



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Property Market Report

## Victoria

### 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.

The markets covered in this research report include the commercial office market, industrial market, retail market, hotel and leisure market and residential market as well as economic factors impacting on the real estate markets within we operate.

We regularly undertake valuations of commercial, retail, industrial, hotel and leisure, residential and special purpose properties for many varied reasons, as set out later herein. We also provide property management services, asset and facilities management services for commercial, retail, industrial property as well as plant and machinery valuation.

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

### December Quarter 2014

#### INSIDE THIS ISSUE:

Melbourne CBD Office Market	2
East Melbourne Office Market	4
Southbank Office Market	5
St Kilda Road Office Market	6
Retail Market	8
Industrial Market	9
Residential Market	11
Hotel & Leisure Market	13
Specialized Property	13
Regional Market	14
Economic Fundamentals	15
About Preston Rowe Paterson	17
Contact Us	19



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## Commercial Office Market

### Melbourne CBD



### Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the Melbourne CBD Office Market during the three months to December 2014.

#### 301 Flinders Lane, Melbourne, VIC 3000

Listed Singaporean door maker *KLW Holdings* has secured a place in the Melbourne property boom after purchasing a seven level university building for **\$23.6 million**. The Singaporean manufacturer acquired the building which was owned by *Victoria University* on a **yield of 5.3%**, which is well below the 6% range that premium commercial buildings are trading at and signifies the asset's development potential. The property occupies an 895 sqm site with three street frontages; the sale reflects a rate of \$26,368 psm.

#### 350 Queens Street, Melbourne, VIC 3000

A private Malaysian investment group has sold **Melbourne Office Tower** for a price that is **around \$130 million - \$140 million**. The 22,000 sqm, 21 storey office tower was completed in 1990, with a further two stages of the development that did not proceed.

#### 818 Bourke Street, Melbourne VIC 3000

The campus styled building owned by *GPT* was sold to the international private property group *Hines* for **\$152.5 million** on an initial passing yield of 7%. The building is fully leased to NAB and three other tenants with a WALE of 4.3 years. The A Grade property is 8 storey high, 23,300 sqm of office space, ground floor retail and two above ground level parking.

#### 432 St Kilda Road, Melbourne VIC 3000

*Prime Asset Management* had sold the **former ANL House** to a private British company for **\$41.6 million**. The property is 100% leased and returns \$3.1 million a year. The office building features 9,100 sqm of office space and two levels of basement car parking for about 136 cars. The property is located within close proximity to the Fox family office and the Beck family office.



#### 27-31 King Street, Melbourne VIC 3000

A local investor has paid **\$13.7 million** for a seven level office and retail building in Melbourne's CBD. The 1,788 sqm building was sold on a firm **6.76% yield** and is 98% leased to 11 tenants. The property has a fully leased net income of \$926,117 p.a. The sale reflects a rate of \$7,662 psm. The building occupies a 361 sqm site zoned Capital City 1 with two street frontages.

### Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Melbourne CBD Office Market during the three months to December 2014;

#### 271 Collins Street, Melbourne, VIC 3000

*Monash College*, a diploma level institution tied to Monash University has leased 6,500 sqm over two levels in an office building along Collins Street in Melbourne's CBD. The building is a part of a two tower complex offering 23,700 sqm of office space comprising a block stretching from Colling Street to Flinders Lane. *Monash College* struck two separate deals, a **5 year lease** covering 3,470 sqm and a **10 year lease** covering 3,100 sqm. These leasing deals leave just 1,100 sqm of vacant space on level 10 of the Collins Street building. It is understood that the rent for the property was struck at a gross annual rent of \$2.8 million reflecting a **gross rate of \$430 psm**.



#### 595 Collins Street, Melbourne, VIC 3000

Software provider, *Nintex*, will set up its Australian headquarters in a 1,894 m2 office space in the heart of the Melbourne CBD. *Nintex* will pay an **annual net rent of \$400 psm** over a **5 year term** for the whole office floor. The property, which is owned by Investa Property Group and an offshore fund is situated in a prime location and has bay views.

#### 611 Flinders Street, Docklands, VIC 3008

*The Academy of Interactive Entertainment* has leased 2,545 m2 of office space in Tower 4 of the Melbourne World Trade Centre owned by private developer and landlord *Assetl*. The property has just had a \$50 million refurbishment and is now fully occupied. The Academy of Interactive Entertainment is relocating from its office space located on the city fringe in Queen Street. The not-for-profit organisation will pay a **net rent of \$290 psm** on a **10 year term** for the first three levels of Tower 4. This reflects a net **annual rent of \$738,050**. Docklands is located around 2 km south-west of Melbourne's CBD.

### Development Sites

According to the Property Council of Australia (PCA)'s Office Market Report July 2014, a new development is expected for completion mid 2015 in Melbourne.

The **699 Bourke Street** site at which will comprise of 19,000 sqm of office space. The new development owned by Mirvac Group will consist of 10 office levels with an average floor plate size of 2,450sqm and 400 car spaces. The property is detailed to be an A grade office with Green Star 6 Star as-built rating and NABERS 4.5 Star energy rating. The development will be the new office to AGL Energy.



Another new commercial development is the **2 Collins Square—Site 4D** project located at 727 Collins Street in Docklands. The Walker Corporation project is expected to be completed in 2016 or later. The building will incorporate 55,000 sqm of office space and 4,525 sqm retail area over 26 levels on an average floorplate size of 2,120 sqm and include 86 car spaces.



A Grade office stock dominates the Melbourne CBD market accounting for 47.8% of total stock and 20,755 sqm of the supply additions. Followed by B Grade stock with 9,779 sqm of supply and 4,000 sqm of withdrawals reflecting 21.2% of total stock. C Grade office space accounted 1,894 sqm of withdrawal and reflects 13% of the total Melbourne CBD office market.

Premium Grade and D Grade office space did not record any supply additions or withdrawals in the six months to July 2014 therefore remained unchanged at 655,103 sqm and 121,152 sqm respectively.

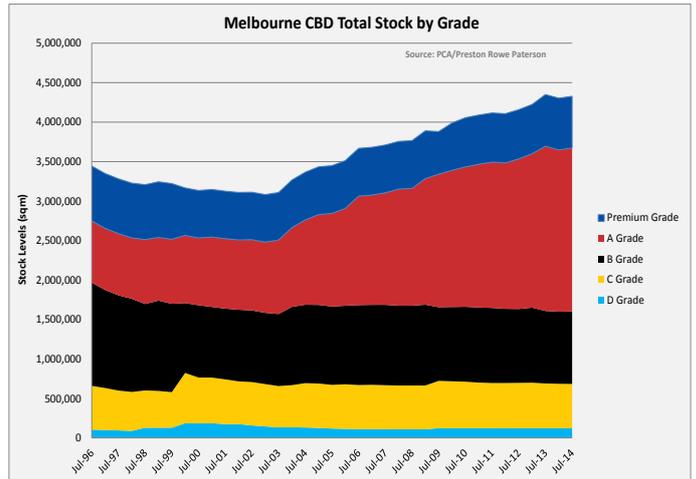


Chart 2 – Melbourne CBD Total Stock by Grade – Source PCA

### Supply by Grade (Stock)

The PCA Office Market Report July 2014 recorded that in the six months to July 2014, there was a new supply of 30,534 sqm of new supply which entered the Melbourne market which was offset by 5,894 sqm of withdrawal, resulting in a growth of 0.75% of the total Melbourne CBD Commercial Office market to 4,327,508 sqm.

