Preston Rowe Paterson

International Property Consultants and Valuers

## IN THIS ISSUE



# Property Market Report

# New South Wales

**December** 2018


# Highlights

**Office vacancy continues to decline** in Sydney CBD

**Increasing demand for well positioned and modern industrial properties** particularly from the logistics sector

**Subregional malls are becoming one of the most popular investments** in the retail property market

**Sydney's residential market softened further** over the September quarter 2018 with median house price falling by –3.1% to $1,101,500

# Economic Snapshot

Preston Rowe Paterson
International Property Consultants and Valuers

## Cash Rates (%)

| 1.5 | 1.5 | 1.5 |
|---|---|---|
| Dec 2018 | Sep 2018 | Dec 2017 |

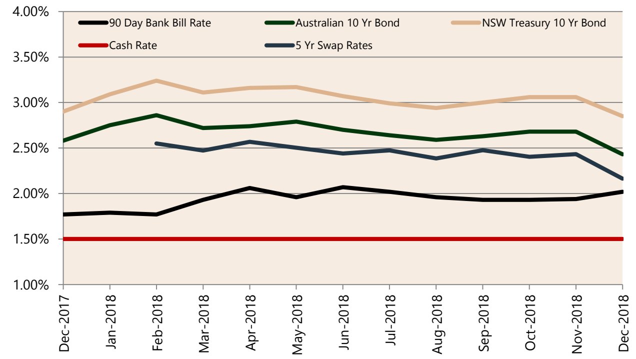
## Consumer Price Index Australian All Groups**

Dec 2018
114.1
+0.5%*

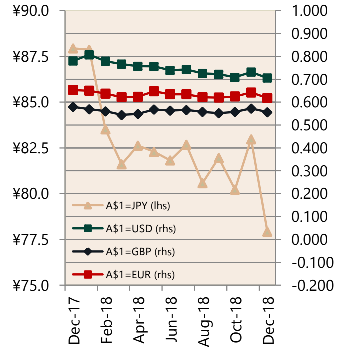
Sep 2018
113.5
+0.4%*

Dec 2017
112.1
+0.6%*

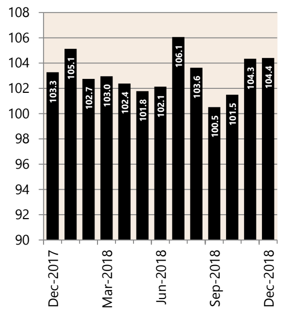
## Interest Rates



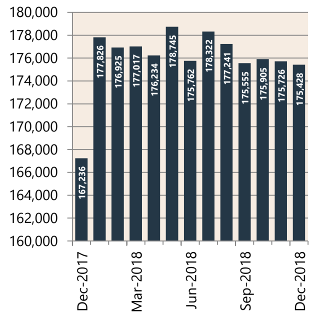

## Exchange Rates (per $A)



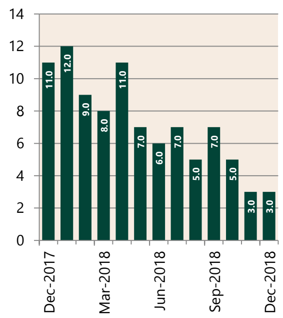

## Westpac - Melbourne Institute Consumer Sentiment Index



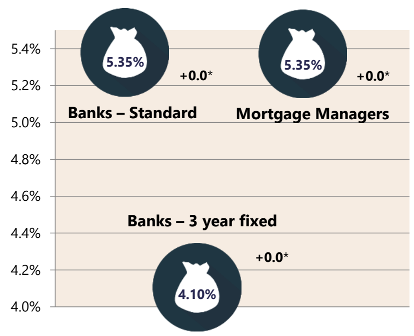

## ANZ Job Series (Newspaper and Internet Job Ads)***



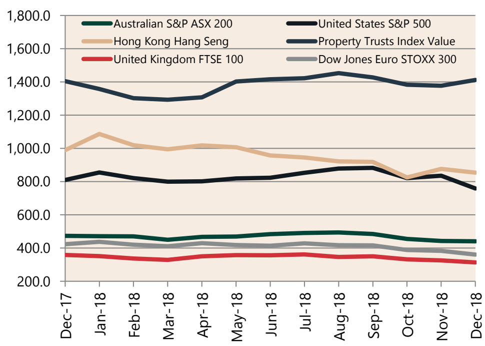

## NAB Business Confidence Index

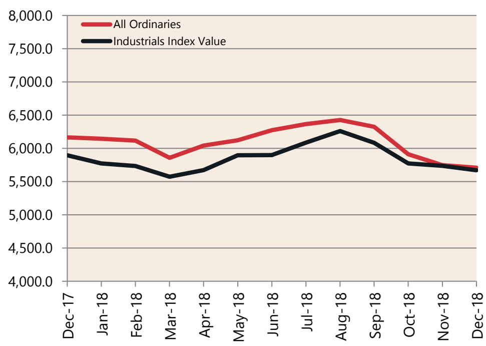



## Housing Loan Lending Rates Indicator

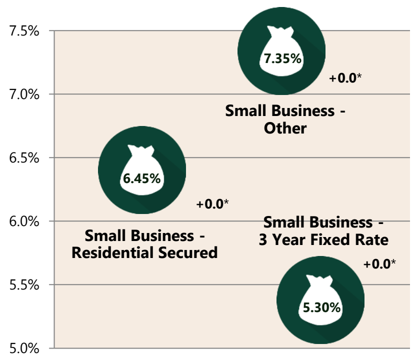



## Share Prices and Indices



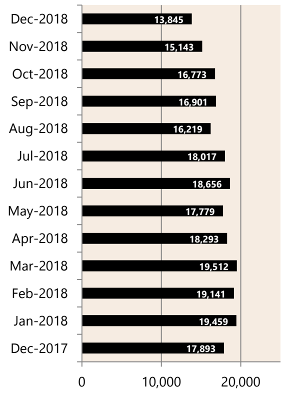




## Business Loan Lending Rates Indicator

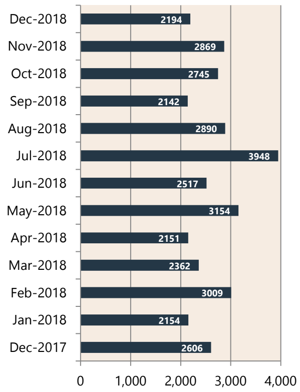



## Private Sector Dwelling Approvals & Investment

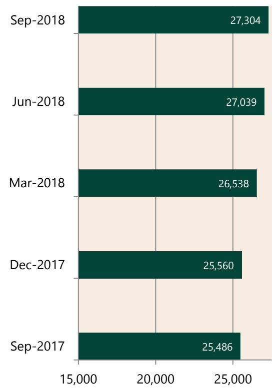
Dwelling Approvals (monthly)




Non-Residential Approvals $m (monthly)




Dwelling Investment $m (quarterly)




* percentage change from previous quarter
** Based on ABS CPI released 30 January 2019
\# Date of Publication figures based on those available at 15 February 2019

N.B. This data is compiled using publicly available publications which are produced in arrears to the current month.

