



Preston
Rowe
Paterson

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International Property Consultants

Sydney *Impact* Report

Retail Market

2015
March 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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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 March retail turnover results had been slightly positive after a disappointing Christmas season retail result. According to the Australian Bureau of Statistics category 8501.0 Retail Trade (March 2015), the retail turnover figures recorded in New South Wales produced a meagre growth of 0.3% to \$7,654.5 million over the period. The seasonally adjusted annual total retail turnover growth to March 2015 was 5.02%.

Compared to the December quarter, the March results reflected a 0.7% seasonally adjusted growth to the Australian turnover volume of \$69,788.9 million.

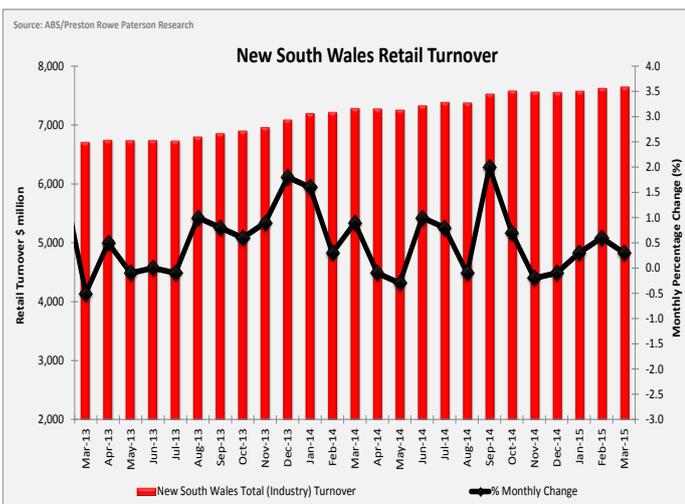


Chart 1 – New South Wales Retail Turnover – Source ABS

Mixed results were recorded over the month of March, where there were growth and slight decreases in some retail sectors. The highest growth was recorded in Department stores, 3.81% to a turnover of \$509.5 million. Followed by Café, restaurants and takeaway food services and Clothing, footwear and personal accessory retailing realising a growth of 1.93% (\$1,097 million) and 1.13% (\$682.3 million) respectively.

Household goods, Other retailing and Food retailing recorded a small decrease of -0.89%, -0.82% and -0.08% respectively to the monthly turnover of \$1,332.3 million, \$1,058.3 million and \$2,975.2 million.

A year on year analysis of the all retail categories revealed positive results with the only decline attributed to Other retailing falling by -1.19%. The strongest growth was recorded in the Household goods retailing (9.75%) and Department stores (7.13%).

As observed in the following graph, the NSW retail turnover in March 2015 has performed rather well when compared to previous years. This is particularly noted in departments store sector. The year to date outperformer was surprisingly the department store retailing, followed by cafes, restaurants and takeaway food services and clothing and personal accessories retailing. There is a modest outlook in consumer confidence for 2015 because of the impending federal budget release and possible changes in interest rates.

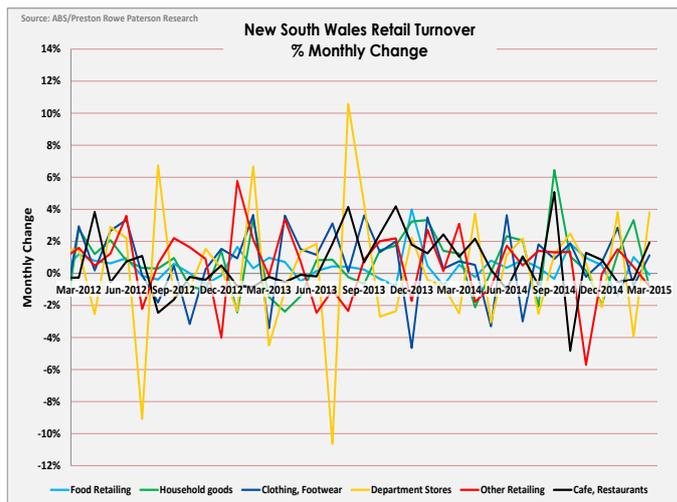


Chart 2 – New South Wales Turnover % Monthly Change – Source ABS

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—March 2015, online retail sales increased by 0.8% over the month. In the year to March 2015, Australia's online retail spending totalled \$16.8 billion which is equivalent to 6.9% of the total traditional retail sector excluding cafes, restaurants and takeaway food services.



