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International Property Consultants

Sydney Impact Report

Office Market

December quarter 2016

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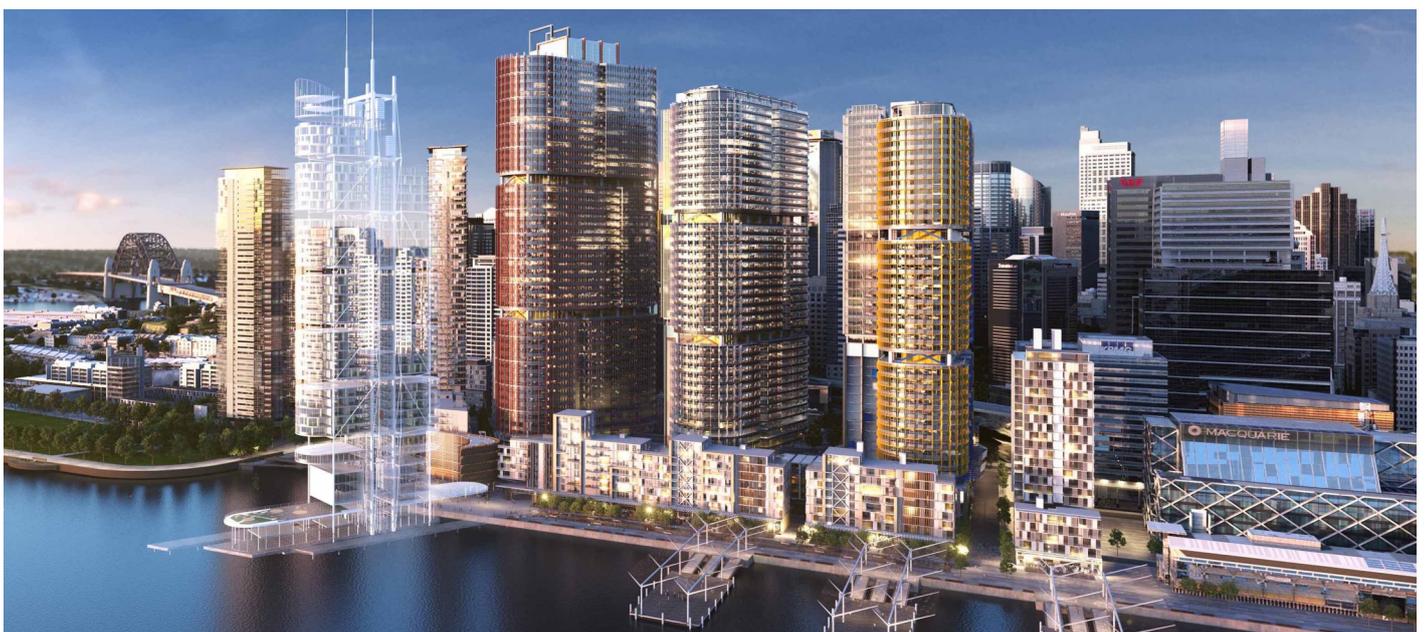
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SYDNEY OFFICE MARKET STRENGTHENS AS IT HEADS TOWARDS 2017

The office market in Sydney over the year to December has experienced some significant changes, as the city experiences shifts in supply and demand, construction of Sydney's new Metro Line, increasing interest from foreign investors and a changing corporate workplace. The rise investment and leasing activities over the year have strengthened Sydney's position as Australia's top player in the commercial market, and combined with the strong growth in New South Wales's services sector, have driven Sydney into a strong employment hub that outstrips Australia's other capital cities.

Sydney's prime office rents have increased throughout 2016 due to a lack of new supply and tightening of vacancies. Reports from a commercial real estate agent indicated that Sydney's office rents increased by 6% in the December quarter, ending the year with an annual growth of 17.6%. We note that the increased presence of IT, advertising and media companies around the Sydney fringe market- Pyrmont, Ultimo, Surry Hills, Everleigh and Redfern- have led to an increase in rents of more than 25% over the year, notably due to the low vacancy rates of less than 4% around these suburbs.

We note that yields have continued to be compressed throughout the year as Sydney's average yield for the December reached 5.43%. Ultimately as we approach 2017, owners of quality investment office assets will have to weigh up between selling their property at record yields or keep their property which will continue to benefit from strong rental growths across Sydney. Experts have predicted a further tightening of yields throughout 2017, as net effective rent continue to increase and capital values continue to strengthen.



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SYDNEY OFFICE MARKET HIGHLIGHTS

The six months to December brought through \$2.3 billion in sales of commercial office in the Sydney metropolitan area. The majority of sales occurred in the Sydney CBD, though there were significant transactions stemming from North Sydney, Crow's Nest/St. Leonard, Parramatta, Chatswood, North Ryde/ Macquarie Park and the surrounding suburban business parks. In order to accommodate the construction of Sydney's Metro Line development, CBD's office stocks have been withdrawn and this has inevitably led to the moderation of total transaction volumes throughout the six months to December. In saying this, there is a growing demand for lower-grade assets, with smaller office spaces harder to obtain due to the restrictive Sydney market. Demand for office spaces that are up 1,000 sqm in NLA increased by 17% from the previous year. Across all regions, yields have compressed throughout the year and will continue to do so as the leasing market is forecasted to strengthen through 2017. Moreover, strong rental growths have continued to affect owners' decision to delay their sales from their expectations of further rental growth.

Sales

The most commercial office sales were around the Sydney CBD area, with more than \$1.6 billion worth sale sales occurring in the six months through to December 2016. Several significant transactions took place including that of 39 Martin Place for \$332 million as part of the compulsory acquisition of the building by Transport for NSW to make way for the construction of Sydney's Metro Line. Additionally, AMP's 33 Alfred Street was acquired for a reported \$430 million by AMP Capital Diversified Property Fund and AMP Capital Wholesale Office Fund, which will inevitably allow AMP to relocate to a new headquarter at the Quay Quarter Tower upon its completion.

A property at 123 Epping Road in North Ryde was sold in December for \$118 million on a 6.1% yield. The property, acquired from Charter Hall by Shimao Group, has a Net Lettable Area of 12,800 sqm, with the price reflecting a rate of \$9,219 per sqm.

Leases

The six months to December 2016 brought through several significant leasing deals through Sydney's metropolitan area. Again, the majority occurred in the Sydney CBD, though there were also activities around the North Sydney, Parramatta, Chatswood and suburban business park areas. The observed average rent per sqm for the periods between July and December was \$472/sqm, with average rent per annum at \$474,743 and average term of 5.25 years.

A significant lease occurred in November, with Mirvac & TH Real Estate signing to a 10-year lease deal to rent out 3,500 sqm of space at 101 Miller Street in North Sydney at a reported rate of \$700-765 per sqm. In Sydney South, women's fashion brand- Camilla- has signed a lease deal to rent a property at 15 Bowen Street in Alexandria. They will be paying \$475 per sqm in rent for 2,100 sqm of space and will remain on a lease term of 10 years.

Developments

According to the Property Council of Australia, the second half of 2016 will bring along 140,191 sqm of office space through the completion of the major developments around Sydney CBD. The following major developments will bring along a total of 181,081 sqm of space for the year ending 2016:

International Towers Sydney Tower 3, part of the three high rise Premium Grade office buildings of International Sydney, is has been completed in the second quarter of 2016. The tower is bounded by Hickson Road, Shelley Street and Sydney Harbour at Welsh Bay. The owner of the tower, *Lend Lease*, will supply 79,352 sqm of net lettable area over 38 office floors, with the average floorplate size at 2,300 sqm. Retail space will take up 5,315sqm of the tower, with 167 car spaces available.

International Towers Sydney Tower 1 will see its development being completed by the fourth quarter of 2016. This larger development, under the same owner as Tower 2 (completed June 2015) and 3, will have a net lettable area of 101,729 sqm over 48 office floors and of which 8000 sqm will be retail space. The average floorplate size will be 2,300 sqm, and contain 167 carpark space in total.

Along with the two Barangaroo developments, **200 George Street** (38,590 sqm) and 8,532 sqm of refurbished space from **Governor Macquarie Tower**, along with other additions from the beginning of the year will contribute to the 2016 calendar year to a total of 5% of Sydney CBD stock added to the market.

