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International Property Consultants

Property Market Report

New South Wales

September Quarter 2018

HIGHLIGHTS

- The Sydney CBD primary office market recorded high net absorption throughout the period indicating saturation of demand in prime stock.
- The trend in higher discretionary spending continues, encouraging retail centres to focus on food, entertainment, leisure and service.
- Supply in the industrial market continues to be outstripped by demand, as industrial zoned land remains scarce.
- Sydney's residential market softened further over the June quarter 2018 with inner areas of Sydney recording the largest fall for both house and unit median prices.

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COMMERCIAL OFFICE MARKET

Sydney CBD

Stock withdrawals and the lack of rental options constrained the net absorption figures in the Sydney CBD office market. Primary grade offices recorded a net absorption of 44,931 square metres, however, this figure is offset by the secondary office net absorption (-35,442 sqm) bringing the total net absorption over the past twelve months to only 9,489 square metres as of July 2018. The high net absorption of prime grade stock suggests that demand is concentrated in prime grade office stocks.

The Sydney CBD's secondary office stock shrunk nine per cent over the past two years as withdrawals continue to surge. Thus, options available for prospective tenants are limited.

The Property Council of Australia's July 2018 Office Market Report recorded nine properties in Sydney CBD under refurbishment through the six months to July 2018. Five of which are full refurbishments and two have been recently completed (Lawson Place and IBSA House). The remaining three will add 23,598 sqm to the office market when completed. However, majority of these refurbished space are pre-committed thus have little to no effect on vacancy.

Vacancy Rates

Vacancy rates in the Sydney CBD office market continue to decline over the six months to July 2018 by 0.2% to 4.6%. Over the same period, direct vacancy fell by 0.1% to 4.4% while sublease vacancy remained at 0.3%. Despite the negative net absorption in secondary offices, all grade vacancy fell except for A Grade offices, rising by 0.9% to 4.6%.

Refurbishment Sites

Project Name	Address	Refurbishment Type	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
Lawson Place	167 Philip Street, Sydney	Full	Complete	NRMA Insurance Ltd (50%) / Mirvac Group (50%)	4,090	Q1 2018
IBSA House	2 Bligh Street, Sydney	Full	Complete	Bent Holdings Pty Ltd	4,692	Q2 2018
Charles Plaza Building	66 King Street, Sydney	Full	Construction	PJP Properties Pty Ltd	6,321	Q3 2019
345 George Street	345 George Street, Sydney	Partial	Construction	ISPT	1,244	Q3 2018
Roden Cutler House	24 Campbell Street, Haymarket	Full	Construction	Ausgrid	14,860	Q3 2019
Nelson House	283-285 Clarence Street, Sydney	Full	Construction	Ausino Properties Pty Ltd	1,878	Q1 2019
Darling Park Tower 2	201 Sussex Street, Sydney	Partial	Complete	The GPT Group (50%) / Brookfield Australia (30%) / AMP Capital (20%)	35,227	Q2 2018
Cue Design	222 Clarence Street, Sydney	Partial	Construction	Cue Design Pty Ltd	1,829	Q4 2018
Lumley House	309 Kent Street, Sydney	Partial	Construction	Dexus Property Group (50%) / AMP Capital (50%)	3,192	Q1 2019

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

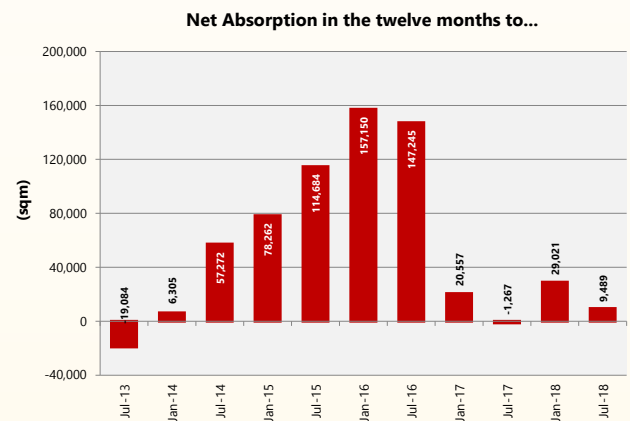


Chart 1 – Sydney CBD Net Absorption – Source : PCA / PRP Research

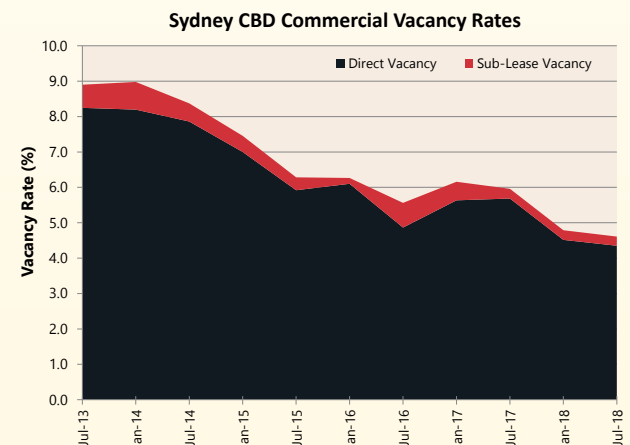


Chart 2 – Sydney CBD Office Vacancy – Source : PCA / PRP Research



Investment Activity

80 Dixon Street, Haymarket, NSW 2000

A D-grade mixed-use commercial building in the heart of Chinatown was sold to a private Singaporean investor for **\$61 million**. The building known as **Dixon House** features an iconic, long-standing Asian food court by the same name on the lower ground floor, arguably Sydney's premier Asian food court. Asian investors, particularly those from Singapore, have been driving down commercial yields in Sydney in recent times, with this property posting a sharp **3.6% return**. The main activity is coming from high net worth individuals and families, being directed into A-B grade properties. Dixon House sits on an 871 sqm site that has mixed use zoning, allowing for a 50 metre high building with both commercial and residential potential. Its current configuration has a basement food court, three levels of shops and two levels of commercial suites, totalling 2,490 sqm of floor area. The deal reflects a **rate of \$24,498 per metre of lettable area**.

275 George Street, Sydney, NSW 2000

Japanese investors have acquired a commercial development for **about \$240 million**. The sale comes in the midst of record low vacancy rates and short supply of stock on the market. The development is for an A-grade tower with three floors of retail and 14 levels of quality, modern, office space including end of trip facilities, clear span floorplates and a 5-star NABERS Energy Rating. It will contain 7,400 of NLA on a prominent corner lot upon completion in 2020. It sold to *Daibiru Corporation* on a **record cap rate** for A-grade CBD property, registering **4.5%**. Vendor *John Holland* will retain development management rights over the construction period. This sale generates a **rate of \$32,432 psm of lettable area**, likely inflated as a result of the large retail component of the property. The site is located in the city core precinct of Sydney's CBD.

400 Kent Street, Sydney, NSW 2000

Credit Suisse has doubled their initial investment on a western-corridor commercial asset, selling it to a private Hong-Kong based family fund for **\$120 million**. The 11-storey, A-grade building was picked up in 2014 by Credit Suisse for \$58 million from Charter Hall. After securing a solid 14.7-year lease from **Central Queensland University** this year, Suisse decided to capitalise on the short supply of quality investments on the market and divest the asset. The sale was done on a **yield of 4.5%**, reflective of a persistently tight market in the CBD. *Longbow Holdings* picked up the 10,041 sqm building with 420 sqm of retail and 10 basement parking spaces on a **rate of \$11,471 psm of lettable area**.

Leasing Activity

Level 14, 383 Kent Street, Sydney, NSW 2000



Bond & Credit Co will take over from FXCM Forex Trading at level 14 of a western-corridor office building. FXCM vacated the 334 sqm space due to an outsourcing of internal workers, leaving *Bond & Credit Co* the opportunity to occupy the space. They will rent the area, which comes with an existing fitout, for **five years** at a **gross annual rent of \$980 psm lettable area**, or **\$327,320 per annum**.

171 Sussex Street, Sydney, NSW 2000

Financial technology firm *Autumn Compass* will move into **One Wharf Lane**, having signed a new **five-year** lease for a 480 sqm office space. The group will pay **\$1,050 per sqm** for the space, equating to **\$504,000 net p.a.** The newly constructed building has views over Darling Harbour and is in a thriving part of the Sydney CBD, with Barangaroo, the Convention Centre and the new Hyatt Regency sparking life into the region. [One Wharf Lane is proudly managed by Preston Rowe Paterson.](#)

285A Crown Street, Surry Hills, NSW 2008

Intercom Software Australia has taken a lease over a city fringe commercial premise previously occupied by Afterpay. The group will pay **\$1,027 gross psm lettable area per annum** for the 495 sqm space for the next **four years**. The two level building is positioned on a prominent corner of a thriving cultural scene full of popular bars, restaurants and cafés, whilst the space itself features an open-plan layout, full kitchen facilities and external balcony space. It comes fully fitted out for approximately 45 workers, meaning a **rental cost per worker of \$12,897 per annum**. The deal equates to a **gross annual payment of \$508,365 per year** to landlords *LaSalle Investment Management*. Surry Hills is located 1km south of Sydney's CBD.

15/19 Martin Place, Sydney, NSW 2000

Legal Firm BN Law has found a whole floor of office space in the MLC Centre for **\$900 gross psm lettable area per annum**. The space comes fully furnished with a "modern legal fitout", including workstations, meeting rooms and a kitchen. The 1,141 sqm space was sub-leased by TressCox Lawyers, who merged with HWL Ebsworth Lawyers in February. The parties signed a **four-year lease** deal at approximately **\$1,026,900 gross per annum**.

North Sydney

The annual net absorption in North Sydney's office market is negative for the second consecutive semi-annual period at -10,325 sqm on July 2018 following January 2018's figure of -3,898 sqm. The continued decrease in net absorption is largely attributed to the withdrawals of B Grade offices (-13,552 sqm) offsetting the net absorption of primary grade offices that remained positive and healthy at 11,304 sqm.

