



**Preston
Rowe
Paterson**

®
National Property Consultants

Property Market Report

South Australia

September quarter 2014

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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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Economic Fundamentals

GDP

According to the Australian Bureau of Statistics, the Australian economy recorded a quarterly growth of 0.3% seasonally adjusted which reflect a growth of 2.7% seasonally adjusted over the twelve months to September 2014.

The main contributors to expenditure on GDP were Net exports which increase by 0.8% and Final consumption expenditure increased by 0.4%.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were the Mining services which increased by 9.5%, Accommodation and food services which increased by 8.6% and Financial and insurance services up by 6.1%.

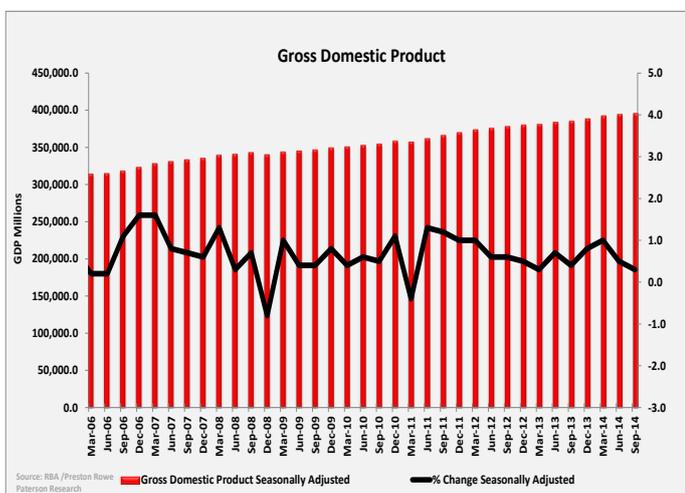


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to September 2014, the number of unemployed people increased by 11,027 from 735,530 in August to 746,557 in September which is a 1.50% increase. In comparison to September 2013, the number of unemployed people has increased by 52,306 which reflected a percentage increase of 7.53%. The unemployment rate is 6.1%.

The number of employment over the month to September 2014 recorded a decrease of 29,700 persons from 11,622,200 in August to 11,592,500 in September. In comparison to September 2013, employment in Australia recorded growth of 126,130 reflecting a percentage increase of 1.1%.

New South Wales experienced a large absolute decrease in seasonally adjusted employment by 4,100 persons. The unemployment status in New South Wales over the September Quarter increase by 0.1% to 5.8%.

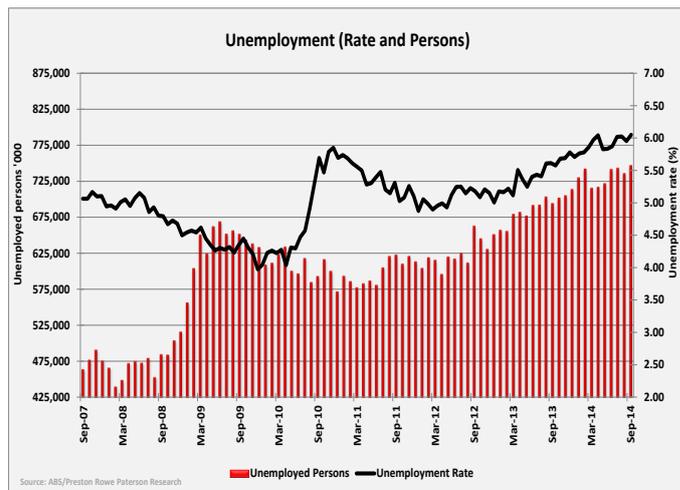


Chart 2 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the September quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for October 2014, released 7th October 2014 explained that;

"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."

