CHARTER KECK CRAMER

Strategic Property Consulting

Market Overview and Commentary

Proposed Residential Development

"Charlie Richmond"
7 - 11 Judd Street
Richmond

Prepared for
Baracon Pty Ltd

23rd April 2008

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Artist's Impression - *"Charlie Richmond"*
Proposed Residential Development
7 - 11 Judd Street, Richmond

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Richmond

23rd April 2008

Mr Richard Healey
Baracon Pty Ltd
112 Balmain Street
RICHMOND VIC 3121

By email: richard@baracon.com.au

Dear Richard

Re: Market Overview and Commentary
Proposed Residential Development
"Charlie Richmond"
7 - 11 Judd Street, Richmond

We refer to your recent instruction requesting a Market Overview and Commentary in the context of the abovementioned proposed residential development, and advise as follows.

1. Site and Amenity and Social Infrastructure

The site occupies a central inner urban/City Fringe location, in an area of mixed amenity, although mainly residential in nature, fully serviced by extensive complementary facilities with the following services either within walking distance or in the general vicinity:

- Extensive shopping services along cosmopolitan Bridge Road including the Richmond Plaza, restaurants, hotels, cafés and number of notable fashion outlets.
- A tram service extending along both Bridge Road and Church Street, together with the West Richmond and Jolimont Railway Stations.
- Recreational, lifestyle and sporting facilities including Citizen Park to the east, and to the west, Yarra Park, the MCG, the National Tennis Centre and the Fitzroy Gardens.
- Various educational institutions, including several primary schools, churches, together with the extensive Epworth Hospital immediately to the west.
- The Melbourne Central Business District is virtually within walking distance, or alternatively is readily accessible via the aforementioned tram service extending along Bridge Road.

The site location in Judd Street is in our view is very central, and serviced by a comprehensive network of complementary facilities, most of which are within walking distance, an important consideration for inner urban apartment dwellers, whether they be owner/occupiers or tenants.

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2. Population Growth, Demographics and Supply/Demand Issues

Beyond any other influence, the main "driver" of the residential markets is population growth, and to a lesser extent but still importantly, demographic change. Due to the population growth boosted by Victoria's share of national immigration, now reaching 50,000 per annum in the Melbourne Metropolitan area, there is a need for 30,000 new dwellings per year. Charter Research indicates that of this need, approximately a third will need to be within 20 kilometres of the CBD, a need, which is an increasing trend towards greater inner urbanisation, is in consequence not only of population growth itself, but also demographic change. Interestingly, that such a large number of new dwellings will need to be of established urban location, suggests strongly, due to the underlying land value, that rather than being detached conventional housing, they will be "non detached", i.e. specifically apartments.

Of the estimated 9,000 - 10,000 "detached" dwellings that will be required, approximately half will almost certainly be within a closer location to the inner urban areas, possibly 4,000 - 5,000. Planning and land values circumstances implicitly mean that they will be apartments. Consequently, Melbourne will have, going forward, an annual need for approximately 4,000 - 5,000 apartments yet there are real concerns that the conduits of supply, governed by developer confidence, the availability of suitable land, planning issues and importantly resources within the construction industry, will not be able to meet that demand. At best, Melbourne has a capacity to produce 2,500 - 3,000 apartments per year, and thus the reality, unfortunately at a time of decreasing affordability, and under supply, is that the situation can only get worse. These circumstances have already been reflected in an historically low residential vacancy rate, consequently historically high residential rental increases, increasing capital values, and increasing concern at community, State and Federal Government level about the acute housing shortage and the broader "affordability" issue.

The underlying fundamentals which govern the market for new apartments is strong. Changing demographics, new social attitudes, the continuing inner urban renaissance, high fuel prices, access to greater employment opportunities are all attributes that provide "Charlie Richmond" with a strong standing in the market, particularly against the background of limited supply going forward, and therefore development and investment opportunities such as this will become increasingly scarce.

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3. Market Context and Subject Proposal

The demand and supply factors which drive Medium Density apartment development continue to mature, particularly in the inner urban and City Fringe locations which are subject to increasingly stringent planning controls, in some cases heritage issues, and strong governance from local resident groups, most concerned about new development overtaking the established urban fabric.