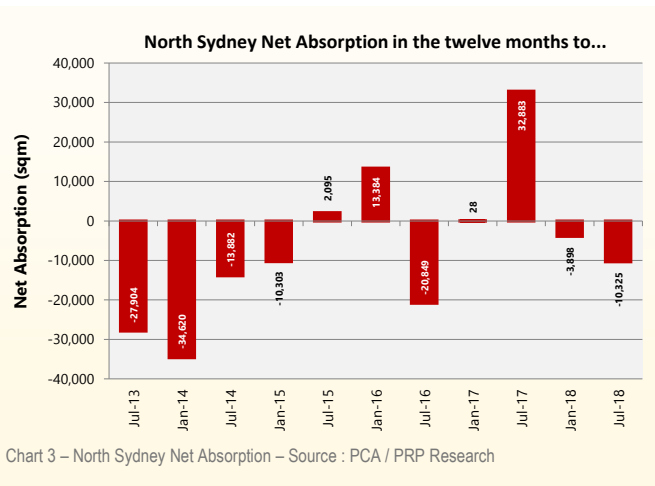


Chart 3 – North Sydney Net Absorption – Source : PCA / PRP Research

Vacancy Rates

The flow of demand from Sydney CBD drove vacancy rates in North Sydney down, underpinned by several large corporation migrating to North Sydney from neighbouring markets, including Allianz's IT division relocation from Sydney CBD to 101 Miller St (5,654 sqm) and Flight Centre moving from Chatswood to 60 Miller St (5,600 sqm). Direct vacancy rate in North Sydney fell by 1.3% to 5.7% over the six months to July 2018 whilst sub-lease vacancy remained at 0.6%. The decline in vacancy rate is mainly due to the tightening vacancy of prime offices over the period. Premium and A Grade offices recorded a low vacancy of 1.9% and 2.2%.

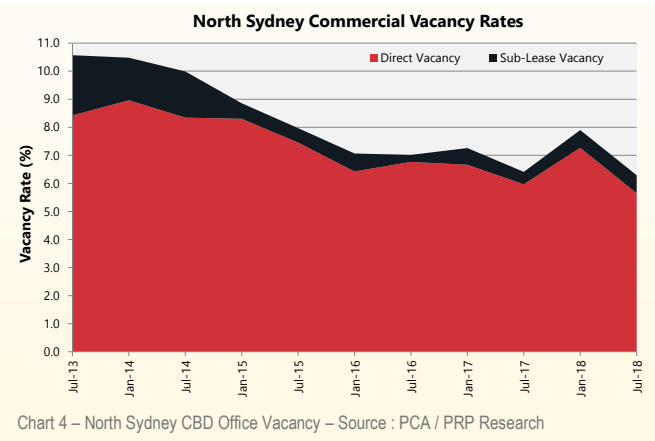


Chart 4 – North Sydney CBD Office Vacancy – Source : PCA / PRP Research

Crows Nest/St Leonards

For the first time since mid-2016, the Crows Nest and St Leonards office market saw a positive net absorption totalling to 2,244 sqm over the six months to September 2018. Net absorption by grade shows that 4,453 sqm of B Grade offices were absorbed over the same period while only 174sqm of A Grade offices absorbed. C and D Grade stock on the other hand, saw negative net absorptions of -1,471 sqm and -912 sqm respectively.

The Crows Nest and St Leonard office market continues to be dominated by secondary offices, accounting for 66.6% of the total market. Nonetheless, the supply pipeline in this area remains considerably modest with only 4,200 sqm to complete and 2,300 sqm mooted in 2019.

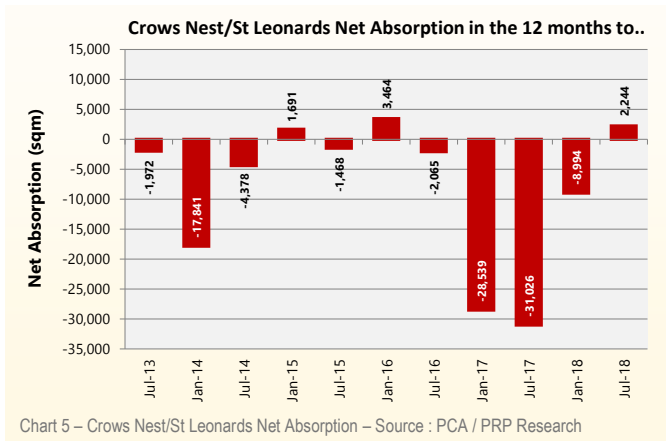


Chart 5 – Crows Nest/St Leonards Net Absorption – Source : PCA / PRP Research

Vacancy Rates

The overall vacancy rate in Crows Nest/St Leonard office market declined to 9.9% from 11.1% over the six months to July 2018. The tightening of vacancy rate is attributed to direct vacancy decreasing by 1.7% to 8.7% despite sub lease vacancy gained a modest 0.5% to 1.2% over the same period.

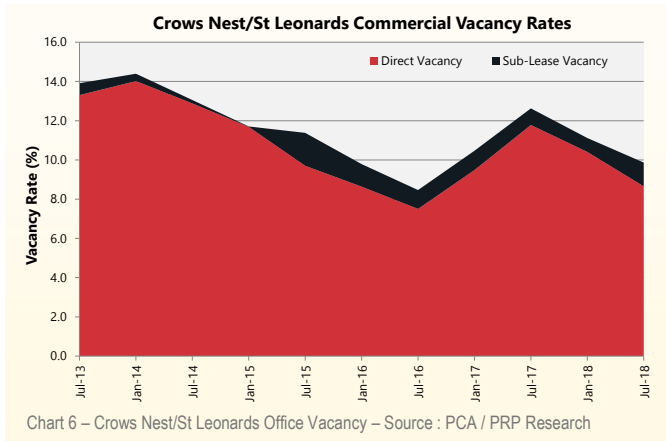


Chart 6 – Crows Nest/St Leonards Office Vacancy – Source : PCA / PRP Research

Chatswood

The Chatswood office market condition remained steady with no supply changes over the six months to July 2018. Growth in demand over the same period reflects a second consecutive period of positive yearly net absorption that has mostly stemmed from new market entrants from neighbouring metropolitan areas.

The net absorption by grade figures shows that higher office grades such as A & B Grade offices (174sqm and 4,453sqm) have higher demand than C and D Grade offices, recording negative net absorptions of -1,471 and -912 sqm.

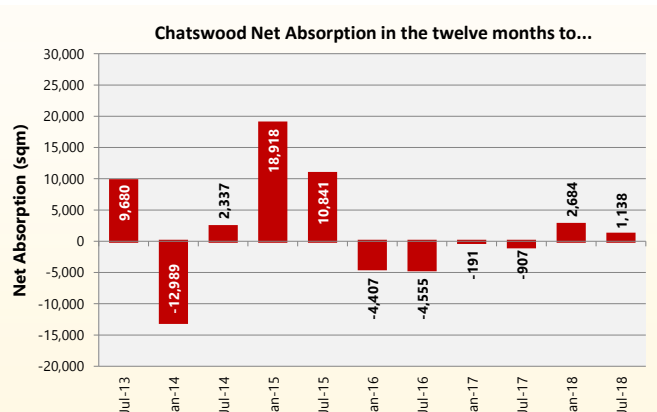


Chart 7 – Chatswood Net Absorption– Source : PCA / PRP Research

Vacancy Rates

The total vacancy rate decreased by 0.3% to 6.5% in Chatswood’s office market as sublease vacancy tightened by 0.3% to 0.2% in the six months to July 2018. On the back of continued employment growth, the Chatswood office market may see vacancy rate continue to tighten.

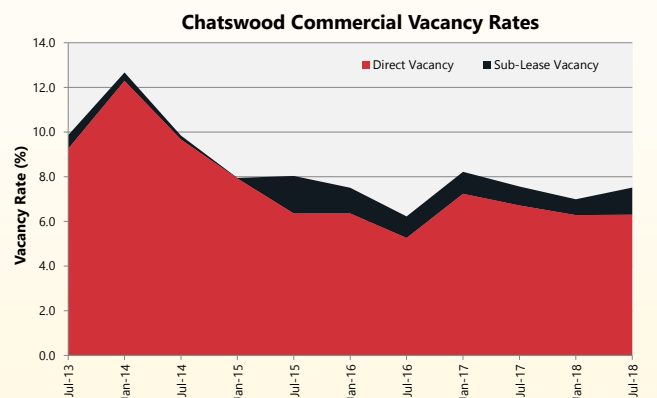


Chart 8– Chatswood CBD Office Vacancy – Source : PCA / PRP Research

North Ryde/Macquarie Park

The Macquarie Park and North Ryde office market recorded an annual net absorption of 21,379 sqm as of July 2018, which is the highest level of demand amongst metro markets and even outperforming the Sydney CBD (constrained by the lack of supply). The strong net absorption is driven by tenant expansion and relocation resulting in an overall positive net absorption for both primary and secondary offices.

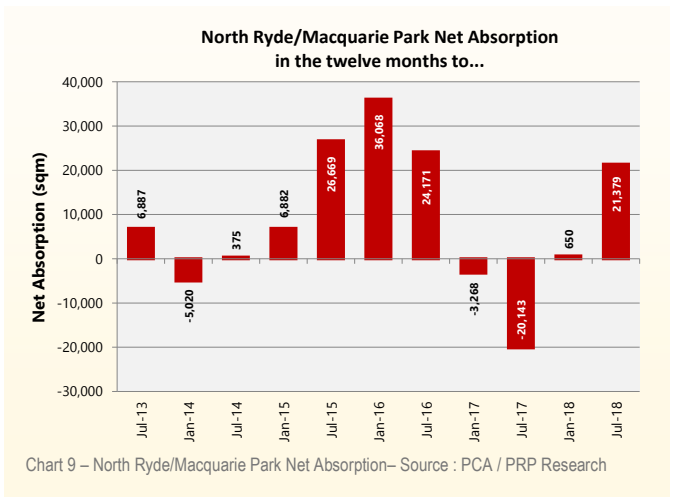


Chart 9 – North Ryde/Macquarie Park Net Absorption– Source : PCA / PRP Research

Vacancy Rates

The North Ryde/Macquarie Park office vacancy fell to its lowest recorded level of 5.4% over the six months to July 2018. Both direct and sublease vacancy in fell by 0.4% and 0.1% to 4.5% and 1.0% respectively. Vacancy is likely to remain low in this area with rising rents before stocks from new developments come online.

