



**Preston
Rowe
Paterson**

National Property Consultants

Sydney Impact Report

Retail Market

**2014
June 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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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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Economic Fundamentals

GDP

GDP figures for the June quarter are not available until the 3rd September 2014 however PRP Research over the March 2014 quarter revealed that the Australian economy recorded growth of 1.1% seasonally adjusted which reflected growth of 3.5% seasonally adjusted over the twelve months to March 2013.

In seasonally adjusted terms, the main contributors to GDP were Mining which increased by 8.6%, Financial and insuring services increasing by 2.8% and Construction (up 3%). Each of these industries accounted for 0.2% of the total increase in GDP.

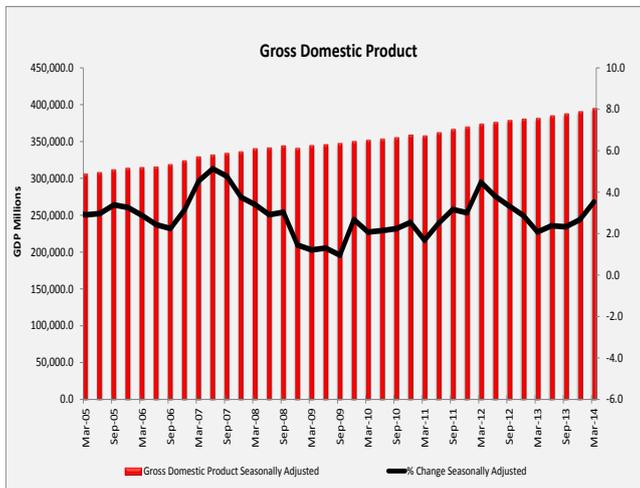


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to June 2014, the number of unemployed people increased by 20,322 from 721,330 in May to 742,652 in June which is a percentage decline over the month of 2.82%. In comparison to June 2013, the number of unemployed people has increased by 49,772 which reflected a percentage increase of 7.2%. The unemployment rate is 6%.

Employment over the month to June 2014 recorded an increase of 20,300 persons from 11,562,300 in May to 11,578,200 in June, a percentage increase of 0.14%. In comparison to June 2013, employment in Australia recorded growth of 100,259 reflecting a percentage increase of 0.9%.

New South Wales experienced the largest absolute increase in seasonally adjusted employment by 10,000 persons. The unemployment status in New South Wales over the June Quarter increase by 0.5% to 5.7%.

