Preston Rowe Paterson

International Property Consultants

Property *Market* Report

New South Wales

June Quarter 2018

HIGHLIGHTS

- The Sydney CBD office market remains undersupplied but stock withdrawals have eased over the past six months.
- Australia's retail turnover statistics continue to suggest the growing trend of higher spending on discretionary goods and less on non-discretionary goods, driving the lift in tenant sentiment towards the food & beverages sector.
- The lack of industrial land supply in Sydney drives the increasing popularity in multi-level industrial strata buildings to maximise floor space ratios.
- Sydney's residential market softened over the March quarter 2018 with median house price and median dwelling unit price falling by -2.6% and -0.5% to $1,150,400 and $740,000.

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COMMERCIAL OFFICE MARKET

Sydney CBD

Supply by Grade (Stock)

The number of stock withdrawals in the Sydney CBD office market halved over the six months to July 2018 as compared to the previous half year period, falling from 99,695 square metres to 45,122 square metres, the lowest withdrawal recorded in two years (from July 2016).

The withdrawal made over the six months to July 2018 is of secondary offices only, continuing the trend of 'withdrawals for conversion' to other uses. Nonetheless, the total withdrawal (45,122 sqm) in this period is counterbalanced with a supply addition of 45,251 square metres, taking net addition to 129 square metres only. The additional stock added to the market is mainly from the completed refurbishment of Lawson Place (167 Phillip Street), IBSA House (2 Bligh Street) and Darling Park Tower 2 (201 Sussex Street). Majority of these refurbished spaces are pre-committed thus have little to no effect on vacancy.

Vacancy Rates

Positive tenant demand and limited stock continues to drive vacancy down across Sydney CBD. The overall vacancy in Sydney CBD declined by 0.2% to 4.6% over the July 2018 period. The rate of all grades fell except for A Grade offices, rising by 0.9% to 4.6%, highest in two years. Nonetheless, the A Grade vacancy is still well below its 10-year average of 8.5%.

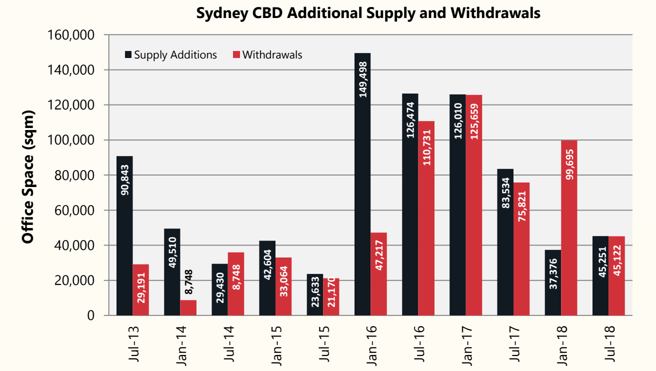

Chart 1 – Sydney CBD Additional Supply and Withdrawals – Source : PCA / PRP Research

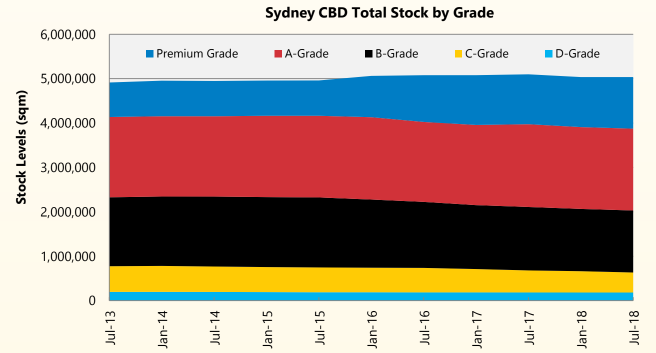

Chart 2– Sydney CBD Office Stock by Grade - Source : PCA / PRP Research

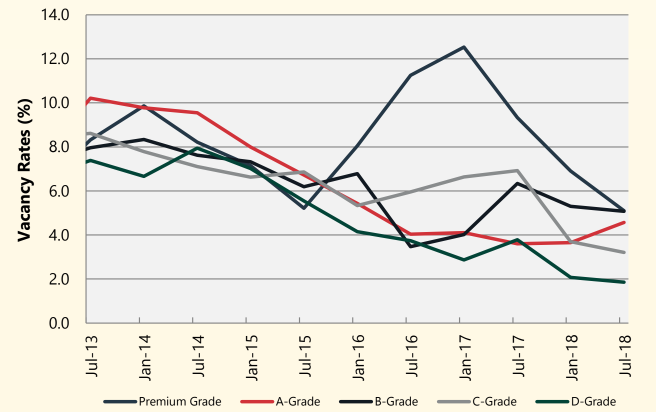

Chart 3 – Sydney CBD Office Vacancy – Source : PCA / PRP Research

Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
275 George Street	275 George Street, Sydney, NSW 2000	Site Works	John Holland Group	7263	Q3 2019
60 Martin Place	60 Martin Place, Sydney, NSW 2000	Construction	Investa Property Trust/Martin Place Whole Sale Syndicate	38,600	Q3 2019
Wynyard Place	10 Carrington Street, Sydney, NSW 2000	Site Works	Sovereign Wynyard Centre Pty Ltd	58,974	2020+
Quay Quarter Sydney/AMP Precinct	50 Bridge Street, Sydney, NSW 2000	Construction	AMP Capital Investors (AMP Wholesale Office Fund)	88,274	2020+
Central Park	100 Broadway, Chippendale, NSW 2008	Construction	Frasers Property Gorup / Sekisui House Australia	5,447	Q3 2018
6 York Street	6 York Street, Sydney, NSW 2000	DA Approved	NGI Investments	6,000	Mooted
Kindersley House	33 Bligh Street, Sydney, NSW 2000	DA Approved	Investa + Ausgrid	24,000	Mooted
Circular Quay Tower	180 George St, Sydney, NSW 2000	DA Applied	Lendlease	55,000	2020+
Barrack Place	151 Clarence Street, Sydney, NSW 2000	Construction	Investa Office Fund	20,795	Q4 2018

Table 1 – Development Sites around Sydney CBD – Source : PCA / PRP Research

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Investment Activity

499 Kent Street, Sydney, NSW 2000

A three-storey office building in Sydney CBD's western corridor has been purchased for **over $50 million**. The site sold without a DA, however the site is able to yield 8,924 square metre of gross floor area as a commercial, residential or hotel development based on current planning controls. The **3% passing yield** reflects the combination of development value and fully leased holding income (approx. $1.5 million net p.a.), as opposed to reflecting an investment yield as the selling agent suggests. The 613 square metre site sold at a **land rate of $81,566 per square metre** to a *Chinese investor/ developer*.

60-62 Clarence Street, Sydney, NSW 2000

A refurbished CBD heritage building integrated with an adjacent, modern commercial building has sold for **$31.3 million**. The buildings together offer 120-290 square metre floor plates over 1,846 square metre of total floor area, giving this sale a **rate of $16,956 per square metre lettable area**. The buyer, Sydney based developer *Burcher Property Group*, made the purchase of the building, which lies just near the Barangaroo precinct, on a **passing yield of 3.94%**.

73 York Street, Sydney, NSW 2000

In an off-market deal, a Hong Kong investor has picked up 73 York Street for **$22.5 million**. The property, situated on a 341 square metre site, offers "creative heritage accommodation" that is travelling particularly well in Sydney CBD's western corridor due to high volumes of Asian tourism and growing investment into the sector. The building with 1,553 square metre of lettable area sold for **$14,488 per square metre**.

117 Clarence Street, Sydney, NSW 2000

The joint-venture of *Roxy Pacific* and Singaporean investors *Tongeng* have penned a deal with *Investa Commercial Property Fund (ICPF)* to offload their B-grade CBD building for a sum of **$153 million**. The JV paid a mere $81 million for the property in 2015, giving them an annualised return of nearly 30% in capital growth alone. The fully leased property has a strong line-up of tenants including **Government Property NSW**, **The Board of Studies** and **The Smith Family**. The deal was struck on a **yield of 5.4%** and brings the value of ICPFs portfolio to $5.3 billion. The sale was concluded at a **rate of $12,240 per square metre of lettable area**.

179 Elizabeth Street, Sydney, NSW 2000

A Macau investor has made way with **$265 million** for an A-grade asset opposite Hyde Park. The price paid is particularly striking considering the previous sale price of $148.8 million in December 2015. The deal was struck on a **5.17% passing yield**. The 16,520 square metre building was sold at near full occupation, reflecting a WALE of 3.9 years. It sold on **a rate of $16,041 per square metre lettable area**.

Leasing Activity

21 Harris Street, Pyrmont, NSW 2009

French multinational communications and advertisement firm, *Publice Group*, has locked down 10,100 square metre of office space in the western fringe of the CBD for the next **10 years**. Upon completion of the 19,500 square metre property in late 2019, *Publice* will pay a **net annual rent of $770 per square metre lettable area**. The development will feature expansive, efficient floor plates over eight stories, a childcare centre, bars, restaurants, a gym and end of trip facilities. The move will allow the French company to consolidate multiple spread out tenancies into one modernised, creative work hub. Developers *Milligan Group* will receive a total **net annual income of $7,777,000**. Pyrmont is located 2 km west of Sydney's CBD.

Level 2, 55 Harrington Street, Sydney, NSW 2000

Singaporean firm *Far East Organisation* have successfully let out 1,553 sqm of office space in The Rocks for **six years** at a **gross annual rent of $1,164,750** or **$750 per square metre per annum** to research and development group *Capital Markets CRC*. The premise sits opposite long-standing bar and restaurant, The Argyle.

Level 6, 6 O'Connell Street, Sydney, NSW 2000

A whole floor office suite in the northern end of Sydney's CBD has been let for **$975 gross per metre**. The space is in a 26-floor, B-grade building with a recently refurbished lobby area and newly installed end-of-trip facilities. Landlords *Investa* agreed to lease the 622 square metre (approx.) space to cloud consultancy firm *Versent* on a **five-year** deal worth **$606,450 per annum gross**.

338 Pitt Street, Sydney, NSW 2000

Insurance comparison provider *BizCover* has taken out a **three-year** lease over a 1,100 square metre midtown commercial space. *Han's Group* agreed with their new tenant on a **price of $570 per square metre lettable area gross per annum**. The property was purchased three years ago with an adjoining building as a development site worth $1.5 billion on realisation and the property is considered one of the oldest still functioning as a commercial space in the CBD. The total **rent paid per annum is $627,000 per annum gross.**

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Level 10, 14 Martin Place, Sydney, NSW 2000

A 508 square metre office suite has been secured by quantity surveyors *Slattery* for **$1,000 per square metre gross per annum**. The company, moving from 44 Market Street, will occupy the space for the next **five years**. The property is located on the corner of Martin Place and Pitt Street and comes with a fit out. The total rent equates to **$508,000 gross per annum**.

