



Preston
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Property Market Report

South Australia

March quarter 2015

About This Report

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

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

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

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

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Commercial Office Market

Adelaide CBD



Investment Activity

Preston Rowe Paterson Research recorded limited sales transactions that occurred in the Adelaide CBD Office Market during the three months to March 2015.

81 Flinders Street, Adelaide, SA 5000

A local private syndicate has purchased an A Grade office block for **\$41.3 million**. The sale of the 9,812 sqm building reflects a rate \$4,209 psm. The sale of the 11-storey commercial building shows a **yield of 8.69%**. The property features a 4-star NABERS energy rating, a basement parking for 41 cars and has roof-top entertaining area. The property has two major tenants, *Finlaysons* and recruitment firm *Hender Consultants*, and other tenants including, gas pipe-lines company *Investra* and insolvency firm *Ferrier Hodgson*.



Development Sites

The Property Council of Australia's (PCA) Office Market Report January 2015 has revealed that the project located at **113-115 King William Street** development is in the site works stage and is planned be completed in the 2nd quarter of 2016. The 25 level development will house 24 floors of office space and provide 6,900 sqm of office space and 200 sqm of ground floor retail area. The project owned by *Brinz Holdings* will become Adelaide's sixth tallest building in its city skyline.



Supply by Grade (Stock)

According to the Property Council of Australia's Office Market Report January 2015, the Adelaide CBD office market has tightened by -11,177 sqm to a total stock level of 1,374,147 sqm as at January 2015. This is reflected in the high space withdrawal of 14,883 sqm relative to the low supply addition of 3,706 sqm.

The Adelaide CBD market is mainly populated with A Grade office buildings, taking up 38.1% of the total market share. B Grade and C Grade office property takes up 26.4% and 21.3% of market share respectively and D Grade assumed 10.9%.

Premium Grade stock has remained the same since July 2006, amounting to just 3% of the total market share.

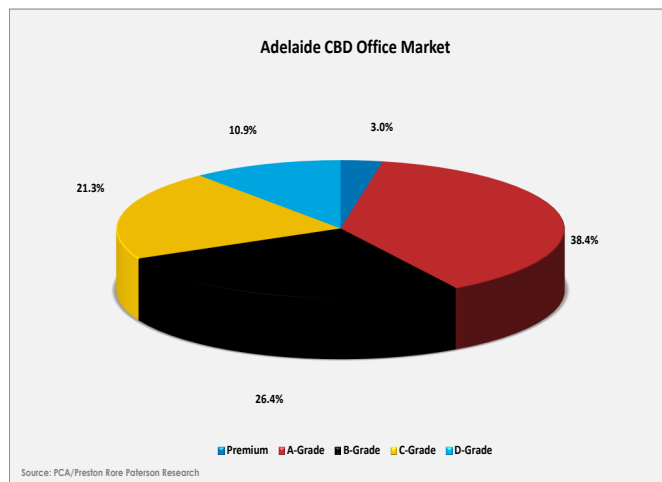


Chart 1 – Adelaide CBD Total Stock by Grade – Source PCA

Net Absorption

The Adelaide CBD office market has recorded a total net absorption of -18,703 sqm in the twelve months to January 2015. The only grades with positive net absorption in the six months to January was the Premium Grade and B Grade office, which absorbed 389 sqm and 3,769 sqm respectively.

The largest negative net absorption in the six months to January was recorded in the A Grade office stock at -4,880 sqm, followed by C Grade at -3,881 sqm and D Grade at -1,094 sqm.

