





WATERLOO AREA OVERVIEW:

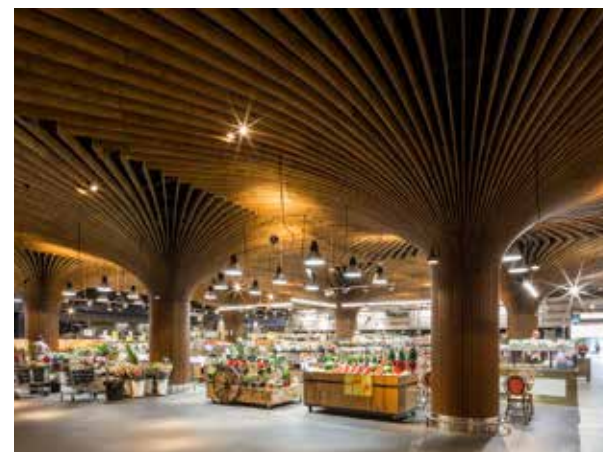
Waterloo is an inner-city suburb of Sydney, located 4 kilometres south of the Central Business District (CBD) and is part of the City of Sydney Council. Strategically located on the City Fringe, with surrounding suburbs including Redfern, Moore Park, Zetland, Surry Hills, Alexandria, and the new up and coming Green Square town centre, Waterloo is an exciting area as a result of gentrification and a rapidly changing demography. The area has experienced significant transformation from predominantly industrial uses to now embracing residential and commercial developments, which have resulted in population growth of 43% in the last five years to 32,165 people (ABS, Waterloo-Beaconsfield SA2).

Waterloo boasts extensive local amenity, with three primary schools and high schools in the immediate area, along with Sydney University, University of Technology Sydney and University of New South Wales all being within 5km. There is also easy access to local parks including Moore Park and Centennial Park, along with the Fox Studios entertainment precinct. Upon completion the nearby Australian Technology Park (ATP) will further revitalise Waterloo and the inner-city suburbs.

Not only will ATP become an employment destination home to the Commonwealth Bank of Australia (CBA) but is set to become one of Australia's leading smart neighbourhoods offering amenity for the wider community with laneways, al fresco diners, events and retail units.

Waterloo benefits from various public transport links with multiple bus services connecting Waterloo to central Sydney and its surrounding suburbs. By car the Eastern Distributor offers access to the CBD within five minutes, then west via the Cross City Tunnel, north via the Harbour Bridge or Harbour Tunnel and south via the M5. Waterloo also enjoys immediate access to major transport infrastructure including Botany Road and Bourke Street. Additionally, Waterloo is situated between Redfern and Green Square train stations, Green Square station enables commuters to reach the international airport within five minutes by train.

In addition to current public transport services, planned development of the new Sydney Metro has been one of the key contributing factors to increasing residential and commercial development in and around Waterloo as access and connectivity continues to improve.



THE SYDNEY METRO

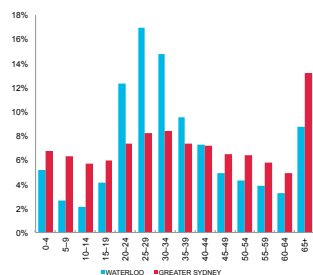
'Australia's biggest public transport project', is expected to cost \$12 billion and travel along more than 65km of new metro rail, connecting the North West to the South West via the Sydney CBD. There will be ultimate capacity for a metro train every two minutes in each direction through the CBD, a level of service never before seen in Sydney. Waterloo will directly benefit from the Sydney Metro City stage of the project. Expected to be complete in 2024, Waterloo will have its own station and be one of the seven new Metro stations (Crows Nest, Victoria Cross, Barangaroo, Martin Place, Pitt Street and Central Station).

\$13 BILLION URBAN RENEWAL

In addition to transport infrastructure, the \$13 billion Green Square Urban Renewal project has had a positive impact upon Waterloo, rejuvenating South Sydney and being a catalyst behind recent regeneration. Green Square is one of Australia's largest and most significant urban transformation projects, renewing Sydney's inner south industrial edge into a vibrant global village. The Green Square Urban Renewal Area encompasses approximately 278 hectares. By 2030, it is expected to be home to approximately 61,000 new residents and 22,000 new workers.



Figure 1:
Age Distribution
Waterloo vs Greater Sydney



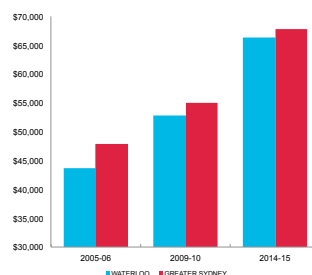
Source: Knight Frank Research, ABS

Figure 2:
Population Forecast
& Growth Rate Waterloo



Source: Knight Frank Research, ABS

Figure 3:
Average Personal Income
Waterloo vs Greater Sydney



Source: Knight Frank Research, ABS

DEMOGRAPHICS & EMPLOYMENT:

Residents of Waterloo are primarily of a young demographic – with 44% of the suburb's population between 20 and 34 years of age, this compares to Greater Sydney's 24% average for this age group (Figure 1). Waterloo also holds a much smaller proportion of 40+ aged residents when compared against Greater Sydney (32.4% vs 43.9% respectively) – reinforcing the 'young culture' of the suburb. By occupation, 49.3% of residents are either employed in a managerial or professional capacity, significantly higher to the NSW average of 36.0%.

