APPENDIX E –

MARKET ANALYSIS & PROJECT POSITIONING REPORT

Water Street Fortitude Valley

Market analysis & project positioning

Prepared exclusively for: Metro Property Developments

resolution™
research strategists

Date: 22nd August , 2011

Introduction

- Metro Property Developments are proposing to develop a key site along Water Street in Fortitude Valley which falls under the separate planning leadership of the Urban Land Development Authority (ULDA).
- It is envisaged that the site will be transformed over a five to seven stage period that will see the injection of up to 1,000 apartment products with supporting commercial and retail amenity. The following development opportunity analysis comprises a detailed quantitative research study of the current and future macro / micro economic market conditions of Fortitude Valley in order to pinpoint underling demand for the site.

Executive Summary

- Throughout Queensland, Brisbane is the strongest growth area, demonstrating an increase in population of around 21,000. More importantly, Brisbane is the fastest growing capital city in Australia. Population and economic growth are well above the Australian average.
- According to research undertaken by us in June 2011, Brisbane is now the most affordable residential market when compared with both Melbourne and Sydney.
- Among the state capitals, BIS Shrapnel forecasts Brisbane, Sydney and Perth will show the strongest price growth through to 2014.
- Latest projections by the Queensland Government forecast that by 2031, more than 22,000 new residents will have moved into Fortitude Valley.
- In addition to the rise in permanent residential population, a further 75,000 new jobs are anticipated to be created in the Valley over the next 20 years as the suburb forms the natural expansion of the Brisbane CBD bringing with it, massive amounts of infrastructure and investment.
- Overwhelming, apartments represent the majority of dwellings (88%) within Fortitude Valley and rental households were overwhelming the dominant tenure type across Fortitude Valley (55% compared to Australian average of 27%).
- At the time of the 2006 Census, the median individual income within Fortitude Valley was 46% higher than the Australian average. With the processing of the 2011 Census we anticipate this gap will have widened further.
- The median age has dropped by a dramatic 12 years from 41 in 1996 to 29 in 2006 reflecting the area's popularity with the younger demographic attracted to its inner city location and proximity to employment nodes and lifestyle amenity.
- Furthermore, the number of couples with no children households has increased 633% over 12 years (quantum) and the number of lone person households has increased a staggering 249% (quantum over 12 years.
- Of the twenty one suburbs that comprise the Brisbane inner city, Fortitude Valley is ranked as the fourth most affordable market. The median price was recorded at $330,000 in 2006. Since then, the annual median price growth has averaged 5.3% to reach $405,000 in 2010.
- Sales volumes within Fortitude Valley have averaged 298 apartments per annum. The market peaked in 2007 with 408 apartments, and has reflected below average sales volumes since this time. These below average sales volumes are a direct reflection of no new injections of supply into the market place since the GFC and could be indicative of a pent up level of underlying demand may be prevalent.
- Across the past five years to June 2011, the average annual growth in median weekly rents for both the one and two bedroom apartment markets have increased at a rate of 6.6% and 6.2% respectively. This rate of

growth places the market at risk as becoming out of reach of the broader general market due to declining affordability.

- According to Australian Property Monitor's data, Fortitude Valley is one of only two metropolitan Brisbane markets achieving gross rental yields in excess of 5.7% – second only to the Brisbane CBD. This is serving to cement Fortitude Valley as a prime investment market within Queensland, with investment from regional Queensland (71%) now eclipsing local investment (14%).
- Brisbane's Inner City is forecast to reach record low vacancy rates (nearing 1%) between 2012 and 2013 and is currently, and is forecast to continue to be, the most undersupplied residential rental market across Queensland.
- There are just over 7,944 apartment products which are either currently in the market or earmarked for entry prior to December 2012. Of this, the Inner North is representative of 42% or just over 3,350 apartments of which, Fortitude Valley itself accounts for only 11% or 855 of the total.
- According to the latest stock profile information made available, one and two bedroom product types are proportionately represented across the inner-city at 47% each. The three bedroom product type is the least represented market across the inner-city and is reflective of the price point driven nature of the market.
- Fortitude Valley's apartment market, although still one of the most affordable apartment markets across inner Brisbane, is starting to showing signs of deteriorating affordability due to the uplift in prices of the composition of the product in the off-the-plan market.
- The natural net effect this will be upwards pressure on rents, which is likely to result in a slowing rate of population growth amongst the younger workers who have traditionally called Fortitude Valley home and, in turn have been the key economic drivers of Fortitude Valley business.
- More importantly, the provision of one-bedroom apartment types have overwhelmingly demonstrated themselves to the most popular choice for investors who currently account for around 95% of all off-the-plan sales, and, in turn, are driving construction activity and fuelling jobs growth across the inner city.
- The construction price of two-bedroom apartments is placing pressure on the retail price of these products and the volume and size of these apartment types will require close examination in order to determine their appropriateness for the local market's needs.
- As we understand it, the proposed development contains around 1,000 apartments to be delivered to the market across 5 to 7 stages.
- Historical evidence shows that off-the-plan sales in Fortitude Valley account for between 1% and 55% of total sales and averaging 23% over the past ten years.
- Total sales volumes within Fortitude Valley have been recorded at an average of 381 sales annually with off-the-plan sales average 107 annually.
- The peak sales volume of 692 in 2003 provides evidence of strong underlying demand, more importantly, underlying demand for off-the-plan product with almost half (46%) of all sales made in the off-the-plan market (or 317 sales).
- Post GFC sales volumes of settled sales have tracked under the long term average, however these sales volumes do not account for the off the plan sales secured across both Mosaic and M&A which are believed to total around 275 sales at the time of undertaking this research.
- This data suggests that the proposed annual product injections of between 150 and 240 represent no threat to market oversupply, contingent upon the introduction of product at highly competitive price points and designs to those proposed within the subject development.

