Preston Rowe Paterson

National Property Consultants

Property Market Report

South Australia

September quarter 2013

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

GDP figures for the September quarter are not available until 4th December 2013, however PRP research over the June 2013 quarter has revealed that the Australian economy recorded steady growth, with the quarter GDP growth at 0.6% seasonally adjusted which resulted in annual growth to June 2013 increasing by 2.6%. The main contributors to GDP over the June quarter were Financial and Insurance Services which increased by 2.1% reflecting a 0.2% contribution to the GDP growth and Construction which increased by 1.9% reflecting a 0.1% contribution to GDP growth.

The Terms of Trade over the quarter rose by a marginal 0.1% following a 3.1% increase in the March quarter. Over the twelve months to June 2013 the Terms of Trade has fallen 4.9% signalling that export prices are declining at a faster rate than import prices.

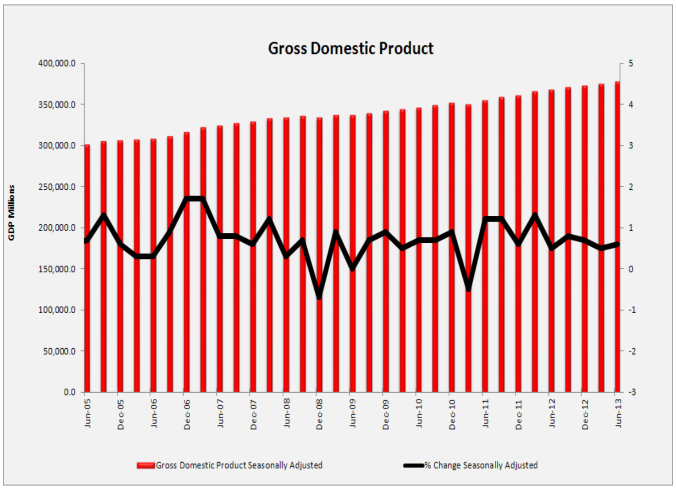

Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

The official employment figures released from the Australian Bureau of Statistics revealed that the unemployment rate decreased by 0.2 percentage points to 5.6% seasonally adjusted as at September 2013.

Employment over the month to September 2013 recorded an increase of 9,106 persons from 11,636,716 in August to 11,645,822 in September a percentage increase of 0.08%.

Full time employment over the month to September increased by 0.06 percentage points from 8,128,742 to 8,133,731 an increase of 4,989 persons. Part time employment recorded growth of 0.12% over the month to September to 3,512,091 persons. In comparison to September 2012, there was a 2.95% growth which is an increase of 100,691 persons.

The participation rate recorded a marginal decline of 0.1 percentage points to 64.9% as at September 2013, with year on year comparison revealing a 0.5 percentage point decline.

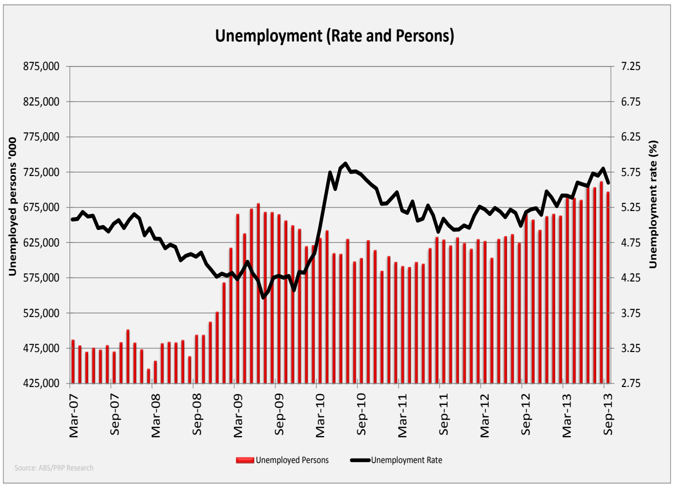

Chart 2 – Unemployment – Source ABS

Interest Rates

At the date of publishing, the official Cash Rate over the September quarter 2013 declined by 25 basis points to 2.50%. The decline took place in May and remained unchanged for the months of April and June. The Reserve Bank of Australia's Media Release for August 2013 explained that;

"In Australia, the economy has been growing a bit below trend over the past year. This is expected to continue in the near term as the economy adjusts to lower levels of mining investment. The unemployment rate has edged higher. Recent data confirm that inflation has been consistent with the medium-term target. With growth in labour costs moderating, this is expected to remain the case over the next one to two years, even with the effects of the recent depreciation of the exchange rate."

