Preston Rowe Paterson

International Property Consultants

Property Market Report

New South Wales

March Quarter 2017

HIGHLIGHTS

- The Property Council of Australia's January 2017 Office Market Report indicated that there was an addition of 126, 010 square metres of supply to Sydney CBD's office market, offset by 128, 326 square metres of withdrawals in the six months to January 2017.
- Over the month to March 2017, Australia's retail turnover remained unchanged, following an increase of 0.1% in February and 0.1% in January.
- Building approvals statistics from the Australian Bureau of Statistics indicates that during February 2017, the number of dwelling units approved for construction increased by a seasonally adjusted 8.3%.
- December quarter 2016 edition of the REIA real estate market facts reports that median house price in Sydney increased by 5.1% over the quarter, to $1,076,878. This figure indicates an annual change of 11.6%, with all areas of Sydney experiencing similar growths over the same period.

INSIDE THIS ISSUE:

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COMMERCIAL OFFICE MARKET

Sydney CBD

Investment Activity

Preston Rowe Paterson Research recorded the following major sales transactions that occurred during the three months to March 2017:

183-185 Clarence Street, Sydney, NSW 2000

Built has purchased a 99-year leasehold to a 3,600 m2 office building for **$22.75 million**. The 1,000 m2 site was sold by *Vietnamese Vingroup*. The new owners plan to refurbish to create up to 8,000 m2 of office and retail with up to seven additional levels on the current buildings. The sale reflects a **rate of $22,750 psm**.

296 and Lot 1, 300 George Street, Sydney, NSW 2000

A Hong Kong investor has sold a three-level commercial property to another Asian investor for **$9 million**. The 423.3 m2 property occupies an 82.2 m2 site and is home to *Lee's Malaysian* restaurant. The restaurant brings in a gross annual rent of $197,389 but the rest of the property is vacant. If the property was fully leased, it could return about $607,389 in gross annual rent. The sale reflects a **rate of $21,262 psm.**

Leasing Activity

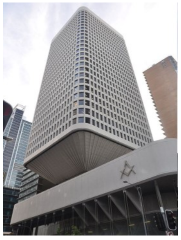
Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the Sydney CBD office market during the three months to March 2017:

126 Phillip Street, Sydney, NSW 2000

Allens Linklaters has resigned to lease office space for **7.5-years**. The company will occupy 8,424 m2 of space for an undisclosed amount.

Lvl 10/111 Elizabeth Street, Sydney, NSW 2000

16 Wardell Chambers has moved from their 39 Martin Place offices to a newly lease 753 m2 B-grade office after being displaced by the Sydney Metro construction. The chambers agreed to a **7-year lease** at a **gross annual rent of $845 psm**.



Level 19, 66 Goulburn Street, Sydney, NSW 2000

National Disability Services Limited has agreed to a **5-year lease** for a whole-floor 937 m2 office. *GDI Property Group* is the landlord and the net annual rent is **$665 psm** for the A-grade space.

1 Farrer Place, Sydney, NSW 2000

Savills Australia has secured 2,200 m2 of premium -grade office space at **Governor Phillip Tower** for **9-years**. The company will occupy all of Level 25 and part of Level 24 and pay a **net annual rent of between about $1,200 to $1,600 psm**.

Development Sites

January's edition of the PCA's Office Market Report have reported that 6 new developments in the Sydney CBD will be completed within the next three years, ultimately supply the city with close to 360,000 square metres of Net Lettable Area after completion. The following table outlines details of the projects that are currently in the works within the Sydney CBD:

Project Name	Address	Stage of Development	Owner	Net Lettable Area(SQM)	Completion Date
333 George Street	333 George Street, Sydney, NSW 2000	Complete	Charter Hall (Core Plus Office Fund)	12,514	Q4 2016
Tower 1, International Towers Sydney	100 Barangaroo Avenue, Sydney, NSW 2000	Complete	Lendlease Corporation	103,041	Q4 2016
Central Park	100 Broadway, Sydney, NSW 2000	Construction	Frasers Property Group / Seksui House Australia	5,447	Q2 2018
Kindersley House	33 Bligh Street, Sydney, NSW 2000	DA Approved	Investa + Ausgrid	24,000	Mooted
Wynyard Place (DEV)	10 Carrington Street, Sydney, NSW 2000	DA Approved	Soveriegn Wynyard Centre Pty Ltd	56,000	Q2 2019+
275 George Street	275 George Street, Sydney, NSW 2000	DA Approved	LaSalle Investment Management	6,363	Q3 2018
Quay Quarter Sydney/AMP Precinct	(QQS) 2-10, 20 Loftus & 5-17 Young Streets, Sydney, NSW 2000	DA Approved	AMP Capital Investors (AMP Wholesale Office Fund)	90,000	Q3 2019+
(DEV) 60 Martin Place	60 Martin Place, Sydney, NSW 2000	Site Works	Investa Property Trust/Martin Place Wholesale Syndicate	38,600	Q3 2019+

Table 1 – Development Sites around Sydney CBD – Source PCA

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Development Details

333 George Street

This 15-level A Grade office building located at 333 George Street will provide 1,2500 square metres of commercial office space as well as three levels of retail over 2,100 square metres of space. The building was recently completed in December 2016, and have an average floorplate size of 950 square metres and 20 car spaces available in the underground parking area. Owner, Charter Hall's Prime Office Fund, have secured global law firm Clyde & Co as a key anchor tenant, with National Australia Bank, HSBC, WeWork and Woolworths as their other major tenants. The building was designed by Grimshaw Architects, with the unique feature of a five-level cascading rooftop terraces, which merges the inside working space with the outdoors with the addition of a floor to ceiling glazing aimed at creating a sense of openness.

Central Park

Located at 100 Broadway, this mix-used commercial building will provide the Southern part of Sydney's CBD with 5,447 square metres of NLA and 3,000 square metre of retail area upon its completion in 2018. The 18-level building has an average floorplate size of 3,500 square metres and a total of 235 car spaces, with reports that it will be one of Australia's most advanced sustainable mixed-use developments. The building is located close to the University of Technology, and has multiple access points to Central Railway Station as well as the proposed George Street light rail.

Wynyard Place

The 27-level Premium Grade commercial building, located at 10 Carrington Street, has been DA approved for construction and is expected to be completed by the second quarter of 2019. The building will contain 56,000 square metres of commercial space and 5,900 square metres of prime retail space that will have access to a major transport hall. The building will have an average floorplate size of 2,888 square metres and will contain 170 carpark spaces in total upon completion. National Australia Bank will be the anchor tenant, which will see them occupy 31,000 square metres of space from level 1 to level 9, and is due to move into the building mid-2020 under a twelve-year lease agreement.

60 Martin Place

Development has begun at 60 Martin Place, which will upon its completion, add 38,600 square metres of office space across 33 levels into Sydney's office market. The building will boast a flexible floorplate which ranges from 1,200 to 1,500 square metres, along with panoramic views of the Opera House, Botanical Gardens and Sydney Harbour. Lendlease Building has been appointed to construct the building, owned by Investa and Gwynvill Group, with construction expected to be completed by the third quarter of 2019. There will also be an extra 1,700 square metres of retail space, and 69 available car spaces available.

Supply by Grade (Stock)

The Property Council of Australia's January 2017 Office Market Report indicated that there was an addition of 126, 010 square metres of supply to Sydney CBD's office market, offset by 128, 326 square metres of withdrawals in the six months to January 2017. Overall, total office spaces decreased by 2,316 square metres down to 5,079,899 square metres over the six month period.

All of the increase in office stock were from the addition of Premium and A Grade office space, mainly from the new developments and partial refurbishment across the city. On the other hand, withdrawals of C and D Grade office stocks contributed to all of the withdrawal over the six month period. The withdrawals from Sydney CBD were mainly from the demolition of buildings in preparation of Sydney's Metro Line project, conversion of office space into residential and hotel spaces and the partial/full refurbishment of office space.

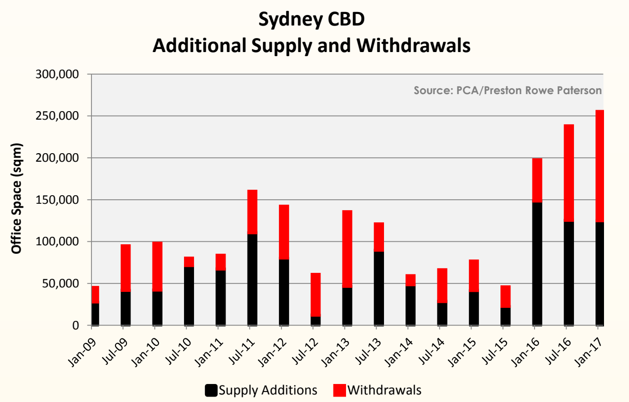

Chart 1 – Sydney CBD Additional Supply and Withdrawals – Source PCA

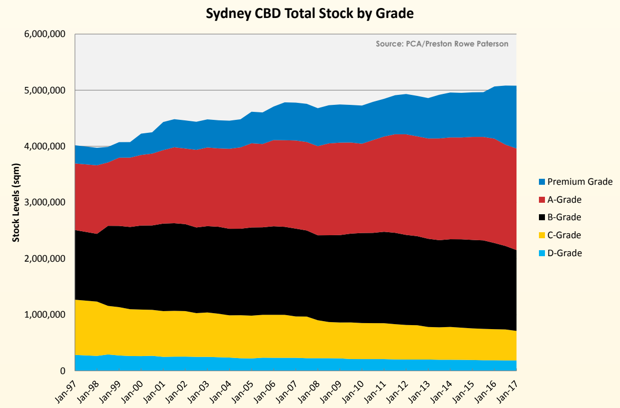

Chart 2– Sydney CBD Office Stock by Grade - Source— PCA

Sydney CBD office market is dominated by A-Grade and B-Grade office buildings, each with 1,809,622 sqm (+ 4,396 sqm from July 2016) and 1,439,949 sqm (-47,088 sqm from July 2016) in stock respectively. Premium Grade buildings increased to 1,118,972 sqm (+66, 124 sqm) over the six months whilst stocks of C Grade buildings declined to 525, 730 (- 25,748 sqm). There was no change in D-Grade stocks which remained at 185, 626 sqm.

Vacancy Rates

Total vacancy of Sydney CBD's office buildings increased over the half year to January 2017, by 0.6% to 6.2%. This increased was attributed to the increase in direct vacancy, which jumped 0.7% to 5.6% over the period. Sub -lease vacancy declined by 0.1% down to 0.6%.

All office grades, except for D-Grade offices, increased in office vacancies over the six month period. Premium Offices experienced an increase of 1.1% in vacancy to 12.3%, whilst A, B and C Grade Offices increased to 4.2% (+ 0.2%), 4.0% (+0.6%) and 6.6% (+0.7%) respectively. D Grade buildings experienced a decline of 0.9%, down to 2.9% during the period.