Brisbane Economic Fundamentals

- Throughout Queensland, Brisbane is the strongest growth area, demonstrating an increase in population of around 21,000. More importantly, Brisbane is the fastest growing capital city in Australia. Population and economic growth are well above the Australian average.
- In the year to June 2009, assumed net migration resulted in a gain of around 11,839 (or by 2.0%) people suggesting that Brisbane still remains a popular destination for migrants. International migration has been declining due to a combination of changes to immigration policies by the federal government and the increase in value of the Australian dollar.
- Interstate migration, although somewhat sporadic over recent years is forecast to increase in line with declining rates of housing affordability within both Sydney and Melbourne. These two cities have historically, and will continue to, account for the largest proportion of interstate migrations to Queensland.
- According to research undertaken by us in June 2011, Brisbane is now the most affordable residential market when compared with both Melbourne and Sydney.
- Among the state capitals, BIS Shrapnel forecasts Sydney, Perth and Brisbane will show the strongest price growth through to 2014. These markets are considered to currently building new dwellings at well under the level of underlying demand, while price growth has also been relatively weak in these cities in recent years, causing affordability to be improved from previous lowest levels.[1]
- Brisbane is the economic engine room of Queensland, accounting for almost half (47%) of the state's economy or around $104 billion annually.
- In the 12 months to June 2010, total employment in Brisbane's metropolitan area increased by around 15,000 jobs, accounting for some 70.1% of the State's employment growth.
- This growth in employment is expected to continue driven, in the main by rising incomes in Brisbane (when compared with Sydney) attracting out-of-state highly skilled labour pool.

1 BIS Shrapnel Residential Property Forecasts 2011 - 2014

Brisbane LGA – Apartment Market Overview

- Between 2006 and 2010 the median unit price across the Brisbane LGA has grown by an average of 6.3% annually to reach $413,000 at the conclusion of 2010.
- An average of 10,714 apartments has sold annually across the LGA between 2006 and 2010 with the marketing peaking in 2007 recording 14,542 transactions.
- 2010 sales volumes were the lowest across the study period and are a reflection of the flow-on effects of the GFC, the net effect of the pulled forward first home buyer activity and an undersupply of new dwellings injected into the market place.
- Importantly, between 2007 and 2008, Brisbane's apartment market remained resilient to the GFC reflecting an average annual growth rate of 6%.
- Average annual returns across Brisbane between 2006 and 2010[1] were calculated at 13% which was higher than that recorded in Sydney (7.1%), Melbourne (11.9%), Adelaide (12%), Canberra (11.5%) and Hobart (10.1%). Only two Australian capital cities recorded a 5 year average annual return higher than Brisbane – Perth and Darwin at 16% and 21% respectively.

Brisbane LGA – Apartment Market Performance 2006 to 2010

Year	Sales Volumes	Median Price	Avg. Annual median price growth
2006	11,916	$325,000	NA
2007	14,542	$369,000	14%
2008	8,437	$390,000	6%
2009	10,805	$390,000	0%
2010	7,872	$413,000	6%
Average 2006 – 2010	**10,714**		**6.3%**

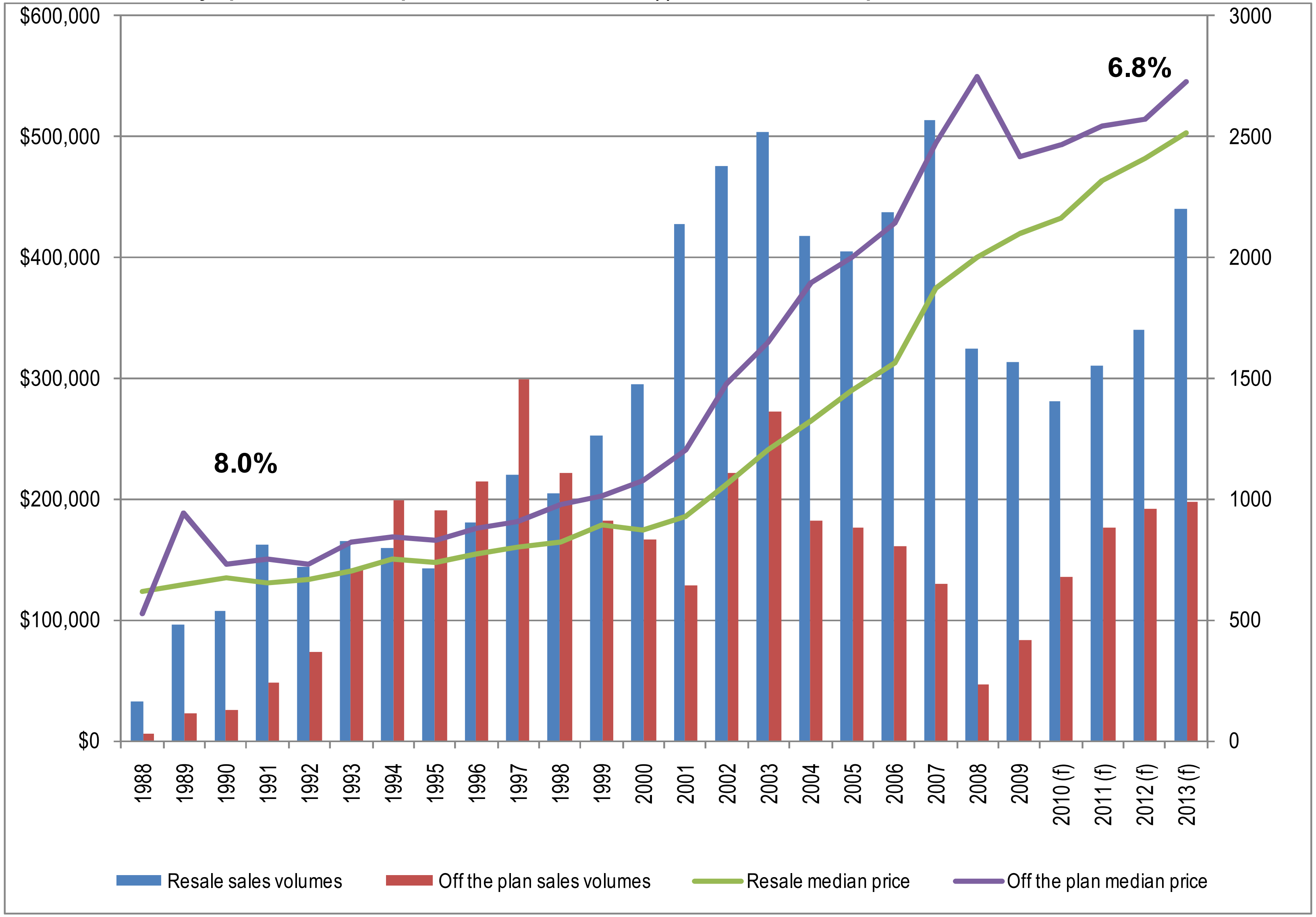
Source: Resolution Research*: The Valuer General's Office – August 2011*