Level 28, 1 Farrer Place, Sydney, NSW 2000

A premium grade office suite in the exclusive northern end of Sydney CBD has leased for a **net annual rent of $383,400**, at a **rate of $1,420 per square metre per annum**. Mergers and advisory firm *Growth Curve Advisory* secured the 270 square metre suite, comprising iconic harbour views and a modern, luxurious office fit out. The deal was secured by landlords *GPT, Dexus* and *Lendlease* for **five years** with the expanding company.

North Sydney

Supply by Grade (Stock)

Withdrawal was the key contributor to the North Sydney office market over the six months to July 2018. The 9,847 square metre building at 61 Lavender Street was withdrawn for an apartment development, while 118 Mount St (3,705 sqm) will be demolished to cater for Zurich's new commercial development of 21,000 square metre net lettable area. There was no stock addition recorded over the period with total net stock currently sitting at 810,430 square metres.

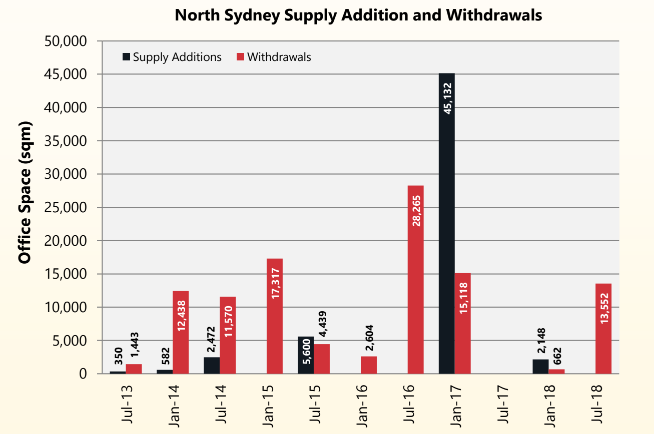

Chart 4 – North Sydney CBD Additional Supply and Withdrawals – Source : PCA / PRP Research

Vacancy Rates

The North Sydney office vacancy fell by 1.6% to 6.3% over the six months to July 2018. The oversupply of Premium Grade offices in 2016, which drove vacancy rate higher than 40%, has now been thoroughly absorbed by the market. The premium office vacancy rate is now at a record low of 1.9% as at July 2018. The vacancy of A Grade office also fell (-4.7%) to a record low of 2.2%, the lowest since 2001.

On the contrary, the vacancy movements of secondary offices in North Sydney are modest with B Grade increasing by 0.5% to 8.8%, C Grade up by 1.3% to 7.4% and D Grade down by 1.5% to 2.5%. This trend indicates higher demand in primary offices than secondary offices. The limited number of prime office supply additions over the next couple of years may drive vacancies to continue to fall with continued rental growth.

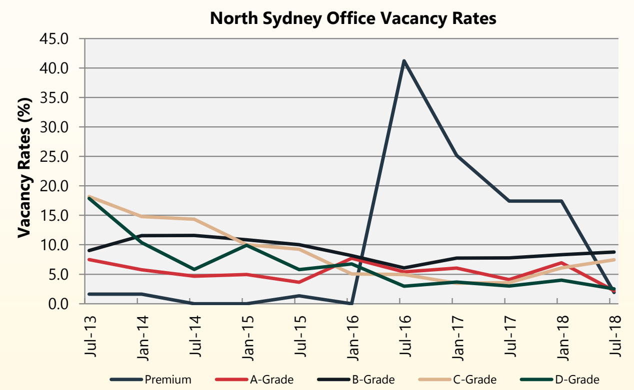

Chart 5 – North Sydney CBD Office Vacancy – Source : PCA / PRP Research

Investment Activity

77 Pacific Highway, North Sydney, NSW 2060

Stockland have sold their A-grade office tower for **$112.35 million** to an undisclosed buyer, representing a 23% premium to their December 2017 valuation. *Stockland* sold to maximise on ideal market circumstances. They plan to reinvest the capital into their logistics and business park portfolio. The buyer of the 9,392 sqm, 15-level building was undisclosed. The sale reflects a **rate of $11,962 psm lettable area.** North Sydney is 3.8 km north of Sydney's CBD.

54 Miller Street, North Sydney, NSW 2060

Aqualand have offloaded their 14-level, B-grade office tower to US-investment manager *AEW* for **$59.4 million**. The property was built in the 1970s contains 7,000 sqm of commercial space. *AEW* will hold the property in a fund with the strategy of acquiring assets in Asian gateway cities. The sale was done on an **initial 5% yield**, whilst the price reflects a **rate of $8,541 psm lettable area**. North Sydney is located 3.8 km above Sydney's CBD.

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Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
100 Mount Street	100 Mount Street, North Sydney, NSW 2060	Construction	DEXUS Property Group	42,000	Q1 2019
Shopping World Site	1 Denison Street, North Sydney, NSW 2060	Site Works	Winton Property Group	45,720	2020+
118 Mount Street	118 Mount Street, North Sydney, NSW 2060	Site Works	Zurich Australia Ltd	21,000	2020+

Table 2 – Development Sites around North Sydney – Source : PCA / PRP Research

Chatswood

Supply by Grade (Stock)

The Chatswood office market supply remains unchanged for the fifth semi-annual period, remaining at 278,919 square metres. There is no additional supply foreseen in the medium term. Nonetheless, Chatswood office market is in a healthy balance of supply and demand with vacancy rates gradually tightening and rents growing.

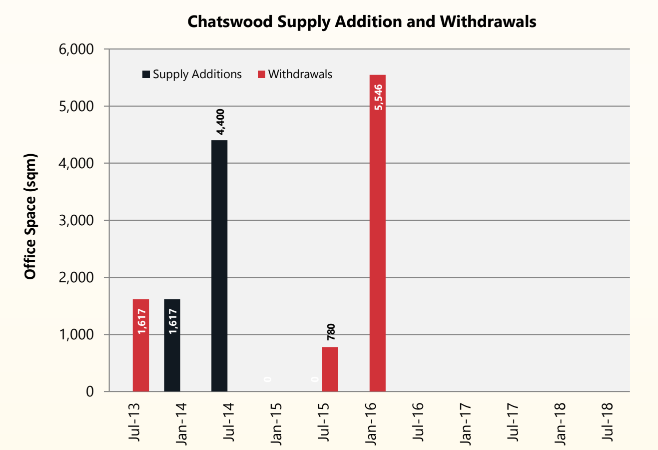

Chart 6 – Chatswood CBD Additional Supply and Withdrawals – Source : PCA / PRP Research

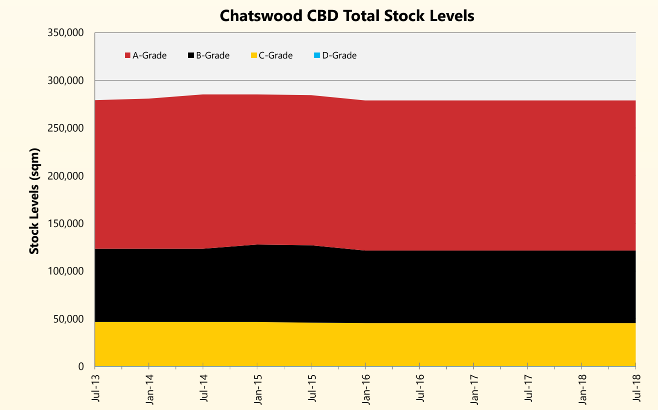

Chart 7— Chatswood CBD Office Stock by Grade - Source : PCA / PRP Research

Vacancy Rates

The total vacancy in Chatswood's office market decreased to 6.5%, a fall of 0.3%, over the last six months. The fall in vacancy rate is attributed to C-Grade office, which fell 2.6% over the period whilst all other office grade vacancy remains unchanged.

Given the unchanged supply conditions, the Chatswood office market may see vacancy rate continue to tighten with steady demand.

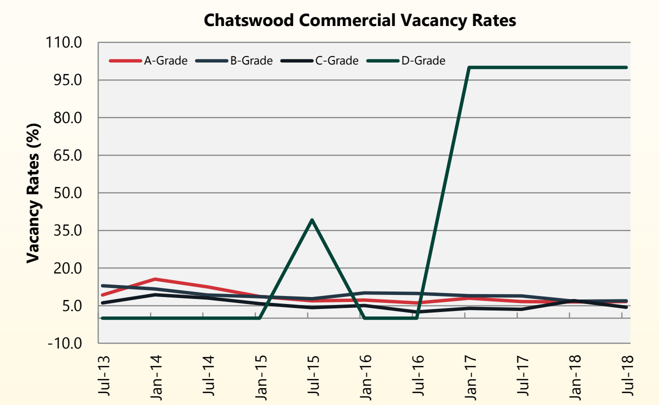

Chart 8– Chatswood CBD Office Vacancy – Source : PCA / PRP Research

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Crows Nest/St Leonards

Supply by Grade (Stock)

The total office supply in Crows Nest/St Leonards gradually declined over the past five years. The latest Property Council of Australia's office market review recorded a withdrawal of 850 sqm over the six months to July 2018, attributed from a D Grade office on 71-73 Lithgow Street, withdrawn and demolished as a part of an algamated site to cater for a multi building mixed use development.

The current Crows Nest/St Leonards total office stock is 306,881 sqm. C Grade offices dominate the office market with 129,810 sqm followed by A Grade with 102,699 sqm. There was no supply addition over the period. Crows Nest/St Leonards total office stock is to remain in record low as anticipated addition remains modest with only 4,200 sqm addition to complete at the end of 2019 and 2,300 sqm mooted.

Vacancy Rates

The Crows Nest/St Leonard office market vacancy declined by -1.3% to 9.9% over the July 2018 period. Secondary office vacancy performed better in the six months to July 2018 with B Grade falling -3.6% to 8.0% and D Grade falling 2.6% to 6.5% whilst A Grade vacancy recorded modest decline of 0.9% to 14.8%.

Investment Activity

154 Pacific Highway, St Leonards, NSW 2065

Security Capital Australia, a West Australian based group, has sold out of its Lower North Shore office building for **$60 million**. The property contains 6,427 sqm of fully leased NLA, however it was the underlying 3,080 sqm land parcel on a prominent corner block within a "high-density mixed-use corridor" that pushed the sale price even further north. The building sold on a **passing yield of 5.86%,** however it is understood that the asset is significantly under-rented, meaning the new private owner can expect a significant uplift in yield upon lease reversions. The building sold at a rate **of $9,336 psm lettable area**. St Leonards is located 6.6 km north of Sydney's CBD.

