



Preston
Rowe
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International Property Consultants

Property Market Report

New South Wales

ABOUT THIS REPORT

Preston Rowe Paterson prepare standard research reports covering the main markets within which we operate in each of our capital cities and major regional locations.

The markets covered in this research report include the commercial office market, industrial market, retail market, hotel and leisure market and residential market as well as economic factors impacting on the real estate markets within we operate.

We regularly undertake valuations of commercial, retail, industrial, hotel and leisure, residential and special purpose properties for many varied reasons, as set out later herein. We also provide property management services, asset and facilities management services for commercial, retail, industrial property as well as plant and machinery valuation.

To compile the research report we have considered the most recently available statistics from known sources. Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them. Where possible we consider short term movement in the statistics by looking at daily published data in the financial press. Where this shows notable fluctuation, when compared to the formal published numbers we have commented accordingly.

June Quarter 2016

INSIDE THIS ISSUE:

| | |
|----------------------------------|----|
| Sydney CBD Office Market | 2 |
| North Sydney Office Market | 3 |
| Crows Nest/St Leonards Office | 5 |
| Parramatta Office Market | 6 |
| Chatswood Office Market | 7 |
| North Ryde/Macquarie Park Office | 8 |
| Retail Market | 10 |
| Industrial Market | 11 |
| Residential Market | 12 |
| Specialized Property Market | 14 |
| Hotel & Leisure Market | 15 |
| Regional Market | 16 |
| Economic Fundamentals | 17 |
| About Preston Rowe Paterson | 19 |
| Contact Us | 21 |



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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 June 2016:

420 George Street, Sydney, NSW 2000

Investa Commercial Property Fund has acquired a **75% stake** in an office tower for **\$442.5 million**. The 31-level office building comprises 37,688 sqm of net lettable area and was sold on a **yield of 5.3%**. The property is 100% leased and has a weighted average lease expiry of 6-years.



1 Shelley Street, Sydney, NSW 2000

Charter Hall has acquired an 11-storey building that is fully-leased by Macquarie Group for **\$525 million**. Brookfield Office Properties sold the property, which is leased to Macquarie for another 7.5 years. The **yield is estimated to be between 5.25% and 5.3%**.



5 Hunter Street, Sydney, NSW 2000

Leda house, a second hand office has been privately sold to an undisclosed buyer for **\$0.545 million**. The building was fully leased when sold, and has a **yield of 9.96%**. The building contains 105 sqm of net lettable area and its net income reported to be at \$54,284 per annum.

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the Sydney CBD office market during the three months to June 2016:

Level 4/233 Castlereagh Street, Sydney, NSW 2000

Landlord Visionary Investment has leased an 811 m2 office to Alliance Australia for **3-years**. The tenant will pay **\$400 psm gross**.

Development Sites

The July 2016 edition of PCA's Office Market Report have recorded a few office developments that are in the construction stages of the Sydney office pipeline:

International Towers Sydney Tower 3, part of the three high rise Premium Grade office buildings of International Sydney, is has been completed in the second quarter of 2016. The tower is bounded by Hickson Road, Shelley Street and Sydney Harbour at Welsh Bay. The owner of the tower, Lend Lease, will supply 79,352 sqm of net lettable area over 38 office floors, with the average floorplate size at 2,300 sqm. Retail space will take up 5,315sqm of the tower, with 167 car spaces available.

International Towers Sydney Tower 1 will see its development being completed by the fourth quarter of 2016. This larger development, under the same owner as Tower 2 (completed June 2015) and 3, will have a net lettable area of 101,729 sqm over 48 office floors and of which 8000 sqm will be retail space. The average floorplate size will be 2,300 sqm, and contain 167 carpark space in total.

Supply by Grade (Stock)

The July 2016 Market Report from the Property Council of Australia (PCA) revealed an increase of 126,474 sqm in the supply of office space in Sydney's Central Business District. This was offset by a withdrawal of 110,731 sqm of space, resulting in a higher total stock of 5,082,215 sqm in office space within Sydney's CBD.

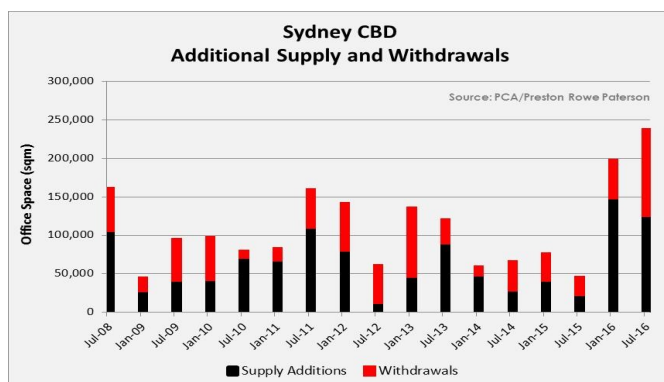


Chart 1 – Sydney CBD Additional Supply and Withdrawals – Source PCA

The increase in additional office space came solely from Premium Grade stocks. Its supply increased by 122,724 sqm from previous figures in January 2016. Total stocks of Premium Grade, as at July 2016, stand at 1,052,848 sqm.

All other grades contributed to the withdrawals in stock from the market, with the largest decline emerging from the decrease of 54,201 sqm in A Grade stocks. B Grade, D Grade and C Grade followed, with withdrawals of 48,310 sqm, 3,042 sqm and 1,428 sqm respectively. A Grade buildings still dominate the market, totalling 1,805,226 sqm, followed by B Grade, C Grade and D Grade buildings, with total areas of 1,487,037 sqm, 551,478 sqm and 185,626 sqm respectively.

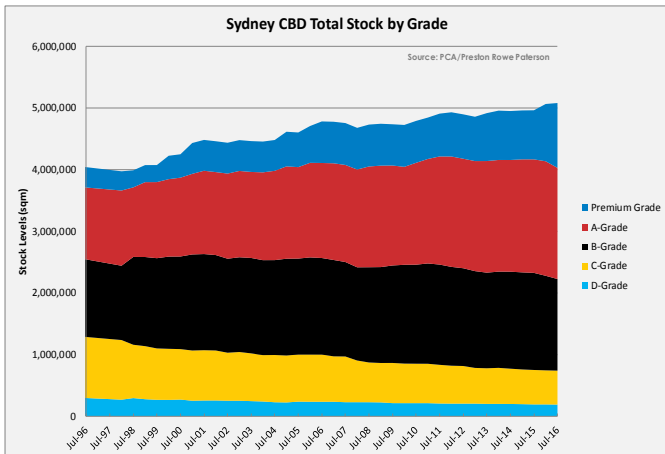


Chart 2- Sydney CBD Office Stock by Grade - Source - PCA

Vacancy Rates

Vacancy in the Sydney CBD office market tightened during the six months to July 2016. Total office market vacancy had tightened by 0.7% down to 5.6% (282,457 sqm). Of the 5.6% vacancy, 4.9% was direct vacancy and 0.7% was sub-lease vacancy.

All grades of office stocks recorded a decrease in vacancy- except for Premium and C Grade office stocks-which increased by 3.2% and 0.6% to 11.3% and 6.0% respectively. The largest fall in total vacancy was reported by B Grade stocks, which fell by 3.3% to 3.5%. This is followed by a decline of 1.4% in A Grade stock to a total of 4.0%.

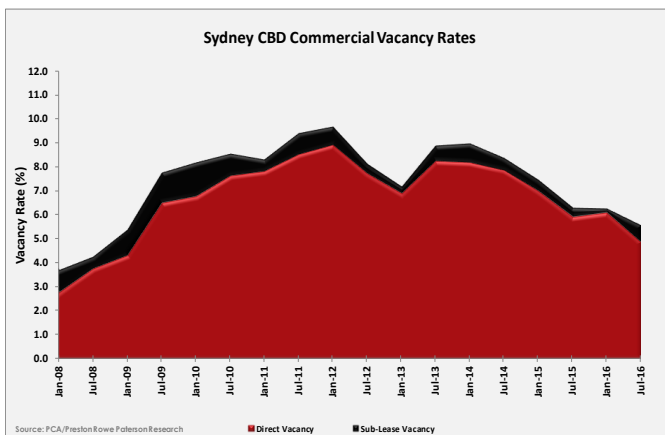


Chart 3 - Sydney CBD Office Vacancy - Source PCA

North Sydney



Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to June 2016:

1 Denison Street & 77 Berry Street, North Sydney, NSW 2060

Winten Property Group has purchased two adjoining commercial properties for **\$80 million**. **1 Denison Street** is currently **The North Sydney Shopping World** and has DA approval for a 30-level office tower with 53,800 m² of office and some retail space. **77 Berry Street** is a 7-floor commercial building with a gross floor area of 5,250 m². The sale of the 3,750 m² site reflects a **rate of \$21,333.33 psm**. North Sydney is located about 3.8 km north of Sydney's CBD.



Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2016 noted that there are two active development in the North Sydney office market:

177-199 Pacific Highway, North Sydney, NSW 2060

The Norberry Terrace project, located at the corner of Berry Street and Pacific Highway, is due to be 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.

Supply by Grade (Stock)

As shown in the PCA's Office Market Report July 2016, North Sydney's office market recorded a withdrawal of 28,265 sqm in office stock and zero additional supply for the half year to July 2016.

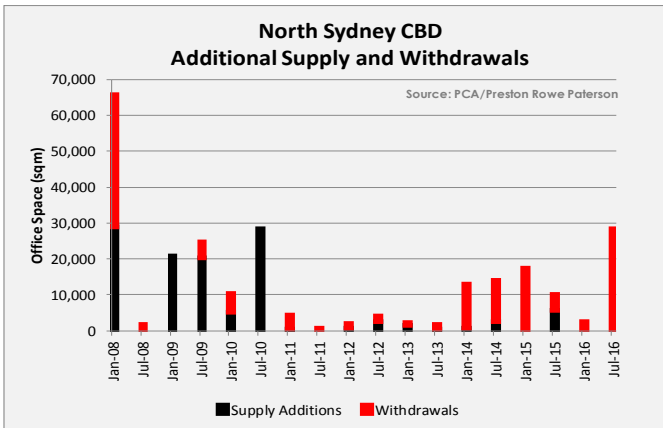


Chart 4 – North Sydney Additional Supply and Withdrawal – Source PCA

These withdrawals resulted in the decline in Premium Grade, B Grade and C Grade stocks of 5,713sqm, 9,096 sqm and 13,456 sqm respectively. As of July 2016, their respective total supply stands at 30,787 sqm, 418,966sqm and 143,501 sqm. There was no change in the supply of A-Grade and D-Grade stocks, remaining at 186,296 sqm and 12,932 sqm respectively.

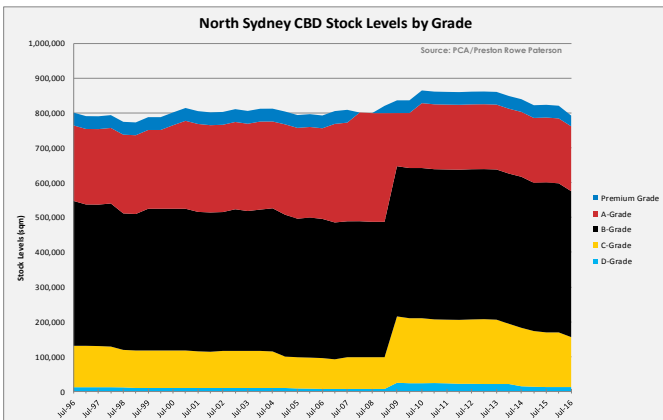


Chart 5 – North Sydney Total Stock Levels By Grade – Source PCA

Vacancy Rates

North Sydney's office market vacancy rate increased slightly by 0.3% over the six months to July 2016. As at July 2016, 55,603 sqm of vacant space was available, with 6.8% being direct vacancy and 0.2% as sub-lease vacancy.

It is worth noting that over the six months to July, the vacancy rate of Premium stock had increased by 41.2% from a fully occupied state in the first half of the year. All other office stocks experienced a decrease in vacancy rate from January 2016. A Grade, B Grade, C Grade and D Grade vacancy rates decreased by 5.4%, 6.1%, 4.9% and 3.0% respectively, and now stand at 5.4%, 6.1%, 4.9% and 3.0% respectively.

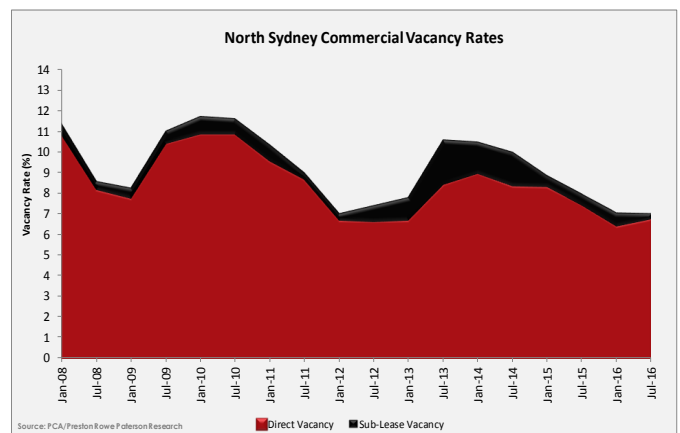


Chart 6 – North Sydney Office Vacancy Rates – Source PCA



Development site at 177-199 Pacific Hwy, North Sydney is due to be completed in the fourth quarter of 2016 and will provide 39,383 sqm worth of commercial space.

Crows Nest/St Leonards



Investment Activity

Preston Rowe Paterson Research recorded this sale transaction that occurred during the three months to June 2016:

39 Albany Street, Crows Nest, NSW 2065

Pindan Capital has bought the Warner Music office building for **\$13.3 million** on a **yield of 6%**. The 3-storey property has a net lettable area of 3,286 m² and Warner Music has a five-year lease for the top floor. The building also has basement parking for 40 cars. The sale reflects a **rate of \$4,047.47 psm**. Crows Nest is located around about 6 km north of Sydney's CBD.

Supply by Grade (Stock)

The PCA's Office Market Report July 2016 detailed that the Crows Nest/St Leonards office market recorded a withdrawal of 11,166 sqm in office space during the six months to July, bringing the stock total to 333,631 sqm. Notably, the stock withdrawals were attributed to the tightening of C Grade space.

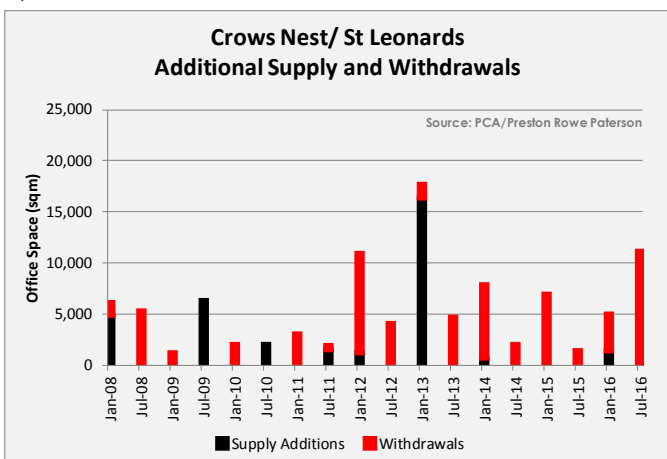


Chart 7 – Crows Nest/St Leonards Additional Supply and Withdrawals – Source PCA

Despite the withdrawal, the Crows Nest/St Leonards market is still dominated by the C-Grade office stock with 150,153 sqm of space recorded for the July 2016 Report. No additional supply or withdrawal was recorded by the other types of office stocks in this Sydney zone.

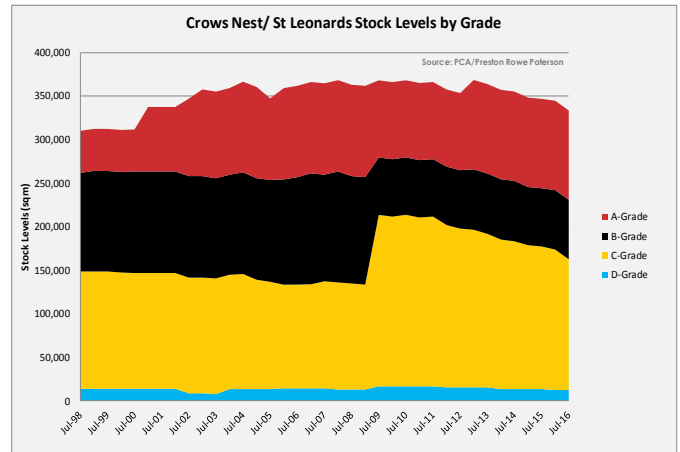


Chart 8 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

Total Vacancy

Over the six months to July 2016, Crows Nest/St Leonards recorded a decrease in total market vacancy rate of 1.3% to 8.3%. Amongst this, direct vacancy decreased by 1.1% to reach a vacancy rate of 7.3% and sub-lease vacancy reducing by 0.2% to a new rate of 1.0%.

The only increase in vacancy rate came from D Grade office stock, which increased by 5.4% to 14.6% vacancy. We observe the largest decrease in vacancy rate in the B-Grade stock, which decreased by 2.8% to a new rate of 6.3%. A Grade and C Grade stocks also experience decline in vacancy, of 0.6% and 1.4% respectively, to their new respective rates of 2.9% and 12.4%.

