



Preston
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National Property Consultants

Property Market Report

South Australia

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

GDP figures for the June quarter are not available until the 3rd September 2014, however, PRP research over the March 2013 quarter revealed that the Australian economy recorded growth of 1.1% which brings the annual growth to 3.5%.

The main contributors to expenditure on GDP were Net Exports which increased by 1.4%, final consumption expenditure, which increased by 0.3%. The expenditure on GDP was private gross fixed capital formation, increased by 0.2 percentage points.

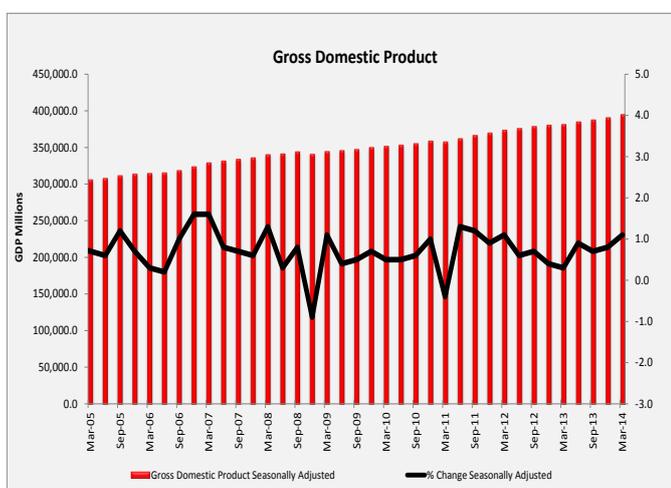


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

The official employment figures released from the Australian Bureau of Statistics revealed that the unemployment rate is 6% in June 2014.

Over the month to June 2014, the number of unemployed people increased by 20,322 from 721,330 in May to 742,652 in June which is a percentage decline over the month of 2.82%. In comparison to June 2013, the number of unemployed people has increased by 49,772 which reflected a percentage increase of 7.2%.

The number of unemployed seeking full time employment recorded an increase over the month of June by 10,000 to 543,000 persons, reflecting a growth of 1.8%. The number of unemployed seeking part time employment recorded a increase over the month by 10,300 to 198,600 persons, reflecting a growth of 4.9%.

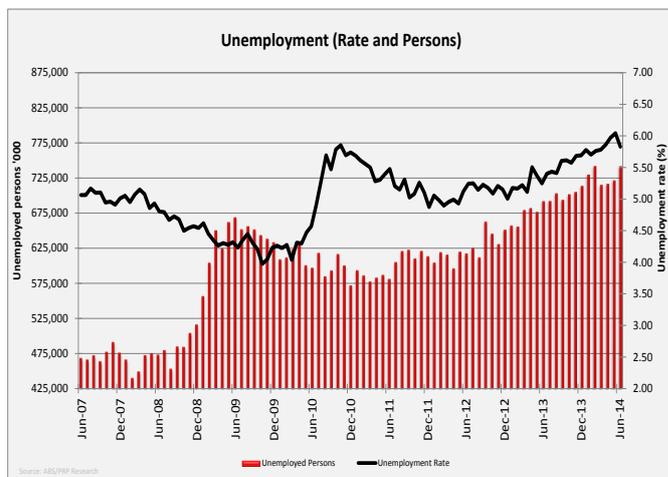


Chart 2 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the June quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for July 2014, released 1st July 2014 explained that;

"In Australia, recent data indicate somewhat firmer growth around the turn of the year, but this resulted mainly from very strong increases in resource exports as new capacity came on stream; smaller increases in such exports are likely in coming quarters. Moderate growth has been occurring in consumer demand. A strong expansion in housing construction is now under way. At the same time, resources sector investment spending is starting to decline significantly. Signs of improvement in investment intentions in some other sectors are emerging, but these plans remain tentative as firms wait for more evidence of improved conditions before committing to significant expansion.

Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend over the year ahead."