Yield

Locality	Yield (%)
Sydney	5.38
North Sydney	6.27
Crow's Nest/ St. Leonards	N/A
Parramatta	7.32
Chatswood	6.00
Macquarie	7.12
Suburban Business Parks	8.03
Average Yield	6.28

Table 1—Average Yields in Sydney's Office Market for transactions between July– December 2016

COMMERCIAL OFFICE MARKET

Sydney CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA	sqr	Rate psm	Yield
36 Hickson Road, Sydney, NSW 2000	\$ 17,105,000	Khoury & Partners	DEXUS Property Group	Jul-16	1,146	\$ 11,837.00	N/A	
10-14 Quay & 775-779 George Streets, Haymarket, NSW 2000	\$ 42,000,000	Citadin	George 777 Pty (Hong Kong)	Jul-16	5,767	\$ 34,797.00	3.90%	
287 Elizabeth & 136 Liverpool Streets, Sydney, NSW 2000	\$ 55,000,000	Citadin	AMA Holdings (Hong Kong)	Jul-16	5,566	\$ 9,392.00	4.90%	
210 & 220 George Street, Sydney, NSW 2000	\$ 160,000,000	Anton Capital (G.S.)	Poly Real Estate	Jul-16	13,674	\$10,679-\$12,246	4.50%	
420 George Street, Sydney, NSW 2000 **	\$ 150,000,000	Lendlease	Investa Commercial Property Fund	Aug-16	37,688	\$ 15,920.00	5.30%	
235 Pyrmont Street, Pyrmont, NSW 2009	\$ 80,000,000	Anton Capital	Kador Group	Oct-16	10,628	\$ 7,527.00	6.00%	
303-305 Pitt Street, Sydney, NSW 2000	\$ 43,000,000	Private Vendor	City of Sydney	Oct-16	3,410	\$ 12,610.00	N/A	
223 Liverpool Street, Darlinghurst, NSW 2010	\$ 33,000,000	Core Plus Fund No. 1	Fidnam Australasia Real Estate	Oct-16	4,477	\$ 7,371.00	N/A	
39 Martin Place, Sydney, NSW, 2000	\$ 332,000,000	DEXUS Property Group	Transport for NSW	Nov-16	16,341	\$ 20,317.00	N/A	
55 Clarence Street, Sydney, NSW 2000	\$ 170,000,000	Eureka Funds Management	Asian Investment House	Nov-16	14,888	\$ 11,419.00	5.40%	
485-489 Elizabeth Street, Surry Hills, NSW 2010	\$ 10,000,000	Undisclosed	Private trust	Nov-16	404	\$ 24,752.00	N/A	
92 Pitt Street, Sydney, NSW 2000	\$ 52,170,000	EG Funds Management	Private investor	Nov-16	4,342	\$ 12,015.00	N/A	
43-51 Brisbane Street, Surry Hills, NSW 2010	\$ 13,100,000		Marks Henderson	Dec-16			6.50%	
Elizabeth Street, Kensington, NSW 2033	\$ 30,250,000	EG Funds Management	Impact Investment Group	Dec-16	31,000	\$ 1,890.00	5.00%	
33 Alfred Street, Sydney, NSW 2000***	\$ 430,000,000	AMP	AMP Capital Diversified Property Fund (ADPF); AMP Capital Wholesale Office	Dec-16	31,759	\$ 13,539.00	N/A	

Table 2 — Sydney CBD Sales Transactions

*75% stake (Investa)

** 25% stake (Mercer)

***This price reflects that of being reported in media and may not reflect true selling price of property

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Start Date
255 George Street, Sydney, NSW 2000	\$ 749	\$ 2,055,525	Ord Minnett Ltd	2,741	6	Jul-16
383-395a Kent Street, Sydney, NSW 2000	\$ 685	\$ 228,790	Dexus Property Group	334	N/A	Aug-16
2 Chifley Square, Sydney, NSW 2000	N/A	N/A	KordaMentha	1,288	5	Aug-16
175 Liverpool Street, Sydney, NSW 2000	N/A	N/A	Ticketek	2,200	5	Aug-16
33-35 York Street, Sydney, NSW 2000	\$ 395	\$ 213,695	Deals.com.au Pty Ltd	541	1	Aug-16
75 Elizabeth Street, Sydney, NSW 2000	\$ 750	\$ 166,500	Serko Australia Pty Ltd	222	3	Aug-16

123 Pitt Street, Sydney, NSW 2000	\$ 725	\$ 366,850	TNS	500	6	Sep-16
Tower 2, International Towers Sydney, Barangaroo, NSW 2000	\$ 1,095	\$ 10,415,640	Gilbert & Tobin	9,512	10	Sep-16
175 Liverpool Street, Sydney, NSW 2000	\$ 730	\$ 3,014,900	Fairwork Ombudsman	4,130	9+3	Sep-16
123 Pitt Street, Sydney, NSW 2000	\$ 675	\$ 298,350	CV Management Pty Ltd	442	2	Sep-16
680 George Street, Sydney, NSW 2000	\$ 735	\$ 2,185,890	Reckitt Benckiser	2,974	10	Oct-16
333 George Street, Sydney, NSW 2000	\$ 1,010	\$ 1,472,580	Aimia Proprietary Loyalty Australia Pty Ltd	1,458	N/A	Oct-16
50 Bridge Street, Sydney, NSW 2000	\$ 670	\$ 785,240	John Holland	1,172	9 months	Oct-16
101 Miller Street, Sydney, NSW 2000	\$700-765	\$2,450,000-2,677,500	Mirvac & TH Real Estate	3,500	10	Nov-16
363 George Street, Sydney, NSW 2000	Undisclosed	Undisclosed	Atlassian	5,500	5	Dec-16

Table 3—Sydney CBD Leasing Transactions
N/A = not currently available

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2016 have recorded office developments that are in various stages of completion within Sydney's office pipeline.

Mirvac's new development, located close to Circular Quay at **190-200 George Street**, was completed during the second quarter of 2016. Jointly owned by Mirvac Property Trust and AMP Capital Wholesale Office Fund, the Premium Grade office tower features 39,225 sqm of net lettable space across 33 office floors, 476 sqm of retail area, 63 car spaces, 5-star NABERS Energy rating and 6-star Green Star rating. The property will be tenanted by accounting consultants EY across 28,300 sqm on a 10 year lease.



Additionally, *Charter Hall's* development at **333 George Street** is due to be completed in the fourth quarter of 2016, and will bring 12,514 sqm of net lettable area into Sydney CBD office market.

Supply by Grade (Stock)

The July 2016 Market Report from the Property Council of Australia (PCA) revealed an increase of 126,474 sqm in the supply of office space in Sydney's Central Business District. This was offset by a withdrawal of 110,731 sqm of space, resulting in a higher total stock of 5,082,215 sqm in office space within Sydney's CBD.

The increase in additional office space came solely from Premium Grade stock. Its supply increased by 122,724 sqm from previous figures in January 2016. Total stocks of Premium Grade, as at July 2016, stand at 1,052,848 sqm.

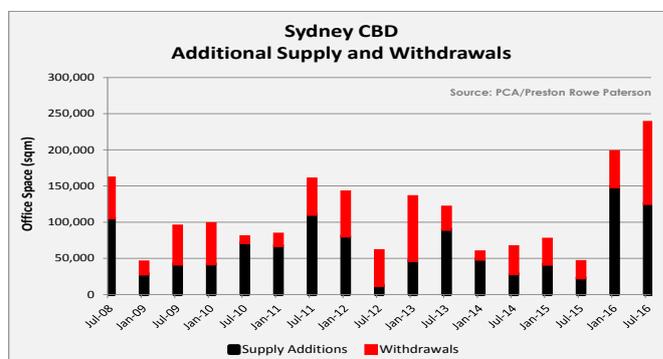


Chart 1 – Sydney CBD Office Additional Supply and Withdrawals– Source PCA

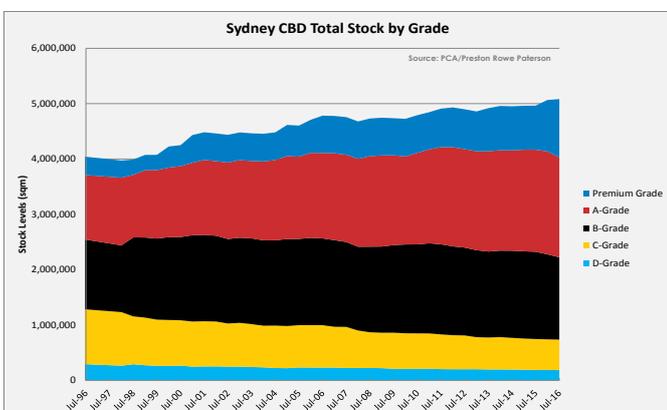


Chart 2 – Sydney CBD Total Stock by Grade – Source PCA

Net Absorption

The Sydney CBD office market has absorbed 147,245 sqm of space in the 12 months to July 2016. In the six months to January, the market absorbed 50,500 sqm in office space.

In the six months to July 2016, only Premium and B Grade stocks recorded positive net absorptions. They increased by 79,170 sqm and 4,277 sqm respectively. On the other hand, A, C and D Grade office stocks experienced reductions in net absorption in the same period. A Grade offices declined the most, with 26,008 sqm of space taken away. C and D Offices experienced less dramatic decreases, of -4,788 sqm and -2,151 sqm respectively.