Brisbane's Inner City Market Performance – Resale vs off-the-plan

- As illustrated in the graph overleaf, the price differential between off-the-plan and apartment resales is forecast to be at its lowest point since 1990 at 6.8% in the middle of 2012.
- This is significantly lower than at the market peak in 2007 when the same differential was recorded at 43.2%.
- The value proposition for off-the-plan apartment purchases thus is strong with real potential for capital appreciation during construction.

[1] **Annual and average returns** incorporate the growth in median prices (capital growth); together with the percentage returns derived from net rental income, for two bedroom other dwellings. Capital growth is derived for each capital city from quarterly median dwelling prices.

Brisbane's inner city apartment market performance 1990 – 2013(f) – resale vs off-the-plan



***Source: Resolution** – Valuer General's Department (Qld) - July 2011*

Fortitude Valley Demographic Profile

- According to the latest figures provided by the Queensland Government, since 2001, Fortitude Valley's population has grown by an average rate of 7.9% annually, to reach 6,192 by 2009.
- By 2031, more than 22,000 new residents will have moved into Fortitude Valley – an estimated 1,000 new residents per year.
- In addition to the rise in permanent residential population, a further 75,000 new jobs are anticipated to be created in the Valley over the next 20 years as the suburb forms the natural expansion of the Brisbane CBD bringing with it, massive amounts of infrastructure and investment.

Fortitude Valley Population Growth 2001 to 2009

Estimated resident population				Average Annual growth	
2001	**2006**	**2007**	**2009**	**2001 to 2009**	**2007 to 2009**
3,106	5,673	5,931	6,192	7.9%	4.4%

- According to Census data provided by the Australian Bureau of Statistics the median age of Fortitude Valley residents has declined dramatically from 41 years to 29 years, with 61% of the residents aged between 15 and 25 years of age – a clear indication of the area's huge increase in popularity as a residential location for Gen X's and Gen Y's.
- As outlined in the below table, the overwhelming majority of dwellings (88%) within Fortitude Valley are comprised of apartments – a reflection of the acceptance of higher density living and its inner city location.

Dwelling Characteristics – Fortitude Valley

Dwelling Type	Number	Ratio
Detached house	142	6%
Semi-detached, terrace house, townhouse	46	2%
Flat, unit or apartment	1,961	88%
Total	**2,240**	**100%**

*Source: **Resolution Research**: The Australian Bureau of Statistics – August 2010*

- At the time of the 2006 Census, the median individual income within Fortitude Valley was 46% higher than the Australian average. With the processing of the 2011 Census we anticipate this gap will have widened further.
- Rental households were overwhelming the dominant tenure type across Fortitude Valley with just over 55% of all dwellings occupied by renters. This is significantly higher than the Australian average of 27%.
- Lone person households overwhelming accounted for the largest proportion of occupied dwellings within Fortitude Valley, representing 44% (almost half) of all occupied dwellings.
- Couples without children accounted for 26% of all households and group/share households accounted for 21% of all occupied dwellings within Fortitude Valley.
- Couples with children and single parents accounted for 9% collectively of all occupied dwellings.
- The implications of these demographics indicate that demand within Fortitude Valley is inherently for one and two bedroom rental apartments occupied by persons earning well above average incomes and seeking a convenient location with an outstanding level of entertainment, lifestyle and retail amenity.

Employment profile – Fortitude Valley residents

Occupation	2006 Census Count	Ratio
Managers	406	13%
Professionals	1,036	33%
Technicians & trades workers	275	9%
Community & personal service workers	334	11%
Clerical & administrative workers	495	16%
Sales workers	294	9%
Machinery operators & drivers	63	2%
Labourers	180	6%
Not stated	56	2%
Total	**3,139**	**100%**

Source: Resolution Research *& The Australian Bureau of Statistics – August 2010*

- The table below reflects the significant change in demographics between 1996 and 2006 throughout Fortitude Valley.
- Of particular note are the significant changes in couples with no children households, lone person households and group households, all of which reflect large increases at the expenses of traditional family household types.
- The median age has dropped by a dramatic 12 years from 41 in 1996 to 29 in 2006 reflecting the area's popularity with the younger demographic.

Fortitude Valley – demographic change 1996 to 2006

	1996	2001	2006
Median age	41	32	29
Median individual weekly income	$252	$458	$688
Median weekly household income	$469	$797	$1,149
Avg household size:	1.8	1.8	1.8
Couple no kids	76	269	557
Couple with kids	45	87	133
Single parent	43	48	68
Lone person	276	607	962
Group household	77	258	452

Source: Resolution Research *& The Australian Bureau of Statistics – August 2010*

Fortitude Valley - Buyer Profiles and Origins – 2006 to 2010

- When compared with other inner city apartment markets, Fortitude Valley records one of the highest rates of owner-resident purchases.
- Since 2006, the rates of owner-resident purchases have increased from 34% in 2006 to 55% in 2010.
- This can be attributable to two main factors:
  - The area's huge appeal across young urban dwellers
  - The area's relative affordability in comparison to the rest of the inner city.
- The strength of owner resident demand in 2009 can also be directly attributed to the Federal Government's extension of the First Home Owner Grant stimulus.
- Overwhelmingly the investor market segment is Brisbane based with only a fraction of sales occurring outside of South-East Queensland across each of the five years.
  - Interestingly however, this appears to be in a state of change with regional Queensland accounting for the vast majority in 2010 reflecting Fortitude Valley's growing appeal and reputation as a key investment market within Queensland.