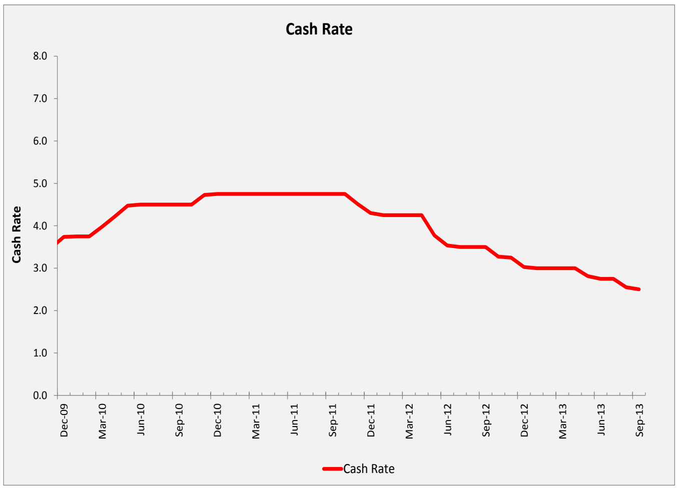

Chart 3 – Cash Rate—Source RBA

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CPI

The Consumer Price Index (CPI) rose by 1.2% in the September quarter 2013 with the index now recording 104.0, reflecting an annual growth to September of 2.2%. The most significant price rises this quarter were for water and sewerage, property rates and charges and automotive fuel with increases of 9.7%, 7.9% and 7.6% respectively.

The most significant price decline over the September 2013 quarter was attributed to vegetables, which declined by 4.5%.

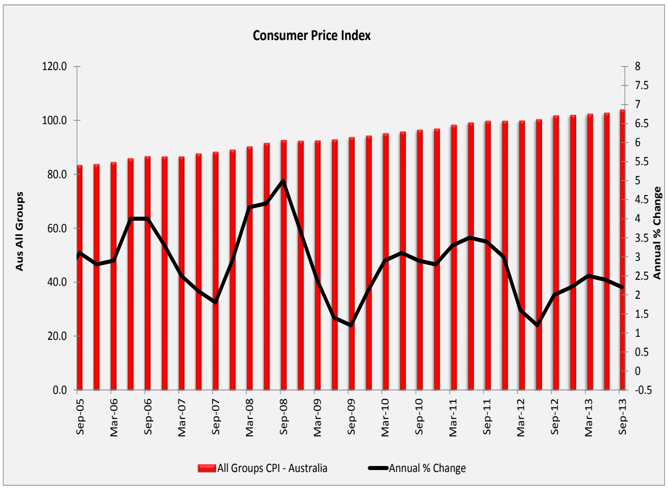

Chart 4 – Consumer Price Index – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 4.7% in September from 105.7 in August to 110.6 in September. Over the quarter the index has increased by 8.4 points, an increase of 8.24%. Over the twelve months to September the Index increased by 12.4 Index points, reflecting a percentage increase of 12.64%.

The Index has now reached its highest level since December 2010, when it was recorded at 111 Index Points. Westpac's Chief Economist, Bill Evans, stated "Confidence is also high around the housing market. The sub-index tracking assessments of 'whether now is a good time to buy a dwelling' jumped 6.5% to its highest level since August 2009".

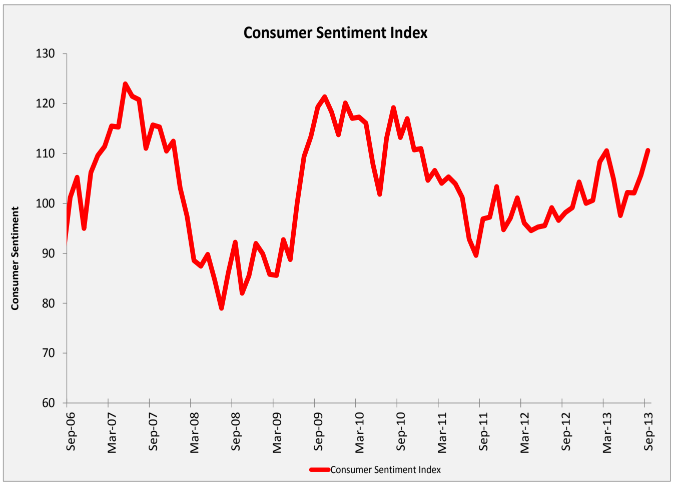

Chart 5—Consumer Sentiment Index—Source Westpac Melbourne Institute

Commercial Office Market

Adelaide CBD

Investment Activity

PRP Research recorded few reported sales transactions that occurred in the Adelaide CBD Office Market during the three months to September 2013;

