



**Preston
Rowe
Paterson**

National Property Consultants

Sydney *Impact* Report

Retail Market

**2014
December Quarter**

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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.

Within this report we analysed the sales, leases and developments over the past six months to the reported quarter in various NSW locations of retail property categorized as; city centre, super-regional centre, major regional centre, regional centre, sub-regional centre and neighbourhood centre.

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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



The overall December retail turnover results had been slightly positive after a fall between September to November. According to the Australian Bureau of Statistics category 8501.0 Retail Trade (December 2014), the retail turnover figures recorded in New South Wales produced a meagre growth of 0.2% to \$7,591.1 million over the December period. The seasonally adjusted annual total retail turnover growth to December 2014 was 6.90%.

Compared to the previous year of 2% month-to-month growth to December 2013, consumer spending has greatly fallen during the Christmas shopping season.

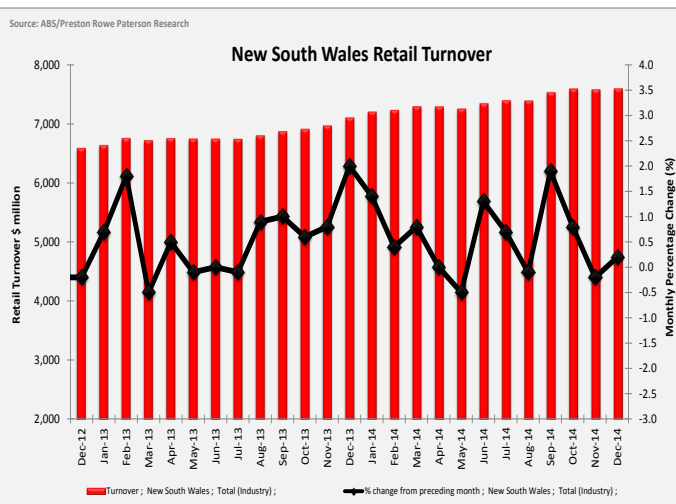


Chart 1 – New South Wales Retail Turnover – Source ABS

Over the month of December, nearly all aspects of retail showed positive results except for Department stores and Other retailing which fell by 2.14% and 0.78% to \$2,884.7 million and \$1,042.2 million turnover respectively. Café, restaurants and takeaway food services and Food retailing had realised the highest turnover in December at a growth of 1.16% (\$1093.5 million) and 0.63% (\$2,999.2 million) respectively.

Clothing, footwear and personal accessory retailing and Household goods recorded a small growth of 0.40% and 0.15% respectively to the monthly turnover of \$657.3 million and \$1,308.9 million.

A year on year analysis of the all retail categories revealed positive results with the only decline attributed to Department stores retailing falling by 0.33%. The strongest growth was recorded in the Household goods retailing (14.40%) and Café, restaurants and takeaway food services (8.71%).

As observed in the following graph, the December NSW retail turnover has performed rather poorly when compared to previous years. This is particularly noted in departments store retailers. The year to date outperformer was surprisingly the household goods retailing, followed by other retailing and cafes, restaurants and takeaway food services. However, the overall retail market is observed to be underperforming in the usually high spending month of December. The NSW retail sector may face difficulties to encourage consumer confidence and higher spending in 2015.