Annual growth to March 2015 was realized in online trading categories except for Daily deals. The highest growth was recorded in Personal and recreational goods. Electronic games and toys had recorded a large decrease in annual growth where March recorded an 8.20% growth compared to 21.60% in February. Media and Homeware categories recorded double digit annual growth followed by Grocery and liquor, Department stores and Online fashion.

Growth in online retailing is gradually slowing in the past year in consistent with the decreasing Australian dollar, online shopping volume will be affected as import cost are at a disadvantage.

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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 over 6 months to March 2015. 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.



Birkenhead Point, Drummoyne

The largest retail development site sales was the sale of **Wight Street, Banksmeadow**. The site is located at the end of Wight Street, and enjoys a large frontage exposure to Corish Circuit. *Masters* purchased the 23,000 sqm site from *Orica* for **\$25 million** with the purpose of developing a large *Masters Home Improvement* store.



Big Bear Shopping Centre and office complex, Neutral Bay

Another significant sales was the **Big Bear Shopping Centre** located at **116 Military Road, Neutral Bay** that was purchased by a foreign buyer for **\$100 million**. The neighbourhood centre and office complex is anchored by *Coles* and has 13 specialty stores, a newly refurbished medical centre and an underground carpark with 235 spaces. The modern, 7 level office tower is leased to *Warner Bros Head Office Australia*, *Aurecon Group* and *Superchoice Services*.



Centre	Address	Sale Price	Sale Date	Reported Yield	Vendor	Purchaser	GLAR (sqm)	\$/sqm	Type
Birkenhead Point	19 Roseby Street, Drummoyne NSW 2047	\$ 310,000,000	Oct-14	6.60%	Abacus Property Group	Mirvac	37,000	\$ 8,378.38	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	\$ 2,275.31	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	\$ 1,860.44	Bulky Goods
Rositano Furniture	224-240 Pitt Street, Merrylands NSW 2160	\$ 50,000,000	Oct-14	undisclosed	undisclosed	Dyldam	15,800	\$ 3,164.56	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	\$ 6,471.97	Sub-regional
Junction Fair	200 Union Street, Thr Junction NSW 2291	\$ 32,000,000	Nov-14	6.70%	Property Income Fund	Fortius	7,244	\$ 4,417.45	Neighbourhood
	52-68 Borella Road, Albury NSW 2640	\$ 1,000,000	Nov-14	development site	Borelladome Pty Ltd	Kurrawa Pty Ltd	7,863	\$ 127.18	Bulky Goods
	6-18 Bridge Road, Hornsby NSW 2077	\$ 10,700,000	Nov-14	7.50%	BB Nominees	private investor	4,053	\$ 2,640.02	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	\$ 6,800.00	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	\$ 10,909.09	Sub-regional
Windsor Marketplace	6 Kable Street, Windsor NSW 2756	\$ 19,600,000	Dec-14	7.50%	Charter Hall Retail RBT	undisclosed	5,350	\$ 3,663.55	Neighbourhood
Clemton Park Shopping Village	Cnr Charlotte & Harp Streets, Clemton Park NSW 2206	\$ 48,000,000	Dec-14	7.39%	Australand	SCA Property joint venture with LaSalle Investment Management	6,757	\$ 7,103.74	Neighbourhood
Muswellbrook Fair Shopping Centre	19 Rutherford Road, Muswellbrook NSW 2333	\$ 19,700,000	Dec-14	8.65%*	PPB Advisory	Tipalea Partners	8,900	\$ 2,213.48	Neighbourhood
Scone Village Centre	209 Kelly Street, Scone NSW 2337	\$ 11,000,000	Dec-14	9.88%*	PPB Advisory	undisclosed	4,189	\$ 2,625.93	Neighbourhood
Big Bear Shopping Centre	116 Military Road, Neutral Bay NSW 2089	\$ 100,000,000	Jan-15	undisclosed	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
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
	Lot 802 Gregory Drive, Gregory Hills NSW 2557	\$ 2,910,000	Mar-15	development site	undisclosed	In-Style Holdings	6,936	\$ 419.55	Outlet Centre
Pacific Square	Anzac Parade, Maroubra NSW 2035	\$ 137,000,000	Mar-15	6.50%	Charter Hall	Pacific Square Shopping Centre	13,723	\$ 9,983.24	Sub-regional

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

Development Activity

Preston Rowe Paterson Research recorded a number of retail developments that are in construction in New South Wales over 6 months to March 2015.