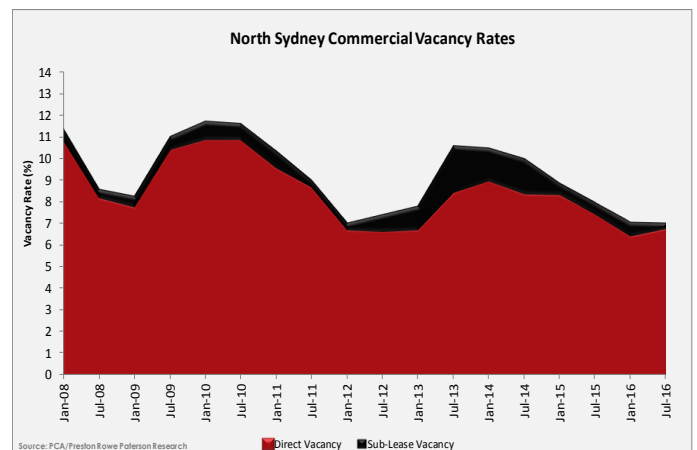


Chart 9 – Crows Nest/St Leonards Office Vacancy Rates – Source PCA

Parramatta



Investment Activity

Preston Rowe Paterson Research revealed no investment activity had occurred in Parramatta during the three months to June 2016.

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Parramatta office market during the three months to June 2016:

7 Hassall Street, Parramatta, NSW 2150

NSW Police will occupy a 1,781 m² office space for the next **5-years**. The government agency will pay a **gross annual rent of \$350 psm**. Parramatta is located around 23 km west of the Sydney CBD.

56 Station Street, Parramatta, NSW 2150

Australian Unity Home Care Services has leased A-grade office space on a **7-year deal**. The space includes a 1,103 m² full-floor office and a 406 m² ground-floor showroom. The company will pay a **net annual rent of \$380 psm**. Parramatta is located about 23 km west of the Sydney CBD.

Development Sites

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.

Supply by Grade (Stock)

The PCA Office Market Report July 2016 recorded that the total office stock in the Parramatta office market has decreased to 682,469. The market report states that the six months to July 2016 recorded an addition of 1,470sqm to office supply, however this is offset by a 1,908sqm in withdrawal.

A and C Grade offices did not experience any change in their supply, remaining at 273,617 sqm and 100,373 sqm respectively. B Grade offices experienced an increase of 385 sqm to 219,303 sqm. In contrast, D Grade offices experienced a decline of 823 sqm to reach a new supply of 89,176 sqm for the period.

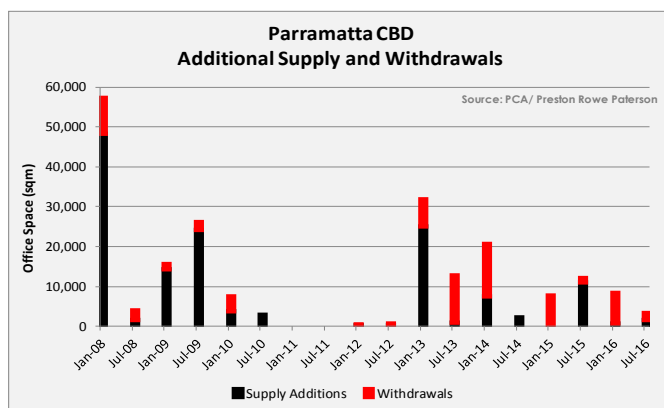


Chart 10 – Parramatta CBD Additional Supply and Withdrawal – Source PCA



56 Station Street, Parramatta NSW 2150

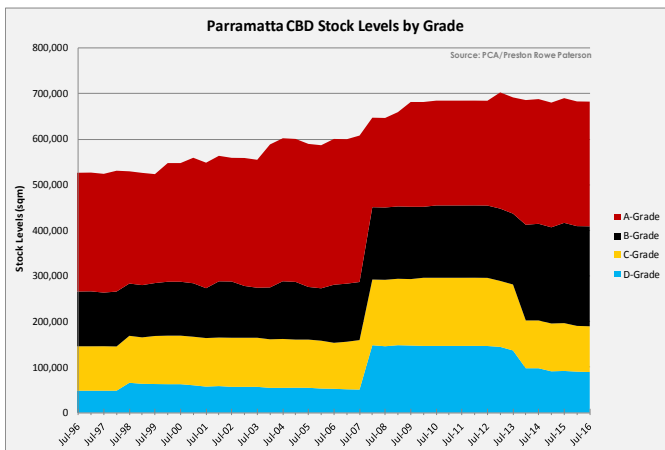


Chart 11 – Parramatta CBD Total Stock Levels by Grade – Source PCA

Vacancy Rates

The total vacancy in the Parramatta office market had decreased by 0.9% to 4.4% in the six months to July. Its vacancy rate comprises of 4.4% of direct vacancy and 0% sub-lease vacancy. The amount of vacant office space is approximately 30,498 sqm.

The only increase in vacancy stemmed from D Grade stocks, which increased by 2% over the half year to 5.1% vacancy. A, B and C Grade stocks all experienced a decline in vacancy of 1.7%, 1.6% and 1.6% respectively. As of July 2016, their respective vacancy rate stands at 0.0%, 6.8% and 11.0%.

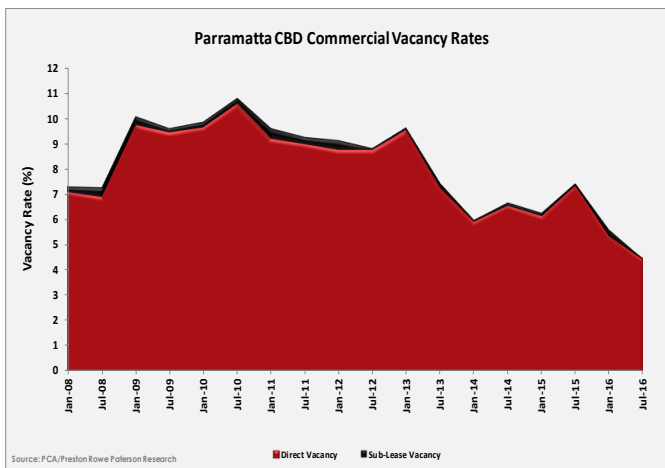


Chart 12 – Parramatta Office Vacancy Rates – Source PCA

Chatswood



Supply by Grade (Stock)

The July 2016 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.

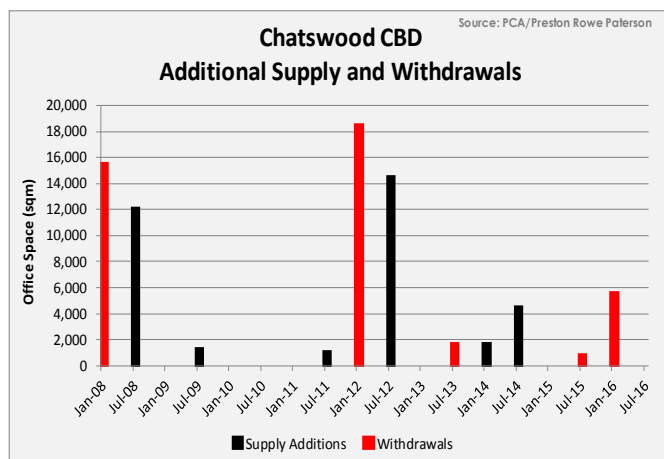


Chart 13 – Chatswood CBD Additional Supply and Withdrawal – Source PCA

The Chatswood market is dominated by A Grade stock, which hasn't changed in supply since January 2015 at 157,412 sqm. There are approximately half as many B Grade as A Grade office stock, with July 2016 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.

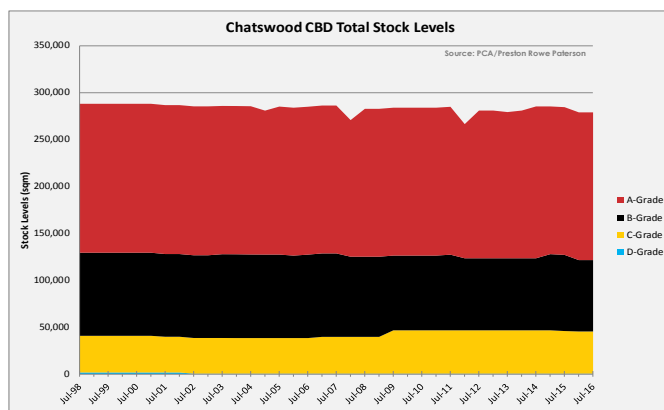


Chart 14 – Chatswood CBD Total Stock Levels by Grade– Source PCA

Total Vacancy

The Chatswood office market recorded that the total vacancy rate had declined by 1.1% to 6.6% in the six months to July 2016 with total vacant space amounting to 18,298 sqm. The total Chatswood vacancy rate comprise of 5.3% of direct vacancy and 1.3% of sub-lease vacancy.

All office grade's vacancy rates, but D Grade stock's, had tightened in the six months to July. The largest vacancy rate decline was recorded in the C Grade stock, falling by -2.5% to 2.5%. A Grade and B Grade vacancy fell by 1.1% and 0.2% respectively to 6.1% and 9.9%. As of July 2016, there is no supply of D Grade stocks in the Chatswood office market.