# Office Market

## Sydney CBD

### Supply and Withdrawals

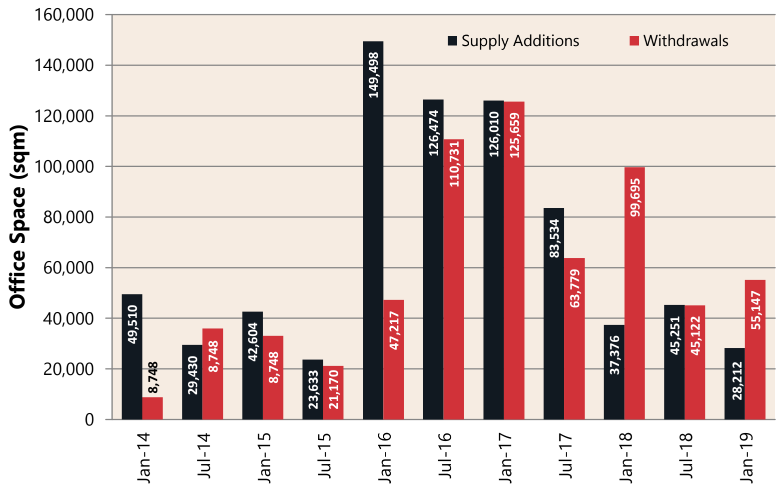



Chart 1— Sydney CBD Office Supply and Withdrawals
Source: PCA / Preston Rowe Paterson Research

The number of stock withdrawals in the Sydney CBD office increased over the six months to January 2019 to 55,147 sqm from 45,122 sqm recorded over the half year to July 2018. Withdrawals made over the period are mainly along George Street, including the demolition of 210 and 220 George Street (14,732 sqm) to cater for *Poly Australia's* Poly Centre and the full refurbishment of 388 George Street (38,500 sqm).

On the other hand, supply additions over the half-year period totalled to only 28,212 sqm, down from the 45,251 sqm recorded over the previous half-year period. While numerous new office developments in the city core are mooted or under construction, supply additions over the six months period are all on the western side of the CBD including Investa's Barrack Place (20,795 sqm) on 151 Clarence Street.

### Tenant Demand & Vacancy Rates

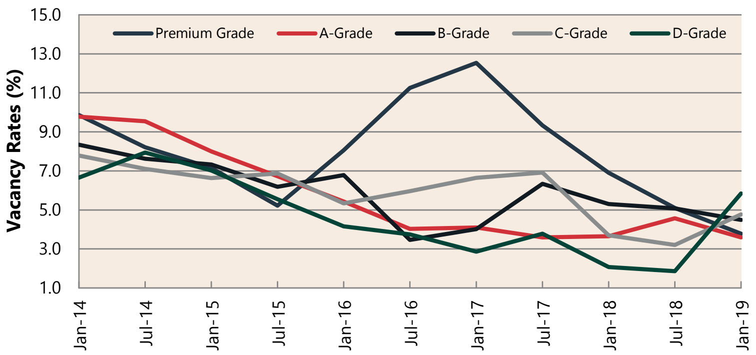



Chart 2— Sydney CBD Office Vacancy Rate
Source: PCA / Preston Rowe Paterson Research

The Sydney CBD office vacancy continues to decline with overall vacancy declining by 0.5% to 4.1%. The continued decline was primarily due to limited stock as a result of the continued high stock withdrawal levels. The availability of new office supply in Sydney CBD remains tight with the new additions anticipated in the next twelve months to be mostly pre-committed. Leasing conditions in the area may remain favourable to landlords as the market remain undersupplied.

### New Developments

| Project | Stage of Development | Owner | Net Lettable Area (SQM) | Completion Date |
|---|---|---|---|---|
| **275 George Street** | Construction | Daibiru Corporation | 7263 | Q2 2020 |
| **60 Martin Place** | Construction | Investa Property Trust/Martin Place Whole Sale Syndicate | 38,600 | Q3 2019 |
| **Wynyard Place** | Site Works | Sovereign Wynyard Centre Pty Ltd | 58,974 | Q1 2020 |
| **Quay Quarter Sydney/AMP Precinct** | Construction | AMP Capital Investors (AMP Wholesale Office Fund) | 88,274 | 2021+ |
| **Central Park** | Construction | Frasers Property Gorup / Sekisui House Australia | 5,447 | Q2 2019 |
| **6 York Street** | DA Approved | NGI Investments | 6,000 | Mooted |
| **Kindersley House** | DA Approved | Investa + Ausgrid | 24,000 | Mooted |
| **Circular Quay Tower** | DA Applied | Lendlease | 55,000 | 2021+ |
| **Barrack Place** | Completed | Investa Office Fund | 20,795 | Q4 2018 |
| **210 George Street** | DA Approved | Poly Australia | 16,500 | 2021+ |
| **133 Liverpool Street** | DA Applied | Sydney Catholic Archdiocese | 24,000 | 2021+ |
| **Daramu House** | Construction | Lendlease | 10,000 | Q4 2019 |

Chart 3— New Office Developments in Sydney CBD
Source: PCA / Preston Rowe Paterson Research

### Stock by Grade

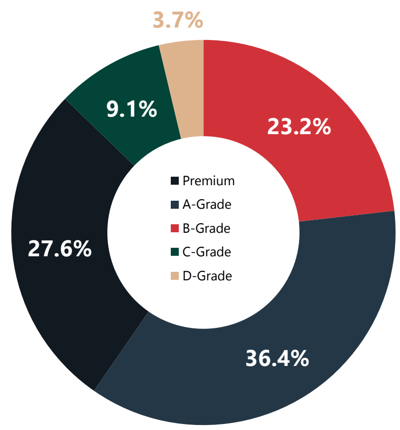



Chart 4— Sydney CBD Office Stock by Grade
Source: ABS / Preston Rowe Paterson Research

## Investment Activity

### 183-185 Clarence St, Sydney, NSW 2000

$180 million

5.15% Yield

$22,880 per sqm lettable area

A heritage property under redevelopment in Sydney's CBD has been purchased by *TH Real Estate* (property arm of US fund TIAA). The development will include the restoration and refurbishment of seven floors on the site of heritage listed Shelley Warehouse and adjoining former electrical substation along with a seven-level sculptural glass extension above the original improvements on site. The development which is currently under construction is scheduled to be completed in 2020 and will offer 7,867 sqm of A-Grade office space. *Built* will occupy four levels upon the developments completion.

### 60 Margaret Street, Sydney NSW 2000

$420 million

$11,378 per sqm lettable area

US private equity firm *Blackstone* has snapped up Hong Kong investment management firm *PAG's* half share of the A Grade office tower in Sydney's CBD. Blackstone acquired the **50% stake** for **$420 million** and will become joint owners with Mirvac. The 36 level office tower comprises 39,560 sqm of combined office and retail space as the building sits atop the MetCentre, which comprises of a **Woolworths** tenanted super market and 80 speciality stores. The property benefits from the high traffic corner of George Street and Margaret Street, along with Brookfield's development of a brand new commercial precinct above Wynyard Station and Wynyard Place.

### 8 Cunningham Street, Haymarket NSW 2000

$5.6 million

$12,903 per sqm lettable area

A three-level commercial building has been sold at auction to a local investor. The buyer plans to convert the 434 sqm building to a creative working space to attract higher rents. The site is located near the Chinatown retail precinct and is in close proximity to the inner-west light rail.

### 111-117 Devonshire St, Surry Hills NSW 2010

$21.1 million

3.2% Yield

$10.120 per sqm lettable area

A seven-level office building in the city fringe has sold at auction for $2.5 million over reserve price. The 405 sqm block with 2,085 sqm net lettable area was sold to a private local investor. The fully leased property has a **WALE of 1.66 years** and comes with basement car parking for 18 spaces. The annual income on the property equates to **$675,200 per annum**. Surry Hills is located 3 km south-east of the Sydney CBD.