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
5 Martin Place (Commonwealth Building)	5 Martin Place, Sydney NSW 2000	City Centre	2,256			Q2 2015
Masters Coffs Harbour	211 Pacific Highway, Coffs Harbour NSW 2450	Bulky Goods	10,749			Q2 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	Bulky Goods	13,250			Q4 2015
Sydney Arcade	400 George Street, Sydney NSW 2000	City Centre			2,419	2015
The Glasshouse	150 Pitt Street, Sydney NSW 2000	City Centre			5,000	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 2015.

One of the highlights in retail development over the next 6 months to March 2015 is the development of **The Ponds Shopping Centre** in the Sydney north-western suburb of **The Ponds**. The neighbourhood shopping centre will have its grand opening on the last weekend of May. The 7,188 sqm retail centre will include anchor tenant Woolworths & BWS supermarket and liquor store, 25 specialty stores, cafes and restaurants. The centre will feature alfresco eateries, central public space, underground carpark for 250 car spaces plus 100 at-grade car spaces. The property is observed to be Australia's first 6-star Green Star Retail Design shopping centre.

Another well anticipated retail redevelopment is the **Commonwealth Building** located at **5 Martin Place, Sydney**. The heritage property located in the heart of the Sydney CBD is a mixed-use redevelopment where the majority of floor space is attributed to commercial office. However, there are approximately 2,256 sqm of retail area on the ground floor. The retail tenant mix are of high profile international and local retailers.



The Ponds Shopping Centre, The Ponds

Economic Fundamentals

GDP

GDP figures for the March quarter 2015 are not available until the 3rd June 2015, however, over the December 2014 quarter revealed that the Australian economy recorded growth of 0.55% seasonally adjusted which reflected growth of 2.47% seasonally adjusted over the twelve months to December 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.5%), Financial and insurance services (+0.5%) and Healthcare and social assistance (+0.3%).

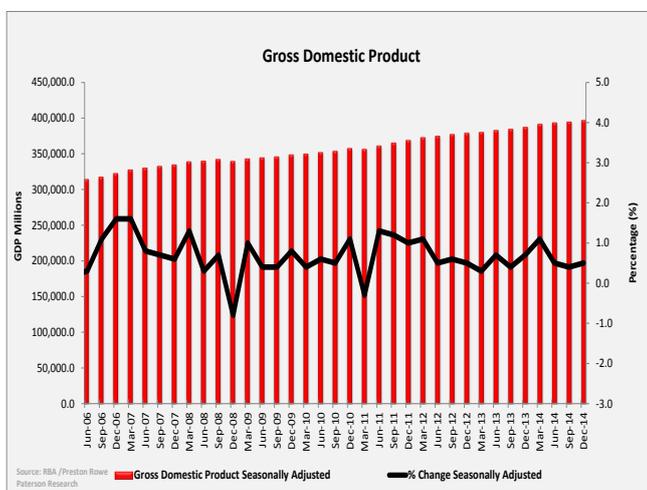


Chart 3 – Gross Domestic Product (GDP) – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the March quarter 2015 has decreased by 25 basis points to 2.25%. The Reserve Bank of Australia's Media Release for March 2014, released 3rd March 2014 explained that;

"In Australia the available information suggests that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually moved higher over the past year...The Bank is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have risen, in part as a result of declining 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. This is the first interest rate movement since September 2013.