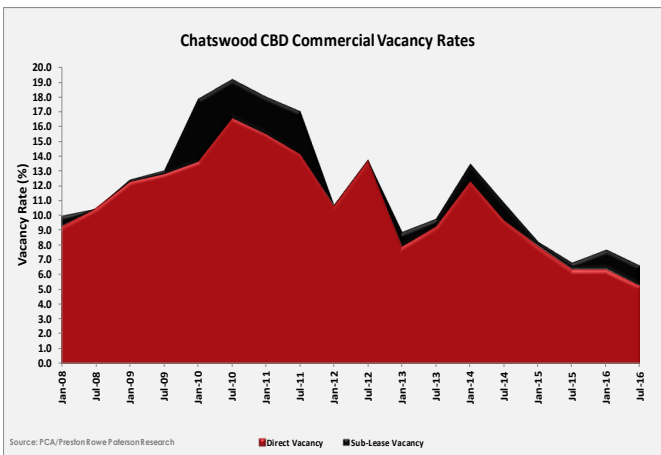


Chart 15 – Chatswood Office Vacancy Rates – Source PCA

Investment Activity

Preston Rowe Paterson Research recorded this sale transaction that occurred during the three months to June 2016:

821 Pacific Highway, Chatswood, NSW 2067

The **Zenith** office complex has been acquired by **Centuria** and **Blackrock** for **\$279 million**. The two 21-storey commercial building's major tenant is **Transport for NSW**. DEXUS Property Group and **GPT Group**'s wholesale office fund sold the property. The WALE is 2.9-years. The sale of the 44,389 m2 buildings reflects a **rate of \$6,285.34 psm**. Chatswood is located about 12.2 km north of the Sydney CBD.

204 Mowbray Road, Chatswood, NSW 2067

A private investor has bought a childcare centre for **\$2.41 million** on a **yield of 3.9%**. The centre has 26-placements and sits on a 696 m2 site. There is a 15-year lease expiring in January 2026 with two further 10-year options to 2046. The sale reflects a **rate of \$3,462.64 psm**. Chatswood is located around 12.2 km north of Sydney's CBD.

North Ryde/Macquarie Park

Supply by Grade (Stock)

The PCA Report revealed that the total office stock in the North Ryde/Macquarie Park had decreased by 3,132 sqm to 883,367 sqm. This decrease is solely the result of the 3,132 sqm of withdrawal of supply from the North Ryde/Macquarie Park

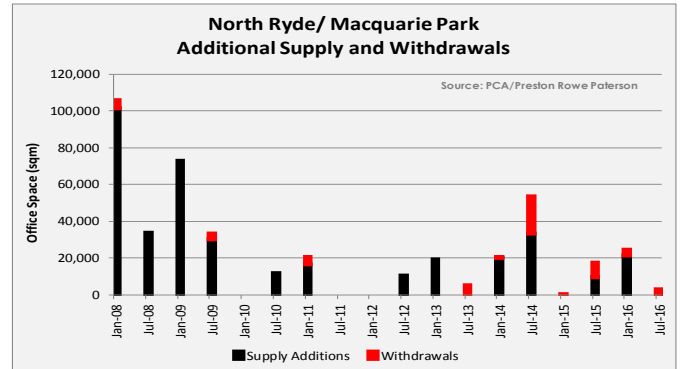


Chart 16 – North Ryde/ Macquarie Park Additional Supply and Withdrawal – Source PCA

A Grade stock dominates the North Ryde/ Macquarie Park office market, accounting for about 635,620 sqm of total office space. B Grade space decreased in the six months to July with an decrease in supply of 1,600 sqm to total supply of 229,641 sqm. C Grade also recorded a decrease in supply of 1,532 sqm to a lower supply of 15,385 sqm. D Grade office space supply remain unchanged at 2,721 sqm.

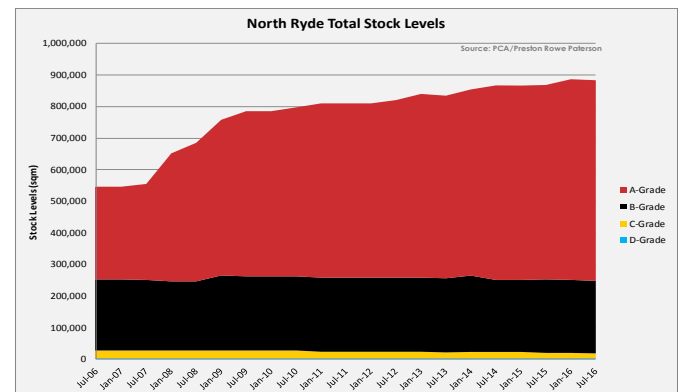


Chart 17 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA

Vacancy Rates

The North Ryde/Macquarie Park market recorded a slight decrease in total office vacancy in the six months to July 2016, tightening by 1.1% to a new vacancy rate of 7.1%. It comprise of 6.5% direct vacancy and 0.6% sub-lease vacancy.

A, B and C Grade office stock all recorded a decrease in vacancy of 0.5%, 2.6% and 2.0%, to 4.3%, 14.9% and 10.4% respectively. C Grade office vacancy increased by 8.4% to 13.5%.

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 June 2016:

31-37 Dixon Street, Haymarket, NSW 2000

Two adjacent strata shops on the ground floor of a retail building have sold together for **over \$10 million**. Shop 1 is 52 m² and is leased to *Dixon Café* for an annual rent of \$173,056. Shop 2 is leased to the *Golden Harbour Restaurant* for an annual rent of \$465,600 and is 303 m² in size. Golden Harbour also leases a 21 m² storeroom on shop one's title.

Glenmore Ridge Drive, Glenmore Park, NSW 2745

A 2.11-hectare retail development site has been purchased by *Mintus Properties* for **\$7.22 million**. The purchaser is required to deliver a Neighbourhood Shopping Centre in line with the current B2 Local Centre zoning. The sale reflects a **rate of \$342.18 psm**. Glenmore Park is located around 56 km north-west of Sydney's CBD.

Retail Statistics

June's retail turnover results showed that the NSW retail environment remained positive in the first half of 2016. According to the Australian Bureau of Statistics category 8501.0 Retail Trade (June 2016), the retail turnover figures recorded in New South Wales produced a growth of 0.75% to \$8073.4 million over the quarter. The seasonally adjusted annual retail turnover growth to June 2016 was 3.46%.

Compared to the March quarter, June's results reflected a 0.4% seasonally adjusted volume growth to the Australian turnover volume of \$72,682.6 million.

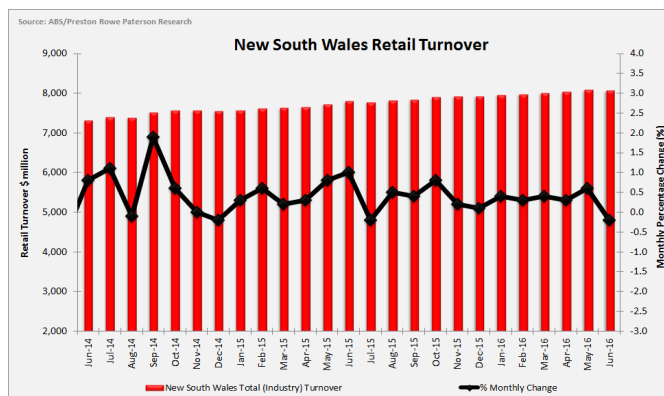


Chart 19 –New South Wales Retail Turnover – Source ABS

A predominantly negative turnover result was recorded in the retail sectors over the month of June. The highest growth was recorded in clothing and footwear retailing rising by 5.22% to a turnover of \$761.7 million. All other sectors recorded negative results, with the largest drop stemming from other retailing (-1.81%), followed by food retailing (-0.92%), household goods (-0.39%), café and restaurants (-0.12%) and department stores (-0.06%).

On a year-on-year basis, the outperformer was the clothing and footwear sector with an annual growth of 10.95% from June 2015. Household goods recorded the lowest yearly change, with a modest 1.25% increase from the previous year.