### 8 Chifley Square, Sydney NSW 2000

$2,905,280 gross p.a

5 Years

$1,120 per sqm lettable area p.a

*Quantium Group* has agreed to terms with landlords **Mirvac and Keppel REIT** to lease 2,594 sqm of office space across levels six to eight in the premium grade property. The data tech company has taken over PPB Advisory's lease and will see out the rest of the **five years and two months** that were remaining on their lease.

## Leasing Activity

### 2 Chifley Square, Sydney NSW 2000

$196,875 gross p.a

$1,575 per sqm lettable area p.a

The bar continues to be raised in the Sydney premium office market with a private financial group securing a 125 sqm office space. The space includes harbour views, kitchen space, workstations and a boardroom. The rental price highlighted the ongoing willingness of corporate tenants to pay exorbitant rates for premium commercial space in the CBD, where vacancy has firmed to 4.6%, its lowest in 10 years. The deal is a boost for the owners, *GIC*, a Singaporean sovereign wealth fund, who recently placed a 50% stake of the tower on the market, with price expectations of around $900 million.

### 131 Macquarie Street, Sydney NSW 2000

$572,000 gross p.a

5 Years

$1,100 per sqm lettable area p.a

Financial Business *Money Me* has moved from North Sydney to the CBD comitting to a five-year lease on level three of **Hudson House**. The whole 520 sqm floor has a large terrace with views towards the Royal Botanical Gardens.

### 33 Erskine Street, Sydney NSW 2000

$642,675 gross p.a

3 Years

$825 per sqm lettable area p.a

Fintech start-up Athena Home Loans has leased 779sqm of office space at the Chartered Accountants Australia and New Zealand headquarters. The company has agreed to lease the entire third level for **three years**. The space also includes a rooftop training and function room with a wraparound balcony.

## Sydney North Shore

### North Sydney

Withdrawal remains the key contributor to the North Sydney office market over the six months to December 2019. 1,000 sqm of office space were withdrawn over the period for a mixed-use residential development on 160 Pacific Highway whilst no stock addition was recorded, reducing the total office stock in North Sydney to 809,430 sqm.

### Crows Nest/St Leonards

The latest Property Council of Australia's office market review noted that Crows Nest and St Leonard's office market stock remained at 306,881 sqm over the six months to January 2019, after continuous stock withdrawals since January 2013. Crows Nest and St Leonard's overall office vacancy declined over the period by -3.8% to 6.1%. A Grade office in the area largely contributed to the contraction of the overall vacancy, declining by -12.9% to 1.9%.

### Chatswood

The Chatswood office market stock remained at 278,919 sqm for the sixth semi-annual period, with one anticipated new development, *Cromwell Corporation's* Plaza Building (3,000 sqm), to be completed in the third quarter of 2020. The Chatswood office market overall vacancy continues to tighten, declining by -0.3% to 6.2% over the six month period to January 2019. The fall in vacancy rate is attributed to A Grade offices, which fell -2.7% to 3.9%, indicating an undersupply of primary offices in the area.

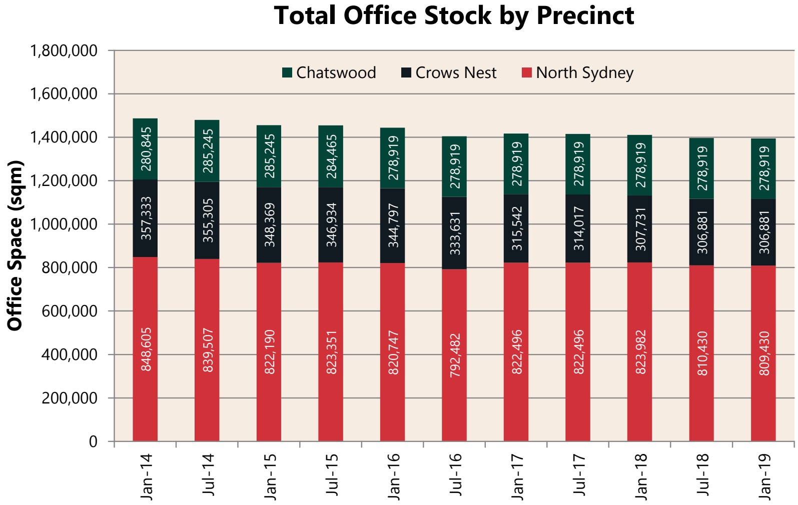



Chart 5— Sydney North Shore Total Office Stock by Precinct
Source: PCA / Preston Rowe Paterson Research

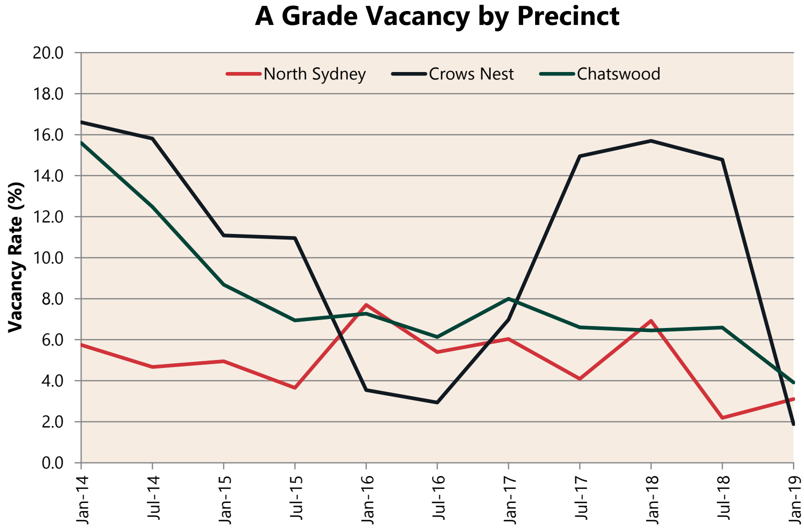



Chart 6— Sydney North Shore A Grade Office Vacancy by Precinct
Source: PCA / Preston Rowe Paterson Research

### Investment Activity

**67 Albert Avenue, Chatswood**

$158 million

5.7% Initial Yield

$10,676 per sqm lettable area

*RF CorVal* has sold its Chatswood property to Singaporean group *Mapletree Investments*. The property comprises 14,800 sqm of space, parking for 193 cars and a WALE of 3-years. The A-Grade property sits on a leasehold land and has approval for a second 7,100 sqm office tower on the site. Chatswood is located 12.2km north of Sydney's CBD.

**1&2/ 3-5 Young Street, Neutral Bay**

$3.85 million

5.8% Yield

$10,695 per sqm lettable area

A local syndicate of investors has purchased an office investment comprising of two strata units in Sydney's lower north shore. A private investor sold the 360 sqm property in an off market transaction. Neutral Bay is located 4.8km north of the Sydney CBD.

### Leasing Activity

**100 Pacific Highway, North Sydney**

$1,086,690 gross p.a

5 Years

$890 per sqm lettable area

*Mortgage Choice* has renewed its lease at the 1,221 sqm *ISPT* owned property. The decision was made as the North Sydney office market continue to see record low vacancy rates and heightened demand. North Sydney is 3.8 km north of the Sydney CBD.

