Preston Rowe Paterson

National Property Consultants

Property *Market* Report

Victoria

June Quarter 2014

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 Given the manner in which statistics are complied and published they are usually 3-6 months out of date at the time we analyse them.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, Preston Rowe Paterson research over the March 2013 quarter revealed that the Australian economy recorded growth of 1.1% which brings the annual growth to 3.5%.

The main contributors to expenditure on GDP were Net Exports which increased by 1.4%, final consumption expenditure, which increased by 0.3%. The expenditure on GDP was private gross fixed capital formation, increased by 0.2 percentage points.

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.

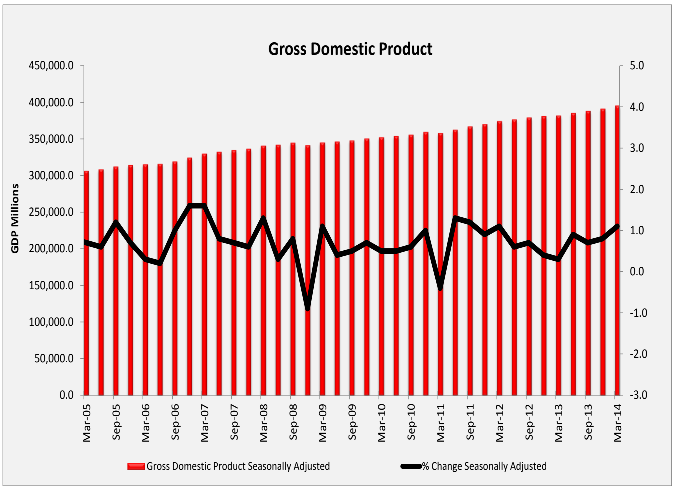

Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

The official employment figures released from the Australian Bureau of Statistics revealed that the unemployment rate is 6% in June 2014.

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 number of unemployed seeking full time employment recorded an increase over the month of June by 10,000 to 543,000 persons, reflecting a growth of 1.8%. The number of unemployed seeking part time employment recorded a increased over the month by 10,300 to 198,600 persons, reflecting a growth of 4.9%.

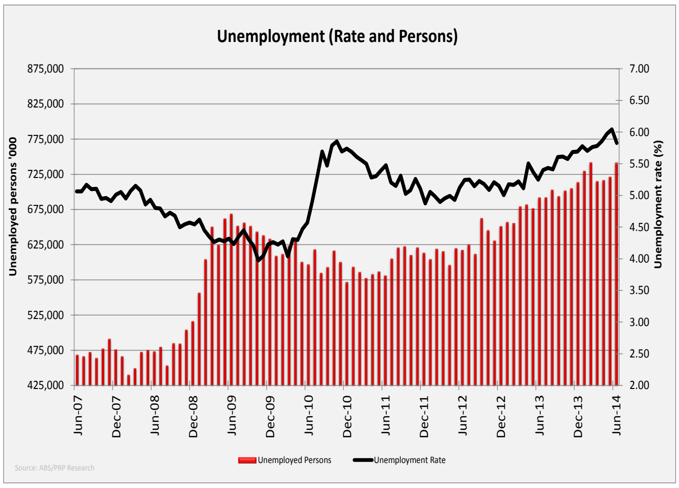

Chart 2 – Unemployment – Source ABS

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."

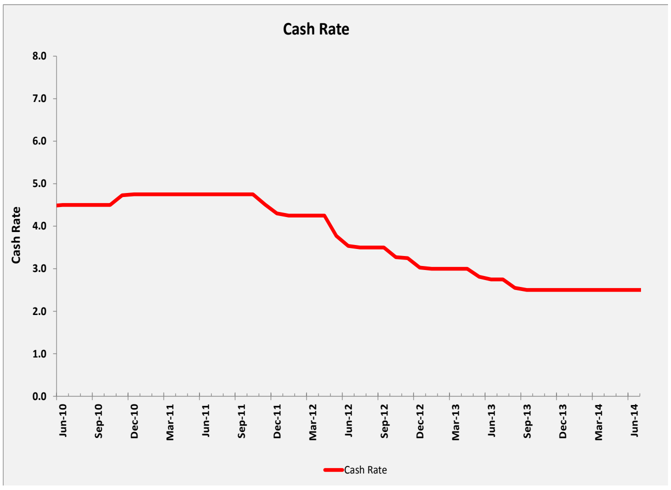

Chart 3 – Cash Rate—Source—RBA

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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 Housing Group increased by 0.8% over the June quarter. The main contributors to the price rise was in electricity and rents recording a growth of 5.2% and 2.4% respectively. Over the twelve months to June 2014, the housing group recorded growth of 1.1% which was backed by the 1.6% annual growth in new dwelling purchases by owner-occupiers.