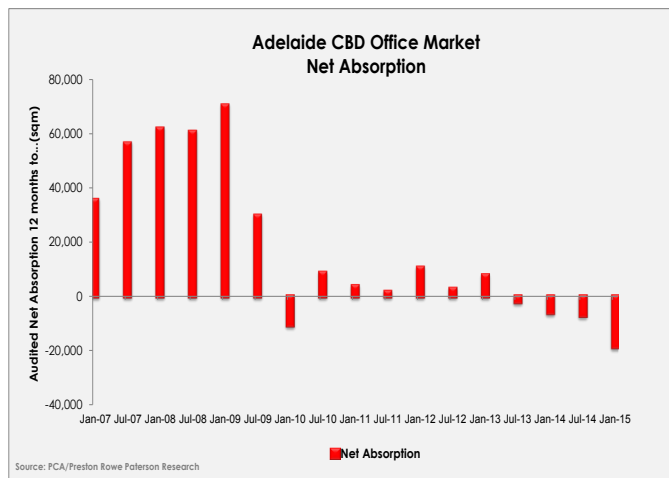


Chart 2 – Adelaide CBD Office Net Absorption– Source PCA



Total Vacancy:

The Adelaide CBD office market recorded a decrease in total market vacancy in the six months to January 2015 of 0.3% to 13.5% at 185,570 sqm as at January. Direct vacancy decreased to 11.9% and sub-lease vacancy increased to 1.6%.

In the six months to January, Premium Grade and B Grade office stock recorded a decrease in vacant stock to 10.7% and 10.7% respectively. C Grade office reported the highest increase of 2.1% to 17% vacancy rate. A Grade and D Grade office vacancy rate increased to 12.1% and 19.2% respectively.

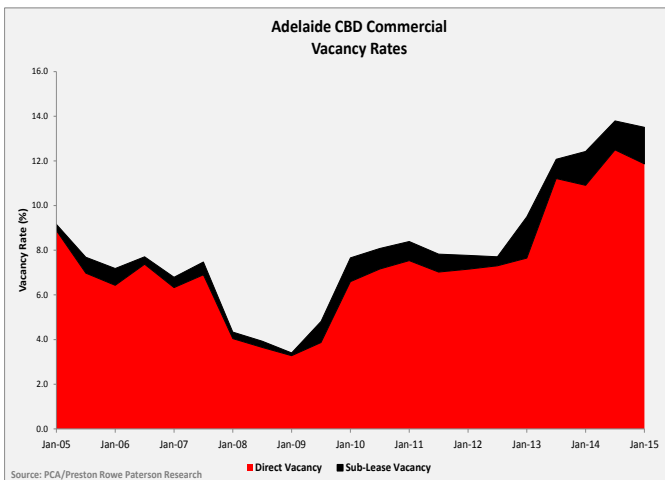


Chart 3 – Adelaide CBD Commercial Vacancy Rates – Source PCA

Retail Market



Investment Activity

Preston Rowe Paterson Research recorded the following notable sales transactions that occurred in the Adelaide retail market during the three months to March 2015;

11-13 Rundle Mall, Adelaide SA 5000

A Perth-based private investor has purchased the a two storey retail property located in the **Rundle Mall** shopping strip for **\$10.2 million**. The 426 sqm retail property features a ground floor retail leased to a women’s clothing distributor. The Adelaide-based private investor sold the property off the market shortly after the completion of the Rundle Mall redevelopment.

37 Sir Donald Bradman Drive, Mile End SA 5031

A private developer has purchased the a corner block retail property along the Sir Donald Bradman Drive bulky goods area for **\$2.05 million**. The 1,7531 sqm property is occupied by the *Outdoor Furniture Specialists* on a 7 year lease. The property was sold on a **7.60% yield**. Mile End is an inner western suburbs of Adelaide located about 2km west of the Adelaide CBD.



Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (March 2015), the retail turnover figures recorded in South Australia produced a positive result. The South Australia total industry retail turnover increased by 0.25% over the month of March resulting in total turnover for the month of \$1,573.7 million. There was a recorded 6.17% growth in turnover in comparison to the March 2014 turnover results.