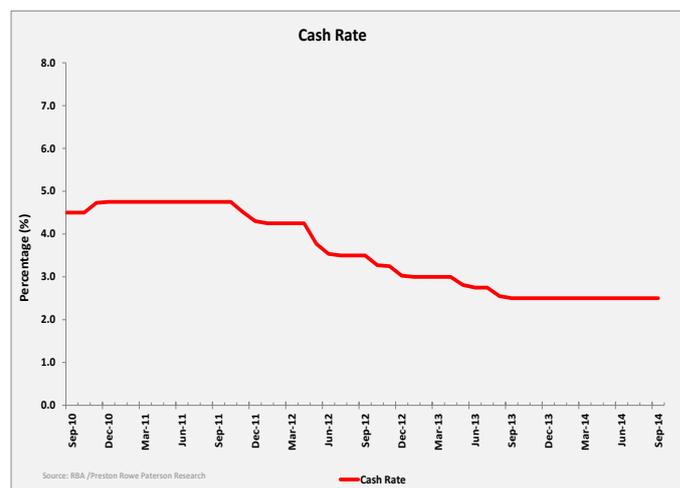


Chart 3 – Cash Rate—Source RBA

CPI

According to the Australian Bureau of Statistics (September 2014), the Australia's All Groups CPI increased by 0.5% over the September quarter from 105.9 to 106.4. The annual CPI change to September 2014 recorded a growth of 2.3%.

The most significant price rises over the September quarter were for fruit (+14.7%), property rates and changes (6.3%). The greatest price fall over the September quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

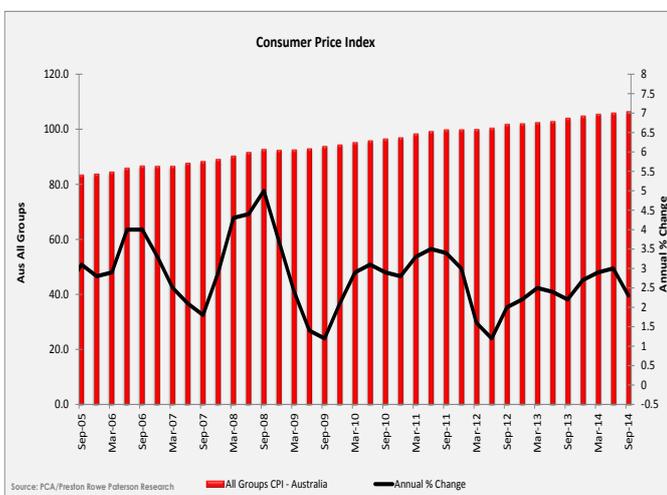


Chart 4 – Consumer Price Index – Source RBA

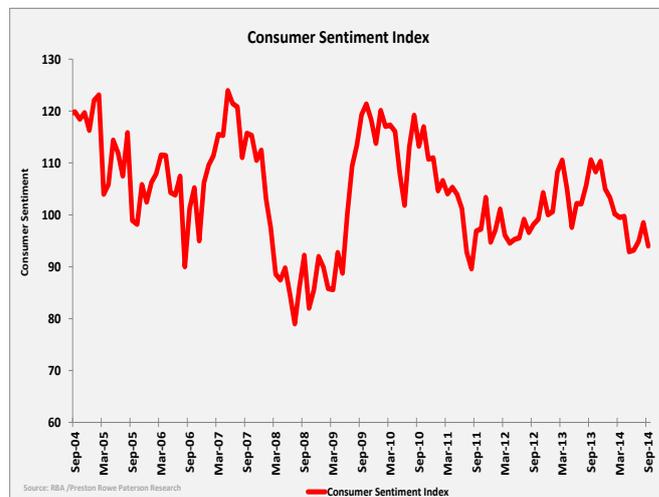


Chart 5—Consumer Sentiment Index—Source Westpac Melbourne Institute

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 4.6% in September from 98.5 index points in August to 94 index points in September. Over the quarter the index has increased by 0.8 points. Over the twelve months to September the index declined by 16.6 index points, reflecting a decline of 15.01%.

The Index has fell below the June quarter's recovery and is expected to continue to do so. Westpac's Chief Economist, Bill Evans stated; "This is a surprising and disappointing result...From June to August the Index had lifted by 5.9% to find it only 1.3% below the pre-Budget level. The Index is now 5.8% below the pre-budget level and only 1.1% above the post-Budget print".

Commercial Office Market

Adelaide CBD



Supply by Grade (Stock)

According to the Property Council of Australia's Office Market Report July 2014, there was 0.5% growth of Adelaide CBD office space due to 6,788 sqm of new office stock supply in the six months to July 2014. This brings the total Adelaide CBD office stock to 1,385,324 sqm.

All office stock grades remained unchanged in the six months to July 2014, except for B Grade office stock which increased by 6,788 sqm. The total B Grade office space was 374,869 sqm.