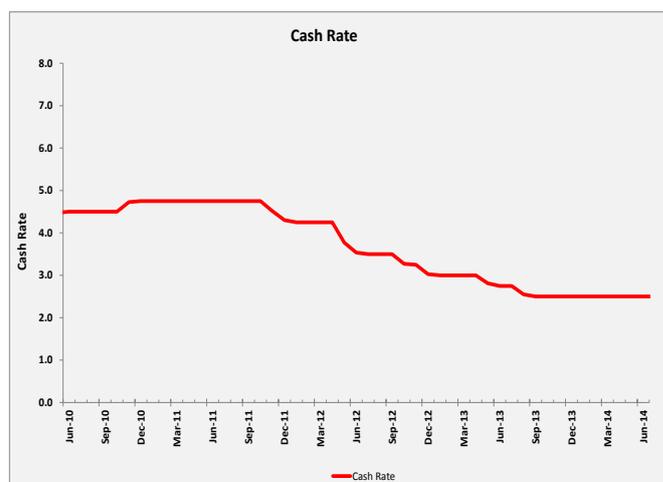


Chart 3 – Cash Rate—Source RBA

CPI

According to the Australian Bureau of Statistics (June 2014), the Australia's All Groups CPI increased by 0.5% over the quarter to June 2014 from 105.4 to 105.9. The annual CPI change to June 2014 recorded a growth of 3%.

The most significant price rises over the June quarter were for medical and hospital services (+4.6%), tobacco (+3.1%) and new dwelling purchase by owner-occupiers (+1.6%). The greatest price fall over the June quarter was attributed to domestic holiday travel and accommodation (-3.8%), followed by automotive fuel (-2.7%) and telecommunication equipment and services (-1.6%).

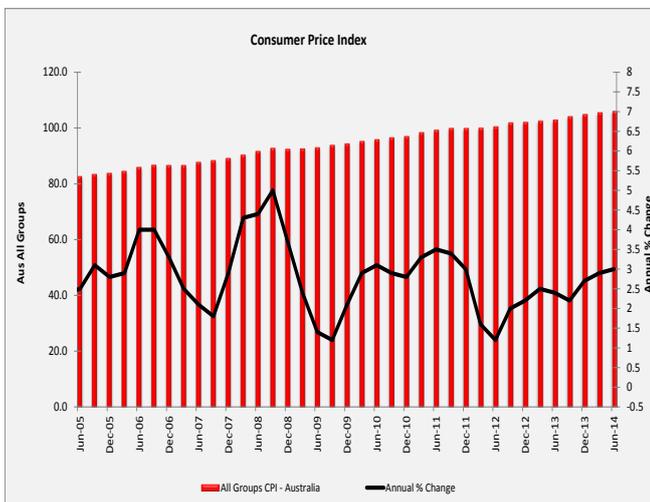


Chart 4 – Consumer Price Index – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 0.3% in June from 92.9 index points in May to 93.2 index points in March. Over the quarter the index has declined by 6.3 points, a decline of 6.33%. Over the twelve months to June the index declined by 9 index points, reflecting a percentage decline of 8.79%.

The Index has risen from its lowest in May and is expected to continue to do so. Westpac's Senior Economist, Matthew Hassan stated; "Sentiment has stabilised after registering a sharp fall in the wake of the Federal Budget last month. The Index is still in firmly pessimistic territory however, down 6.6% from its pre-Budget level in April and 15.6% below its post-election high in November last year".