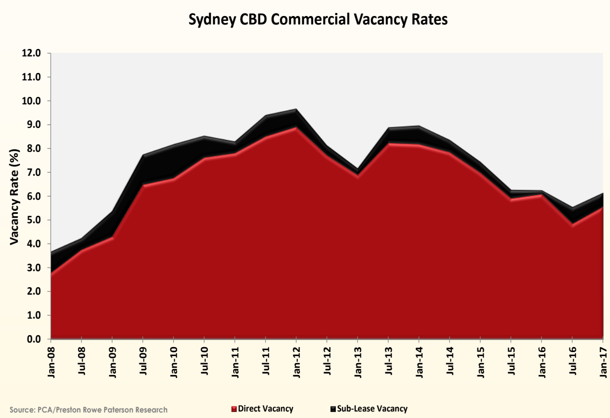

Chart 3 – Sydney CBD Office Vacancy – Source— PCA

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North Sydney

Investment Activity

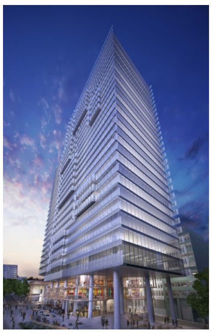
Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to March 2017:

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the North Sydney office market during the three months to March 2017:

80 Pacific Highway, North Sydney, NSW 2060

Arthur J Gallagher will pay a **net annual rent of between $700 to $800 psm** for 2,026 m2 of office space as it consolidates its operations into one location. *Mirvac* leased the A-grade space to the insurance company for **7-years.** The property is undergoing renovations. North Sydney is located 3.8 km north of Sydney's CBD.



1 Denison Street, North Sydney, NSW 2060

The *Nine Network* has pre-leased 15,500 m2 of office space in a new 39-storey office tower that is due for completion in 2020. The tower will incorporate two levels of luxury shopping and restaurants as well as 60,000 m2 of upper-level office space. The lease is estimated to be between $9.7 million and $12.4 million per annum, before incentives. The lease is for **12-years**. North Sydney is located about 3.8 km north of the Sydney CBD.

Development Sites

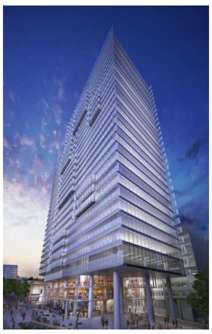
The Property Council of Australia's (PCA) Office Market Report for January 2017 indicated that there are three new developments due to be completed by the beginning of 2019:

177-199 Pacific Highway, North Sydney, NSW 2060

The Norberry Terrace project, located at the corner of Berry Street and Pacific Highway, was completed in the fourth quarter of 2016. The development will provide 39,383 sqm of net lettable area over 31 office levels. Its average floorplate size stands at approximately 1570 sqm, with the additional 112 car park spaces available.

100 Mount Street, North Sydney, NSW 2060

The project at 100 Mount Street is currently under construction and is expected to deliver 42,000 sqm of Premium Grade office buildings, along with 400 sqm of retail space. Two existing buildings (90 and 100 Mount Street) were demolished to make way for the 34 level office building, that will include 6 basement levels and 2 ground level retail space. The building will have an average floor plate size of 1,250 sqm, and a total of 113 car park spaces. The project is due to be completed in the first quarter of 2019, and once complete, will become the tallest building in North Sydney designed to have a 5-Star Green Star Design.



1 Denison Street, North Sydney, NSW 2060

Winten Property Group's project at 1 Denison Street will provide North Sydney with 45, 720 square metres of NLA, including 2,700 sqm of retail area over 32 levels. The building will have an average floorplate size of 1,850 sqm, will contain 150 carpark spaces and will become one of North Sydney's tallest towers upon completion.

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Supply by Grade (Stock)

North Sydney's office market recorded a notable change in their withdrawals and supply through the six months to January 2017. There was an addition of 45,132 sqm, offset by 15,118 sqm of space withdrawn over the period. In total, North Sydney's office market gained a net total of 30,014 sqm of space over six months.

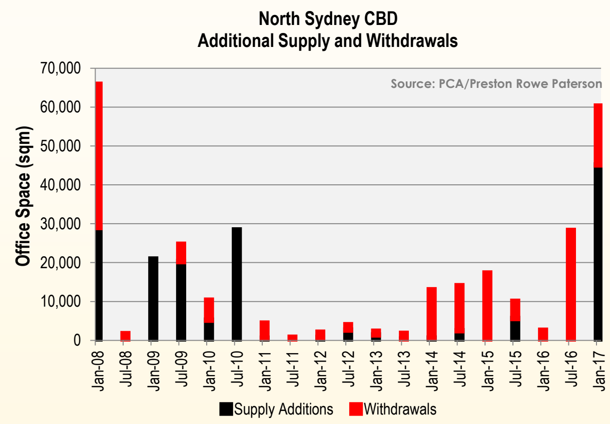

Chart 4 – North Sydney CBD Additional Supply and Withdrawals – Source PCA

The majority of space addition derived from A-Grade office buildings that have entered the market, either through the completion of new developments or refurbishments through the six month period. 38,011 sqm of A-Grade space was added onto the market, followed by 5,713 sqm of Premium Grade space. In contrast, North Sydney lost B-Grade and C-Grade spaces over the same period. There was a withdrawal of 8,462 sqm of B-Grade space, in conjunction with the withdrawal of 5,248 sqm in C-Grade space. No change was recorded in the supply of D-Grade offices, remaining at 12,932 sqm.

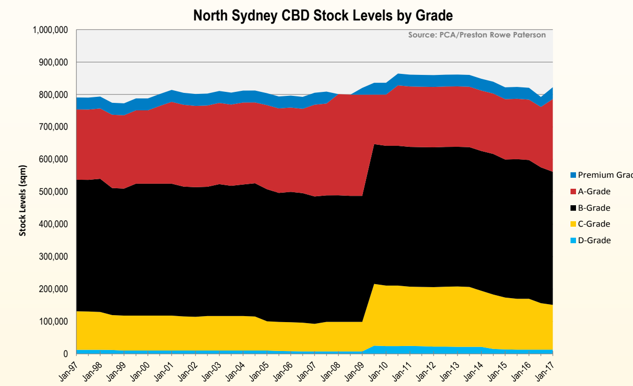

Chart 5– North Sydney CBD Office Stock by Grade - Source— PCA

Vacancy Rates

North Sydney's office market vacancy rate declined by –0.1% over the six months to January 2017. As at January, there is 58,549 sqm of total vacancy in North Sydney's office market, of which 53,644 sqm of space is direct vacancy and 4,905 sqm is sub-lease vacancy. These figures reflect a 6.5% direct vacancy rate and 0.6% sub-lease vacancy rate.

We note that total vacancy rate for Premium offices declined from 41.2% since July 2016, to the current rate of 25.2% for January 2017. Vacancy rates for A Grade and C Grade offices declined over the period, to 5.2% and 3.5% respectively. In contrast, B Grade and D Grade offices experienced increases in their vacancy rates, to 6.7% and 3.3% respectively.

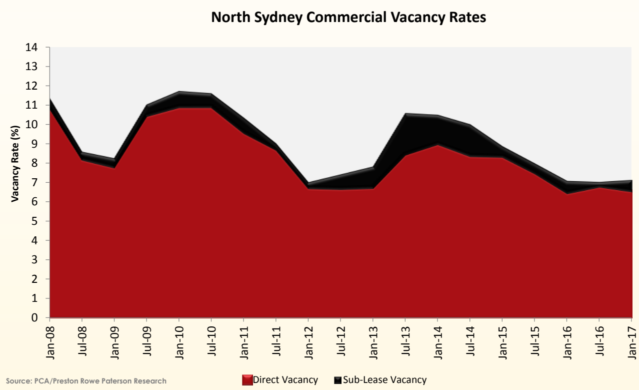

Chart 6 – North Sydney CBD Office Vacancy – Source— PCA

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Crows Nest/St Leonards

Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to March 2017:

Built has purchased a 99-year leasehold to a 3,600 m2 office building for **$22.75 million**. The 1,000 m2 site was sold by *Vietnamese Vingroup*. The new owners plan to refurbish to create up to 8,000 m2 of office and retail with up to seven additional levels on the current buildings. The sale reflects a **rate of $22,750 psm**.

Leasing Activity

Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to March 2017 in the Crows Nest/St Leonards office market.

Supply by Grade (Stock)

PCA's Office Market Report for January 2017 indicated that there was a withdrawal of 18,489 sqm of office space within a six month period. Over the same period, 400 sqm was added onto the market, bringing the total stock down to 315,542 sqm. We note that all of this withdrawal stems from the decrease in C-Grade and B-Grade office spaces.

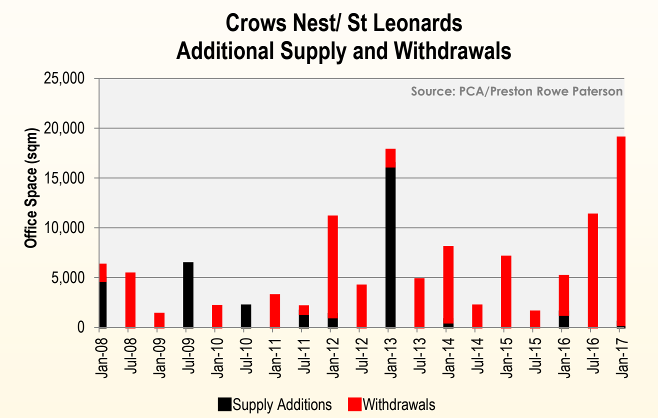

Chart 7– Crows Nest/ St Leonards CBD Additional Supply and Withdrawals – Source PCA

Despite the large withdrawal of C-Grade office spaces, Crow's Nest/St Leonards' office market is still dominated by C-Grade offices with 136,897 sqm in space. B-Grade offices also experienced a decline in their stocks, declining to 63,377 sqm. A and D Grade office did not experience any changes in their stocks, remaining at 102,699 sqm and 12,569 sqm

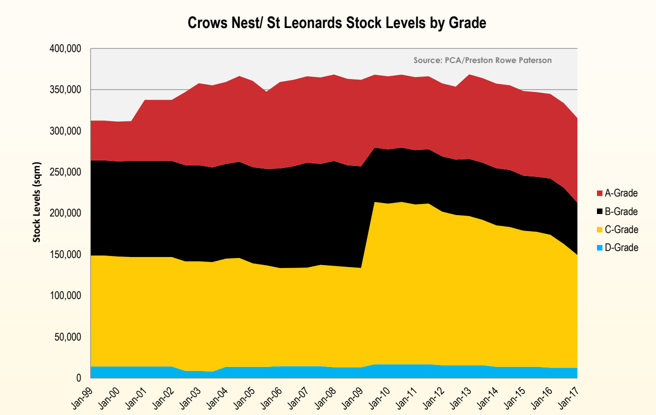

Chart 8– Crows Nest/ St Leonards Office Stock by Grade - Source— PCA

Total Vacancy

There were notable changes that occurred over the six months to January 2017, which all contributed to the increase in total vacancy rate to 10.5%. This increase was attributed to by the increase in direct vacancy, which increased from 7.3% to 9.5% over the period, whilst sub-lease vacancy remained unchanged at 1.0%.