# Sydney Western Corridor

## Parramatta

The total stock of the Parramatta office market is 719,547 sqm as at January 2019. The completion of the full refurbishment of Salvation Army's office building on 426 Church Street added 1,920 sqm to the market, offset by the withdrawals of Allworth Homes (440 sqm) and Hooker House (1,552 sqm) on 20 Parkes Street and 10 Phillip Street respectively. The vacancy rate in Parramatta decreased to 3.0% over the half year to January 2019 from the 3.2% recorded in July 2018. However, there may be a supply risk in the medium term due to back fill and mooted projects. Nonetheless, Preston Rowe Paterson note that the next stages of Parramatta Square are largely pre-committed and new projects will require pre-commitments.

## North Ryde/Macquarie Park

The total stock in the North Ryde/Macquarie Park office market decreased by 10,000 sqm over the half year to January 2019 as a result of the withdrawal of Macquarie View Estate on 112 Talavera Road. The withdrawal of the 1,000 sqm B Grade office pulled overall vacancy down 0.6% to 4.8% whilst A Grade office vacancy experienced a slight 0.1% increase to 3.5%. The first quarter of 2020 will see office stock in North Ryde/Macquarie Park increase by 25,000 sqm following the completion of Building C of 45 Waterloo Road. The remaining mooted supply, if realised, will add 160,545 sqm to the market.

### Total Office Stock by Precinct

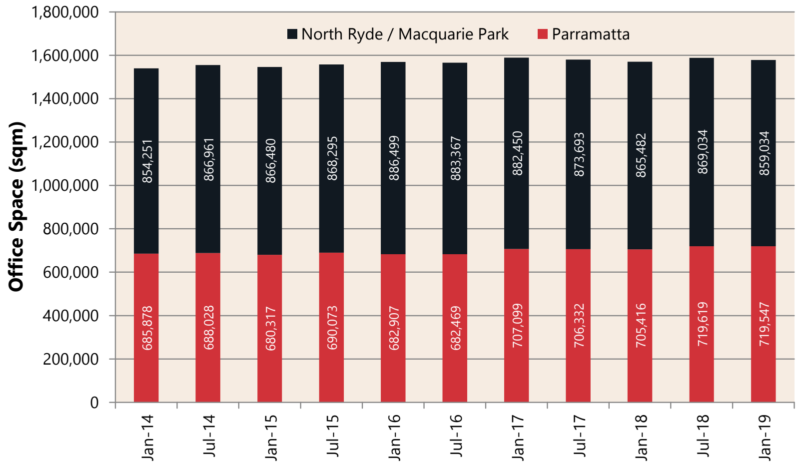



Chart 7— Sydney Western Corridor Total Office Stock by Precinct
Source: PCA / Preston Rowe Paterson Research

### A Grade Vacancy by Precinct

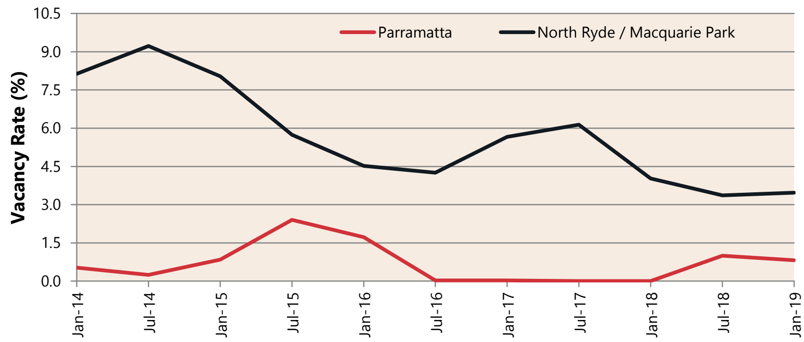



Chart 8— Sydney Western Corridor A Grade Office Vacancy by Precinct
Source: PCA / Preston Rowe Paterson Research

## New Developments

| Project | Market | Stage of Development | Owner | Net Lettable Area (SQM) | Completion Date |
|---|---|---|---|---|---|
| **Royal North Shore Hospital— Southern Campus** | Crows Nest/St Leonards | Construction | NSW Department of Health | 27,000 | Q4 2020 |
| **88 Christie** | Crows Nest/St Leonards | DA Applied | JQZ Pty Ltd | 22,000 | 2021+ |
| **100 Mount Street** | North Sydney | Construction | Dexus Property Group | 42,000 | 2019 |
| **Shopping World Site** | North Sydney | Construction | Winten Property Group | 63,000 | Q4 2020 |
| **118 Mount Street** | North Sydney | Construction | Zurich Australia Ltd | 20,000 | Q4 2020 |
| **45 Waterloo Road** | Macquarie Park | Construction | John Holland | 25,000 | Q1 2020 |
| **8-12 University Avenue** | Macquarie Park | DA Applied | N/A | 50,000 | Mooted |
| **95 Waterloo Road** | Macquarie Park | DA Applied | N/A | 14,874 | Mooted |
| **31-35 Epping Road** | Macquarie Park | DA Applied | Harvey Norman Group | 14,477 | Mooted |
| **Cnr Lane Cove Road & Waterloo Rad** | Macquarie Park | DA Applied | Frasers Property/Winten Property Group | 45,000 | Mooted |
| **Epicentre (Riverside Corporate Park)** | North Ryde | DA Approved | ISPT Pty Ltd | 34,194 | Mooted |
| **6 Hassall Street** | Parramatta | DA Applied | Charter Hall/Western Sydney University | 28,000 | 2021+ |
| **50 Macquarie Street** | Parramatta | DA Applied | G & J Drivas Pty Ltd | 25,222 | Q4 2020 |
| **Argyle Tower** | Parramatta | DA Applied | Scentre Group | 112,000 | Mooted |
| **Parramatta Square (Stage 4)** | Parramatta | Site Works | Parramatta City Council | 64,000 | Q4 2019 |
| **Parramatta Square (Stage 3)** | Parramatta | Construction | Parramatta City Council/Walker Corporation | 46,000 | Q3 2020 |
| **32 Smith Street** | Parramatta | Site Works | The GPT Group | 26,400 | Q4 2020 |
| **140 George Street** | Parramatta | DA Approved | Dexus | 45,700 | 2021+ |

Chart 9— Sydney North Shore and Western Corridor New Office Developments
Source: PCA / Preston Rowe Paterson Research

# Retail Market

The NSW retail turnover declined over the month of December 2018 by -0.6%, however year on year turnover still recorded an increase of 1.73%. The decline in retail turnover over the month may likely be an after effect of the unexpected growth in November 2018 (+0.8%), following the -0.6% in October and -0.6% in September. The growth in November were likely to be caused by online events such as Click Frenzy and Black Friday, encouraging consumers for early Christmas shopping.

Australia's retail property sector performed well over the quarter with numerous investment activities driven by the above average population growth (1.6% annually). Apparent demand in subregional malls were seen through the December 2018 quarter with three major investments recorded including the *Lidcombe Centre* sold for $145 million, *Hurstville Central* (for $119.5million) and the *Figtree Grove* (for $206million).