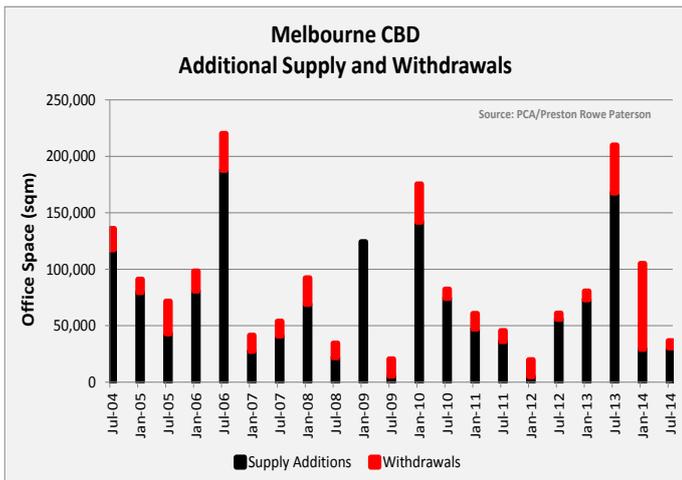


Chart 1 – Melbourne CBD Additional Supply and Withdrawal - Source PCA

### Total Vacancy

The Melbourne CBD office market recorded a decrease of 0.2% to 8.5% as at July 2014. The tightening in vacancy reflects an increase in vacant stock of 4,651 sqm.

Premium Grade office space recorded 47,010 sqm of vacant stock reflecting a vacancy rate of 7.2%. A Grade total vacant stock had experienced an increase in vacancy at 113,465 sqm reflecting a rate of 6.6%. B Grade office stock recorded the highest vacancy rate of 13.7% at 127,905 sqm followed by C Grade's total vacancy rate of 9.7% at 54,662 sqm. D Grade vacant stock recorded 3,565 sqm of vacancy space.

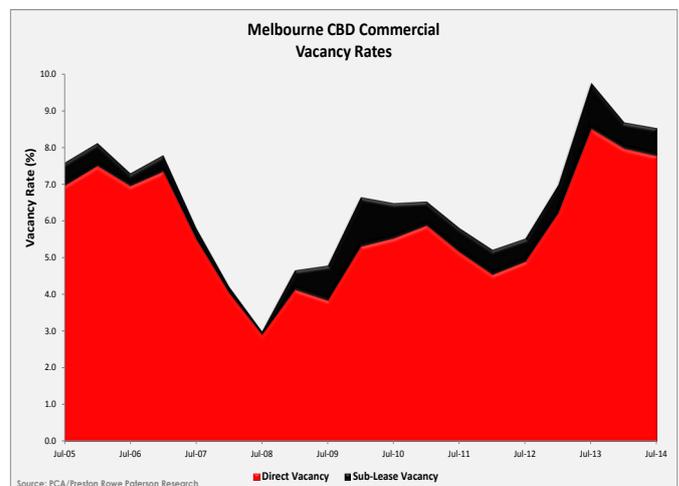


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA

## East Melbourne CBD



### Investment Activity

Preston Rowe Paterson Research recorded limited sales transactions that occurred in the East Melbourne CBD Office Market during the three months to December 2014.

#### 486 Albert Street, East Melbourne, VIC 3002

The *Catholic Church* has bought an office building a stone throw away from the cathedral in Melbourne. The *Catholic Church* paid **\$36 million** for the 11 storey building situated on Albert Street. The building's historic façade includes a dramatic Corinthian portico. Dating back to the 1860's, the front section was one of colonial Victoria's earliest Baptist chapels. The archdiocese plans to bring its central administration along with different departments and agencies that currently operate across multiple offices in Melbourne into the Albert Street office.



### Supply by Grade (Stock)

The PCA's Office Market Report July 2014 noted that the total East Melbourne office market did not receive any additional supply in the six months to July 2014. Preston Rowe Paterson Research could not observe any additional office stock supply in the East Melbourne office market since January 2010. The most recent activity in the market was the withdrawal of about 7,420 sqm in the six months to July 2014.

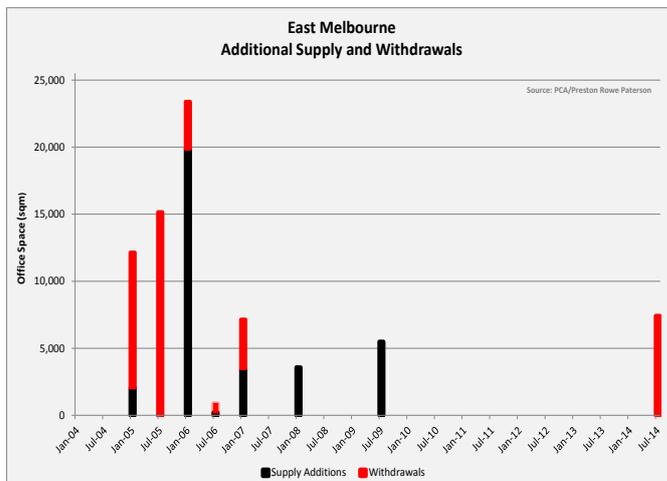


Chart 4 – East Melbourne Additional Supply and Withdrawal – Source PCA

The withdrawal occurred in the A Grade stock where 7,420 sqm of office space was deducted. The A Grade office stock totals to 61,352 sqm as at July 2014.

B Grade office remained to be the dominant category of office space in the East Melbourne market. The total B, C and D Grade office space remained unchanged at 88,064 sqm, 18,278 sqm and 8,667 sqm respectively.

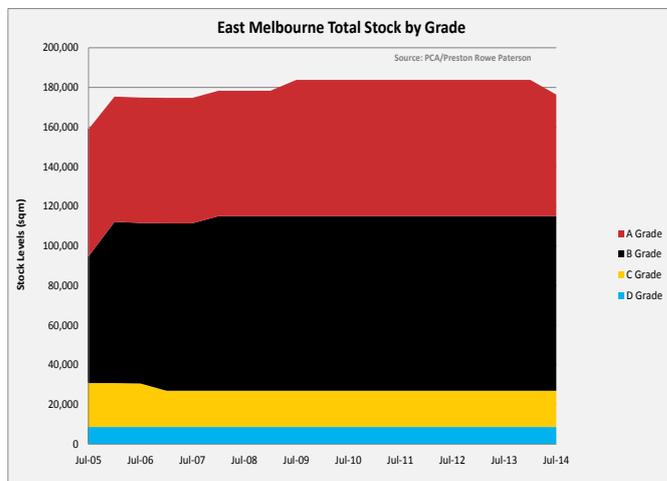


Chart 5 – East Melbourne Total Stock by Grade – Source PCA

**Total Vacancy**

As at July 2014, a 2.5% fall in total vacancy rate was recorded. East Melbourne's total office vacancy was 2.3% here were 4,039 sqm of total vacant space recorded in the past six months to July 2014.

A Grade office space recorded the largest decrease in vacancy as it fell by 8.9% to 2.6%. Followed by D Grade stock reporting a fall of 7% to 0.6% vacancy rate.

B Grade stock vacancy increased slightly by 0.2% to 2.7%. There were no recorded vacancies in C Grade office space since July 2007.

