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Sydney *Impact* Report

Retail Market

Recovering retail market

The overall retail market is expected to improve over the next quarter since customer spending was not dampened by the news of the federal budget. Over the first half of 2015 the NSW retail environment has recorded a relatively stable growth. The June quarterly results reflected a 1.3% seasonally adjusted volume growth to the Australian turnover volume of \$70,302.1 million.

Online retailing growth rate has also increased in the June quarter despite a depressed Australian dollar environment. The growth results may have been a result of the end of financial year sales. However, the impending online retail tax may have a negative effect on the online sales growth.

There has been many retail centre investment activity recorded over the first half of 2015. The majority of investors that invested in Sydney retail centres were fund managers. Many had focused on purchasing neighbourhood centres and bulky goods centres across the state.

2015
June Quarter

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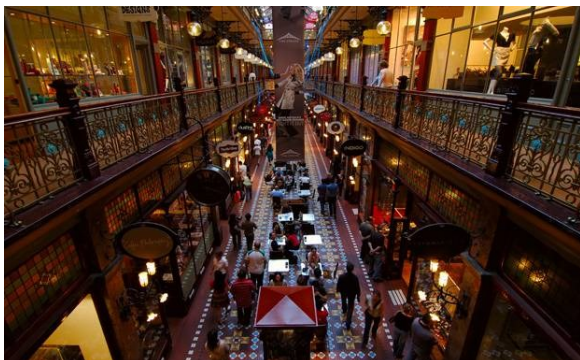
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Retail Statistics



The June retail turnover results has solidified that NSW retail environment has remained positive in the first half of 2015. According to the Australian Bureau of Statistics category 8501.0 Retail Trade (June 2015), the retail turnover figures recorded in New South Wales produced a growth of 1% to \$7,809.2 million over the period. The seasonally adjusted annual total retail turnover growth to June 2015 was 6.72%.

Compared to the March quarter, the June results reflected a 1.3% seasonally adjusted volume growth to the Australian turnover volume of \$70,302.1 million.

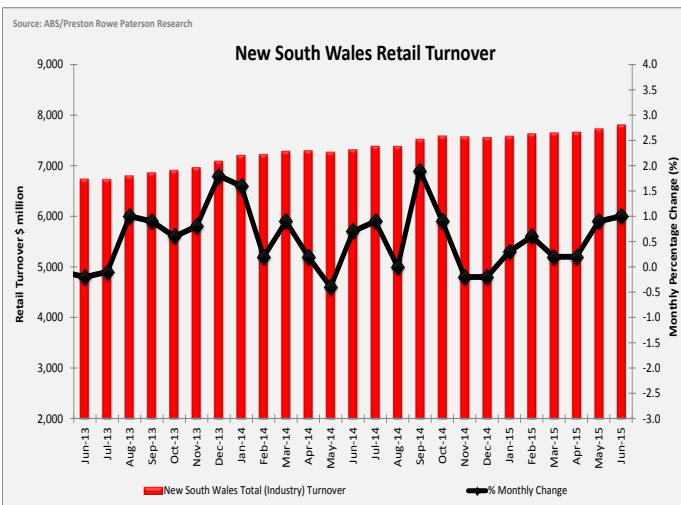


Chart 1 – New South Wales Retail Turnover – Source ABS

A predominantly positive turnover result was recorded in the retail sectors over the month of June. The highest growth was recorded in Household goods retailing rising by 3.11% to a turnover of \$1,388.4 million. Followed by Other retailing, Café, restaurants and takeaway food services and Food retailing realising a growth of 1.81% (\$1,091.5 million), 1.67% (\$1,159.9 million) and 0.07% (2,983.9 million) respectively.

Clothing, footwear and personal accessory retailing and Department stores recorded a small decrease of -0.38% and -0.18% respectively to the monthly turnover of \$684.7 million and \$500.8 million.

As observed in the following graph, the NSW retail turnover in June 2015 has performed rather well when compared to previous years. This is particularly noted in other retailing sector. The year to date outperformer was surprisingly the household goods retailing, and cafes, restaurants and takeaway food services recording an annual growth of 14.93% and 9.97% respectively.