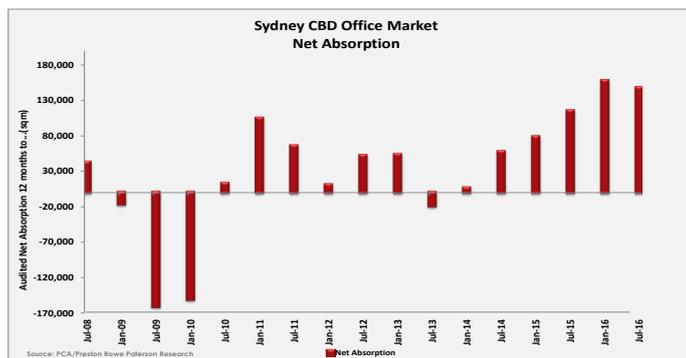


Chart 3 – Sydney CBD Office Net Absorption – Source PCA

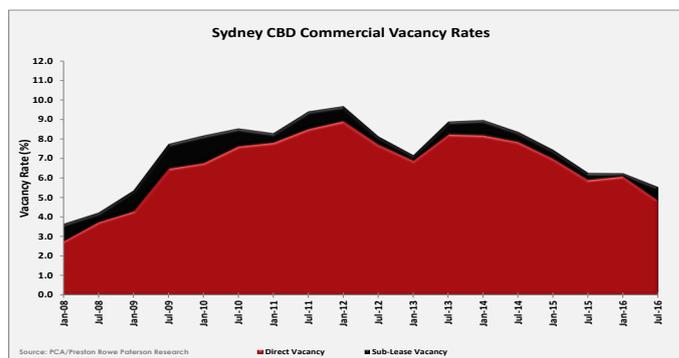


Chart 3 – Sydney CBD Vacancy Rates – Source PCA

Vacancy Rates

Vacancy in the Sydney CBD office market tightened during the six months to July 2016. Total office market vacancy had tightened by 0.7% down to 5.6% (282,457 sqm). Of the 5.6% vacancy, 4.9% was direct vacancy and 0.7% was sub-lease vacancy.

All grades of office stocks recorded a decrease in vacancy- except for Premium and C Grade office stocks-which increased by 3.2% and 0.6% to 11.3% and 6.0% respectively. The largest fall in total vacancy was reported by B Grade stocks, which fell by 3.3% to 3.5%. This is followed by a decline of 1.4% in A Grade stock to a total of 4.0%.

North Sydney

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
61 Lavender Street, Milsons Point, NSW 2061	\$ 140,000,000	Barana Group	Aqualand	Jul-16	10,500	\$13,333.00	N/A
1 Denison Street & 77 Berry Street, North Sydney, NSW 2060	\$ 80,000,000	Eastmark	Winten	Jul-16	N/A	\$21,333.33	N/A
90 Arthur Street, North Sydney, NSW 2060	\$ 75,000,000	151 Property Group	Deutsche AM	Aug-16	9,256	\$7,914.00	6.27%
42-44 Victoria Street, McMahon's Point, NSW 2060	\$ 12,750,000	Undisclosed	Private investor	Dec-16	1,178	\$2,559.00	5.80%

Table 4 – North Sydney Sales Transactions
N/A= not currently available

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Date
77 Berry Street, North Sydney, NSW 2060	\$ 395	\$ 358,265	Eastmark Holdings Pty Ltd	907	3	Aug-16
77 Berry Street, North Sydney, NSW 2060	\$ 395	\$ 358,265	Platinum Finance	907	3	Aug-16
76 Berry Street, North Sydney, NSW 2060	\$ 661	\$ 925,400	BT Australasia	1,400	6	Oct-16
101 Miller Street, North Sydney, NSW 2060	\$700-765	\$994,000-1,086,300	White Clark	1,420	5	Nov-16

Table 5 – North Sydney Leasing Transactions

Development Sites

The Property Council of Australia's (PCA) Office Market Report July 2016 noted that there are two active development in the North Sydney office market:

177-199 Pacific Highway, North Sydney, NSW 2060

The Norberry Terrace project, located at the corner of Berry Street and Pacific Highway, is due to be completed in the fourth quarter of 2016. The development will provide 39,383 sqm of net lettable area over 31 office levels. Its average floorplate size stands at approximately 1570 sqm, with the additional 112 car park spaces available.

Supply by Grade (Stock)

As shown in the PCA's Office Market Report July 2016, North Sydney's office market recorded a withdrawal of 28,265 sqm in office stock and zero additional supply for the half year to July 2016.

These withdrawals resulted in the decline in Premium Grade, B Grade and C Grade stocks of 5,713sqm, 9,096 sqm and 13,456 sqm respectively. As of July 2016, their respective total supply stands at 30,787 sqm, 418,966sqm and 143,501 sqm.

There was no change in the supply in the A-Grade and D-Grade stocks, remaining at 186,296 sqm and 12,932 sqm respectively.

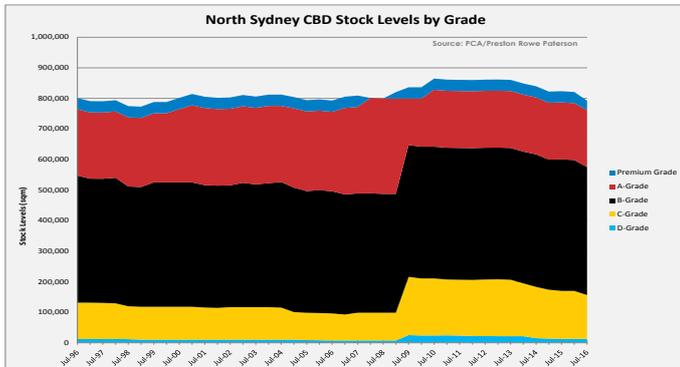


Chart 4 – North Sydney Total Stock Levels By Grade – Source PCA

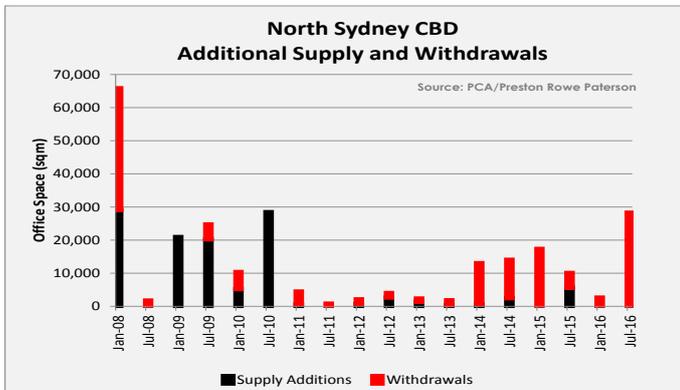


Chart 4 – North Sydney Office Additional Supply and Withdrawals – Source PCA

Net Absorption

Net absorption of offices in the North Sydney CBD market decreased by 20,849 sqm during the 12 months to July 2016. Furthermore, the 6 months to July brought upon a decline of 25,870 sqm in net absorption.

Positive net absorption was recorded for A, B and D Grade offices, of 4,305 sqm, 377 sqm and 490 sqm respectively. On the other hand, large negative net absorptions were recorded for Premium and C Grade offices. The larger of the decline in net absorption stemmed from Premium Grade offices, of -18,404 sqm. C Grade office stocks suffered a decline of -12,638 sqm in net absorption.

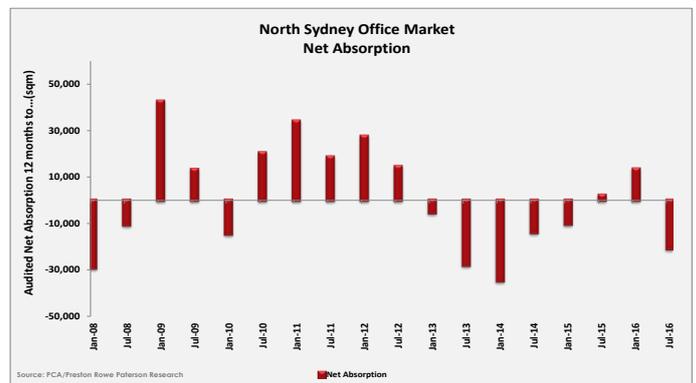


Chart 5 – North Sydney Office Net Absorption – Source PCA

Vacancy Rates

North Sydney's office market vacancy rate increased slightly by 0.3% over the six months to July 2016. As at July 2016, 55,603 sqm of vacant space was available, with 6.8% being direct vacancy and 0.2% as sub-lease vacancy.

It is worth noting that over the six months to July, the vacancy rate of Premium stock had increased by 41.2% from a fully occupied state in the first half of the year. All other office stocks experienced a decrease in vacancy rate from January 2016. A Grade, B Grade, C Grade and D Grade vacancy rates decreased by 5.4%, 6.1%, 4.9% and 3.0% respectively, and now stand at 5.4%, 6.1%, 4.9% and 3.0% respectively.