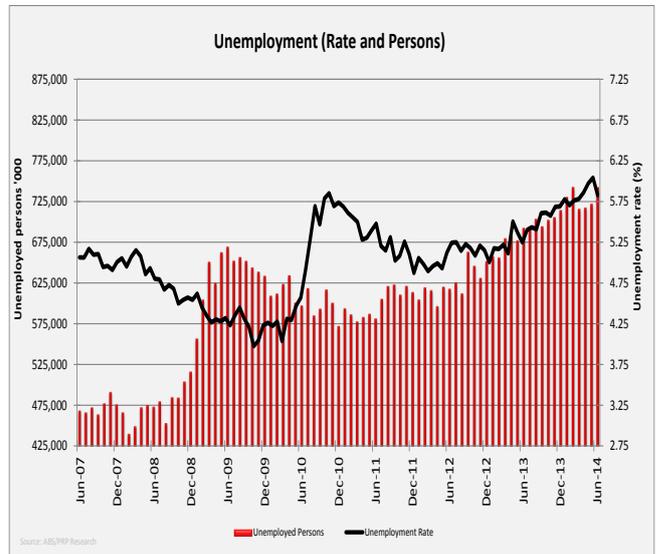


Chart 2 – Unemployment – Source ABS

Interest Rates

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

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

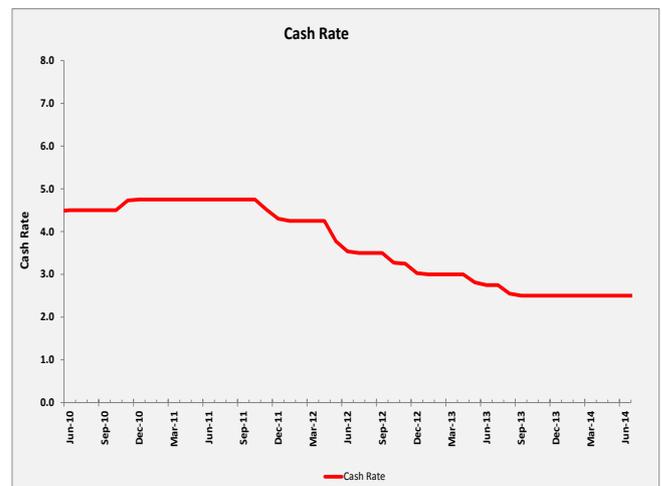


Chart 3 – Cash Rate – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2014, the 10 Year Bond Rate has increased by 16 basis points to 3.70%. Conversely, the 90 Day Bill Rate has declined by 10 basis points from 2.80% to 2.70%. Over the June 2014 quarter, 10 Year Government Bonds recorded a steady decline of 40 basis points from 4.10%.

The 90 Day Bill Rate recorded a steady increase over the June quarter by 4 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 10 basis points since June 2013.

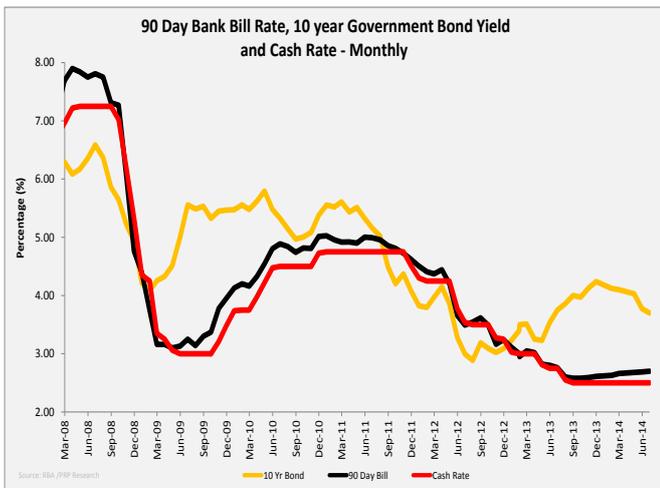


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 16 basis points over the month of June 2014 with the 10 year bond rate currently at 3.88%. 90 day bill rates remained relatively no changes over the month of June at 2.69%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 100 basis points.