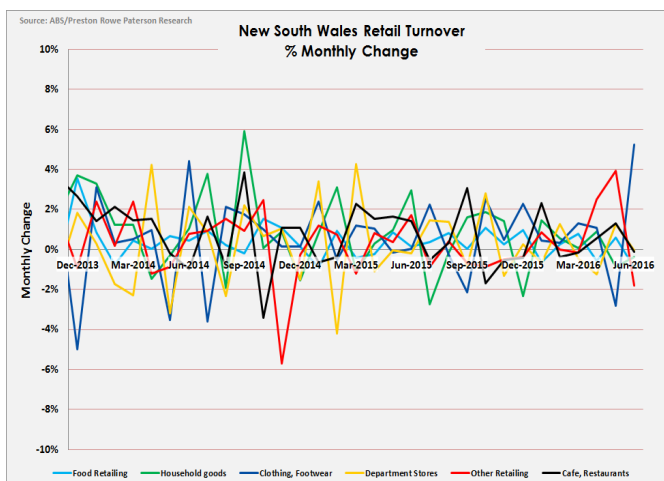


Chart 20 –NSW Turnover % Monthly Change – Source ABS





INDUSTRIAL MARKET

Investment Activity

Preston Rowe Paterson Research recorded a number of sales transactions that occurred in the Sydney metropolitan during the three months to June 2016:

Eastern Creek Drive, Eastern Creek, NSW 2766

The GPT Group has bought over five-hectares of industrial land from Jacfin for **\$16.1 million**. The site has the potential for about 26,000 m² of prime logistics facilities. The sale reflects a **rate of around \$619.23 psm**. Eastern Creek is located about 36.3 km north-west of the Sydney CBD.

466 West Botany Street, Rockdale, NSW 2216

A private investor has bought a 2,934 m² warehouse facility with a showroom from Rockdale Office Furniture for **\$5.505 million**. The property has been vacant for the last 30 years. The sale reflects a **rate of \$1,704.16 psm**. Rockdale is located about 13 km south of the Sydney CBD.

11-13 Chambers Road, Altona, NSW 3025

UA Holdings has acquired a warehousing facility to be its first distribution centre in Australia for **\$10.8 million**. The property features 10,632 m² of lettable floor area over two warehouses and 10,000 m² of hardstand. The sale of the 24,800 m² site reflects a **rate of \$435.48 psm**. Altona is located around 12.8 km south-west of Sydney's CBD.

73 Victoria Avenue, Smithfield, NSW 2164

An automotive manufacturing owner-occupier has acquired a 3,745 m² industrial facility for **\$6.575 million**. The buyer will use the facility and partly lease the rest of the 6,197 m² site. The sale reflects a **rate of \$1,061 psm**. Smithfield is located around 28.9 km west of the Sydney CBD.

3-9 Forge Street, Blacktown, NSW 2148

GM Property Group has paid **\$7.65 million** for two freestanding office and warehouse buildings. The buildings have a gross lettable area of 8,346 m² and sit on a 12,910 m² site. The sale reflects a **rate of \$592.56 psm**. Blacktown is located about 34.8 km north-west of Sydney's CBD.

113 Wicks Road, Macquarie Park, NSW 2113

The Investec Australia Property Fund has paid **\$23.255 million** for a 6,278 m² office and warehouse facility that is fully leased to tenants such as the NSW government and Telstra. The site has 148 car spaces and the potential for upside through rezoning. The WALE is 4.15-years. The sale reflects a **rate of \$3,704.21 psm**. Macquarie Park is located around 18.4 km north-west of Sydney's CBD.

NSW Industrial Sales Wrap

The AMP Capital Diversified Property Fund (ADPF) has purchased a portfolio of industrial assets in Sydney for **\$250 million**. There were a total of six properties acquired in Huntingwood, Minchinbury, Villawood, Fairfield, Kingsgrove and Blacktown. **52 Huntingwood Drive, Huntingwood** is a 17,062 m² facility that sits on a 35,840 m² site which is leased to DHL. **32 Sargents Road, Minchinbury** is a 20,059 m² facility on a 39,740 m² site which is leased to Star Track Express. **64 Biloela Street, Villawood** is a 23,304 m² facility on a 37,730 m² site which is leased to VIP Plastic Packaging. **52 Lisbon Street, Fairfield** is a 60,233 m² facility on a 83,700 m site which is leased to both Fantastic Furniture and DB Schenker. **104 Vanessa Street, Kingsgrove** is a 7,056 m² facility on a 11,590 m² site which is leased to Shriro Australia. **32 Bessemer Street, Blacktown** is a 19,792 m² facility on a 44,800 m² site which is leased to Snack Brands.

Leasing Activity

Preston Rowe Paterson Research recorded a relatively low number of leasing transactions that occurred during the three months to June 2016, in the Sydney Industrial Market.

7B/81-85 Roberts Road, Chullora, NSW 2190

Southern Hospitality has agreed to terms with a private landlord for a 5,805 m² property for **3-years**. The warehouse and office property has internal clearances of up to 12 metres. The lessee will pay a net annual rent of \$580,500 m². The lease reflects a **rate of \$100 psm**. Chullora is located around 17.1 km south-west of the Sydney CBD.

24 Pike Street, Rydalmere, NSW 2116

A private company will occupy a 991 m² office and warehouse facility for the next **5-years**. The lessee will pay a net **annual rent of \$135 psm** for the site. Rydalmere is located about 20 km north-west of Sydney's CBD.

73C Elizabeth Street, Wetherill Park, NSW 2164

A deal has been made between a furniture distributor and the landlord Denoci for a 6,689 m² warehousing facility. The lessee will pay a net annual rent of \$735,700 for the warehouse with roller door and truck access. The lease is for **3-years with options** and reflects a **rate of \$109.99 psm**. Wetherill Park is located about 31.9 km west of the Sydney CBD.

4/5 Stanton Road, Seven Hills, NSW 2147

InsulShop has leased a 1,211 m² high-clearance industrial property for **3-years**. InsulShop will pay a private investor landlord a net annual rent of **\$110 psm** for the property. Seven Hills is located about 32.2 km north-west of Sydney's CBD.



3A Alexander Street, Auburn, NSW 2144

A self-managed super fund has leased a 1,040 m2 industrial property to a private air-conditioning service business. The lessee will pay a net annual rent of \$130,000 for the office and warehouse building. The lease is for **5-years** at a **rate of \$125 psm**. Auburn is located around 18.8 km north-west of the Sydney CBD.



Unit 2, 13 Stanton Road, Seven Hills, NSW 2147

K&D Traffic Management has agreed to a **5-year deal** to occupy a 1,411 m2 warehouse and office property. A private landlord leased the building for a net annual rent of \$139,000. The lease reflects a **rate of \$98.51 psm**. Seven Hills is located about 32.2 km north-west of the Sydney CBD.

16 Marigold Street, Revesby, NSW 2212



Michael Benjamin has signed *Texas Aardvark International Screenprinting* to a **10-year lease**. The 2,713 m2 industrial warehouse and office also includes three container height roller doors. The lessee will pay a **net annual rent of**

\$95 psm. Revesby is located around 21.9 km south-west of Sydney's CBD.

78 Peter Brock Drive, Eastern Creek, NSW 2766

Flower Flow will occupy a 1,113 m2 high clearance warehouse from the *Jowett Family* superannuation fund for the next **5-years**. The company will house their floral clearance and production facilities at the property and will pay an **annual rent of \$125 psm**. Eastern Creek is located around 36.3 km north-west of the Sydney CBD.

Unit 5, 3 & 21 South Street, Rydalmere, NSW 2116

A private landlord has leased a 4,181 m2 office and warehouse to *Staging Connections Pty Ltd* for **7-years**. The company will pay a net annual rent of \$625,000. The lease reflects a **rate of \$149.49 psm**. Rydalmere is located about 20 km north-west of Sydney's CBD.

RESIDENTIAL MARKET

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals June 2016, the total number of house dwelling approvals in the Sydney Statistical Division over the month of June has shown a 12.79% decrease of approvals, from 1,618 in May to 1,411 approvals in June. This reflects an annual decrease of 6.25% when compared with house dwelling approvals in June 2015.

The total number of non-house dwelling approvals had fallen by 8.2% from 2,829 dwelling approvals in May to 2,597 dwelling approvals in June. In comparison to twelve months prior to June 2015, a decline of 11.85% was recorded.

The total dwelling approvals in year to June stand at 23,231. The dwelling approval figures analysed above shows that residential development activity in the Sydney market has been slowing down in the June quarter, reciprocating the overall downturn in the residential housing market in 2016.

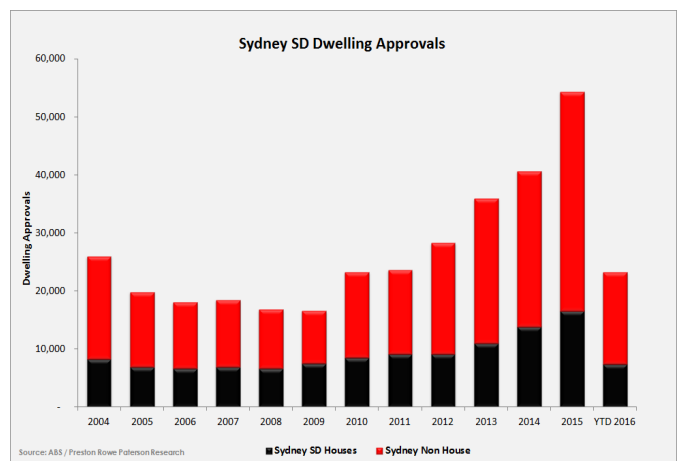


Chart 21 – Sydney SD Dwelling Approvals—Source ABS

SYDNEY

Market Affordability

Market affordability figures for the June quarter 2016 are not available from the Real Estate Institute of Australia (REIA), however, we have used figures from the March quarter for our analysis.