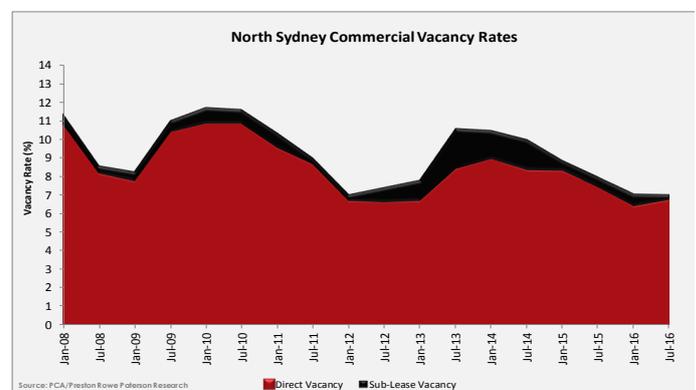


Chart 6 – North Sydney Office Vacancy Rates – Source PCA

Crows Nest/ St Leonards

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
51-53 Willoughby Road, Crows Nest, NSW, 2065	\$ 10,350,000	Undisclosed	Undisclosed	Nov-16	754	\$13,727.00	4.23%

Table 6 — Crows Nest/St Leonards Sales Transactions

Leasing Activity

There were no major leasing transactions that occurred over six months to September 2016 in and around the Crows Nest/ St Leonards region.

Table 7—Crows Nest/St Leonards Leasing Transactions

Supply by Grade (Stock)

The PCA’s Office Market Report July 2016 detailed that the Crows Nest/St Leonards office market recorded no additional supply and a withdrawal of 11,166 sqm of office space, bringing the total stock available down to 333,631 sqm. Notably, the stock withdrawals were attributed to the tightening of C Grade

space. In saying this, C Grade stocks still dominate the Crows Nest/ St Leonards market, taking up 45% of total stock. A Grade and B Grade stock levels increased to their respective percentage of 30.8% and 20.4%. D Grade stocks take up the smallest share Crows Nest/St Leonards’ office spaces, of 3.8%.

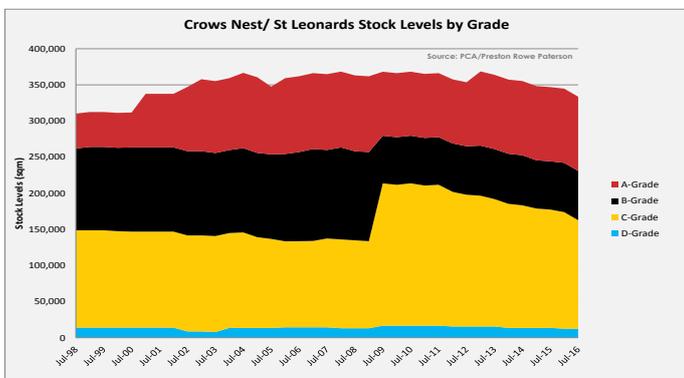


Chart 7 – Crows Nest/St Leonards Total Stock Levels by Grade – Source PCA

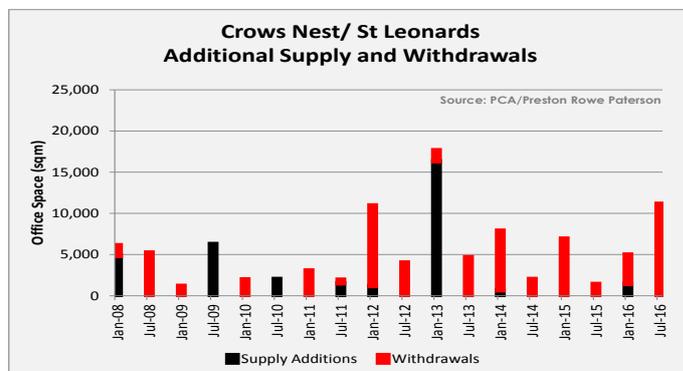


Chart 7 – Crows Nest/St Leonards Office Additional Supply and Withdrawals – Source PCA

Net Absorption

Crows Nest/St Leonards’ office market recorded a decline of 2,065 sqm in net absorption during the 12 months period to July. Furthermore, the market recorded a larger decline of 5,661 sqm in the 6 months to July.

The largest decline in net absorption stemmed from C-Grade markets, with 13,684 sqm of decline over the 12 months to July. D Grade offices experienced –1,239 sqm of net absorption. A and B Grade offices both experienced positive net absorption, of 8,241 sqm and 4,617 sqm respectively.

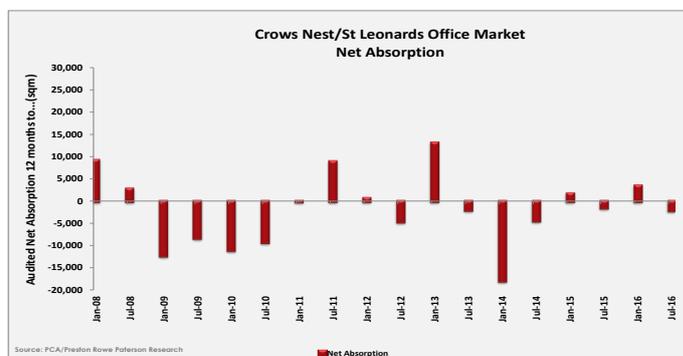


Chart 8 – Crows Nest/St Leonards Office Net Absorption – Source PCA

Total Vacancy

Over the six months to July 2016, Crows Nest/St Leonards recorded a decrease in total market vacancy rate of 1.3% to 8.3%. Amongst this, direct vacancy decreased by 1.1% to reach a vacancy rate of 7.3% and sub-lease vacancy reducing by 0.2% to a new rate of 1.0%.

The only increase in vacancy rate came from D Grade office stock, which increased by 5.4% to 14.6% vacancy. We observe the largest decrease in vacancy rate in the B-Grade stock, which decreased by 2.8% to a new rate of 6.3%. A Grade and C Grade stocks also experience decline in vacancy, of 0.6% and 1.4% respectively, to their new respective rates of 2.9% and 12.4%.

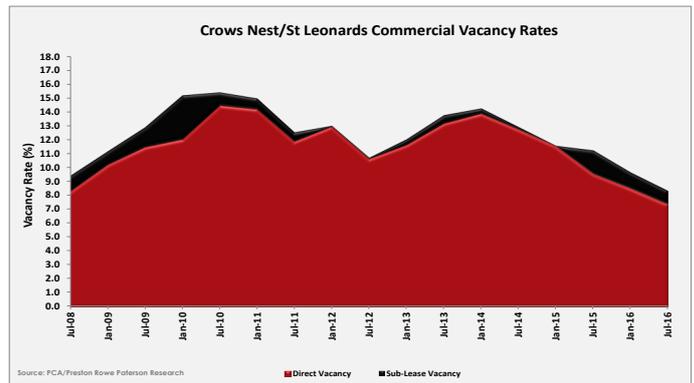


Chart 9 – Crows Nest/St Leonards Office Market Vacancy – Source PCA

Parramatta CBD

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
18 Smith Street, Parramatta, NSW 2150	\$ 84,800,000	Altis Property Partners	Eureka Funds Management	Aug-16	12,069	\$ 7,022.00	6.75%
292-298 Church Street, Parramatta, NSW 2150	\$ 9,750,000	Undisclosed	Local purchaser	Oct-16	1,800	\$ 5,417.00	3.00%

Table 8—Parramatta CBD Sales Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
80 George Street, Parramatta, NSW 2150	\$ 410	\$ 114,800	Ray White	280	5	Jul-16
82-88 Phillip Street, Parramatta, NSW 2150	\$ 400	\$ 225,200	Horwood & Associates	563	7	Oct-16

Table 9—Parramatta CBD Leasing Transactions



18 Smith Street Parramatta, was sold for \$84,800,000 in August at a yield of 6.75%.



Ray White have leased out 280 sqm of office space in 80 George Street, at a rate of \$410 per square metre for five years.

Development Sites

169 Macquarie Street, Parramatta NSW 2150

Stage 1 development of Parramatta Square is reported to be completed by the fourth quarter of 2016. Under its owner, *Charter Hall Group*, the site will provide a net lettable area of 26,000 sqm over 14 office levels. Its average floorplate size will be 2200 sqm, with 108 carpark spaces available upon completion.



In conjunction with the Parramatta Stage 1 development, the other significant development is **Parramatta Square (Stage 3)** project located on **153 Macquarie Street**. It is currently in its early feasibility stage. The Parramatta City Council proposed that

the third stage of development will include 35,000 sqm of NLA over a 14 storey office tower, feature a 7,000 sqm are of public facilities including a civic building, community centre, library and facilitate a car park with 170 spaces. The project is expected to be completed in the 2nd quarter of 2018 or later.



Supply by Grade (Stock)

The PCA Office Market Report July 2016 indicate that there has been 1,470 sqm of supply added to Parramatta's office market, offset by 1,908 sqm of withdrawals within the 6 months to July. Total market supply now stands at 682,469 sqm.