Cbus Property has acquired a **21,450 sqm** office tower at **50 Flinders Street in the Adelaide CBD** for a reported **$140 million.** The tower is expected to be completed in October 2015 and tenants will include People's Choice Credit Union and Santos.

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report July 2013 have been analysed to derive at the following findings:

Supply

In the six months to July 2013, there was 30,048 sqm of new supply which entered the Adelaide CBD Office Market. This was broken down into 19,363 sqm of new supply due to completion of a development at 58-76 Franklin Street. The remaining 10,685 sqm was attributed to 2 partial refurbishments at 205-211 Victoria Square and 100 Waymouth Street.

Withdrawn supply over the period accounted for 4,390 sqm resulting in a net supply of 25,658 sqm. A Grade office space continues to hold a majority of the Adelaide CBD office market, with a 37.5% share, followed by B Grade office space with 27.8%, C Grade with 22.4%, D Grade with 11.3% and Premium Grade with 3.1%.

In 2014, there is an expected 6,520 sqm of supply set to re-enter the market due to the completion of refurbishments at 2-12 King William Street and 167-175 Flinders Street. In 2015+, 21,000 sqm is expected to add to the Adelaide CBD office market due to completion of a new development at 50 Flinders Street.

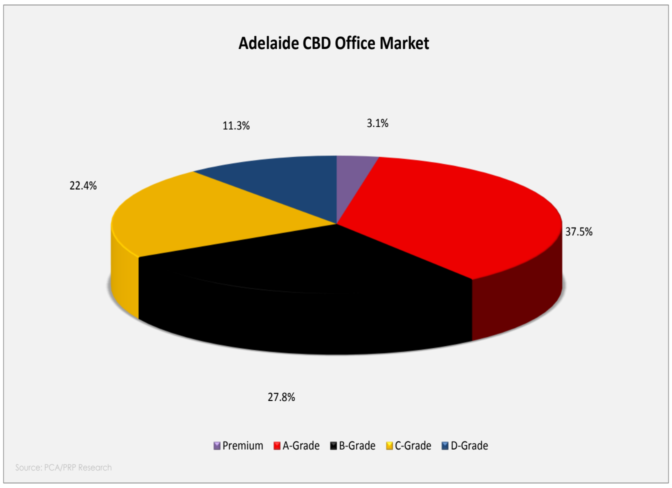

Chart 6 – Adelaide CBD Office Market – Source PCA

Net Absorption/Vacancy Levels:

Latest figures from the Property Council of Australia's (PCA) Office Market Report July 2013 have shown an increase in the Vacancy Rate for the Adelaide CBD. Total market vacancy rates for the Adelaide CBD increased by 2.6% over the six months to July 2013 from 9.5% to 12.1% reaching the highest level since July 2000.

All grades of office space recorded increases in vacancy rates over the six months, with the most significant increase attributed to A Grade, increasing by 3.5% to 9.9%. D Grade followed with a 2.9% increase to 18%, B Grade increased by 2.8% to 13.6% and Premium Grade and A Grade increased by 1.2% and 0.9% to vacancy levels of 4.4% and 11.9% respectively.