According to the REIA, the March quarter saw the Sydney median house price decreased by 1.3% to \$999,600, however, sales prices has increased 7.3% compared to March 2015. The Sydney median house price over the quarter recorded various results across all zones, with Outer Sydney recording the highest quarterly growth of 2.6% to \$585,000, and \$625,000 respectively. Growth in Inner Sydney remained stagnant at 0% growth with median price of \$825,000 and Middle Sydney experiencing decline in growth of -1.5% to a median price of \$670,000.

All zones recorded increases in the median house price over the twelve months to March 2016. The highest annual growth was reported in Middle Sydney at 19.9%, followed by Outer Sydney and Inner Sydney at 13.7% and 10.7% respectively.

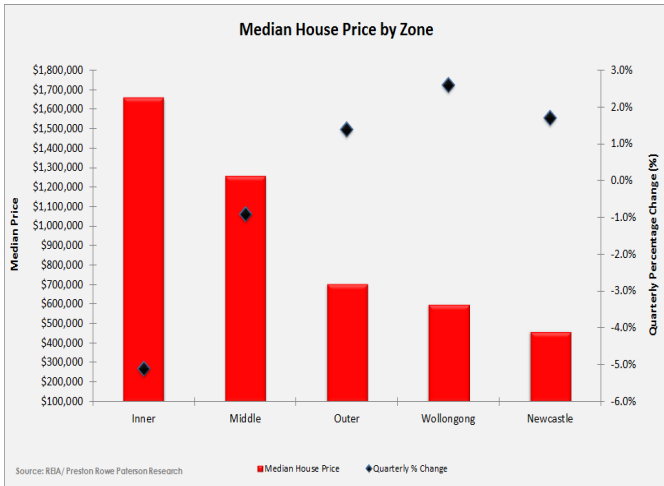


Chart 22 – Median House Price by Zone – Source REIA

Other dwellings median prices also recorded mixed results over the March quarter. The median price for other dwellings in Sydney decreased by 0.4% over the quarter to \$660,200. Inner Sydney recorded no growth over the quarter, remaining at \$825,000. Middle Sydney experienced a decline of 1.5% in growth, settling to a median price of \$670,000. Conversely, Outer Sydney experienced a 2.6% increase in growth to reach a median price of \$585,000.

In saying this, the year on year comparison saw an increase across zones of inner, middle and outer Sydney, each recording growths of 10.0%, 9.8% and 13.3% respectively.

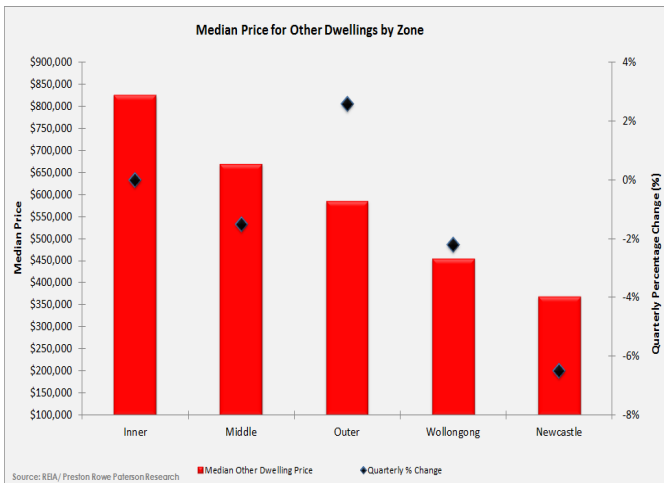


Chart 23 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

Over the March quarter, the Sydney house rental market recorded an overall increase in rents across all zones, except for Middle Sydney 2 bedroom and 3 bedroom house median weekly rents which remained unchanged at \$480 and \$570 respectively. The highest quarterly increase in rents was Inner Sydney 3 bedroom house which grew by 2.9% to \$875. Followed by Outer Sydney 2 bedroom, Outer Sydney 3 bedroom and Inner Sydney 2 bedroom rental growth of 2.7%, 2.3% and 1.5% to median weekly rent of \$360, \$845 and \$460 respectively.

Over the twelve months to March 2016, all Sydney zones recorded rental growth, except Inner Sydney with stagnant growth. The highest annual growth was recorded in Outer Sydney 3 bedroom house rent, which grew by 5.9%. This is followed by Middle Sydney 2 bedroom house, Outer Sydney 2 bedroom house, Inner Sydney 3 bedroom and Middle Sydney 3 bedroom with growth at 4.3%, 4.2%, 3.6% and 3.6% respectively.

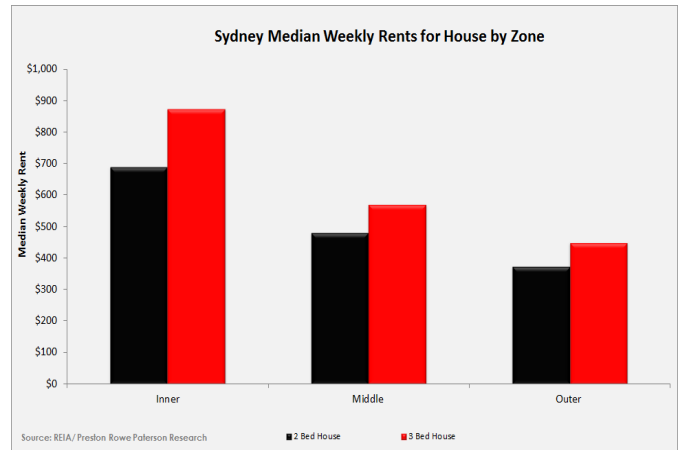


Chart 24 – Sydney Median Weekly Rents for House by Zone – Source REIA

The March quarter revealed slow growth on other dwelling rents across all zones.

Dwelling median weekly rent remained unchanged over the quarter for Inner Sydney 1 bedroom, Middle Sydney 1 bedroom and Outer Sydney 1 bedroom at \$520, \$460 and \$350 per week respectively. Outer Sydney 2 bedroom recorded the highest increase of 2.4% to \$420 weekly rent. Inner Sydney 2 bedroom and Middle Sydney 2 bedroom both recorded positive growths this quarter, at 1.5% and 1.0% respectively.

Over the twelve months to March, all Sydney Other Dwelling zones, except Middle and Outer Sydney 1 bedroom, recorded positive growth in median weekly rents. The most notable growth was in Inner Sydney 1 bedroom, Outer Sydney 2 bedroom and Middle Sydney 2 bedroom with growths of 4%, 3.9% and 2.1% respectively. Both Middle Sydney and Outer Sydney 1 bedroom experienced no growth in rent prices over the year to March 2016.

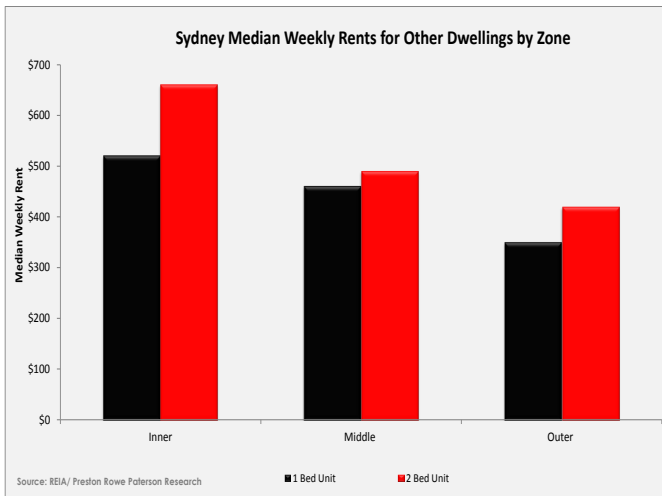


Chart 25 – Sydney Median Weekly Rents for Other Dwellings by Zone – Source REIA

NEWCASTLE

Market Affordability

Over the March quarter, Newcastle's median house price increased by 1.7% to \$462,800, reflecting an annual growth of 5.2%. Other dwelling sales in the Newcastle region fallen by 6.5% over the quarter to \$369,500, although the change over the year was a positive growth of 5.2%.

Rental Market

Two bedroom house rents in the Newcastle region grew by 2.8% over the quarter and 1.4% through the year to the median weekly rent rate of \$370. Three bedroom house rents grew 2.5% over the quarter and 2.5% over the year, with the median weekly rent rate at \$410.

Quarterly results for Other Dwelling rentals in the Newcastle region recorded a growth of 3.7% for one bedrooms to \$280 per week and 2.9% in three bedrooms rent at \$360 per week. Over the twelve months to March 2016, 1 bedroom other dwellings experienced a zero growth, whilst the 2 bedrooms rent fell increased by 2.9% over the same period.