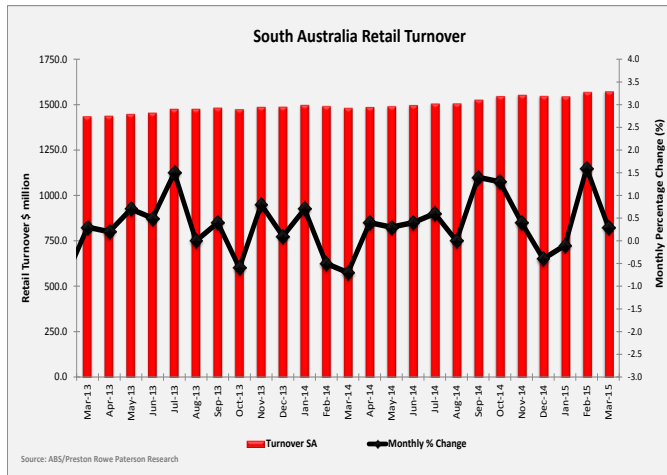


Chart 4 – South Australia Retail Turnover – Source ABS

The Adelaide retail market had predominantly positive turnover results over the month of March 2015. The highest monthly retail turnover was realised by Department Store (5.28%) followed by Household goods retailing (1.11%), Clothing, footwear and accessory retailing (1.09%) and Café, restaurant and takeaway services (0.94%). The March turnover for these industries were \$115.7 million, \$236.3 million, \$111.5 million and \$161.4 million respectively.

Food retailing fell by -0.9% to \$717.9 million monthly turnover. Other retailing also fell by -0.17% to \$230.9 million monthly turnover.

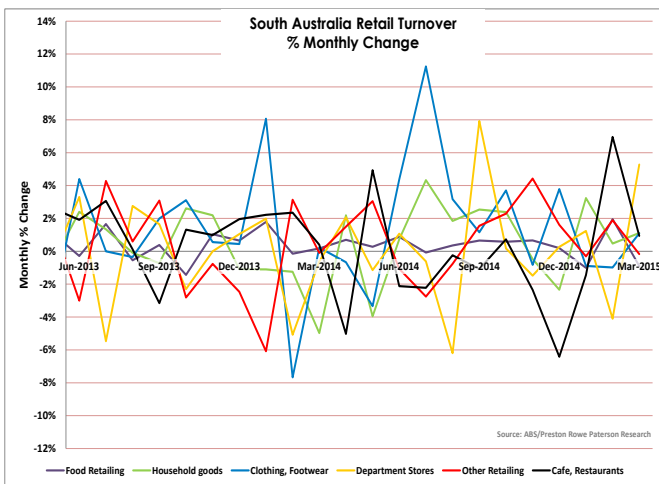


Chart 5 – South Australia Turnover % Monthly Change – Source PCA

A year on year analysis has revealed strong retail turnover results with the exception of Café, restaurant and takeaway services which fell by -7.82%.

The highest growth in annual turnover to March 2015 was recorded in Clothing, footwear and accessory retailing (23.2%). Household goods and Other retailing turnover grew by 12.42% and 11.6% respectively. Food retailing and Department Store also recorded an annual increase of 4.33% and 3.77%.

Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals March 2015, the total number of house dwelling approvals in the Adelaide Statistical Division over the month has increased to 423 approvals. Compared to the March 2014 house approval results, this is a decline of -21.38%. The total number of non-house dwelling approvals recorded a significant growth of 177.88% over the month of March with 289 approvals. In comparison to March 2014 this reflected a 389.83% growth.

The Adelaide total dwellings market experienced a growth of 19.26% in dwelling approvals over the year to March 2015.

