Qtr)	1 year (2009)	3 years (2011)	8 years (2016)	10 years (2018)
No Interest Rate Rise	$335,000	$346,000	$416,000	$488,000	$595,000
0.25% Interest Rate Rise*		$345,000	$395,000	$425,000	$527,000
0.5% Interest Rate Rise*		$322,000	$335,000	$410,000	$490,000
1.0% Interest Rate Rise*		$315,000	$326,000	$395,000	$475,000
2.0% Interest Rate Rise*		$298,000	$305,000	$355,000	$415,000

Future time from March Qtr 2008	Year 1	Year 3	Year 7	Year 10
Compound growth rate (assuming no interest rate rise)	3.3%	7.5%	4.8%	5.9%

* Within 12 months

Analysis and conclusion

After conducting an interest rate sensitivity analysis and overall multi-linear regression analysis using the factors discussed earlier in the report we found the following:

- Melbourne unit prices are likely to grow at 4.8% p.a. to 2016.
- Melbourne unit prices are at this stage, sensitive to interest rate movements. Additional rate rises of 0.5% or more would see unit price falls to 2010.
- Projections for 2011 have been influenced by an above trend increase in wage growth driven by higher than expected CPI.

Overall, while interest rates are no doubt a factor upon housing demand, as long as unemployment remains low and GDP continue to rise above 3.0%, the residential unit market will move forward in terms of unit price growth over and above the inflation rate.

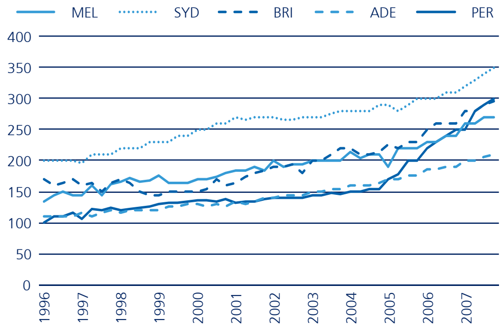
That said, it is important to take into account what would happen if additional rates rises started to impact the overall economy and in particular unemployment. If there was an impact then it can be safely said that our forecasts would not be met and that a continued downturn would occur well beyond 2009.

While interest rates and the economy are important to unit prices, the rate of employment growth, incomes and population growth are a significant influence on the market over the medium to longer term. Our forecasts are particularly sensitive to movements in the populace between states over the longer term.

It is noted that in SQM Research's opinion Southbank is not as influenced by interest rate movements compared to Melbourne as a whole.

Melbourne Rents

National Weekly Unit Rents



Source: REIA

Unit Rents have been rising in Melbourne at approximately 5.4% p.a. since 2001. During this period, there have been episodes where rents have completely stalled, as was the case between 2002 and 2004.

However, recently rents have surged with a 12.9% p.a. increase just in the last three years. Median 2-bedroom unit rents are now estimate at $285 a week (up from $190 in 2005) with the inner city median rent at $365 a week.

The primary reason for the turnaround (recovery in the rental market) was the downturn in the Melbourne property market over this time, which discouraged investors and would-be buyers. This combined with near record low affordability nationwide has also forced would be buyers into longer term renters.

Importantly, the 2002–2004 Melbourne downturn also discouraged developers and builders who were no longer able to build at a positive profit margin. Supply of new unit stock has therefore considerably fallen over the past three years as previously discussed, putting further pressure on rents.

Forecast Rents and Vacancy Rates Given a Change in Interest Rates

Overall we are forecasting for the next 12 months that rents will rise by another 10.7% on the back of a continuing low vacancy rates, caused by a surge in demand for rental accommodation and stalled supply of new unit rental stock.

It is possible rents may rise much faster than this; possibly rising as fast as 30% over the next three years on the back of further rate rises.

Up to a point, rate rises positively influence rents as would be home buyers and investors hold of from their purchase decisions, thereby increasing demand for rental accommodation, while decreasing supply. However, if interest rates rose to the point where the economy went into recession, then rents would stall or possibly fall.

Over the longer term, we believe that Melbourne rents will rise by approximately 5.2% p.a. to 2016. Our forecast to 2011 is 7.7% p.a. based on the current shortage of stock in the Melbourne market place.

Melbourne Rent Forecasts

	0 year (2008 March Qtr)	1 year (2009)	3 years (2011)	8 years (2016)	10 years (2018)
No Interest Rate Rise	$280	$310	$350	$410	$465
0.25% Interest Rate Rise*		$360	$420	$465	$520
0.5% Interest Rate Rise*		$375	$435	$485	$555
1.0% Interest Rate Rise*		$380	$380	$485	$555
2.0% Interest Rate Rise*		$380	$370	$485	$555

Future time from June Qtr 2007	Year 1	Year 3	Year 8	Year 10
Cumulative Compound rental growth rate	10.7%	7.7%	4.9%	4.7%

* Within 12 months

Disclaimer

Although all reasonable care has been taken to ensure that the information contained in this document is accurate, neither SQM Research nor its respective officers, advisers or agents makes any representation or warranty, express or implied as to the accuracy, completeness, currency or reliability of such information or any other information provided whether in writing or orally to any recipient or its officers, advisers or agents.

SQM Research and its respective officers, advisers, or agents do not accept:

– any responsibility arising in any way for any errors in or omissions from any information contained in this document or for any lack of accuracy, completeness, currency or reliability of any information made available to any recipient, its officers, advisers, or agents; or

– any liability for any direct or consequential loss, damage or injury suffered or incurred by the recipient, or any other person as a result of or arising out of that person placing any reliance on the information or its accuracy, completeness, currency or reliability.

This document contains statements which reflect current views and opinions of the property and the market which is current at the time of its release but which may relate to intended or anticipated future performance or activities. Such statements and information provided have been estimated only and are based on certain assumptions and SQM Research's analysis of the information available at the time this document was prepared and are subject to risk and uncertainties given their anticipatory nature. Actual results may differ materially from current indications due to the variety of factors. Accordingly, nothing in the document is or should be relied upon as a promise or representation as to the future or any event or activity in the future and there is no representation, warranty or other assurance that any projections or estimations will be realised.

By accepting the opportunity to review this document the recipient of this information acknowledges that:

– it will conduct its own investigation and analysis regarding any information, representation or statement contained in this or any other written or oral information made available to it and will rely on its own inquiries and seek appropriate professional advice in deciding whether to further investigate the property in question.

– to the extent that this document includes forecasts, qualitative statements and associated commentary, including estimates in relation to future or anticipated performance, no representation is made that any forecast, statement or estimate will be achieved or is accurate, and it is acknowledged that actual future outcomes may vary significantly from the estimates and forecasts and accordingly, all recipients will make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies which may effect the future returns of the property.

SQM Research has no obligation to provide the recipient with any access to additional information or to release the results of or update any information or opinion contained in this document.

It should be noted that none of the property estimates should be constituted as a valuation or a market appraisal. This report is not a valuation.

SQM Research Pty Limited ACN 122 592 036
Level 9, 10 Castlereagh Street, Sydney, 2000
www.sqmresearch.com.au

SQM Research is an independent property advisory and forecasting research house which specialises in providing accurate property related advice, research and data to financial institutions, property developers and real estate investors.

It is founded and run by the Country's leading and most recognised property Analyst, Louis Christopher.