Fortitude Valley Apartment Buyer Profiles – Settled Sales – 2006 to 2010

Purchase Type	2006	2007	2008	2009	2010
Investor	66%	65%	63%	46%	44%
Owner Resident	34%	35%	37%	54%	55%

*Source: **Resolution Research** – The Valuer General's Office – August 2011*

Fortitude Valley Apartments Investor Origins Profiles – Settled Sales – 2006 to 2010

Region	2006	2007	2008	2009	2010
South East Queensland	65%	80%	93%	76%	14%
Regional Queensland	17%	2%	0%	15%	71%
Interstate	16%	16%	7%	7%	11%
International	2%	1%	0%	2%	4%

*Source: **Resolution Research** – The Valuer General's Office – August 2011*

Fortitude Valley Apartment Market Performance

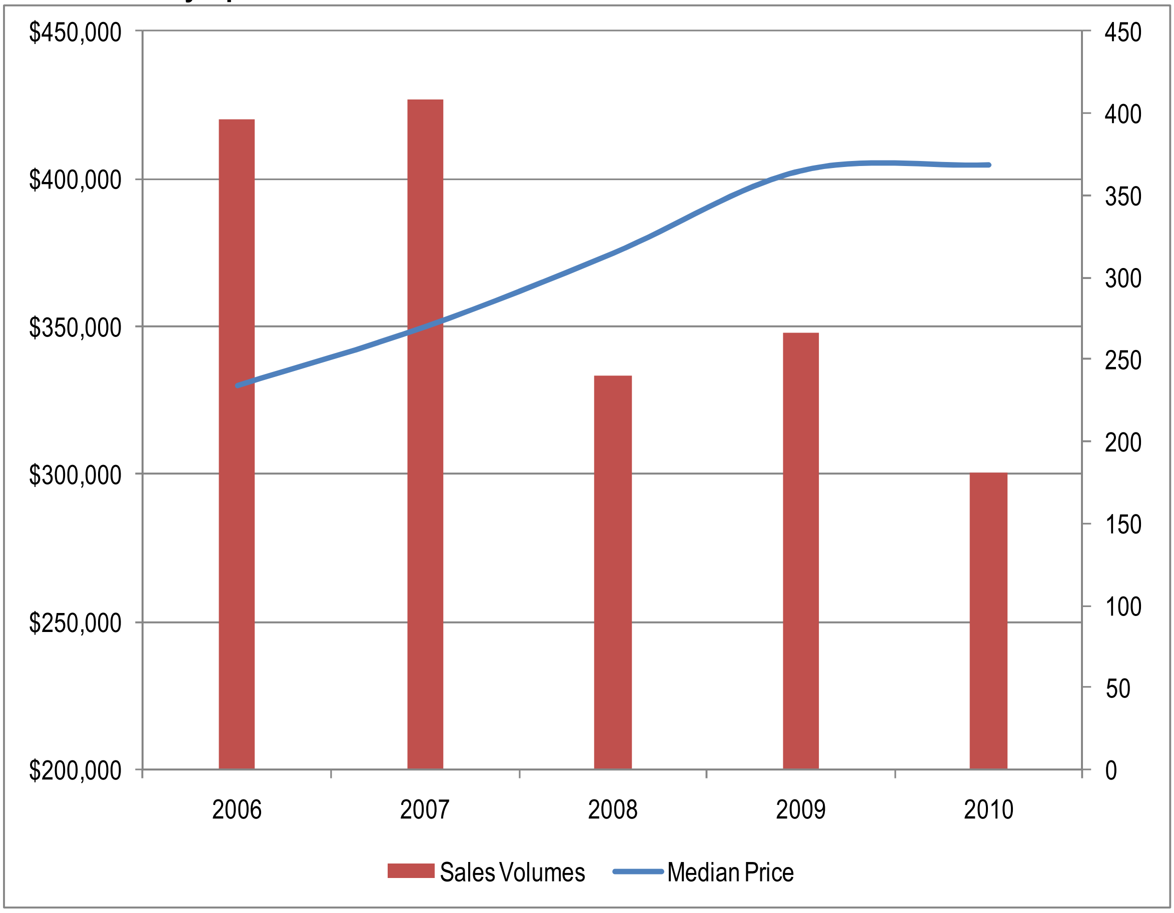
- For the year ended December 2010, the median price of an apartment within Fortitude Valley was recorded at $405,000.
- On average, over the past five years, annual median price growth has been recorded as 5.3%.
- Sales volumes over the past five years have averaged 298 apartments per annum. The market peaked in 2007 with 408 apartments, and has reflected below average sales volumes since this time.
  - These below average sales volumes are a direct reflection of no new injections of supply into the market place, suggesting that a pent up level of underlying demand may be prevalent.

