

1<sup>st</sup> October 2008

APGL (Palm Beach) Pty Ltd  
Level 1, 295 Elizabeth Street  
Brisbane QLD 4000

Dear Sir/Madam,

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Thank you for commissioning Matusik Property Insights to prepare an update of the residential property market as it relates to APGL (Palm Beach) Pty Ltd's *Pavilions on 5<sup>th</sup>* development at Palm Beach. This letter also includes the latest population and demographic data and an analysis of other relevant and possibly competing projects in the suburbs surrounding Palm Beach.

### **Regional Overview**

Palm Beach is one of the Gold Coast's southern suburbs and is located seven kilometres from Coolangatta airport, 17km from Surfers Paradise and approximately 80km south of Brisbane's CBD. Bordered by Tallebudgera Creek in the north, Currumbin Creek in the south and the Pacific Motorway to the west, Palm Beach covers roughly 11 square kilometres and has 4.5km of beach frontage.

As well as having clean and attractive beaches and the scenic Burleigh Heads national park nearby, Palm Beach offers easy access to the hinterland areas of the Currumbin and Tallebudgera Valleys, the Fleay's and Currumbin Wildlife Sanctuaries and northern New South Wales. Palm Beach therefore appeals to people seeking not only a seachange but also a "green change" – the desire to live near national parks, in natural surroundings and with a "retreat-like" lifestyle.

### **Infrastructure**

The suburb of Palm Beach affords quick access to the Pacific Motorway, both north to Brisbane and south to Byron Bay. In fact, it takes less time to travel to Brisbane from Palm Beach than it does from Surfers Paradise, despite Surfers Paradise being closer to Brisbane. This is due to the traffic congestion that afflicts the central and northern parts of the Gold Coast.

The recent (June 2008) opening of the **Tugun Bypass** will further improve the locational advantages of suburbs like Palm Beach vis-à-vis the central and northern suburbs of the Gold Coast. This \$543 million, seven-kilometre route separates local traffic from tourist and most heavy vehicle traffic and therefore reduces congestion, travel times and air pollution along the existing highway. It also provides opportunities for improved public transport.

The significance of the Tugun Bypass should not be underestimated, as our research shows that major transport infrastructure improvements can translate into:

- A higher rate of sale;
- Increased land values;
- Greater “rentability” with commensurate higher rents;
- A wider target market;
- Denser product; and
- Greater development yield.

For example, median house prices within the northern suburbs of the Gold Coast rose by around 13% in the year just after completion of the eight-lane Pacific Highway (the M1), compared to general house price increases of just under 4% over the same period. The Tugun Bypass road is therefore likely to have a significant, positive impact on property values across the Gold Coast southern suburbs.

Work is also underway at the **Gold Coast Airport** to extend the existing runway, which will allow larger aircraft to takeoff and land and thus open up direct flights to Japan and the USA (in addition to the existing direct international flights to and from New Zealand and Singapore). The Gold Coast Airport has experienced continued passenger traffic growth over the past three years. The greatest change in capacity was on the Sydney-Gold Coast route. In fact, the Gold Coast-Sydney route is now Australia’s fourth busiest domestic route, and the Gold Coast Airport accounts for 16% of all domestic passenger movements in Queensland.

### Population growth

As shown below, the resident population of Gold Coast City at 30 June 2007<sup>1</sup> was 524,667 people, an increase of 17,228 people or 3.4% over the year. This compares with an increase of 17,374 people or 3.6% in the year to June 2006. The Gold Coast has added an average of 14,330 new residents each year for the past decade, an average annual growth rate of 3.2%.