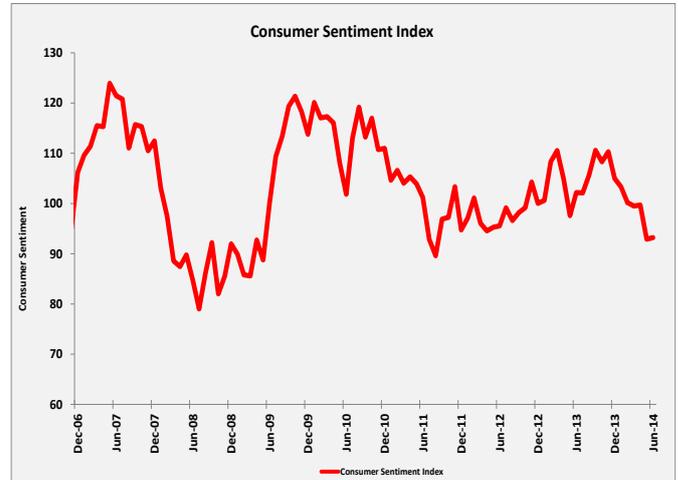


Chart 5—Consumer Sentiment Index—Source Westpac Melbourne Institute

Commercial Office Market

Adelaide CBD



Investment Activity

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

44 Waymouth Street, Adelaide, SA 5000

A **7,220 sqm** office tower in Adelaide has been purchased by a local developer Dimitri Aretzis for **\$14.1 million** from Indigenous Business Australia. The 13-storey tower is partially leased to tenants SA Health, IBA and internet service provider SPTCom.

141 King William Street, Adelaide SA 5000

Charter Hall's Wholesale Core Plus Office Fund has taken over a **\$30 million** half stake in the **Adelaide ATO building** from Aspen Group. Completed in 2013, the **37,000 sqm** ATO building is anchored by the Australian Tax Office on a 15 year lease. Australia Post occupies 15% of the building on a 10 year lease.



Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply by Grade (Stock)

Over the six months to January 2014 there was 0.5% growth of Adelaide CBD office stock consisting of 30,566 sqm of new supply and 18,468 sqm of withdrawal resulting in total supply of 1,378,536 sqm.

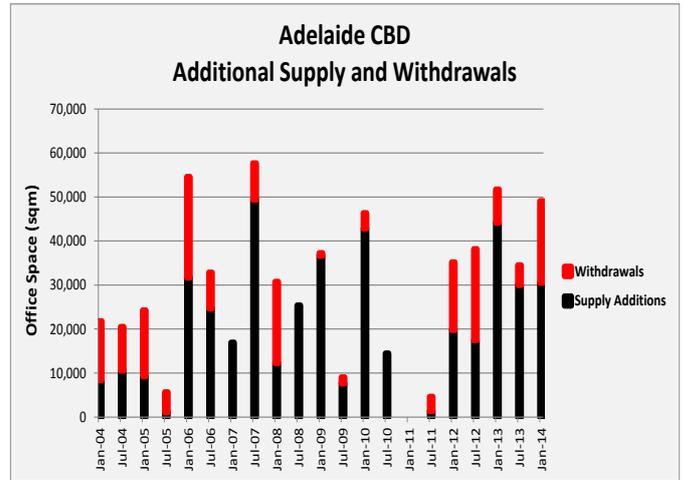


Chart 6 – Adelaide CBD Additional Supply and Withdrawals – Source PCA

Premium Grade and D Grade office stock remained unchanged, recording no supply or withdrawals to remain at stock levels of 41,700 sqm and 151,234 sqm respectively. These stock levels reflect a market share as at July 2013 of 3% and 11% respectively.

The A Grade office space dominates the Adelaide CBD office market with a market share of 38.3%. A Grade stock recorded growth in the six months to January 2014 by 5.18% with 26,000 sqm of supply enter the market resulting in an increase in total supply to 527,815 sqm.

B Grade office stock recorded a decrease consisting of 3,914 sqm of supply entering the market and 7,778 sqm withdrawal resulting in total supply of 368,081 sqm and a market share of 26.7%. C Grade office stock recorded a tightening of 10,038 sqm to 289,706 sqm and reflects a market share of 21%.

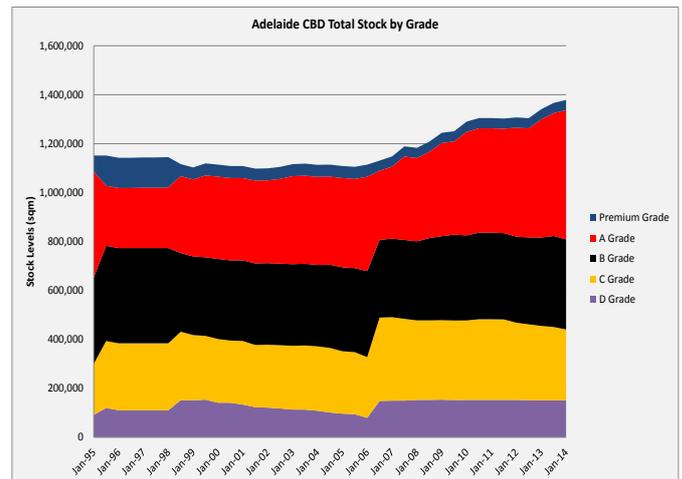


Chart 7 – Adelaide CBD Total Stock by Grade – Source PCA

Total Vacancy:

In regards to vacancy, the Adelaide CBD office market recorded an increase in the total vacancy rate by 0.3% to 12.4% six months to January 2014. Sub-lease vacancy accounted for 1.5% of total vacancy and 10.9% was attributed to direct vacancy. This increase in vacancy reflects an increase in vacant stock levels consisting of direct vacancy recorded a decline of 2,839 sqm which was offset by sub-lease vacancy which recorded an increase of 9,119 sqm.

Total vacancy as at January 2014 was recorded at 171,256 sqm. Premium Grade office stock recorded 2,612 sqm of vacant stock which reflects a vacancy rate of 6.3%. A Grade vacancy was 57,820 sqm reflecting a vacancy rate of 11%. B Grade vacancy was 51,454 sqm with a vacancy rate of 14%. C Grade and D Grade total vacancy was recorded at 33,356 sqm (11.1%) and 26,014 sqm (17%) respectively.

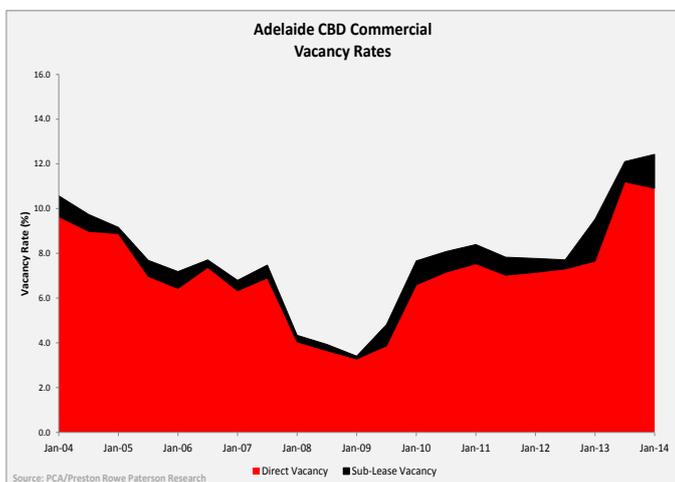


Chart 8 – Adelaide CBD Commercial Vacancy Rates – Source PCA

Retail Market

Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (May 2014), the retail turnover figures recorded in South Australia produced varied results. South Australia total industry retail turnover increased by 0.2% over the month of November resulting in total turnover for the month of \$1,484.7 million. This is a 2.58% increase when compared to May 2013.

The Adelaide retail market had produced mixed results over the month of May 2014. The highest monthly retail turnover was realised by café, restaurant and takeaway services (5.5%) followed by other retailing (*4%) and food retailing (0.36%). The May turnover for these industries were \$176.5 million, \$215.8 million and \$692.1 million respectively.

Household goods retail fell by 5.19% to 202.6 million monthly turnover. Clothing, footwear and accessory retailing and department stores also fell by 3.84% and 2.26% to a monthly turnover of \$85.2 million and \$112.5 million respectively.