WOLLONGONG

Market Affordability

Median house prices in Wollongong recorded positive results with quarterly increase of 2.6% and annual growth of 16.5% to \$600,000. The quarterly median Other Dwelling prices in Wollongong decreased by 2.2%, though a yearly increased of 1.1% has brought the median price to \$455,000.

Rental Market

The median house rents in Wollongong for 2 bedroom house decreased by 1.3% over the quarter to median weekly rent of \$380. Wollongong 3 bedroom house rent remain unchanged in the quarter to a median weekly rent of \$450per week.

Wollongong Other Dwellings 1 bedroom rentals decreased by 3.7% over the quarter to \$260, whilst 2 bedroom median weekly remained unchanged at \$350. The annual growth of 1 & 2 bedroom other dwellings grew by 4% and 2.9% respectively.

SPECIALIZED PROPERTY MARKET Investment Activity

Cnr Sark Grove & Pembroke Road, Minto, NSW 2566

Anglican Retirement Villages has paid **\$16.6 million** to Endeavour Energy for a former field support centre. The 58,800 m2 site is likely to be developed into 100 residential lots from 300 m2 to 476 m2, subject to council approval. The sale reflects a **rate of \$282.31 psm** or **\$166,000 per proposed residential lot**. Minto is located about 45 km south-west of Sydney's CBD.

204 Mowbray Road, Chatswood, NSW 2067

A private investor has bought a childcare centre for **\$2.41 million** on a **yield of 3.9%**. The centre has 26-placements and sits on a 696 m2 site. There is a 15-year lease expiring in January 2026 with two further 10-year options to 2046. The sale reflects a **rate of \$3,462.64 psm**. Chatswood is located around 12.2 km north of Sydney's CBD.

10/4-8 Waine Street, Freshwater, NSW 2096

A private investor has purchased an 80-placement childcare centre for **\$4.86 million**. The 1,241 m2 site has a single level building and an underground car park with 22 spaces. The property is leased for 10-years until 2023 with options to 2038. The sale reflected a **yield of 6.1%** and a **rate of \$3,916.20 psm**. Freshwater is located about 15.2 km north-west of the Sydney CBD.

12 Wilco Street, Cabramatta West, NSW 2166

A private investor has paid **\$2.16 million** for a childcare centre with 29-placements. There are two detached buildings on the 556 m2 site and the property includes kitchen, storage and administration office facilities as well as child amenities, dedicated sleeping areas, open plan activity spaces and two covered external play areas. The sale **reflected a yield of 5.1%** and a **rate of \$3,884.89 psm**. Cabramatta West is located about 29 km south-west of Sydney's CBD.



26 Kelly Street, Scone, NSW 2337

A private investor has purchased a BP service station for **\$4.6 million** on a **7.6% yield**. The service station/convenience store was built in 2010. The sale of the 4,224 m2 site reflects a **rate of \$1,089.02 psm**. Scone is located around 258 km north-west of the Sydney CBD.

132-134 Sunnyholt Road, Blacktown, NSW 2148

A **Coles Express Car Wash** has been purchased by a private investor for **\$1.65 million**. The 1,068 m2 property is on a new 15-year lease with options to 2047. The sale reflects a **yield of 6.67%** and a **rate of \$1,544.94 psm**. Blacktown is located about 34.8 km north-west of Sydney's CBD.

2-6 Swan Street, Bega, NSW 2550

A private investor has bought a petrol station at auction for **\$5.25 million**. The 1,856 m2 site is leased to **Coles Express** for 12-years to 2027 plus a 10-year option to 2037. The rent is \$331,200 per annum. The sale reflects a **yield of 6.31%** and a **rate of \$2,828.66 psm**. Bega is located around 437 km south-west of Sydney's CBD.

HOTELS & LEISURE MARKET

Investment Activity

Preston Rowe Paterson Research recorded few major Hotel and Leisure property transactions that occurred in New South Wales during the June quarter 2016:

5564 Old Northern Road, Wisemans Ferry, NSW 2775

A private Chinese hotel group has bought the 54-room **Retreat at Wisemans** resort for **just under \$10 million**. The property sits on an 18-hectare site has an adjacent parcel for an approved over-55s estate. The sale also includes a conference centre, a refined restaurant, an outdoor pool, 2 tennis courts and a 9-hole golf course. The buyer will convert the resort into a more prestigious property and it will be rebranded. The sale reflects a **rate of below \$55.56 psm**. Wisemans Ferry is located about 71.9 km north-west of Sydney's CBD.



61 Harris Street, Pyrmont, NSW 2009

Auswin TWT has sold the historic **Terminus Hotel** to a private developer for **\$5 million**. The mixed-use site, which has been dormant for the last 30 years, will likely be redeveloped by the buyer. Auswin TWT will retain the carpark and plans to build luxury terraces on the site. The sale of the 492 m2 site reflects a **rate of \$10,162.60 psm**. Pyrmont is located around 2 km west of the Sydney CBD.

Cnr Broadway & Abercrombie Street, Sydney, NSW 2000

Solotel Hospitality has acquired the **Australian Hotel** and three adjoining heritage terraces from **Frasers Property** and **Sekisui House** for **just below \$20 million**. The buyer will refurbish the hotel and convert the terraces into a European-style wine bar. The Australian Hotel will reopen in 2018.



412 Bong Bong Street, Bowral, NSW 2576

Lantern Hotel Group has sold the **Bowral Hotel** to a Sydney hotelier for **\$6.35 million**. The hotel features 10-basic room, a pub and a bistro. The sale reflects a **rate of \$635,000 psm**. Bowral is located about 121 km south-west of Sydney's CBD.

1 Menai Road, Woronora, NSW 2232

Mona Enterprises Pty Ltd has sold the **Woronora Village Tourist Park** to a private buyer for **\$6.75 million**. The 9,017 m2 park has 67-sites, a three-bedroom manager's residence, a park office and an amenities block. The sale reflected a **yield of 9.31%** and a **rate of \$100,746.27 per site**. Woronora is located around 26.4 km south-west of Sydney's CBD.

505 Crown Street, Surry Hills, NSW 2010

A private investor has paid **\$8.5 million** for the **Trinity Bar**. The two-storey pub occupies a 239 m2 site. The sale reflects a **rate of \$35,564.85 psm**. Surry Hills is located about 3 km south-east of Sydney's CBD.

1 Norton Street, Leichhardt, NSW 2040

A private investor has paid **\$14.5 million** for the **PJ Gallaghers** hotel on a **yield of 9.8%**. The two-storey hotel has 28 gaming machines and recently underwent a \$2 million refurbishment. The sale of the 594 m2 site reflects a **rate of \$24,410.77 psm**. Leichhardt is located around 6 km south-west of Sydney's CBD.

Economic Fundamentals

GDP

GDP figures for the June quarter 2016 are not available until the 7 September, however, over the March 2016 quarter revealed that the Australian economy recorded a seasonally adjusted quarterly growth of 1.1%, contributing to an annual seasonally adjusted growth of 3.1%.

The main contributors to overall growth in the first quarter of 2016 stemmed from Exports, which contributed 1.0%, as well as Household final consumption expenditure, which contributed to 0.4% of the growth. Conversely, Private gross fixed capital formation offset this growth, falling by 2.2% in the quarter. This declined was mainly influenced by falls in New engineering construction (-6.4%) and New buildings (-6.9%).

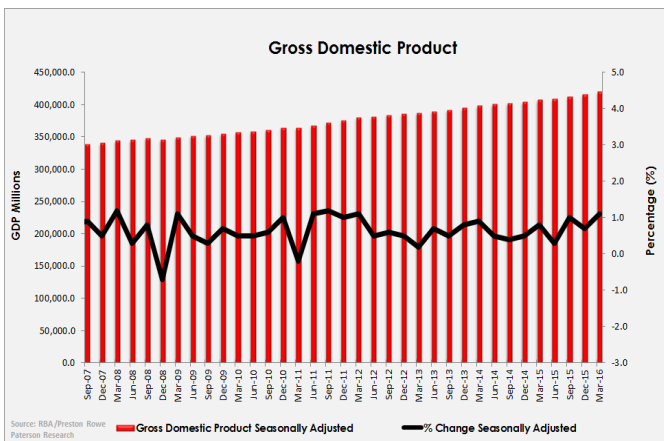


Chart 26 – Gross Domestic Product (GDP) – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the June quarter 2016 has decreased by 25 basis points to 1.75%. The Reserve Bank of Australia's Media Release for June 2016, released on 7th March explained that:

"The global economy is continuing to grow, at a lower than average pace. Several advanced economies have recorded improved conditions over the past year, but conditions have become more difficult for a number of emerging market economies. China's growth rate moderated further in the first part of the year, though recent actions by Chinese policymakers are supporting the near-term outlook. Commodity prices are above recent lows, but this follow very substantial declines over the past couple of years. Australia's terms of trade remain much lower than they had been in recent years... In Australia, recent data suggests overall growth is continuing, despite a very large decline in business investment. Labour market indicators have been more mixed of late, but are consistent with continued expansion of employment in the near term."