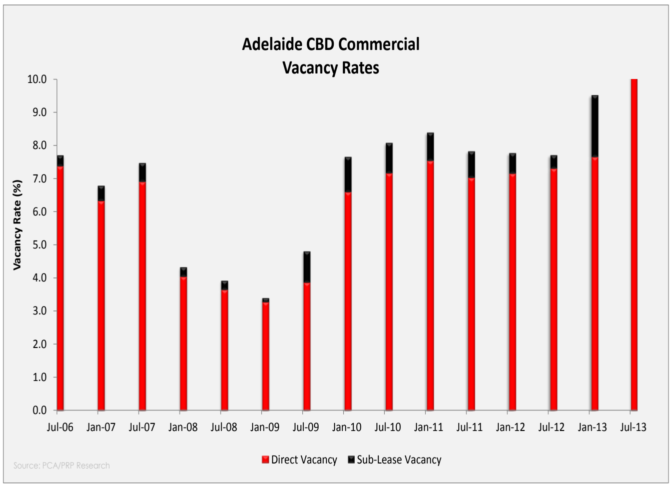

Chart 7 – Adelaide CBD Commercial Vacancy Rates – Source PCA

Over the six months to July, negative net absorption of -11,956 sqm was recorded and over the twelve months to July, negative net absorption of -2,115 sqm was experienced. The most marked movement in stock absorption was in the A Grade market which declined from 21,089 sqm in January 2013 to 713 sqm in July 2013. All other grades recorded negative net absorption, with C Grade recording -6,663 sqm, D Grade with -4,476 sqm, B Grade with -1,055 sqm and Premium Grade with -475 sqm.

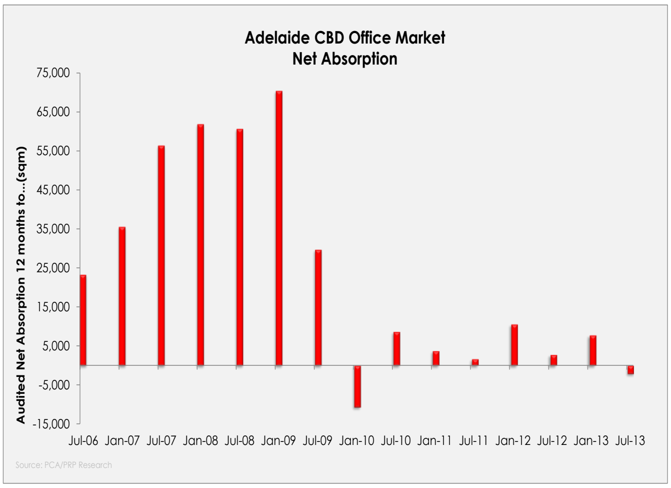

Chart 8 – Adelaide CBD Office Market Net Absorption – Source PCA

Retail Market

Economic Statistics

According to the Australia Bureau of Statistics category 8501.0 Retail Trade (August 2013), the retail turnover figures recorded in South Australia produced varied results.

South Australia total industry retail turnover declined by 0.22% over the month of August resulting in total turnover for the month of $1,493.7 million. This a 2% increase when compared to August 2012. Mixed results were seen across all retail turnover categories in the State of South Australia over the month of August 2013.

Newspaper and book retailing and department stores recorded the most significant growth over the month increasing by 10.82% and 3.45% to total retail turnover of $25.6 million and $113.8 million respectively.

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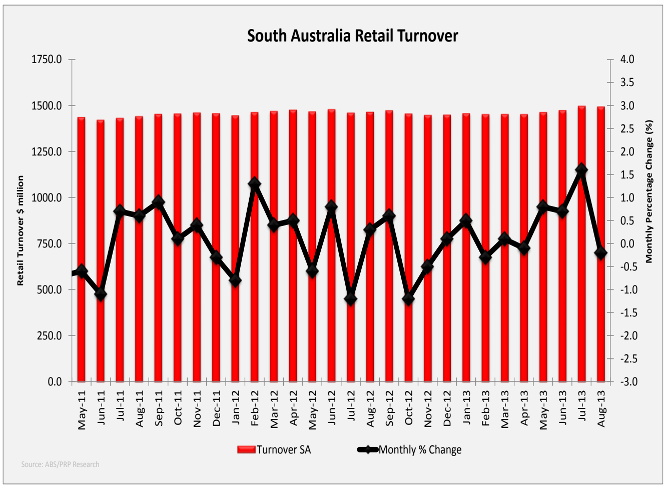

Chart 9 – South Australia Retail Turnover – Source ABS

The majority of sub-categories recorded declines over the month of August with clothing retail and other recreational goods retailing recording the most significant declines of 5.66% and 4.48% to monthly turnover of $41.7 million and $21.3 million respectively.