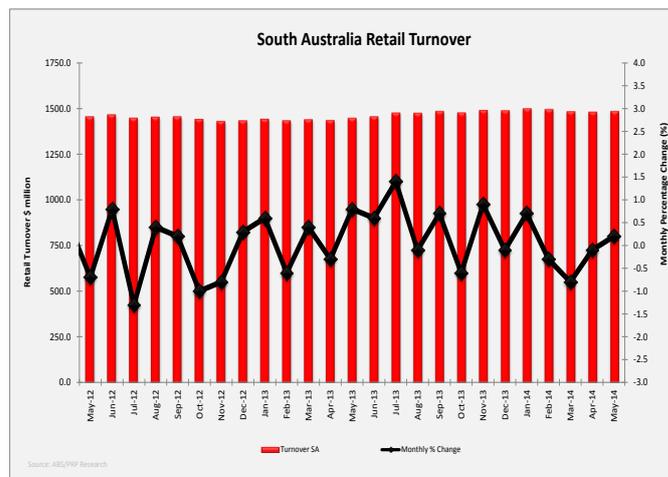


Chart 9 – South Australia Retail Turnover – Source ABS

Year on year analysis revealed mixed results, with declines experienced in household goods retailing (-4.3%), department stores (-2.26%) and other retailing (-0.28%). The most significant annual growth was recorded by cafes, restaurants and takeaway food services (11.54%), followed by clothing, footwear and personal accessory retailing (5.97%) and food retailing (4.11%).

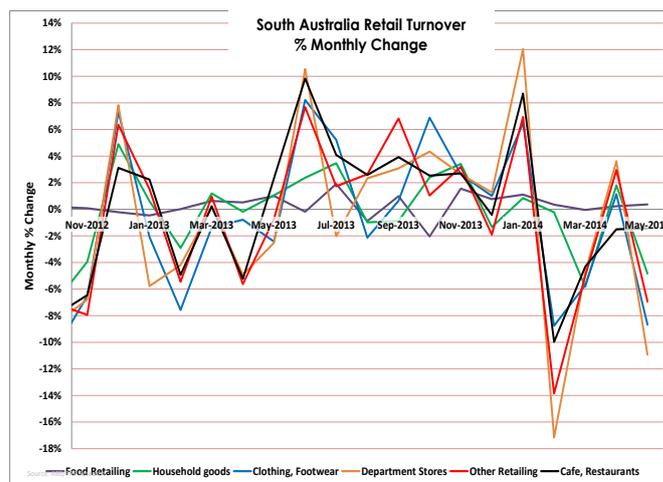


Chart 10 – South Australia Turnover % Monthly Change – Source PCA

Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals May 2014, the total number of house dwelling approvals in the Adelaide Statistical Division over the month has increased by 22.29% from 462 approvals to 565 approvals. There was an annual growth of 13% in house dwelling approvals when compared to May 2013. The total number of non-house dwelling approvals recorded growth over the month of May 2014 of 4.18% by 10 approvals to 249 approvals. In comparison to May 2013 this reflected decline of 26.98%.

The Adelaide total dwellings market experienced a general decline of 3.21% from May 2013 to 814 approvals in 2014.

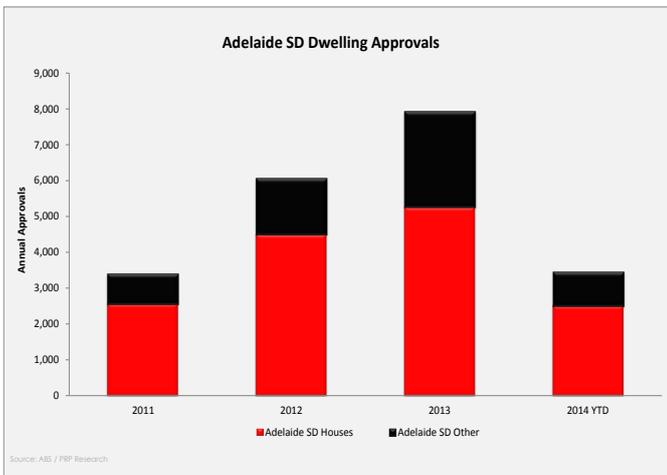


Chart 11 – Adelaide SD Dwelling Approvals – Source ABS

ADELAIDE

Market Affordability

According to the Real Estate Institute of Australia (REIA) the Adelaide median house price over the March quarter 2014 increased by 0.9% to a median sale price of \$413,800. Over the twelve months to March, growth of 4.7% was recorded. Quarterly declines in median sale prices were experienced in Mount Gambier, Port Lincoln and Riverland of 1.3%, 8.1% and 9% respectively to median sale prices of \$243,800, \$289,500 and \$178,800.