Adelaide CBD's office market is dominated by a mix of A Grade, B Grade and C Grade office space. Premium, A Grade, C Grade and D Grade stock levels were at 41,700 sqm, 527,815 sqm, 289,706 sqm and 151,234 sqm respectively as of July 2014.

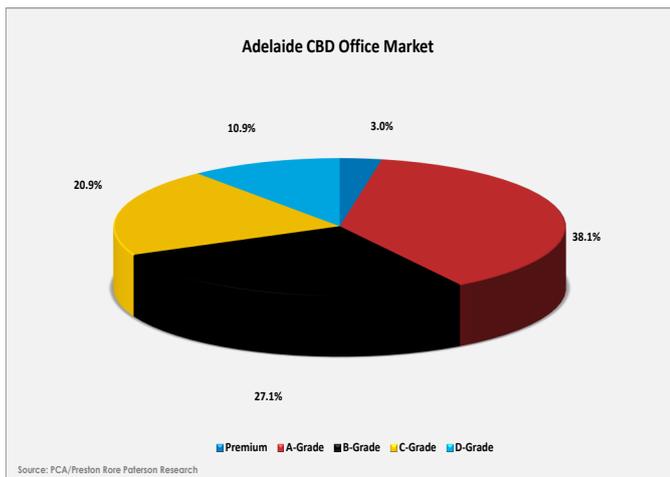


Chart 6 – Adelaide CBD Total Stock by Grade – Source PCA

Net Absorption

The total office market net absorption in Adelaide CBD was recorded at –13,006 sqm over the six months to July 2014. In the past six months, all stocks displayed negative absorption, except for B Grade office stock which absorbed 3,026 sqm of office space.

C Grade, D Grade and Premium recorded negative net absorption at –9,933 sqm, –2,758 sqm and –2,241 sqm respectively between January and July 2014. A Grade office space net absorption fell from 17,744 sqm in January to –1,100 sqm in July.

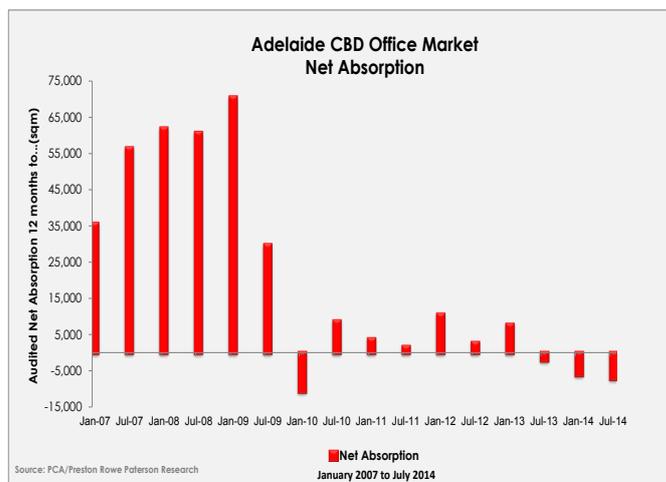


Chart 7 – Adelaide CBD Office Net Absorption – Source PCA

Total Vacancy:

The Adelaide CBD office market recorded an increase in total vacancy in the six months to July 2014 at 13.8%. Direct vacancy had increased by 1.6% to 12.5% and sublease vacancy is at 1.3%. The direct vacancy reflects 173,094 sqm and sublease vacancy at 17,956 sqm. The increase in vacancy rates are consistent to the negative market net absorption.

Total vacancy rates across all office grades have increased in the past six months to July 2014. The largest growth in total vacancy rate was Premium Grade office space, increasing from 6.3% to 11.6%. Followed by C Grade and D Grade office stock recording vacancy rates at 14.9% and 19% respectively. A Grade and B Grade vacancy increased marginally by 0.2% and 0.7% to total vacancy rate of 11.2% and 14.7% respectively.