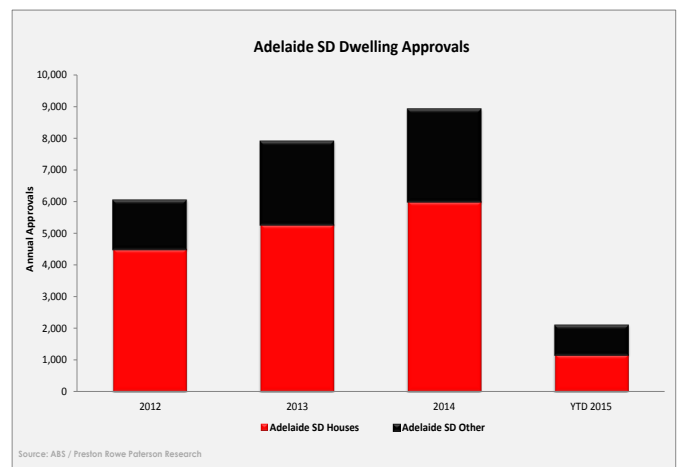


Chart 6 – Adelaide SD Dwelling Approvals – Source ABS

ADELAIDE

Market Affordability

According to the Real Estate Institute of Australia (REIA) the Adelaide median house price increased by 2.4% to a median sales price of \$425,000 over the December quarter 2014. A 3.7% growth in median price was recorded over the twelve months to December 2014.

Quarterly growth in median sale price were recorded across all Adelaide zones and Mt Gambier. Inner Adelaide house price grew by 1.6% to \$650,000 whereas Middle and Outer Adelaide experienced a smaller increase of 0.2% and 0.6% to the prices of \$465,900 and \$327,000 respectively. Mt Gambier house prices grew by 2.2% to \$235,000. Riverland house prices recorded a quarterly decline of -3.1% to \$173,500 and Port Lincoln fell by -1.5% to \$297,500.

Year on year analysis revealed positive results across Adelaide zones and negative results for the other cities. Inner, Middle and Outer Adelaide zones recorded annual growth of 0.7%, 3.5% and 1.4% respectively. However, Mount Gambier, Port Lincoln and Riverland experienced declines of -4.9%, -5.6% and -11.7% respectively.

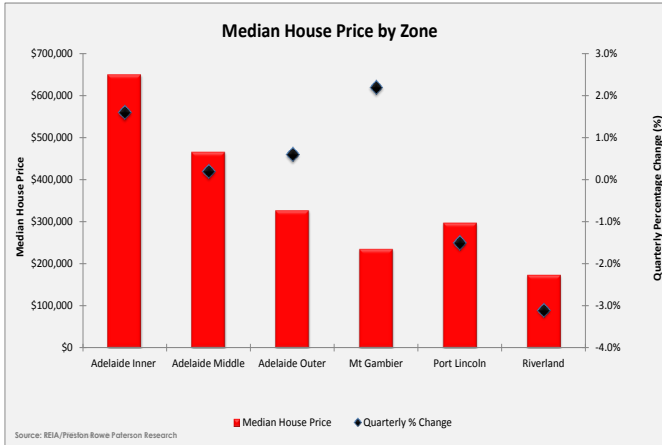


Chart 7 – Median House Price by Zone – Source REIA

The overall median price for other dwellings in Adelaide city has increased by 5.7% in the December quarter 2014. Outer Adelaide median sales price fell the most by -6.1% to \$251,000. Inner and Middle Adelaide recorded a growth of 4.1% and 2.8% to \$380,000 and \$320,000 respectively.

Mt Gambier has recorded the largest quarterly decline of -14.5% to a median price of \$185,000. Port Lincoln noted a -11.5% decrease to \$270,000.

Year on year analysis revealed positive results. The highest annual growth in other dwelling median sales price was recorded in Port Lincoln (29.5%). Inner, Middle and Outer Adelaide recorded annual growth of 12.5%, 3.2% and 2.4% respectively. Mt Gambier other dwelling prices realised a 0.8% annual growth.

There were no Other Dwellings median sales data recorded by the REIA for the South Australian zone of Riverland in the December quarter 2014.