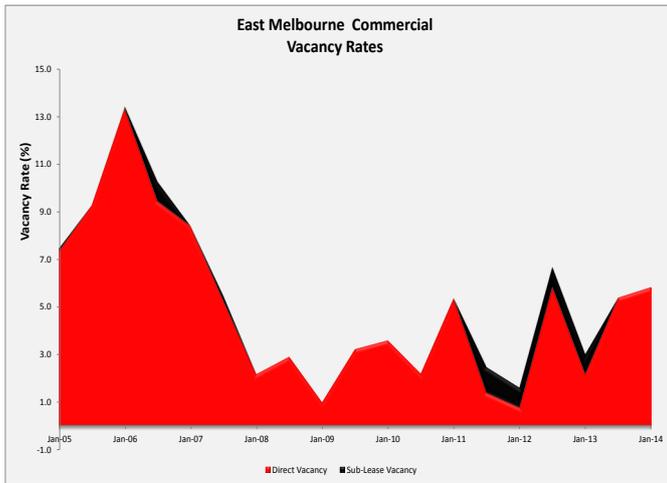


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

**Southbank**



**Investment Activity**

Preston Rowe Paterson Research recorded only one sales transaction that occurred in the Southbank Office Market during the three months to December 2014.

**85 Coventry Street, Southbank VIC 3006**

An Asian investor has bought the commercial site for **\$15.2 million**. The 976 sqm office building has 3 years left of holding income with strong tenants and was sold at a **passing yield of 4.77%**. The foreign investor plan to redevelop the site for residential use.



**Supply by Grade (Stock)**

In the six months to July 2014, the PCA's Office Market Report July 2014 recorded that the total Southbank office market did not receive any additional supply. There was, however, approximately 5,103 sqm office space withdrawal from the market, bringing the total Southbank office stock down to 422,353 sqm.

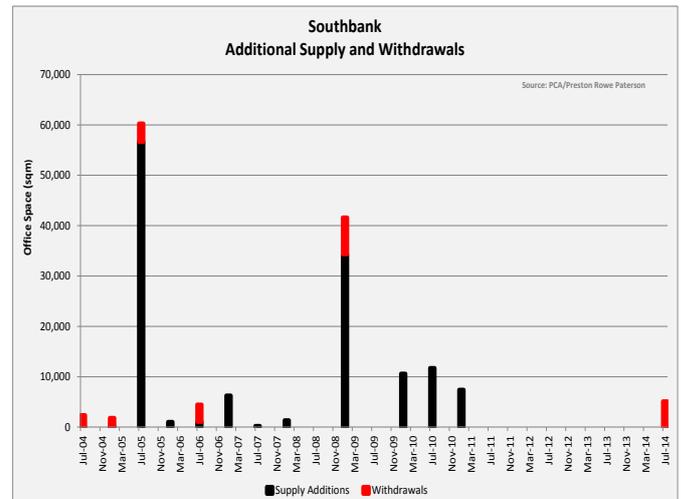


Chart 7 – Southbank Additional Supply and Withdrawal – Source PCA

The only grade recording a decrease in office space was C Grade. Other grades of office space supply remained unchanged in the six months to July 2014.

The office stock in Southbank is predominantly A Grade amounting to 248,819 sqm, followed by B Grade and C Grade stock at 109,656 sqm and 60,796 sqm respectively. There were only 3,082 sqm of D Grade office space in Southbank.

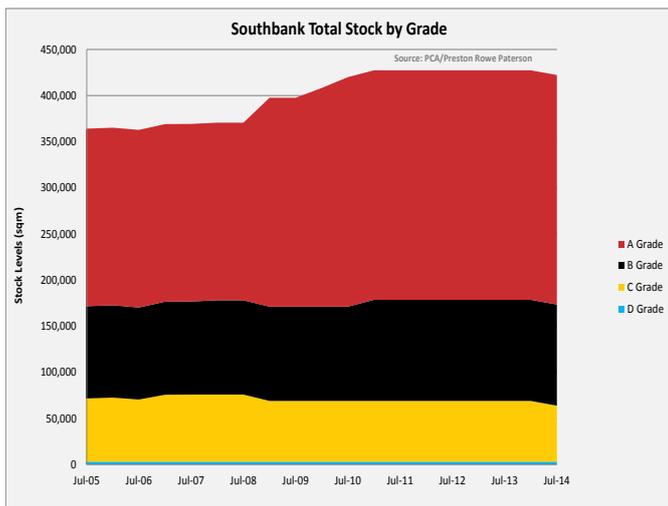


Chart 8 – Southbank Total Stock by Grade – Source PCA

### Total Vacancy

The overall office vacancy in Southbank has tightened to 6.8% in the six months to July 2014. Total vacant stock fell to 28,624 sqm.

Varied results were recorded across the four grades of office space. A Grade office recorded an increase of 2.1% to 4.9% vacancy. B Grade and C Grade office stocks both declined by 0.9% and 6.7% to total vacancy levels of 6.6% and 14.5 % respectively. For the first time since July 2011, D Grade vacancy rate increased to 14%.

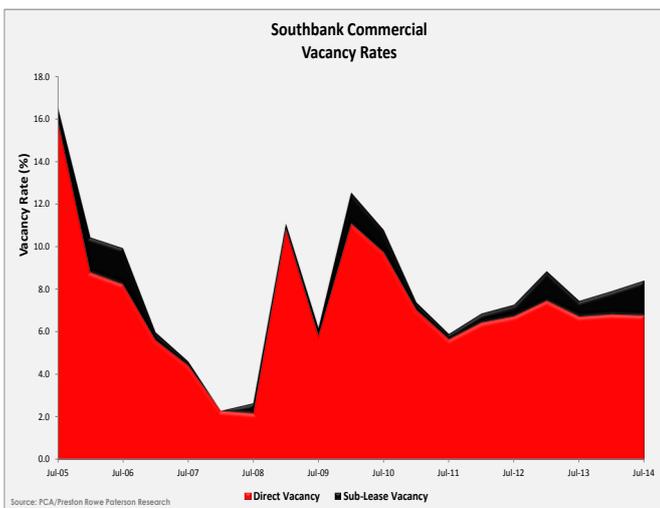
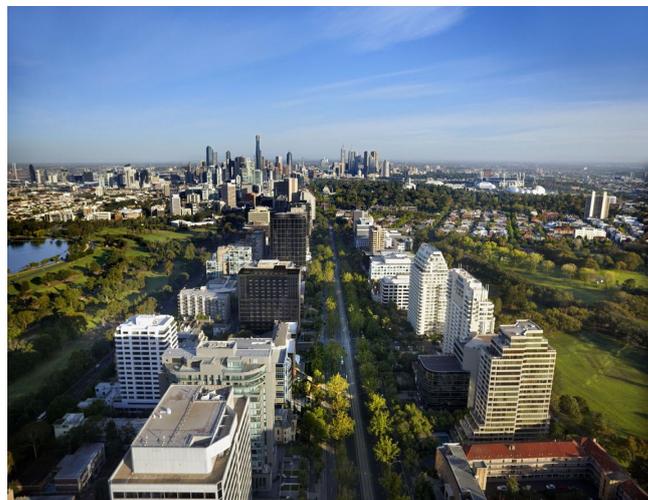


Chart 9 – Southbank Commercial Vacancy Rates – Source PCA

### St Kilda Road



### Investment Activity

Preston Rowe Paterson Research recorded limited number of reported sales transactions that occurred in the St Kilda Road Office Market during the three months to December 2014.

#### 420 St Kilda Road, Melbourne, VIC 3004

British based investment giant *Standard Life* has purchased a St Kilda Road office building off busy Melbourne based investor Yong Quek. The company paid **\$42 million** for the 12 level tower. The 9,200 sqm property, which sits on a 2,300 sqm square block of land, sold reflecting a **yield of about 7.7%** and a rate of \$4,565 per lettable area.



#### 411 St Kilda Road, Melbourne VIC 3004

Centuria Property Fund has offloaded an office tower for **\$82.1 million**, making a 35% capital gain in two years reflecting an internal rate of return of 20%. A private entity associated with the Dymocks family bought the property. The A Grade office tower is 93% leased with a WALE of 4.3 years.