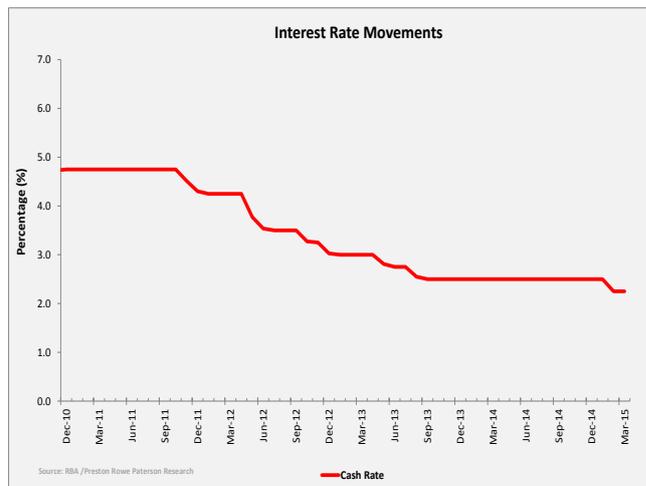


Chart 4 – Cash Rate – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 1.2% in March from 100.7 index points in February to 99.5 index points in March. Over the quarter the index has increased by 8.4 points, a 9.22% growth. Over the twelve months to March 2015 the index recorded no annual change.

The Index is returning to its pre-budget level in May 2014. Westpac's Senior Economist, Matthew Hassan commented; *"Some softening in sentiment was always likely in March given the big lift (in February) following the RBA's surprise 25bp rate cut... The overall message seems to be that while consumers remain very concerned about the outlook for the economy and job security, they are less concerned than they were in December and acknowledge the more positive situation around interest rates."*

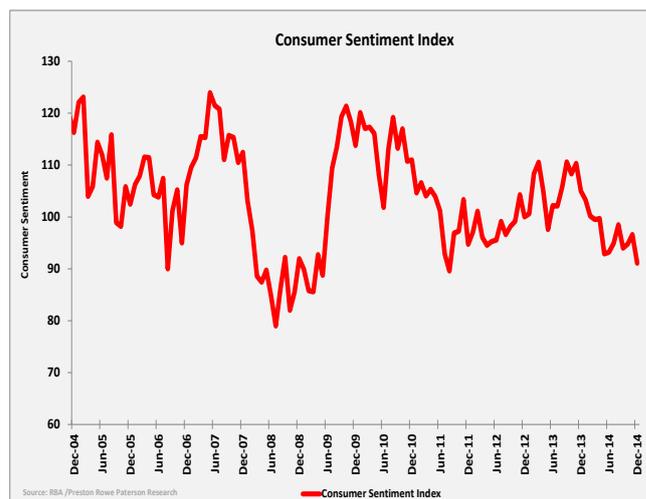


Chart 5 – Consumer Sentiment Index - Source - Westpac-Melbourne Institute Survey

10 Year Bond & 90 Day Bill Rate

In the twelve months to March 2015, the monthly 10 Year Bond Rate has decreased by 162 basis points to 2.48%. Similarly, the monthly 90 Day Bill Rate fell by 36 basis points to 2.30%.

Over the March 2015 quarter, the 10 Year Government Bonds recorded a decline of 48 basis points from 2.96%. The 90 Day Bill Rate recorded a 45 basis points decrease over the March quarter from 2.75%.

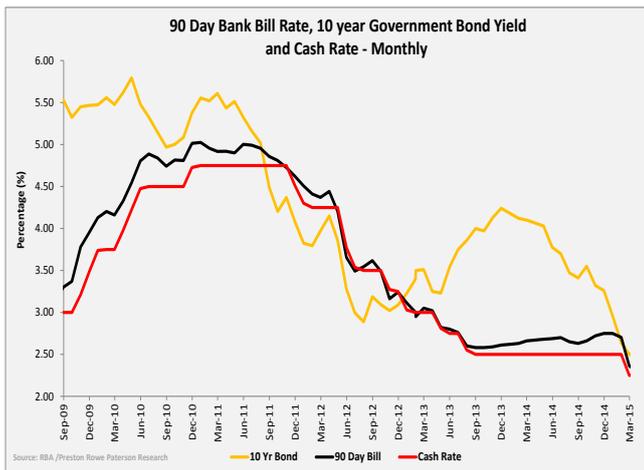


Chart 6 – 90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

Analysis of the daily 10 Year Government Bonds has revealed an increase of 2 basis points over the month of March 2015 with the 10 year bond rate currently at 2.48%. 90 day bill rates experienced a 6 basis point decrease in March to 2.30%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 13 basis points.