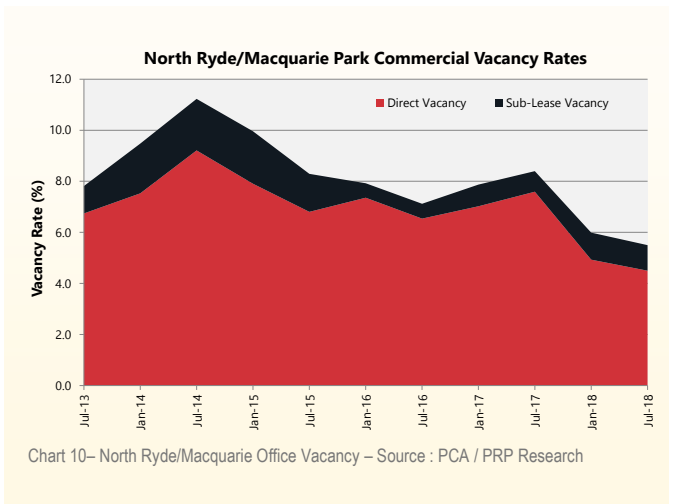


Chart 10– North Ryde/Macquarie Office Vacancy – Source : PCA / PRP Research

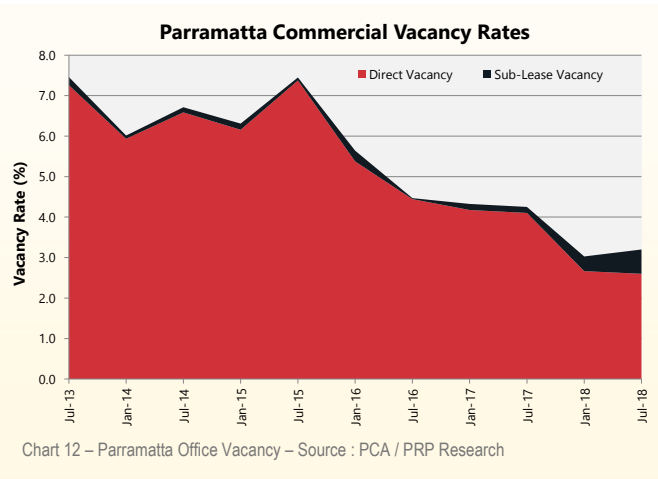
Parramatta

Parramatta office market is experiencing an increase in occupier demand as indicated by the past twelve months net absorption levels, recording positive levels for six consecutive periods. The demand in Parramatta offices stemmed from a combination of tenant relocation and expansion that resulted from employment growth. One of the main positive absorption contributor is the NSW Department of Education relocating from Sydney CBD to Parramatta, occupying the recently completed 105 Phillip Street (25,000 sqm).

The next coming office supply in Parramatta will be of Salvation Army's fully refurbished site on 426 Church Street that is expected to be completed in early 2019 followed by the completion of Stage 4 of the Parramatta Square development. Together, both will add 81,920 sqm to Parramatta's office market.

Vacancy Rates

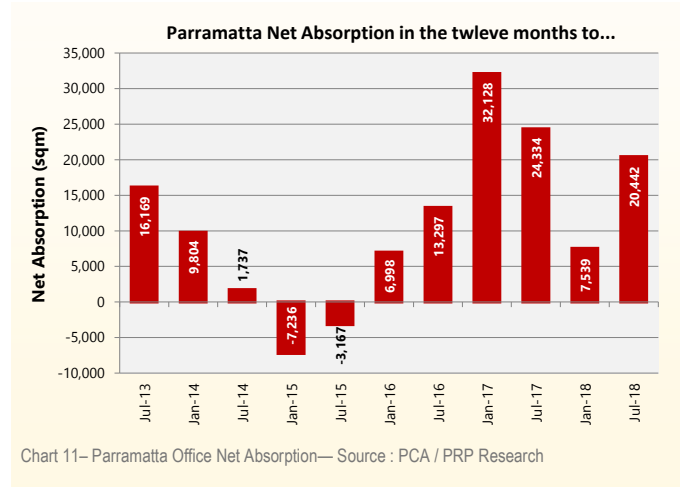
Parramatta office market recorded the tightest vacancy rate amongst other Sydney metropolitan areas at 3.2% despite a modest increase of 0.2% over the six months to July 2018. The withdrawal of lower grade offices and high demand kept overall vacancy in Parramatta low. Over the same period, direct vacancy tipped by 0.1% to 2.6% whilst sublease vacancy gained a modest 0.2% to 0.6%.



Refurbishment Sites

Project Name	Address	Refurbishment Type	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
	426 Church Street, Parramatta, NSW 2150	Full	Construction	Salvation Army	1,920	Q1 2019
10 Valentine Avenue	10 Valentine Avenue, Parramatta NSW 2150	Full	DA Approved	Australian Unity	9,000	Mooted

Table 2 – Refurbishment Sites around Parramatta – Source : PCA / PRP Research



Investment Activity

60 Station Street East, Parramatta, NSW 2150



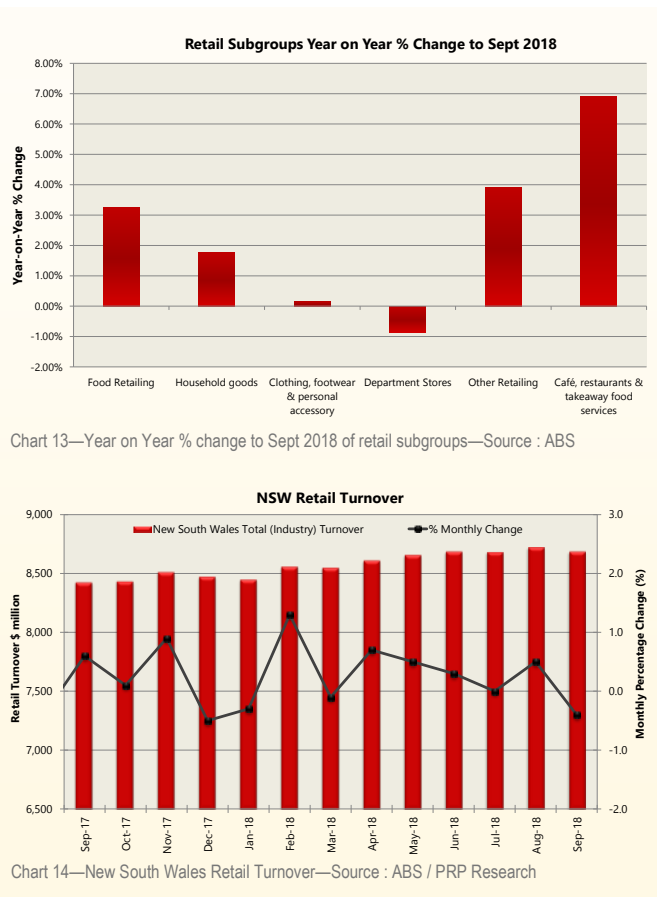
Super fund *Rest* has divested its A-grade, 23-storey commercial building in the heart of Parramatta for **\$277.6 million**. The decision was made to sell the asset after *Rest* recently invested a one-third stake in Quay Quarter tower in Darling Harbour for around \$900 million. *GPT Group* purchased the asset, with 25,700 sqm NLA, amidst a broader commitment to the Parramatta CBD, having just secured QBE Insurance as an anchor tenant for their 32 Smith Street development. **Eclipse Tower**, as it is known, is anchored by **Deloitte**, who have signage rights over the building, whilst **NSW Fair Trading** and **QBE Insurance** both have leases in the building to give the asset a WALE of 4 years. *GPT* secured the building on a **5.43% yield** and a **rate of \$10,802 psm of lettable area**. Parramatta is located 23 km west of Sydney's CBD.

RETAIL MARKET

Retail Statistics

The New South Wales retail turnover increased by a slight 0.002% over the quarter to September 2018. Food categories continues to perform best amongst other retail categories with Café, restaurant and take away services recording a +6.89% year on year change to \$1.359 billion on September 2018. Categories of discretionary goods such as household goods, clothing, footwear & personal accessories as well as department stores remained experiencing weak year on year performance.

Retail centres with a focus on convenience, food, entertainment, leisure and services performs best, driven by the prevailing trend of lower spending on discretionary goods. Anecdotal evidence also shows that small and conveniently located shops are becoming increasingly popular with a 74 sqm tenanted shop front in Chatswood sold at a tight gross yield of 5.06%.



Online Retail

The National Australian Bank (NAB) Online Retail Sales Index slowed by 0.4% to 0.3% over the month of September 2018, but indicating yearly increase of 15.7% down from the 16.7% on the same basis in August. NAB indicated that Australians spent an estimated \$28.1 billion online over the last twelve months to September 2018, equivalent to approximately 8.9% of the traditional bricks and mortar retail sector. Online spending market share has gone up by 0.5% from the 8.4% on the same basis in June 2018.

Investment Activity

2-22 Knox Street, Double Bay, NSW 2028

The retail portion of the **Cosmopolitan Centre** in Sydney's eastern suburbs is set for a makeover in an effort to catch up to rival Westfield Bondi Junction. Sydney developer and Double Bay resident **Eduard Litver** paid **\$40 million** for the property and plans to develop and rejuvenate the site into a world-class retail venue. The shops are currently let for a **combined annual net income of \$2,347,200**, giving this sale a **yield of 5.87%**. The leases in place are all to long-term, boutique tenants such as **Cosmo Café** and **Mecca Cosmetics**, however **Litver** will persevere with a development in the mould of his Pacific Bondi Beach mixed-use project as part of a planned resurgence of the area. The sale generates a **rate of \$17,460 psm lettable area**. Double bay is located 3.6 km east of Sydney's CBD

46 Old Barrenjoey Road, Avalon Beach, NSW 2107

The **Kopetko Family** have sold a Northern Beaches strip retail asset for **\$4.15 million**. The 576 sqm building contains two retail tenants; being a laundromat and a pizzeria, whilst there are office tenancies at the rear of the property. It is positioned approximately 400 metres from Avalon Beach, amongst the region's prime retail precinct. The tenancies generate a combined \$209,000 net income per annum, giving the purchaser a **5.04% net yield** on investment. It sold on a **rate of \$7,168 psm lettable area**. Avalon is located 37 km north of Sydney's CBD.

159 Parramatta Road, Annandale, NSW 2038

A mix of development potential and opportunity to increase rental income has seen a dated 'shop-top' terrace on Parramatta Road sell on a **2.5% yield**, at a price of **\$2 million**. The 313 sqm property has three month-to-month tenancies pertaining to a three-bedroom apartment, a two level office and a retail front leased to wedding dress shop, generating a combined \$50,823 net per annum. The purchase was done at a **rate of \$6,390 psm lettable area**. Annandale is 4.4 km south-west of Sydney's CBD.

123 Bunnerong Road, Eastgardens, NSW 2036

In a deal claimed to be in the top five largest single-asset retail transactions to occur in the Australian market, *Tower Terrace Group*, a creation of the *Saunders Family*, has sold a 50% stake in **Westfield Eastgardens** for **\$720 million**. It affirms 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 trying to re-weight their retail portfolios towards safer, more premium holdings that are 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.