Inner Adelaide sale prices remained unchanged over the quarter at \$645,000. Middle and Outer Adelaide experienced growth of 0.8% and 1.6% with median sales prices of \$453,500 and \$327,800 respectively.

Year on year analysis revealed predominantly positive results, with the only annual decline attributed to Port Lincoln (-10.9%). Inner, Middle and Outer Adelaide zones recorded annual growth of 9.5%, 5.5% and 2.4% respectively. However the most significant annual growth was experienced in Mount Gambier house prices, increasing by 10.8%.

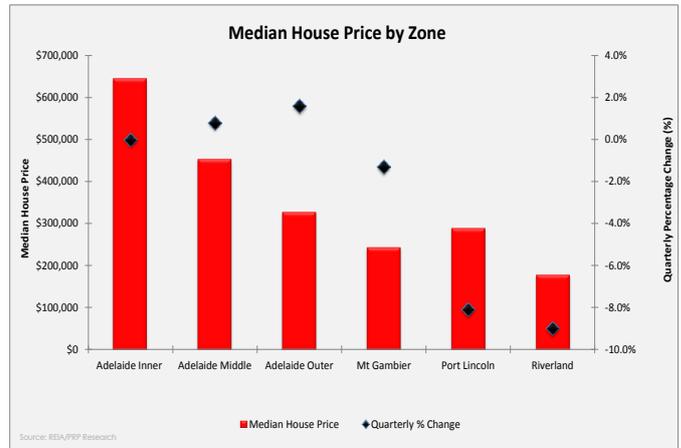


Chart 12 – Median House Price by Zone – Source REIA

Other Dwellings median house prices in South Australia recorded declines with the exception of Inner Adelaide which saw a 5% growth to \$354,800 in the March quarter 2014. Middle Adelaide and Port Lincoln declined by 1.6% and 4.1% to \$305,000 and \$200,000 median sales prices respectively. Outer Adelaide remained unchanged at \$245,000.

Year on year analysis revealed positive results, with mixed results. Inner and Middle Adelaide recorded annual growth of 4.3% and 1.7% respectively. Outer Adelaide saw to an annual decline of 2% and Port Lincoln recorded a significant decline of 35.9%.

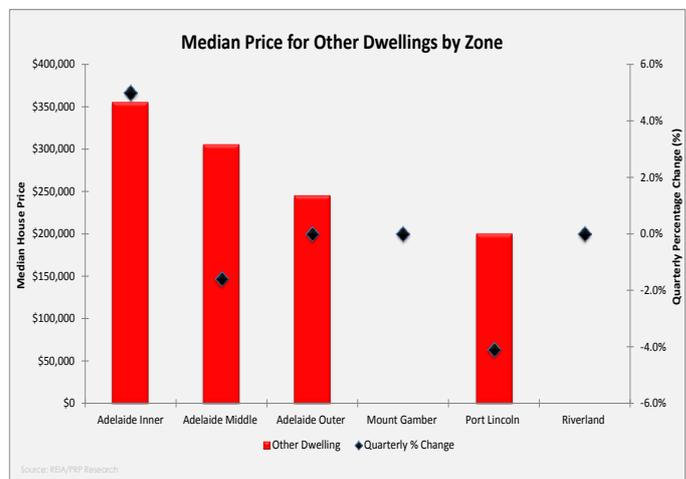


Chart 13 – Median Price for Other Dwellings by Zone – Source REIA

Rental Market

The March quarter revealed varied results in South Australia house rentals. The most marked declines were recorded in Port Lincoln 2 bedrooms and Riverland 4 bedrooms with declines of 11.5% and 7% respectively to median weekly rentals of \$230 and \$265. The most significant quarterly growth was attributed to Inner Adelaide 2 bedrooms (7%) and 3 bedrooms (3.8%), and Middle Adelaide 4 bedrooms (2.4%) to median weekly rental of \$380, \$415 and \$430 respectively.