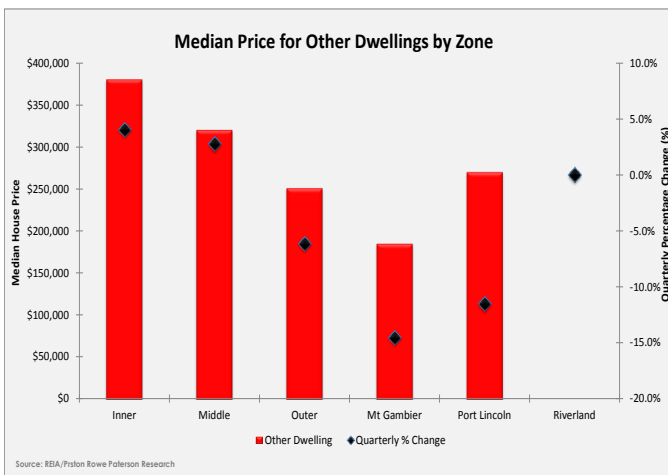


Chart 8 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

The December quarter revealed a mixed result in South Australia house rental market. Declines in median weekly rents were recorded across many Adelaide zones with the largest decrease in Adelaide median weekly rent attributed to Middle Adelaide 2 bedroom house of -3.2% to \$300. The highest rental growth was recorded in the Inner Adelaide 3 bedroom house of 4.8% to \$440. Outer Adelaide 3 bedroom house median weekly rent remain unchanged at \$295.

The greatest overall decline in median weekly rent was recorded in the Mt Gambier 3 bedroom house (-6.1%) to a weekly rent of \$230. Riverland in 2 bedroom houses weekly rent recorded the highest quarterly growth of 5.9% to \$180.

A year to year analysis has revealed mixed results in the Adelaide house rental market. The highest median weekly rental growth recorded in the 12 months to December 2014 was Inner Adelaide 3 bedroom (10%) and the largest fall in rent was recorded in Mt Gambier 2 bedroom house (-18.1%).

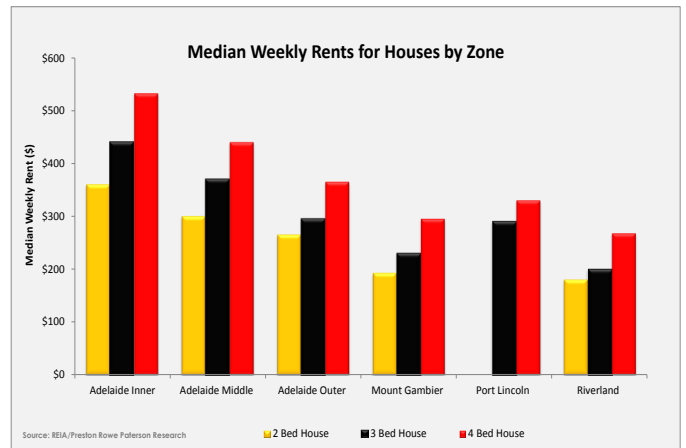


Chart 9 – Median Weekly Rents for Houses by Zone – Source REIA

South Australia Other Dwellings rentals revealed various results with many zones' median weekly rents increasing in the December quarter. The largest quarterly increase in rents was Port Lincoln 3 bedroom other dwelling of 8.9% to \$305. Other increases were recorded across Middle Adelaide 1 & 3 bedroom rising by 7.1% and 4.3% to a median weekly rent of \$375 and \$240 respectively.

Quarterly declines in median weekly rent were recorded in Outer Adelaide 1 & 2 bedroom of -9.1% and -1.9%, Inner Adelaide 1 bedroom of -1.9% and Riverland 2 bedroom of -4.4% other dwellings to median weekly rent of \$180, \$255, \$255 and \$162.50 respectively.