Vacancy rate increased in A Grade and B Grade offices over the six months to January 2017. A Grade vacancy increased from 2.9% to 7.0%, whilst B Grade offices experienced a notably increase from 6.3% to 17.8% over the same period. C Grade and D Grade offices experienced declines in vacancy rates, with C Grade declining from 12.4% to 9.6% and D Grade declining from 14.6% to 12.1%.

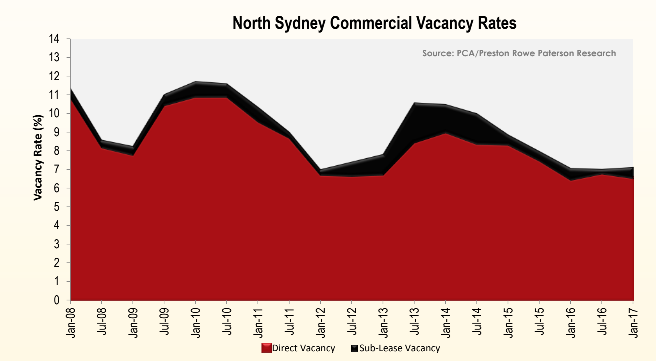

Chart 9 – North Sydney Office Vacancy – Source— PCA

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Parramatta

Investment Activity

Preston Rowe Paterson Research revealed the following sale transaction that occurred in the three months to March 2017:

Cnr Smith and Phillip Streets, Parramatta, NSW 2150
GPT Group has acquired a 2,439 m2 development site from the Salvation Army for **$31.2 million**. The site could potentially be constructed into a new office tower of as much as 26,000 m2. The sale reflects a **rate of $12,792 psm**. Parramatta is located around 23 km west of the Sydney CBD.

Leasing Activity

Preston Rowe Paterson Research recorded no significant leasing transactions that occurred during the three months to March 2017 in the Parramatta office market.

Development Sites

The Property Council of Australia's (PCA) Office Market Report for January 2017 indicated that there are three new developments due to be completed by the beginning of 2019:

169 Macquarie Street, Parramatta NSW 2150
Stage 1 development of Parramatta Square is reported to be completed by the fourth quarter of 2016. Under its owner, *Charter Hall Group*, the site will provide a net lettable area of 26,000 sqm over 14 office levels. Its average floorplate size will be 2200 sqm, with 108 carpark spaces available upon completion.

153 Macquarie Street, Parramatta NSW 2150
In conjunction with the Parramatta Stage 1 development, the other significant development is **Parramatta Square (Stage 3)** project located on **153 Macquarie Street.** It is currently in its early feasibility stage. The Parramatta City Council proposed that the third stage of development will include 35,000 sqm of NLA over a 14 storey office tower, feature a 7,000 sqm are of public facilities including a civic building, community centre, library and facilitate a car park with 170 spaces. The project is expected to be completed in the 2nd quarter of 2018 or later.

105 Phillips Street, Parramatta NSW 2150
This A Grade office building will add 25,000 sqm of NLA once completed, along with 500 sqm of retail space over 13 levels. The building will home 1,800 NSW Department of Education employees from March 2018 following their move from the Sydney CBD office. The property's owner, DEXUS Property Group, have indicated the construction will be completed by the second quarter of 2018.

30 Darcy Street, Parramatta NSW 2150
The 4th and 6th stage of the Parramatta Square development is under construction, with a combined addition of 110,000 sqm of NLA and 4,500 sqm into Parramatta's office market once complete. Average floorplate size will be 2,000 sqm over 25 levels in office space. The project is due to be completed by the fourth quarter of 2019.

Supply by Grade (Stock)

Total stocks in Parramatta's office market increased over the six months to January 2017, with an addition of 26,000 sqm, and offset by a withdrawal of 1,370 sqm. Total stocks increased to 707,099 sqm, an increase of 24,630 sqm over the period.

All of the increase in office stock stemmed from the addition of A Grade offices into the market. B Grade and C Grade stocks did not change, remaining at 219,303 sqm and 100,373 sqm respectively. All withdrawals from the market was from D Grade offices, which declined by 1,370 sqm to 87,806 sqm.

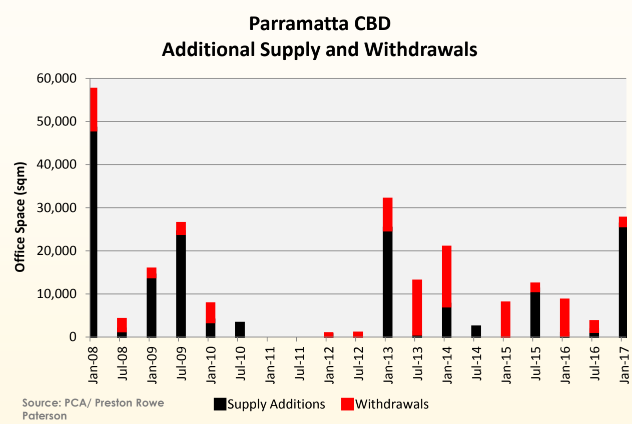

Chart 10– Parramatta CBD Additional Supply and Withdrawals – Source PCA

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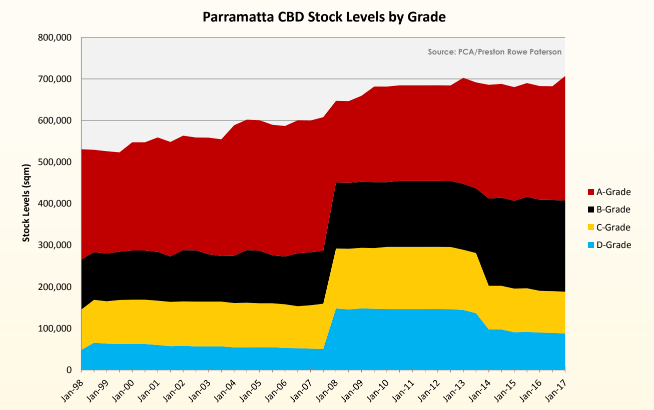

Chart 11– Parramatta CBD Office Stock by Grade - Source— PCA

Vacancy Rates

Over the six months to January, total vacancy rates in Parramatta's office market declined by 0.1% to 4.3%. The fall was mainly attributed to the change in direct vacancy, declining by 0.2% to 4.2% and sub-lease vacancy increasing by 0.1% to 0.1%.

C Grade stocks experienced an increase in vacancy rate over the period, from 11.0% in July 2016 to 13.2% in January 2017. B Grade and D Grade offices experienced declines in their vacancy rates over the same period, with B Grade declining from 6.8% to 6.2%, and D Grade offices from 5.1% to 4.3%. Vacancy rates for A Grade did not change, remaining at 0.0% since January 2016. In total, net absorption was at 32,128 sqm as a result of these changes in office vacancy in Parramatta.

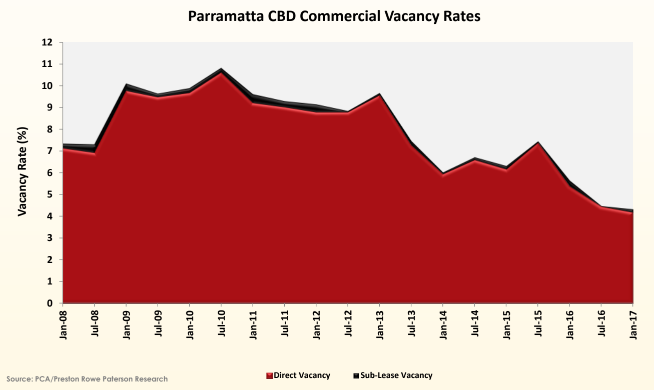

Chart 12– Parramatta CBD Office Vacancy – Source— PCA

Chatswood

Supply by Grade (Stock)

The January 2017 Office Market Report from the PCA indicates that there is no change in the total office stock in the Chatswood region, with total stock remaining at 278,919 sqm. There were no addition to supply and no withdrawals for the period.

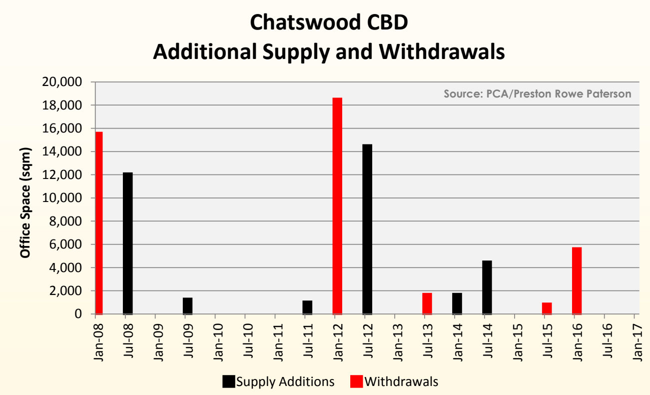

Chart 13 – Chatswood CBD Additional Supply and Withdrawals – Source PCA

The Chatswood market is dominated by A Grade stock, which hasn't changed in supply since January 2014 at 157,412 sqm. There are approximately half as many B Grade as A Grade office stock, with January 2017 figures showing there are 76,046sqm of B Grade office stock. There are 45,007 sqm in space of C-Grade offices, and 454 sqm of D Grade stocks.

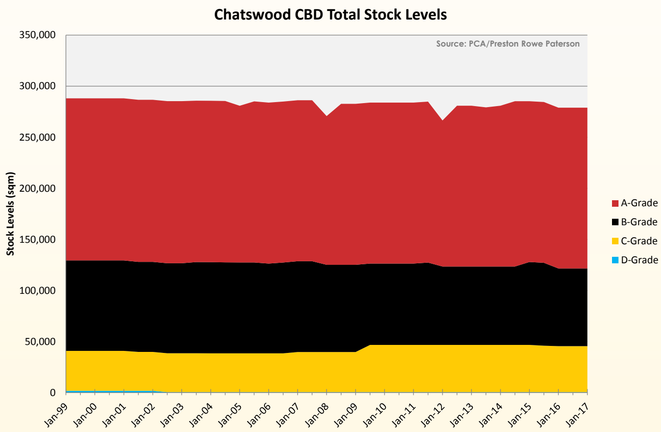

Chart 14— Chatswood CBD Office Stock by Grade - Source— PCA

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Total Vacancy

Total vacancy in Chatswood's commercial office market increased to 7.7% in January 2017, a rise of 1.1% from July 2016. Direct vacancy increased from 5.3% to 7.2% over the period, whilst sub-lease vacancy declined from 1.3% to 0.5%.