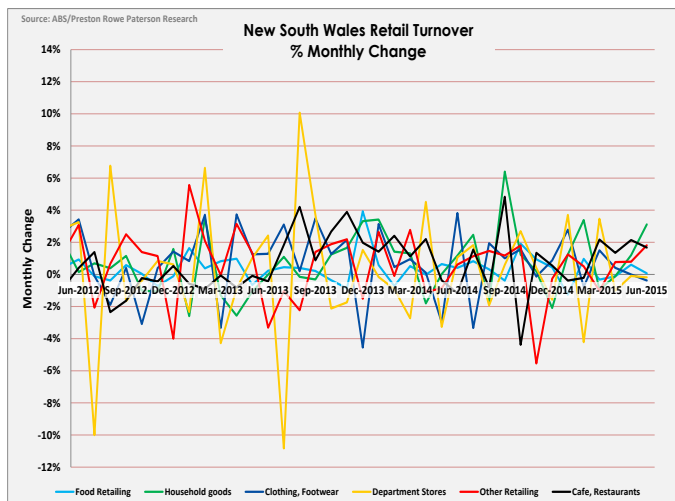


Chart 2 – New South Wales Turnover % Monthly Change – Source ABS

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—June 2015, online retail sales increased by 2.4% over the month. In the year to June 2015, Australia's online retail spending totalled \$17.3 billion which is equivalent to 7.1% of the total traditional retail sector excluding cafes, restaurants and takeaway food services.



Annual growth to June 2015 was realized in online trading categories except for Daily deals (-23.1%). The highest annual growth was recorded in Homeware and appliances (25.9%), followed by Electronic games and toys recorded 24.5% growth. Media and Online fashion categories also recorded double digit annual growth at 16% and 10.6% respectively followed by Department and variety stores (6.1%), Groceries and liquor (2.5%), and Personal and recreation goods (0.5%).

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 many major retail transactions in the first half of 2015. Notable sales transactions over the quarter include;

Charter Hall has purchased the **Pacific Square Shopping Centre** at **Anzac Parade, Maroubra** from the *Clycut* for **\$137 million on a yield of approximately 6.50%**. The 13,727 sqm sub-regional centre is located within 10km south of the Sydney CBD on the beachside suburb. The retail centre is anchored by well performing *Coles* and *Aldi* supermarkets, two mini-majors including *Fitness First* and 50 specialty tenants. The centre is near fully occupied and has a WALE of 5.8 years. *Charter Hall* will invest 20% of its new retail partnership's, RP6, \$250 million equity to the purchase of Pacific Square.



Pacific Square Shopping Centre, Maroubra

The largest retail development site sales was the sale of **920 Richmond Road, Marsden Park** located in the **Sydney Business Park** development. *LaSalle Australia Club Investments Trust (LACIT)* acquired the site from *Hargreaves Property Group* for **\$66 million**. LACIT will develop a 19,000 sqm bulky goods centre **Home Hub Marsden Park** across 35 tenancies and plan to open in mid-2016.



Surry Hills Shopping Village, Redfern

Another significant sales was the **Surry Hills Shopping Village** located at **339 Cleveland Street, Redfern** that was purchased by Chinese developer *Auswin TWT* for **\$96 million on a yield of 4.48%**. The fully leased neighbourhood centre is anchored by a *Coles* and *Liquorland* supermarket, 22 specialty shops including *Australia Post* and *Flight Centre*. The centre generates a gross passing income of approximately \$4.3 million a year. The underdeveloped site offers a 5,010 sqm retail building on a 12,322 sqm site. There is potential to redevelop the prime site into 300 luxury apartments and an updated retail centre, subject to council approval.