24 Kokera St, Wallsend, NSW 2287



Stockland has shed the **Wallsend Shopping Centre** from their retail portfolio, with *Haben Property Group* picking up the asset for **\$81 million**, signalling a re-entrance of the group into the retail property investment scene after three years. The deal was made on a **6.6% yield** and was on-par with *Stockland's* book value of \$81 million. The property is anchored by **Coles** and **Aldi** supermarkets in addition to 37 specialty stores and a standalone **McDonalds**. With 12,009 sqm of **NLA**, the centre was sold on a **rate of \$6,745 psm lettable area**. Wallsend lies 11 km west of Newcastle's CBD.

Dixon Street, Sydney, NSW 2000

Singaporean investment group *Lian Huat Group* has decided to sell out of its Chinatown retail asset, receiving **\$24 million** for 2,500 sqm of retail space. The units are strata titled and leased to various businesses, including restaurants and gaming businesses. *Lian Huat*, who built the property, has slowly been selling out of the building in an effort to reweight their attention to the Brisbane development market. The deal is quoted to have been done on a **net yield just above 5%**, whilst the **rate shows \$9,600 psm of lettable area**. The property lies at the southern end of Sydney's CBD.

445-449 Victoria Avenue, Chatswood, NSW 2067

A tenanted shopfront opposite Westfield Shopping Centre has been snapped up by a Korean investor for **\$1.232 million** on a **5.06% gross yield**. The property has a new two-year lease with a two year option to a local chemist. The 74 sqm shop sold at a **rate of \$16,649 psm of lettable area**. Chatswood is located 12.2 km north of Sydney's CBD.

260A Liverpool Road, Ashfield, NSW 2131

ISPT's Core Fund has agreed a deal with *Abacus Property Group* to take a half stake in the 'super convenience' retail asset of **Ashfield Mall** in Sydney's inner west. The super fund agreed to pay **\$102.3 million** for the interest in the mall on a **rate of \$8,184 psm of lettable area**. The asset is anchored by a **Coles, Woolworths, Aldi** and **Kmart** on a WALE of 5.2 years. It is positioned just south of Ashfield station, an area experiencing plenty of urban infill development due to its proximity to the CBD, transport links and vibrant restaurant scene. The deal also included another half stake in another Abacus Property Group asset- the Lutwyche City Shopping Centre in Brisbane – purchased by a separate branch of ISPT, the ISPT Retail Australia Property Trust fund, for \$53 million. Ashfield is located 8.9 km south west of Sydney's CBD.

1 Frederick St, Artarmon, NSW 2064

US private equity firm *Blackstone* have doubled their money on **HomeHQ** on Sydney's lower north shore, selling the property to a partnership of global asset manager *Blackrock* and local asset manager *Fortius* for **\$140 million**. The fully let, large format 'home maker' retail centre of 22,196 GLAR contains leases to such national brands as **JB Hi-Fi, The Good Guys** and **Snooze**, which create \$9,153,773 of net passing income. The buyers believe the 1.6 hectare corner site has strong development value which can be realised soon due to the short lease expiry profile. The sale concluded at a **rate of 6,307 psm of GLAR** and a **net yield of 6.54%**. Artarmon is located 9.2 km north of Sydney's CBD.

2 Town Centre Road, Salamander Bay, NSW 2317

Charter Hall Prime Retail REIT has sold off a 47.5% stake in its **Salamander Bay Shopping Centre** to its wholesale investment fund *Charter Hall Prime Retail Fund* of which *MTAA Super* is the majority investment partner, for **\$83.125 million**. *MTAA Super* was advised by JGS Property to make the buy decision, which was then facilitated through the *Charter Hall's* branches. The 24,000 sqm centre is anchored by a **Coles, Woolworths, Aldi, Kmart** and **Target Country**, in addition to 64 specialty stores. The deal reached a **rate of \$7,292 psm of lettable area**. Salamander Bay is located 55 km north east of Newcastle and 202 km north east of Sydney.



10 Zoe Place, Mount Druitt, NSW 2770



Spotlight has bought a western Sydney shopping centre of which it takes an anchor tenancy itself, purchasing the outlet for **\$24.78 million**. Ex-plumber turned property tycoon *Nick DiMauro* sold the **ShopSmart Outlet Centre** on a **yield of around 6.7%** and will reinvest the funds into New Zealand commercial property where there is no stamp duty. Aside from Spotlight, the centre has leases to **T.K. Maxx, Rivers, Gloria Jeans** and a resilient **VideoEzy**. It sits amongst a prime commercial hub for the area, nearby to Mount Druitt TAFE and Hospital, McDonalds, Aldi and 500 metres from Mount Druitt Westfield. It sits on a 2.89 hectare site with 9,990 sqm of floor area, giving this sale a **rate of \$2,480 psm lettable area**. Mount Druitt is located 43 km west of Sydney's CBD.

18 John Oxley Drive, Port Macquarie, NSW 2444

A private developer has sold an under-construction **Bunnings Warehouse** to property fund manager *MPG* for **\$44.65 million** in an off-market sale. The deal was done on a fund-through basis, with the development already underway and expected for completion in Q1 2019. The development will comprise 18,000 sqm of the Bunnings Warehouse facility and 2,400 sqm of large format retail space, giving this sale a **rate of \$2,189 psm of lettable area**. The deal was struck on a **"blended yield" of 5.64%**. Port Macquarie is positioned on the mid north coast of NSW, around 379 km north east of Sydney.

1183-1187 The Horsley Drive, Wetherill Park, NSW 2164

A dual shopping centre offering in Western Sydney has sold for **\$112.4 million**. The **Greenway Plaza and Homemaker Greenway** present as a large format retail shopping centre (containing tenants such as **Supercheap Auto** and **Officeworks**) wrapped around a 'traditional' shopping centre with **Red Rooster** and **Gusman y Gomez** pad sites, an **Anytime Fitness** as well as fruit and meat grocers. It sold on a **7.64% yield**, a sign of the fading investor demand for large format retail assets. *Altis Property Partners* sold the asset to *Aventus Property Group* at a **rate of \$3,842 psm floor area**.

437 Young Street, Albury, NSW 2640

Multi-millionaire *Andrew Muir* has had a change of heart and decided to sell his **Good Guys** store in Albury for **\$5.18 million**. Muir sold the business side of The Good Guys in 2016 to JB Hi-Fi for \$870 million and retained the freehold property behind the business for later divestment. The portfolio of properties recently sold for \$150 million which initially left the Albury store off the market; however the family later decided to sell the asset. The site has a prominent position in the NSW/Victoria border town, near the train station on a 5,128 sqm corner lot. The 2,910 sqm showroom building is leased to The Good Guys on a five plus five year lease, currently generating a net annual rent of \$448,160 p.a., giving this sale an **8.65% net yield**. As a rate, this property sold for **\$1,780 psm lettable area**. Albury is located on the border of NSW and Victoria, 550 km south west of Sydney.

Leasing Activity

166 Glebe Point Road, Glebe, NSW 2037



A miniature retail and office suite on the CBD fringe will host *Me Meraki Property Management* for the next **three years**. The group will operate from a 31 sqm boutique office space in the historic **Valhalla building**, an inter-war, functionalist style cinema built in 1938 and converted in 2008 towards office and retail usage. The building benefits from Glebe Light Rail station, located 200 metres west. The group will pay a total of **\$22,950 gross per annum** for the privilege, or **\$740 psm lettable area**. Glebe lies 2.7 km south west of Sydney.

37-39 George Street, Parramatta, NSW 2150

IGA will take over a 1,279 sqm retail space in Parramatta's CBD from *Aldi*, who are closing the branch. *Romeo's Food Hall IGA* entered into a **10 year lease** agreement with landlords *Dehsabzi Enterprises* for the space which sits near the main intersection of Church and George Street. They will pay a **gross annual rent of \$425,000**, equating to **\$322 psm lettable area per annum**. Parramatta is located 23 km west of Sydney's CBD.



INDUSTRIAL MARKET

The positive economic outlook and the major infrastructure projects in NSW remained the main catalyst for growth in the state's industrial market. Supply continues to be outstripped by demand, as industrial land remains scarce. This resulted in the declining vacancy rate. Developers are also becoming more confident in their speculative developments as strong leasing results are achieved prior to completion. The improvement in the industrial market is also supported by the rising E-commerce sector, creating a higher level of warehouse demand.

Investment Activity

Unit 12, 197 Power Street, Glendenning, NSW 2761

If there was any doubt as to the insatiable appetite investors currently have for Sydney industrial property, it can be safely put to bed after the resale of a strata office and warehouse building along the M4 Corridor, sold under-the-hammer. The property exceeded its April 2017 price tag of \$1.57 million at a 5.09% net yield to reach a **price of \$2.2 million**, posting a **net yield of 3.75%** and a price increase of 40% without any improvements made to the property over the holding period. Whether the purchase was a rash, heat-of-the-moment auction decision or a calculated investment play, the private investor will be hoping the January 2019 lease expiry date passes by with little-to-no downtime. The 785 sqm property comes with 167 sqm of office space, two roller shutter doors and internal clearance of 7.2 metres. The sale reflects a **rate of \$2,803 psm lettable area**. Glendenning is located 41.4 km west of Sydney's CBD.

54-68 Ferndell Street, South Granville, NSW 2142

Dexus has secured a mammoth 10-hectare industrial development site in the booming Western Sydney region for **\$61.5 million** and it is the largest freehold land sale in the region in 2018. The group will develop up to 56,000 sqm of gross floor area on the rectangular shaped site with a variety of uses intended to capitalise on the ever increasing demand for industrial property stemming from growth in e-commerce businesses. Industrial sites of this quality are rarely secured due to residential developers often snapping up the best sites for urban gentrification. It's positioning in the heart of the Sydney metropolitan region with relatively little traffic congestion will certainly make it attractive for logistical companies looking to perfect their 'last mile' solutions. The sale returns **rates of \$613 psm of land area and \$1,098 psm of gross realisable floor area**. South Granville is located 22.2 km west of Sydney's CBD.

Unit 17, 110 Bourke Road, Alexandria, NSW 2015

A strata title warehouse/office unit in Sydney's southern industrial region has been picked up for **\$1.1 million**. It is leased to *Aeromic Microphones*, who have occupied the site since 1994 and will continue to do so for the next five years with options on an annual rent of approximately \$58,300, giving this sale a **5.3% yield**. *Pailow* sold the 211 sqm building at a **rate of \$5,213 psm lettable area**. Alexandria is located 3.9 km south of Sydney's CBD.