Estimated Resident Population												
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	10-year avg
Burleigh Heads	6,760	6,945	7,101	7,274	7,490	7,706	7,761	7,877	8,093	8,318	8,459	
Burleigh Waters	11,379	11,816	12,337	12,908	13,233	13,486	13,504	13,510	13,473	13,562	13,668	
Currumbin	2,523	2,543	2,612	2,699	2,709	2,731	2,763	2,772	2,794	2,860	2,935	
Currumbin Waters	9,248	9,461	9,597	9,739	9,819	9,994	10,178	10,179	10,203	10,324	10,328	
Elanora	9,934	10,205	10,461	10,670	11,013	11,713	12,292	12,364	12,442	12,503	12,485	
<b>Palm Beach</b>	<b>12,735</b>	<b>12,734</b>	<b>12,921</b>	<b>13,130</b>	<b>13,279</b>	<b>13,653</b>	<b>13,873</b>	<b>14,048</b>	<b>14,260</b>	<b>14,536</b>	<b>14,696</b>	
<b>Total Palm Beach Study Area</b>	<b>54,576</b>	<b>55,702</b>	<b>57,028</b>	<b>58,420</b>	<b>59,544</b>	<b>61,285</b>	<b>62,374</b>	<b>62,754</b>	<b>63,270</b>	<b>64,109</b>	<b>64,578</b>	
Annual change (no. of residents)		1,126	1,326	1,392	1,124	1,741	1,089	380	516	839	469	<b>1,000</b>
Annual change (%)		2.1%	2.4%	2.4%	1.9%	2.9%	1.8%	0.6%	0.8%	1.3%	0.7%	<b>1.7%</b>
<b>Gold Coast City</b>	<b>381,367</b>	<b>394,675</b>	<b>409,111</b>	<b>423,719</b>	<b>432,588</b>	<b>440,807</b>	<b>458,882</b>	<b>474,406</b>	<b>490,065</b>	<b>507,439</b>	<b>524,667</b>	
Annual change (no. of residents)		13,308	14,436	14,608	8,869	8,219	18,075	15,524	15,659	17,374	17,228	<b>14,330</b>
Annual change (%)		3.5%	3.7%	3.6%	2.1%	1.9%	4.1%	3.4%	3.3%	3.5%	3.4%	<b>3.2%</b>

Matusik Property Insights - August 2008. Source - ABS Cat No. 3218.0. Population as at 30th June.

Over 64,500 people currently live across the Palm Beach Study Area<sup>2</sup>. On average, the permanent population across the area has increased by 1,000 new residents per year over the past decade.

<sup>1</sup> Population statistics as at 30 June 2007 are the latest available figures.

<sup>2</sup> Includes Palm Beach and the adjoining suburbs of Burleigh Heads, Burleigh Waters, Currumbin, Currumbin Waters and Elanora.

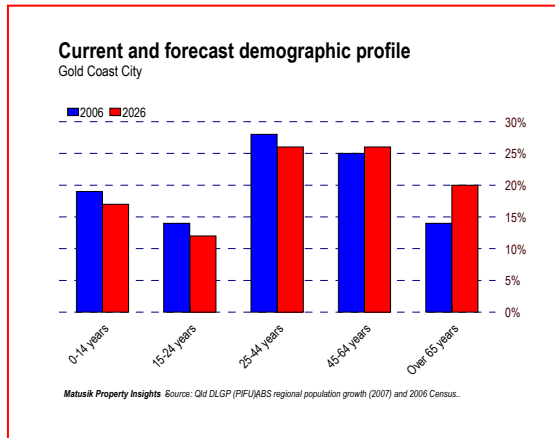
However, in the last five years, the population growth of the Palm Beach Study Area has been only 657 new residents annually although with completion of projects such as *Pavilions on Fifth* and the improved transport connectivity offered by the Tugun Bypass, we anticipate a much higher rate of population growth.

Population projections prepared by the Queensland Government indicate that by 2011, the expected population of Gold Coast City will be between 552,500 and 577,300 people. By 2026 this is expected to change to between 706,900 and 833,850 people, as outlined below.

Population projections Gold Coast						
Five years to:	Projected population			Forecast average annual growth (%)		
	low series	medium series	high series	low series	medium series	high series
2011	552,543	563,786	577,216	2.2%	2.6%	3.2%
2016	607,430	634,035	663,527	2.0%	2.4%	2.6%
2021	661,771	703,912	753,741	1.8%	2.1%	2.4%
2026	706,917	762,523	833,850	1.4%	1.6%	1.9%

**Matusik Property Insights** - August 2008. Source - Qld DLGP(PIFU), ABS.

Given that the Gold Coast is the fastest growing major region in Australia and the largest city outside of the five mainland state capitals, we suggest that the most likely growth rate would be somewhere between the medium and high series projections, meaning that the Gold Coast will continue to attract between 13,200 and 16,800 new permanent residents each and every year over the next twenty years.