Over the year to August 2013 there were mixed results in the sub-categories, with the most significant declines attributed to other specialised food retailing (-15.89%), furniture, floor coverings, houseware and textile goods retailing (-11.81%), clothing retailing (-26.46%) and clothing footwear and personal accessory retailing (-13.03%) declining to turnover of $50.3 million, $57.5 million, $41.7 million and $84.1 million respectively.

The most marked annual growth was attributed to newspaper and book retailing (+60%), other recreational goods retailing (+15.76%) and cafes, restaurants and catering services (+20%) to turnover of $25.6 million, $21.3 million and $116.4 million respectively.

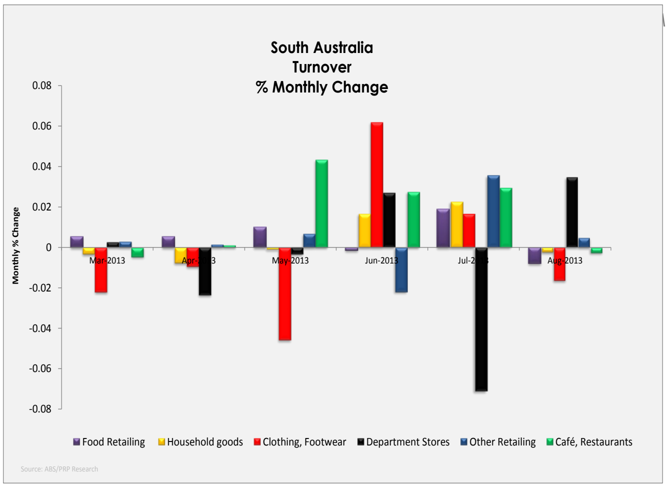

Chart 10 – South Australia Turnover % Monthly Change – Source PCA

Industrial Market

Leasing Activity

PRP Research recorded few leasing transactions that occurred in the South Australia Industrial Market during the three months to September 2013.

Ottoway Engineering has leased a **4,500 sqm** high-clearance warehouse at **35-43 Audley Street, Woodville North** for a 1.5 year term at a net rental of **$44 per sqm**. The site includes a 3,317 sqm older style warehouse with two certified lock up 12 tonne gantry cranes and a lock up yard.

Residential Market

Economic Statistics

According to Australia Bureau Statistics category 8731.0 Building Approvals August 2013, the total number of house dwelling approvals in the Adelaide Statistical Division over the month have declined by 7.91% from 493 approvals to 454 approvals. There was an annual growth of 14.94% in house dwelling approvals when compared to August 2012.

The total number of non-house dwelling approvals also declined over the month of August 2013 by 16.82% from 220 approvals to 183 approvals. In comparison to the month of August 2012 there was significant growth of 57.76% recorded.

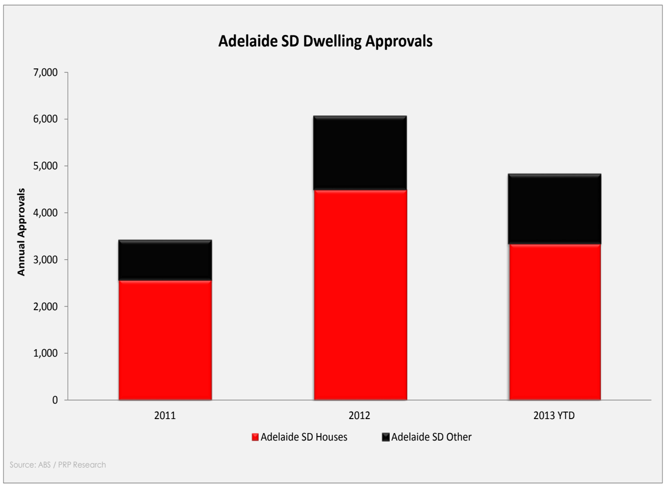

Chart 11 – Adelaide SD Dwelling Approvals – Source ABS

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Market Affordability

According to the Real Estate Institute of Australia (REIA) the Adelaide median house price over the June quarter 2013 increased by 1.3%, to a median sale price of $400,000. This reflects growth of 1.3% over the twelve months to June. Over the June quarter declines were recorded in Port Lincoln and Riverland of 3.2% and 0.3% to median sale prices of $314,500 and $169,500 respectively. Growth over the quarter was experienced in Inner and Outer Adelaide and Mount Gambier of 1.9% ($600,000), 1.6% ($325,000) and 1.4% ($223,000) respectively. Middle Adelaide remained unchanged at $430,000.