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.

488-490 Victoria Street, Wetherill Park, NSW 2164

A progressive investment strategy has seen billionaire *Bob Ell* of *Leda Holdings* pocket **\$18.13 million** from the sale of a vacant warehouse, reflecting an 18% gain over a one year holding period. Having seen the increasing demand for large-scale industrial property from owner-occupiers, Ell bought the warehouse and let the lease run for 12 months to then sell it again a year later to an international pharmaceutical group who will partially occupy and lease the remaining space. The warehouse contains 11 on-grade roller shutter doors, all-weather loading awnings, 6.7 to 9 metre clearance spread over 8,795 sqm of building area and on a 2.086 hectare site. The sale reflects a **rate of \$2,061 psm of lettable area**. Wetherill Park is positioned 31.9 km west of Sydney's CBD.

28-54 Percival Road, Smithfield, NSW 2164

Lendlease's *Australian Prime Property Fund Industrial* has picked up the **Smithfield Exchange** industrial complex as part of a larger acquisition spree. The fund picked up the multi tenancy site for **\$44.8 million** on a **net yield of 5.82%**. The site is fully leased with a 5.6 year WALE and contains 24,100 sqm of building area on a 5.52 hectare site. The asset was purchased alongside two Melbourne properties, as part of the fund's strategy to diversify its tenant base and acquire future development/growth sites. The sale concluded at a **rate of \$1,859 psm of lettable area**. Smithfield lies 28.9 km west of Sydney's CBD.



60-62 Huntingwood Drive, Huntingwood, NSW 2148

Owner-occupier *Aunew Investments* has paid *Sony Music Entertainment* **\$25.1 million** for their former DVD, CD and Blu-ray manufacturing plant in Western Sydney. The building contains 16,686 sqm of office/warehouse space and production areas. It features extensive air conditioning, substantial power supply through on-site generators and water treatment plants. Sony will close production after 25 years of business on the 2.73 hectare site. The sale reaches a **rate of \$1,504 psm of lettable area**. Huntingwood is located 33.6 km west of Sydney's CBD.

Leasing Activity

12 Millennium Court, Silverwater, NSW 2128

GPI Automotive will re-locate to a larger office and warehouse site in Sydney's mid-west, having secured a 1,404 sqm space on a **five year** lease with landlord *E & D Corp*. The site is broken down into 1,107 sqm of high-clearance warehouse space, 222 sqm of modern first floor office accommodation and a 74 sqm lunch room, whilst there is parking for 19 vehicles. GPI will pay **\$226,044 net per annum** or **\$161 psm of lettable area**. Silverwater is 18.6 km west of Sydney's CBD.

Unit 8, 153 Beauchamp Road, Matraville, NSW 2036

An office/warehouse unit in Sydney's south with a container height roller shutter door, 7-8 metre clearance and 19 car spaces has been secured for **five years** with options. *Bee Dee Bags* signed on for the 976 sqm warehouse on a 1,465 site, paying a **net annual rent of \$175 psm**, or **\$170,800 net per annum**. Matraville is located 11.1 km south of Sydney's CBD.

5 Burrows Road South, St Peters, NSW 2044

A high clearance, clearspan warehouse on the banks of the Alexandra Canal will be home to *Transport Refrigeration Service* for the next **three years** with options. The 1,092 sqm property comes with 298 sqm of well-appointed office space, a container height roller shutter door, newly installed pallet racking and on-site parking for some 12 vehicles. The heritage-listed Alexandra Canal is one of two navigable artificial canals built in NSW. It was originally constructed to provide another means of transport from the South Sydney industrial region to Botany Bay. The company will **pay \$190 psm of lettable area net per annum**, equating to a total rent of **\$207,480 per annum**. St Peters is located 6.5 km south west of Sydney's CBD.

2 Hereford Street, Berkeley Vale, NSW 2261

Industrial developer *Living Developments* will upgrade and re-lease an industrial facility on the Central Coast, having just purchased the building for **\$9 million**. The building has 5,635 sqm of warehouse space, 3,111 sqm of office area and 198 car spaces situated on a 2.15 hectare site with three frontages and high exposure. The deal reflects a **rate of \$1,029 psm of lettable area**. Berkeley Vale is positioned approximately 80 km northeast of Sydney.

Unit 3, 562 Gardeners Road, Alexandria, NSW 2015

Pioneer Prints have expanded into a 828 sqm warehouse unit in South Sydney, securing a **three year** lease with options with a private landlord. The group will pay **\$180 psm net per annum**, equating to **\$149,040 per annum**. Alexandria lies 3.9 km south of Sydney's CBD.

2 Costello Place, Seven Hills, NSW 2147

Landlords *Propertylink* have reached an off-market agreement with an online retailer to occupy an 11,126 square metre warehouse and office development in Sydney's western suburbs. *Mills Brands* will occupy the building for **six years** on a **net annual rent of \$1.4 million**, reflecting a **rate of \$125 psm lettable area**. The group sells business goods such as commercial kitchen equipment and gym equipment. The online retailer is lucky to have secured the facility, with several other online retailers currently in the market for industrial property in the range of 10,000 to 15,000 square metres in Western Sydney. Seven Hills lies 32.2 km west of Sydney's CBD.

49 Powers Road, Seven Hills, NSW

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 has 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 for the next **five years**. The rent equates to **\$168 psm lettable area per annum**. Seven Hills is located approximately 32.2 km north west of Sydney's CBD.

RESIDENTIAL MARKET

Building Approvals

The total building approvals in Greater Sydney declined by -7.78% over the month to September 2018 to 3,569 approvals. This figure indicates a decline of -17.02% over the quarter and -34.82% year on year. Although both house and dwelling unit approval decreased simultaneously, but dwelling unit approval fell about four times more than houses. The approvals for house constructions tipped by -2.62% over the month to September 2018 (or -5.60% over the quarter), while approvals for dwelling units declined -10.88% over the same period (or -23.13% over the quarter).

The continued decline in investment sentiment in the residential market drove the building approval slowdown even further with the bank's variable interest rates going up despite the static cash rate, making financing less affordable.

Market Affordability

Median house price in Sydney fell further through the June quarter 2018 as noted by REIA's real estate market facts. Sydney's overall median house price declined by -1.4% to \$1,144,200 over the quarter, following the -2.6% fall over the March 2018 quarter. The year on year figures show that Sydney's median house price fell -4.5% over the year to June 2018, indicating a declining market sentiment on the back of APRA's lending guidelines and the absence of interest-only mortgages.

Sydney's inner areas saw median house prices fall the furthest amongst the Sydney zones, falling by -9.0% over the quarter to \$1,860,000 or a yearly decline of -9.9%. Middle Sydney saw the same trend on a moderate level, declining by -3.0% to \$1,300,000 over the same period. In contrast, Outer Sydney median house prices are still resilient, recording a slight increase of 0.6% to \$785,000.

Units in Sydney mirrored the trends of the housing market with Inner Sydney's median unit price falling the furthest amongst the zones by -2.7% (to \$905,000), followed by Middle Sydney areas by -0.4% (to \$687,000) while Outer Sydney median unit price persists over the quarter at \$640,000.

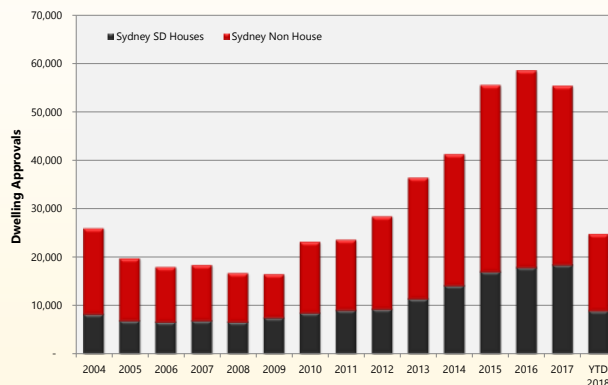


Chart 15– Sydney SD Dwelling Approvals—Source : ABS / PRP Research

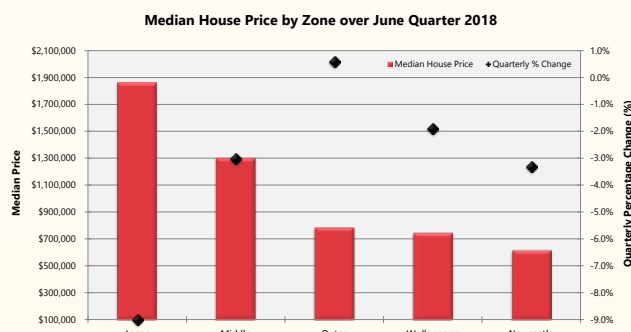


Chart 16– Median House Price by Zone – Source : REIA / PRP Research

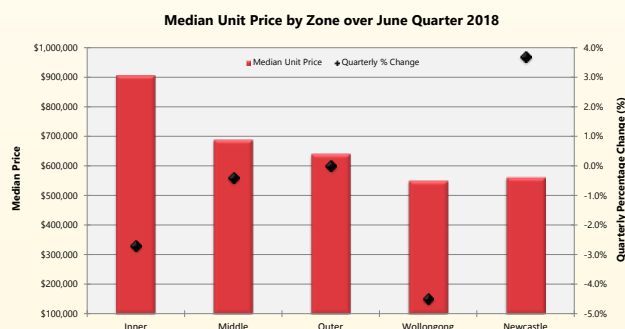


Chart 17 – Median Price for Unit Dwellings by Zone – Source : REIA / PRP Research

Rental Market

Over the June 2018 quarter, the median rent price for houses in Sydney saw an overall decline. Inner Sydney median rental prices remained unchanged for both its 2 and 3 bedroom houses, at \$750 and \$960 weekly. Sydney middle areas saw mixed changes with 2 bedroom houses experiencing a decrease of -1.0% in median house rents over the quarter to a rate of \$495 weekly although 3 bedroom house rents in the area remained stable at \$600 weekly. Sydney outer areas performed worst amongst the three zones during the quarter. Both 2 and 3 bedroom houses median weekly rent price in recorded declines of -2.6% and -1.1% to \$380 and \$445 respectively.

Throughout Sydney, median rents for 1 bedroom units remained at \$550, \$480 and \$420 weekly for inner, middle and outer areas of Sydney. The same trend occurred for 2 bedroom units in inner and middle areas of Sydney, remaining at \$700 and \$520 weekly over the quarter. However, a decline of -2.2% in rent price was recorded for 2 bedroom units in the outer areas of Sydney, marking Sydney's weakest unit rental market.