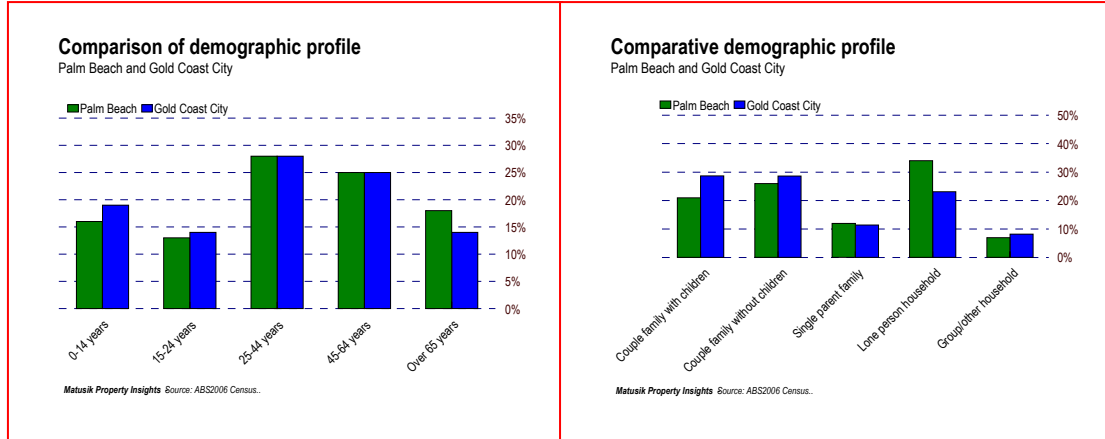


Whilst all demographic groups are forecast to increase in numbers, the largest increase over the next twenty years will be in the over 65 age group which is forecast to comprise 20% of the Gold Coast's population by 2026, up from just under 14% at the time of the 2006 census. The proportion of 45-64 year olds is also forecast to increase slightly. See **chart 1** opposite. In fact, the median age of Gold Coast City's population is projected to increase by four years from a median age of 37 years in 2001 up to a median age of 41 years in 2026.

Interestingly, the median age across Queensland as a whole is also forecast to increase to 41 years by 2026 (up from 35 years at present).

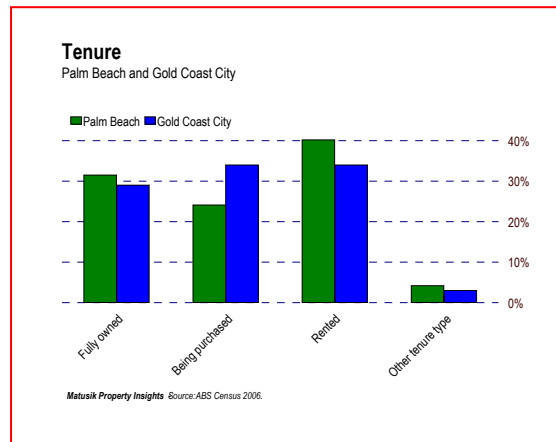
## Local demographics

As shown in **chart 2**, below left, Palm Beach has a similar age profile to the Gold Coast, but with fewer residents aged below 14 years and under, and a higher proportion of residents aged in excess of 65 years. As a consequence, Palm Beach has a slightly higher median age.

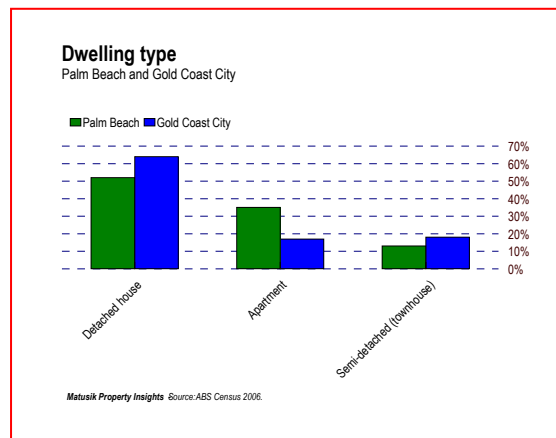


**Chart 3**, above right, shows that the largest household type in Palm Beach is lone person households (34%). This is a significantly higher proportion compared to the Gold Coast as a whole (23%). The proportion of couples with children (21%) and without children (26%) is lower in Palm Beach than the Gold Coast, which recorded 29% for both categories.