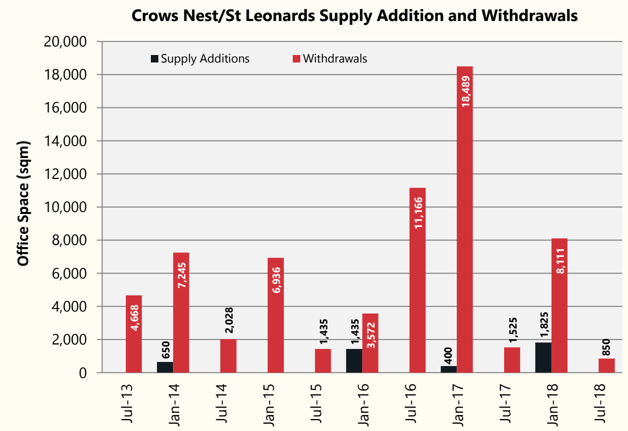

Chart 9– Crows Nest/ St Leonards Additional Supply and Withdrawals – Source : PCA

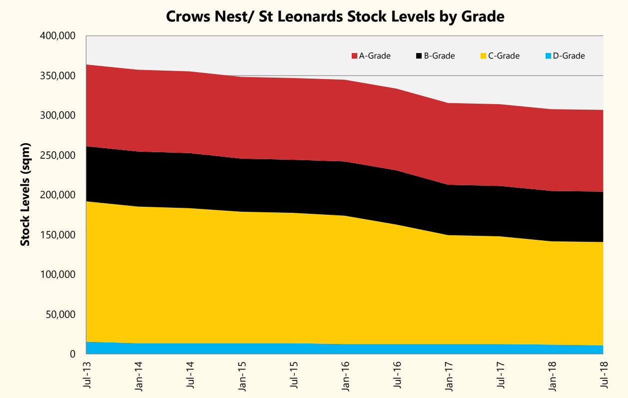

Chart 10– Crows Nest/ St Leonards Office Stock by Grade - Source : PCA / PRP Research

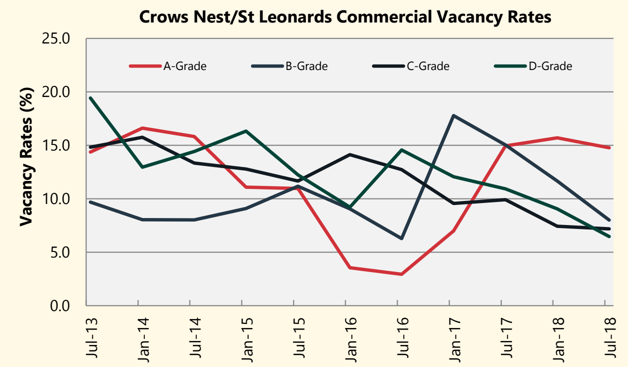

Chart 11 – Crows Nest/ St Leonards Office Vacancy – Source : PCA / PRP Research

Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
St Leonards Square	472-494 Pacific Highway, St Leonards, NSW 2065	Construction	Mirvac Group	4,200	Q4 2019
Electroboard	18-20 Atchison Street, St Leonards, NSW 2065	Site Works	Electroboard	2,300	Mooted

Table 3 – Development Sites around Crows Nest/St Leonard – Source : PCA / PRP Research

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Parramatta

Supply by Grade (Stock)

The Parramatta office market gained a net stock of 14,203 square metre to a total of 719,619 square metres over the six months to July 2018. The completion of 105 Phillip Street added 25,000 square metres to the market which was offset by a withdrawal of 10,797 square metre. 87% of the supply additions were absorbed by the market through pre-commitments but the remaining 13% is still vacant, pushing vacancy rates of A Grade office up by 1%.

Vacancy Rates

Despite the modest increase of 0.2%, the current 3.2% vacancy rate is still considered tight, considering the amount of additional supply over the period. A Grade stocks in Parramatta increased by 1.0% after holding a record 0.0% vacancy throughout 2017. Lower grade office vacancies declined over the same period as supplies were withdrawn. These withdrawals were mostly for residential and retail conversion.

Vacancy in Parramatta's prime stocks may push lower again once the additional stocks are absorbed by the market.

Investment Activity

264-270 Church Street, Parramatta, NSW 2150

A landmark property on the corner of Church and George Street in Parramatta's CBD has sold for **$14 million**. The sale comprises a c.1874 heritage building as well as an adjoining retail store, both 3-levels in height, and includes parking for some 9 vehicles. The property is fully leased to **Westpac** on a long term lease currently generating $615,922 per annum net. This sale was done on **a yield of 4.39%** and returned a **rate of $10,980 per square metre lettable area**. Parramatta is located 23 km west of Sydney's CBD.

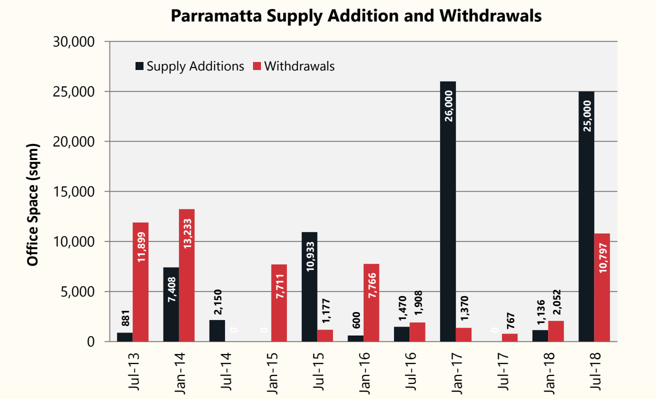

Chart 12– Parramatta CBD Additional Supply and Withdrawals— Source : PCA / PRP Research

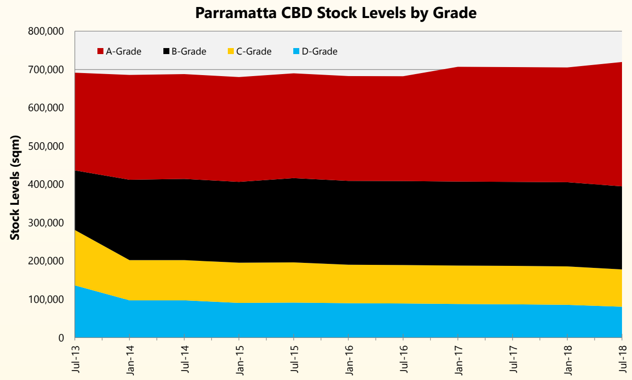

Chart 13– Parramatta CBD Office Stock by Grade - Source : PCA / PRP Research

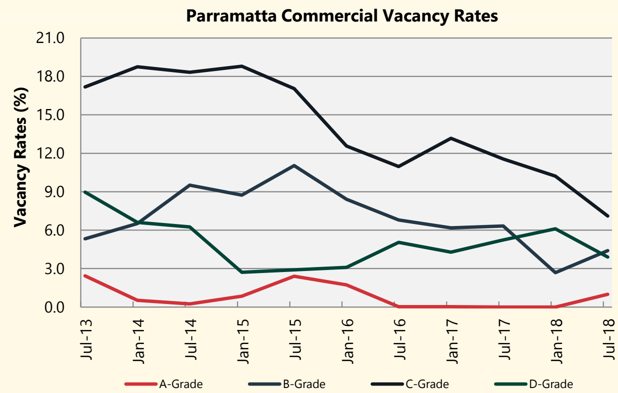

Chart 14 – Parramatta CBD Office Vacancy – Source : PCA / PRP Research

Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
50 Macquarie Street	50 Macquarie Street, Parramatta, NSW 2150	DA Applied	G & J Drivas Pty Ltd	25,222	2020+
Westfield Parramatta Development	159-175 Church Street, Parramatta NSW 2150	DA Applied	Scentre Group	100,000	Mooted
105 Phillip Street	105 Phillip Street, Parramatta, NSW 2150	Completed	Dexus Property Group	25,000	Q2 2018
Parramatta Square (Stage 4)	30 Darcy Street, Parramatta, NSW 2150	Site Works	Parramatta City Council	80,000	Q4 2019
Parramatta Square (Stage 3)	153 Macquarie Street, Parramatta, NSW 2150	Site Works	Parramatta City Council / Walker Corporation	46,000	2020+
140 George Street	140 George Street, Parramatta, NSW 2150	DA Approved	Dexus Property Group	45,700	2020+

Table 4 – Development Sites around Parramatta – Source : PCA / PRP Research

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North Ryde/Macquarie Park

Supply by Grade (Stock)

The total stock in the North Ryde/Macquarie Park office market increased by 3,552 square metres over the half year to July 2018. The increase is all from secondary offices. Despite the modest addition, the overall North Ryde/Macquarie Park office vacancy continues to decline, decreasing by 0.6% to 5.4%, indicating a healthy market.

The end of 2019 will see office stock in North Ryde/Macquarie Park increase by 35,000 square metres following the completion of Building C of 45 Waterloo Road. The remaining mooted supply will only come online after 2020, which will eventually add 190,545 square metres stock to the market.

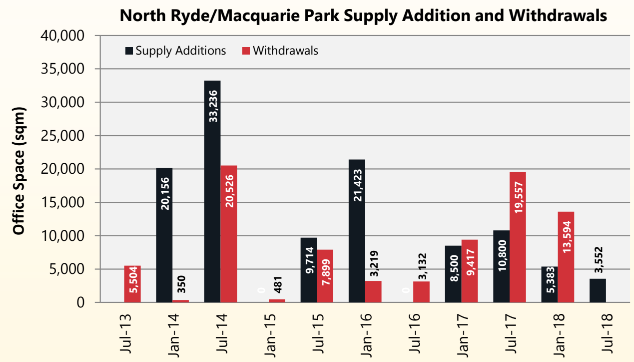

Chart 15 – North Ryde/ Macquarie Park Additional Supply and Withdrawals – Source PCA

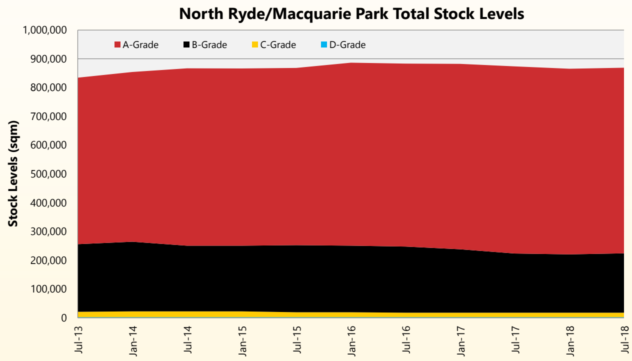

Chart 16– North Ryde/ Macquarie Park Stock by Grade – Source PCA / PRP Research

Vacancy Rates

The North Ryde/Macquarie Park office vacancy continues to fall. Over the six months to July 2018, the overall vacancy of North Ryde/ Macquarie Park decreased by 0.6% to 5.4%. All Grades recorded positive net absorption indicating strengthening demand driven by tenant expansion and relocation. Vacancy may remain low in this area before new stocks come online.