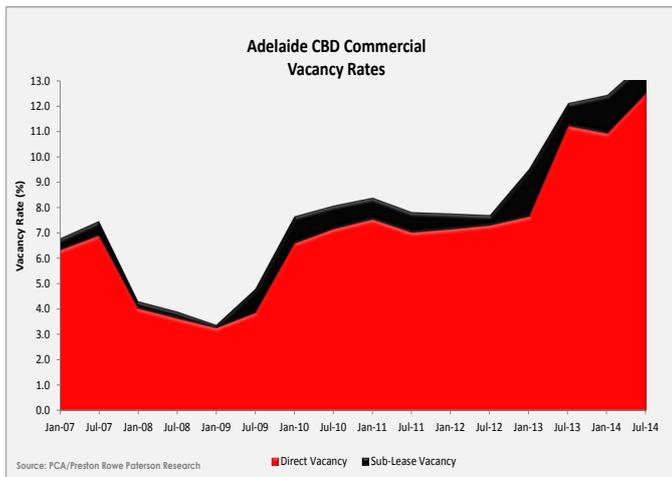


Chart 8 – Adelaide CBD Commercial Vacancy Rates – Source PCA

Retail Market



Investment Activity

Preston Rowe Paterson Research recorded a few major sales transactions that occurred in the Adelaide retail market during the three months to September 2014;

The Golden Way, Golden Grove SA 5125

Challenger Life Company has purchased the landmark **Golden Grove Village** shopping centre in Adelaide's northern suburbs for \$129.1 million from the Fitch family. The retail property is a 33,242 sqm sub-regional shopping centre with anchor tenants like Woolworths, Foodland, Big W and Target as well as 79 speciality shops. Golden Grove is located approximately 19km north-east of the Adelaide CBD.



820-840 North East Road, Dernancourt SA 5075

A private investor has sold the **Dernancourt Village Shopping Centre** to Primewest for \$25.5 million on an initial yield of 8.19%. The 8,416 sqm neighbourhood retail centre is leased to anchor tenants Coles and Goodlife Health Club, both holding a 15 year lease providing a weighted average lease expiry of 8.4 years. The retail centre's fully leased annual net income is around \$2,101,000. The refurbished centre is about 10km north-east of the Adelaide CBD.



460-470 Torrens Road, Kilkenny, SA 5009

The Listed Federation Centres has sold the Arndale Central shopping centre in Adelaide. Armada Funds Management purchased the centre paying **\$152 million** reflecting a **yield of 7.9%**. Arndale Central, located 7km north-west of the CBD at the corner of Torrens and Regency roads, was the first major shopping centre developed in Adelaide. The 37,000 m2 centre which had a \$40 million refurbishment last year is anchored by Harris Scarfe, Big W, Woolworths and Coles and includes 100 speciality shops. There are 2,300 car spaces on the 10 ha site.

Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (September 2014), the retail turnover figures recorded in South Australia produced varied results. South Australia total industry retail turnover increased by 1.23% over the month of September resulting in total turnover for the month of \$1,526.5 million. This is a 2.81% increase when compared to September 2013.

The Adelaide retail market had predominantly positive turnover results over the month of September 2014. The highest monthly retail turnover was realised by Department stores (8.09%) followed by Household goods (1.81%) and Other retailing (1.36%). The September turnover for these industries were \$113.6 million, \$225.1 million and \$209 million respectively. Clothing, footwear and accessory retailing increased by 0.36% to \$105 million and Food retailing turnover was grew by 0.63% to \$708.3 million.

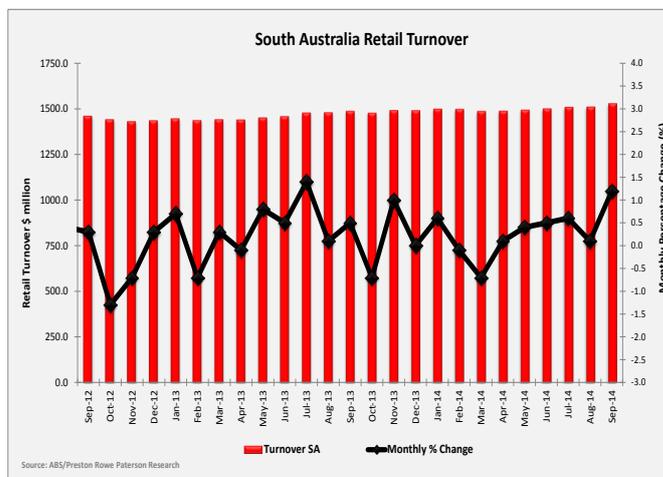


Chart 9 – South Australia Retail Turnover – Source ABS

Year on year analysis revealed mixed retail turnover results, with declines experienced in Other retailing (-8.05%) and Department stores (-3.15%). The most significant annual growth was recorded by Clothing, footwear and personal accessory retailing (21.11%), followed by and Food retailing (5.10%), Household goods (3.02%) and Cafes, restaurants and takeaway food services (2.61%).