Year on year analysis revealed similar results, with Riverland being the only zone to record a decline (10.8%). The most significant annual growth was experienced by Port Lincoln (16.5%), followed by Mount Gambier (7.5%), Outer Adelaide (2.5%) and Middle Adelaide (0.7%). Inner Adelaide was the only zone to remain unchanged over the twelve months to June.

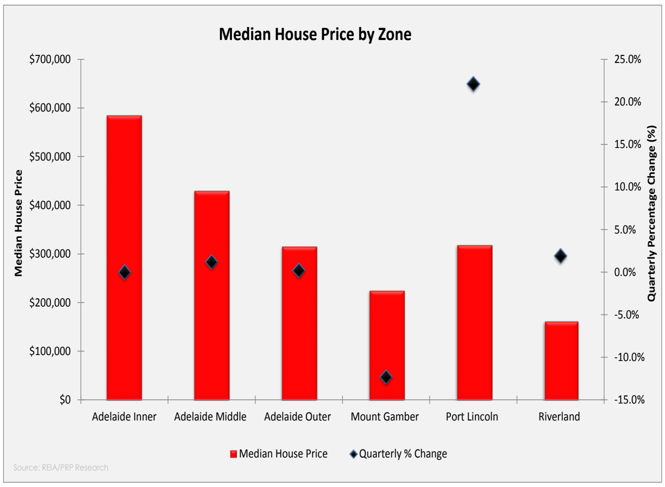

Chart 12 – Median House Price by Zone – Source REIA

Other Dwelling median house prices in Adelaide recorded growth over the quarter apart from Mount Gambier and Port Lincoln which declined by 4.5% and 33.2% respectively to median sale prices of $136,500 and $208,500 respectively. The most significant growth was experienced in Middle Adelaide (4%) to $350,000, followed by Inner Adelaide (2.9%) to $350,000 and Outer Adelaide (1.2%) to $253,000.

Year on year analysis revealed predominantly positive results, with the only annual decline attributed to Mount Gambier, which decreased by 24%. The most significant annual growth was recorded by Port Lincoln by 11.5%, followed by Inner Adelaide by 7.4% and Middle Adelaide by 4%.

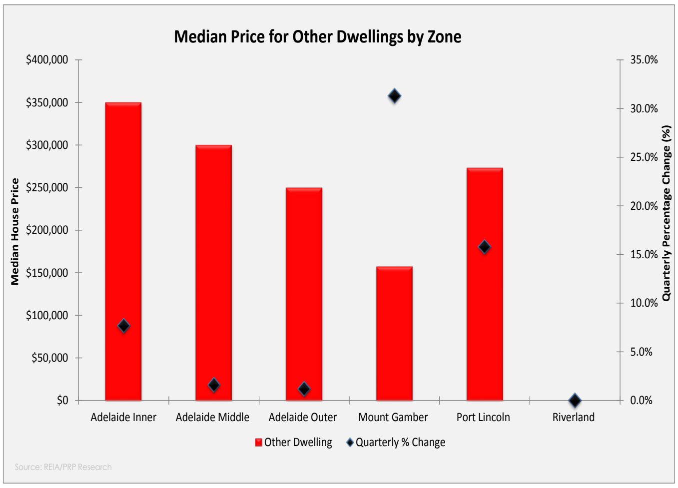

Chart 13 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

The June quarter saw varied results with the majority of zones recording declines. Adelaide 3 & 4 bedrooms were the only zones to record growth of 1.4% and 2.9% respectively to median weekly rentals of $360 and $440. The most significant declines were recorded by Riverland 3 bedrooms (7.1%) to $195 per week, Adelaide 3 bedrooms (4.8%) to $400 per week and Mt Gambier 2 and 3 bedrooms (4.3% and 4.2%) to $225 per week and $230 per week respectively.

Year on year analysis revealed positive results with the only decline over the year recorded by Inner Adelaide 2 bedrooms (0.7%) to $347.50 per week. All other zones recorded growth or remained unchanged, with the most marked growth in Port Lincoln 2 bedrooms (31.4%) to median weekly rental of $230, followed by Mt Gambier 2 bedrooms (12.5%) to $225 per week and Riverland 4 bedrooms (9.2%) to $267.50 per week.