| Centre | Address | Sale Price | Sale Date | Reported Yield | Vendor | Purchaser | GLAR (sqm) | \$/sqm | Type |
|---------------------------------|---|----------------|-----------|------------------|---|---|------------|--------------|---------------|
| Big Bear Shopping Centre | 116 Military Road, Neutral Bay NSW 2089 | \$ 100,000,000 | Jan-15 | N/A | Adwell Holdings | foreign investor | 12,652 | \$ 7,903.89 | Neighbourhood |
| | Wight Street, Banksmeadow NSW 2292 | \$ 25,000,000 | Feb-15 | development site | Orica | Masters | 23,000 | \$ 1,086.96 | Bulky Goods |
| | 750 Princes Highway, Tempe NSW 2044 | \$ 22,000,000 | Feb-15 | development site | undisclosed | Bunnings Warehouse | 13,000 | \$ 1,692.31 | Bulky Goods |
| The Marketplace Auburn | 92 Parramatta Road, Auburn NSW 2144 | \$ 120,000,000 | Feb-15 | N/A | APN Property Group and Newmark Property Group | Novion Enhanced Retail Fund | 33,000 | \$ 3,636.36 | Sub-regional |
| Newtown Central Shopping Centre | 330 King Street, Newtown NSW 2042 | \$ 26,424,990 | Mar-15 | 7.10% | MPC Nominees Pty Ltd | Australian Property Opportunities Fund II | 3,385 | \$ 7,806.50 | Neighbourhood |
| Pacific Square Shopping Centre | Anzac Parade, Maroubra NSW 2035 | \$ 137,000,000 | Mar-15 | 6.50% | Clycut Pty Ltd | Charter Hall Group | 13,723 | \$ 9,983.24 | Sub-regional |
| The Compass Centre | 85-89 North Terrace, Bankstown NSW | \$ 45,000,000 | Apr-15 | N/A | The Banna Property Group | Ganghui Pty Ltd | 5,000 | \$ 9,000.00 | Neighbourhood |
| Auburn Central Shopping Centre | Cnr Queen & Harrow Street, Auburn NSW 2144 | \$ 68,000,000 | Apr-15 | 8.04% | Holdmark Property Group | Elanor Investors | 17,625 | \$ 3,858.16 | Sub-regional |
| Bathurst Chase | 39 William Street, Bathurst NSW 2795 | \$15,300,000* | Apr-15 | N/A | Charter Hall Retail REIT | Sentinel Property Group | 7,093 | \$ 2,157.06 | Neighbourhood |
| Surry Hills Shopping Village | 339 Cleveland Street, Redfern NSW 2010 | \$ 96,000,000 | May-15 | 4.48% | Ogen Nominees | Auswin TWT | 5,010 | \$ 19,161.68 | Neighbourhood |
| Masters Northmead | Redbank Road, Northmead NSW 2152 | \$ 34,000,000 | May-15 | 6.60% | Lindsay Bennelong Developments | Charter Hall Group | 12,500 | \$ 2,720.00 | Bulky Goods |
| Ulladulla Shopping Centre | 116-118 Princes Highway, Ulladulla NSW 2539 | \$ 6,975,000 | May-15 | 8.00% | Diamond of Diamond Property Group | private investor | 2,148 | \$ 3,247.21 | Neighbourhood |
| Home Hub Marsden Park | 920 Richmond Road, Marsden Park NSW 2765 | \$ 66,000,000 | May-15 | development site | Hargreaves Property Group | LaSalle Australia Club Investments Trust | 19,000 | \$ 3,473.68 | Bulky Goods |
| Campbelltown SupaCenta | 1 Tindall Street, Campbelltown NSW 2560 | \$ 15,100,000 | Jun-15 | 9.25% | Fortius Funds Management | private investor | 6,618 | \$ 2,281.66 | Bulky Goods |

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

*Estimate based on the book value, December 2014.

Development Activity

Preston Rowe Paterson Research recorded a number of retail developments that are in various stages of construction in New South Wales over six months to June 2015.

| Centre | Address | Type | Area (sqm) | Extension (sqm) | Refurbish (sqm) | Completion |
|-------------------------|---|----------------|------------|-----------------|-----------------|------------|
| The Glasshouse | 150 Pitt Street, Sydney NSW 2000 | City Centre | | | 5,000 | Q3 2015 |
| Barangaroo T1 | Hickson Road, Barangaroo NSW 2000 | CBD Retail | 7,021 | | | Q4 2015 |
| Masters Penrith | 72-82 Mulgoa Road, Jamisontown NSW 2750 | Bulky Goods | 13,641 | | | Q4 2015 |
| Bunnings Kingsgrove | Cnr Kingsgrove Road, and Richland Street, Kingsgrove NSW 2208 | Bulky Goods | 13,250 | | | Q4 2015 |
| Westfield Kotara | Northcote Drive & Park Avenue, Kotara NSW 2289 | Major Regional | | 1,000 | | Q4 2015 |
| MLC Centre | 19 Martin Place, Sydney NSW 2000 | City Centre | | 6,000 | | 2016 |
| Spotlight Castle Hill | 23 Victoria Avenue cnr Salisbury Road, Castle Hill NSW 2154 | Bulky Goods | 3,596 | | | 2016 |
| Gateway | 1 Macquarie Place, Sydney NSW 2000 | City Centre | | 2,700 | | Q1 2016 |
| Westfield Chatswood | 1 Anderson Street, Chatswood NSW 2067 | Major Regional | 45,832 | | | Q1 2016 |
| Masters Shoalhaven | Cnr Central Avenue & Princes Highway, South Nowra NSW 2541 | Bulky Goods | 13,134 | | | Q2 2016 |
| Marketplace Wagga Wagga | 87 Baylis Street, Wagga Wagga NSW 2650 | Sub-regional | | 3,200 | | Q2 2016 |