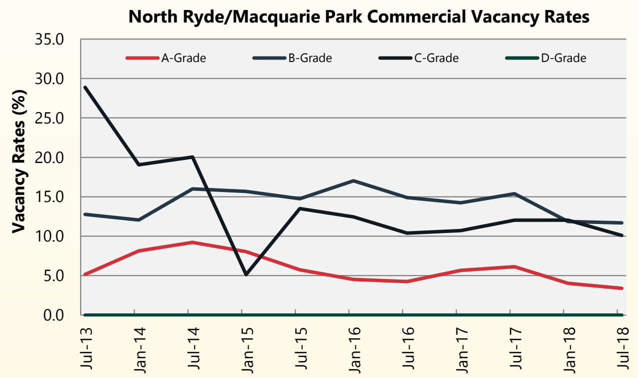

Chart 17 – North Ryde/Macquarie Park Office Vacancy – Source— PCA / PRP Research

Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
45 Waterloo Rd - Building C	45 Waterloo Road, Macquarie Park, NSW 2113	DA Approved		35,000	Q4 2019
11 Talavera Road	11 Talavera Road, Macquarie Park, NSW 2113	DA Approved	Dexus Property Group	32,000	Mooted
8-12 University Avenue	8-12 University Avenue, Macquarie Park, NSW 2113	DA Applied		50,000	Mooted
95 Waterloo Road	95 Waterloo Road, Macquarie Park, NSW 2113	DA Applied		14,874	Mooted
31-35 Epping Road	31-35 Epping Road, Macquarie Park, NSW 2113	DA Applied	Harvey Norman Group	14,477	Mooted
396 Lane Cove Road	Cnr Lane Cove Rd & Waterloo Rd, Macquarie Park, NSW 2113	DA Applied	Frasers Property Group / Winten Property Group	45,000	Mooted
Epicentre (Riverside Corporate Park)	Lot 8 Julius Avenue (Incl. Lot 9), Macquarie Park, NSW 2113	DA Approved	ISPT Pty Ltd	34,194	Mooted

Table 5 – Development Sites around North Ryde/Macquarie Park – Source PCA

RETAIL MARKET

Retail Statistics

Australia's retail property sector continues to perform well with numerous investment and leasing activities driven by the above average population growth (1.6% annually) especially in eastern states such as New South Wales (NSW) and Victoria (VIC). The NSW retail turnover increased by 1.67% over the quarter to June 2018 following a monthly increase of 0.41% to June, 0.5% to May and 0.8% to April. A trend of weaker spending on discretionary goods is seen from NSW's retail turnover where the highest spending is seen in food categories as compared to department stores, clothing and household goods.

The rise in café and restaurant spending has driven the increasing demand in retail property for F&B purposes. Anecdotal evidence is showing that small retail shops and/or hole-in-the-wall retail properties are becoming increasingly popular in Sydney CBD with a shop front of 10 square metres on 43 Goulburn St, Haymarket, leased at $9,000 psm lettable area by a beverage retailer *Song Tea*.

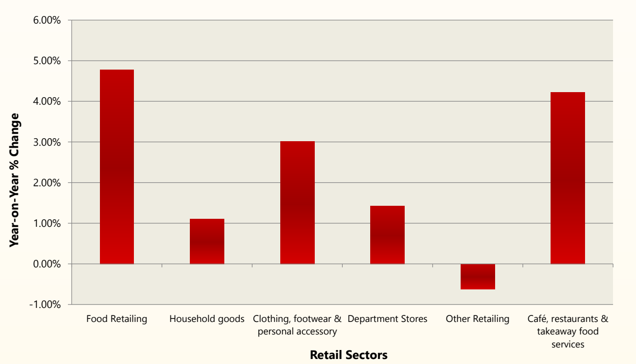

Chart 18—Year on Year % change to June 2018 of retail subgroups—Source : ABS

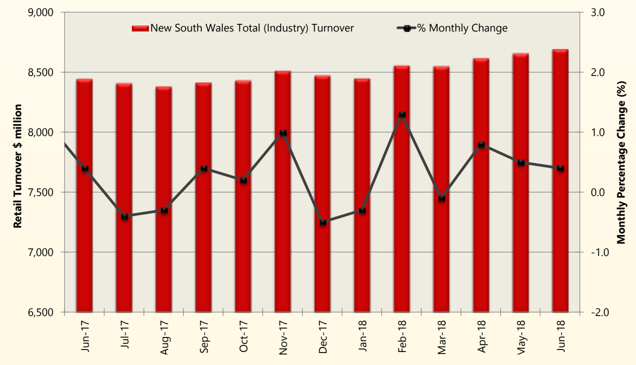

Chart 19—New South Wales Retail Turnover—Source : ABS / PRP Research

Online Retail

The NAB Online Retail Sales Index modestly slowed by 0.4% to 1.2% over the month to June 2018, a yearly increase of 17.7% down from the 18.1% on the same basis in May. NAB indicated that $26.5 billion was spent over the last twelve months, equivalent to approximately 8.4% of spending at traditional retailers (May 2018, ABS). There were further improvements recorded for the food (+0.9bps to 2.6%) and department store (+7.0bps to 9.0%) categories over the month.

The increase in international retailers expanding their shipping to Australia has the potential to continue disrupting established Australian bricks and mortar retailers. However, the introduction of the 'protectionist tariff' that will take effect starting on July 2018 may soften the online retail volume. The tariff will incur 10% GST on online retailing for clothing, electronics and furniture purchased from overseas retailers for goods with value below AU$1000.

Investment Activity

63 Majors Bay Road, Concord, NSW 2137

A suburban retail corner site has traded for **$7.65 million** between private investors. The two-storey building, which enjoys a combined frontage of 60 metres, is fully let to **Priceline Pharmacy** on ground floor and a physiotherapy studio on the first floor. Both are on long leases with 3% and 3.5% increases, respectively, generating a combined $327,457 p.a. net income. This sale reflects a **4.28% net yield**, whilst showing a **rate of $19,416 psm lettable area**. Concord is positioned 12.1 km west of Sydney's CBD.

105 Willoughby Road, Crows Nest, NSW 2065

Developer *Payce Albany* has received a big boost to the performance of its Lower North Shore development, selling a **Coles Supermarket** and nine specialty retail units for **$45 million**. The space occupies the lower ground floor of a mixed-use retail and apartment development featuring 67 apartments and a public plaza. The development application (DA) reveals a 'Capital Investment Value' (essentially construction costs without land purchase, land costs or GST) of just under $47 million, highlighting the windfall to the developer. The land was purchased late 2016 for $23.7 million. A North-American investor made the purchase on a **sub 5% yield**, whilst on an area basis it revealed a **rate of $10,016 per square metre lettable area**. Crows Nest is positioned 6 km north of Sydney's CBD.

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179-181 Harris Street, Pyrmont, NSW 2009

Two adjoining buildings have sold in one line for **$9.11 million**. No. 179 is a c.1880 two storey commercial building with 324 sqm of floor space and balcony area. No. 181 is a converted warehouse office building with ground floor retail space of 104 sqm (leased for 3+3 years) and 264 sqm of office space which was vacant upon sale. All areas are furnished with a blend of modern and heritage features. The properties sold at a **rate of $13,165 psm lettable area**. Pyrmont is located 2 km west of Sydney CBD.

75-89 King Street, Warrawong, NSW 2502

Multi-millionaire *Andrew Muir* and his family have sold a **Good Guys** shop for **$7.15 million** as part of a wider portfolio sell off. The family sold the Good Guys business to JB Hi-Fi in 2016 and are now selling the freehold real estate behind 15 stores to maximise on favourable retail property conditions. The property sold on a **7.5% yield** to a private Sydney Investor. It has a sizeable land holding of 5,284 sqm, accommodating 2,640 sqm of bulky goods retailing. The price generates a **rate of $2,708 psm lettable area**. Warrawong is 10km south of Wollongong and 91 km south of Sydney's CBD.

152 Bunnerong Road, Eastgardens, NSW 2036

Tower Terrace Group, a creation of the Saunders Family, has divested a **50% stake in Westfield Eastgardens** for **$720 million**. The deal is one of the "top five largest single-asset retail transactions to occur in the Australian market", affirming purchasing party Scentre Group's position as the largest retail land owner in Australia. The deal was conducted on **a firm yield of 4.25%,** reflective of the broader shift of institutional investors to re-weight their retail portfolios towards safer, premium holdings that are more capable of maintaining strong patronage. The centre also carries potential for a mixed-use or residential development due to its positioning amongst a key growth region for metropolitan Sydney. The centre has a seriously enviable tenancy profile, anchored by a Myer, Kmart, Big W, Target, Coles, Woolworths and Aldi. On a rate, this sale returned **$17,098 per metre of lettable area**. Eastgardens is located 9.8 km south of Sydney's CBD.

1 Notts Avenue, Bondi Beach, NSW 2026

Advertising magnate John Singleton has sold the leasehold behind the iconic **Icebergs Dining Room and Bar** for **$15 million** to O'Brien Group Australia. The ground lease on the property runs until 2042, whilst restaurateur Maurice Terzini holds a lease on the property to operate the restaurant until 2036 with options. The 645 sqm property occupies a clifftop position at the southern end of Bondi Beach, offering extensive beach and ocean views. The O'Brien Group is known for operating stadiums AAMI Park in Melbourne, the Gabba in Brisbane and Eden Park in Auckland. The leasehold sale reveals **a rate of $23,255 psm lettable area**.

Leasing Activity

43 Goulburn Street, Haymarket, NSW 2000

Song Tea has beaten a rush of suiters to a rare 10 sqm 'hole-in-the-wall' shop front. The retailer will pay **$90,000 gross per annum**, equating to **$9,000 psm lettable area**, for the next **five years**. The shop is superbly positioned, opposite World Square, near the corner of Goulburn and George Streets, in the mid-town precinct of Sydney CBD.

797 Military Road, Mosman, NSW 2088

A ground floor shop, previously occupied for 40 years as 'The Cheese Shop', has been let out for **$1,505 psm gross per annum**. The lower north shore shop will be occupied for the next **five years** to *Naked Foods Organic Health Foods* in what will be their 6th national opening. The total rent on the 95 sqm shop equates to **$142,975 gross per annum**. Mosman is located 6.5 km north east of Sydney's CBD.