Year on year analysis of South Australian Other Dwellings rentals has revealed predominantly positive results. Middle Adelaide 1 bedroom other dwelling recorded the highest annual median rental growth of 9.1% to \$240. Followed by Riverland 1 bedroom growth of 6.3% to \$170 and Mt Gambier 3 bedroom increasing by 5.9% to \$270. The largest annual decrease in rent was recorded in Outer Adelaide 1 bedroom which fell by -10%.

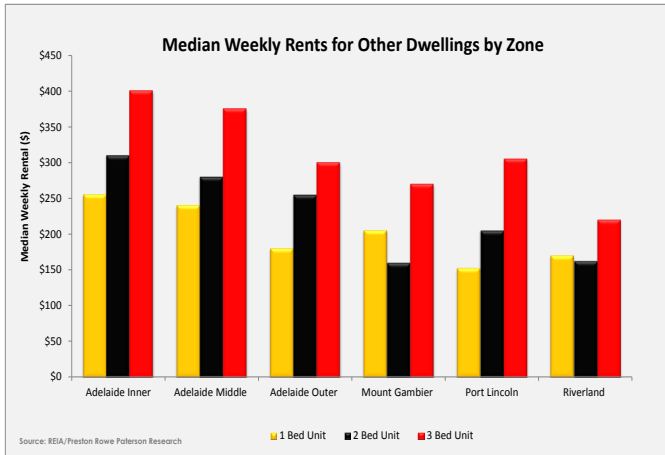


Chart 10 – Median Weekly Rents for Other Dwellings by Zone – Source REIA

Hotel & Leisure Market

Investment Activity

Preston Rowe Paterson Research recorded limited sales transactions that occurred in the South Australian Hotel & Leisure Market, during the three months to March 2015;

178 Jubilee Highway West, Mt Gambier SA 5290

Hotel Property Investment has purchased the **Western Tavern** for **\$6.35 million on a 7.75% yield**. The pub features a bistro, sports bar, TAB facilities, 33 gaming machines with the approval for 7 more and a drive-thru *Liquorland* bottle shop. Liquorland has a remaining 13 years lease on initial term with options to 2047. The pub's net income is approximately \$492,032 a year subject to an annual 4% increase. Mt Gambier is located about 450km southeast of the Adelaide CBD.



Regional Market

Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in the South Australia Regional Market, during the three months to March 2015;

Industrial

48 Property Bay Road, Port Lincoln SA 5606

The industrial property was sold for \$417,000 in vacant possession. A 564 sqm office/warehouse sits on the large 2,316 sqm corner block site. The onsite storage facilities comprise of an existing 90 tonne freezer and a 15 tonne chiller. Port Lincoln is located approximately 280km west of Adelaide straight line across the Gulf St Vincent and Spencer Gulf, or 646km by road.



Economic Fundamentals

GDP

GDP figures for the March quarter 2015 are not available until the 3rd June 2015, however, over the December 2014 quarter revealed that the Australian economy recorded growth of 0.55% seasonally adjusted which reflected growth of 2.47% seasonally adjusted over the twelve months to December 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.5%), Financial and insurance services (+0.5%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was the Professional, scientific and technical services (-0.5%).

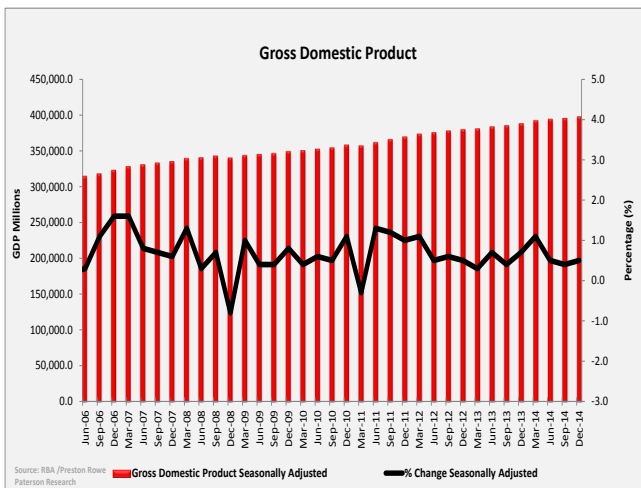


Chart 11 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to March 2015, the number of unemployed people decreased by 1,530 from 766,038 in February to 759,156 in March which is a 0.20% decrease. In comparison to March 2014, the number of unemployed people has increased by 42,327 which reflected an annual increase of 5.90%. The unemployment rate as at March 2015 is 6.2%.