Parramatta's office market is still dominated by A and B Grade stocks, which assumes 40.1% and 32.2% respectively. C and D Grade stocks take up smaller shares, of 14.7% and 13.1% respectively.

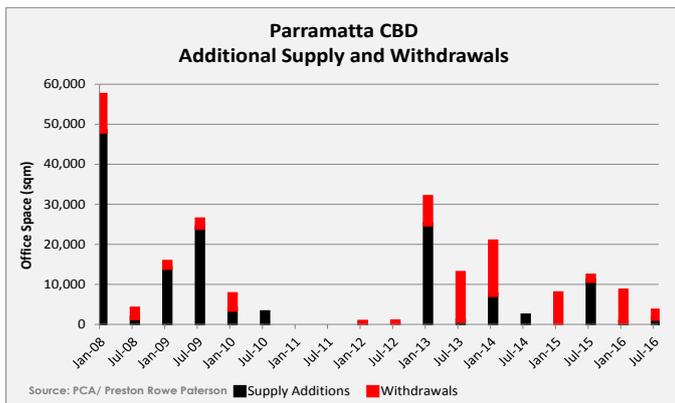


Chart 10 – Parramatta CBD Office Additional Supply and Withdrawals – Source PCA

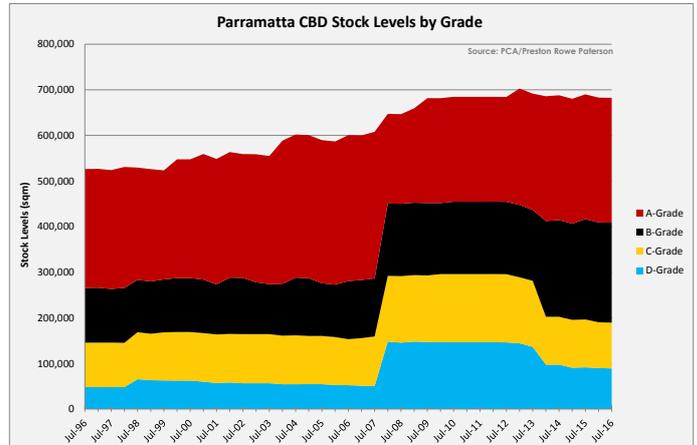


Chart 10 – Parramatta CBD Total Stock Levels by Grade – Source PCA

Net Absorption

Total net absorption for the 12 months to July was 13,297 sqm. In the 6 months to July, Parramatta's office market recorded 7,582 sqm of net absorption.

Only D Grade stocks experienced negative net absorption, of -2,543 sqm during the six months to July. A and B Grade stocks recorded the largest net absorption, of 4,647 sqm and 3,868 sqm respectively. C Grade stocks experienced a more moderate increase of 1,610 sqm during the same period.

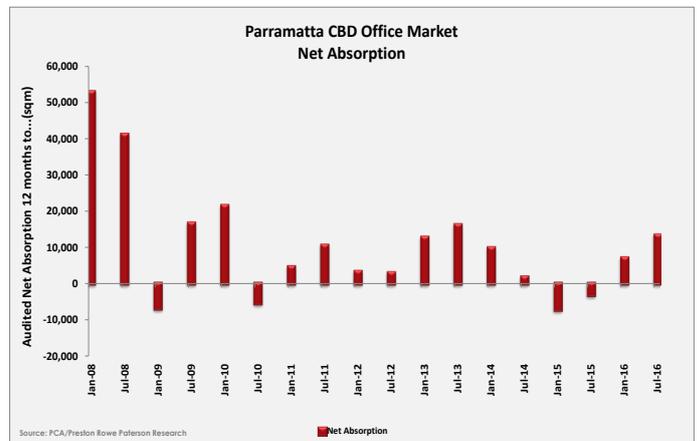


Chart 11 – Parramatta CBD Office Net Absorption – Source PCA

Vacancy Rates

The total vacancy in the Parramatta office market has reduced to 4.5% over the six months to July, down from 5.6% during the six months to January.

Vacancy rate reduced from 1.7% to 0% for A Grade office buildings. B and C Grade building also experienced a reduction in their vacancy rates, down to 6.8% and 11% respectively for the period. D Grade office buildings experienced an increase in their overall vacancy, increasing from 3.1% to 5.1%.

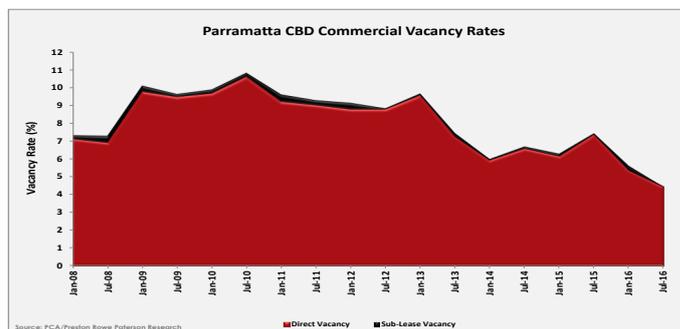


Chart 12 – Parramatta CBD Office Market Vacancy– Source PCA

Chatswood

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
282-284 Victoria Avenue, Chatswood, NSW 2067	\$ 43,800,000	Private vendors	Private buyer	Oct-16	5572	18391	5.75%

Table 10 — Chatswood Sale Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
15 Help Street, Chatswood, NSW 2067	\$ 410	\$ 450,180	United Resource Mgmt	1,098	5	Aug-16
9 Help Street, Chatswood, NSW 2067	\$ 395	\$ 51,350	Heart Diagnostics	130	5	Sep-16
821 Pacific Highway, Chatswood, NSW 2067	\$400-500	\$836,400-1,045,500	Sage	2,091	10	Oct-16

Table 11 — Chatswood Leasing Transactions

Supply by Grade (Stock)

The PCA Office Market Report July 2016 revealed that there were no changes in both supply and withdrawal numbers in the six months to July, with total stock supply remaining unchanged at 278,919 sqm.

The A Grade stock remain as the dominant category of office space in the Chatswood market, accounting for 55.3% of total market share. B, C and D Grade office stocks remained unchanged, at 26.7%, 15.8% and 0.2% respectively.

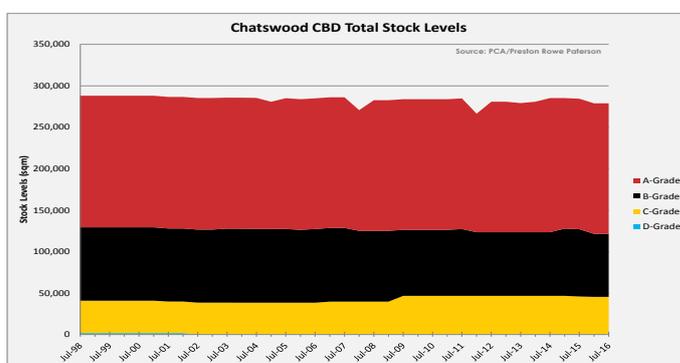


Chart 13 – Chatswood CBD Total Stock Levels by Grade– Source PCA

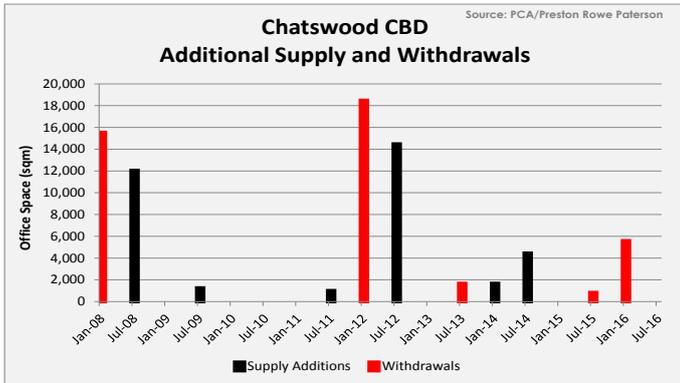


Chart 13 – Chatswood CBD Office Additional Supply and Withdrawals – Source PCA

Net Absorption

In the 12 months to July 2016, the Chatswood office market recorded a negative net absorption of -4,555 sqm. In contrast, the 6 months to July brought upon 3,119 sqm of net absorption.

B Grade stocks contributed most the drop in net absorption, as its net absorption declined by 6,331 sqm in the six months to July. A, C and D Grade stocks all experienced positive net absorptions, of 1,263 sqm, 335 sqm and 178 sqm respectively.

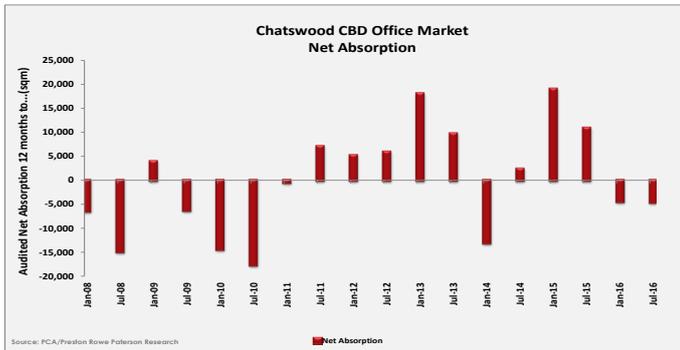


Chart 14 – Chatswood CBD Office Net Absorption – Source PCA



282-284 Victoria Avenue, Chatswood was sold for \$43,800,000 in October at a yield of 5.75%.