### Supply by Grade (Stock)

According to the PCA Office Market Report July 2014, the St Kilda Road total office market recorded 1,058 sqm additional office space supply with no withdrawal in the six months to July 2014. This was the first observed supply addition since January 2013 in the St Kilda Road office market. Total office stock in the St Kilda Road office market recorded a 0.14% growth to total office space of 737,476 sqm.

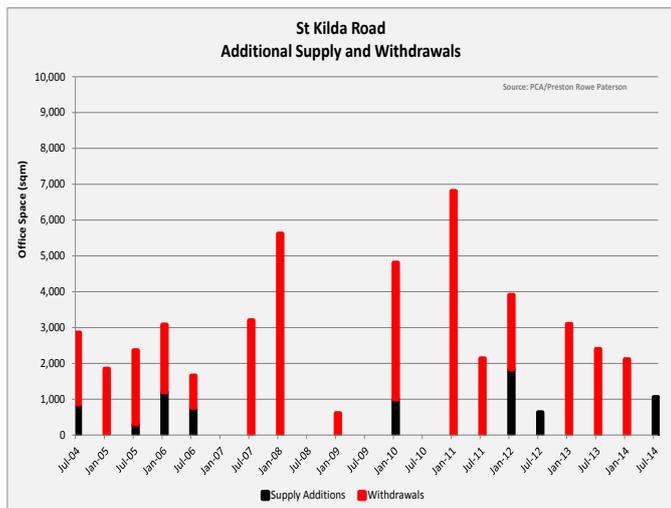


Chart 10 – St Kilda Road Additional Supply and Absorption - PCA

The additional supply was attributed with the A Grade office stock increase. The current A Grade office space supply is 24,325 sqm as at July 2014.

B Grade, C Grade and D Grade office space remained unchanged at 328,933 sqm, 157,594 sqm and 5,624 sqm respectively.

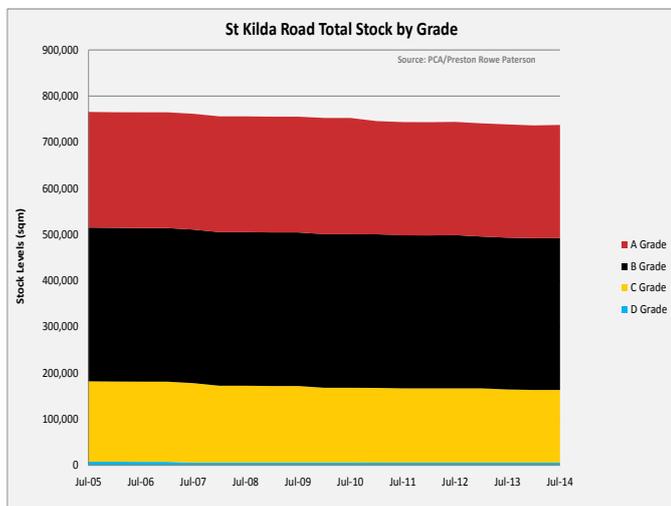


Chart 11 – St Kilda Road Total Stock by Grade – Source PCA

### Total Vacancy

The total vacancy in the St Kilda Road office market had tightened by 0.4% to 10.3% in the past six months to July 2014. The total vacant stock in the St Kilda Road market amounts to 81,142 sqm.

Mixed results were observed in the office stock vacancies. A Grade office stock vacancy realised a tightening of 2.4% to 20,948 sqm. B Grade and D Grade office space recorded an increase in total vacancies at 11.9% and 7.3% respectively to 39,124 sqm and 410 sqm vacant space. C Grade office stock recorded 13.1% total vacancy at 20,660 sqm of vacant space.

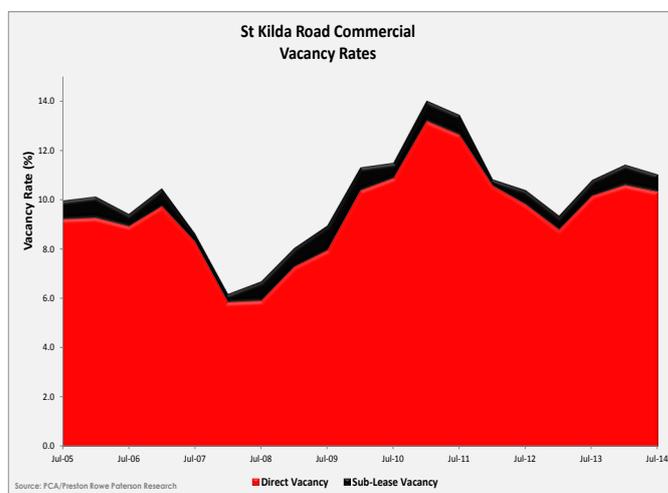


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA

**Retail Market**



**Investment Activity**

Preston Rowe Paterson Research recorded the following retail transactions that occurred in the Melbourne metropolitan area during the December quarter 2014;

**525 Church Street, Richmond VIC 3121**

*Stennson Pty Ltd* has sold its bulky goods showroom to a local private investor for **\$6.6 million**. The 1,209 sqm site has a loading facility at rear and 10 car spaces. The showroom is leased to *Robertson's Furniture* paying a gross rent of \$375,000 per annum on a new 8 year lease. The sale reflected a **yield of 6.50%**. Richmond is located about 3km southeast of Melbourne's CBD.

**81-125 Princes Highway, Dandenong South VIC 3164**

Cbus Property has sold a **\$54.3 million** retail complex from its Estate One project in suburban Melbourne. A private investor, understood to be Sydney based Rifici Group purchased **Harvest Shopping Centre**. The sale was struck at an overall investment **yield of 7.20%**. The Harvest Shopping Centre development is a part of the 46 ha. Estate One Business Park in Dandenong South. Cbus Property is developing the estate out of a former General Motors Holden site; it comprise of a retail component including a 13,000 sqm Masters store that is on a 15 year lease, a 3,800 sqm Woolworths supermarket, 15 speciality shops and some developable land. Dandenong South is located around 40 km south-east of the Melbourne CBD.



**153-157 Elizabeth Street, Coburg North, VIC 3058**

Listed APN Property group has paid **\$18.9 million** for the new 4,426 sqm **Coburg Hill Shopping Centre**. The centre is anchored by Woolworths supermarket on a new 20 year lease. The centre comprise of seven speciality stores, a gym, 179 car parks and has a WALE of 13.9 years. The sale reflects a **yield of 7.25%** and a rate of \$4,270.22 psm. The property has 10 apartments above the supermarket which were not included in the sale. Coburg North is located 15 km north of the Melbourne CBD.



**Leasing Activity**

Preston Rowe Paterson Research recorded limited retail leases that occurred in the Melbourne metropolitan area during the December quarter 2014;

**2 Janefield Drive Bundoora VIC 3083**

National fashion retailer *Country Road* secured a lease in the **Uni Hill Factory Outlet** centre for **\$492,000 per annum on a 6 year term**. Country Road will lease 80 sqm of retail space from MAB Corporation. The outlet centre is undergoing \$20 million expansion to accommodate 100 retailers, expanding its floor area from 13,700 sqm to 19,600 sqm. The 2013 pre-expansion turnover for the outlet centre was approximately \$50 million.



**Economic Statistics**

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (December 2014), the retail turnover figures recorded in Victoria produced varied results. The total retail turnover in Victoria remained unchanged over the month of December 2014, with an annual retail turnover growth of 4.24% to turnover of \$5,897.5 million.

The Victorian retail market was predominantly negative over the month of December although there was a 0.2% growth from November.

Cafes, restaurants and takeaway food services recorded the worst decline of 2.34% at \$750.4 million monthly turnover. Department stores, Other retailing and Household goods retailing revealed a small decrease of 0.72%, 0.69% and 0.01% to the monthly turnover of \$359.2 million, \$809.2 million and \$1,083.4 million respectively.