Shop 1/137-139 Bathurst Street, Sydney, NSW 2000

A relatively narrow fronted shop of approximately 52 sqm situated on Bathurst Street within a modern mixed commercial and residential building close to Town Hall Station and adjacent to a future Pitt Street Metro Station entrance. The shop is leased to Cafe de Casablanca with option until 2025 at a passing rent as at May, 2018 of **$1,286 psm lettable area per annum or $66,919 a year.**

207 Kent Street, Sydney, NSW 2000

A ground floor retail unit positioned just east of the Barangaroo precinct has been leased to café operator *Stazi Food Group* for the next **10 years**. The deal with *Cromwell Property Group* was done at a **gross rate of $1,000 psm lettable area per annum**, equating to **$200,000 a year** for the 200 sqm shop. It comes with an on-premises liquor licence and is positioned at the base of a 28-level office tower. The two parties agreed on a 10% incentive and fixed annual rental increases of 4%.

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INDUSTRIAL MARKET

The key drivers of the NSW industrial market are the major infrastructure projects, the growing online retail sector and the above average population growth. All of which drives the demand in industrial property throughout NSW. On the other hand, the conversion of industrial land to other uses in Sydney has resulted in a lack of industrial land supply. This spurred a trend of multi-level industrial strata buildings to maximise floor space ratios. Smaller industrial strata units are also becoming more popular for dual mode retailers (both online and brick and mortar) in need of small warehouses closer to the CBD. Thus rents for properties closer to Sydney's CBD has higher rate of psm lettable area.

Investment Activity

43 Dunn Road, Smeaton Grange, NSW 2567

A distribution centre in the Campbelltown region has sold for **$7.15 million**. The price achieved a record for industrial yields in the area, generating a **5.24% net return**. Demand for industrial properties has been fuelled by the growth of e-commerce businesses that require distribution and logistics centres rather than traditional shop fronts. The 2,605 sqm warehouse/showroom facility is leased to **CSR Limited** until 2025 with one option. The sale reflects a rate of **$2,745 psm lettable area**. Smeaton Grange is located 60 km south west of Sydney

80 Hartley Road, Smeaton Grange, NSW 2567

A mega-warehouse building in the Campbelltown region, used as a Coles distribution facility, has sold for **$90.5 million** to two *Charter Hall funds* who combined to make the purchase from *Frasers Property Group*. The deal was secured off-market and it is understood the property will be held across two flagship industrial funds, returning **6.35% on purchase price**. The building contains a mammoth 61,281 sqm of GFA, including 113 access doors and drive around truck access. The deal is subject to Coles executing a five-year lease extension, whilst subdivision potential remains for the site. The deal was done on **a rate of $1,477 psm gross lettable area**. Smeaton Grange is located 52.8 km south west of Sydney's CBD.

356 Chisholm Road, Auburn, NSW 2144

A 2,744 sqm office/warehouse building, resting on a 3,763 sqm lot, has sold off-market for **$7.5 million**. A private investor picked up the building, which is leased for the next five years to **Emerson Climate Technologies** on a 5% yield, a historically sharp yield that highlights the demand for well-serviced industrial land in Sydney's metropolitan areas. The sale shows **a rate of $2,733 psm lettable area**. Auburn is located 18.8 km west of Sydney's CBD.

2 Lincoln Street, Lane Cove, NSW 2066

Joint owners *Bricktop* and *Trumen Corp* have sold their industrial complex for **$28.075 million** to fund managers *Aviator Capital* after purchasing the site in December 2014 for $16.88 million. The property is well located to major linking roads and contains 5-levels of modern office space, parking for some 115 vehicles and expansive warehousing with multiple roller shutter doors, loading awnings and concrete hard standing. The complex is 95% leased to **SLR Consulting**, **Kastle Australia** and **Key Pharmaceuticals**, giving a 3.25 year WALE. Expectation of rising rental rates combined with withdrawals of North Shore warehouse and office space have driven investment demand for these types of assets. The property sold on a **6.91% passing yield** and gives a **rate of $3,031 psm lettable area**. Lane Cove is situated 9.3 km north west of Sydney CBD.

44 Clunies Ross Street, Greystanes, NSW 2145

A 12.89 hectare land parcel, currently used as a brick production facility, has sold to super fund investor *ISPT* for **about $60 million**. The land has major potential as an industrial strata development or similar, given the scale of the area, its IN1 zoning and its proximity to both M7 and M4 motorways. The site includes 1.32 hectares of built area and has a lease in place that expires in December 2020. The site sold on a **rate of $465 psm site area**. Greystanes is positioned 26.8 km west of Sydney's CBD.

9 Liberty Road, Huntingwood, NSW 2148

A freestanding office and warehouse building has been traded between private investors for **$8.086 million**. The property spans some 3,595 sqm NLA, featuring high-bay roller shutter doors, a 5-tonne gantry crane in addition to modern office accommodation at the front of the premises. The site sold with a **passing net yield of 5%**, whilst returning a **rate of $2,249 psm lettable area**. Huntingwood is located 33.6 km west of Sydney's CBD.

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Leasing Activity

4 Bronti Street, Mascot, NSW 2020

A high-bay warehouse building with internal mezzanine office space, a container-height roller shutter door and 6 parking bays has been leased to *Pacific Waves Australia* for a **gross annual rent of $150,000 per annum**. The 500 sqm NLA premises forms part of a 7-unit industrial complex, located just east of Sydney Airport. The lease will span **five years** plus options. The lease generates a **gross rate of $300 psm lettable area p.a.** Mascot lies 7 km south of Sydney's CBD.

339 Woodpark Road, Smithfield, NSW

A warehouse in Sydney's west spanning 1,500 sqm NLA has been let for **five years** to *Diversipak Packaging Solutions* for **$172,500 net per annum**. The property has elevated office space, front parking both on-grade and undercover as well as two roller shutter doors of container height. The off-market deal was secured immediately following the departure of the building's previous tenants, a rare windfall to the owner. The deal reflects a **rate of $115 psm lettable area p.a.** Smithfield is located 28.9 km west of Sydney's CBD.

3-5 O'Riordan Street, Alexandria, NSW 2015

A 1,700 sqm vacant hardstand area opposite Green Square station has been leased for **12 months** for **$216,000 gross per annum**. *P2P Transport*, a leased vehicle provider to both taxi and ride-sharing platforms, secured the lease at a **net rate of $127 psm site area**. Alexandria is located 3.9 km south of Sydney's CBD.

310 Princes Highway, St Peters, NSW 2044

Rocca Building (NSW) has found a tenant for their warehouse/ showroom facility in Sydney's inner west for the next **five years**. Charity organisation *Citizen Blue Limited* will deploy the 942 sqm space as one of NSW largest container recycling depots. The parties agreed on a **net annual rent of $211,950**, equating to **$225 per metre per annum**. St Peters lies 6.5 km south west of Sydney's CBD.

49 Powers Road, Seven Hills, NSW 2147

A low bay warehouse with a huge rear yard on a 2,942 sqm site has been secured by *Half Price Shutters Blinds Awnings* for **$135,000 net per annum**. The warehouse, measuring 802 sqm, is of brick construction, contains 4 roller doors and a 6.3 metre clearance. It contains two levels of office space in addition to an extensive yard area that was surfaced prior to lease. The new tenant moved to the property to downsize and give the business greater exposure to passing traffic. The rent equates to **$168 psm lettable area per annum**. Seven Hills is located approximately 32.2 km north west of Sydney's CBD.

2/6 Money Close, Rouse Hill, NSW 2155

A new industrial unit has been let to *Covercraft Pacific Australia* for a **gross annual rental of $166,620**. The unit is one of four in a complex that provides heavy vehicle access. The 1,294 sqm concrete-built premises comprises an 8.5m clearance warehouse with an all-weather loading awning above a container height roller shutter door as well as modern office amenities. The lease was done at a **gross rent of $129 psm lettable area** for the next **five years**, with options. Rouse Hill is located 41.2 km north west of Sydney's CBD.

4/28 Barcoo Street, Chatswood, NSW 2067

Lighting provider *Studioworks Australia* has agreed to lease a 277 sqm strata warehouse. The company signed a "long term" lease on **a net annual rent of $263 per metre**, equating to **$72,851 per annum net**. The premises includes a roller shutter door. Chatswood is located 12.2 km north of Sydney CBD.

495 Victoria Street, Wetherill Park, NSW 2164

Japanese music giant *Yamaha* will lease an office/warehouse facility in Sydney's west as a distribution facility for the next **five years** for **$110 psm lettable area net per annum** with fixed rental increases of 3.75% per annum. The 5,945 sqm facility is concrete tilt-up construction and features multiple roller shutters, loading awnings and ample yard space and parking. The total rent equates to **$653,950 net per annum**. Wetherill Park is positioned some 32 km west of Sydney's CBD.

18-30 Vallance Street, St Marys, NSW 2760

A modern warehouse and office building has been leased to *Custom Bus Asset Management* for **eight years**. The premises comprises 9,765 sqm of built area with modern office space, a full concrete warehouse with 11m internal clearance and roller shutters, situated on a 2.07 hectare site that provides plenty of yard space. The lease was done at **a net rate of $105 psm lettable area**, reflecting a **total net rent of $1,025,325**. It was struck less than two weeks following the settlement of the sale on the property for $11.2 million in February. St Marys is located 45 km west of Sydney's CBD.

Honeycomb Drive, Eastern Creek, NSW 2766

FDM Warehousing has signed a **five year** lease to occupy a purpose built facility in Western Sydney. *Frasers Property Australia* is the owner and developer of the facility which comprises a 16,200 sqm distribution facility, 545 sqm of office space and parking for some 145 vehicles. The deal was done at a **rate of $118 psm lettable area net per annum**, equating to a total **annual income of $1,975,910 net**. Eastern Creek is located 36.3 km west of Sydney's CBD.

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RESIDENTIAL MARKET

Building Approvals

The total building approvals in Greater Sydney increased by a modest 2.11% over the month to June 2018, to 4,301 approvals. This figure indicates a decline of -1.51% over the quarter and -10.90% year on year. The declining investment sentiment in the residential market drove the building approval slowdown as finance is now much harder to get as compared to the residential peak in 2015 through to 2017 before the royal commission.

Approvals for dwelling units grew 16.22% (to 2,802 approvals) in the month to June 2018 whilst approvals for houses declined -16.77% (to 1,499 approvals) over the same period. Nonetheless, year on year, both approvals for houses and units declined by -10.40% and -11.16% respectively. This trend indicates that Sydney is at the end of its residential construction boom as an effect of the lowering prices of residential dwellings .