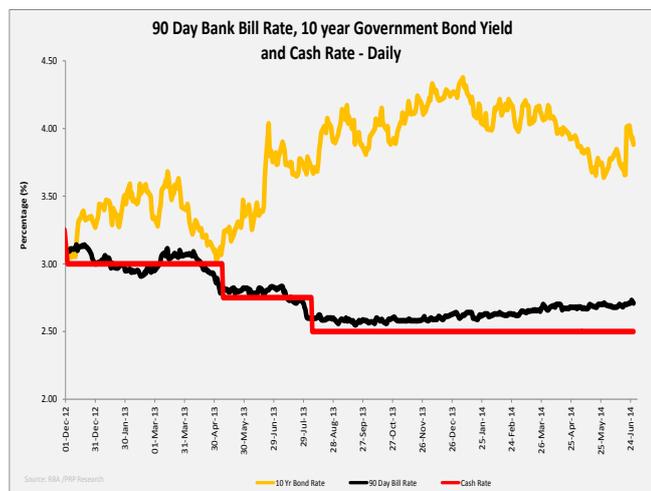


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

CPI

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

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

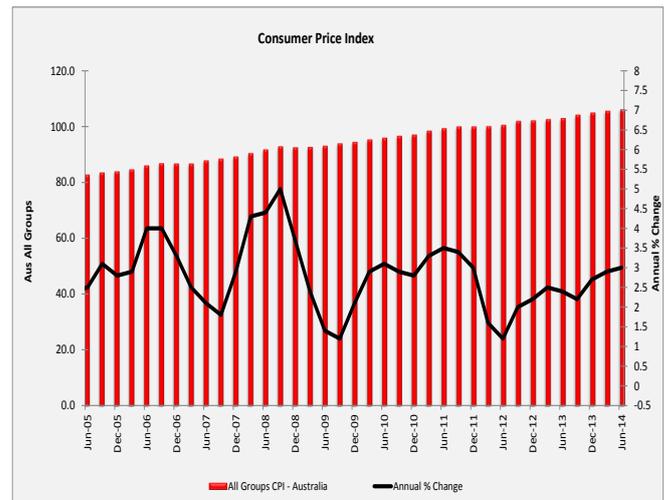


Chart 6 – Consumer Price Index—Source—ABS

Consumer Sentiment

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

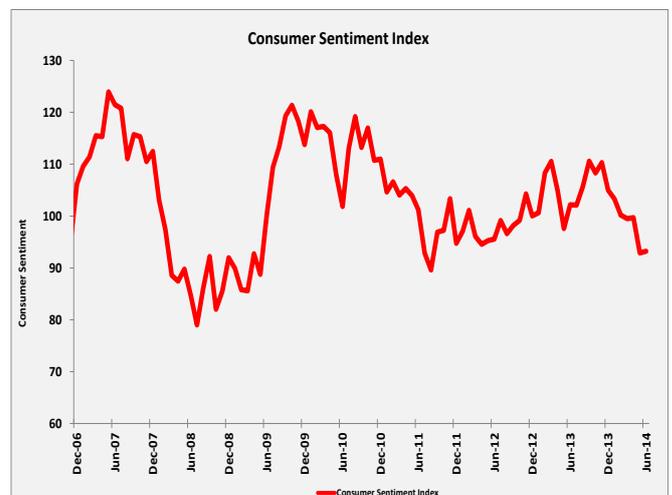


Chart 7 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Retail Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (May 2014), the retail turnover figures recorded in New South Wales produced varied results. The total retail turnover in New South Wales declined -0.5% over the month of May 2014 at \$7,235.3 million. The seasonally adjusted annual total retail turnover growth to May 2014 was 7.3%.

Over the month of May, declines were experienced in household goods (-1.28%), clothing, footwear and personal accessory retailing (-3.28%), department stores (-3.07%) and other retailing (-0.29%) to monthly turnover of \$1,170.5 million, \$625.4 million, \$477.4 million and \$1,045.4 million respectively.

Monthly growth was recorded in food related industries. Food retailing grew by 0.57% to \$2,845 million turnover in May 2014. And cafes, restaurants and takeaway food services monthly turnover increase by 0.02% to \$1,071.1 million.