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

Development Information

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

One of the retail developments over the next six months to June 2015 is the construction of a new bulky goods retailer **Masters Penrith** located at **72-82 Mulgoa Road, Jamisontown**. The home improvement centre will be built on the former *Sinclair Ford* dealership and *Westbus* depot. Masters will sign on a 15 year lease securing over 80% of income the stream with *Woolworths Limited* as guarantor. The development is expected to be completed in the 4th quarter of 2015.

Another well anticipated retail redevelopment of the **MLC Centre** in the Sydney CBD. The city centre will expand the food court and shopping plaza areas. The centre will include a new retail podium to include 6,000 sqm of flagship luxury retail, a new restaurant and café precinct.



Masters Penrith, Jamisontown
*artist impression

Economic Fundamentals

GDP

GDP figures for the June quarter 2015 are not available until the 2nd September 2015, however, over the March 2015 quarter revealed that the Australian economy recorded growth of 0.93% seasonally adjusted which reflected growth of 2.31% seasonally adjusted over the twelve months to March 2014.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.5%), Financial and insurance services (+0.5%), Information media and telecommunications (+0.3%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor were the Professional, scientific and technical services (-0.4%) and Construction (-0.2%).

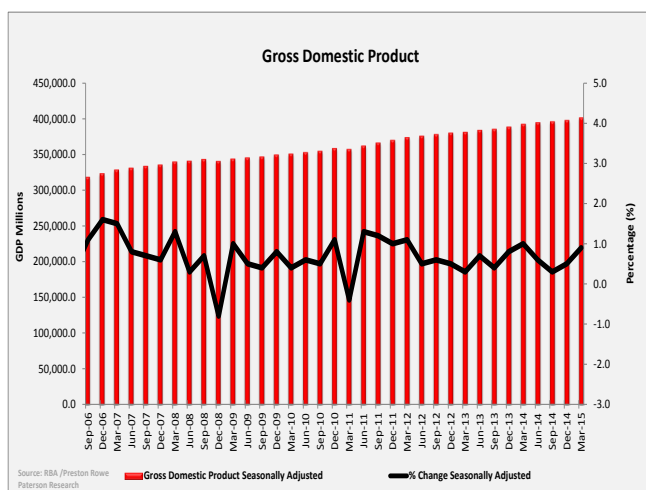


Chart 3 – Gross Domestic Product (GDP) – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the June quarter 2015 has decreased by 25 basis points to 2%. The Reserve Bank of Australia's Media Release for June 2015, released 2nd June 2015 explained that;

"In Australia the available information suggests the economy has continued to grow, but at a rate somewhat below its long-term average. Household spending has improved, including a large rise in dwelling constructions, and exports are rising. But the key drag on private demand is weakness in business capital expenditure in both mining and non-mining sectors and this is likely to persist over the coming year...Low interest rates are acting to support borrowing and spending...Dwelling prices continue to rise strongly in Sydney, though trends have been more varied in a number of other cities...In other asset markets, prices for equities and commercial property have been supported by lower long-term interest rates."

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

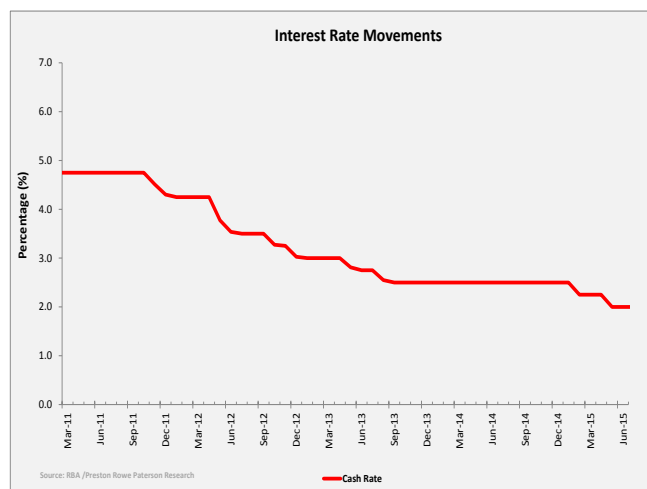


Chart 4 – Cash Rate – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 6.9% in June from 102.4 index points in May to 95.3 index points in June. Over the quarter the index has decreased by -4.2 points. Over the twelve months to June 2015 the index recorded a 2.25% growth.