The number of unemployed seeking full time employment recorded an increase over the month of March by 700 to 546,800 persons, reflecting a growth of 0.13%. The number of unemployed seeking part time employment recorded a decrease over the month by 2,200 to 217,700 persons, reflecting a decrease of 1.05%.

South Australia experienced a large absolute increase in seasonally adjusted employment by 8,200 persons to 805.6 million persons. The unemployment status in South Australia over the March Quarter decreased by 0.2% to 6.4%.

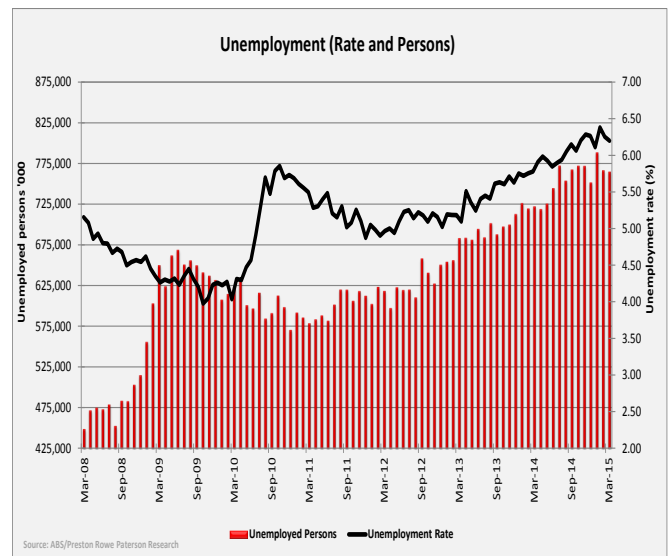


Chart 12 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the March quarter 2015 has decreased by 25 basis points to 2.25%. The Reserve Bank of Australia's Media Release for March 2014, released 3rd March 2014 explained that;

"In Australia the available information suggests that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually moved higher over the past year. The economy is likely to be operating with a degree of spare capacity for quite some time yet...Credit is recording moderate growth overall, with stronger growth in lending to investors in housing assets...The Bank is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have risen, in part as a result of declining long-term interest rates."

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years, even with a lower interest rate. This is the first interest rate movement since September 2013.

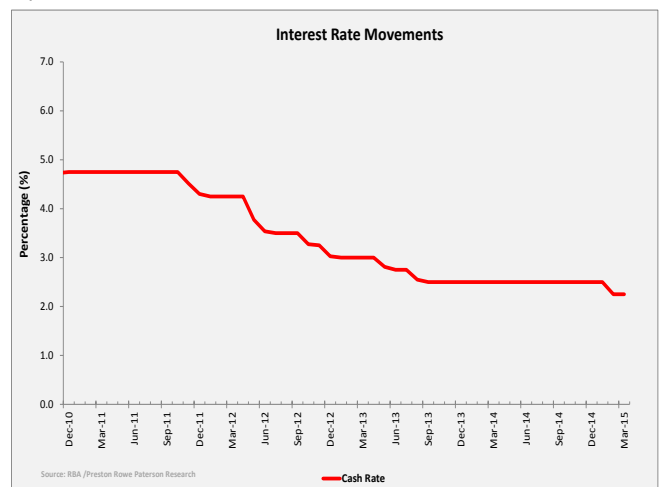


Chart 13 – Cash Rate—Source RBA



CPI

According to the Australian Bureau of Statistics (March 2015), the Australia's All Groups CPI increased by 0.2% over the March quarter from 106.6 to 106.8. The annual CPI change to March 2015 recorded a growth of 1.3%.