Renting is the most common form of tenure in Palm Beach, with 40% of residents renting their home. This is significantly higher than the Gold Coast, which only has 34% of people renting and indicates that **projects targeting the investment market will have strong market acceptance**. Fully owned residences are the next highest with 32%, followed by being purchased, with 24%. See **chart 4** opposite. The proportion of home ownership in Palm Beach is slightly above the Gold Coast (29%).



**Chart 5** (opposite) shows that the most common dwelling type in Palm Beach is detached housing (52%), although this is significantly lower than the Gold Coast average (64%). Palm Beach also has a significantly higher proportion of apartment product (35% compared to 17% across all of the Gold Coast) and significantly less semi-detached (townhouses and villas) product (only 13% in Palm Beach, compared to 18% across the Gold Coast as a whole).



## Residential sales – Gold Coast

The table below provides a history of new (or “off-the-plan”) apartment sales for the Gold Coast over the past three years. As shown in the table, there were 457 new apartment sales across the Gold Coast during the December quarter of 2007, giving a total of 1,504 new apartment sales for the 2007 calendar year.

Mar-05	Jun-05	Sep-05	Dec-05	2005	Mar-06	Jun-06	Sep-06	Dec-06	2006	Mar-07	Jun-07	Sep-07	Dec-07	2007
320	215	344	159	1,038	180	221	441	404	1,246	274	367	406	457	1,504

Matusik Property Insights - August 2008. Source - Midwood Queensland Investment Report, PRD nationwide, Prodap and Matusik database.

The number of new apartments that sold during calendar 2007 (1,504) was a 20% increase from the number of off-the-plan sales reported in 2006 (1,246 sales) and a huge 44% increase from 2005 (1,038 sales). Interestingly, the number of sales recorded in the December quarter of 2007 (457 sales) was the highest quarterly figure over the past three years. It is the September and December quarters that traditionally have the highest number of sales.

The table below shows the number of settled and off-the-plan apartment sales by price point for Gold Coast City over the past five financial years. As shown, across the Gold Coast in 2007 there were 14,764 apartment sales (including “off-the-plan” sales), up from 2006 (13,902 sales) but lower than the five-year average of just over 16,000 apartment sales.

Gold Coast	Apartment sales*					Annual average
	2003	2004	2005	2006	2007	
<b>Price points</b>						
Under \$300,000	14,308	13,192	6,992	5,997	5,701	9,238
\$300,000-\$500,000	2,735	3,912	4,838	4,527	4,827	4,168
\$500,000-\$700,000	618	1,031	2,028	1,845	1,972	1,499
\$700,000-\$1 million	283	539	775	885	1,060	708
\$1 million-\$1.5 million	146	212	381	396	628	353
\$1.5 million-\$2 million	31	77	122	147	385	152
Over \$2 million	1	1	81	105	191	76
<b>Total</b>	<b>18,122</b>	<b>18,964</b>	<b>15,217</b>	<b>13,902</b>	<b>14,764</b>	<b>16,194</b>

Matusik Property Insights - August 2008. Source - Matusik database and Qld DNRW/RP Data.  
Sales under 1,000sqm for calendar years. \* Includes both settled and off-the-plan (developer) sales.

The table on the following page indicates that whilst all new sales last year attracted end prices over \$300,000, the largest volume of transactions occurs for apartments priced under \$300,000 (5,701 sales or 39% of the total Gold Coast apartment market).

Apartments priced between \$300,000 and \$500,000 comprise nearly one-third (33%) of the total Gold Coast market, whereas apartments priced between \$500,000 and \$1 million comprise 21% of the total market. In 2007 there were 1,204 apartments that sold for prices in excess of \$1 million, equating to over 8% of the total Gold Coast apartment market.

### Gold Coast – apartment sales by price group (2007 calendar year)

Price group	Settled sales	Off-the-plan sales	Total
Under \$300,000	5,701	0	5,701
\$300,000-\$500,000	4,193	634	4,827
\$500,000-\$700,000	1,619	353	1,972
\$700,000-\$1 million	794	266	1,060
\$1 million - \$1.5 million	573	55	628
\$1.5 million - \$2 million	238	147	385
Over \$2 million	142	49	191
<b>Total</b>	<b>13,260</b>	<b>1,504</b>	<b>14,764</b>

**Matusik Property Insights** – August 2008. Source: Matusik database, Midwood Queensland Investment Report and Qld DNRW/RP Data.