The majority of successful inner urban developments meet the following criteria:

- Contemporary design as opposed to classical or conventional.
- Smaller apartments providing a more "affordable" entrance price point.
- Emphasis on quality contemporary internal specification without over capitalising.
- Secure carparking, complementary common property and low maintenance form of living.
- Projects that appeal to a broad purchaser profile without creating too many adverse socio-economic issues.

The "Charlie Richmond" development will be of a contemporary style, incorporating a number of distinct neo-industrial influences synonymous with the early history of Richmond and the surrounding mixed use development. A "marquee" project of this nature addresses the requirements of all stakeholders; the investor conscience of "affordable" acquisition; the tenant seeking accommodation and amenity complementing their contemporary lifestyle (and willing to pay a premium rental accordingly), and the potential owner/occupier (increasingly younger) seeking a balance of "affordability" and amenity.

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4. Pricing Structure and Rental Market

An analysis of competing inner urban/city fringe provides a consistent pricing structure for a similar style product with a summary as follows:

- Studio style apartments in the range 35 - 40 square metres (sq.m.) commencing at or about $275,000 increasing to $325,000.
- One bedroom apartments of 50 - 55 sq.m. commencing at $375,000 increasing to $425,000.
- Two bedroom apartments of 75 - 80 sq.m. in the range $530,000 - $625,000.

The above represents broad value ranges assuming a single car space and standard balcony, although will obviously vary according to the position within the building, size of balcony, orientation and aspect. Average value rates also vary, with smaller apartments in some instances in excess of $8,000 per square metre ($p.s.m.); whilst larger apartments usually commence at lower value rates at our about $7,000 p.s.m. An analysis of several inner urban projects evidence average value rates across the development in the broad range $7,500 p.s.m. for the more secondary projects up to $8,000 p.s.m. for projects which comprise mainly smaller apartments.

A review of the "Charlie Richmond" price list confirms the pricing structure to be in line with market, providing an average price of approximately $7,750 p.s.m., and therefore competitively based against other projects. As a "sum of money", the price list is in our view an "affordable" product appealing to a broad purchaser profile.

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The principle factors which characterise the inner urban rental market are noted as follows:

- Forecast 10% rental growth per annum over the next 3 years.
- Sub 2% vacancy levels (less in Richmond).
- Supply of shortage will put pressure on the available accommodation.
- Strong premium rental values for superior products.
- Housing affordability issues resulting in a higher volume of renters in this locality.

The various positive attributes associated with the subject property should ensure a strong standing in the rental market, the site strategically positioned close to the CBD, a number of major educational institutions, the Epworth Hospital and fully serviced by well established infrastructure including cafés, shops and public transport. We would not anticipate any significant letting up period or protracted vacancies and strong rental growth due to a lack of competing product against the background of an ever increasing number of renters.

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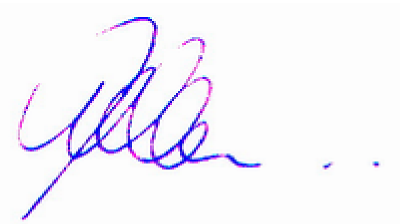
5. Conclusion

Having fully considered the subject proposal, particularly the position in Judd Street, the supporting infrastructure, demographics and supply and demand issues which govern the market, together with the concept in general, we are satisfied that ***"Charlie Richmond ticks all the boxes"***. The pricing structure is at market, is competitive against other projects, will provide strong rental prospects and is to be completed by developer interests who have successfully delivered a number of similar inner urban/city fringe projects over the past 15 years.

This advice is for the use only of the party to whom it is addressed and for no other purpose. No responsibility is accepted for any third party who may use or rely on the whole, or any part, of the content of this letter. No responsibility will be accepted for photocopied signatures. It should be noted that any subsequent amendments or changes in any form to the assessment and report would only be notified to and known by the parties to whom it is addressed. This advice is of a valuation nature and is not intended as a structural survey.

Please visit our web site: www.charterkc.com.au

Yours sincerely
Charter Keck Cramer



Anthony P Rohan, AAPI
Certified Practising Valuer
API Member No 1407
Director