Total Vacancy

Total vacancy in Chatswood's office market reduced from 7.7% to 6.6% over the six months to July. This decrease was stemmed from a drop in direct vacancy rate from 6.4% to 5.3%. Sub-lease vacancy remain unchanged at 1.3%.

A Grade vacancy decreased to 6.1%, from 7.3% over the six months. B and C Grade also experienced decreases in their vacancy rates, to 9.9% and 2.5% respectively. D Grade office buildings remain fully occupied for the period.

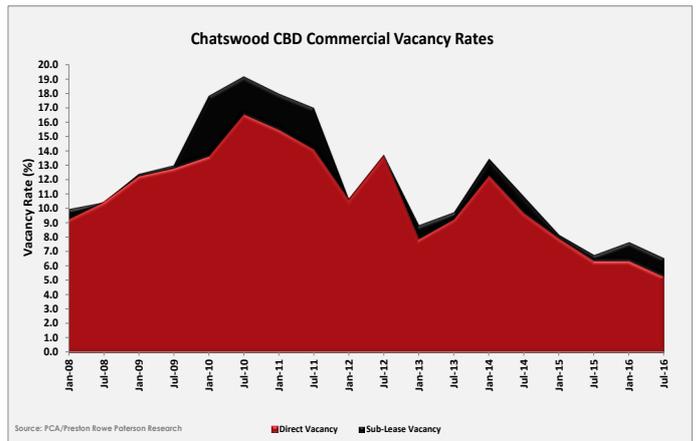
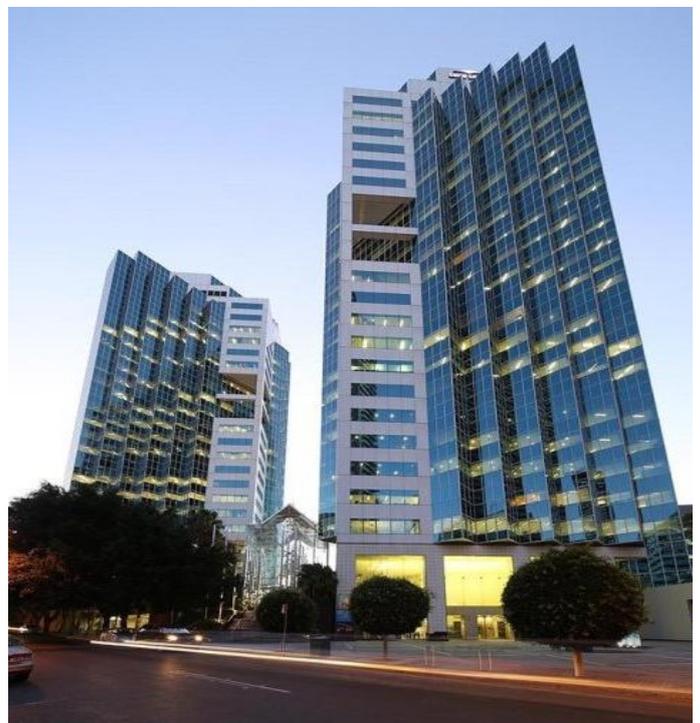


Chart 15 – Chatswood CBD Office Market Vacancy – Source PCA



Sage, an accounting, payroll and payment systems company, have leased out more than 2,000 sqm of space in 821 Pacific Highway, Chatswood for a reported rate of between \$400 and \$500 per square metre. They have taken out a 10-year lease for the tenancy.

North Ryde/ Macquarie Park

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
40-50 Talavera Road, Macquarie Park NSW 2113	\$ 54,000,000	Altis Property Partners	Aqualand	Jul-16	13,185	\$ 4,096.00	5.79%
37-39 Epping Road, Macquarie Park NSW 2113	\$ 34,000,000	Abacus Property Group	CorVal	Aug-16	8,009	\$ 4,245.00	N/A
123 Epping Road, North Ryde, NSW 2113	\$ 118,000,000	Charter Hall	Shimao Group	Dec-16	12,800	\$ 9,219.00	6.10%

Table 12— North Ryde/Macquarie Park Sale Transactions

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to December 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lesee	Area sqm	Term	Date
2 Lyonpark Road, Macquarie Park, NSW 2113	\$ 340	\$ 44,200	Keller	130	5	Sep-16
4 Drake Avenue, Macquarie Park, NSW 2113	\$ 345	\$ 448,500	Histopath	1,300	N/A	Sep-16

Table 13— North Ryde/Macquarie Park Leasing Transactions

Supply by Grade (Stock)

The PCA Office Market Report July 2016 indicates that the North Ryde/ Macquarie Park office market recorded no additional supply, and 3,132 sqm of withdrawals during the 6 months to July.

A Grade offices remain the dominant stocks in North Ryde/Macquarie Park's market, taking up 72% of total stocks. B Grade stocks take up a modest 26% of the market, with C and D Grade stocks taking up 1.7% and 0.3% respectively.

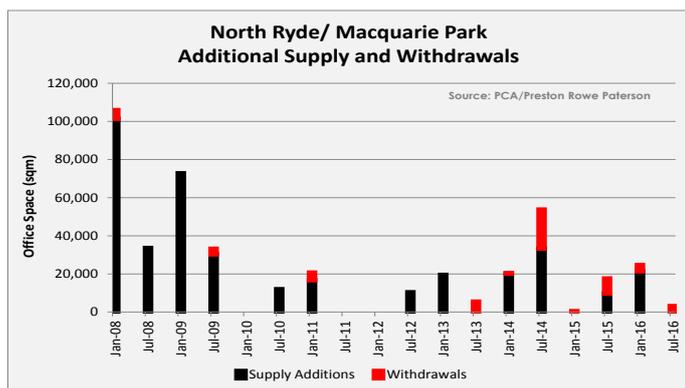


Chart 16— North Ryde/ Macquarie Park Office Additional Supply and Withdrawals – Source PCA

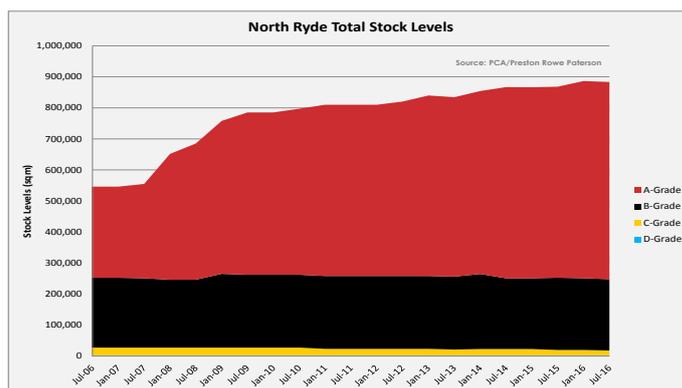


Chart 16 – North Ryde/ Macquarie Park Total Stock Levels by Grade – Source PCA

Net Absorption

The 12 months to July 2016 resulted in 24,171 sqm of net absorption in the North Ryde/Macquarie Park office market. In the six months to July, the market absorbed 4,207 sqm of space.

A and B Grade stocks reported 1,669 sqm and 3,565 sqm respectively of net absorption in the six months to July. C Grade stock recorded a negative absorption of -1,027 sqm and D Grade stock remain unchanged with no recorded absorbency.

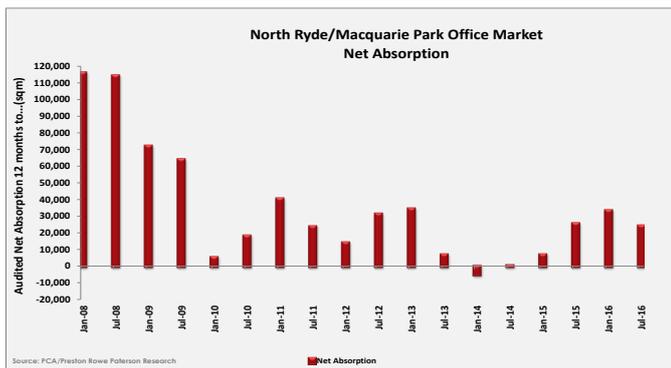


Chart 17– North Ryde/ Macquarie Park Office Net Absorption – Source PCA

Vacancy Rates

The North Ryde/Macquarie Park market recorded a decrease of 0.8% in total vacancy rate to 7.1% in the six months to July 2016. Total vacant space was reported to be approximately 62,903 sqm.