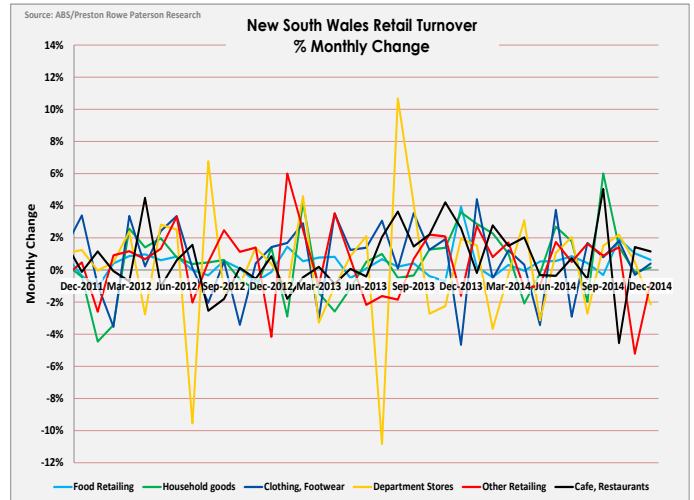


Chart 2 – New South Wales Turnover % Monthly Change – Source ABS

Online Shopping

The Australian & New Zealand Standard Industrial Classification (ANZSIC) defines 'retail trade' as "the purchase and on-selling, commission-based buying, and commission-based selling of goods, without significant information, to the general public".

According to the NAB Online Retail Sales Index Monthly Update—December 2014, online retail sales increased by 0.1% over the month. Over the twelve months to December, Australia's online retail spending totalled \$16.4 billion which is equivalent to 6.8% of the total retail sector excluding cafes, restaurants and takeaway food services.



Annual growth to December 2014 was realized in online trading categories except for Daily deals. The highest growth was recorded in Groceries and liquor (19%) followed by Electronic games and toys (14%), Homewares and appliances (10%), Department variety stores (8%), Fashion (8%) and Media (7%). Daily deals category declined by 11%.

Growth in online retailing is gradually slowing in the past few months as traditional brick and mortar retail had overtaken online retail growth in the November 2014. In consistency with the gradually decreasing Australian dollar, online shopping volume will be affected as import cost are at a disadvantage.

Retail Market

Analysis of the Property Council of Australia's (PCA) Shopping Centre Directory has revealed the following definitions of the seven core classifications of shopping centres;

1. **City Centre**—Retail premises within an arcade or mall development with a total gross lettable area **exceeds 1,000 sqm**.
2. **Super Regional Centre**—A major shopping centre which typically includes two full line department stores, two supermarkets, one or more full line discount department stores and approximately 250 specialty shops. Total gross lettable area **exceeds 85,000 sqm**.
3. **Major Regional Centre**—A major shopping centre with at least one full line department store, one or more full line discount department stores, a supermarket and approximately 150 specialty shops. Total gross lettable area ranges **between 50,000 & 85,000 sqm**.
4. **Regional Centre**—A shopping centre with one full line department store, a full line discount departments store, supermarket and approximately 100 specialty shops. Total gross lettable area ranges between 30,000 & 50,000 sqm.
5. **Sub-Regional Centre**—A medium sized shopping centre with at least one full discount department store, major supermarket and approximately 40 specialty shops. Total gross lettable area ranges **between 10,000 & 30,000 sqm**.
6. **Neighbourhood Centre**—A local shopping centre comprising a supermarket and approximately 35 specialty shops. Total gross lettable area is **less than 10,000 sqm**.
7. **Outlet Centre**— A medium to large sized shopping centre which does not normally include a department store, discount department store or supermarket. Comprises of specialty shops often selling stock at discounted prices including samples, seconds ad discontinued lines.

Investment Activity

Preston Rowe Paterson Research recorded a number of retail sales transactions that occurred in New South Wales over 6 months to December 2014.