**NSW Year on Year Retail Turnover by Sector**

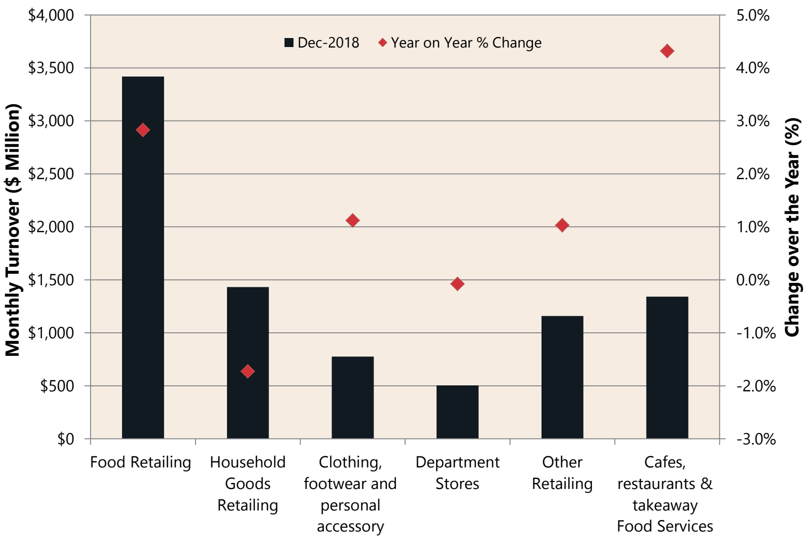



Chart 10— NSW Year on Year Retail Turnover by Sector
Source: ABS / Preston Rowe Paterson Research

## Investment Activity

### King Street Wharf, Darling Harbour NSW 2000

$125.5 million

6.03% Yield

$16,299 per sqm lettable area

The King Street Wharf restaurant precinct has sold to private property investment group *Markham*. The 7,700 sqm water front precinct, which is well known for its popular establishments such as **Cargo Bar, Bungalow 8** and others has a high historical tenant retention rate. Real estate investment manager *LaSalle Investment Management* sold the fully occupied property. The Darling Harbour precinct has seen significant development over the last few years with the continued development and investment in the area of projects like the Barangaroo precinct, IMAX and International Convention Centre (ICC). Darling Harbour is located on the western side of Sydney's CBD.

### 19 Princess Highway, Figtree NSW 2525


$206 million

6% Yield

$9,370 gross per sqm lettable area

*Blackstone* continues to slowly divest its $3 billion retail property portfolio after the sale of The Figtree Grove shopping centre. Singapore's *SPH REIT* joined with *Moelis Australia* to acquire the shopping mall. SPH REIT will take 85% stake in the mall while Moelis will take the remaining 15% stake. Figtree Grove is anchored by a 24 hour **Kmart**, along with **Coles, Woolworths**, two mini majors and 72 speciality stores. The property sits on a 50,900 sqm land parcel which provides 21,984 sqm of retail space. The transaction is latest in a flurry of sales within the sub-regional malls category towards the end of this year. Figtree is located 4 km from the Wollongong CBD.

## Online Retail

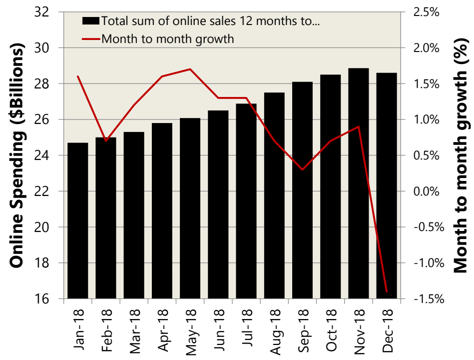
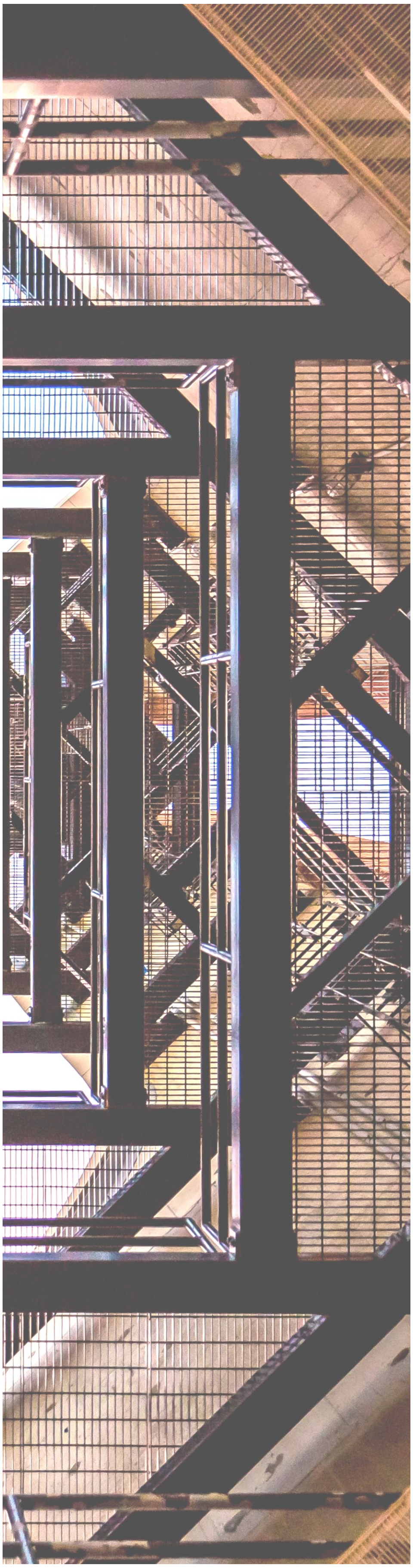



Chart 11— Online Retail Sales Index
Source: NAB / Preston Rowe Paterson Research

The NAB Online Retail Sales Index contracted -1.4% over the month to December 2018, down from a 2.9% increase in November, however, year on year, the index still grew 9.0%. NAB indicated that $28.6 billion was spent over the last twelve months, equivalent to approximately 8.9% of spending at traditional retailers (November 2018, ABS). The weak result for December was heavily impacted by considerable growth in November. The introduction of online sales events over the past few years such as Black Friday, Cyber Monday and Vogue Shopping Night cemented the importance of November in the online shopping calendar.

# Industrial Market



The key drivers of the NSW industrial market during the quarter are the growing online retail sector, the tight labour market and the record infrastructure spending. The strong non-residential construction pipeline will help to offset the impact of the expected decline in residential developments. Demand for modern and well-positioned industrial space remained elevated particularly from the logistics sector.

## Investment Activity

### 62 Belmore Road & 111 Bonds Road, Riverwood, NSW 2210

$41 million

$453 per sqm land area

*Austral Bricks* has secured a sale and partial lease-back deal with a private buyer over two adjoining brickworks sites in Sydney's tightly held south west. The buyer picked up the 9.05 hectare site, while Austral Bricks will occupy 13,263 sqm of the site on a 10+5 year lease agreement, generating $1.62 million net per annum for the new owner. The sale comes at a time when the parent company, ASX-listed Brickworks, posted a 5.8% fall in profits, having been heavily affected by the residential building downturn. The property holds substantial future development value due to its size and lack of improvements. Riverwood is positioned 19.2 km south west of Sydney's CBD.

### Cnr of Eastern Creek Dr & Old Wallgrove Rd, Eastern Creek NSW 2766

$35 million

$583 per sqm site area

Property fund manager **Charter Hall** through both the $3 billion *Charter Hall Prime Industrial Fund* and the $1.5 billion wholesale *Core Logistics Partnership* has invested in an industrial site in Sydney western growth corridor. The six hectare site will comprise a 32,000 sqm logistics warehouse and 1,250 sqm of office space. The centre, to be named **Compass Logistics Estate,** will form part of the Western Sydney growth corridor which has seen the state government pledge around $70 billion dollars' worth of infrastructure including the WestConnex and Western Sydney Airport. Eastern Creek is located 35 km west of Sydney's CBD.