Fortitude Valley Apartment Market Performance 2006 to 2010

Year	Sales Volumes	Median Price	Average Annual Median Price Growth
2006	396	$330,000	n/a
2007	408	$350,000	6.1%
2008	240	$375,000	7.1%
2009	266	$403,000	7.5%
2010	181	$405,000	0.5%
Average 2006 - 2010	**298**		**5.3%**

Source: ***Resolution Research*** *– The Valuer General's Office – August 2011*

Fortitude Valley Apartment Market Performance 2006 to 2010



Source: ***Resolution Research*** *– The Valuer General's Office – August 2011*

Proposed development product volumes and absorption

- As we understand it, the proposed development contains around 1,000 apartments to be delivered to the market across 5 to 7 stages.
- Historical evidence shows that off-the-plan sales in Fortitude Valley account for between 1% and 55% of total sales and averaging 23% over the past ten years.
- Total sales volumes within Fortitude Valley have been recorded at an average of 381 sales annually.
- Off-the-plan sales average 107 annually.
- The peak sales volume of 692 in 2003 provides evidence of strong underlying demand, more importantly, almost half (46%) of all sales were made in the off-the-plan market (or 317 sales).
- Post GFC sales volumes of settled sales have tracked under the long term average, however these sales volumes do not account for the off the plan sales secured across both Mosaic and M&A which are believed to total around 275 sales at the time of undertaking this research.
- This data suggests that the proposed annual product injections of between 150 and 240 represent no threat to market oversupply, contingent upon the introduction of product at highly competitive price points and designs to those proposed within the subject development.

Proposed development product volumes and absorption

Year	Off the plan sales volumes	Total market	% off the plan vs total market
2001	17	249	7%
2002	257	468	55%
2003	317	692	46%
2004	157	460	34%
2005	113	449	25%
2006	96	396	24%
2007	64	408	16%
2008	24	240	10%
2009	2	266	1%
2010	25	181	14%
Average	**107**	**381**	**23%**

*Source: **Resolution Research** – The Valuer General's Office – August 2011*

Fortitude Valley in the context of the Brisbane Inner City Apartment Market Performance – 2006 to 2010

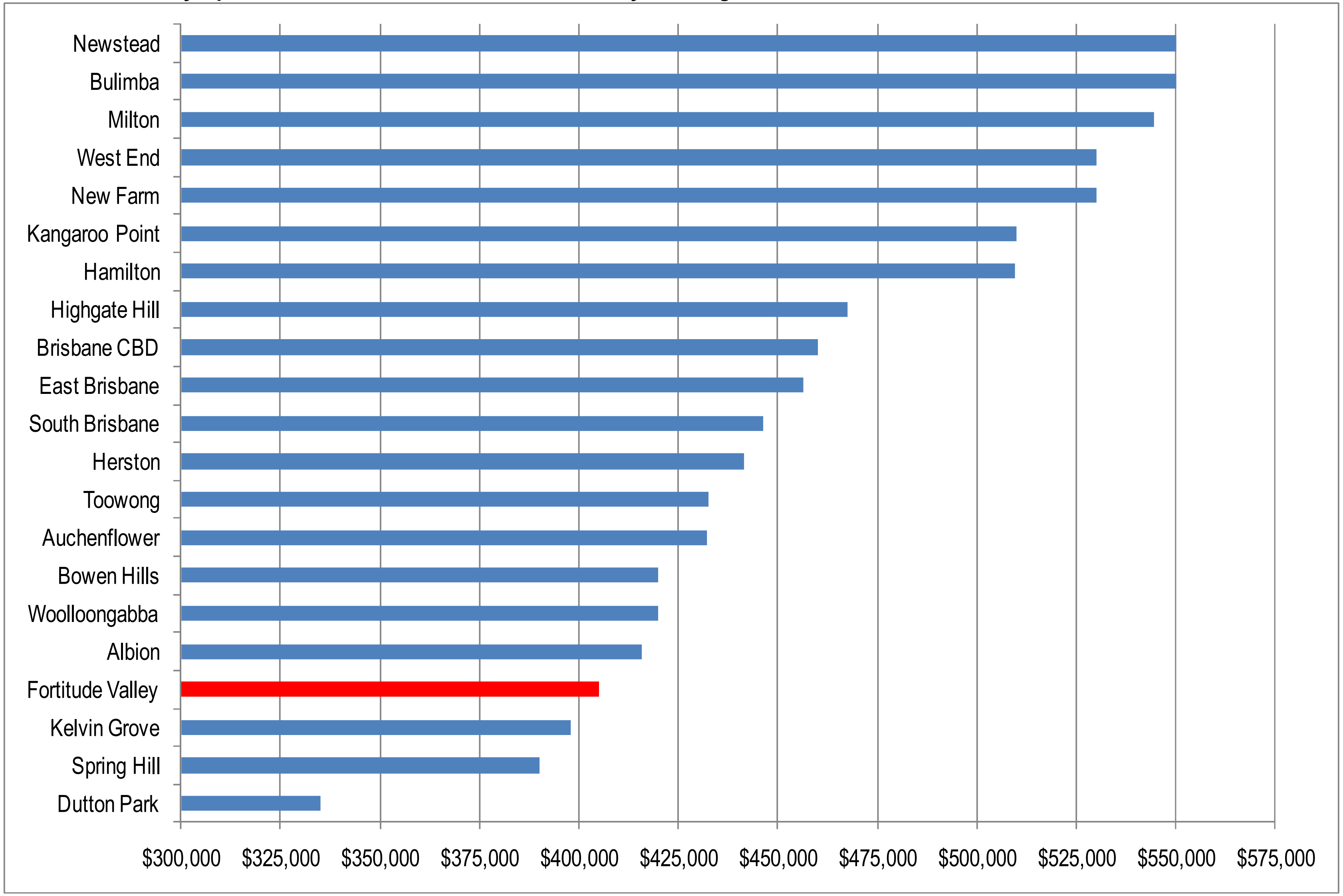
- Of the twenty one suburbs that comprise the Brisbane inner city, Fortitude Valley is ranked as the fourth most affordable market.
  - Given the area's existing amenity and forecast population growth, the area is considered to have very strong potential for median price growth over coming years.
- The median price was recorded at $330,000 in 2006. Since then, the annual median price growth has averaged 5.3% to reach $405,000 in 2010.