The largest growth in retail turnover is the Clothing, footwear and personal accessory retailing, rising by 3.52% to a monthly turnover of \$508.6 million and Food retailing grew by 0.42% to \$2,386.8 million.



Chart 13 – Victoria Retail Turnover – Source ABS

Year on year analysis of the six retail industries revealed positive turnover results with all categories recording growth over the year except Clothing, footwear and personal which recorded a 3.75% fall.

The most marked growth was in Household goods retail (13.31%) followed by Cafes, restaurants and takeaway food services (7.12%), Other retailing (5.41%), Food retailing (1.55%) and Department Stores (1.38%).

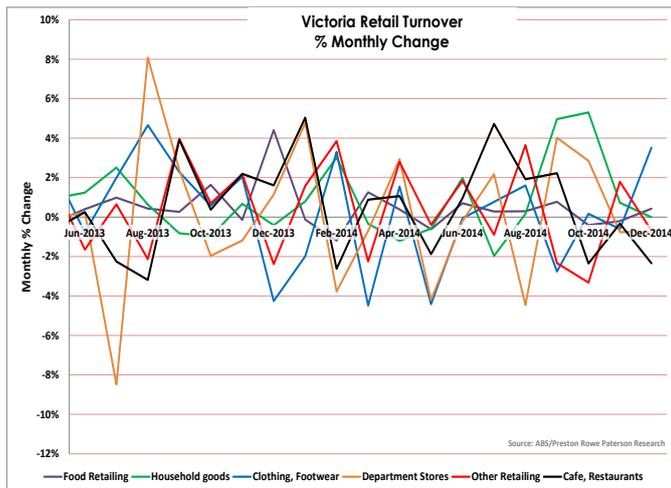


Chart 14 – Victoria Turnover % Monthly Change – Source ABS

## Industrial Market

### Investment Activity

Preston Rowe Paterson Research recorded a number of sales transactions that occurred in the Melbourne Industrial Market, during the three months to December 2014;

#### 85 Burwood Highway, Burwood VIC 3125

A local investor has purchased an office/warehouse property for **\$4 million**. It was sold on a **7.10% yield**. The property sits on a 1,830 sqm site with 33 car spaces. It is leased to Anytime Fitness and E.Motorsports. Burwood is located about 17km east of the Melbourne CBD.

#### 573-577 Springvale Road, Glen Waverley VIC 3150

*Carpet Call* has sold the 4,000 sqm showroom to a private investor for **\$8.05 million** on a **6.2% yield**. The investor plans to turn the 6,085 sqm lot into a car yard. Glen Waverley is located about 19km southeast of the Melbourne CBD.

#### 275 Robinson Road, Ravenhall, VIC 3023

Two large industrial allotments located within the **Orbis Business Park** have sold for **\$6.18 million**. A Malaysian developer purchased the two allotments with the intention to develop a major industrial and commercial/retail hub to service the area's growing population. The sale of the 31,727 sqm site reflects a rate of \$195 psm. The sites are located 26 km north-west of the CBD.

#### 2-12 Banfield Court, Truganina, VIC 3029

Global funds giant *Invesco Real Estate* has bought *Goodman Group's* Kmart distribution centre in Melbourne's western fringe. Invesco paid a price in the **mid \$90 million** range reflecting a **yield that is understood to be in the 6% range**. The



76,938 sqm facility was built in 2011 and sits on a 14.6 ha site close to the Princess Highway. The property is 100% leased until 2026 with fixed rental increases of 3%. The sale reflects a rate of \$1,169.77 psm. Banfield Court is located 21.2 km south-west of the Melbourne CBD.

#### 28 Salta Drive, Altona North VIC 3025

*Centuria Property Fund* had sold the 5 ha industrial facility to a private investor for **\$14.5 million**. The property sits on a 50,088 sqm site area with approximately 23,372 sqm of high clearance warehouse space featuring climate control infrastructure, drive-around and drive-through capabilities, significant loading canopies and additional hardstand area. Altona North is located approximately 10km northwest of Melbourne's CBD.



## Leasing Activity

Preston Rowe Paterson Research recorded a number of leasing transactions that occurred in the Melbourne Industrial Market during the three months to December 2014;

### 127-161 Cherry Lane, Laverton North, VIC 3026

*VIP Plastic Packaging* has leased a 26,000 sqm storage facility signing an **8 year deal** earlier this month. The deal which is worth **\$1.5 million net per year** represents a **rate of \$58 psm**. The B-grade industrial facility owned by Chicago based, *Equity Commonwealth* and is located around 18 km west of the Melbourne city centre. The property comprises 24,534 sqm warehouse and a 1,346 sqm office component. Laverton North is located about 18km west of Melbourne's CBD.

### 99/45 Gilby Road, Mt Waverley, VIC 3149

Not for profit health service provider *Cabrini Health* will relocate its head office to an A-grade high tech facility in Mt Waverley, Melbourne. The property comprises a 1,394 sqm office and lab space, a 773 sqm warehouse and over 70 car spaces. The company will pay an annual rent of **\$190 psm** over a **5 year term**. Mt Waverley is located 23.3 km south-west of the Melbourne CBD.

### 2/205 Abbots Road, Dandenong South, VIC 3000

Packaging company and Visy offshoot *Visy Boxes and More* has secured a new lease at an industrial facility along Abbots Road in Dandenong South, Melbourne. The company will lease the 4,100 sqm property for **5 years**, paying a rent somewhere between **\$70 and \$80 psm**. The property comprises 500 sqm of office space over two levels and a 3,600 sqm high clearance warehouse with multiple roller doors. Visy has relocated to this property as they required truck access and hardstand. Dandenong South is located 40.8 km south-west of Melbourne's CBD.



### 400 Sydney Road, Coburg, VIC 3058

Logistics and labour hire company *247 Labour Crew* has leased a 1,684 sqm warehouse and showroom in Melbourne. The company have agreed to a **4 year lease** with options to extend paying an **annual rent of \$109,490** reflecting a **rate of \$65 psm**. The property is located within close proximity to amenities and transport and is approximately 13 km north of Melbourne's CBD.

### 2/40 Green Street, Doveton, VIC 3177

*Diab Engineering* has leased an industrial property from joint lessors *Everlove* and *RGPA Investments*. The engineering company had leased a 1,126 sqm facility paying an annual **net face rent of \$88.80 psm**. The lease is for **1 year** with options to extend, so the engineering company can expand their national operations. Doveton is located 37 km south-west of the Melbourne CBD.

### 415 Fitzgerald Road, Derrimut VIC 3030

Vermeer Sales and Services has secured a pre-lease for 4,700 sqm of the purpose built sales and service facility. The industrial facility is due for completion in the second quarter of 2015. Vermeer has signed on at \$522,000 net per annum on a 10 year term. Derrimut is located approximately 18km west of Melbourne.

### 10 Metrolink Circuit, Campbellfield, VIC 3061

Office supplies distributor *Lyreco* snapped up a new industrial facility consisting of a clear span warehouse and a two level office space in Campbellfield. The 3,742 sqm property has been leased on a **2-3 year term** at an annual rent of **\$70 psm**. Campbellfield is 24.4 km north-east of Melbourne's CBD.



### 53-59 Elliot Road, Dandenong South VIC 3175

*Minus 1 Refrigerated Transport* has signed on for a surplus of hardstand area on Elliott Road for **\$80,000 per annum on a 5+5 year lease**. The property has 175 sqm floor area on a 6,060 sqm site.