The overall population of Waterloo has grown by 84% over the past 10 years, from 17,491 residents in 2006 to 32,165 in 2016 – at an average rate of 6.3% per annum. The year to June 2015 experienced strong population growth in particular, at 11.5% year on year (Figure 2). Knight Frank, using assumptions from the NSW Department of Planning and Environment, project 38.9% population growth across the Waterloo area over the next five years alone – equivalent to average annual growth of 6.8%. This level of growth will continue to hold steady off the back of the Green Square precinct.

As at the 2011 Census, the top four foreign languages spoken at home in Waterloo included Mandarin (7.7%), Cantonese (4.0%), Russian (3.9%) and Greek (3.9%). These figures are significantly larger than the NSW averages, which range between 0.2% and 2.0%. Due to this diversity, Waterloo and neighbouring suburbs benefit from a diverse array of multicultural retail offerings and amenities.



In addition to being surrounded by several of Sydney's major employment hubs including the Sydney CBD and the Sydney Airport, Waterloo as at the 2011 Census was home to 13,495 jobs. In highlighting the area's employment diversity when compared to the industries in which local residents are employed, 19.7% of jobs in Waterloo are in the wholesale trade industry, underpinned by the large presence of showrooms for household goods. The next largest employing industries in Waterloo were retail trade and manufacturing (particularly textile, leather and clothing manufacturing) which accounted for 14.0% and 11.9% of local jobs respectively at the 2011 Census. The local labour force of Waterloo is expected to grow exponentially in the coming years, largely off the back of new jobs being created as part of mixed use developments. In the short term, the construction of Waterloo station as part of the Sydney Metro project will create a spike in construction and ancillary jobs, all of which will add to the economic vibrancy of Waterloo.

Income levels in Waterloo as at 2015 (latest available data) were recorded at \$66,409 per annum – slightly below the Greater Sydney average of \$67,806 (Figure 3). Although average income levels are now very similar to the Greater Sydney average, this has not always been the case. The income level gap has tightened from 9% in 2006 to only a 2% difference in 2015, mainly a consequence of gentrification and higher income earners residing in newly established residential developments.





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CENTRAL
TRAIN STATION

DARLING
HARBOUR

GREEN
SQUARE
TRAIN STATION

SYDNEY CBD

SYDNEY
HARBOUR
BRIDGE

NORTH
SYDNEY

SYDNEY
OPERA
HOUSE

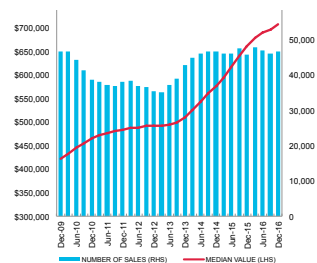
MOORE PARK
GOLF COURSE

> BONDI
BEACH

> UNIVERSITY
OF NEW SOUTH
WALES

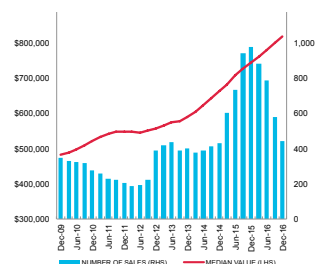
SYDNEY
AIRPORT

Figure 4:
Sales Volumes & Pricing
Greater Sydney, 12 Month Av.
Apartments



Source: Knight Frank Research, Residex

Figure 5:
Sales Volumes & Pricing
Waterloo, 12 Month Av.
Apartments



Source: Knight Frank Research, Residex

RESIDENTIAL APARTMENT SALES MARKET:

As at May 2017 the cash rate remains unchanged at 1.5% for the ninth consecutive month since the last cut of 25bps in August 2016, with the rate expected to remain historically low over the next 12 months. As mortgage rates continue to remain low, investor demand for residential property has increased, which continues to translate into price growth across both Sydney and Waterloo.

Greater Sydney consistently sells the largest volume of apartments across Australia – ahead of both Greater Melbourne and Greater Brisbane. Apartment sales in the year to March 2017 saw Sydney transact 47,487 apartments (Figure 4), 13% more than Melbourne and more than double that of Brisbane. Sales volumes throughout Greater Sydney have risen by more than 50% over the past 5 years – substantial growth aided by Australia's historically low interest rates and strong investor appetite. Greater Sydney currently records a rolling 12 month average apartment value of \$706,500 as at December 2016 – a 7.0% increase year on year. Apartment capital values experienced considerable growth between June 2014 and June 2016, with annual growth consistently recording above 11%. However, in the past year growth has begun to ease, with the most recent recording of 5.9% being the lowest annual growth rate since December 2013.