Brisbane Inner City Apartment Market Performance Affordability Ranking 2001 to 2010

Rank	Suburb	2006 Median Price	2010 Median Price	Total Median Price Growth 2006-2010	Average Annual Median Price Growth 2006-2010
1	Dutton Park	$230,000	$335,000	45.7%	15.5%
2	Spring Hill	$285,000	$390,063	34.7%	8.6%
3	Kelvin Grove	$350,000	$397,900	13.7%	3.6%
4	Fortitude Valley	$330,000	$405,000	24.2%	5.3%
5	Albion	$312,000	$416,000	28.8%	7.5%
6	Woolloongabba	$326,400	$420,000	20.0%	7.4%
7	Bowen Hills	$350,000	$420,000	35.6%	4.8%
8	Auchenflower	$332,250	$432,000	30.1%	7.5%
9	Toowong	$322,500	$432,500	34.6%	7.8%
10	Herston	$285,000	$441,500	49.8%	12.4%
11	South Brisbane	$385,385	$446,250	15.8%	4.2%
12	East Brisbane	$312,500	$456,250	46.2%	10.0%
13	Brisbane CBD	$430,000	$460,000	22.5%	1.8%
14	Highgate Hill	$382,000	$467,500	9.8%	5.5%
15	Hamilton	$375,000	$509,500	29.1%	8.4%
16	Kangaroo Point	$395,000	$510,000	36.5%	6.7%
17	New Farm	$390,000	$530,000	35.9%	8.3%
18	West End	$447,750	$530,000	18.3%	5.0%
19	Milton	$399,500	$544,500	36.0%	14.5%
20	Bulimba	$440,000	$550,000	25.0%	5.8%
21	Newstead	$421,000	$550,000	30.3%	7.3%

*Source: **Resolution Research** – The Valuer General's Office – August 2011*

Brisbane Inner City Apartment Market Performance Affordability Rankings – 2010 Calendar Year



Source: Resolution – Valuer General's Department – August 2011

Fortitude Valley Rental Market Performance

- Across the past five years to June 2011, the average annual growth in median weekly rents for both the one and two bedroom apartment markets have increased at a rate of 6.6% and 6.2% respectively.
- According to the most recent data made available by the Residential Tenancies Authority, the median weekly rent for a one and two bedroom apartment within Fortitude Valley was recorded at $340 and $470 respectively.
- As demonstrated on the graph overleaf, these figures are forecast to rise to $405 for a one bedroom and $515 for a two bedroom apartment by 2014.
- Additionally, according to Australian Property Monitor's data, Fortitude Valley is one of only two metropolitan Brisbane markets achieving gross rental yields in excess of 5.7% – second only to the Brisbane CBD**.**
    - This is serving to cement Fortitude Valley as a prime investment market within Queensland, with investment from regional Queensland (71%) now eclipsing local investment (14%) as outlined earlier in this report.
- With strong underlying rental demand, low injections of new supply in recent years and a high level of lifestyle amenity existing, this is forecast to continue throughout the short to medium term.

Fortitude Valley – Rental Market (median weekly rents) Performance – 2006 to 2011

Apartment Type	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11
One Bedroom	$ 250	$ 270	$ 320	$ 350	$ 340	$ 340
Two Bedroom	$ 350	$ 375	$ 430	$ 450	$ 450	$ 470

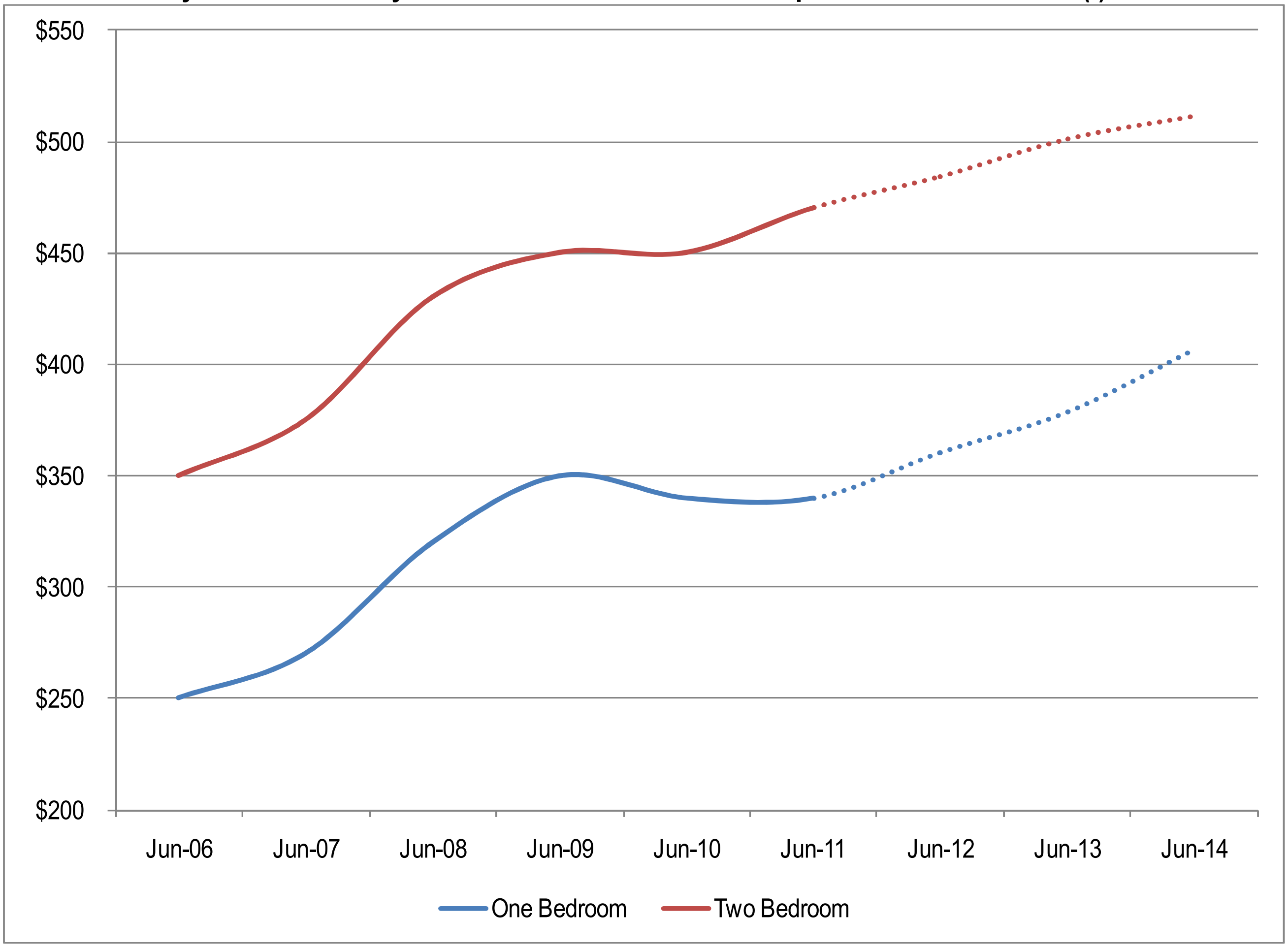
*Source: **Resolution Research** – The Residential Tenancies Authority – August 2011*