We note that D Grade offices in Chatswood experienced a notably change in their vacancy rate, increased to 100% from 0% over the six months to January. A Grade and C Grade offices also experienced an increase in their vacancy rates, albeit not to the same extent of D Grade stocks. A Grade office vacancy increased from 6.1% to 8.0%, whilst C Grade office vacancy increased from 2.5% to 3.9%. In contrast, B Grade office vacancy experienced a decline of 1.0% to 8.9%.

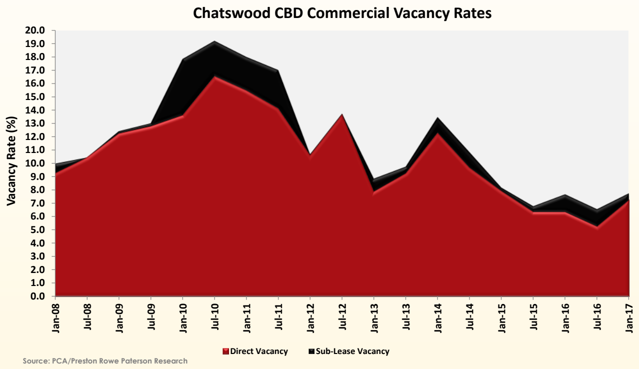

Chart 15– Chatswood CBD Office Vacancy – Source— PCA

North Ryde/Macquarie Park

Investment Activity

Preston Rowe Paterson Research recorded the following sale transaction that occurred during the three months to March 2017:

2 Richardson Road, North Ryde, NSW 2113

Investec Australia Property Fund has purchased a 4-level, A-grade office building for **$85 million**. The property was built in 2004 and comprises 15,055 m2 of office space, 150 m2 of ground floor retail space and 492 undercover and on-grade car parks. The sale reflects an **initial yield of 7.5%** and a **rate of $5,590 psm**. North Ryde is located about 12 km north-west of the Sydney CBD.

Leasing Activity

Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to March 2017 in the North Ryde/ Macquarie Park office market.

Supply by Grade (Stock)

Over the six months to January 2017, the North Ryde/ Macquarie Park market experience minor shifts in their office stocks. There was an addition of 5,000 sqm in office space, in conjunction with 9,417 sqm of space withdrawal through the same period. Overall, there a gross withdrawal of 4,417 sqm of space from the commercial office market.

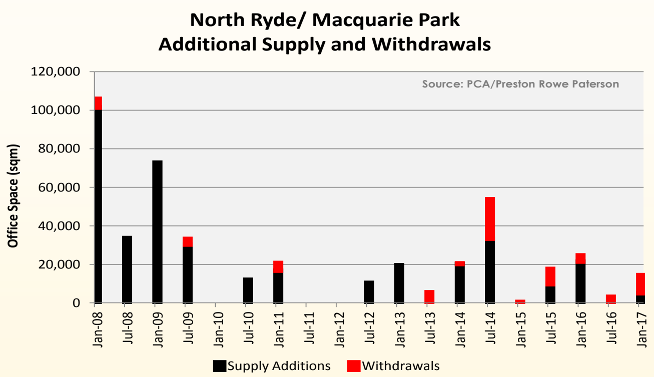

Chart 16 – North Ryde/ Macquarie Park Additional Supply and Withdrawals – Source

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Withdrawals of office stocks in the North Ryde/ Macquarie Park office market was attributed to the decline in B Grade stocks, which decreased by 9,417 sqm. A Grade stocks benefited from an increase of 5,000 sqm in space. Over the same period, no changes were recorded in the C Grade and D Grade office supply, remaining at 15,385 sqm and 2,721 sqm respectively.

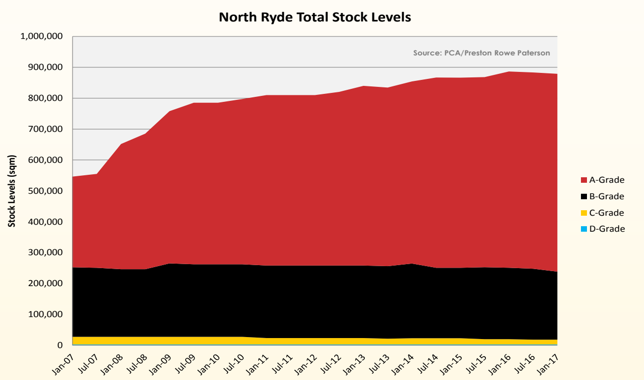

Chart 17– North Ryde/Macquarie Park Office Stock by Grade - Source— PCA

Vacancy Rates

The North Ryde/ Macquarie Park office market recorded an increase of 0.4% in total vacancy rate over the six month period. Total vacancy stand at 7.5%, attributed to by a decrease of 0.4% in direct vacancy to 6.7% and an increase of 0.3% in sub-lease vacancy rate to 0.9%.

Vacancies of A Grade and C Grade increased over the six month period. A Grade office vacancy rate experienced an increase of 0.8% to 5.1%, whereas C Grade vacancy rates increased by 0.3% to 10.7%. In contrast, B Grade vacancy rates declined byu 0.7% to 14.2% over the same period.

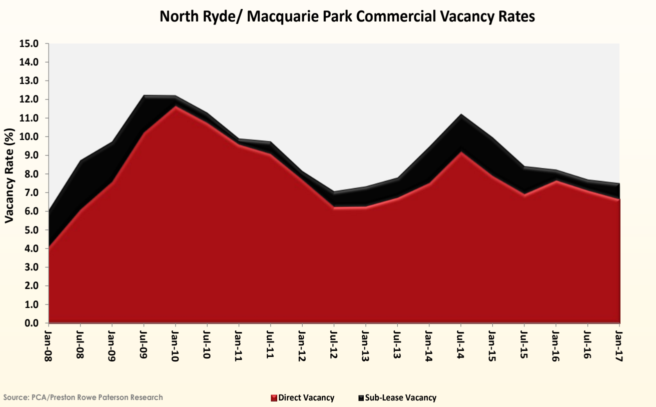

Chart 18 – North Ryde/Macquarie Park Office Vacancy – Source— PCA

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RETAIL STATISTICS

Over the month to March 2017, Australia's retail turnover remained unchanged, following an increase of 0.1% in February and 0.1% in January. When we look at the change over the quarter, March 2017 recorded a rise of 0.1%, compared to an increase of 0.7% over the December quarter of 2016. A state by state comparison sees a modest rises in South Australia (0.3%), New South Wales (0.1%), Victoria (0.1%) and the Australian Capital Territory (0.1%). In contrast, declines in turnover were recorded in Queensland (-0.4%), the Northern Territory (-0.3%), Western Australia (-0.1%), and Tasmania (-0.1%).

Total turnover for New South Wales was at $8.306 billion for the month of March, indicative of a 0.1% change from the preceding month. Sale of Pharmaceuticals, cosmetic and toiletry goods were the highest over the year to March 2017, increasing by 9.13% to $390.7 million. Similarly, turnover of Café, restaurants & takeaway food services increased by 5.60% over the year to $1.245 billion, whilst Clothing, footwear & personal accessory turnover increased by 3.72% to $767.3 million and Other retailing increased by 3.87% to $555.2 million. In contrast, Newspaper and book retail turnover declined by –3.94% to $85.4 million, Liquor retailing declined by –2.88% to $283.3 million and Department store retail turnover declined by –1.08% to $511.9 million.

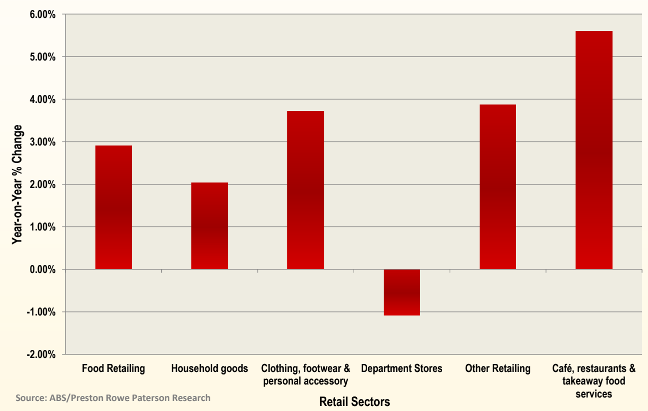

Chart 19—Year on Year % change to March 2017 of retail subgroups—Source—ABS

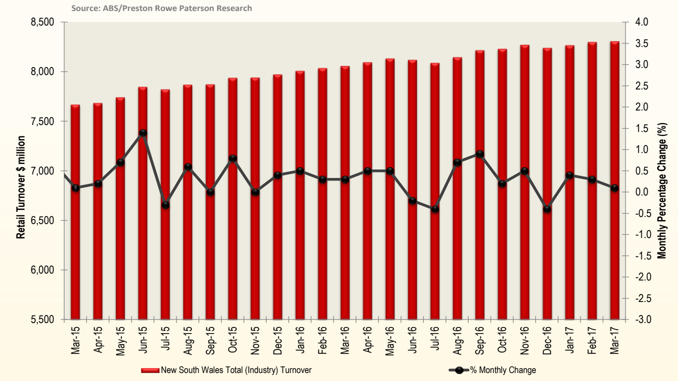

Chart 20—New South Wales Retail Turnover—Source—ABS

Online Retail

The Australian & New Zealand Standard Industrial Classification (ANZSIC) defines 'retail trade' as "the purchase and on-selling, commission-based buying, and commission-based selling of goods, without significant information, to the general public".

The NAB Online Retail Sales Index slowed to 0.2% over the month to February, a decline from January's 0.3%. National Australia Bank indicates that $22 billion were spent over the last twelve months to February 2017, which is equivalent to approximately 7.2% of spending at traditional retailers (January 2016, ABS). There were improvements recorded in Food catering online retailing (28.6% year-on-year to February vs. 25.8% year-on-year to December), Personal & recreational goods (17.5% vs. 15%), Media (17% vs. 14%) and Department stores (9.6% vs. 7.3%). On the other hand, declines were recorded in online sales in Homeware & appliances (18.4% vs. 22.1%), Fashion (9.2% vs. 12.6%), Groceries & liquor (1.3% vs. 5.1%), Daily deals (-1.8% vs. 3.4%) and Games & toys (1.3% vs. 4.5%).