Median Weekly Rents for House by Zone

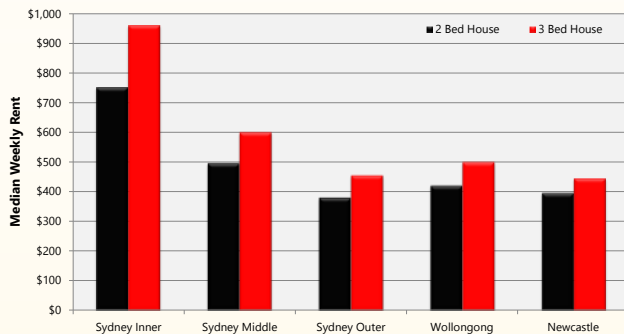


Chart 18 – Sydney Median Weekly Rents for House by Zone – Source : REIA / PRP Research

Median Weekly Rents for Units by Zone

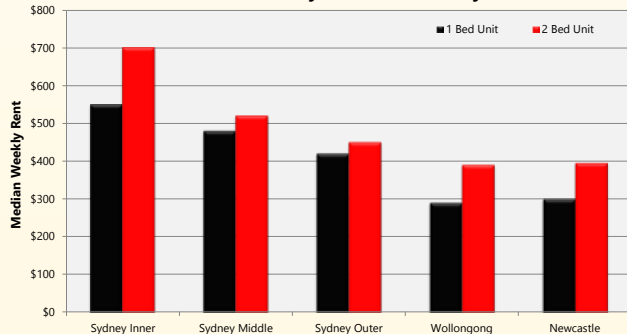


Chart 19 – Sydney Median Weekly Rents for Units by Zone – Source : REIA / PRP Research

Residential Vacancy Rates

The overall residential vacancy rate in Sydney declined by 0.2% to 2.8% over the month to September 2018. The vacancy of both inner Sydney and outer Sydney areas declined by 0.5% and 0.2% to 2.4% and 2.9% respectively whilst the vacancy in the middle area of Sydney remained at 3.1%. The decline in the overall residential vacancy over the month is considered to be marginal as the 2.8% figure still indicate a 0.9% increase in vacancy year on year.

Sydney Residential Vacancy Rates

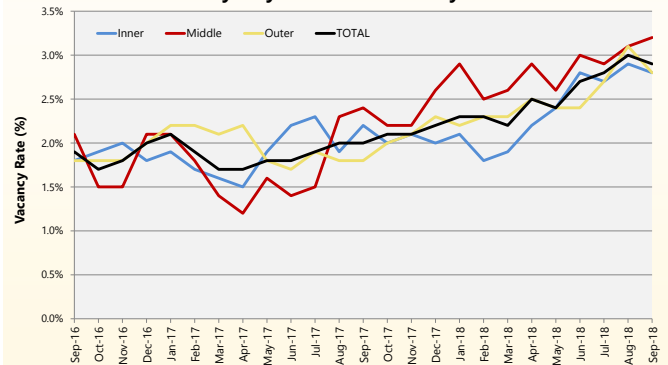


Chart 20 – Sydney Vacancy Rates – Source : REINSW / PRP Research

NEWCASTLE

Market Affordability

In Newcastle, the median house price slightly increased by +0.8% over the year to June 2018 despite recording a decline of -3.3% over the quarter to \$615,000. Meanwhile, the median price for units in Newcastle recorded a jump of +9.8% yearly increase or +3.7% quarterly to \$560,000.

Rental Market

Units continually performed better than houses in terms of rents, indicating higher tenant driven demand for units in comparison to houses in Newcastle. Over the year to June 2018, 2 and 3 bedroom houses in Newcastle recorded a +3.9% and 2.3% to \$395 and \$445 weekly whilst 1 and 2 bedroom units saw a jump of +7.1% and +9.7% to \$300 and \$395 respectively.

WOLLONGONG

Market Affordability

Over the June quarter, Wollongong's median house price decreased by -1.9% to \$745,000. Units recorded the same trend, declining by -4.5% over the quarter to \$549,300. However, this price still reflects a positive yearly change of +1.5%. There were 150 transacted unit sales recorded by the REIA over the quarter, with median sale price of the lower quartile at \$445,000 and the upper quartile at \$655,000.

Rental Market

The median weekly rent for houses in Wollongong remained unchanged over the June quarter. 2 bedroom houses remained at \$420 weekly and 3 bedroom houses at \$500 weekly. In contrast, units in Wollongong saw declining median weekly rents for both its 1 bedroom units and 2 bedroom units by -3.3% and -1.3% to \$290 and \$390 weekly.

LUXURY RESIDENTIAL INVESTMENT ACTIVITY

12-14 Hopetoun Avenue, Mosman, NSW 2088

The lower north shore's standalone housing price record has been topped up to **\$25 million**, with Sydney Swans chairman *Andrew Pridham* forking out the funds for the property which will be a family investment. The 6 bedroom, 9 bathroom, waterfront home features a tennis court, wet edge pool, boat shed with a slipway and an internal lift. It stands on 2,400 sqm of north facing land spread over two titles, with the new owner said to be considering a subdivision of the land. Sydney's high-end property market, particularly in Mosman, has been able to resist the overall downturn of the Sydney residential market due to most buyers having lesser reliance on mortgage financing, a key factor in Sydney's 5.4% year-on-year decline. This sale was the third house price record on the lower north shore since March 2017. The sale registered a **rate of \$10,417 psm of land area**. Mosman is located 6.5 km north east of Sydney's CBD.

97 Ramsgate Avenue, North Bondi, NSW 2026

Three adjoining penthouse apartments on the Ben Buckler headland of North Bondi have sold after less than a week on the market for an amount understood to be **close to \$12 million**. This reflects a record price paid for an apartment in the suburb. Retail chef *Mark McInnes* sold the apartments 'as is', with approval to extend them into the roof to create a two storey, 345 sqm penthouse with four bedrooms, three bathrooms and a terrace with uninterrupted views of Bondi Beach. The deal was done at a **rate of \$34,783 psm of floor area**. North Bondi is located 7.5 km east of the Sydney CBD.

560 New South Head Road, Point Piper, NSW 2027

Technology entrepreneur and one of Australia's top 10 richest people **Mike Cannon-Brookes** has purchased **Fairwater** for **close to \$100 million**, the largest ever residential sale in Australian history. The estate was held by the *Fairfax family* empire from 1901 and was home to Lady Fairfax up until her death last year. Fairwater sits on a 1.121 hectare beachfront site in Australia's dearest suburb with views over to the Harbour Bridge. Cannon-Brookes beat his fellow co-founder of Atlassian, an international technology company, for the record house price. The latter held the record at \$71 million for the sale of the neighbouring property Elaine, which he paid for with cash. The sale shows a **rate of \$8,921 per metre of land**. Point Piper is located 6 km east of Sydney's CBD.



RESIDENTIAL DEVELOPMENT

Cnr Cudgegong/Macquarie Road, Rouse Hill, NSW 2155

Poly Australia is rapidly expanding their footprint over the north west precinct, snapping up a second townhouse site in as many weeks for **\$17 million**. The Chinese-backed developer and investment group are trying to plug a gap in the market in between big family homes and new apartments. The new dwellings will sit within 800 metres of the new North West Metro line and the developer aims to reach completion by the time the new service is up and running by 2019. They plan to develop 90 townhouses on the 2.88 hectare site, giving this sale a **per townhouse site rate of \$188,889**. Rouse Hill is located 45 km north west of the Sydney CBD.

16 Third Avenue, Blacktown, NSW 2148

Unit site values appear to have taken a hit in Sydney's outer-ring suburbs. Private investor *Awada* recently sold out of a 1,018 sqm site, approved for 97 apartments, for **\$5.75 million**, reflecting a **per unit site value of \$59,278 per approved unit**. A highly comparable site at 5-19 George Street sold in August 2017 for \$81,181 per approved unit and whilst this is only a rough comparison, it does provide some proxy in understanding the shifting Western Sydney apartment market. The site has holding income from **Dulux** at approximately \$144,000 per annum. Blacktown is located 34.8 km west of Sydney's CBD.

141 Yarrowa Road & 32 Lovell Street, Moss Vale, NSW 2577

The Southern Highlands continues to achieve strong results on residential zoned rural lots, with Chinese developer *Aoyuan Property Group* picking up a 123.7 hectare site for about **\$100 million**. Wrapped around the Moss Vale Golf Course, the site will be the host of a new master planned community that will feature open green space and community recreation facilities. The development will create between 1,200-1,500 residential lots, giving a **lot price range of \$83,333 and \$66,667 per lot site**. Lot sizes will range from 400 – 2,000 square metres. Moss Vale lies 122 km south west of Sydney.

17 Arthur Street, Punchbowl, NSW 2196

A DA approved boarding house site in Sydney's south west has sold for **\$2.6 million**. The 734 sqm block sits within 100 metres of Punchbowl station meaning future residents will have the ability to get to Central station in 26 minutes upon completion of the South West Sydney Metro line. The site is approved for 30 modern, architecturally designed studio apartments, which agents Knight Frank advise could generate as much rental income as \$500,000 gross per annum once finished and fully leased. It sold on a **rate of \$86,667 per apartment site**. Punchbowl is positioned 17.3 km south west of Sydney's CBD.

30-32 Guess Avenue, Wollri Creek, NSW 2205

An overseas financier has called an apartment project in South Sydney into receivership, resulting in the sale of a site for **\$29.5 million**. A joint venture between *Sam Fayad* and *James Zhu* (from Dydlam and Be100, respectively) stopped servicing its debt to a foreign private lender in 2015 and the JV company *NR Wollri Creek* was placed into liquidation. Developer *Level 33* has picked up the site and will complete the two tower development of 176 apartments over a 5,600 sqm site. The price reflects a settlement of \$29.5 million worth of debt to the foreign financier, giving seemingly deflated rates of **\$5,268 psm of site area** and **\$167,613 per apartment site**. Wollri Creek is located 9.8 km south west of Sydney's CBD.

85 Kurraba Road, Neutral Bay, NSW 2089



An apartment development site on the lower north shore received 12 offers before contracting for **\$20 million** to developer *Avanca Property*. Eight apartment owners decided to sell in-one-line and realised almost triple the price they would've received had they sold individually, according to selling agents Colliers. The demand was driven by the surging popularity of spacious, quality and well-located apartments from downsizing "empty-nester" couples on the lower and upper north shore. The developer will construct boutique luxury apartments on the 1,454 sqm site maximising on the harbour and bridge views. The deal was wrapped up at a **rate of \$13,755 psm site area**. Neutral Bay is positioned 4.8 km north of the Sydney CBD.