## Leasing Activity

### 26-32 Walter Street, Wetherill Park NSW 2164

$1,318,000 net p.a

5 Years

$115 gross per sqm lettable area p.a

National freight company *TLS* has agreed to terms with *Charter Hall* owned warehouse and distribution centre in Sydney's west. The 11,460 sqm property features 12 loading docks, capacity for 16,000 pallets, maximum 11.2m internal clearance, warehouse access from three sides and benefits from major transport links to both the M4 and M7. Wetherill Park is located 34km west of the Sydney CBD.

### 46 Carrington Road, Castle Hill NSW 2154

$1,250,480 gross p.a

12 month covenant with options

$140 per sqm lettable area p.a

*Lendlease and Bouygues* joint venture of the $2.6 billion North Connex Project has seen them secure the lease to an 8,932 sqm industrial facility. The deal was a short-term **12 month covenant** with a six-month option. The warehouse will be used as the project's headquarters, which is due to be complete in the second half of 2020. Castle Hill is located 29.3km north-west of the Sydney CBD.

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# Residential Market

## Building Approvals

The total building approvals in Greater Sydney fell by -16.9% over the month to December 2018, to 2,830 approvals. This figure indicates a decline of -23.7% over the quarter and -26.49% year on year. The slowdown in building approvals was caused by declining investment sentiment in the residential market especially for dwelling units. Approvals for dwelling units declined -9.61% (to 1,730 approvals) in the month to December 2018 whilst approvals for houses declined -26.32% (to 1,100 approvals) over the same period. Nonetheless, year on year, both approvals for houses and units declined by -16.73% and -31.59% respectively. The substantial decline in dwelling approvals particularly for units indicates the end of Sydney's residential construction boom. However, Preston Rowe Paterson notes that there is still a high number of dwelling construction around Greater Sydney, most of which are ongoing projects scheduled to completed within the short to medium term.

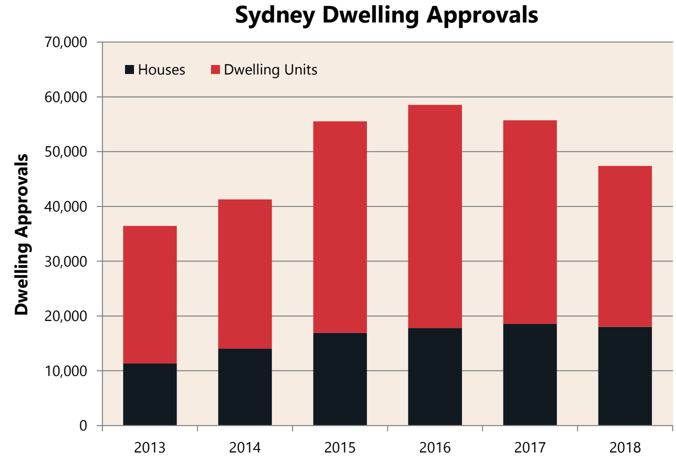


Chart 12— Sydney Dwelling Approvals
Source: ABS / Preston Rowe Paterson Research

## Greater Sydney

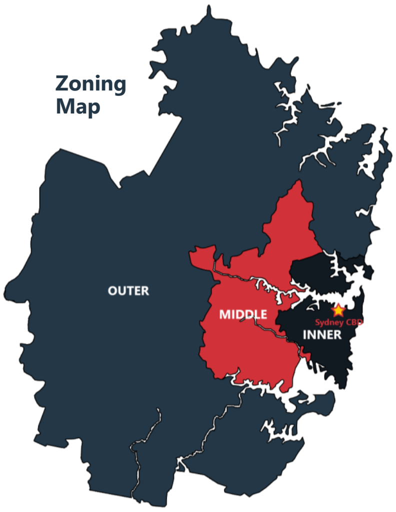


Chart 13— Greater Sydney Residential Zoning Map
Source: Preston Rowe Paterson Research

### Market Affordability

Median house price in Sydney fell further through the September quarter 2018 as noted by REIA's real estate market facts. Sydney's overall median house price declined by -3.1% to $1,101,500 over the quarter, following the -1.4% fall over the June 2018 quarter. The year on year figures show that Sydney's median house price fell -6.5% over the year to September 2018, reflecting the continuous decline in Sydney house prices in 2018 on the back of the fall out from the Royal Commission.

Both Sydney's inner and outer areas saw median house prices fall -2.9% over the quarter to $1,830,000 and $762,000 respectively or a yearly decline of -6.2% and -0.8%. Middle Sydney saw the same trend on a lower level, declining by -2.2% to $1,271,000 over the same period.

As for units, Outer Sydney fell furthest through the quarter, falling by -2.9% to $630,000, followed by Inner Sydney areas by -2.5% (to $895,000) while Middle Sydney median unit price declined by a more moderate level of -1.6% to $688,000.

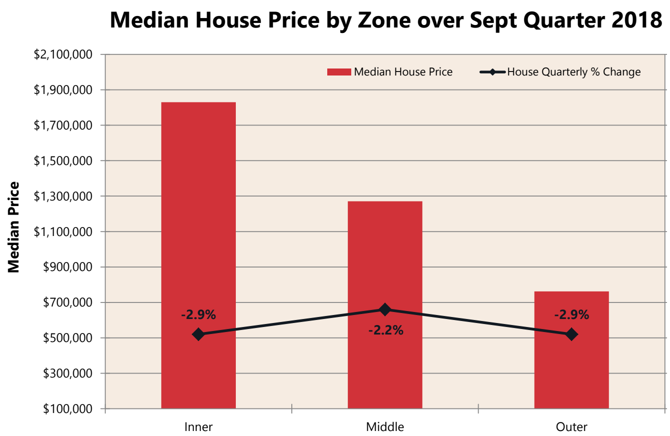


Chart 14— Greater Sydney Median House Price
Source: REIA / Preston Rowe Paterson Research

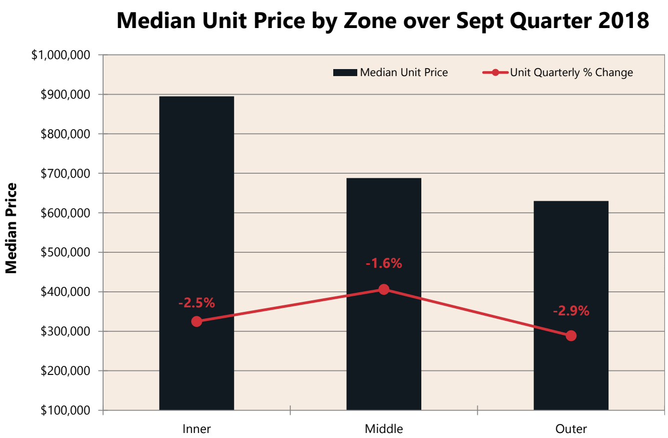


Chart 15— Greater Sydney Median Unit Price
Source: ABS / Preston Rowe Paterson Research

## Rental Market

Over the September 2018 quarter, the median rent price for houses in Sydney saw an overall decline. Sydney's outer areas performed best in the 2 bedroom house category recording a slight -0.7% decline over the quarter to $380 weekly. This is followed by Sydney's middle areas with a quarterly decline of -1.0% or -2.0% annually to $495 a week. Inner Sydney performed worst amongst all three zones for 2 bedroom houses, recording -4.0% decline over the quarter to $720 rent per week.