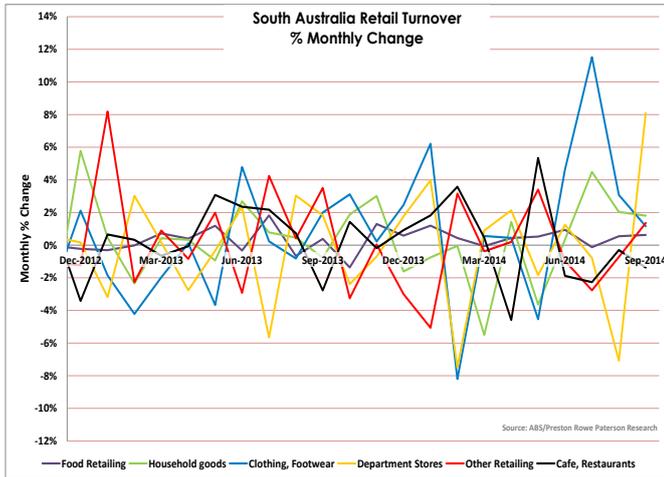


Chart 10 – South Australia Turnover % Monthly Change – Source PCA

Industrial Market

Investment Activity

Preston Rowe Paterson Research recorded sales transactions that occurred in the Adelaide Industrial Market, during the three months to September 2014;

103-109 West Avenue, Edinburgh SA 5111

The Charter Hall Core Plus Industrial Fund has purchased an industrial asset in the Edinburgh Parks industrial precinct. The property was sold for **\$14.5 million** with a 10 year lease expiring in 2024 to MTU Detroit Diesel Australia. The industrial office/warehouse includes a showroom and workshop area to a total gross floor area of **5,980 sqm**. Edinburgh is located approximately 21km north of the Adelaide CBD.



Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals September 2014, the total number of house dwelling approvals in the Adelaide Statistical Division over the month has increased by 13.1% from 458 approvals to 518 approvals. There was an annual growth of 16.4% in house dwelling approvals when compared to September 2013. The total number of non-house dwelling approvals recorded growth over the month of September 2014 of 16.39% by 49 approvals to 348 approvals. In comparison to September 2013 this reflected a 32.82% growth.

The Adelaide total dwellings market experienced a growth of 22.49% from September 2013 to 866 approvals in 2014.

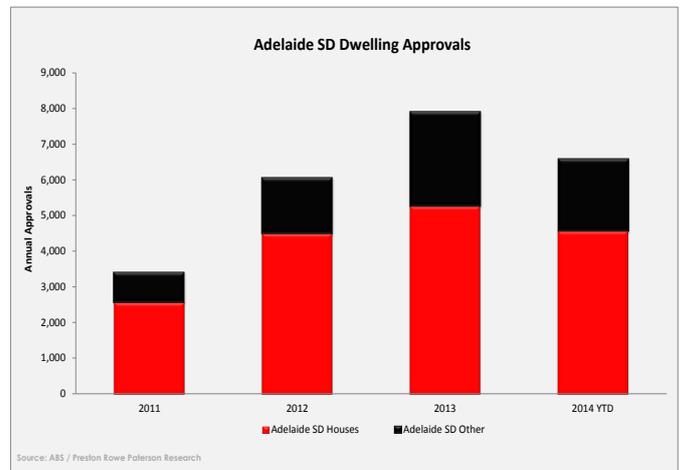


Chart 11 – Adelaide SD Dwelling Approvals – Source ABS

ADELAIDE

Market Affordability

According to the Real Estate Institute of Australia (REIA) the Adelaide median house price over the June quarter 2014 increased by 0.8% to a median sale price of \$418,200. Over the twelve months to June, growth of 4.5% was recorded.

Quarterly declines in median sale prices were experienced in Inner Adelaide and Riverland of -1.2% and -3.8% respectively to median house sale prices of \$640,000 and \$173,300. Port Lincoln and Mount Gambier experienced quarterly growth of 9.2% and 2.1% with median sales prices of \$320,000 and \$239,000 respectively.