Annual apartment sale figures across Waterloo were historically low averaging around 400 sales per annum prior to 2015. However, in 2015 the suburb experienced a large influx of new supply which saw annual sales activity increase to average 820 for the 18 month period to end of June 2016. More recently apartment sales have begun to slow, due to lower quantities of established apartments on the market and declining newly completed stock levels, with 442 apartments transacting in the 12 months to December 2016. With the State Governments' Sydney Metro Project and Green Square Urban Renewal project, apartment sales activity is expected to increase in the coming years.

On the back of low interest rates and a strong rental market, Waterloo has become an attractive market for investors as reflected by the suburbs capital growth in recent years. With strong demand Waterloo currently records a rolling 12 month average apartment value of \$816,625 as at December 2016 – 15.6% above the Greater Sydney average (Figure 5). Notably over the past year capital values have increased by 9.8% in Waterloo in comparison to Greater Sydney which has recorded growth of 7.0% over the same period.

RESIDENTIAL APARTMENT RENTAL MARKET:

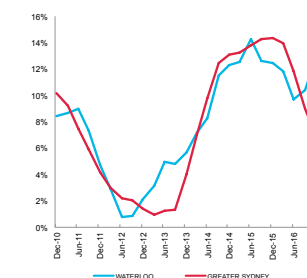
Reflective of the area's proximity to the Sydney CBD, which tends to attract a higher proportion of renters, 58.7% of households in Waterloo are rented, significantly above both the Greater Sydney and Australian average of 30.1% and 29.6% respectively (Figure 7). Underpinned by its well-serviced transport links, proximity to major employment hubs and its positioning amongst key recreational facilities, Waterloo is attractive to a young renter demographic. Typically, these residents tend to place a greater importance on convenience and lifestyle as opposed to being located further away from the CBD and local amenities.

Stemming from Waterloo's attractiveness for rental households, rental growth for apartments has jumped 27.4% over the past five years, well above the Greater Sydney average of 15.3% over the same period. More recently, apartment rental growth in Waterloo has continued to outstrip the rate recorded for Greater Sydney, increasing by 5.1% and 1.8% respectively over the past 12 months, making Waterloo one of the best performing rental markets in Sydney in recent years. Notably, strong rental growth over the past 12 months has coincided with a surge in apartment construction; however, strong tenant demand has ensured a tight vacancy rate and solid rental growth. At present, the average weekly rent for an apartment in Waterloo (all bedrooms) measures \$720, compared to \$565 for Greater Sydney.

Highlighted by recent rental growth, the residential vacancy rate in Waterloo as at March 2017 stands at 0.7%, significantly below the market equilibrium of 3.0%. Similarly, Waterloo's vacancy rate is well below that of the Greater Sydney and the Inner Ring (0-10km) vacancy rate of 1.9% and 1.7% respectively, highlighting an undersupply of rental dwellings in the area.

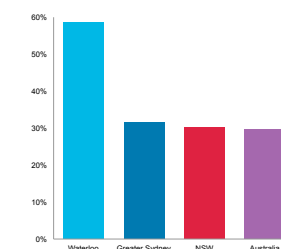


Figure 6:
Annual Median Price Growth
Waterloo vs Greater Sydney,
Rolling 12 Month Av.
Apartments



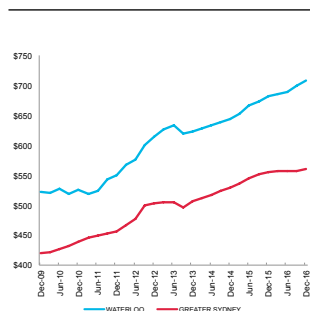
Source: Knight Frank Research, ABS

Figure 7:
Tenure
Waterloo vs Greater Sydney,
Rented Private Dwellings



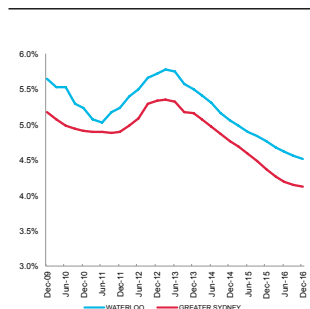
Source: Knight Frank Research, ABS

Figure 8:
Weekly Rents
Waterloo vs Greater Sydney,
Rolling 12 Month Average,
Apartments



Source: Knight Frank Research, Residex

Figure 9:
Rental Yields
Waterloo vs Greater Sydney,
Rolling 12 Month Average,
Apartments



Source: Knight Frank Research, Residex

HIGH RENTAL DEMAND

High rental demand has ensured that rental yield metrics have remained elevated, particularly when compared against the Greater Sydney average and neighbouring suburbs including Alexandria, Zetland, Redfern and Kensington. As at December 2016, apartment yields in Waterloo averaged 4.51% (Figure 9), 44bps above the Greater Sydney average of 4.07% for apartments, while apartment yield metrics for neighbouring suburbs range from 3.94% (Kensington) to 4.47% (Alexandria). Given the higher rental yields achieved in Waterloo, investor demand is expected to remain solid, particularly as a result of recent interest rate increases by the major Australian banks, independent of the RBA, which will place greater importance on investor cash flows.



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