Centre	Address	Sale Price	Sale Date	Reported Yield	Vendor	Purchaser	GLAR (sqm)	Type
Birkenhead Point	19 Roseby Street, Drummoyne NSW 2047	\$310,000,000	Oct-14	6.60%	Abacus Property Group	Mirvac	37,000	Outlet Centre
Riverdale Shopping Centre	49-65 Macquarie Street, Dubbo NSW 2830	\$14,000,000	Oct-14	undisclosed	Charter Hall Group	Sentinel Property Group	6,153	Neighbourhood
Lake Haven MegaCentre	Cnr Pacific Highway & Lake Haven Drive, Charmhaven NSW 2263	\$40,500,000	Oct-14	8.70%	Lake Haven Megacentre Pty Ltd	The Trust Company (Australia) Ltd	21,769	Bulky Goods
Rositano Furniture	224-240 Pitt Street, Merrylands NSW 2160	\$50,000,000	Oct-14	undisclosed	undisclosed	Dyldam	15,800	Bulky Goods
Burwood Plaza	42 Railway Parade, Burwood NSW 2134	\$80,000,000	Nov-14	5.46%*	Centuria Property Funds	Holdmark Property Group	12,361	Sub-regional
Junction Fair	200 Union Street, Thr Junction NSW 2291	\$32,000,000	Nov-14	6.70%	Property Income Fund	Fortius	7,244	Neighbourhood
	52-68 Borella Road, Albury NSW 2640	\$1,000,000	Nov-14	development site	Borelladome Pty Ltd	Kurrawa Pty Ltd	7,863	Bulky Goods
	6-18 Bridge Road, Hornsby NSW 2077	\$10,700,000	Nov-14	7.50%	BB Nominees	private investor	4,053	Bulky Goods
Dee Why Marketplace	27-33 Oaks Avenue, Dee Why NSW 2099	\$34,000,000	Dec-14	undisclosed	Dee Why Retail Pty Ltd	Jinyan Dee Why Pty Ltd	5,000	Neighbourhood
Norwest Marketown Shopping Centre	4 Century Circuit, Baulkham Hills NSW 2153	\$120,000,000	Dec-14	5.00%	Norwest Marketown Pty Ltd	Mulpha Australia (Norwest Limited) Pty Ltd	11,000	Sub-regional
Windsor Marketplace	6 Kable Street, Windsor NSW 2756	\$19,600,000	Dec-14	7.50%	Charter Hall Retail REIT	undisclosed	5,350	Neighbourhood
Clemon Park Shopping Village	Cnr Charlotte & Harp Streets, Clemon Park NSW 2206	\$48,000,000	Dec-14	7.39%	Australand	SCA Property joint venture with LaSalle Investment Management	6,757	Neighbourhood
Muswellbrook Fair Shopping Centre	19 Rutherford Road, Muswellbrook NSW 2333	\$19,700,000	Dec-14	8.65%*	PPB Advisory	Tipalea Partners	8,900	Neighbourhood
Scone Village Centre	209 Kelly Street, Scone NSW 2337	\$11,000,000	Dec-14	9.88%*	PPB Advisory	undisclosed	4,189	Neighbourhood

Table 1—Retail Centre Sales Transactions - Source - Preston Rowe Paterson Research
*equated yield

Sales Information

Preston Rowe Paterson Research recorded many major retail transactions over 6 months to December 2014. Notable sales transactions over the quarter included;

Mirvac had purchased the **Birkenhead Point and adjoining marina** at **19 Roseby Street, Drummoyne** from the Abacus Property Group for **\$310 million on a yield of 6.60%**. The 37,000 sqm outlet centre is located at a waterfront site located within 5km from the Sydney CBD. The outlet centre has 174 strong performing national tenants, designer and luxury tenants. Mirvac will continue its current upgrades and examine the site's potential for more than 220 waterfront apartments. The 187-berth marina will also be upgraded to include 14 more berths to cater for super-yachts.

Another major retail property sales was the sale of **Norwest Marketown Shopping Centre** located at **4 Century Circuit, Baulkham Hills**. Malaysian backed Mulpha Australia purchased the sub-regional centre for **\$120 million on a yield of 5%**. The property is located within the Norwest Business Park where Mulpha has been a developer and stakeholder in for the past two decades.

The 11,000 sqm shopping centre is anchored by Coles supermarket and includes a food court, childcare, restaurants and specialty stores. The site is earmarked for potential development of apartment, commercial and retail space.



Birkenhead Point, Drummoyne

Development Activity

Preston Rowe Paterson Research recorded a number of retail developments that are in construction in New South Wales over 6 months to December 2014.