The Index is now below to its pre-budget level in May. Westpac's Senior Economist, Matthew Hassan commented; *"Several factors are likely to have refocused attention...further falls in the share market...ongoing uncertainty in Europe; more signs of soft conditions in labour markets; and added nervousness about the outlook for house prices."*

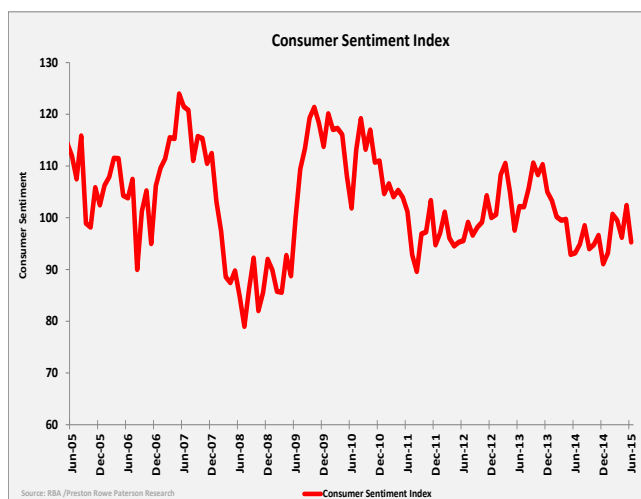


Chart 5 – Consumer Sentiment Index - Source - Westpac-Melbourne Institute Survey

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2015, the monthly 10 Year Bond Rate has decreased by 72 basis points to 2.98%. Similarly, the monthly 90 Day Bill Rate fell by 55 basis points to 2.15%.

Over the June 2015 quarter, the 10 Year Government Bonds recorded a growth of 50 basis points from 2.48%. The 90 Day Bill Rate recorded a 15 basis points decrease over the quarter from 2.30%.

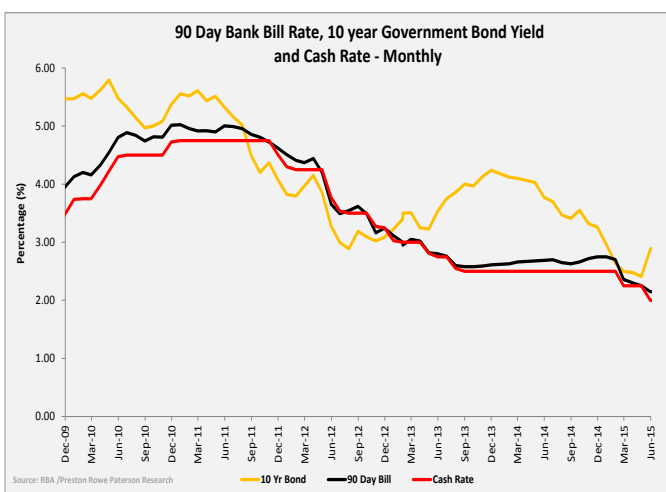


Chart 6 – 90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

Analysis of the daily 10 Year Government Bonds has revealed an increase of 10 basis points over the month of June with the 10 year bond rate currently at 2.48%. 90 day bill rates experienced a remained stable in March at 2.30%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 68 basis points.