1-3 Roker Street, Cronulla, NSW 2230

Two adjoining residential unit buildings have sold in-one-line to a local developer for **\$11 million**. Ten unit owners banded together to create a 986 sqm site, suitable for a boutique 12-apartment project. The sites are nearby to the Cronulla Esplanade and will enjoy excellent ocean views. The sale posts **rates of \$916,667 per proposed apartment** and **\$11,156 per metre of site area**. Cronulla is located 26.2 km south of Sydney's CBD.

SPECIALIZED PROPERTY MARKET

35-41 Addison Road, Marrickville, NSW 2204

Although marketed as a luxury townhouse/apartment/retail site, a new Vietnamese entrant to the investment market will opt to build student accommodation on an inner-west development site, picking it up for **\$14 million**. Whilst the site is not close to any universities and the nearest train station is too far away to utilise, the area remains popular with students due to its vibrant café and craft beer scene. The number of units the new owner intends to build was not revealed. Meanwhile, the site currently contains a tenanted warehouse/office building with a lease in place until 2019, providing holding income whilst a DA is lodged. The sale achieved a **site area rate of \$6,011 psm** and **\$3,525 psm of FSR**. Marrickville is located 7 km south west of Sydney's CBD.

219 Pacific Highway, Artarmon, NSW 2064

Data centre provider *NextDC* has splashed **\$90 million** on a 1.25 hectare piece of land on the lower north shore to build its next outlet. The site will be built to house multiple companies that require secure data storage without the resources to build their own facility. It sold off-market and will adjoin sites occupied by Fox Sports, Richard Crookes Construction and the ASX data centre. The property benefits from a site specific planning allowance of 4.5:1, giving this sale a **rate of \$1,600 psm floor space area**. Artarmon is positioned 9.2 km north west of Sydney's CBD.

203 Burns Bay Road, Lane Cove, NSW 2066



A lower north shore petrol station has been offloaded by the *Qasabian Family* for **\$4.4 million**. The site has a new 10 year lease in place to **7 Eleven** on a current net rent of \$265,220 p.a., giving this sale a **6.03% net yield**. The private purchaser intends to occupy the property at a future date. The 750 sqm corner site is also zoned R3 Medium Density under the Lane Cove 2009 LEP, however contamination issues could arise in the event of a future residential development given the current use. The sale gives a **rate of \$5,867 per metre of land**. Lane Cove lies 9.3 km north of Sydney's CBD.

HOTELS & LEISURE MARKET

244 Hawkesbury Valley Way, Clarendon, NSW 2756



Local investors have traded the **Clarendon Tavern** for **\$6 million**. The pub sits on a 1,959 sqm corner site in between the RAAF Air Base, Clarendon train station and the Hawkesbury Racecourse. The building itself has a bar, bistro and 12 EGMs. The property was sold off market on a **9% yield**, reflecting a **rate of \$7,045 psm of lettable area**. Clarendon is located between Windsor and Richmond, approximately 57 km north west of Sydney's CBD.

5 Hews Parade, Belrose, NSW 2085

In an off-market deal, *Redcape Hotel Group* has sold the **Belrose Hotel** on the northern beaches to *Bayfield Property Group* for about **\$22 million**. *Redcape* sold the property in an effort to optimise its \$1 billion portfolio ahead of a potential float later in 2018. The property occupies a large 1.09 hectare site, whilst the building contains large dining and drinking areas, beer gardens, a bottle shop and a gaming room with 25 EGMs. The sale registered a **rate of \$6,738 psm of measured GFA**. Belrose is located 18.2 km north of Sydney's CBD.

105 Sutherland Street, Paddington, NSW 2021



After a heated public campaign to keep the property out of hands of developers, the **Four in Hand Hotel** has sold off-market to *Good Beer Company* for **\$7 million** and will remain a pub,

much to the chagrin of local punters. An online petition amassed over 10,000 signatures to stop a residential development going ahead on the site, an indication of the high level of value that residents place on local pubs as places of community and gathering. The sale reflects a **rate of \$10,000 psm internal area**. Paddington is located 3 km east of Sydney's CBD.



PROPERTY FUNDS & CAPITAL RAISINGS

Rural Funds Group pays \$52.7 million in leaseback deal with JBS

JBS has sold its NSW and Queensland feedlots to *Rural Funds Group* and will have the lots leased back for 10 years. The deal was agreed at a **price of \$52.7 million** and contains a put and a call option whereby *JBS* can buy back or *Rural Funds* can sell back the feedlots at prearranged price at the expiration of the 10 year lease. The deal covers over **150,000 head of cattle**, representing about 15% of all cattle held in feedlots in Australia. A **price of \$351 per beast** gives an indication of how the deal was structured.

AirTrunk raises \$850 million for expansion of data centres

Data centre start up *AirTrunk* has raised debt funding of **\$850 million** to finance the construction of data centres in Western Sydney's Huntingwood and Derrimut in Melbourne's west, in addition to further centres in Australia and the Asia Pacific. Whilst pre-committed tenants remain undisclosed, they are said to be some of the "largest enterprise technology companies globally", whilst the company are known to target public cloud providers such as Google and Amazon. Sites have heavy requirements for power and on-site substations are a feature of any new construction to reduce ongoing costs and to ensure security of power supply.

ECONOMIC FUNDAMENTAL

Gross Domestic Product

The Australian economy grew by 0.89% over the quarter to June 2018, following the 1.15% increase over the quarter in March 2018. Consumer spending, financed by a shrinking household savings fuelled the increase in economic growth. Despite the quarterly increment decreasing slightly, annual figures show that the Australian economy grew in the June quarter with a year on year increase of 3.41%, the strongest year ended rate of growth since 2012. However, the yearly pick up figures were flattered to a degree by a large downward revision of June 2017 quarter GDP (from 1 per cent to 0.7 per cent), giving June 2018's annual growth rate a handy head start.

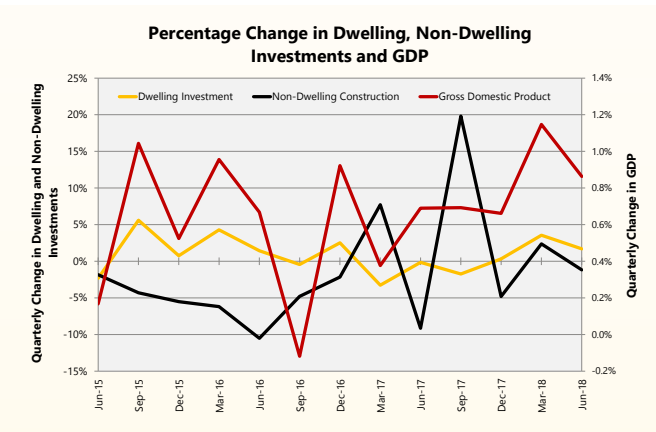


Chart 21— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

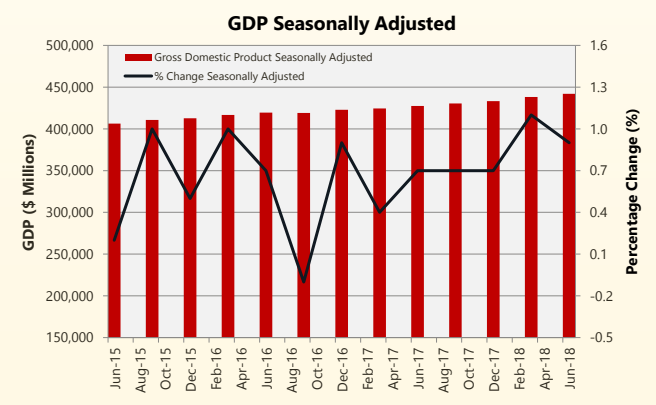


Chart 22— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

Consumer Price Index

Over the three months to September 2018, Australia's Consumer Price Index (CPI) increased by 0.4%, bringing the inflation rate to 1.9% over the last twelve months. Over the quarter increases from the recreation & culture sector (+1.6%) as well as alcohol & tobacco (+1.3%) were offset by the declines in communication (-1.4%) and household equipments (-1.2%).

The CPI of all Australian capital cities increased with Sydney, Perth, Hobart, Darwin and Canberra recording a high +0.7% whilst Melbourne slacked behind, increasing by only 0.20% over the quarter, showing the slowest CPI growth amongst all other capital cities in Australia.

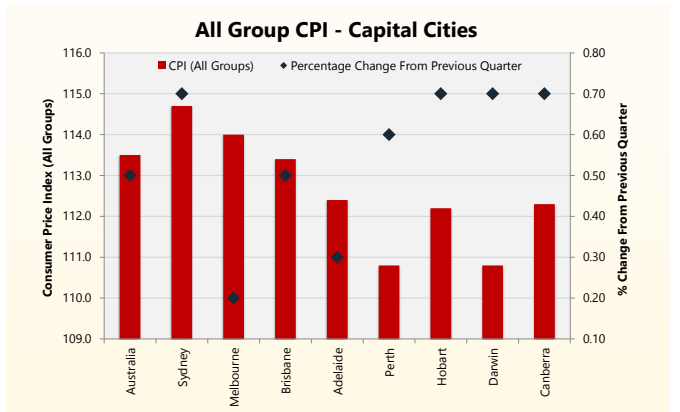


Chart 23—All Group CPI (Capital Cities) and Percentage Change — Source: ABS

Business Sentiment

The monthly business survey for September 2018 released by National Australia Bank (NAB) reported that the business confidence index increased by +1 to +6 index points. The strength in employment is especially encouraging for business confidence. The highest confidence on September 2018 seen from the Mining and Construction industries; however, retail is weak and deteriorating. Across the states, confidence is highest in South Australia (+10), followed by Western Australia and Queensland (both +8), whilst NSW still lags behind at +4 index points.

NAB business condition index rose modestly by 1 point to +15 points with Tasmania (+18), Victoria (+17) and Queensland (+15) recording highest levels whilst conditions remain weak in South Australia (+7).

Consumer Sentiment

According to the Westpac-Melbourne Institute survey on consumer sentiment, the overall Consumer Sentiment Index fell by 3% to 100.5 from 103.6 index point in August. The survey suggested that sentiments were affected by increases in mortgage interest rates, political instability and household budget pressures. However, these concerns are offset by the strong GDP growth figures and the improvement in the labour market.