Centre	Address	Type	Area (sqm)	Extension (sqm)	Refurbish (sqm)	Completion
Stockland Wetherill Park Shopping Centre	561-583 Polding Street, Wetherill Park NSW 2164	Regional	52,250	11,955		Q1 2015
IKEA - Sydney Business Park	920 Richmond Road, Marsden Park NSW 2765	Bulky Goods	28,084			Q2 2015
The Ponds Shopping Centre	Cnr The Ponds Boulevard and Riverbank Drive, The Ponds NSW 2769	Neighbourhood	7,188			Q2 2015
Barangaroo T1	Hickson Road, Barangaroo NSW 2000	CBD Retail	7,021			Q4 2015
5 Martin Place (Commonwealth Building)	5 Martin Place, Sydney NSW 2000	City Centre	2,256			2015

Table 2 - Retail Developments - Source - Preston Rowe Paterson Research

Development Information

There are many well anticipated retail developments that are scheduled for completion in 2015.

One of the highlights in retail development over the next 6 months to December 2014 is the development of the **IKEA** in the **Sydney Business Park, Marsden Park**. The bulky goods retailer is scheduled to open in June 2015 at the new Sydney Business Park. IKEA will be the second largest store spanning over 28,000 sqm which includes a 450 seat restaurant, children play facility, 5,750 sqm of Markethall, 5,753 sqm of showroom area and 850 car spaces.



IKEA Marsden Park

Economic Fundamentals

GDP

GDP figures for the December quarter are not available until the 4th March 2015 however Preston Rowe Paterson Research over the September 2014 quarter revealed that the Australian economy recorded growth of 0.3% seasonally adjusted which reflected growth of 2.7% seasonally adjusted over the twelve months to September 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Financial and insurance services which increased by 0.2%, Mining and Information media and telecommunications each increased by 0.1% to the increase in GDP.

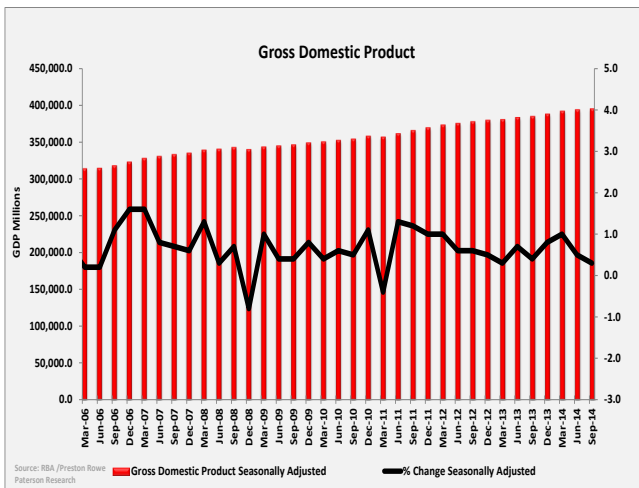


Chart 3 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to December 2014, the number of unemployed people decreased by 16,220 from 775,377 in November to 759,156 in December which is a 2.09% decrease. In comparison to December 2013, the number of unemployed people has increased by 40,135 which reflected an annual increase of 5.58%. The unemployment rate as at December 2014 is 6.1%.

The number of unemployed seeking full time employment recorded an increase over the month of December by 6,048 to 551,459 persons, reflecting a growth of 1.11%. The number of unemployed seeking part time employment recorded a decrease over the month by 22,269 to 207,697 persons, reflecting a growth of 2%.

New South Wales experienced a large absolute decrease in seasonally adjusted employment by 3,700 persons to 3.633 million persons. The unemployment status in New South Wales over the December Quarter decrease by 0.1% to 5.9%.