## Residential Market

### Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals December 2014, the total number of house dwelling approvals in the Melbourne Statistical Division over the month has fallen by 14.61% from 1,572 approvals in November to 1,498 approvals in December 2014. However, there was a 16% growth when compared to December 2013.

The total number of non-house dwelling approvals had tightened greatly by 47.89% from 3,911 dwelling approvals in November to 2,038 dwelling approvals in December. The twelve months prior to December 2013 marked a growth of 13.29%.

The total number of dwelling approvals in 2014 was 48,735, which is 21.18% higher than 2013.

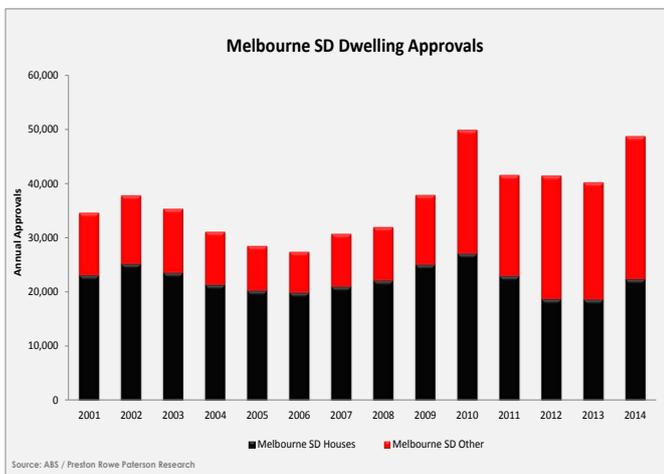


Chart 15—Melbourne SD Dwelling Approvals—Source ABS

## MELBOURNE

### Market Affordability

According to the Real Estate Institute of Australia (REIA) September issue, the median house price in Melbourne remained steady to \$649,000 in the quarter. All zones of Melbourne house prices recorded decline over the quarter except for Middle Melbourne with 1.5% growth to a median sale price of \$727,000 and Inner Melbourne followed with 0.6% increase to a median sale price of \$489,000. Inner Melbourne house price which fell by 0.2% to \$1,023,000 and Geelong recorded declines of 1.6% to \$410,000 sales price. Bendigo and Ballarat both tightened by 0.3% to \$334,000 and \$300,000 sales price respectively.

Over the twelve months to September 2014, the most marked growth in Victoria was experienced in Middle Melbourne at 14.7%, followed by Inner Melbourne, Outer Melbourne and Bendigo with growth of 10.2%, 9.1% and 5.4% respectively. Geelong and Ballarat experienced annual growth of 1.2% and 3.4% respectively.



Chart 16 – Median House Price by Zone – Source REIA

Other Dwelling median sale prices revealed predominantly negative results over the September quarter, with the only growth attributed to Middle Melbourne and Geelong, with both zones increasing by 4.7% and 1.6% to median sale prices of \$551,000 and \$325,000 respectively. The largest fall was recorded in Bendigo and Ballarat at -2.8% and -2% to median sales price of \$243,000 and \$245,000. Inner and Outer Melbourne noted a meagre decrease of 0.1 and 0.4% to \$542,500 and \$387,500.

Year on year analysis of Victoria Other Dwellings revealed growth across all residential zones bar Bendigo and Ballarat which both fell by 1.6%. Inner, Middle and Outer Melbourne zones experienced annual growth of 4.9%, 8.2% and 9.1% respectively. Geelong recorded annual growth of 6.5%.

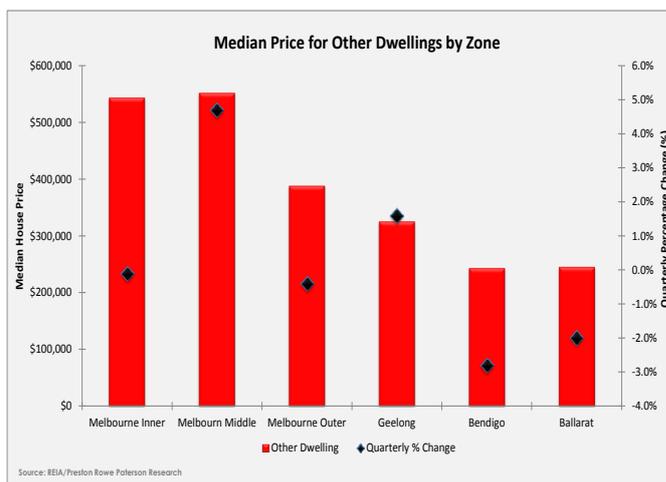


Chart 17 – Median Price for Other Dwellings by Zone – Source - REIA



### Rental Market

Over the September 2014 quarter, mixed results were recorded in the Victoria house rental market. The overall Melbourne house rental market had been relatively stable, especially in Outer Melbourne where 2, 3 and 4 bedroom houses noted no change to weekly median rents of \$300, \$330 and \$380 respectively. The largest quarterly decline in the Melbourne market was the Inner Melbourne 4 bedroom houses, falling by 9.1% and 2 bedrooms at -5.3% to weekly median rents of \$850 and \$520 respectively.

Year on year analysis of median house rents in Victoria revealed growth in all Melbourne zones except for Inner Melbourne 4 bedrooms which fell by 2.3%. Inner Melbourne 3 bedroom grew 4.6% to a weekly rent of \$680. Middle Melbourne 3 and 4 bedroom annual growth of 4.7% (\$450) and 3.6% (\$580) respectively.

Bendigo 3 bedroom house was the only category where the regional areas did not record a positive annual growth in September 2014. The Bendigo 3 bedroom house median weekly rent fell by 3.4% to \$280.

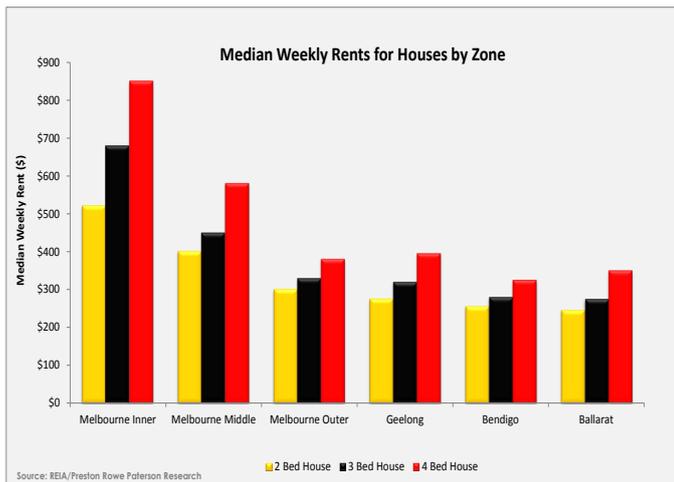


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

Other Dwellings median weekly rentals recorded mixed results, with declines in Middle Melbourne 1 bedroom to median weekly rental of \$275. Inner Melbourne 3 bedroom and Bendigo 1 bedroom other dwellings recorded the most marked growth over the quarter of 2.9% and 3% to median rental of \$700 and \$170, followed by Outer Melbourne 1 bedroom (2.2%) and Middle Melbourne 2 & 3 bedroom (1.4% and 1.1%) to median weekly rent of \$235, \$365 and \$455 respectively. The remaining Melbourne other dwelling subcategories did not record any changes to the September quarterly median weekly rent.

In the regional areas, Geelong 3 bedroom and Ballarat 2 & 3 bedroom other dwellings fell by 2.9%, 2.2% and 3.4% to median weekly rent of \$330, \$225 and \$280.

Year on year analysis have revealed an overall positive results with the annual rental declines attributed to the regional areas of Geelong 3 bedroom, Bendigo 2 bedroom and Ballarat 1 & 3 bedroom other dwellings.