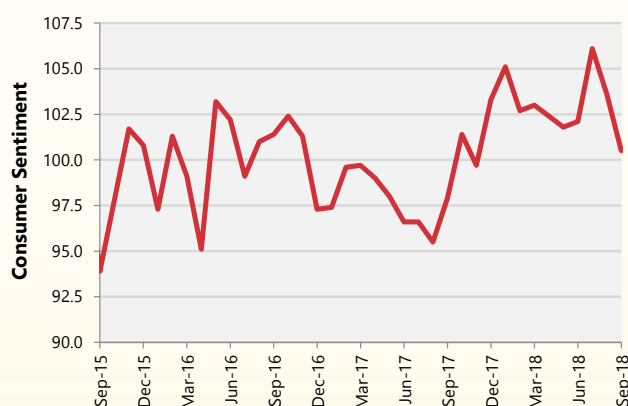


Chart 24—Consumer Sentiment Index —Source: Westpac Melbourne Institute Survey

	Sep 2018	Aug 2018	Sep 2017	Sep 2016
Consumer Sentiment Index	100.5	103.6	97.7	101.4
Family finances vs. a year ago	85.2	88.3	82.3	89.5
Economic conditions next 12 mth	100.2	106	98.3	104.2
Time to buy a dwelling	103.5	108.8	95.2	109.3

Table 3—Consumer Sentiment —Source: Westpac Melbourne Institute Survey

10 Year Bond & 90 Day Bill Rate

Through the September 2018 quarter, the 10-year bond yield increased in the US by 20 basis points but only marginally increased by 4 basis points in Australia. The Australia-US bond spread widened by 16bps to -38bps over the same period.

The negative spread between the AU-US bond spread is widely caused by the different monetary stance between the two countries. Historically, the monetary stance between the two countries correlates, however, recent recordings show that this may no longer be the case.

The Australian 90 Day Bank bill rates continue to fall over the September 2018 quarter. The bill rate peaked at 2.10% in the beginning of July before it declines further, ending the quarter at 1.94%.

Interest Rates

The Reserve Bank of Australia held the cash rate at record low of 1.5% for the 26th consecutive period as of the 4th September 2018. The decision to hold on to the low interest rate is believed to continue to support domestic economic growth; allowing further compression in unemployment rate, absorb the spare capacity in the labour market, trigger the increase in wage growth and push the current inflation rate (1.9%) up towards the midpoint of the target (Inflation Target: 2-3%).

A six-year low unemployment rate was recorded on September 2018, despite wage growth remaining low. The subdued growth in household income continues to be one of the key uncertainties for household consumption and core inflation outlook.

The members of the Reserve Bank of Australia believe that it is appropriate to maintain a steady cash rate while progress on wage growth and inflation unfolds.

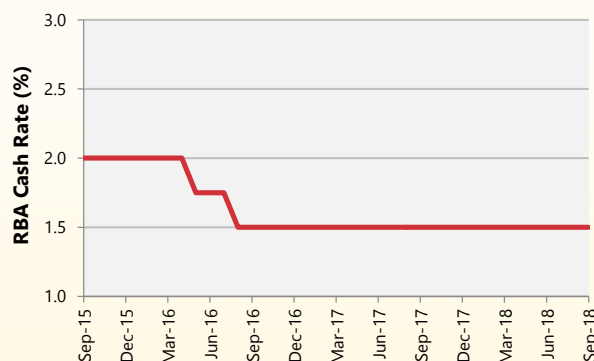


Chart 25— Movement of the Cash Rate — Source: RBA / PRP Research

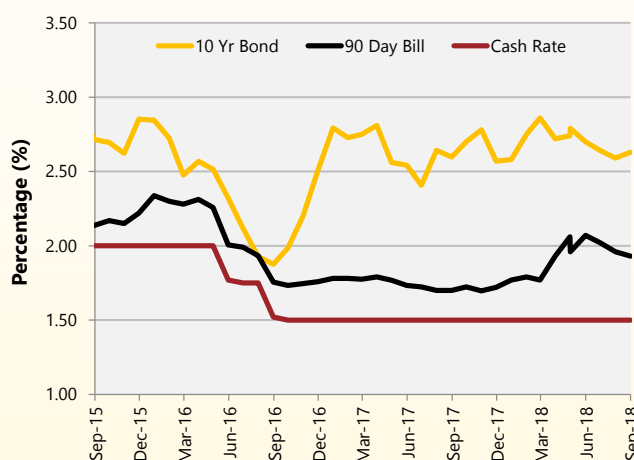


Chart 26— Monthly movement of 90-day Bill, 10-year bond yields and Cash rate — Source: RBA

Unemployment

Australia's unemployment rate fell to 5%, a six-year low, on September 2018 from August's 5.3%. The improved labour condition also influenced the wage growth in Australia, as the wage price index recorded by the Australian Bureau of Statistics (ABS) showed the highest growth rate in three years in the September quarter, growing by 0.6%. This figure also reflects the largest annual increase in three years at 2.3%. Nonetheless, considering that inflation increased by 1.9% over the quarter, that left real wage growth increasing by 0.4% over the year.

In contrast, the Australian employment participation rate declined 3 basis points to 65.4 per cent over the month. The overall fall in participation rate is understandable as unemployment rate declines, less people will be looking for new jobs.

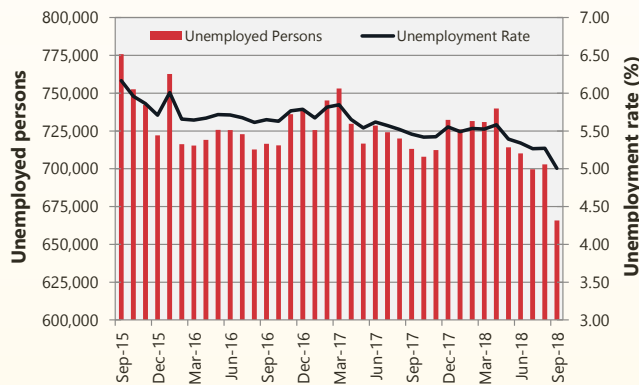


Chart 27— Unemployment Persons and Unemployment Rate— Source: ABS / PRP Research

	Unemployment Rate (%)			Participation Rate (%)		
	Aug	Sept		Aug	Sept	
Australia	5.3	5.0	▼	65.7	65.4	▼
New South Wales	4.6	4.4	▼	65.2	65.0	▼
Victoria	4.7	4.5	▼	65.4	65.6	▲
Queensland	6.3	5.8	▼	66.1	65.5	▼
South Australia	5.7	5.5	▼	62.1	62.0	▼
Western Australia	6.4	6.0	▼	68.7	68.6	▼
Tasmania	5.8	5.8	—	61.0	60.6	▼
Northern Territory*	4.0	4.1	▲	75.7	75.3	▼
Australian Capital Territory*	3.7	3.6	▼	70.6	70.6	—

Table 4— 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

Global economic conditions seem to remain positive for the Australian economy despite the risk around the international trade policy. A few central banks including the US Federal Reserve have increased policy rates on the back of rising inflationary pressures, resulting in a broad-based appreciation of the US Dollar. This resulted in a modest depreciation of the Australian Dollar, which is likely to have been helpful for domestic economic growth.

Over the month to September 2018, the Australian Dollar depreciated against most major currencies including the US Dollar (-0.5%), UK Pound (-1.0%) and Euro (-0.2%). As at the end of September 2018, \$AUD1.00 equated to \$US0.72, £0.55, €0.62, ¥81.96 and \$NZD1.09.

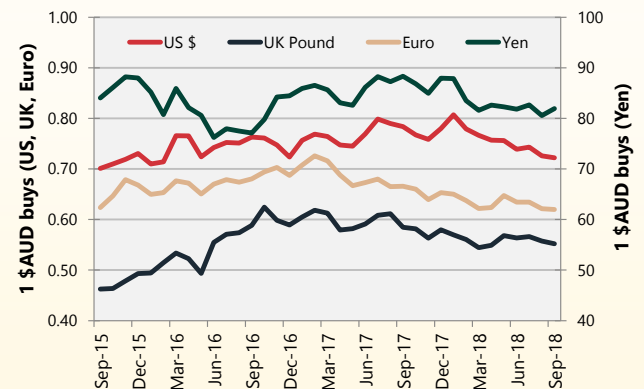


Chart 28— Movement in Exchange Rate — Source: RBA / PRP Research



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

We have *property* covered

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

We have all *real estate* types covered

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

- . CBD and Metropolitan commercial office buildings
- . Retail shopping centres and shops
- . Industrial, office/warehouses and factories
- . Business parks
- . Hotels (accommodation) and resorts
- . Hotels (pubs), motels and caravan parks
- . 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

We have all types of *plant & machinery* covered

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

We have all *client profiles* covered

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

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- . Commercial and Residential non bank lenders
- . Co-operatives
- . Developers
- . Finance and mortgage brokers
- . Hotel owners and operators
- . Institutional investors
- . Insurance brokers and companies
- . Investment advisors
- . Lessors and lessees
- . Listed and private companies corporations
- . Listed Property Trusts
- . Local, State and Federal Government Departments and Agencies
- . Mining companies
- . Mortgage trusts
- . Overseas clients
- . Private investors
- . Property Syndication Managers
- . Rural landholders
- . Self managed super funds
- . Solicitors and barristers
- . Sovereign wealth funds
- . Stock brokers
- . Trustee and Custodial companies



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.

We have your *needs* covered

Our clients seek our property (real estate, infrastructure, plant and machinery) services for a multitude of reasons including:

- . Acquisitions & Disposals
- . Alternative use & highest and best use analysis
- . Asset Management
- . Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- . Compulsory acquisition and resumption
- . Corporate merger & acquisition real estate due diligence
- . Due Diligence management for acquisitions and sales
- . Facilities management
- . Feasibility studies
- . Funds management advice & portfolio analysis
- . Income and outgoings projections and analysis
- . Insurance valuations (replacement & reinstatement costs)
- . Leasing vacant space within managed properties
- . Listed property trust & investment fund valuations & revaluations
- . Litigation support
- . Marketing & development strategies
- . Mortgage valuations
- . Property Management
- . Property syndicate valuations and re-valuations
- . Rating and taxing objections
- . Receivership, Insolvency and liquidation valuations and support/advice
- . Relocation advice, strategies and consultancy
- . Rental assessments and determinations
- . Sensitivity analysis
- . Strategic property planning



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