A, B and C Grade stocks all recorded a decline in their vacancy rates during the 6 months to July. A Grade vacancy dropped from 4.5% to 4.3%. B Grade vacancy reduced from 17% to 14.9%, whereas C Grade stocks reduced from 12.4% to 10.4%. No vacancy results were recorded for D Grade office space.

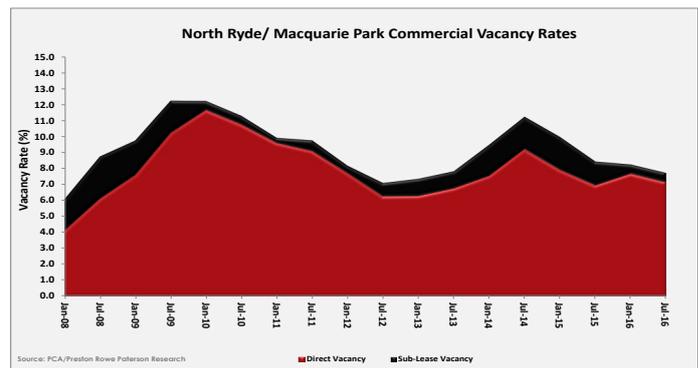


Chart 18 – North Ryde/ Macquarie Park Office Vacancy – Source PCA

Sydney Suburban Business Hubs

Investment Activity

The following table shows reported major sales transactions that occurred over six months to December 2016. Transaction information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Sale Price	Vendor	Purchaser	Sale Date	NLA sqm	Rate psm	Yield
120 Chalmers Road, Surry Hills, NSW 2010	\$ 12,000,000	JLL	Analypsi	Jul-16	1,500	\$ 8,000.00	N/A
20 Bridge Street, Pymble, NSW 2073	\$ 78,000,000	Private owners	Yuhu Group	Oct-16	14,300	\$ 7,800.00	7.20%

Table 14— NSW Suburban Office Sales Transactions
N/A = not currently available

Leasing Activity

The following table shows reported major leasing transactions that occurred over six months to September 2016. Leasing information were gathered from various sources including The Australian Financial Review, The Australian and Commercial Property Monitors.

Address	Rent psm	Rent pa	Lessee	Area sqm	Term	Date
76 Heathcote Road, Moorebank, NSW 2170	\$ 120	\$ 324,000	Grosvenor Engineering Group	2,700	5	Aug-16
2 Ainslie Close, Somersby, NSW 2250	\$ 75	\$ 149,925	NSW Government	1,999	1	Aug-16
40 Marigold Street, Revesby, NSW 2212	\$ 110	\$ 475,530	Verosol Australia	4,323	5	Aug-16
Unit E1A, 35-39 Bourke Road, Alexandria, NSW 2015	N/A	N/A	Fresco Gourmet	1,539	10	Aug-16
Unit 2, 14A Baker Street, Banksmeadow, NSW 2019	N/A	N/A	Alpha Flight	2,033	3	Aug-16
15 Bowen Street, Alexandria, NSW 2015	\$ 475	\$ 997,500	Camilla	2,100	10	Oct-16

Table 15 — NSW Suburban Office Leasing Transactions
N/A—not currently available

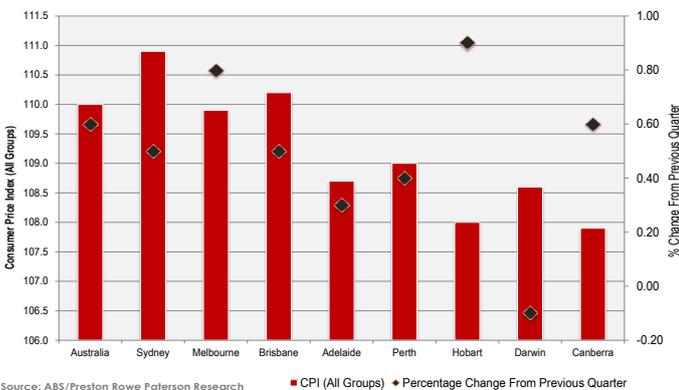
Economic Fundamentals

Consumer Price Index

All Groups CPI numbers for the December quarter indicate that inflation rate had increased by 0.5% over the quarter, bringing price growth to 1.5% over the year. Core inflation (inflation with volatile items stripped out) increased 0.4% over the quarter to bring annual growth to 1.6%. The yearly increase to December is still larger than the yearly increase recorded in September (1.3%), though figures were still lower than economists' expectations for a 0.7% rise. Notably, the 1.5% increase over the calendar year is the lowest in nineteen years, with the last time being back in 1997 when inflation fell backwards by 0.2%.

The main contributors to the quarterly increase stemmed from Alcohol & tobacco group (+2.8%), Transport group (+1.7%), Food & non-alcoholic beverages group (+0.6%) and Recreation & culture group (+0.6%). On the other hand the largest decline in prices stemmed from the Communications group (-0.8%), Furnishing, household equipment & services group (-0.8%), Health group (-0.6%) and Clothing & footwear group (-0.5%).

Australia's Housing group increased by 0.3% over the quarter, with the main contributors to this rise stemming from purchases of New dwellings by owner-occupiers (+0.5%) and maintenance & repair of dwellings (+1.0%). The ABS did note that the increase in purchases of new dwellings by owner-occupiers is driven by rises in input costs. Over the calendar year, the Housing group experienced an increase of 1.9%, with the main contributor again being purchases of new dwellings by owner-occupiers (+0.5%).



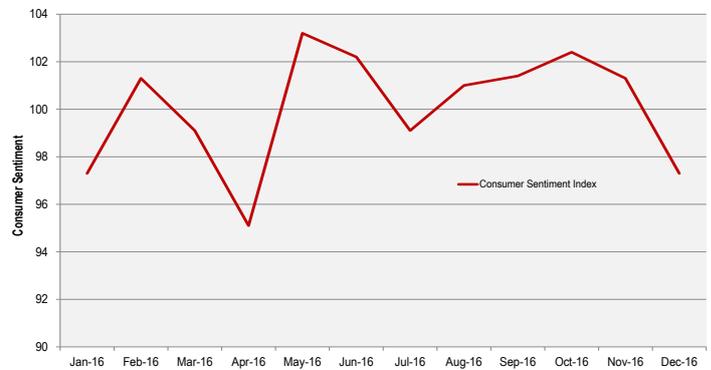
Source: ABS/Preston Rowe Paterson Research
 Chart 2—All Group CPI (Capital Cities) and Percentage Change from September 2016 to December 2016—Source—ABS

Business Sentiment

Business conditions declined over the month to November, as the National Bank of Australia reports further declines in business conditions that is mainly driven by profitability and trading conditions in sales and subdued levels of employment in Australia. For the month of November, business conditions index declined by 2 points to +5 index points, ultimately declining to long run average levels for the first time since April 2015. In saying this, business confidence has increased over the month, remaining steady through the year. Business confidence in response to global political events, i.e. Brexit and the US Presidential elections were relatively flat, though when combined with weakening business conditions makes confidence a more difficult measure to accurately calculate.

Consumer Sentiment

Consumer sentiment, as measured by the Westpac Melbourne Institute Index, dropped in December amidst concerns circling the economy, interest rates and the labour market. The index stands at 97.3- a decline of 3.5% from November's index of 101.30- and indicates that pessimists now outnumber optimists (with 100 being the cut-off point). The index stands at its lowest level in six months, just higher than April's index of 95.1, with the Australian economic condition, budget and taxation, geopolitical conditions, employment, politics and interest rates the main issues influencing respondents' attitudes and decisions. It is noted that since September, respondents were less optimistic in their assessment of Australia's economic conditions, employment and interest rates, and unchanged in their assessments of taxation and the budget, international conditions and politics.



Source: Westpac Melbourne Institute /Preston Rowe Paterson Research
 Chart 5—Consumer Sentiment Index, 2016 Overview—Source—Westpac Melbourne Institute Survey

Gross Domestic Product

Through the September quarter*, seasonally adjusted GDP declined by 0.5%, a figure that is well below what many economists have forecasted prior. This is the first quarterly contraction in twenty-one consecutive quarter (the last contraction was in March 2001, during which the economy shrunk by 0.2%). Following this contraction, yearly growth was dragged to a below expectation figure of 1.8%.

The September quarter also brought through a decline of 1.4% in dwelling investment, of which the fall was mainly influenced by New and Used Dwelling (-1.6%) and Alterations and additions (-1.0%). The ABS reported that poor weather partly influenced the decline. Nevertheless, annual growth stood at 7.2% and Private sector residential building approvals up 9.4% from September quarter 2015 (\$20.4billion in original current price term for this quarter). Mining Investment fell 10.6% for the quarter, marking the twelve consecutive quarterly declines in Australia. Non-mining investment increased by 4.8%, which has been contributing to the positive increase set since the March quarter of 2014. As noted by the ABS, Mining investment contributed 9.4% to GDP during its peak in December of 2012, and now has fallen to 3.4%. Non-mining investment contribution in December 2012 was 7.5%, and has risen ever since to the current quarter's contribution of 9.0%.