### Residential sales – Palm Beach

The table below shows there were 406 settled apartment sales in the suburb of Palm Beach during the 2007 calendar year, with a median sale price of \$330,000. This is up 6% from 2006, 15% from 2005 and a rise of 14% since 2004. House prices have risen faster, increasing by 15% between 2006 and 2007, which follows an 8% increase between 2005 and 2006.

Median sale prices									
Palm Beach									
	2004		2005		2006		2007		Annual change 07 vs 06
	No. sold	Median \$	No. sold	Median \$	No. sold	Median \$	No. sold	Median \$	
Detached houses	179	\$425,000	201	\$425,000	206	\$460,000	236	\$525,000	14%
Apartments/townhouses	285	\$289,000	303	\$286,000	267	\$312,000	406	\$330,000	6%

**Matusik Property Insights** - August 2008. Source - Qld DNRW/RP Data. Settled sales only for calendar years.

**The increase in median values reflects the popularity of seaside living and the premiums which are payable for apartments close to water and in locations with good transport infrastructure.**

The table below provides a summary of all apartment sales (both old and new) over \$300,000 in Palm Beach by price point for the past four years.

### Palm Beach - Total apartment sales by price group

Price group	2004	2005	2006	2007
Under \$300,000	156	166	123	150
\$300,000 - \$400,000	50	59	55	129
\$400,000 - \$500,000	36	27	42	52
\$500,000 - \$600,000	22	28	19	45
\$600,000 - \$700,000	5	9	9	10
\$700,000 - \$800,000	2	6	12	9
\$800,000 - \$1 million	3	3	4	6
Over \$1 million	11	5	3	5
<b>Total</b>	<b>285</b>	<b>303</b>	<b>267</b>	<b>406</b>

**Matusik Property Insights** - August 2008. Source: Qld DNRW/RP Data and Matusik database.

As well as demonstrating the incremental price increases over the past few years, this table also shows the following:

- In 2004, 55% of all apartment sales were under \$300,000. This dropped to 46% in 2006 and 37% in 2007. In 2004, 30% were priced between \$300,000 and \$500,000. This has increased to 36% in 2006, and 45% in 2007;
- The largest volume of apartment sales in Palm Beach remains the under \$300,000 price range. Also in 2007, there a large increase in sales priced between \$300,000 and \$400,000 (129); and
- Approximately 3% of apartment sales in 2004 were priced in excess of \$600,000, this increased to 10% in 2006, but fell to 7% in 2007.

There are currently 618 existing apartment complexes across Palm Beach, containing 3,342 apartments, making the average complex size between five and six apartments. The biggest existing apartment project in Palm Beach is the Royal Palm (situated at 957 Gold Coast Highway) with 154 apartments. Only five complexes have more than 50 apartments.

### Resale performance

As detailed in the table below, the resale performance during 2007 of some projects in Palm Beach was impressive, averaging 9.9% across the sample of 20 projects analysed.

#### Palm Beach - Resale performance

Project	No. of resales	Lowest annual gain (%)	Highest annual gain (%)	Average annual gain (%)
19 <sup>th</sup> Avenue	3	6.5	12.5	9.8
21st Avenue	15	6.3	20.3	11.8
8 <sup>th</sup> Avenue Plaza	3	5.9	46.2	20.8
Beach Palms	4	5	14.1	9.9
Casablanca Palms	5	7.4	16.5	11.9
Christopher Place	8	5.9	26.3	13.8
Currumbin Sands	18	2.1	27.4	9.6
Malian Pacific	4	7.3	16.1	11.8
Mawarra Palms	2	19.3	23.6	21.5
Melissa Place	2	5.7	17.8	11.7
Palm Beach North	9	0.7	14	4.7
Palm Beach Resort	3	4.7	5.4	5.2
Palm Gables	5	3.4	19	11.5
Palm Springs Residences	4	7.6	8.9	8.3
Princess Palm	5	3.9	17	9.8
Regency on the Beach	11	3.5	15.6	8.2
Royal Palm	19	3.6	17.5	9.3
San Delles	8	2.9	8.9	6.4
Seascape	6	5	13	7.8
Surfers Horizons	4	7	13.6	10.1
<b>Weighted average</b>				<b>9.9%</b>

Matusik Property Insights, August 2008. Source: Qld DNRW/RP Data.