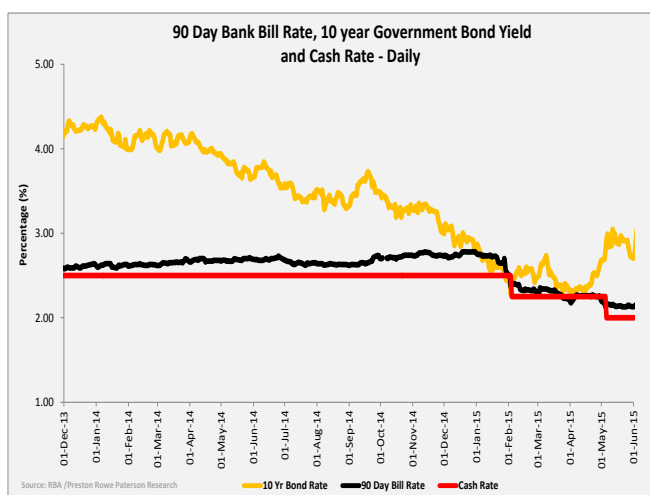


Chart 7 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

CPI

According to the Australian Bureau of Statistics (June 2015), the Australia's All Groups CPI increased by 0.7% over the June quarter from 106.8 to 107.5. The annual CPI change to June 2015 recorded a growth of 1.5%.

The most significant price rises over the June quarter were automotive fuel (+12.2%), medical and hospital services (+4.5%) and new dwelling purchases by owner-occupiers (+1.5%). The greatest price fall over the quarter was attributed to are domestic holiday travel and accommodation (-5.4%) and pharmaceutical products (-1.8%).

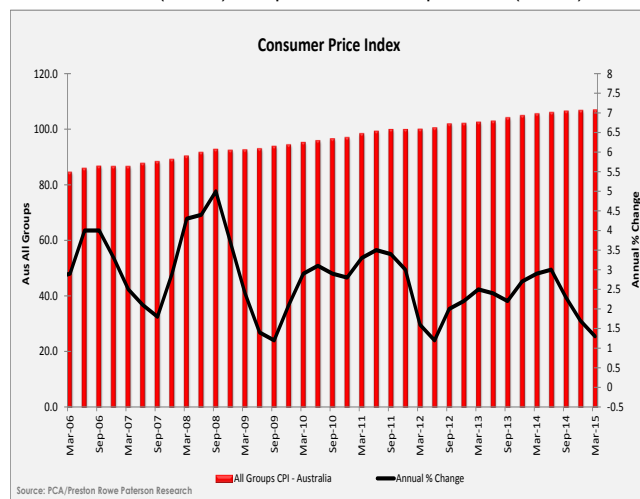


Chart 8 – Consumer Price Index—Source—ABS

Labour force

Over the month to June 2015, the number of unemployed people increased by 12,791 from 743,358 in May to 756,149 in June which is a 1.72% increase. In comparison to June 2014, the number of unemployed people has increased by 10,451 which reflected an annual increase of 1.40%. The unemployment rate as at June 2015 is 6%.

New South Wales experienced a large absolute increase in seasonally adjusted employment by 11,300 persons to 3.704 million persons. The unemployment status in New South Wales over the June Quarter 2015 decrease by 0.1% to 5.8%.

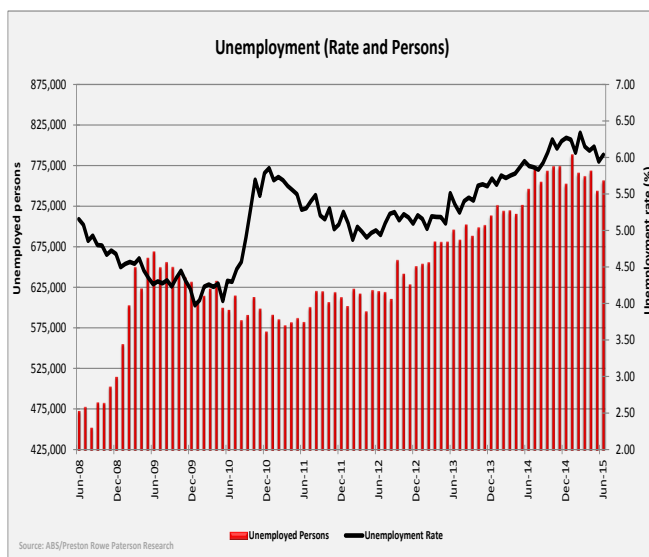


Chart 9 – Unemployment – Source ABS



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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- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
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- Transaction Advisory
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- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
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- General and Insurance Valuation
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We regularly provide valuation, property and asset management, consultancy and leasing services for all types of real estate including:

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- Retail shopping centres and shops
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- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.
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- 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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- Listed Property Trusts
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- Mining companies
- Mortgage trusts
- Overseas clients
- Private investors
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- Rural landholders
- Self managed super funds
- Solicitors and barristers
- Sovereign wealth funds
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- 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:

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- Litigation support
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- Property Management
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- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

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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