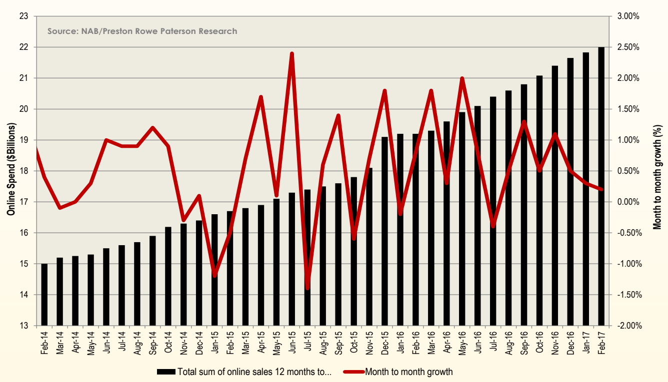

Chart 21—NAB Online Retail Sales Index—Source—NAB

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RETAIL MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following significant retail transactions that occurred in the Sydney metropolitan areas during the three months to March 2017:

230 Sydney Road, Kelso, NSW 2795

Properties and Pathways have acquired the **Bathurst Supa Centre** from *Crowe Horwath* for **$14.67 million**, on a **yield of 7.4%**. The 7,487 m2 large format retail centre is anchored by *Fantastic Furniture*, *BCF*, *Petbarn* and *Homemakers Furniture*. Kelso is located about 195 km north-west of the Sydney CBD.

10 Darwin Street, Cessnock, NSW 2325

A Melbourne vendor has sold a *Big W*-anchored retail centre to a Sydney-based private investor for **$13.2 million**. The 8,009 m2 centre is 89% leased and occupies a 1.9-hectare site. The sale reflects a **passing yield of 7.6%** and a **rate of $695 psm**. Cessnock is located about 151 km north of the Sydney CBD.

Shop 12, 1 Macquarie Street, Circular Quay, NSW 2000

A local family investor has purchased a retail strata unit leased to *French Connection UK (FCUK)* for **$10.2 million**. The 131 m2 shop sold in an off-market deal on a **net yield of 3.15%.** The sale reflects a **rate of $77,863 psm.**

Roselands Drive, Roselands, NSW 2196

Revelop has paid **$13 million** to *Charter Hall Retail REIT* for the freestanding **Woolworths Rosehill**. The 4,012 m2 site has a 2,440 m2 supermarket and *BWS* liquor store as well as 99 on-grade car spaces. The sale reflects a **5.3% net yield** and a **rate of $3,240 psm**. Roselands is located about 15.2 km south-west of the Sydney CBD.

82-84 Dixon Street, Haymarket, NSW 2000

A 3-level commercial building on a 342 m2 site has sold at auction for **$19.9 million**. The ground-floor of the 983 m2 of lettable area property is leased to *Hingara Chinese Restaurant*, while the upper retail levels are leased to *Live Crafts Centre*. The site is zoned B8 Metropolitan Centre. The sale reflects a **rate of $58,187 psm**.

144 Maryland Drive, Maryland, NSW 2287

A Newcastle-based syndicate has purchased the 4,985 m2 **The Neighbourhood Centre** from *PPB Advisory* for **$7.5 million** on a **sharp initial yield of 4.4%.** The centre has 1 mini-major, 6 specialty tenants, one ATM and 4 vacancies. There are also 180 car spaces on the 1.39-hectare. The sale reflects a **rate of $540 psm**. Maryland is located around 14.4 km north-west of Newcastle's CBD.

12-14 Churchill Avenue, Strathfield, NSW 2135

A private buyer has acquired the **Symond Arcade** at auction for just **above $30 million**. The property has 12 ground-floor retail shops and 14 offices on the upper level. The sale of the 645 m2 site reflects a **rate of over $46,512 psm**. Strathfield is located around 12.2 km west of the Sydney CBD.

Leasing Activity

Preston Rowe Paterson Research recorded no significant leasing transactions that occurred in the Sydney metropolitan areas during the three months to March 2017.

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INDUSTRIAL MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in the Sydney metropolitan during the three months to March 2017:

60 Marple Avenue, Villawood, NSW 2163

An owner-occupier has acquired an A-grade industrial facility from *360 Capital Industrial Fund* for **$20 million**. The facility comprises 8,615 m2 of office and warehouse improvement and is leased to *Kent Transport* until February. The sale reflects a **rate of $2,322 psm**. Villawood is located about 25.4 km south-west of Sydney's CBD.

98 Riley Street, Darlinghurst, NSW 2010

Russell Crowe has sold a warehouse that is occupied by a gym for **$17 million**. Darlinghurst is located 1.5 km south-east of the Sydney CBD.

36 Gow Street, Padstow, NSW 2211

A 20,389 m2 industrial building has been acquired by *Mirvac Group* for **$30 million**. The property occupies a 3.8-hectare site and comprises gantry cranes for unloading containers and drive-around access for trucks. The modern warehouse also has a corporate office and a flexible layout that offers the potential for the building to be split into two tenancies. The sale reflects a **rate of about $789 psm**. Padstow is located around 21.3 km south-west of the Sydney CBD.

Great Western Highway, Huntingwood, NSW 2148

The *Charter Hall Prime Industrial Fund* has bought a 5.6-hectare industrial site from *Beiersdorf* for **$29.715 million**. The buyer plans to construct an A-grade, 32,715 m2 warehouse and distribution facility with a completion value of $65 million. The Fund has already lodged a development application for the project. The site is regular shaped and has B-double truck access. The sale reflects a **rate of $531 psm**. Huntingwood is located about 33.6 km west of the Sydney CBD.

7 Tollis Place, Seven Hills, NSW 2147

A 2,990 m2 warehouse/office with two large roller shutter doors has been bought by a Sydney-based owner-occupier for **$5.27 million**. The sale of the 5,525 m2 site reflects a **rate of $954 psm**. Seven Hills is located about 32.2 km north-west of the Sydney CBD.

10-12 Pike Street, Rydalmere, NSW 2116

A private owner-occupier has paid **$27.5 million** for two manufacturing warehouses from *Propertylink Group*. The 20,022 m2 properties are leased to *Waco Kwikform* to 2018. The sale reflects a **rate of $1,373 psm**. Rydalmere is located around 20 km north-west of the Sydney CBD.

3 George Young Street, Auburn, NSW 2144

Primewest has purchased a 5,000 m2 office and warehouse facility for **$10.3 million**. The property occupies a 7,667 m2 lot and is leased to *Coast to Coast* until 2022. There are office, showroom, warehouse and workshop facilities on the site. The sale reflects a **rate of $1,343 psm**. Auburn is located around 18.8 km north-west of Sydney's CBD.

10-14 John Morphett Place, Erskine Park, NSW 2759

The Macquarie and Ivanhoe Cambridge-backed *LOGOS* has paid about **$18 million** for a 3.7-hectare site. The companies plan to construct a 19,000 m2 facility on the site that has an end value of $50 million. Around 7,500 m2 of planned facility is pre-committed. The sale reflects a **rate of $486 psm**. Erskine Park is located about 44.4 km north-west of Sydney's CBD.

8 George Young Street, Auburn, NSW 2144

Zou has purchased a 3,338 m2 freestanding high-clearance warehouse and office for **$6.66 million**. The property features parking and container access and has a WALE of 4.5-years. The sale reflects a **rate of $1,995 psm.** Auburn is located around 18.8 km north-west of the Sydney CBD.

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Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred during the three months to March 2017 in New South Wale's Industrial property market:

7 Walker Place, Wetherill Park, NSW 2164
An industrial property has been leased by *Saint-Gobain Solar Gard Australia Pty Ltd* for **5-years**. The 1,111 m2 site is leased for **$110 net psm**. Wetherill Park is located around 31.9 km west of Sydney's CBD.

6 Wonderland Drive, Eastern Creek, NSW 2766
Titan Australia has leased a 4,099 m2 industrial building for **5-years with options**. The **net annual rent is $120 psm**. Eastern Creek is located around 36.3 km north-west of Sydney's CBD.

2/26 McIlwraith Street, Wetherill Park, NSW 2164
A private investor has found a tenant for a 1,169 m2 office and warehouse. *Simco Catering Equipment* agreed to occupy the space for **5-years with options** at an initial net annual rent of $113,295. The lease for the property with car parking, an office and amenities reflects a **rate of $97 psm**. Wetherill Park is located about 31.9 km west of the Sydney CBD.

10 Vicars Place, Wetherill Park, NSW 2164

Aggressor Corporation has agreed to a **3-year lease with options** over 818 m2 office and warehouse on a 1,389 m2 site. A private landlord leased out the property on a **net annual rent of $115 psm**. Wetherill Park is located around 31.9 km west of the Sydney CBD.

42 McCauley Street, Matraville, NSW 2036
Husniye Yavuz and the estate of the late Salim Yavuz have signed *Bowerbird Interior Styling Group* at its 945 m2 property. The site features a high clearance clear span warehouse and an office. Matraville is located around 11.1 km south of Sydney's CBD.

M4 Freeway, Eastern Creek, NSW 2766
*CEVA Logistic*s has signed as the first tenant in *Mirvac Group's* **Calibre** industrial estate on a **4-year deal**. The lessee will pay an **annual rent of $120 psm** while receiving an incentive at the market rate. This reflects an annual rent of around $2.2 million for an 18,000 m2 warehouse and 1,000 m2 of office space. Eastern Creek is located 51 km west of the Sydney CBD.

74-94 Newtown Road, Wetherill Park, NSW 2164
360 Capital has leased a 1,584 m2 office and warehouse property to *ITW Australia* for a **net annual rent of $125 psm**. The lease is for **3-years**. Wetherill Park is located around 31.9 km west of the Sydney CBD.

16 Voyager Circuit, Glendenning, NSW 2761
Xero Manufacturing has moved into a 949 m2 warehouse for **3-years and 2-months.** The property also offers a two-storey office, parking and truck and other vehicle access. The net annual rent being paid to the landlord *SND Properties* is **$120 psm**. Glendenning is located 41.4 km north-west of Sydney's CBD.

2 Muir Place, Wetherill Park, NSW 2164
A private investor has secured *Foxcom Australia* as a new tenant in a 1,036 m2 warehouse. *Foxcom* will pay a net **annual rent of $115 psm** for **4-years**. Wetherill Park is located around 31.9 km west of the Sydney CBD.

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RESIDENTIAL MARKET

Building Approvals

Building approvals statistics from the Australian Bureau of Statistics indicates that during February 2017, the number of dwelling units approved for construction increased by a seasonally adjusted 8.3%. This has brought the number of construction permits up to 18,995. Despite this increase, the declines from the end of 2016 has resulted in a figure that's 4.6% lower than what it was a year ago and ultimately reinforces the slowdown in construction approvals as the market continues towards its cyclical peak. Over the past year, a total of 229,091 approvals were granted for construction of dwellings across Australia, which according to a senior economist at the Housing Industry Association, will still keep the housing industry busy as the pipeline of work continues to pull through. Furthermore, when we look at the individual states and territories, increases in approvals were recorded in Queensland (33.7%) and New South Wales (19.6%), whilst the rest of the country experienced declines in their home building approvals over the month. Tasmania experienced the largest reduction of -14.7%, followed by Victoria (-8.8%).