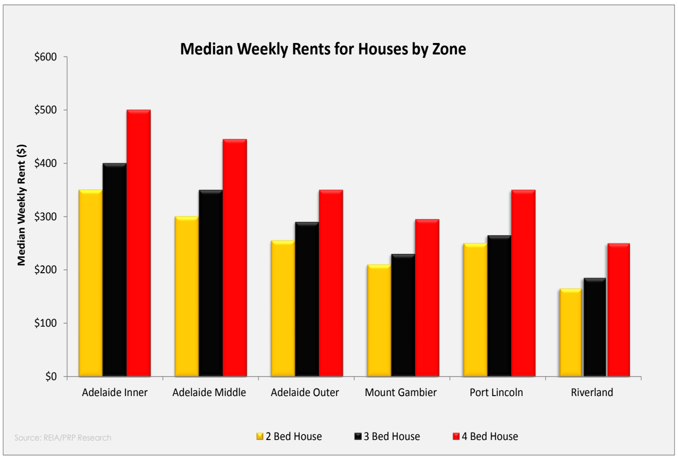

Chart 14 – Median Weekly Rents for Houses by Zone – Source REIA

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Other Dwelling rental rates over the June quarter revealed varied results, with the majority of zones recording growth. The most significant declines were recorded in Riverland 1 bedrooms (9.7%) to $140 per week, Inner Adelaide 1 & 3 bedrooms (both 5%) to weekly rentals of $247 and $380 respectively, and Middle Adelaide 1 bedrooms (4.3%) to weekly rental of $225.

Significant growth over the quarter was experienced by Port Lincoln 1 and 3 bedrooms increasing by 17.2% and 16.9% respectively to weekly rentals of $170 and $345 respectively. Riverland 2 bedrooms followed with quarterly growth of 10.3% to median weekly rental of $160.

Year on year analysis revealed similar results with the majority of zones recording growth. Declines were experienced in Riverland 3 bedrooms (14.6% to $205 per week), Inner Adelaide 3 bedrooms (3.8% to $380 per week) and Middle Adelaide 1 bedrooms (2.2% to $225 per week). The most marked growth over the twelve months to June was in Mount Gambier 2 and 3 bedrooms which recorded growth of 28.6% and 19.5% respectively to weekly rental of $180 and $245 respectively. Port Lincoln 1, 2 and 3 bedrooms also recorded significant growth over the year of 21.4%, 13.9% and 19% respectively to weekly rentals of $170, $205 and $345 respectively.

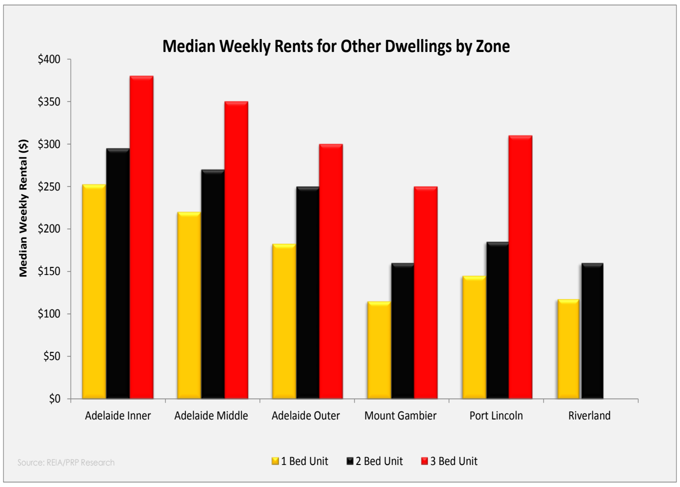

Chart 15 – Median Weekly Rents for Other Dwellings by Zone – Source REIA

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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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· 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:

· Accountants
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· Commercial and Residential non bank lenders
· Co-operatives
· Developers
· Finance and mortgage brokers
· Hotel owners and operators
· Institutional investors
· Insurance brokers and companies
· Investment advisors
· Lessors and lessees
· Listed and private companies corporations
· Listed Property Trusts
· Local, State and Federal Government Departments and Agencies
· Mining companies
· Mortgage trusts
· Overseas clients
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· Sovereign wealth funds
· Stock brokers
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We have all *locations* covered

From our central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

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

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