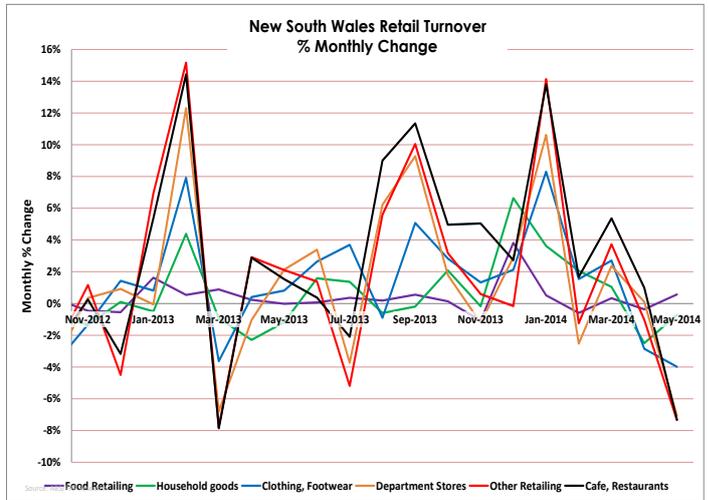


Chart 9 – New South Wales Turnover % Monthly Change – Source ABS

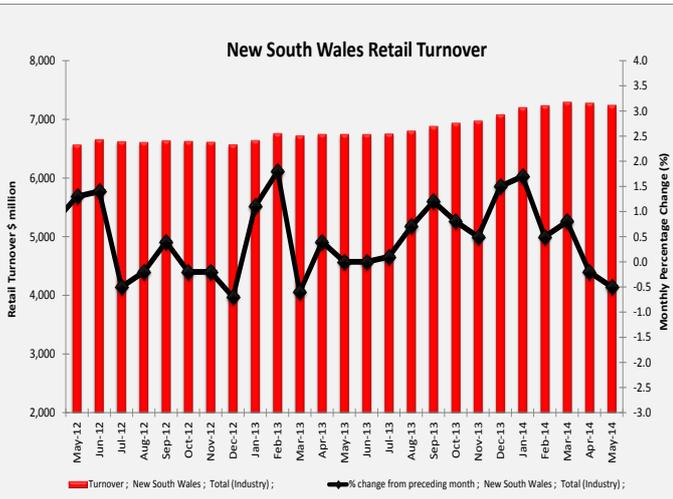


Chart 8 – New South Wales Retail Turnover – Source ABS

Year on year analysis of the six retail categories revealed positive results with the only decline attributed to department stores retailing falling by -1.24%. All other categories experienced growth over the year with cafes, restaurants and takeaway food services recording the most marked annual growth of 24.39%, followed by household goods and clothing, footwear and personal accessory retailing at 9.98% and 8.13% respectively. Food retailing grew by 4.53% and other retailing reached a 1.38% growth.

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 2014, online retail sales increased by 0.9% over the month. Over the twelve months to June, Australia's online retail spending totalled \$15.5 billion which is 6.6% of the total retail sector excluding cafes, restaurants and takeaway food services.

Annual growth to June 2014 was realized on online trading of electronic games (22%), groceries and liquor (19%), department and variety stores (10%), fashion (8%) and homeware and appliances (8%).

The continual rise in online retail is putting a downward pressure on traditional bricks and mortar retailers' turnover and growth. Retailers of non-perishable goods are most likely affected by the online trades. This can adversely affect the retail property market because of the retailer's loss in potential income from online purchases. Retail vacancies and lease incentives may increase as a result of the growth in online retail.



Source - theaustralian.com.au

Retail Market

Analysis of the Property Council of Australia's (PCA) Shopping Centre Directory has revealed the following definitions of the six 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**.

Investment Activity

PRP Research recorded a number of retail sales transactions that occurred in New South Wales over 6 months to June 2014.

Centre	Address	Sale Price	Sale Date	Reported Yield	Vendor	Purchaser	GLAR (sqm)	Type
Orange City Centre	220 Summer Street, Orange NSW 2800	\$49,500,000	Jan-14	8.90%	Mirvac Group	Alceon Group	17,674	Sub-regional
Bonnyrigg Plaza	100 Bonnyrigg Avenue, Bonnyrigg NSW 2177	\$80,000,000	Feb-14		Con Makris	LaSalle Investment Management	20,716	Sub-regional
Edgeworth Town Square	720 Main Road, Edgeworth NSW 2027	\$22,200,000	Feb-14		Howard Mortgage Trust	Primewest	4,654	Neighbourhood
Ropes Crossing Village Centre	8 Central Place, Ropes Crossing NSW 2760	\$11,500,000	Feb-14	7.90%	Coles Group Ltd	Ganellan	3,376	Neighbourhood
Campsie Centre	14-28 Amy Street, Campsie NSW 2194	\$67,000,000	Apr-14	9.00%	Cobav	private investor	13,041	Sub-regional
Sturt Mall	135 Baylis Street, Wagga Wagga NSW 2650	\$61,200,000	Apr-14	7.00%	NSW Local Government Superannuation Board	DEXUS Wholesale Property Fund	14,621	Sub-regional
Greenfield Shopping Village	Crn Mimosa & Greenfield Roads, Greenfield Park NSW 2176	\$12,375,000	Apr-14	9.59%	private investor	Banna Investments	3,528	Neighbourhood
Ballina Fair Shopping Centre	Cnr Fox & Kerr Streets, Ballina NSW 2478	\$60,000,000	Jun-14	7.50%	Colonial First State Property	George Raptis	12,575	Sub-regional
Deepwater Plaza	Cnr Railway & Charlton Streets, Woy Woy NSW 2256	\$95,000,000	Jun-14		Schwartz family	DEXUS Wholesale Property Fund	17,607	Sub-regional
Riverside Plaza	131 Monaro Street, Queanbeyan NSW 2620	\$62,500,000	Jun-14	8.00%	AMP Capital	Colonial First State Retail Property Trust Group	17,690	Sub-regional

Table 1—Retail Centre Sales Transactions

Sales Information

PRP Research recorded many major retail transactions over 6 months to June 2014. Notable sales transactions over the quarter included;

DEXUS Wholesale Property Fund had purchased the **Deepwater Plaza** at the corner of **Railway & Charlton Streets, Woy Woy** from the Schwartz family for **\$95 million**. The retail centre is anchored by Kmart, Coles, Supa IGA, Best & Less and The Reject Shop with 57 specialty retail shops.