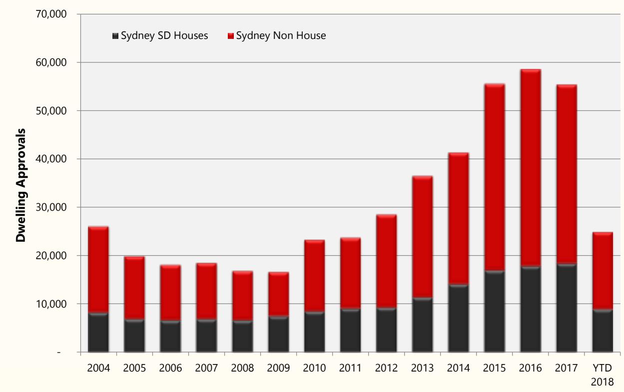

Chart 20– Sydney SD Dwelling Approvals—Source : ABS / PRP Research

Market Affordability

The March quarter 2018 edition of the REIA real estate market facts noted that the median house price in Sydney fell by -2.6% over the quarter, to $1,150,400. The year on year figure shows a negative change of -1.4%, indicating an easing residential market as mortgage loans become more difficult to attain.

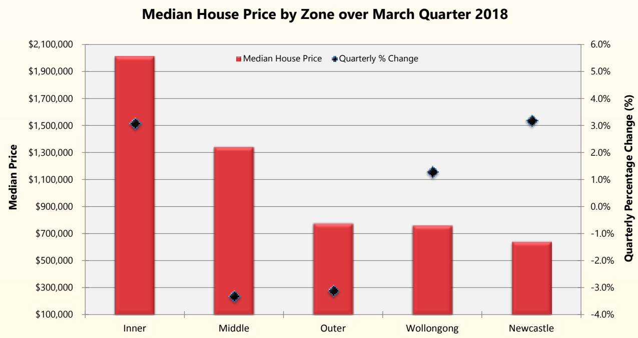

Chart 21– Median House Price by Zone – Source : REIA / PRP Research

Sydney's inner areas saw median house prices increased by 3.1% over the quarter, but decrease by -4.3% over the year to $2,010,000 whilst middle and outer Sydney experienced a decrease of -3.3% and -3.1% over the same quarter.

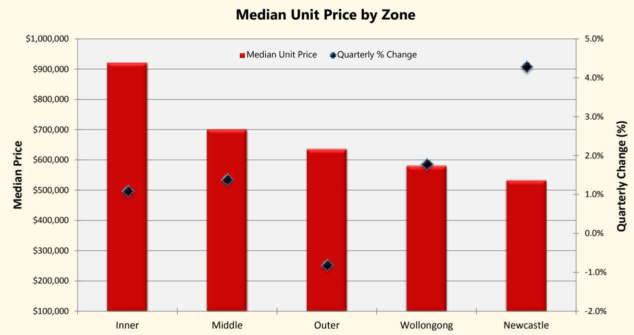

Chart 22 – Median Price for Unit Dwellings by Zone – Source : REIA / PRP Research

Dwelling units such as apartment units and townhouses in Sydney also experienced a quarterly decline recording a decrease of -0.5% in median unit price, to $740,000. While inner Sydney areas experienced a slight increase of 0.2%, both middle and outer Sydney areas experienced negative quarterly changes of -2.4% and -0.5%. Inner and Middle Sydney saw negative year on year decreases, showing1.4% and -1.7% declines in median prices to reach $921,000 and $688,000. This is in contrast to Sydney's outer regions where the annual change of median price is still positive (+2.4% to $635,000) showing Outer Sydney residential market's resilience for unit dwellings.

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Rental Market

Over the March 2018 quarter, the median rent price for houses in Sydney saw an overall positive change. Sydney's outer areas performed best in the 2 bedroom house category recording a +2.6% change over the quarter or +2.6% over the year to $390 weekly. This is followed by Sydney's inner areas with a quarterly change of +1.0% or +2.4% annually to $747.5 a week. On the other hand, Middle Sydney recorded no change in its median rent price for both 2 and 3 bedroom houses, remaining at $500 and $600 a week. The three bedroom house category in Sydney performed modestly compared to the 2 bedrooms. Inner Sydney recorded a decline of -1.8% in weekly median rent price to $962.5 per week over the quarter, however, it is noted that its annual change remains positive at +1.3%. Additionally, Sydney's outer region recorded no quarterly change in the median rent for 3 bedroom houses but year on year, it increased by +2.2% to $460 weekly.

Sydney's unit dwelling rents performed considerably well over the twelve months to March 2018. Rents of one bedroom units in Inner Sydney remained at $550 a week over the year whilst its' two bedroom unit rents increased by +0.7% to $700 weekly. Both one and two bedroom units in Sydney's middle and outer areas recorded positive changes. Over the year, weekly rent for one bedroom units in Middle and Outer Sydney increased by +4.3% and +5.0% to $480 and $420. Similarly, weekly rent for two bedroom units in Middle and Outer Sydney increased by +4.0% and +2.2% to $520 and $460 over the same period.

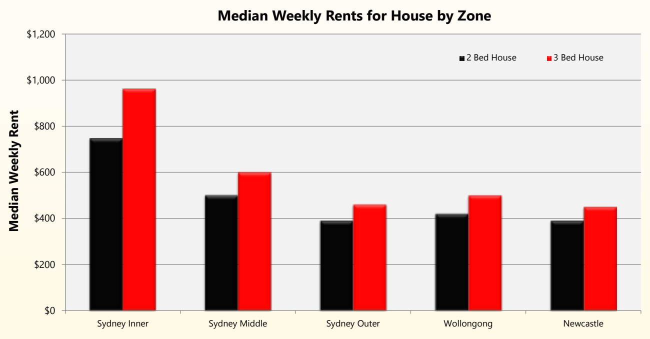

Chart 23 – Sydney Median Weekly Rents for House by Zone – Source : REIA / PRP Research

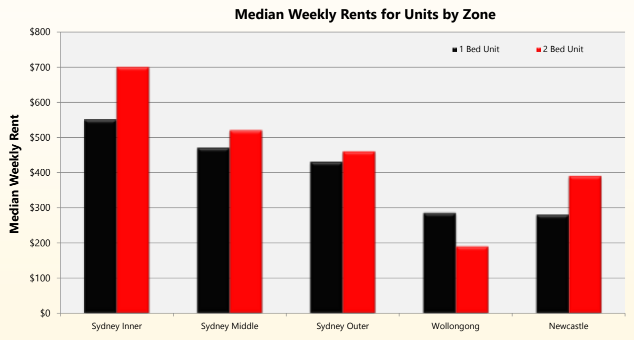

Chart 24 – Sydney Median Weekly Rents for Units by Zone – Source : REIA / PRP Research

Residential Vacancy Rates

The overall residential vacancy rate in Sydney increased by 0.3% to 2.7% over the month to June 2018. The vacancy of all zones in Sydney increased over the year. The highest incline was seen in middle areas of Sydney with a year on year increase of 1.6% to 3% vacancy, followed by outer Sydney (+0.7% to 2.4%) and inner Sydney (+0.6% to 2.8%). The construction boom of 2015-2017 has seen an oversupply of dwellings hit the market, pushing up vacancies, however, Sydney's vacancy rate remains lower than most of Australia's other capital cities.

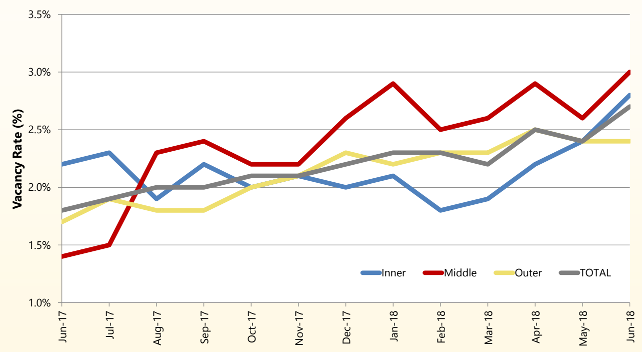

Chart 25– Sydney Vacancy Rates – Source : REINSW / PRP Research

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NEWCASTLE

Market Affordability

In Newcastle, the median house price jumped 14.3% over the year to March 2018, including a 3.2% increase over the quarter to $640,000. Meanwhile, although the median price for units in Newcastle recorded a negative -2.7% quarterly change, the annual change still recorded a positive +7.6% increase to $535,000. There were 156 recorded sales over the quarter, with median prices of the lower quartile at $415,000 and the upper quartile at $712,000.

Rental Market

Units performed better than houses in terms of rents over the year to March 2018 indicating higher tenant demand for units than for houses in Newcastle. The two and three bedroom houses in Newcastle recorded a +2.6% and +4.7% to $390 and $450 whilst 1 and 2 bedroom units in Newcastle saw a jump of +7.1% and +8.1% to $300 and $400.

WOLLONGONG

Market Affordability

Over the March quarter, Wollongong's median house price increased by +1.3% to $760,000. Units on the other hand recorded a decline of -2.6% over the quarter to $571,300. However, this price still reflects a positive yearly change of +7.6%. There were 155 transacted unit sales recorded by the REIA over the quarter, with median sale price of the lower quartile at $415,000 and the upper quartile at $712,000.

Rental Market

The median weekly rent for houses in Wollongong shows a year on year increase of 2.4% for 2 bedroom houses and 1.0% for 3 bedroom houses. As for units in Wollongong, the median weekly rent for 1 bedroom units increased by +7.1% to $300 and 2 bedroom units increased by 3.9% to $395 per week.

LUXURY RESIDENTIAL INVESTMENT ACTIVITY

Levels 27 & 28, 12-22 Langston Place, Epping, NSW 2121

A local buyer has paid **$2.75 million** for an off-the-plan penthouse. The apartment is set over two levels with 3 bedrooms, 3 bathrooms and enjoys views to the CBD and Harbour Bridge. The apartment will occupy the highest position of The Langston's three-tower, mixed-use development. It is situated 50 metres from Epping Station, set to soon begin metro train services. The apartment set a **record rate of $16,975 psm lettable area**, amid concerns of an oversupply in the area. Epping is located 19 km north west of Sydney's CBD.

6-8A High Street, Millers Point, NSW 2000

Property NSW has sold one of its last remaining apartment buildings opposite Barangaroo Reserve for **$5.56 million**. The building contains four two-bedroom apartments that range from 102 to 109 sqm in area. The apartments require major restoration work, however all works conducted will have to be sympathetic to the building's current design due to heritage listing. The position offers views over the harbour towards Balmain and Pyrmont, which are uninterrupted and unable to be built out. The block was sold to a private investor at a **rate of approximately $13,175 psm lettable area**.