The three bedroom house category in Sydney better than the 2 bedrooms. Inner and Outer Sydney recorded a decline of -1.0% and -1.1% in weekly median rent price to $950 and $450 per week over the quarter whilst 3 bedroom houses in middle Sydney median rent remained at $600 per week.

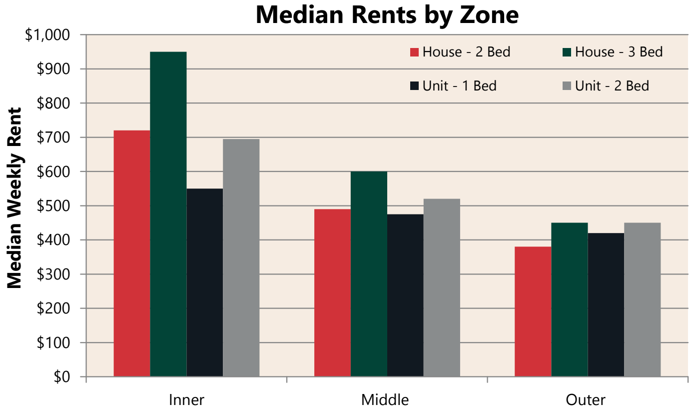


Chart 16— Greater Sydney Median Rents by Zone
Source: REIA / Preston Rowe Paterson Research

## Vacancy Rates

The overall residential vacancy rate in Sydney increased by 0.2% to 3.2% over the month to December 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 5.1% vacancy, followed by inner Sydney (+0.5% to 3.0%) and outer Sydney (+0.3% to 3.3%). The construction boom of 2015-2017 has seen an oversupply of dwellings hit the market, pushing up vacancies. As more residential projects reach completion over the near to medium term, vacancy rate may continue to increase. Albeit increasing, Sydney's vacancy rate remains lower than most of Australia's other capital cities.

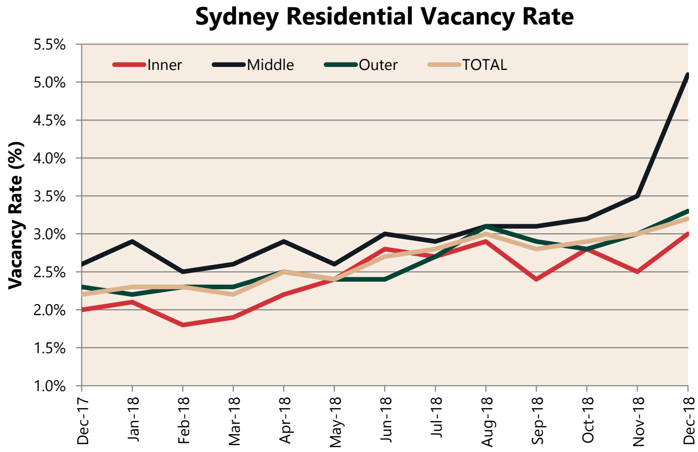


Chart 17— Greater Sydney Residential Vacancy Rate
Source: REINSW / Preston Rowe Paterson Research

# Regional New South Wales

## Newcastle

In Newcastle, the median house price increased 4.2% over the year to September 2018, including a 0.8% increase over the quarter to $620,000. In contrast, the median price for units in Newcastle declined by -0.6% over the quarter despite year on year change still recorded a positive +7.9% increase to $553,500. There were 158 recorded sales over the quarter, with median prices of the lower quartile at $430,000 and the upper quartile at $720,000.

Units performed better than houses in terms of rents over the year to September 2018 indicating higher tenant demand for units than for houses in Newcastle. The two and three bedroom houses in Newcastle recorded a -1.3% and -1.1% decline to $390 and $440. 2 bedroom units in Newcastle saw a quarterly decline of -2.5% to $385.However, this figure reflects a positive +1.3% year on year increase. 3 bedroom units in the area remained at $300 per week, reflecting a year on year increase of +7.1%

## Wollongong

Over the September quarter, Wollongong's median house price declined by -1.3% to $735,000. Units on the other hand remained at $571,000 over the same period. However, this figure still reflects a year on year decline of -0.7%. There were 167 transacted unit sales recorded by the REIA over the quarter, with median sale price of the lower quartile at $435,000 and the upper quartile at $705,000.

The median weekly rent for houses in Wollongong shows a year on year decline of -4.8% (to $390 weekly) for 2 bedroom houses and -2.0% (to $490 weekly) for 3 bedroom houses. As for units in Wollongong, the median weekly rent for 1 bedroom units declined by -3.4% to $280 and 2 bedroom units declined by -2.6% to $380 per week.

## Luxury Residential Investment

### 46 The Grove, Mosman, NSW 2088

$11 million

$12,457 per sqm land area

Sydney-based hedge fund manager *Robert Luciano* has sold a seven bedroom, 10 bathroom mansion near Balmoral Beach, after purchasing the property for $10.5 million in November last year. Luciano had intended to extensively renovate the c.2000 property, however after buying an $18 million weekender in Palm Beach in July he was devastatingly forced to sell. The property has sweeping harbour and ocean views, an indoor swimming pool and parking for eight vehicles. Mosman lies 6.5 km north-west of Sydney's CBD.

### The Bellagio Estate, Bowral, NSW 2576

More than $7 million

about $350 per sqm site area

The Italian inspired estate in New South Wales' Southern Highlands has sold after more than four years on the market. Although the exact price has been withheld due to strict confidentiality, the sale set the record for the highest price paid for a Bowral property. A local buyer snapped up the six bedrooms, seven bathrooms and five car garage estate which sits on two hectares of land. The property which was initially listed back in 2014 for $14 million experienced large reductions in its asking price throughout the campaign. Bowral is located 136km for Sydney's CBD.

## Residential Developments

### 59-99 Belmont Street, Alexandria, NSW 2015

$12 million

$480,000 per unit

Residential developer *Aqualand* will start construction in 18 months on a luxury apartment and terrace development on the cities fringe, despite the weakening housing market conditions. The development will comprise of 25 three bedroom apartments and terraces. Aqualand snapped up the 1,500 sqm former commercial and industrial site. The site will be in close proximity to the new Green Square township and the Waterloo metro station. Alexandria is located 4 km south of the Sydney CBD.

# Hotels & Leisure Market

### 145 Croudace Road, Elermore Vale, NSW 2287

About $12 million

$2,000 per sqm site area

Iris Capital's Sam Arnaout has acquired the **Shaft Tavern** in the western suburbs of Newcastle. The tavern features 26 gaming entitlements and sold with approval for a 16-room motel on the 6,000 sqm site. The sale is part of a string of investments by Iris Capital in the Newcastle area including developing a master planned mixed use project and recently buying a $30 million portfolio of pubs in the surrounding areas. Elmore Vale is located 13km west of Newcastle's CBD.

# Specialised Properties

### 93 Macpherson Street, Warriewood, NSW 2102

Childcare Centre

$7 million

5.7% Yield

$30,460 per placement

Through an expression of interest campaign, a private Sydney investor has snapped up a 665 sqm childcare centre. The two storey building which sits on a 2,218sqm corner site sold with a 10 year lease to **MindChamps,** producing a current **annual net income of $400,852** with increases of CPI plus 1%. The circa 2015 purpose built 90 place centre in Sydney's Northern Beaches has parking for 27 cars, large outdoor areas and classrooms. Warriewood is located 26km north of Sydney's CBD.