Fortitude Valley – Rental Market (median weekly rents) Growth – 2006 to 2011

Period	1 bedroom	2 bedroom
Jun 06 - 07	8.0%	7.1%
Jun 07- 08	18.5%	14.7%
Jun 08 - 09	9.4%	4.7%
Jun 09 - 10	-2.9%	0.0%
Jun 10 - 11	0.0%	4.4%
Average growth rate 2006/07 to 2010/11	**6.6%**	**6.2%**

*Source: **Resolution Research** – The Residential Tenancies Authority – August 2011*

Fortitude Valley – Median weekly rents – one and two bedroom apartments 2006 to 2014(f)



*Source: **Resolution Research** – The Residential Tenancies Authority – July 2011*

Queensland, Brisbane & Inner Brisbane Rental Vacancy Rates

- As demonstrated in the graph overleaf, Brisbane's Inner City is forecast to reach record low vacancy rates (nearing 1%) between 2012 and 2013
- This vacancy rate will be driven by apartment demand from interstate migrants, increasing demand from Generation Y moving from the family home to inner city lifestyle destinations and a larger pool of tenants unable to afford their first home.
- Stimulatory incentives such as the First Home Owner's Grant and a low interest rate environment during the GFC contributed to the rise in all vacancy rates across 2008 to 2010 which had a massive impact on converting large numbers of renters into home owners. However, with the wind up of the FHOG and rising interest rates, vacancy rates across all markets are again tightening.
    - This has been seen across 2010 with the rental vacancy rates in a state of decline across Inner Brisbane, falling from 4.4% in December quarter 2009 to an 18 month trough of 2.8% in June quarter 2010 to its current level of 2.2% at June quarter 2011.
- This performance is in contrast to the remainder of Brisbane and Queensland as a whole which both recorded proportionally higher vacancy rates of 2.6% and 3.8% respectively for June quarter 2011.[2]
- Furthermore, the push towards inner city living continues to drive demand for rental properties, with not only the traditional couples with no children and lone person households which traditionally make up the tenant profile of buildings, but the emergence of demand from younger families is evident placing further pressure on the dwelling requirement for rental tenants.
- This situation is exacerbated across Brisbane's inner city market with highly constrained levels of new supply being introduced into the market place throughout 2011 and thus inner Brisbane is currently, and is forecast to continue to be, the most undersupplied residential rental market across Queensland.

[2] The Office of Economic and Statistical Research – July 2011

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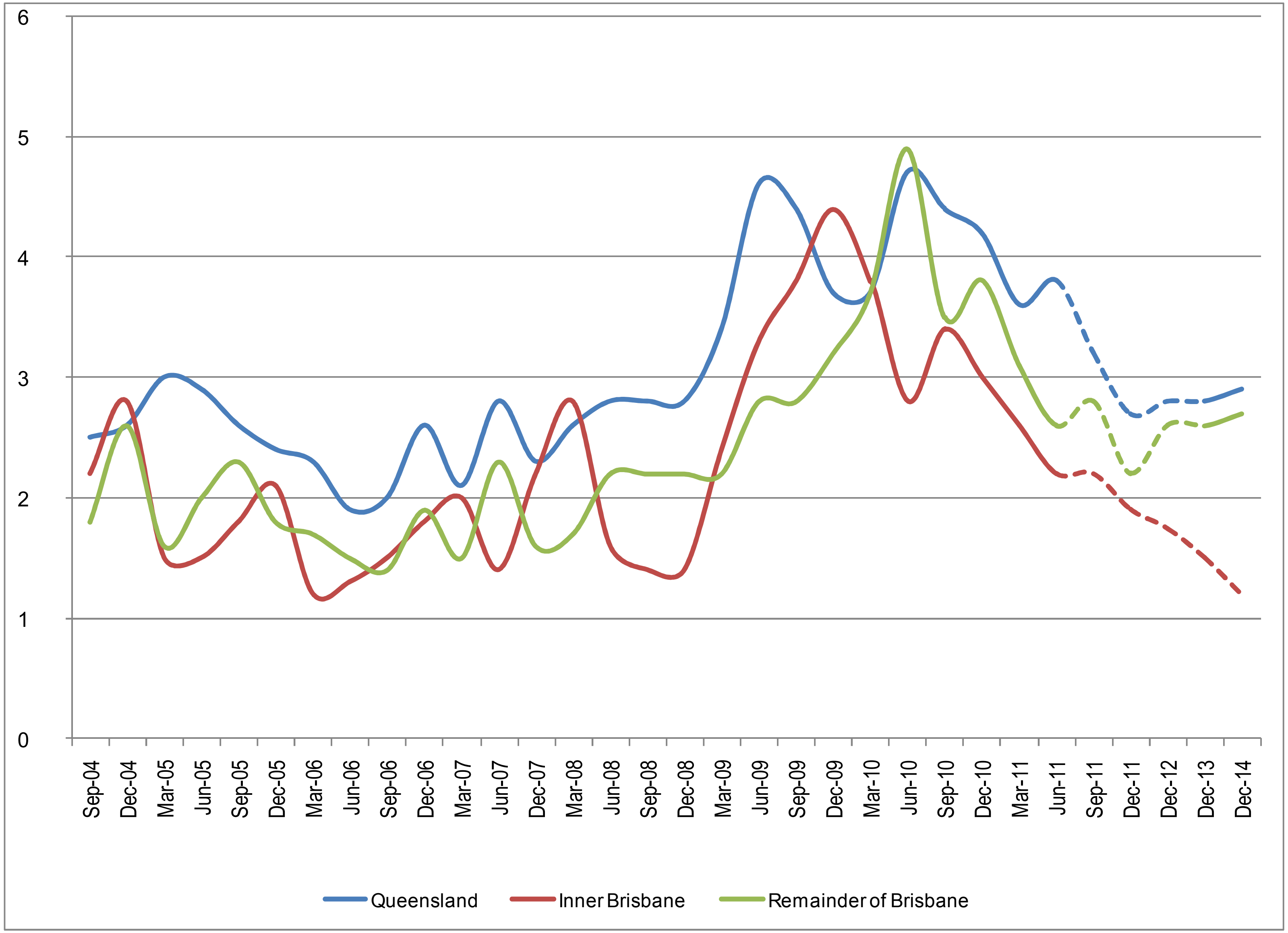
Queensland, Brisbane & Inner Brisbane Rental Vacancy Rates