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RESIDENTIAL DEVELOPMENT

138-152, Victoria Road, Rozelle, NSW 2039

With financial support from Chinese and Malaysian groups, the **former Balmain Tigers Leagues Club** has been picked up by Chinese developers *Hewood* for **$65.62 million**. *Rozelle Village* offloaded the site after years of refused development applications, public scrutiny and legal battles, whilst the new owners may have inherited more of the same issues, due to the NSW Government considering a compulsory acquisition of the site for further tunnel projects. Malaysian based infrastructure and real estate investors *Mulpha* provided finance for *Hewood,* in the absence of traditional lending sources. The 7,330 m2 site sold at a **rate of $8,952 psm**. Rozelle is located 4.4 km west of Sydney's CBD.

159 Allen Street, Leichhardt, NSW 2040

Developer **Desane Group** has purchased an inner-city warehouse site, slated for 50 new apartments, for **$21 million**. The group join Chinese developers Changfa in the master-planned Allen Street precinct, mentioning the inner-city location and undersupply of new homes in the area as key factors that will boost the project's appeal to prospective purchasers. The sale was done at a rate of **$420,000 per unit site** and a **land rate of $7,521 psm**. Leichhardt is positioned 6 km south west of Sydney's CBD.

11-17 Gladstone Parade, Lindfield, NSW 2070

Truslan Group, a Chinese developer, has paid **$17.5 million** for a medium density housing development site on Sydney's north shore. The developer plans to turn the 3,415 sqm site into 21 townhouses. *Truslan* has over 100 townhouses in the supply pipeline located on the north shore, favouring them over apartments due to strong remaining demand for townhouses, low presale risk and lower construction costs. The sale shows a **rate of $833,333 per unit site** and **$5,124 per sqm site area**. Lindfield is located 12.5 km north west of Sydney's CBD.

51 Terry Road, Rouse Hill, NSW 2155

Developer *Poly Australia* will forego an existing DA for apartments to instead build townhouses on a 3.68 hectare site recently purchased from *Ingenia Communities* for **$22.9 million**. *Poly* takes the view that there is room in the market for a product in in between apartments and the traditional family home in the booming north west region. They will offer 138 three to four bedroom townhouses and include community facilities such as a pool, gym, function centre and shared barbeque areas. The sale reveals a **per townhouse site rate of $168,942** and a **land area rate of $622 psm**. The site sits less than 1 km from the future Tallawong Metro station, whilst Rouse Hill is positioned 41.2 km north west of Sydney's CBD.

248-264 Woodville Road, Merrylands, NSW 2160

Demand for outer-western Sydney apartments will be put to the test in coming months as *Elanor Investors Group* sell off a development site, with approval for 540 apartments and retail and commercial space, for a hefty sum of **$36 million**, double the book value *Elanor* had assigned to the property. An unnamed purchaser acquired the 2.4 hectare site, south of Parramatta,

SPECIALIZED PROPERTY MARKET

650-652 Hoxton Park Road, Hoxton Park, NSW 2171

A *Vietnamese investor* has acquired the **Hoxton Park Service Centre** for **$13.88 million**, the largest service station deal in NSW so far in 2018. The centre is positioned on the corner of two main carriageways, on a 7,242 sqm site near the M7 freeway. It is fully leased to a **Hungry Jacks, Shell Service Station & Coles Express Convenience Store,** and a **Coles Car Wash** for a net rental of $781,313 per annum. The deal was struck on a **5.6% passing yield** and at a **rate of $1,917 psm site area**. Hoxton Park is located 42.5 km south west of Sydney's CBD.

6 Clarendon Street, Artarmon, NSW 2064

A multi-level childcare centre on Sydney's north shore has sold for **$21 million,** the largest single tenanted childcare sale in Australia. The property has a new lease in place to national operator **Affinity Education Group** for 10 years with options until 2052. This lease currently generates $1,260,000 net per annum with 3.5% fixed increases, showing a **net yield of 6%.** The modern building, which carries depreciation benefits, has the capacity to hold 210 places. The sale shows a **rate of $100,000 per placement**. Artarmon is located 9.2 km north west of Sydney's CBD.

13-23 Gibbons Street, Redfern, NSW 2016

Singaporean developer, *Wee Hur*, has secured a site for its first Sydney-based student housing project in **a $52 million** deal. The site currently contains a 32-apartment strata complex, of which all owners agreed to sell. The 1,365 sqm corner site is well located to a number of educational facilities such as Sydney University, University of Technology and University of Notre Dame. It has an FSR of 7:1 and a maximum height restriction of 18-levels, allowing *Wee Hur* to press on with a 515-bed development. The sale reflects a **rate of $100,971 per proposed unit**, or a **land rate of $38,095 psm**. Redfern is located 2.9 km south west of Sydney's CBD.

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HOTELS & LEISURE MARKET

53 Railway Street, Griffith, NSW 2680

The **Quest Apartment Hotel** in Griffith has changed hands for **$15.25 million**. *Railway Street Holdings* sold the 4.5 star, 40 apartment hotel which opened in November 2016. The hotel's value is underwritten by a long term lease to **Quest Hotels** which finished in 2031 with options until 2046 and with 4% fixed annual increases. Currently renting for $1.12 million per annum, this sale was done on a **7.34% yield** and reflects a **rate of $381,250 per room**. Griffith is located 597 km west of Sydney.

2-8 Sarah Street, Mascot, NSW 2020

An industrial site next to Sydney Airport with DA approval for hotel construction has sold for a sum of **$12.2 million**. A private hotel developer and operator bought the 1,498 sqm site. The DA permits construction of an 8-level, 169 room hotel containing a gym, business centre and a 'sky bar'. It sold with a **site rate of $8,141 psm** and **$72,189 on a per room site basis**. Mascot is located 7 km south of Sydney's CBD.

345 Parramatta Road, Leichhardt, NSW 2040

Marvan Hotels has disposed of inner-west pub, the **Bald Faced Stag** for a price of **$7.98 million**. The 1,300 sqm property is a popular live music venue and includes a ground floor bar, beer garden and 11 hotel rooms on the first floor. The property sold on a **rate of $6,138 psm site area**. Leichhardt is located 6 km south west of Sydney's CBD.

19A Morehead Street, Lambton, NSW 2299

A suburban corner pub in Newcastle's western suburbs has been picked up by *Riversdale Group* for **$5.9 million**. The **Lambton Park Hotel** comes with 15 EGMs, eight unused hotel rooms and outdoor dining for 36 patrons. *Riversdale Group* offer hospitality and music focussed venues in Sydney and Brisbane. A consortium of investors offloaded the 1,039 sqm site, fetching a price equivalent to **$5,679 psm site area**. Lambton is located 8 km west of Newcastle's CBD.

PROPERTY FUNDS & CAPITAL RAISINGS

50 Bridge Street, Sydney, NSW 2000

Super fund *Rest* have taken a one-third, **$900 million position** in *AMP Capital*'s mixed use development **Quay Quarter Tower**. The $2.7 billion project on the banks of Circular Quay is designed by Danish architects 3XN and will feature five stacked sections with varying aspects to maximise sunlight and views to its apartments and offices. The deal is thought to have been done on a **sub 4.75% return**. Multiplex have begun developing the 50-storey building this month, of which AMP will take a one-third anchor tenancy upon completion in late 2021.

Preston Rowe Paterson
International Property Consultants

ECONOMIC FUNDAMENTAL

Gross Domestic Product

Australian economic growth has picked up its growth pace, growing by a seasonally adjusted 1.0% in the quarter to March 2018 or year on year of 3.14%. This is a step up from the December 2017's 2.38% year on year. The economic growth was driven by the growth in exports, non-mining business investment and population demand. Consumption growth however, was more subdued. Private non-mining business investment increased 10% over the year to March 2018 led by building construction. The main contributor to this growth was non-residential construction activity led by work on commercial offices, consistent with the strong tenant demand and short supply in Sydney and Melbourne. The construction of hotels and age care facilities has also contributed to the overall growth.

The growth in household spending was modest at 0.3% with growth in goods consumption increasing over the year. Although the expenditure of the clothing, furnishing and recreational goods category were struggling over the previous quarter, it has improved and is now supporting the overall household spending. Nonetheless, household spending remains the source of uncertainty for the growth outlook. The prospect of continued low growth in household income remains a risk to the outlook for household consumption, especially with the high levels of household debt.

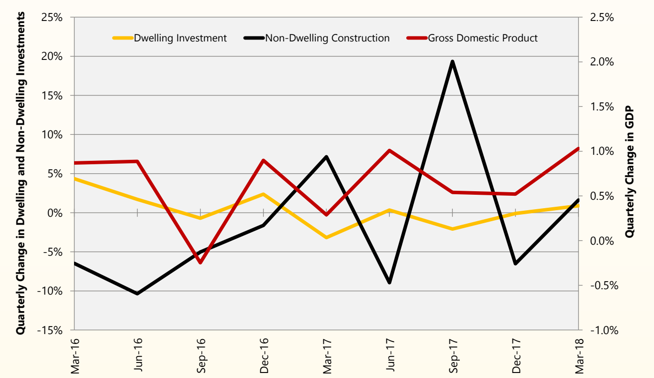

Chart 26— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

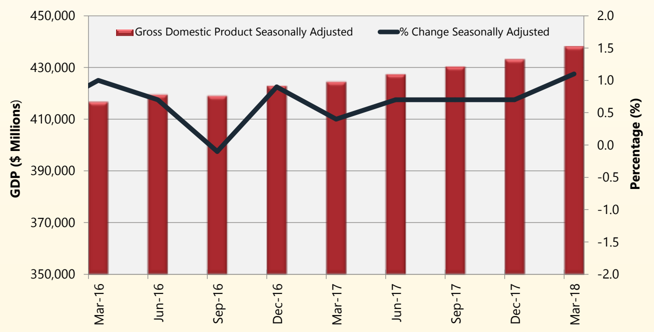

Chart 27— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

Consumer Price Index

Over the three months to June 2018, Australia's Consumer Price Index (CPI) increased by 0.4%, bringing the inflation rate to 2.1% over the last twelve months. Over the quarter, strong increases stemming from health sector (+1.9%), transport (+1.6%), alcohol & tobacco (+1.6%), and clothing & footwear (+1.3%) were offset by the declines in communication (-1.3%), recreation & culture (-0.4%) and food & non-alcohol beverages (-0.4%).

The CPI of all Australia's capital cities increased with Melbourne (+0.5%), Brisbane (+0.5%) and Adelaide (+0.5%) performing the best. While Perth is slacking behind, increasing by only 0.2% over the quarter, showing the slowest CPI growth amongst the all other capital cities in Australia.