Year on year analysis revealed positive results across all zones. Inner, Middle and Outer Adelaide zones recorded annual growth of 6.7%, 5.6% and 1.5% respectively. Middle and Outer Adelaide recorded median house prices of \$459,500 and \$330,000 respectively. However the most significant annual growth was experienced in Mount Gambier house prices, increasing by 8.6%.

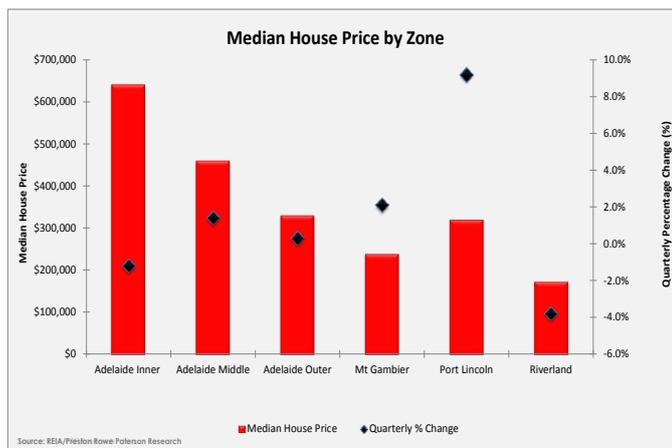


Chart 12 – Median House Price by Zone – Source REIA

There were no Other Dwellings median sales data recorded by the REIA for the South Australian zones of Mount Gambier, Port Lincoln and Riverland in the June quarter 2014.

All Adelaide zones recorded growth in the June quarter 2014. The largest quarterly growth was attributed to Middle Adelaide with 4.9% increase to median sales prices of \$320,000. Inner and Outer Adelaide recorded a growth of 3.3% and 3.7% to median sales price of \$363,800 and \$255,000 respectively.

Year on year analysis revealed positive results. Inner and Middle Adelaide recorded annual growth of 3.9% and 1.2% respectively. Outer Adelaide experienced a meagre annual growth of 0.6%.

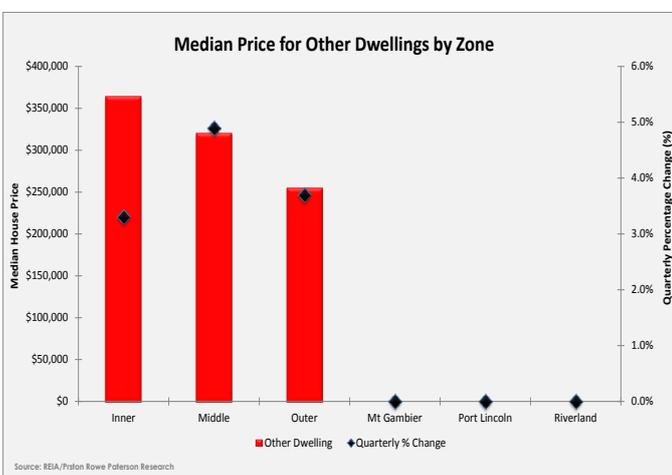


Chart 13 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

The June quarter revealed varied results in South Australia house rentals. The most marked declines were recorded in Mount Gambier 2 and 4 bedroom and Port Lincoln 3 bedroom houses falling by of -6.4%, -8.6% and -3.6% to median weekly rentals of \$220, \$292.5 and \$270 respectively. The most significant quarterly growth was attributed to Riverland 3 and 4 bedroom houses, both rising by 7.5% to median weekly rental of \$215 and \$285 respectively.

Year on year analysis revealed predominantly positive, with many zones remaining unchanged. Inner Adelaide 2 bedroom house median rent grew the most in the Adelaide zones with a 9.40% annual growth at \$380 a week. Followed by Inner Adelaide 3 and 4 bedroom, and Middle Adelaide 2 bedroom recording a growth of 7.50%, 3.8% and 6.7% to median weekly rent of \$430, \$550 and \$320 respectively. Middle Adelaide 4 bedroom house grew by 1.1% to \$445.