Orange City Centre at **220 Summer Street, Orange** was purchased by Alceon Group for **\$49.5 million on a yield of 8.9%**. The two levelled retail centre is the largest retail destination in Orange with anchor tenants Myer and Big W, as well as 30 specialty stores.

Edgeworth Town Square at **720 Main Road, Edgeworth** was purchased from Howard Mortgage Trust by Primewest for **\$22.2 million**. The property have Coles as an anchor tenant with 22 specialty shops, including national tenants, and is fully leased with net income of approximately \$2,114,000 pa.

Colonial First State Retail Property Trust Group has purchased the **Riverside Plaza** at **131 Monaro Street, Queanbeyan** for **\$62.5 million**. The retail centre is situated on a 3.07 hectare site and is anchored by Target, Coles, Best & Less and Priceline. was purchased on a reported **yield of 8%**.



Deepwater Plaza, Woy Woy — smh.com.au

Leasing Activity

PRP Research recorded a number of retail leasing transactions that occurred in New South Wales over 6 months to June 2014.

Centre	ADDRESS	RATE/SQM	RENT P.A	AREA (SQM)	LESSOR	LESSEE	TERM	LEASE DATE
Hunter Supa Centre	343 New England Highway, Rutherford NSW 2320	\$153	\$200,000 gross	1,307	Sentinel Property Group	Early Settler	5 + 5	Feb-14

Table 2 – Retail Centre Leasing Transactions

Leasing Information

PRP Research recorded only one significant leasing activity in 6 months to June 2014. The **Hunter Supa Centre** had leased **1,307 sqm** to a furniture retailer by Early Settler. The bulky goods retail centre had leased the area on a **5 year term with a further 5 year option** at a **gross annual rental of \$200,000** reflecting a rate of **\$153 psm**. The single levelled retail centre has 8 anchor tenants plus 7 specialty retailers on the 5.06 hectare site.



The Hunter Supa Centre - www.precinctpm.com.au

Development Activity

PRP Research recorded a number of retail developments transactions that were in construction in New South Wales over 6 months to June 2014.

Centre	Address	Type	Area (sqm)	Extension (sqm)	Completion
Macquarie Centre	Cnr Waterloo & Herring Roads, North Ryde NSW 2113	Major Regional	106,797	31,521	Q4 2014
Wollongong Central Shopping Centre	200 Crown Street, Wollongong NSW 2500	Major Regional	37,900	18,000	Q3 2014
Westfield Miranda	600 Kingsway, Miranda NSW 2228	Super Regional	108,090	19,000	Q4 2014
Masters Hoxton Park	Cnr Cowpasture Road & Airfield Drive, Hoxton Park NSW 2171	Bulky Goods	13,684		Q3 2014

Table 3 - Retail Developments

Development Information

One of the highlights in retail development over the next 6 months to December 2014 is the redevelopment of the **Macquarie Centre in North Ryde**. The shopping centre is reported to be completed in October 2014 and reclassified to a super regional centre. The redevelopment includes a new two levelled mall linking with the existing centre which will be leased to David Jones department store, Coles supermarket, fresh food market, 130 new specialty retail stores (rumoured to include international retailers such as H&M and Uniqlo) and a further 1,050 car spaces.

Another well anticipated retail development is the **Westfield Miranda** shopping centre in the **Sutherland Shire**. The redevelopment is due to complete in late 2014, and its new cinema complex will be completed in mid-2015. The redevelopment includes 100 new specialty retailers, refurbished tenancies such as Myer and Big W, a new full-line Woolworths supermarket and relocated a 10-screen multiplex Event Cinema.



Macquarie Centre - Artist Impression of Post Development - www.amp.com.au

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

We have all real estate types covered

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

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

We have all types of plant & machinery covered

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- Mining & earth moving equipment/road plant
- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

We have all client profiles covered

Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

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



We have all *locations* covered

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

We have your *needs* covered

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

- Acquisitions & Disposals
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- 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
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & re-valuations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning



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