When we look at expenditure measures, Household final consumption expenditure increased by 0.4% (Seasonally adjusted terms) over the quarter, and 2.5% over the year. The ABS reported that this rise is attributed to an increase in spending in Hotels, cafes and restaurants (2.2%) and Insurance and other financial services (1.3%). Over the period, Gross fixed capital formation declined by 2.7%, Exports of goods and services increased by 0.3%, and Imports increased by 1.3% (all in seasonally adjusted terms).

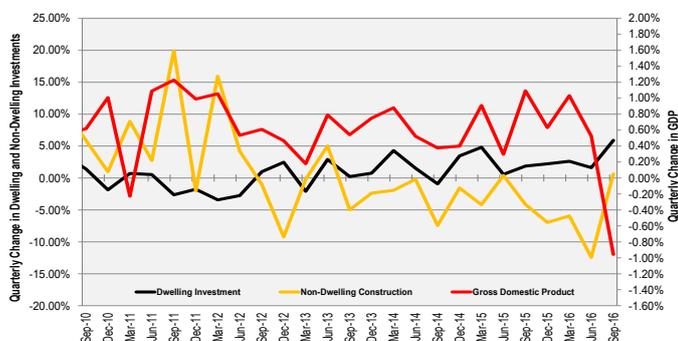


Chart 17— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

Unemployment

Australia's unemployment rate in December increased by 0.1% to 5.8%, with the rise influenced by the participation rate increasing to 64.7%. There was a 13,500 increase in seasonally adjusted employment over the month to December 2016, with full-time employment increasing by 9,300 persons and part-time employment increasing by 4,200 persons. Nation-wide analysis sees the largest increase in employment in Victoria, which was up 13,600 persons, and the largest slump deriving from the state of Queensland, which was down 13,700 jobs over the month. Western Australia was the other state to experience a decrease in employment in December, down by 7,900 persons. Unemployment increased the most in New South Wales (up 0.3%) and Queensland (up 0.2%). Western Australia and South Australia experienced a decrease in unemployment rate, of 0.3% and 0.2% respectively.

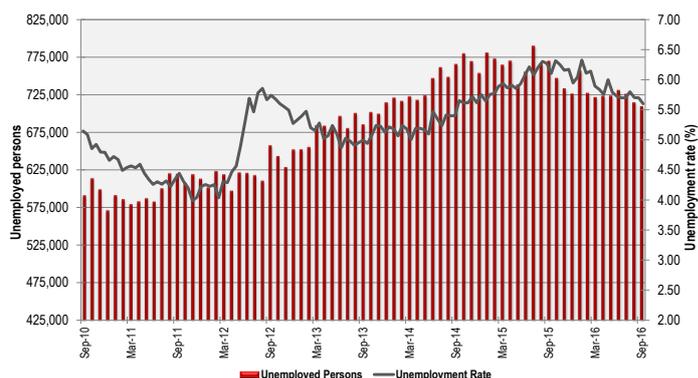


Chart 19— Unemployment Persons and Unemployment Rate, September 2010 to September 2016 — Source: ABS

	Unemployment Rate (%)		Participation Rate (%)	
	November	December	November	December
Australia	5.7	5.8	64.6	64.7
New South Wales	4.9	5.2	63.4	63.5
Victoria	6.0	6.0	65.7	65.9
Queensland	6.0	6.2	64.4	64.1
South Australia	7.0	6.8	62.3	62.1
Western Australia	6.9	6.6	67.9	67.3
Tasmania	6.3	6.4	59.8	59.8
Northern Territory*	3.6	3.6	75.9	77.3
Australian Capital Territory*	3.7	3.7	70.4	70.5

Table 2— Unemployment Rate and Participation Rate, November vs. December 2016 — Source: ABS * Trend figures used for NT and ACT as seasonally adjusted data both either are not publicly available

10 Year Bond & 90 Day Bill Rate

Ten-year Australian government bond yields finished the calendar year at 2.79% for December, after a tumultuous year in the global bond market. This rate reflects a 0.29% increase from November, 0.81% increase from three months prior and a decline of 0.06% over the year from December 2015. The ninety-day bank bill swap rate increased modestly by 0.02% over the month to 1.78%. This rate reflects an increase of 0.05% from three months prior and a decline of 0.56% from the previous year. After reaching an all-time low of 1.82% at the start of August, Australian bond yields have followed the path of the US Treasury yields as they increase sharply after the US Presidential election.

Other major economies around the world have experienced similar increases in their sovereign bonds, though not to the extent of changes that have taken place in the US Bond market. The Reserve Bank did note that even though changes in Treasury yields were large, they were not as large as previously recorded movements in recent decades and are still at a historical low. Furthermore, a rate increase from the US Federal Reserve in December helped the yields to increase to 2.87% in mid-December, before slowly settling down to 2.76% towards month-end. As a result of the increase in yields, global and domestic borrowing costs have followed suit, with Australian banks raising home loan rates by as much as 0.60% since the US election.

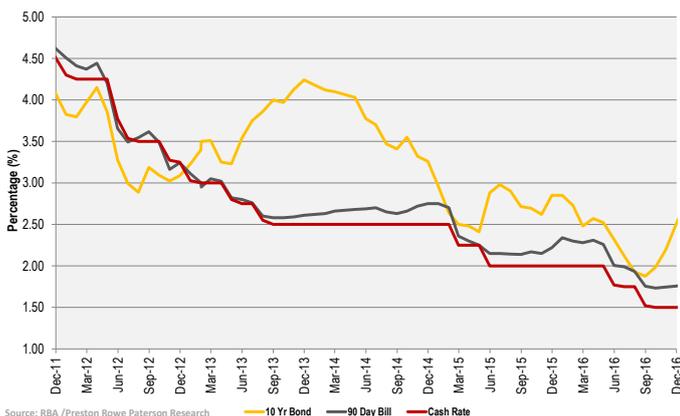
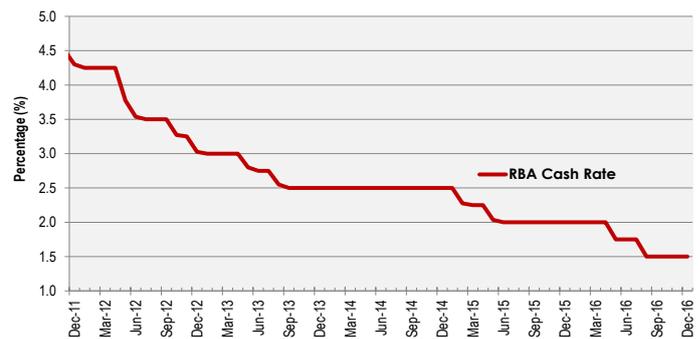


Chart 7— Movement of 90-day Bill, 10-year bond yields and Cash rate from December 2011 to Dec 2016— MONTHLY— Source: RBA

Interest Rates

The Reserve Bank kept interest rates unchanged for December at 1.50%, after it dropped rates to historically low level in August. The decision to keep the cash rate on hold was influenced mainly by positive global growth from advanced economies as well as Australia's main Asian trading partners, improvements in labour market conditions domestically and internationally, improvement in Australia's terms of trade as influenced by rising commodity prices and a well-functioning financial market. The bank did note that the Australian economy is still in a transitional phase from the gains made from the mining investment boom but highlight the expectation of an increase in commodity exports towards 2017. Inflation remains below the Reserve Bank's target of 2-3%, with the bank indicating that it will be some time until inflation increases dramatically, as labour costs remain subdued. The Bank also targeted Australia's labour force, noting growing trend of part time employment and a slow-down in overall employment growth.



Source: RBA /Preston Rowe Paterson Research

Chart 8— Movement of the Cash Rate from December 2011 to Present— Source: RBA

Exchange Rate

According to figures collated from the RBA, the Australian Dollar depreciated against most major currencies over the month of December, except for the Japanese Yen. Notably, there was a depreciation in the Australian Dollar of 3.2% over the month against the US Greenback, with \$AUD1 buying \$USD0.75 in November, and dropping to \$USD0.72 in December. December's figure also signifies a depreciation of 5.2% from September, when the exchange rate was at \$USD0.76. The Dollar also depreciated against the British Pound, declining 1.6% over the month from £0.60 in November to £0.59 in December. There was a depreciation of 2.2% over the month against the Euro, declining from €0.70 in November to €0.69 in December. In contrast, the Australian Dollar performed better against the Japanese Yen, appreciating a slight 0.3% from ¥84.23 in November to ¥84.47 in December.



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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- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
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- 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:

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

We have your *needs* covered

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

- Acquisitions & Disposals
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- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
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- Litigation support
- Marketing & development strategies
- Mortgage valuations
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- 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

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 the various Sydney Office markets of; Sydney, North Sydney, Crows Nest/ St Leonards, Parramatta, Chatswood, North Ryde/ Macquarie Park & other NSW suburban business hubs.

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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