Middle Adelaide 2 bedrooms and Mount Gambier 4 bedrooms both share the highest quarterly and annual growth of 6.7% to \$320 weekly rentals. However, Outer Adelaide 2 and 4 bedrooms share the same quarterly and annual decline of 3.8% and 2.8% to median weekly rents of \$250 and \$350 respectively.

Year on year analysis revealed mixed results, with many zones remaining unchanged. The Riverland zone experienced 5.9% growth in 2 bedrooms and 4.8% decline in 3 bedrooms house weekly rents to \$180 and \$200 respectively.

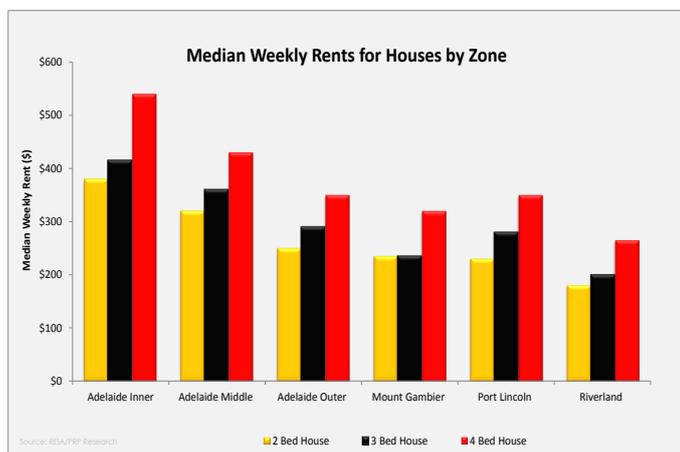


Chart 14 – Median Weekly Rents for Houses by Zone – Source REIA

South Australia Other Dwellings rentals revealed various results. Port Lincoln 3 bedrooms recorded a significant increase in median weekly rental of 10.3% to \$320. Other increases over the quarter were recorded in Riverland 1 bedrooms (6.3%) to \$170 per week, followed by Inner Adelaide 1 and 3 bedrooms by 5.9% to \$270 and 6.1% to \$435 respectively.

Declines were experienced across the many zones. Mount Gambier experienced the most significant quarterly and annual decline on 2 bedrooms other dwellings by 9.1% and 11.8% respectively to \$150 weekly rental.

Similar to the house rental market, the 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 Riverland zone as the best performer, 1, 2 and 3 bedrooms increased by 9.7%, 10.3% and 28.8% respectively to a median weekly rental of \$170, \$160 and \$250 respectively.

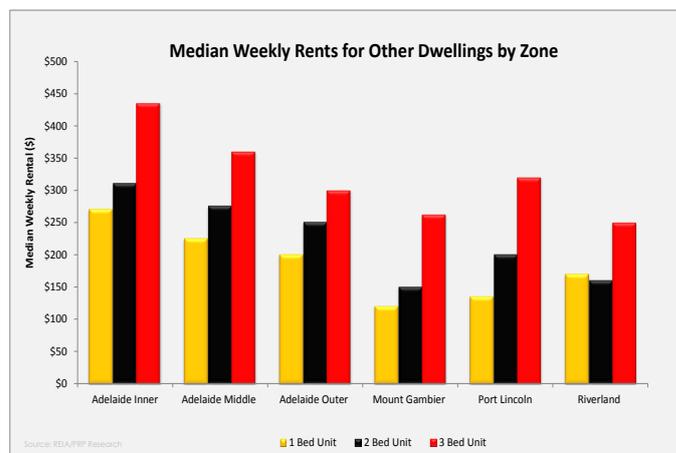


Chart 15 – Median Weekly Rents for Other Dwellings by Zone – Source REIA

Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

We have *property* covered

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

We have all *real estate* types covered

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

- CBD and Metropolitan commercial office buildings
- Retail shopping centres and shops
- Industrial, office/warehouses and factories
- Business parks
- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
- Infrastructure

We have all types of *plant & machinery* covered

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

We have all *locations* covered

From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices for special purpose real estate asset classes, infrastructure and plant & machinery.

We have *your needs* covered

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

- Acquisitions & Disposals
- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & 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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