Annual gains of over 20% were recorded in two projects - 21.5% in *Mawarra Palms* and 20.8% in *8<sup>th</sup> Avenue Plaza*, located on Gold Coast Highway.

### Rental market

Recent figures released by the Queensland Government showed that the vacancy rate for residential accommodation across the Gold Coast is currently around 2.1% (compared to 2.6% across all of Queensland and 2.2% in Brisbane).

This quarterly survey conducted by the Office of Economic and Statistical research, also found that 69.9% of real estate agencies contacted said that demand for permanent (over three months) rental accommodation across the Gold Coast increased over the past 12 months. A figure of 30% or more suggests - as does a vacancy rate under 4% - that the market is undersupplied with rental stock.

The latest figures released by the Residential Tenancies Authority ([www.rta.qld.gov.au](http://www.rta.qld.gov.au)) support the contention that permanent rental apartments across the Gold Coast are currently undersupplied. According to the June quarter 2008 RTA figures, median weekly rents for one-, two- and three-bedroom apartments in Palm Beach have increased by between 12% and 20% over the past two years. We anticipate that weekly permanent rents for new apartment product in the Palm Beach area would be as follows:

- One bedroom apartments                      \$325 - \$375 per week;
- Two bedroom apartments                      \$450 - \$525 per week; and
- Three bedroom apartments                      up to \$650 per week.

In addition, higher rents - and consequently better yields - can be achieved by offering furnished apartments. From our research, the following weekly premiums are currently being achieved for furnished apartments across the northern Gold Coast:

- One bedroom apartments                      \$75 per week;
- Two bedroom apartments                      \$90 to \$110 per week; and
- Three bedroom apartments                      \$150 per week on average.

### Competitive projects

There are currently 2,434 new apartments for sale on the Gold Coast and northern Tweed Shire, as detailed in the table below.

#### Gold Coast - New apartment supply by location

Location	No. for sale	%
Northern Gold Coast	340	14%
Southport	757	31%
Main Beach / Surfers Paradise	318	13%
Central Gold Coast	461	19%
Southern Gold Coast (Burleigh Heads to Coolangatta)	213	9%
Northern Tweed	345	14%
<b>Total</b>	<b>2,434</b>	<b>100%</b>

**Matusik Property Insights** – August 2008. Source: Matusik database, Midwood Queensland Investment Report.

As shown in the table on the previous page, the largest concentration of new apartments for sale is in the Southport area with 757 new apartments for sale, equating to nearly one-third (31%) of the Gold Coast's new apartment supply, followed by the Robina/Central Gold Coast with 461 new apartments (19%).

The least amount of new apartment supply is in the southern part of the Gold Coast between Burleigh Heads and Coolangatta, where 213 new apartments are for sale across 19 projects.

In fact, *Pavilions on Fifth* is the only active project in Palm Beach at present although the Indigo Group is proposing a 57-unit project at 1059-1063 Gold Coast Highway and we understand that an application will soon be lodged for a seven-storey tower comprising 23 two- and three-bedroom apartments at 1039-1043 Gold Coast Highway, Palm Beach. The possible redevelopment of the Joe Davidson car park on the corner of Cypress and Seventh Avenues may also include a number of residential apartments.

Interestingly – and a vote of confidence in the future of Palm Beach as a desirable place in which to live and invest - Indigo is aiming to achieve an average rate per square metre net<sup>3</sup> of around \$10,000 and an average rate per square metre gross<sup>4</sup> of just under \$8,000 at its proposed Palm Beach project. By way of comparison, prices for *Pavilions on 5th* are equivalent to around \$6,100 per square metre net and \$5,300 per square metre gross. Furthermore, rising construction costs suggest that equivalent rates per square metre for new apartment product will soon be thing of the past.

## Conclusion

We believe the price competitiveness of the *Pavilions on 5th* project, combined with the forecast of high levels of population growth in Palm Beach and the relative lack of new supply in the area, will see the *Pavilions on 5th* project meet with considerable market success.

Yours sincerely,



Matusik Property Insights Pty Ltd  
ACN 088 308 847

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<sup>3</sup> Net space is defined as private internal living space excluding balconies and courtyards.

<sup>4</sup> Gross area is defined as private internal living space plus balconies and exclusive-use courtyards but excluding car parks and common areas.