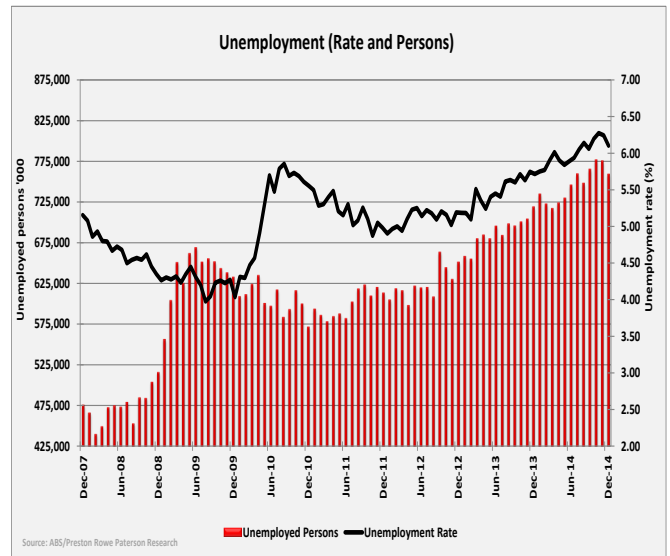


Chart 4 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the December quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for December 2014, released 2nd December 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."

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years. The cash rate has remained unchanged since September 2013.

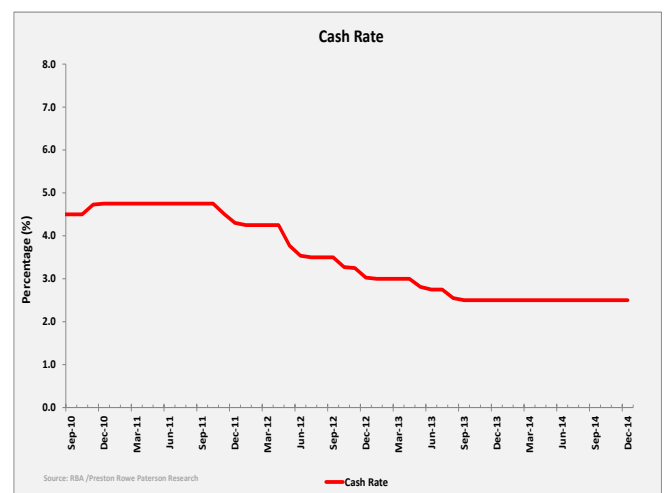


Chart 5 – Cash Rate – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to December 2014, the 10 Year Bond Rate has decreased by 128 basis points to 2.96%. Conversely, the 90 Day Bill Rate increased by 14 basis points to 2.75%.

Over the December 2014 quarter, 10 Year Government Bonds recorded a decline of 59 basis points from 3.55%. The 90 Day Bill Rate recorded a steady increase over the December quarter of 9 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has increased by 147 basis points since December 2013.

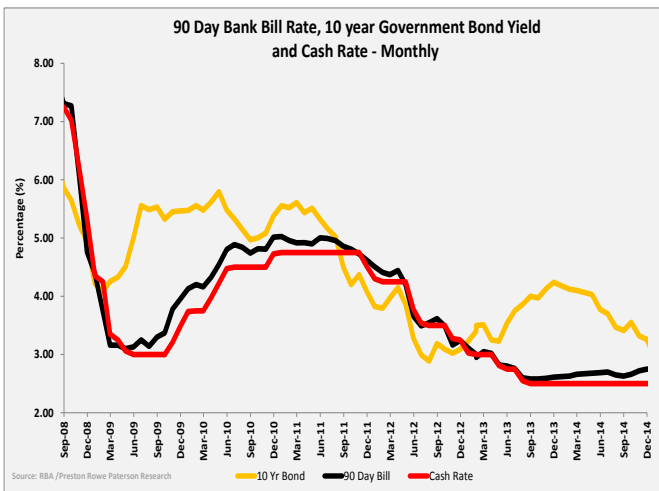


Chart 6 – 90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 30 basis points over the month of December 2014 with the 10 year bond rate currently at 2.96%. 90 day bill rates experienced no changes in the December month, remaining at 2.75%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 4 basis points.