### 515 Ebden Street, Albury, NSW 2640

Childcare Centre

$2.65 million

7.1% Net Passing Yield

$30,460 per placement

A purpose built childcare centre in has been sold by *Lascorp Development* in the New South Welsh and Victorian bordering town of Albury. The centre is leased to **Kiewa Kids Early Learning** on a 20 year lease and will pay a **net annual rent of $189,000** with 3% annual increases. A private investor bought the 644 sqm childcare centre with a permit for 87 places. Albury is located 554 km south of Sydney's CBD and 326 km north of Melbourne's CBD.

# Rural

### 125 Glaisnock Road, Berthong, NSW 2594

$8.805 million

$8,957 per ha

**'Glaisnock'** a 983 ha mixed use farming holding has sold at auction to a local farming group. The property was sold with a full suite of improvements including a 5 stand shearing shed, sheep yards, cattle yards, workshop and machinery sheds, chemical shed, hay shed, 1,160 tonne of silo grain storage and a 5 bedroom weatherboard homestead. The farm also benefits from an extensive reticulated water system consisting of an electric bore supply network to 15 concrete troughs and several water tanks. Billionaire hedge fund manager *Michael Hintze* (under the operating title *MH Premium Farms)* sold the farm. Berthong is located 30km west of Young, 35km north of Cootamundra and roughly 279km from south-west of Sydney.

### 74C Back Arragons Road, Adelong NSW 2729

$6.2 million

$9,190 per ha

*Richard and Bernadette Cameron* have sold their 674 hectare property 'Mirradong', which they ran as a cattle trading enterprise. The property consists of a large workshop/machinery shed and a lane way system that runs through the middle of the property, connecting two cattle yards. In all 30 paddocks a water system has been installed ensuring a good water supply is maintained. The circa 1900 homestead consists of four bedrooms and three bathrooms. Adelong is located 410km from the Sydney CBD.

### 'Glendon Park' Tullock Road, Armindale, NSW 2064

$14 million

$4,328 per ha

*Gina Rinehart* has continued her investment in the rural sector, acquiring a cattle station in the New England Tablelands. The property that is ideally suited to cattle breeding and fattening, fine wool sheep and wool production covers 3,235 ha and will be used for Rinehart's **2GR Wagyu** beef business. The wagyu cattle bred on the property will be processed in Australia and then supplied to local restaurants and international restaurant chains such as Nobu. Armidale is located 477km north of Sydney.

# Property Funds & Capital Raisings

### Redcape Hotel Group

$50 million

The *Moelis* managed hotel group has added three pubs to its regional NSW pub portfolio before the fund is expected to float with a $1 billion portfolio value. Private consortium *Denfish Hotels* sold the three Wollongong pubs for $50 million. If Redcape does float it will make it the second largest listed pub portfolio behind the ALE Group in terms of value. It was reported that the fund expected to seek a **capital raise of $150 million**. The acquisition of the three pubs increases their weighting in the NSW market to 83% of the portfolio.

### Charter Hall Long WALE REIT

$50 million

The Charter Hall fund has further invested into the office and industrial space in Perth and Sydney, which is currently worth **$117.8 million** combined. **UBS** have a $60 million placement underwritten for the investment. The purchases align with the funds mandate to hold the assets with a long term WALE in the commercial property sector. The two deals are the latest ones by the fund as it recently sold 50% of its stake in Adelaide's ATO building for $135 million. The trust is buying half the stake in the *Optima Centre* in Perth for $62.6 million, representing a **yield of 7.1%** for the two A grade properties in Perth's CBD**.** The major tenant of the property is the Western Australian government whose lease expires in 13.7 years. In Sydney the fund has taken a 100% stake in the *National Archives Building* at Chester Hill from a private investor for $54.1 million. The Federal Government has 20 years remaining on the lease term as the deal represents a **yield of 6.6%.**

### Charter Hall Prime Industrial Fund

$50 million

One of Charter Hall's largest ever raisings of **$600 million** for its flagship prime industrial fund has been completed in three months and will take the funds under management to more than $4 billion. More than 40% of the equity raised came from existing investors and the rest was raised from new investors across Australia, Europe and Asia. The new capital will be spent on refurbishment of current assets along with further capital to make acquisitions of logistic and industrial facilities in the future. The Charter Hall Fund has been busy building new facilities such as a former printing site in Chullora in to a $150 million logistics facility and has been active in the acquisition of distribution facilities and industrial developments. The unlisted fund has a $900 million development pipeline for new logistic facilities and consists of **55 assets** with a **WALE of 9.2 years**.

Preston Rowe Paterson

International Property Consultants and Valuers

## Our Research

At Preston Rowe Paterson we take pride in the extensive research we prepare for the market sectors within which we operate in. These include Commercial, Retail, Industrial, Hotel and Leisure and Residential property markets, as well as Infrastructure, Capital, Asset, Plant and Machinery markets.

## We have **property** covered.

## We have **clients** covered

Preston Rowe Paterson acts for a diverse range of clients with all types of property needs, covering real estate, infrastructure, asset, plant and machinery interests, these include:

Accountants, auditors & insolvency practitioners
Banks, finance companies & lending institutions
Commercial & residential non-bank lenders
Co-operatives
Developers
Finance & mortgage brokers
Hotel owners & operators
Institutional investors
Insurance brokers & companies
Investment advisors
Lessors & lessees
Listed & private companies & corporations
Listed & unlisted property trusts
Local, state & federal government departments & agencies
Mining companies
Mortgage trusts
Overseas clients
Private investors
Property syndication managers
Real Estate Investment Trusts (REITS)
Rural landholders
Solicitors & barristers
Sovereign wealth funds
Stockbrokers
Superannuation funds
Trustee & custodial companies

## We have **real estate** covered

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

Metropolitan & CBD commercial office buildings
Retail shopping centres & shops
Industrial, office/warehouses & factories
Business parks
Hotels (accommodation) & resorts
Hotels (pubs), motels & caravan parks
Residential developments projects
Residential dwellings (houses/apartments/units)
Property Management
Rural properties
Hospitals & aged care
Special purpose properties
Extractive industries & resource based enterprises
Infrastructure including airports & port facilities

## We have **asset, plant and machinery** covered

We regularly undertake valuations of all forms of asset, plant and machinery, including:

Mining & earth moving equipment/road plant
Resort & accommodation, hotel furniture, fittings & equipment
Office fit outs & equipment
Farming equipment
Transport equipment
Industrial/factory equipment
Licensed club furniture, fittings & equipment
Building services equipment (lifts, air conditioning, fire services & building maintenance equipment)

## We have your **needs** covered

Our clients seek our property (real estate, infrastructure, asset, 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 & 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 & re-valuations
Rating and taxing objections
Receivership, Insolvency & liquidation valuations & support/advice
Relocation advice, strategies and consultancy
Rental assessments & determinations
Sensitivity analysis
Strategic property planning

## We have all **locations** covered

From our capital city and regional office locations we serve our client’s needs throughout Australia. Globally, we have three offices located in New Zealand, as well as associated office networks located in the Asia-Pacific region.

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**Thailand** via Capital and Co.
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**Philippines** via Cuervo Appraisal Incorporated
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