The most significant price rises over the March quarter were for Domestic holiday travel and accommodation (+3.5%), Tertiary education (+5.7%) and Medical and hospital services (+2.2%). The greatest price fall over the March quarter was attributed to Automotive fuel (-12.2%) and Fruit (-8%).

The Housing Group increased by 0.8% over the March quarter. The main contributors to the price rise were in new dwelling purchase by Owner-occupiers and Electricity recording a growth of 0.9% and 1.9% respectively. Over the twelve months to March 2015, the housing group recorded growth of 2.7% which was backed by the 4.8% annual growth in new dwelling purchases by Owner-occupiers and a 2.1% rise in Rents.

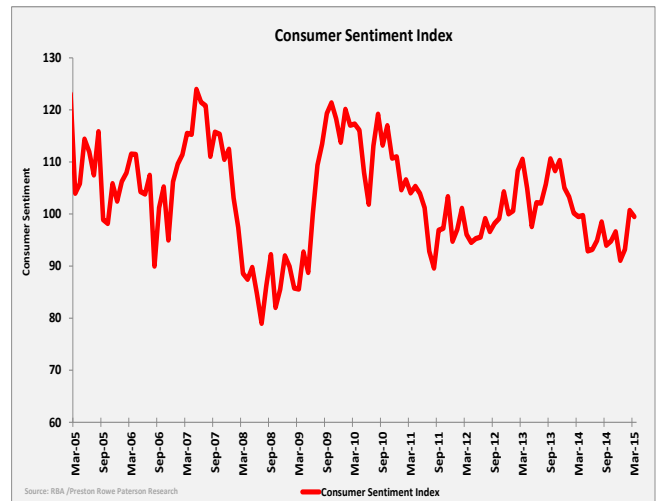


Chart 15—Consumer Sentiment Index—Source Westpac Melbourne Institute

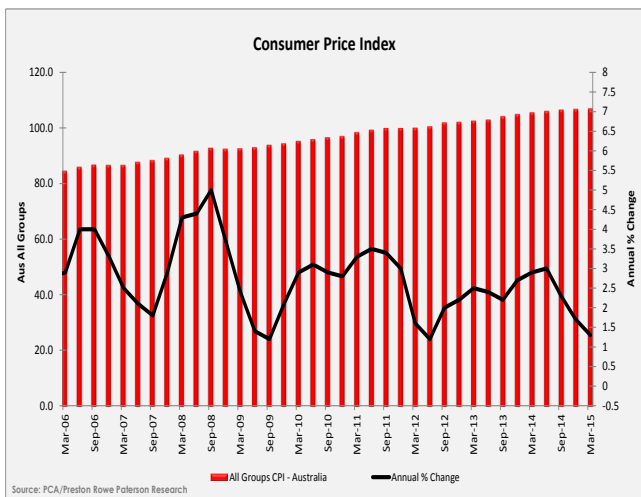


Chart 14 – Consumer Price Index – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 1.2% in March from 100.7 index points in February to 99.5 index points in March. Over the quarter the index has increased by 8.4 points, a 9.22% growth. Over the twelve months to March 2015 the index recorded no annual change.

The Index is returning to its pre-budget level in May 2014. Westpac's Senior Economist, Matthew Hassan commented; *"Some softening in sentiment was always likely in March given the big lift (in February) following the RBA's surprise 25bp rate cut... The overall message seems to be that while consumers remain very concerned about the outlook for the economy and job security, they are less concerned than they were in December and acknowledge the more positive situation around interest rates."*



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

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- Real Estate Development Valuation
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- 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

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- 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
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- Listed and private companies corporations
- Listed Property Trusts
- Local, State and Federal Government Departments and Agencies
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- 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:

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