The highest annual growth was realised in the Outer Melbourne 1 bedroom other dwelling as it grew by 6.8%. This was followed by Bendigo 1 bedroom (6.3%) and Middle Melbourne 1 bedroom (5.8%). The lowest rental annual growth was recorded in the Inner Melbourne 1 bedroom other dwelling with a 0.6% growth to a median weekly rent of \$350.

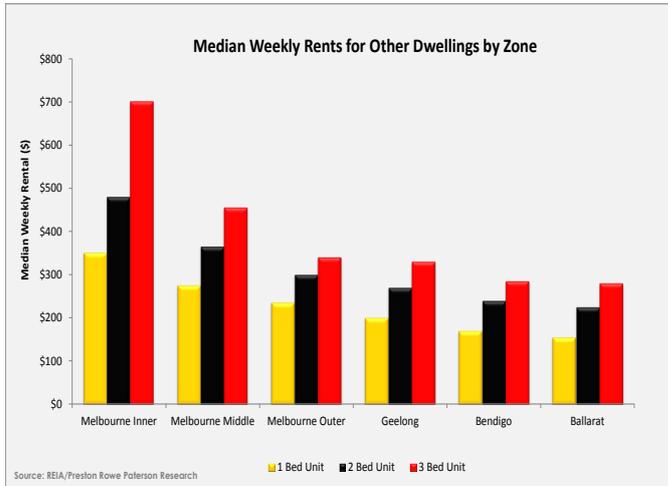


Chart 19 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA



## Hotel & Leisure

### Investment Activity

Preston Rowe Paterson Research recorded the following hotel/leisure property transactions that occurred in Victoria during the December quarter 2014;

#### **535-541 Royal Parade, Parkville VIC 3052**

The **Parade Inn** (formerly **Royal Parade**) motel was purchased by *Oliver Humes Funds Limited* for **\$12.05 million**. The 3,221 sqm landholding is subjected to a height limit of 14m and significant setback restrictions if it is to be redeveloped in the future. The motel features 41 accommodation rooms, function room, restaurant, spa room, guest laundry room, offices and onsite parking. It is located close to The University of Melbourne and associated colleges, the Melbourne Zoo and various hospitals.



#### **Cnr Doveton Avenue & Princes Highway, Dandenong VIC 3177**

Listed hotel group *Amalgamated Holdings* has acquired the **Atura Hotel** (formerly **Chifley Doveton Hotel**) for more than **\$11 million** from *Lend Lease Core Plus Fund*. The group had rebranded the hotel after its public space refurbishments.

#### **154-160 Leicester Street, Carlton VIC 3053**

A local developer has purchased the **Corkman Irish Pub** (formerly **Carlton Inn**) for **\$4.76 million**. The pub was sold \$1.56 million above reserve. The two storey pub is located directly across from the University of Melbourne. The 456 sqm corner site was hotly contested for due its development potential. The pub consist of a bar, dining, courtyard and first floor hostel accommodation. The site is sold subjected to a 6 month lease.



#### **14 King Street, Melbourne, VIC 3000**

*Spearmint Rhino* The **Gentleman's Club** strip club on Melbourne's King Street has sold to a private Melbourne investor for **\$7.73 million**. The 2,076 sqm building that sits on an 820 sqm site sold on a **yield of 5.5%**, reflecting a building value of \$3,724 psm and a land value of \$9,427 psm. The three level brick building, completed in 1917 is leased to *Spearmint Rhino* on a **20 year lease** with options for the property until 2042. The property was offered with a 12 month landlord termination clause, providing the option for redevelopment of residential or office use properties subject to a permit being obtained. The property is located close to the Rialto Towers and Melbourne Aquarium.

#### **150 Eltham-Yarra Glen Road, Kangaroo Ground VIC 3097**

The **Wellers of Kangaroo Ground** restaurant and function centre was sold to a consortium of local investor for \$1.68 million. It was sold on a 8.60% yield with a new 10 year lease to the Wellers regional restaurant brand. The property returns an annual net income of \$145,000. The 8,760 sqm property features bar and restaurant, 3 meeting rooms and function room. Kangaroo Ground is located about 26km northeast of the Melbourne CBD.

## Specialized Properties

### Investment Activity

Preston Rowe Paterson Research recorded the following specialized property transactions that occurred in Victoria during the December quarter 2014;

#### **Highbury Road, Glen Waverley VIC 3150**

Listed aged care facility company *Japara Healthcare* has purchased a 2,800 sqm development site on Highbury Road for **\$3.35 million**. Japara plans to develop a 65 bed aged care facility that is expected to be completed in 3 years.

#### **229 Banksia Street, Ivanhoe VIC 3079**

*Stockland* has acquired 19,500 sqm of land from the former site of the **Bellfield Primary School** for **\$22 million**. Stockland plan to build 80-90 townhouses with onsite parking. Construction is expected to begin in mid-2015. Ivanhoe is located approximately 10km northeast of the Melbourne CBD.

#### **484-490 Blackburn Road, Doncaster VIC 3108**

A local investor has purchased a **Shell Coles Express Petrol Station** for **\$9.06 million on a yield of less than 5%**. The petrol station is located across from the Stockland Pines Shopping Centre. The sale was subject to a 15 year lease plus options to 2049. The annual rent is about \$420,000. Doncaster is located 15km east of the Melbourne CBD.

#### **154-172 Springvale Road, Springvale VIC 3171**

*Fei Investments* has sold the **Caltex Petrol Station** to a foreign investor for **\$4.2 million on a yield of 6.3%**. It was sold with a Caltex lease for 10 years with two 5 year options to extend. The approximate net annual rent is \$265,434. Springvale is located about 23km southeast of Melbourne's CBD.

#### **997-1003 Whitehorse Road, Box Hill VIC 3218**

An open-air **Budget car hire** yard complex has been sold for **\$6 million**. The 1,241 sqm site is expected to be developed into a medium density mixed-use complex with ground floor commercial and upper level flats. The site is located very close to the Box Hill train station, Box Hill Central shopping centre and the Eastern Freeway. Box Hill is located about 14km east of Melbourne's CBD.

#### **5-9 Wellington Road, Box Hill VIC 3218**

A local developer has paid the *Box Hill Institute* **\$8 million** for the 2,430 sqm car park near the suburb's commercial area. The developer plans to build a multi-storey residential development.

#### **117 Kooyong Road, Armadale VIC 3143**

The **King David School** has sold its Armadale campus to a local investor for **\$14.5 million**. The 6,023 sqm property consists of the school grounds and the historic Armadale House mansion. There are no immediate development plans for the site. Armadale is located approximately 7 km southeast of the Melbourne CBD.





## Regional Market

Preston Rowe Paterson Research recorded the following sales transactions that occurred in regional Victoria during the three months to December 2014;

### Commercial

#### 60 Brougham Street, Geelong VIC 3220

The recent start-up *Impact Investment Group* has purchased the headquarters of the **Transport Accident Commission** in Geelong from the Laidlaw family for **\$95.8 million**. The purpose-built office complex was sold on a **7.50% yield**. The 7 storey, A Grade office has a 5 star NABERS rating and 5 star Green Star rating. The property features 9 ground level retail space and secure under ground parking. The TAC has a 20 year lease in the property, 14 years remaining, with a 5 year option subject to fixed annual rental increase of 3.5% for its full term. Geelong is located approximately 75km southwest of the Melbourne CBD.