In the Greater Sydney region, total number of dwelling approvals increased by 28.6% over the month to 4,761 approvals. This comprises of 1,474 approvals for houses and 3,287 dwellings excluding houses. Building approvals for houses increased by 10% over the year to February, whilst approvals for dwellings excluding houses increased by 25.5% over the same period. An economist from Commonwealth Bank have indicated approval levels in 2017 would likely to be lower than those figures in 2016, with the expected decline to be affected by the number of apartment/unit approvals rather than approvals for detached houses. We note that with APRA further tightening of macro prudential measures, continuing talks of the RBA increasing interest rates and declining rental yields, the housing market will likely experience a dampening in building approvals into the second half of 2017.

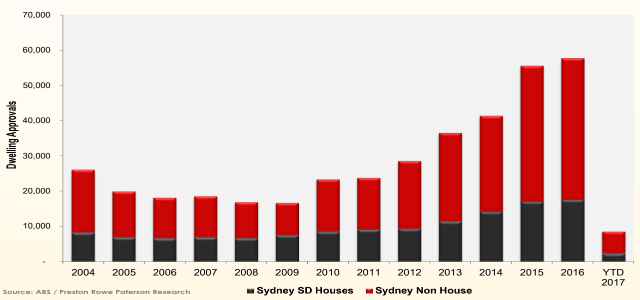

Chart 22 – Sydney SD Dwelling Approvals—Source ABS

Market Affordability

December quarter 2016 edition of the REIA real estate market facts reports that median house price in Sydney increased by 5.1% over the quarter, to $1,076,878. This figure indicates an annual change of 11.6%, with all areas of Sydney experiencing similar growths over the same period. There were a total of 14,009 sales in Sydney, with prices ranging from $690,000 to $1,520,000. In Inner Sydney, prices increased by 4.7% over the quarter, and 8.4% over the year to $1,910,000. There were 1,589 sales recorded during the three months to December, with sale prices ranging from $1,500,000 to $2,700,000. When we look at Middle Sydney, a 7.6% quarterly increase and 5.9% yearly increase has led median house price in this region to increase to $1,345,000. Amongst the 3,406 recorded sales, prices of sold houses range from $946,000 to $1,920,000. When we look at Outer Sydney, a 7.0% quarterly increase and 8.8% yearly increase has led to median house price in this region increase to $769,500. There were 9,014 sales reported in this region, and sale prices range from $610,000 to $1,100,000.

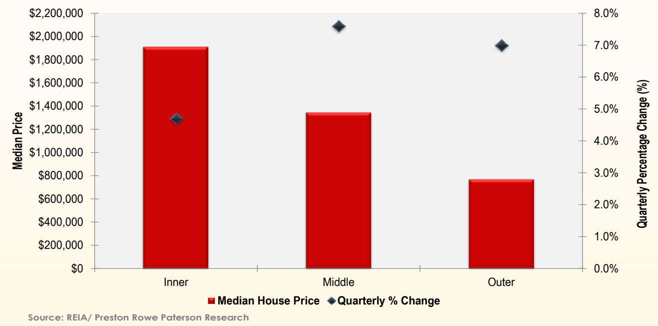

Chart 23 – Median House Price by Zone – Source REIA

Other dwellings in Sydney experienced a quarterly increase of 3.4% in their median house price, to $719,700. This figure indicates an annual change of 7.6%. In Inner Sydney, median sales price increase by 4.3% over the quarter and 8.4% over the year, to $900,000. Amongst the 2,947 sales in this region, prices range from $580,000 and $951,000. Middle Sydney recorded a quarterly increase of 1.6% and a yearly increase of 0.7% in median sale price, to $680,000 There were 2,954 dwellings sold during the three month period, with sale prices ranging from $560,000 and $850,000. In Outer Sydney, median sale price increased by 1.9% over the quarter and 8.8% over the year, to $769,500. Amongst 9,014 sales, prices ranged from $610,000 to $775,000.

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Chart 24 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

Over the December quarter, median weekly rent around Sydney experienced slight quarterly increases. Inner Sydney's 2 bedroom house rents did not experienced any change overall, remaining at $700 per week, while 3 bedroom houses in this zone experienced a small increase of 0.6% to $900 per week. 2 bedroom houses in Middle Sydney experienced a decline of -1.0% in median rental price over the quarterly, down to $495 per week On the other hand, 3 bedroom houses in Middle Sydney experienced a 1.7% increase in median weekly rent, to $590. Outer Sydney experienced strong growths over the quarter, with 2 bedroom house rents increasing by 27% to $380 per week, and 3 bedroom house rents increasing by 23% to $450 per week.

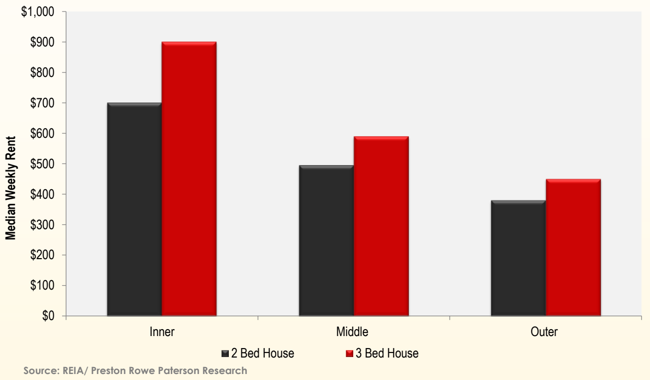

Chart 25 – Sydney Median Weekly Rents for House by Zone – Source REIA

Other dwellings in Sydney experienced mixed changes in their rents per week. 1 and 2 bedroom units in Inner Sydney experienced growths of 1.9% and 1.5% respectively, to a median weekly rent of $540 and $690. Middle Sydney's 1 and 2 bedroom dwellings both experience declines in weekly rents, down by a respective -4.2% and -2.0% to $460 and $500 per week. Other Sydney experienced the strongest growths, with 1 and 2 bedroom dwellings experiencing a respective 9.7% and 2.4% in quarterly growths. As at December, median weekly rent in 1 bedroom units in Outer Sydney stand at $395, whilst median weekly rent for 2 bedroom units in this zone stand at $430.

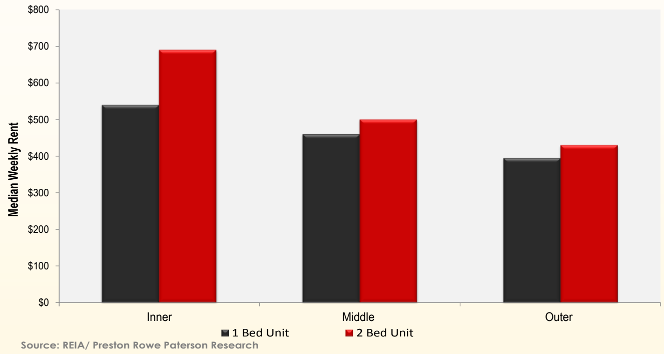

Chart 26 – Sydney Median Weekly Rents for Other Dwellings by Zone – Source REIA

Residential Vacancy Rates

Residential Vacancy Rates from REINSW indicates a drop in vacancy rates in residential houses in all parts of Sydney, meaning that it is harder to find rental accommodation around the Sydney metropolitan area. Middle Sydney experienced the largest decline over the month to March, of -0.4% to a current vacancy of 1.4%. Inner and outer Sydney both experienced a decline of -0.1%, bringing their respective vacancy rates down to 1.6% and 2.1%. Overall, the Sydney metropolitan market experienced a drop of -0.2% down to 1.9%. When we look at annual changes, Inner Sydney and Outer Sydney both recorded an increase of 0.3% from March 2016 figures. On the other hand, Middle Sydney experienced an annual decline of -0.5%.

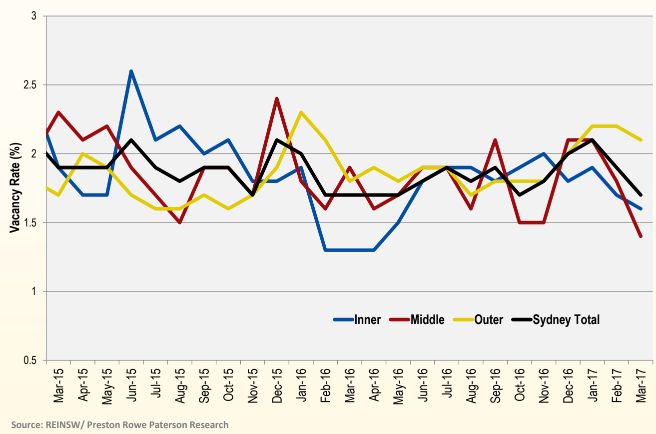

Chart 27– Sydney Vacancy Rates – Source REINSW

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NEWCASTLE

Market Affordability

In Newcastle, median house price jumped 4.2% over the December quarter, to reach $495,000. This median price reflects an annual change of 8.8%. There were 2,732 number of sales recorded by the REIA, with prices of houses sold in this area ranging between $395,000 and $630,000. When we look at other dwellings in Newcastle, quarterly change was recorded at 6.0%, with the median house price jumping to $440,000. There were 358 recorded sales over the period, with prices of these dwellings ranging from $335,000 and $569,000.

Rental Market

Medina weekly rent for 2 bedroom and 3 bedroom houses in Newcastle did not change over the quarter, remaining at $370 and $420 per week, respectively. Over the year, these weekly prices reflect a respective change of 2.8% and 5.0%. Other dwellings in Newcastle experienced growths in their weekly rents over the December quarter. Weekly rent for 1 bedroom dwellings increased by 3.8% to $275 per week. Similarly, weekly rent for 2 bedroom houses increased by 5.7%, to $370. Over the year, weekly rent for 1 bedroom dwellings increased by 1.9%, whilst rent for 2 bedroom dwellings increased by 5.7%.

WOLLONGONG

Market Affordability

Median house price in Wollongong increased by 5.9% over the December quarter to $667,000. This price reflects an annual change of 14.0%. There were 1,075 recorded sales over the period, with prices ranging from $543,000 and $850,000. When we look at other dwellings in the area, prices had declined by –2.7% over the quarter to $506,000. This price, however, reflects a 5.1% annual increase. There were 194 sales recorded by the REIA, with sale prices ranging from $412,000 and $630,000.