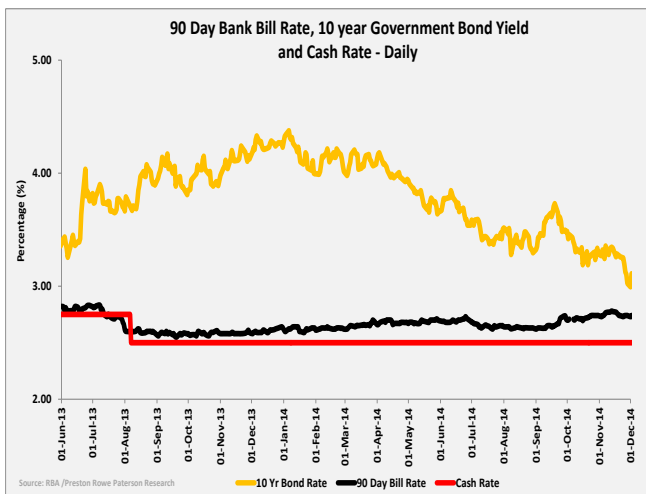


Chart 7 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

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%), and property rates and changes (6.3%). The greatest price fall over the quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

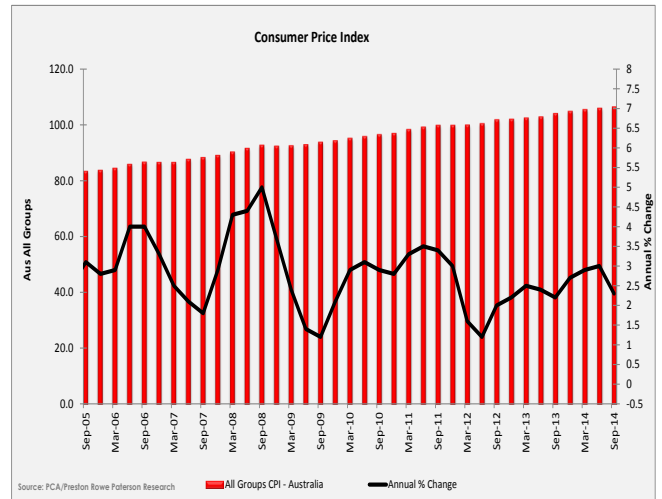


Chart 8 – Consumer Price Index—Source—ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 5.7% in December from 96.6 index points in November to 91.1 index points in December. Over the quarter the index has decreased by –2.9 points, a 3.09% fall. Over the twelve months to December the index declined by –13.9 index points, reflecting a percentage decline of –13.24%.

The Index has fell below the August 2011 record low. Westpac's Chief Economist, Bill Evans stated; "This is a very disturbing result... the economy had been limping along at a 1.6% annualised growth pace for the last six months, with national incomes declining and overall activity contracting in the quarter in every state except NSW."

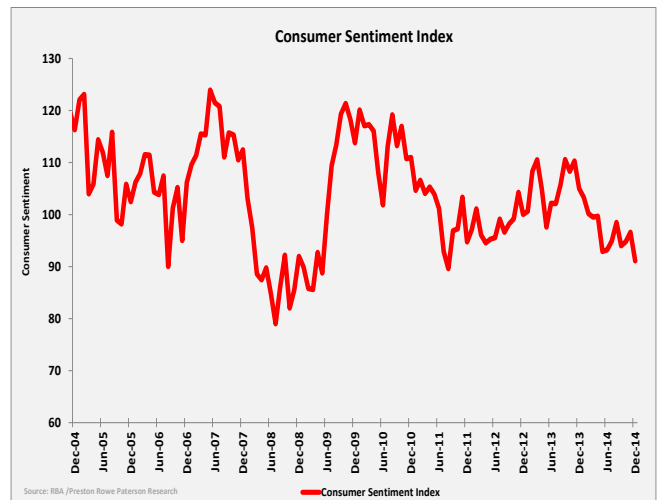


Chart 9 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

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 including airports and port facilities

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 or 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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