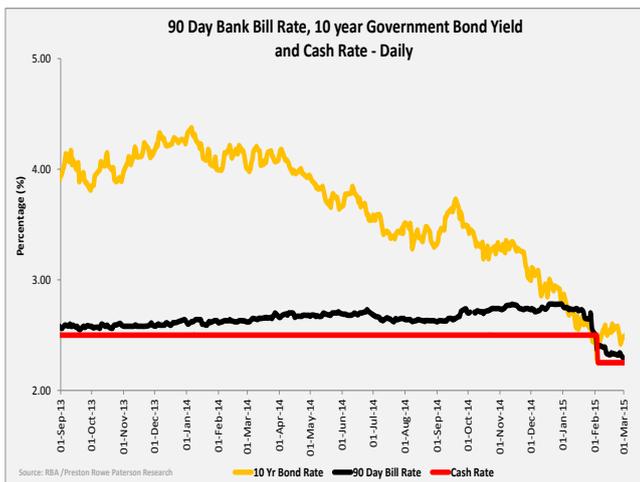


Chart 7 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

CPI

According to the Australian Bureau of Statistics (March 2015), the Australia's All Groups CPI increased by 0.2% over the March quarter from 106.6 to 106.8. The annual CPI change to March 2015 recorded a growth of 1.3%.

The most significant price rises over the March quarter were Domestic holiday travel and accommodation (+3.5%), Tertiary education (+5.7%) and Medical and hospital services (+2.2%). The greatest price fall over the quarter was attributed to Automotive fuel (-12.2%) and Fruit (-8%).

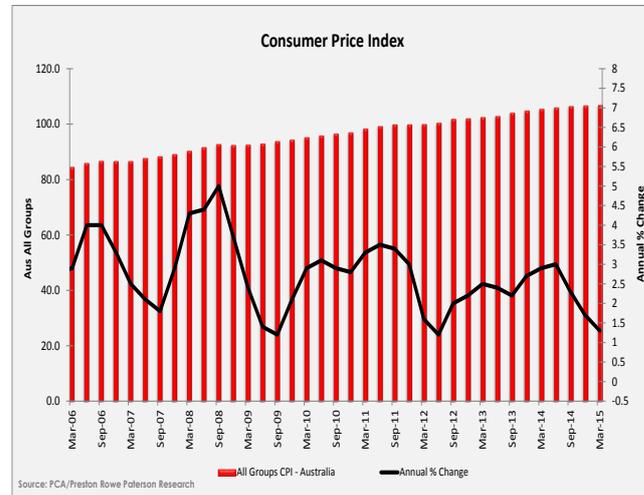


Chart 8 – Consumer Price Index—Source—ABS

Labour force

Over the month to March 2015, the number of unemployed people decreased by 1,530 from 766,038 in February to 759,156 in March which is a 0.20% decrease. In comparison to March 2014, the number of unemployed people has increased by 42,327 which reflected an annual increase of 5.90%. The unemployment rate as at March 2015 is 6.2%.

New South Wales experienced a large increase in seasonally adjusted employment by 26,000 persons to 3.661 million persons. The unemployment status in New South Wales over the March Quarter decrease by 0.2% to 6%.

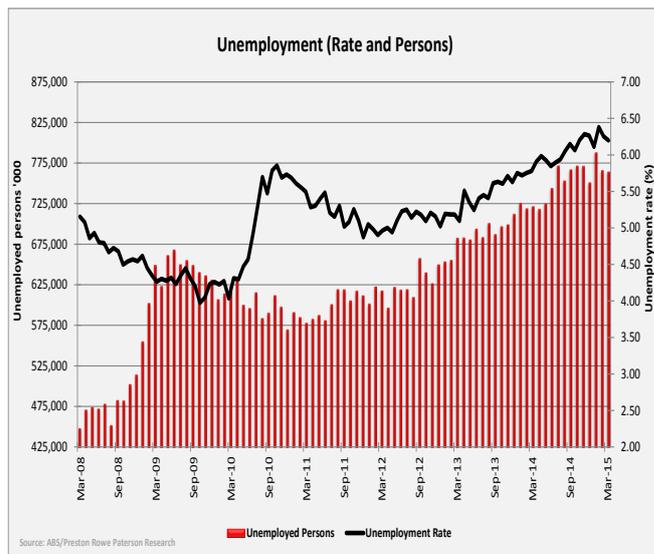


Chart 9 – Unemployment – Source ABS



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

- Investment
- Development
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- 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
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- Listed Property Trusts
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- 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
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- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
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- Marketing & development strategies
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- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning



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