Rental Market

Median weekly rent for 2 bedroom houses in Wollongong increased by 2.6% to $400, whilst 3 bedroom house rents remained unchanged at $470. These prices reflect an annual change of 3.9% for 2 bedroom houses and 4.4% change for 3 bedroom houses. When we look at other dwellings in Wollongong, median rent for 1 bedroom dwellings declined by –3.7% to $260 per week. 2 bedroom dwellings did not experience any change in their weekly rent, remaining at $360. Over the year, weekly rent for 1 bedroom dwellings declined by –3.7%, whilst weekly rent for 2 bedroom dwellings increased by 2.9%.

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SPECIALIZED PROPERTY MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following specialised property transactions that occurred in New South Wales during the March Quarter 2017:

5 Casino Road, Junction Hill, NSW 2460

Shane Punton Pty Ltd has acquired a *Caltex* service station from Mike Fishburn for **$1.3 million**. The 1,255 m2 property has a commercial kitchen, parking, outside seating and a four-bedroom residence at the rear of the site. The sale reflects a **rate of $1,036 psm**. Junction Hill is located around 5.8 km north of the Grafton CBD.

REGIONAL MARKET

Preston Rowe Paterson Research recorded the following significant sales transactions that occurred in regional New South Wales during the three months to March 2017:

Gopolphin Twin Hills, Cootamundra, NSW 2590

Olly and Amber Tait have acquired the prestige **Twin Hills** racehorse stud farm from Sheikh Mohammed bin Rashid al-Maktoum for **$12 million**. The 1,011-hectare property has three operational divisions including stallions, mares and yearlings, each with their stabling and supporting infrastructure to total over 100 high quality boxes across 4 stables. There is also a serving barn, 12 horse walkers, a dedicated foaling precinct with elevated night watch, a vet crush, undercover sand rolls, quarantine stables and a vet shed. The entire farm accommodation includes a 4-bed stud manager's residence, a 3-bed assistant manager's residence, a 3-bed yearling manager's residence, a 3-bed **Heatherdale** residence, a 4-bed **Littledale** residence, a 3-bedroom cottage and two 2-bed cottages with a central shared area. The working improvements feature an office, 2 machinery sheds, 5 silos, a hay shed and a feed shed. The sale reflects a **rate of $11,869 per hectare**. Cootamundra is located around 385 km south-west of the Sydney CBD.

Cobramunga Road, Barham, NSW 2732

A Victorian farming family have purchased a cropping and grazing property known as **'Bennelong'**, from the Hazeldene family for **around $8.5 million**. The 2,020-hectare property is well known for its prime vealer and fat lamb production. There are 840-hectares of cropping which produces wheat, barley and faba beans. A four-bedroom family home, a five-stand shearing shed with accommodation attached, four machinery and hay sheds, an aircraft hangar and a grass airstrip are all located on the site. The property also has 2,140 megalitres of general security irrigation water rights accessed via the Murray River from two pump stations. The sale reflects a **rate of $4,208 per hectare**. Barham is located about 783 km south-west of Sydney's CBD.

HOTELS & LEISURE MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following Hotel and Leisure property transactions that occurred in New South Wales during the March Quarter 2017:

2 John Street, Lidcombe, NSW 2141

The Lidcombe Hotel has been sold by *Marvan Hotels* for **around $36 million**. The hotel occupies a 782 m2 site and has strong redevelopment potential with an FSR of 5:1 and a maximum building height of 36 metres. The hotel features a bar, beer garden, TAB and gaming room. The sale reflects a **rate of $46,036 psm**. Lidcombe is located about 17.4 km west of the Sydney CBD.

20 Swain Street, Sydenham, NSW 2044

Lantern Hotel Group has sold the multi-level **General Gordon Hotel** to a Sydney hotelier for **$18.1 million**. The over 80-year old pub is named after General Sir Charles George Gordon. It features a bistro, beer garden and bottle shop. Sydneham is located around 7.5 km south-west of the Sydney CBD.

587-589 Crown Street, Surry Hills, NSW 2010

Peak Investments has purchased the **Crown Hotel** from the *Lantern Hotel Group* for **$26.1 million**. The multi-storey venue has a dedicated sport and TAB bar, private events space and 8 boutique rooms. Surry Hills is located around 3 km south-east of the Sydney CBD.

55-65 Elizabeth Street, Sydney, NSW 2000

A Sydney hotelier has purchased the **Verandah Hotel** leasehold for **between $9 million and $10 million**. The 1,000 m2 of net lettable area hotel features the Verandah Restaurant and Wine Bar, the Verandah Main Bar and BBQ, the Front Bar, a TAB and a gaming room with 20-machines. The property is on a 10-year lease from the 1st of October 2016 to the 30th of September 2026. There is also a 5-year, 10-year and 4-year option on the property. The annual rent for 2016 was $743,507.58. Dean Haritos sold the property.

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Economic Fundamentals

Consumer Price Index

Over the three months to March 2017, All groups Consumer Price Index (CPI) for Australia increased by 0.5% over the quarter to bring annual change to 2.1%, just above the Reserve Bank's two-to-three per cent inflation target. This annual increase is considerably higher when compared to the twelve-month change to December 2016, which rose 1.5% (the lowest annual increase in nineteen years). When looking at core inflation, which is looks at changes in prices that reflect only the supply and demand conditions in the economy, prices changes remain relatively weak with a 0.4% rise in the weighted median over the three months to March to result in an annual change of 1.7%.

In the last year, Melbourne and Sydney recorded the largest increase in All Groups CPI, with a respective annual increase of +2.5% and +2.4%. In contrast, Darwin recorded the lowest increase, with an annual change of 0.5%. Over the March quarter, CPI increased in all capital cities, except for Darwin, when we look at the All groups level. Notably, the housing group (+0.8%) contributed the most to the quarterly rise, which increases in six out of eight capital cities. In conjunction with an increase in new dwelling purchases by owner-occupiers, increases in input costs and electricity prices all contributed to the rise prices in the housing group. The transport group (+1.5%), health group (+2.0%) and education group (+3.1%) all contributed positively to the quarterly movements in the All groups. Petrol price, fuelled by an increase in world oil prices, was the main driver of the transport group. Rises in medical & hospital services and pharmaceutical products caused by the resetting of the Medicare Benefits Scheme (MBS) (which increased the out-of-pocket expenses for patients) contributed the most to the increase in prices in the health group.

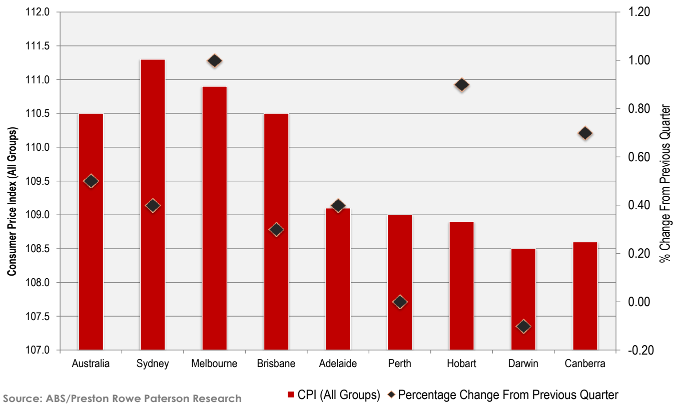

Chart 28—All Group CPI (Capital Cities) and Percentage Change from December 2016 to March 2017—Source—ABS

Business Sentiment

According to the NAB Quarterly Business Survey, confidence amongst Australian businesses increased in the first quarter of 2017. The business confidence indicator increased by +1, to +6, on a scale in which a reading above 0 indicates improving conditions. However, National Australia Bank did note that despite the solid results, there is no strong evidence that the increased confidence towards the global economic outlook is positively impacting business confidence. This may be due to the increased concerns around political events around the world. Business confidence were positive for all industries other than retail (-1) and manufacturing (-5). Construction (+8) and transport & utilities (+4) experienced strong levels of confidence, whilst mining (+10) and wholesale (+10) continue to see the strongest levels of growths amongst all industries.

Consumer Sentiment

According to the Westpac-Melbourne Institute Consumer Sentiment Index, overall sentiment in April declined by 0.7%, from March's index of 99.7 to April's 99.0. This decline is influenced by both domestic and international factors, including the domestic concerns over Australia's housing market, the action of major banks to increase their interest rates for some mortgage borrowers, disappointing labour market figures, declining iron ore prices over the last month, and the strengthening Australian dollar and its inevitable impact on exports. On the international front, the lack of progress shown by the Trump administration in delivering their growth policies have resulted in a frantic market, along with an increase in tensions in the Middle East. We note that consumers are less confident when compared to previous years when asked about the annual Budget, with the expectation that any negative shocks in this year's Budget will result in a significant decline in the Confidence Index.

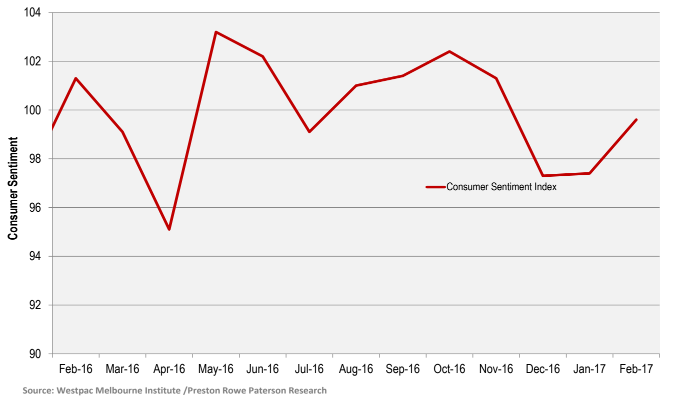

Chart 29—Consumer Sentiment Index, February 2016 to February 2017—Source—Westpac Melbourne Institute Survey

Gross Domestic Product

Over the December quarter, Gross Domestic Product increased by a seasonally adjusted 1.1%, and hence lifted Australia's economic growth over the year to 2.4%. This increase over the quarter meant that Australia have averted a technical recession after the contraction of 0.5% over the September quarter, though overall growth over the year was at a below long-term average of about 2.75%. Notably, the Australian Bureau of Statistics pointed to a rise in household spending and public investment as the two biggest contributors to the quarter's strong performance, with a respective growth of 0.5% and 0.3% over the quarter.

Out of twenty industries, improvements were recorded in fifteen, with the strongest growth stemming from Mining, Agriculture, Forestry and fishing and Professional scientific and technical services- with each industry recording 0.2% to GDP Growth. We note that Australia's Terms of trade increased by 9.1% over the three months through to December, with its improvement attributed to by strong price increase in coal and iron ore upon increased demand from foreign buyers. Furthermore, the rise in commodity prices has resulted in a 16.5% increase in Private non-financial corporation's gross operating surplus.