Source: ***Resolution Research*** *– The Residential Tenancies Authority – August 2011*

Future Supply

- There are just over 7,944 apartment products which are either currently in the market or earmarked for entry prior to December 2012.
  - Of this, the Inner North is representative of 42% or just over 3,350 apartments.
  - Fortitude Valley itself accounts for only 11% or 855 of the total.
  - With no significant projects recorded for market entry after 2012, as discussed earlier in this report, stock levels will drop significantly, placing upward pressure on apartment values.

Brisbane Inner City Future Supply Landscape – 2011 to 2015

Project location	2011-2012	2013 - 2015	No firm date for market entry / Stalled
Inner North	3,352	214	2,409
CBD	2,352	0	717
Inner East	8	0	0
Inner South	2,014	1,280	1,990
Inner West	218	0	127
Total	**7,944**	**1,494**	**5,267**
Inner North Market Share of Total	42%	14%	46%
Fortitude Valley Market Share of Total	**855**	**0**	**0**
	11%	**0%**	**0%**

*Source: **Resolution Research** – Reed Construction Data – August 2011*

Future supply by product type

- According to the latest stock profile information made available, one and two bedroom product types are proportionately represented across the inner-city at 47% each.
- The three bedroom product type is the least represented market across the inner-city and is reflective of the price point driven nature of the market.
- Just over half (52%) of all product types mooted for entry within Fortitude Valley are one bedroom stock.
- This is slightly higher than the rest of the inner north and overall inner city which are at 48% and 47% respectively.

Precinct	1 Bed %	2 Bed %	3 Bed %
Fortitude Valley	52%	45%	3%
Inner North (Includes FV)	48%	47%	4%
CBD	50%	46%	4%
Inner east	30%	38%	33%
Inner South	44%	46%	11%
Inner West	28%	68%	5%
Total	47%	47%	6%

Source: ***Resolution Research*** *– Reed Construction Data – August 2011*

Precinct	1 bed	2 bed	3 bed
Fortitude Valley	470	406	24
Inner North (Includes FV)	1,838	1,783	169
CBD	1,095	1,005	92
Inner east	12	15	13
Inner South	1,475	1,541	368
Inner West	117	287	21
Total	**5,007**	**5,037**	**687**

Source: ***Resolution Research*** *– Reed Construction Data – August 2011*

Development recommendations

- Fortitude Valley's apartment market, although still one of the most affordable apartment markets across inner Brisbane, is starting to showing signs of deteriorating affordability due to the uplift in prices of the composition of the product in the off-the-plan market.
- The natural net effect this will be upwards pressure on rents, which is likely to result in a slowing rate of population growth amongst the younger workers who have traditionally called Fortitude Valley home and, in turn have been the key economic drivers of Fortitude Valley business.
- Based on the underlying requirement to provide appropriate product which has historically fuelled population growth, which is in line with prevailing demographics and household composition.
    - As demonstrated in this report, the number of couples with no children households has increased 633% over 12 years (quantum) and the number of lone person households has increased a staggering 249% over 12 years.
- More importantly, the provision of one-bedroom apartment types have overwhelmingly demonstrated themselves to the most popular choice for investors who currently account for around 95% of all off-the-plan sales, and, in turn, are driving construction activity and fuelling jobs growth across the inner city.
- The construction price of two-bedroom apartments is placing pressure on the retail price of these products and the volume and size of these apartment types will require close examination in order to determine their appropriateness for the local market's needs.
- STAGING
- The development's pricing methodology includes a portion of product which has been heavily price pointed towards the lower end of the market in order to not only address declining rates of affordability across the inner city but to enhance the development's rate of sale.
    - The development's pricing methodology has resulted in around 30% of all product priced at an affordable level (determined by us in our research to be below $380,000). This will not only delivery a large volume of dwellings into the market place at a price point within reach of younger first home owners and first time investors, but is likely to have a highly stimulatory effect on investment purchases within the project.
- As we have witnessed recently in Metro Property Development's "Madison on Mayne", the inclusion of NRAS product in a development is starting to meet with strong levels of market interest. The taxation benefits offered by the product and the simple structure of the scheme have opened up a target market for investment property which previously did not exist. For this reason, we strongly recommend the inclusion of a proportion of NRAS product within the development in order to ensure maximum appeal across target markets, and furthermore, maximum opportunity to deliver affordable rental product into a market place which is showing rapid signs of rental affordability deterioration.