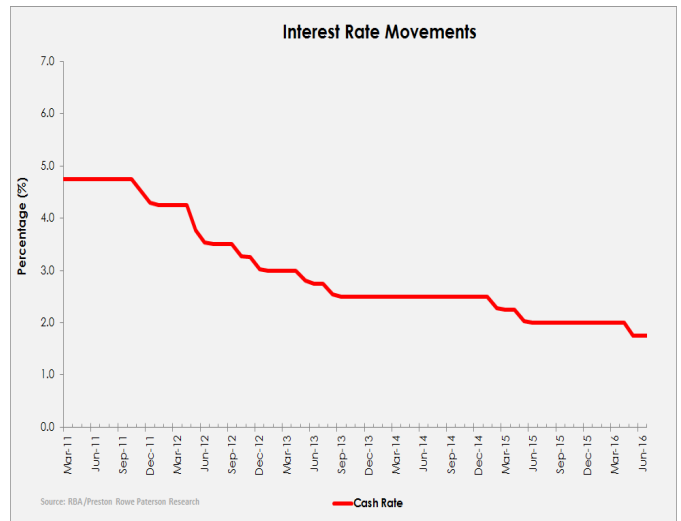


Chart 27 – Cash Rate – Source RBA

CPI

According to the Australian Bureau of Statistics (June 2016), Australia's All Groups CPI increased by 0.4% over the June quarter from 108.2 to 108.6. The annual CPI change to June 2016 recorded a growth of 1.0%, the weakest annual rise in CPI in seventeen years (June quarter 1999).

The most significant price rises over the June quarter were Automotive fuel (+5.9%), Hospital services (+4.2%), Tobacco (+2.1%) and New dwelling purchases by owner-occupiers (+0.9%). The greatest price fall over the quarter stemmed from lower spending on Domestic holiday travels and accommodation (-3.7%), Motor vehicles (-1.3%), and Telecommunication equipment and services (-1.5%).

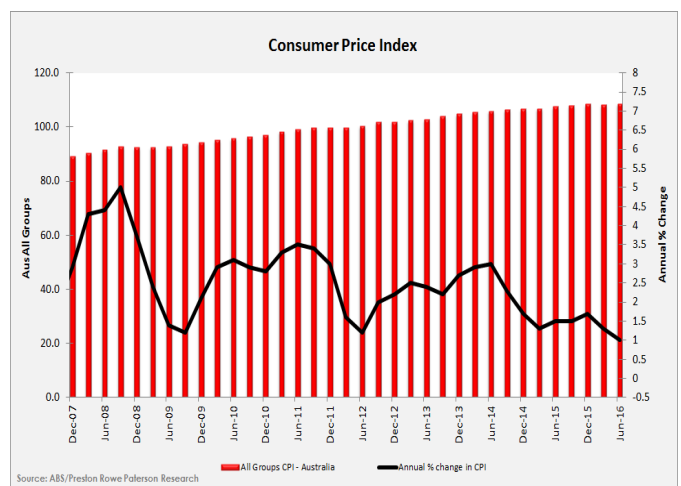


Chart 28– Consumer Price Index—Source—ABS

Labour force

Over the month to June 2016, the number of unemployed people has declined by 199 from 726,135 in May to 725,935 in June, indicative of a decline of 0.03%. In comparison to June 2015, the number of unemployed people had decreased by 27,431 reflecting an annual decline of 3.64%. As of June 2016, the unemployment rate remains unchanged from the previous month at 5.7%.

On a seasonally adjusted basis, employment had increased by 7,900 persons to 11,939,600 from the previous month. Notably, full-time employment increased 38,400 to 8,198,900, and part time employment decreasing by 30,600 to 3,740,700 in the month of June.

New South Wales experienced a large absolute decrease in seasonally adjusted employment, down by 11,900 persons to 3,815.5 million persons. The unemployment rate in New South Wales in June increased 0.4% to 11.8% from the previous month.

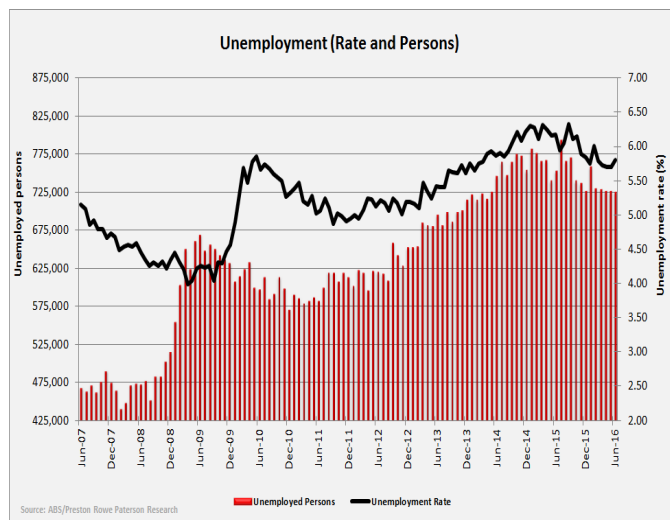


Chart 29 – Unemployment – Source ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index dropped by 1% from 103.2 index points in May to 102.2 index points in June. Over the March quarter the index has decreased by -1.7 points and recorded 0.4% annual decline.

Westpac Senior Economist, Matthew Hassan, commented: "Coming after an 8.5% surge in May, the small decline in June most likely represents a consolidation at improved levels. Last month's surprise rate cut from the RBA was the main catalyst behind May's rally and although confidence has slipped back a touch in June this is a fairly common pattern following an interest rate driven bounce. At 102.2, the index is still in slightly 'positive' territory overall—recall that readings above 100 indicate optimists outnumber pessimists". (Westpac Melbourne Institute Survey, 15 June 2016).

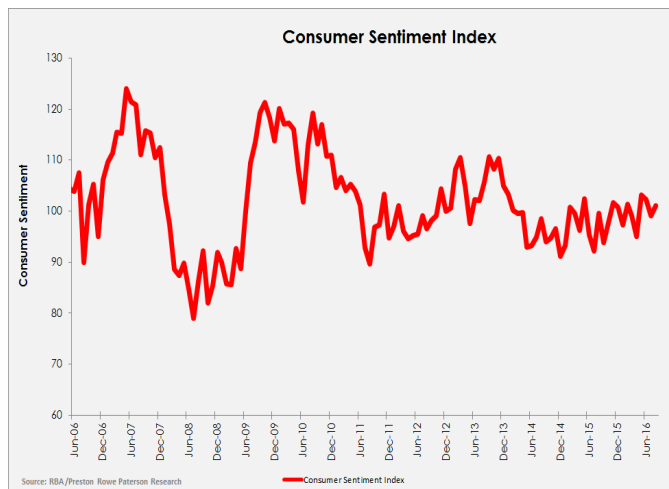


Chart 30– Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Australian Exchange Rates

Over June quarter 2016, the Australian Dollar decreased against the US Dollar, depreciating from \$0.7657 USD in March 2016 to \$0.7426 USD in June 2016. Over the twelve months to June, the Australian dollar depreciated by 3.31% from \$0.7680 USD.

During the second quarter of 2016, The Australian Dollar exchange rates appreciated against the Pound by 4.0%, however depreciated against the Euro by 1.0%. During the same period, the Australian Dollar fell against the Japanese Yen by 11.3%.

Year on year analysis saw the Australian Dollar declined against the Euro by 2.43% to €0.6699 and 18.84% in the Yen to ¥76.23, whereas the exchange rate against the British Pound increased by 13.59% in the same period to £0.5549.

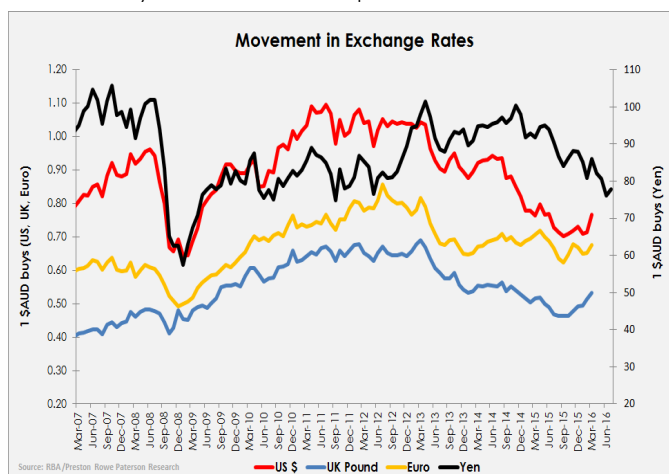


Chart 31 –Movement in Exchange Rates – Source RBA



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 trusts
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- . Sovereign wealth funds
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We have all *locations* covered

From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices for special purpose real estate asset classes, infrastructure and plant & machinery.

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