We also note that compensation of employees declined 0.5% in the quarter, this being the first decline since September quarter of 2012. These figures are supported by record low growth in the Wage Price Index, which was observed to be at 1.9% over the year to December. Furthermore, more households are digging into their savings, as the Household savings ratio stood at a seasonally adjusted 5.2% in December- down from September quarter's figure of 6.3%. Household spending over the December quarter increase to 1.2% (0.6% in September), whilst household gross disposable income increased by a low 0.2%.

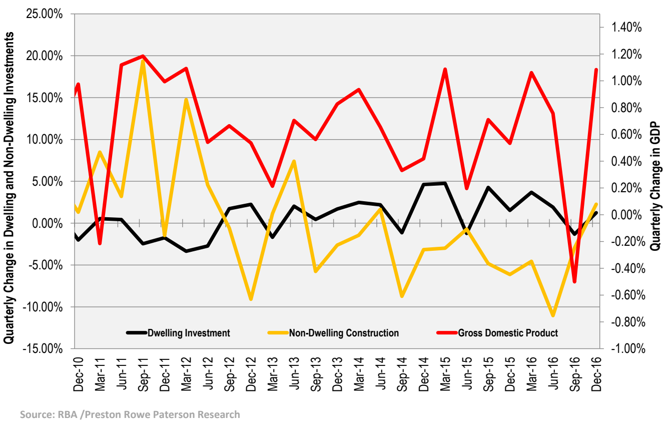

Chart 30— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

Unemployment

National unemployment rate remained unchanged in March at 5.9%, even if the economy was boosted by the creation of 60,900 new jobs. The reason for this was that over the month, Australia's participation rate increased by 0.2% to 64.8%, which means that there was an increase in the proportion of people in employment or seeking employment when compared to the previous month. When we break down the numbers, there were 75,500 full time jobs filled up over the month, though this was offset by a decrease of 13,6000 part time positions. These figures provide a refreshing change from the frequent reports of Australia's underperforming full-time job market over the past twelve months, though analysts remain cautious since the unemployment rate remains precariously high. We also note that underemployment is still considerably high, with over one million people in Australia wanting more work but unable to obtain any.

When we look at the states and territories, most enjoyed an improvement in their unemployment rate. Queensland and New South Wales benefited from an addition of 28,800 and 23,300 jobs, respectively, over the month to March. Their respective unemployment rate declined to 6.3% (6.6% in Feb) and 5.1% (5.2% in Feb). Victoria, South Australia, Western Australia and Tasmania all experienced an increase in their unemployment rate. Victoria's unemployment rate increased by 0.1% to 6.1%, South Australia's increased from 6.6% to 7.0%, Western Australia's from 6.1% to 6.5% and Tasmania's from 5.8% to 6.0%.

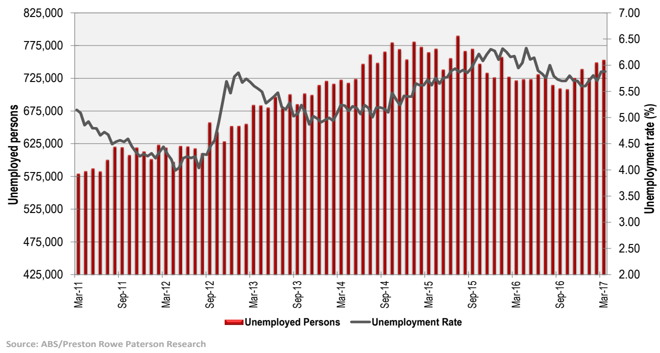

Chart 31— Unemployment Persons and Unemployment Rate, March 2011 to March 2017 — Source: ABS

	Unemployment Rate (%)			Participation Rate (%)		
	February	March		February	March	
Australia	5.9	5.9	–	64.6	64.8	▲
New South Wales	5.2	5.1	▼	62.9	63.1	▲
Victoria	6.0	6.1	▲	65.7	65.9	▲
Queensland	6.6	6.3	▼	64.1	64.6	▲
South Australia	6.6	7.0	▲	62.3	62.3	–
Western Australia	6.1	6.5	▲	67.2	67.5	▲
Tasmania	5.8	6.0	▲	59.5	59.9	–
Northern Territory*	3.5	3.5	–	78.1	78.5	▲
Australian Capital Territory*	3.7	3.7	–	70.1	70.1	–

Table 2— Unemployment Rate and Participation Rate, February vs. March 2017 — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly available

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10 Year Bond & 90 Day Bill Rate

10 Year Australian government bond yields have been steadily increasing over the three months to March 2017. The average 10 Year yields in March stands at 2.81%, which indicates a 2 basis points increase from December's average of 2.79% and a 24 basis points increase from the March 2016's average of 2.57%. The 90-Day bank bill swap rate increased at a more modest rate, to 1.79% for the month of March. This figure indicates a rise of 1 basis point from the previous quarter, though indicates a yearly decline of 0.52%.

We note that over the past twelve months, central banks globally have utilised unconventional policies (i.e. buying programs and quantitative easing methods) in order to manipulate decreases in bond yields with the intention to stimulate both private and corporate investment. Inevitably, bond yields have declined to historical lows, though the effectiveness of these programs in their ability to influence economic growth have been questioned by the International Monetary Fund and the G20 through to 2017. Nevertheless, the US Election prompted Treasury bond rates to increase as market confidence spurred from the election of Donald Trump. Global economies, including Australia, have mirrored the upward movements of the US Bond markets ever since the US Election in November 2016, though we note that rate rises have slowed over the three months to March 2017.

Preston Rowe Paterson Research forecasts that volatility in Australia's bullish bond yields will continue throughout 2017. The latest figures from April indicated a sharp decline in Australian 10-Year bond yields, slumping to 2.59% - the lowest level since November's figures post-Trump election. We note that this was influenced by the decline in US 10-Year Treasury yields to 2.32%, which has decreased as declining oil prices prompted fears in inflation and economic growth prospect. Furthermore, the Trump administration have not been able to show any signs of fulfilling their infrastructure spending promises, which inevitably adds to the uncertainty of future growth prospects in the United States.

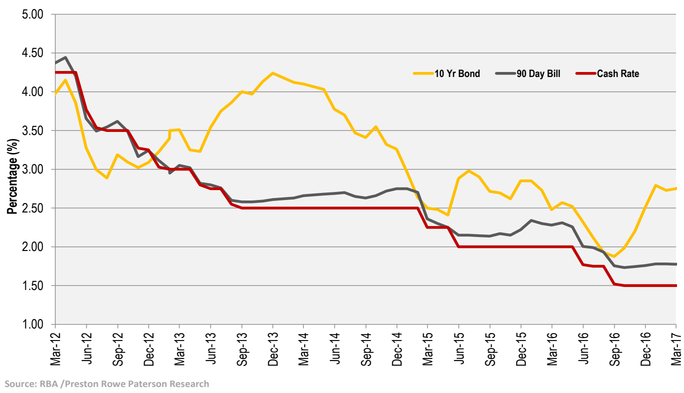

Chart 32— Monthly movement of 90-day Bill, 10-year bond yields and Cash rate, from March 2012 to March 2017— Source: RBA

Interest Rates

Interest rate was kept unchanged for the sixth meeting in a row in March, with the cash rate remaining at 1.5%. The Reserve Bank of Australia based its decision on the fact that the global economy has improved modestly over the few months in 2017, with expectations of above-trend growth in advanced economies even as uncertainty remains. The RBA emphasises the transition away from additional expansionary monetary policies from major economies around the world all whilst the world anticipates the decision stemming from the US Federal Reserve to increase its interest rate in the near future.

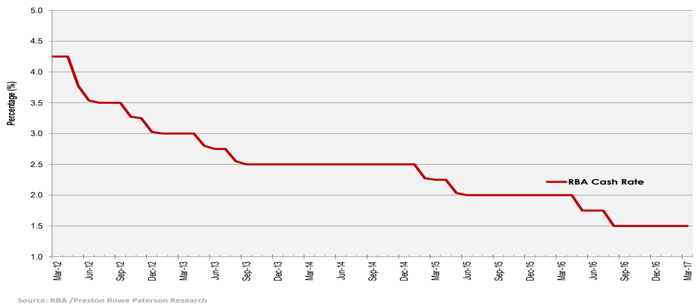

Chart 33— Movement of the Cash Rate from March 2012 to March 2017— Source: RBA

Exchange Rate

The Australian currency depreciated against most major currencies over the month to March. The Australian dollar slipped against the US Dollar, depreciating by 0.6% to buy $USD0.7644. Furthermore, the Australian Dollar declined against the UK Pound, the Euro and the Japanese Yen, with $AUD1 buying £0.6126 (-0.9% m-o-m), €0.7161 (-1.4% m-o-m) and ¥85.67 (-1.0% m-o-m) respectively. In contrast, the Australian dollar appreciated against the New Zealand Dollar, buying 2.4% more than the previous month at $NZ1.095. When we look at changes over the quarter, the Australian Dollar fared better, appreciating 5.6% against the US Dollar, 4.0% against the UK Pound, 4.2% against the Euro, 1.4% against the Yen and 5.32% against the New Zealand Dollar. The Australian exchange rate in slipped in March after the Reserve Bank's decision to let interest rate remain unchanged amidst the build-up of risk that stems from the housing market. The Bank's stance of interest rate is a hard balancing act, as lifting rates would ideally cool down the housing market though this may detriment Australia's economic progression.

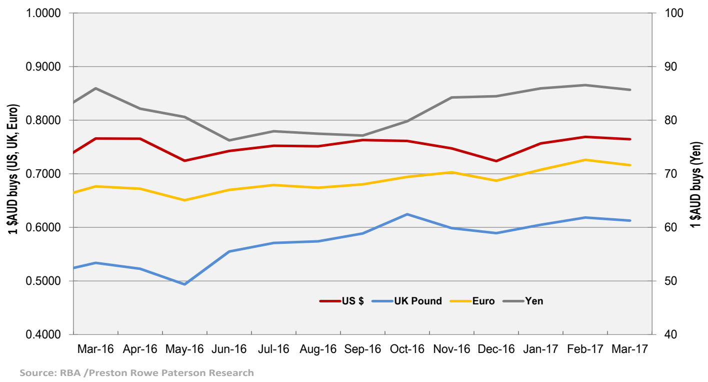

Chart 34— Movement in Exchange Rate over the year to March 2016— Source: RBA

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Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

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- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
- Transaction Advisory
- Property and Asset Management
- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
- Plant & Machinery Valuation
- General and Insurance Valuation
- Economic and Property Market Research

We have all *real estate types* covered

We regularly provide valuation, property and asset management, consultancy and leasing services for all types of Real Estate including:

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- Industrial, office/warehouses and factories
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- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/ units)
- Rural properties
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We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

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- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

We have all *client profiles* covered

Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

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- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
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- Lessors and lessees
- Listed and private companies corporations
- Listed Property Trusts
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- Mining companies
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- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & revaluations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

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