#### 1301 Point Nepean Road, Rosebud VIC 3939

A private investor has purchased the new **First Choice Liquor** store in Rosebud for **\$5.7 million**. *Coles* had sold the 1,198 sqm property with a 10 year lease to the First Choice Liquor store with options of 8 x 5 year leases. The retail property has 41 at grade car spaces. It was sold on a **yield of 4.80%**. Rosebud is located approximately 75km southeast of the Melbourne CBD.



### Retail

#### Darlot Street, Horsham VIC 3400

The **Horsham Plaza** was sold to a private syndicate for **\$24.85 million**. The neighbourhood centre sits on a 2.17 ha site and lease includes *Kmart* as anchor tenant and 26 specialty stores. The sale reflected a rate of **\$1,956.54 psm**. It is located in the heart of Horsham adjoining a Woolworths Supermarket and Target Country store. Horsham is located about 300km northwest of the Melbourne CBD.



#### 8 Brown Street, Portarlington VIC 3223

A private investor has purchased the **Portarlington Woolworths Supermarket** for **\$8 million**. The sale reflects a 5.40% yield and was sold with a 15 year lease to a net annual income of \$439,000. Portarlington is located approximately 28km east of the city of Geelong.



## Economic Fundamentals

### GDP

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

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

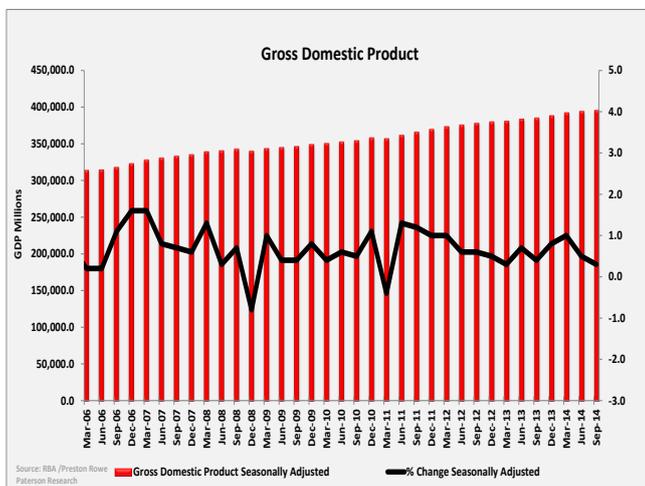


Chart 20 – Gross Domestic Product (GDP) – Source ABS

### Labour force

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

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

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

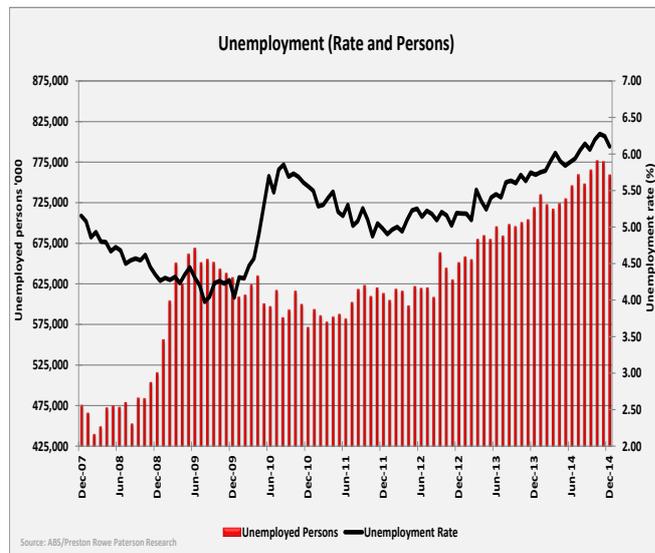


Chart 21 – Unemployment – Source ABS

### Interest Rates

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

*"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."*

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

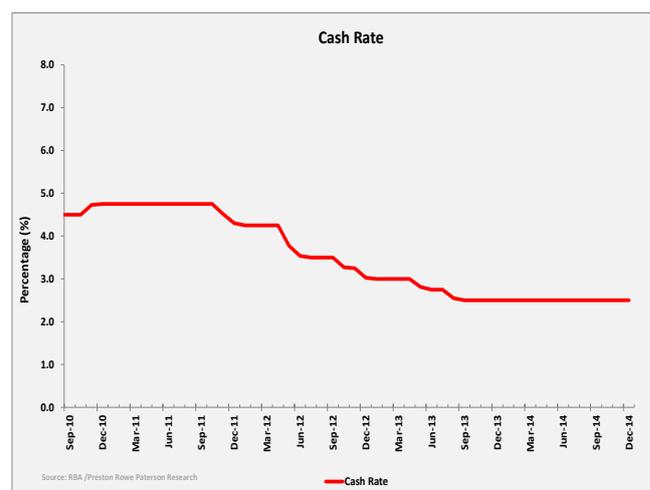


Chart 22 – Cash Rate – Source RBA

## CPI

According to the Australian Bureau of Statistics (September 2014), the Australia's All Groups CPI increased by 0.5% over the September quarter from 105.9 to 106.4. The annual CPI change to September 2014 recorded a growth of 2.3%.

The most significant price rises over the September quarter were for fruit (+14.7%), and property rates and changes (6.3%). The greatest price fall over the quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

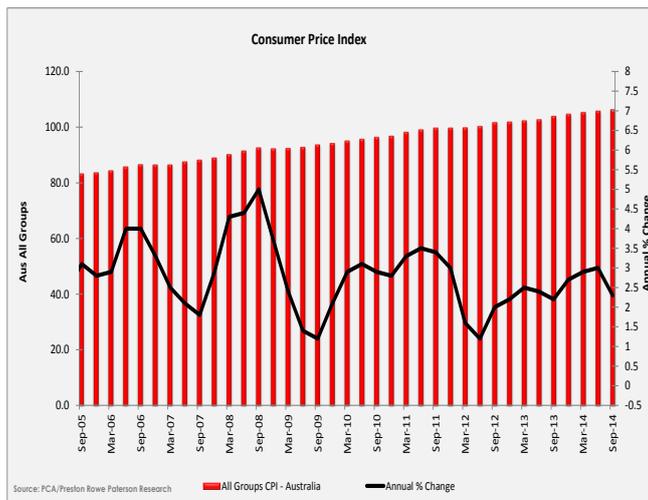


Chart 23- Consumer Price Index—Source—ABS

## Consumer Sentiment

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

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

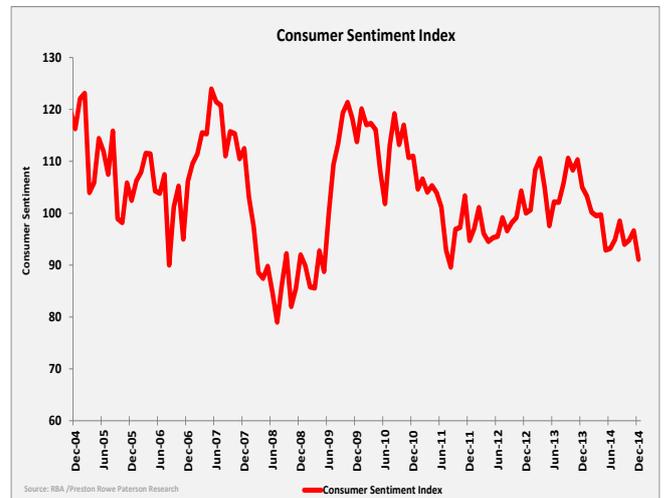


Chart 24 - Consumer Sentiment Index - Source - Westpac—Melbourne Institute Survey



## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

## We have *property* covered

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

## We have all *real estate* types covered

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

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

## We have all types of *plant & machinery* covered

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

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

## We have all *client profiles* covered

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

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



## **We have all *locations* covered**

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

## **We have *your needs* covered**

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

- Acquisitions & Disposals
- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & re-valuations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning



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