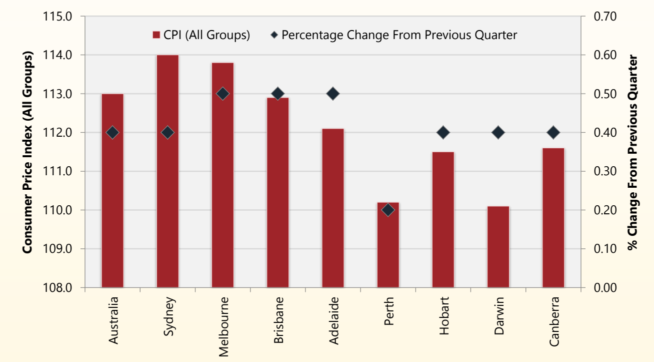

Chart 28—All Group CPI (Capital Cities) and Percentage Change — Source: ABS

Business Sentiment

The Monthly Business Survey June 2018 released by National Australia Bank (NAB) reported that business confidence index declined by 1 point to +6 points. The index remains on the historical average with the highest confidence in the Mining and Construction industries while Recreation & personal services remain the lowest. Across the states, confidence is highest in Queensland and Western Australia, both at +12 index points followed by South Australia at +10 index points. On the other hand, confidence in NSW and Victoria continues to lag the other states at +5 and +4 respectively.

NAB's business conditions index rose modestly by 1 point, to +15 points with South Australia (+19 index points) and Tasmania (+18 index points) while Western Australia lagging behind the other states at +9 index points. Although the mining industry saw a sharp decline through the month, in trend terms condition, it remains the strongest.

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Consumer Sentiment

According to the Westpac-Melbourne Institute survey on consumer sentiment, the overall Consumer Sentiment Index increased from May's index of 101.8 to June's index of 102.1. The index is still above the long-term average of 101.5 points, albeit still below January's reading of 105.1, reflecting the market volatility having been partially offset by new concerns about longer term prospects for the domestic economy.

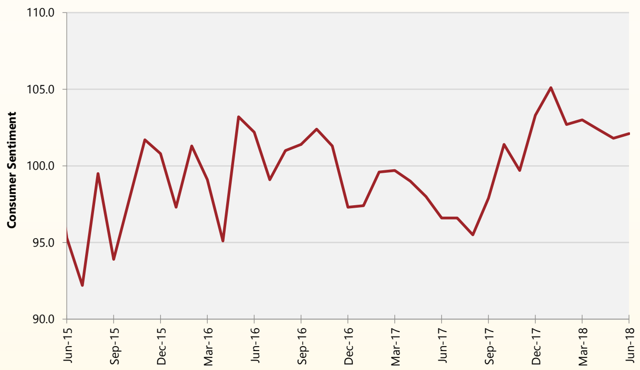

Chart 29—Consumer Sentiment Index —Source: Westpac Melbourne Institute Survey

	Jun 2018	May 2018	Jun 2017	Jun 2016
Consumer Sentiment Index	102.1	101.8	96.2	102.2
Family finances vs. a year ago	86.7	83.0	81.4	90.3
Economic conditions next 12 mth	101.5	104.5	91.3	97.9
Time to buy a dwelling	105.7	101.1	90.9	103.7

Table 6—Consumer Sentiment —Source: Westpac Melbourne Institute Survey

Interest Rates

Although global economic expansion is continuing with a number of advanced economies growing at an above-trend rate and unemployment rates low, the board has kept the cash rate at record low of 1.50 per cent for the 21st-consecutive month. The board has several considerations concerning moving the cash rate including the slowing growth in China and the uncertainty in global outlook from the international trade policy in the United States.

The Bank's central forecast for the Australian economy remains unchanged. GDP growth is expected to average a bit above 3 per cent in 2018 and 2019.

One continuing source of uncertainty is the outlook for household consumption. Household income has been growing slowly and debt levels are high. Australia's terms of trade have increased over the past couple of years due to rises in some commodity prices. The Australian dollar remains within the range that it has been in over the past two years, correlating to the stagnant position of the cash rate.

Employment growth continues to be faster than growth in the working-age population but wage growth remains low. Over the past year, the CPI increased by 2.1 per cent, and in underlying terms, inflation was close to 2 per cent.

Sydney and Melbourne's housing market conditions have continued to ease and nationwide measure of rent inflation remains low. Housing credit growth has declined to an annual rate of 5.5 per cent, largely due to reduced demand by investors as the dynamics of the housing market have changed.

The low interest rate environment continues to support the Australian economy. The RBA Board believe that holding the stance of monetary policy unchanged would be consistent with sustainable growth in the economy and achieving the inflation target over time.

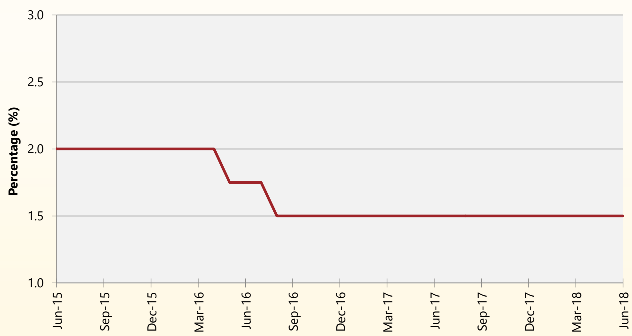

Chart 30— Movement of the Cash Rate — Source: RBA / PRP Research

10 Year Bond & 90 Day Bill Rate

Through the June 2018 quarter, the 10-year bond yield increased in the US by 11 basis points but marginally slipped by 2 basis points in Australia. The Australia-US 10 year bond spread widened by 13bps to -15bps.

A differing monetary policy stance in Australia to the US has already pushed US 10 year bond rate higher than Australian 10 year bond yield for the first time since 2008.

The Australian 90 Day Bank bill rates ceased climbing and eased back from their peak of 2.08% in April by 2bps to 2.06%. It then fell back below 2% on May, hitting a low of 1.90% before rebounding back to 1.96%. In June, the Australian 90 Day Bank Bill rate climbed back above 2%, closing at 2.07% at the end of the month.

From January to June, the 90 Day Bank bill swap rate had increased by 28 basis points and as at the end of June, Australia's bond yield stood at 2.07%, 35 basis points higher than twelve months prior.

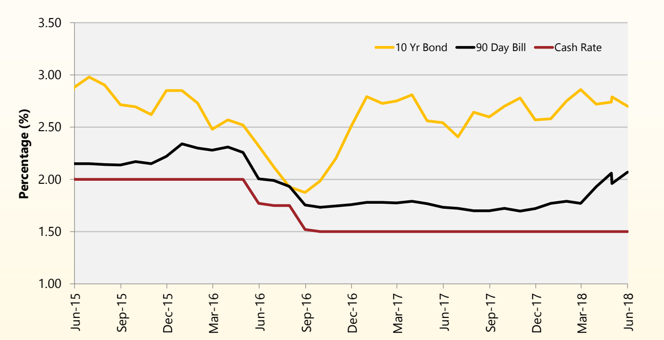

Chart 31— Monthly movement of 90-day Bill, 10-year bond yields and Cash rate — Source: RBA

Unemployment

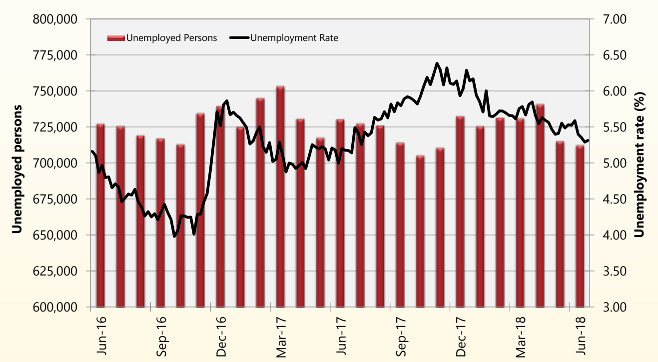

Chart 32— Unemployment Persons and Unemployment Rate— Source: ABS / PRP Research

Australia's employment growth had been a little above the average over the first six months of 2018, although slower than the rate in 2017. The seasonally adjusted unemployment rate in Australia remains unchanged at 5.4% over the month to June. This figure shows a slight decrease of 2 basis points over the quarter.

Over the month, the Australian employment participation rate increased by 2 basis points to 65.7 per cent. The employment to population ratio in Australia increased by 3 basis points over the month and 7 basis points over the year to 62.3 per cent.

	Unemployment Rate (%)			Participation Rate (%)		
	May	June		May	June	
Australia	5.4	5.4	—	65.5	65.7	▲
New South Wales	4.9	4.7	▼	64.8	65.1	▲
Victoria	5.1	5.6	▲	65.6	65.7	▲
Queensland	6.2	6.0	▼	65.7	65.8	▲
South Australia	5.6	5.4	▼	62.9	62.8	▼
Western Australia	6.3	6.1	▼	68.6	68.5	▼
Tasmania	6.6	5.9	▼	61.3	61.3	—
Northern Territory*	4.1	4.1	—	76.7	77.0	▲
Australian Capital Territory*	3.7	3.6	▼	70.9	70.7	▼

Table 7— Unemployment Rate and Participation Rate — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly

Exchange Rate

Over the month to June 2018, the Australian Dollar depreciated against most major currencies, including the US Dollar (-2.3%), UK Pound (-0.8%), Euro (-2.0%) and Japanese Yen (-0.6%). As at the end of March, $AUD1.00 equated to $USD0.74, £0.56, €0.63, ¥81.82 and $NZD1.09.

The Australian Dollar is down -3.91% against the green-back when compared to June 2017 figures. The Australian Dollar is affected by the escalating trade war tensions between the US and China adding to concerns over emerging markets. The unexpected strengthening of the US economy and the increased support for the US dollar was also playing a part in the Australian Dollar's weakness.

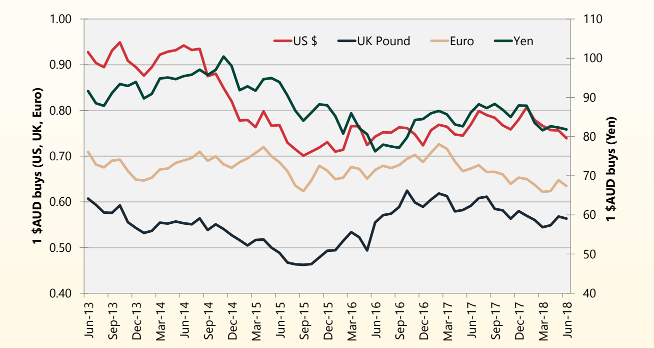

Chart 33— Movement in Exchange Rate — Source: RBA / PRP Research

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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

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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
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- Residential development projects
- Residential dwellings (individual houses and apartments/units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
- Infrastructure

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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
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- Hotel owners and operators
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- Insurance brokers and companies
- Investment advisors
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- Property Syndication Managers
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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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- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
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- Income and outgoings projections and analysis
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