There was records that both quarterly and annual median weekly rent growth rates were the same in Middle Adelaide 3 bedroom, Outer Adelaide 2, 3 and 4 bedroom house. These zones grew by 1.4%, 4%, 3.4% and 2.9% to weekly rents of \$365, \$260, \$300 and \$360 respectively.

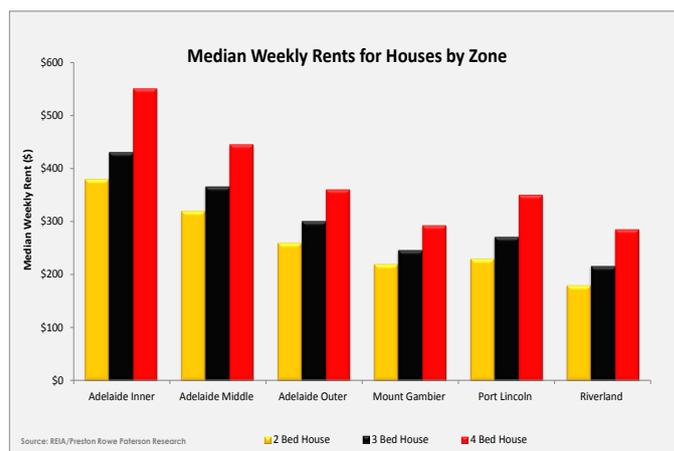


Chart 14 – Median Weekly Rents for Houses by Zone – Source REIA

South Australia Other Dwellings rentals revealed various results with many zones' median weekly rents remained unchanged. The largest quarterly increase in rents was Port Lincoln 1 bedroom other dwelling by 29.6% to \$175. Other increases were recorded across Middle Adelaide city with 1, 2 and 3 bedrooms median weekly rents rising by 2.2%, 1.8% and 2.8% to \$230, \$280 and \$370.

The greatest declines in median weekly rent were recorded in Riverland 1 bedroom and Mount Gambier 3 bedroom other dwellings, falling by -20.6% and -20% to \$135 and \$210. Followed by Outer Adelaide 1 bedroom decreasing by 6.3% to \$187.5.

Outer Adelaide 1 bedroom and Mount Gambier 3 bedrooms share the same quarterly and annual movements by 0% and 2.9% respectively to \$200 and \$262.50 weekly rents respectively.

Year on year analysis of South Australian Other Dwellings rentals has revealed the Inner Adelaide zone as the best performer, 1, 2 and 3 bedrooms increased by 7.3%, 3.3% and 10.5% respectively to a median weekly rental of \$265, \$310 and \$420 respectively.

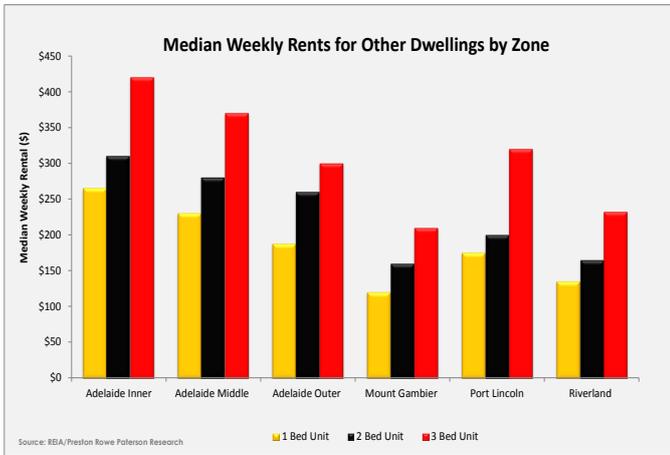


Chart 15 – Median Weekly Rents for Other Dwellings by Zone – Source REIA

Rural Market

Investment Activity

Preston Rowe Paterson Research recorded sales transactions that occurred in the Queensland Rural Market, during the three months to September 2014;

Hermann Thumm Drive, Lyndoch SA 5351

A Chinese-owned South Australian based company has bought the Yaldara Winery at Barossa Valley from Australian Vintage Limited for **\$15.5 million**. The **1000 tonne winery** was described as 'underutilised'. The sale is reliant on its new owners '1847 Winery' to receive a liquor license, it is expected change hands by December.



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
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- 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

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
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- Hotel owners and operators
- Institutional investors
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- Listed Property Trusts
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- 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
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- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
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- 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 & re-valuations
- 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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