The insurance and financial services group remain unchanged over the June quarter 2014, however, there was recorded growth in financial services (0.6%) which was offset by the decline in insurance (-1.3%).

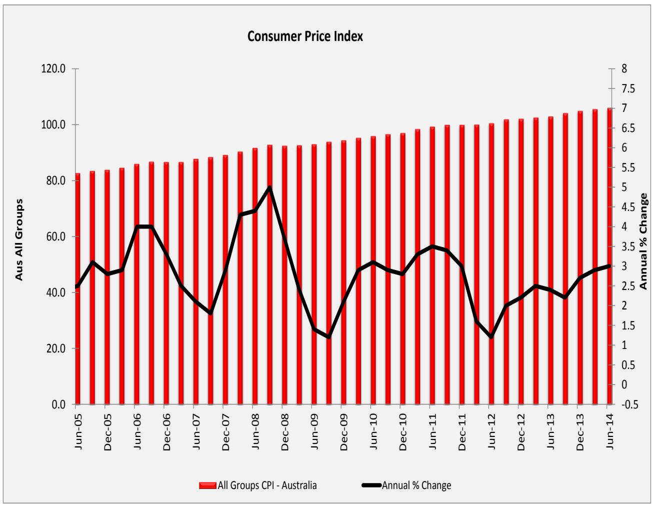

Chart 4– Consumer Price Index—Source—ABS

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%.

The Index has risen from its lowest in May and is expected to continue to do so. Westpac's Senior Economist, Matthew Hassan stated; "*Sentiment has stabilised after registering a sharp fall in the wake of the Federal Budget last month. The Index is still in firmly pessimistic territory however, down 6.6% from its pre-Budget level in April and 15.6% below its post-election high in November last year*".

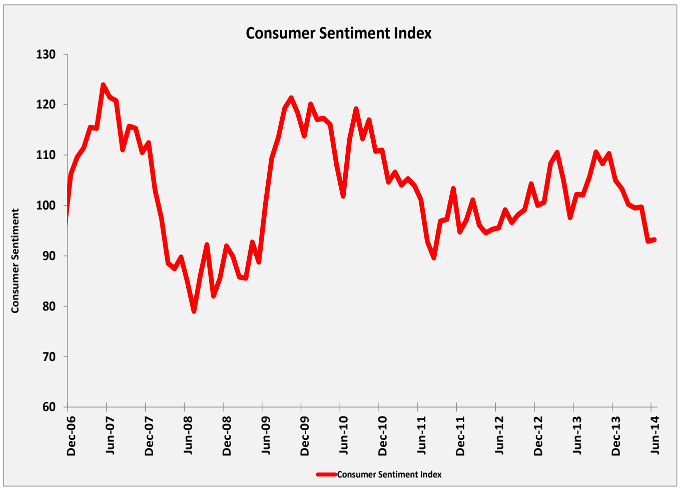

Chart 5 – Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

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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 June 2014.

Cnr Bourke Street & Russell Street, Melbourne, VIC 3000
A Melbourne investor-developer has purchased a 6 storey retail office building for **$11.525 million** in Melbourne's CBD. The 1923 art deco style building, a block from Chinatown and Bourke Street Mall has been held for 30 years by DLN, the immediate parent company of Darrell Lea Chocolate. The full leased freehold building has 1,500 sqm of C-grade office space across five levels with four shops on the ground floor on a 345 sqm site. The sale of this property displays a **rate per sqm of approximately $6,247**. It generates an annual passing net income of $514,510 representing a **yield of 4.5%.**

251 and 261 Salmon Street, Port Melbourne, VIC 3207
Private equity real estate group Altis Property Partners have snapped up Holden's former art deco headquarters in Port Melbourne, where the first mass produced FX Holden rolled off the assembly line in 1948. The property group paid **$28.25 million** for the **4,307 sqm** properties on an effective **yield of 7.4%**. The two properties were offloaded by superannuation fund ISPT and acquired by the Altis real estate equity partnership (AREEP) series of funds, which invest on behalf of wholesale and institutional investments. The acquisition takes the value of property held by Altis beyond $750 million.

628 Bourke Street, Melbourne, VIC 3000
Global investment management giant M&G Real Estate's Singapore based Asian Property fund has purchased the **24,872 sqm QBE House** in Melbourne's central business district from listed office landlord Investa Office Fund (IOF). The company paid **$129.6 million** for the 15 storey building with a reported **7.25% cap rate**. The Bourke Street tower is now fully leased.

50 Queen Street, Melbourne, VIC 3000
A European investor has purchased one of Centuria Property Fund' CBD office building in Melbourne for **$40.7 million**. The refurbished 16 level tower is currently 89.5% occupied with an average lease expiry of 2.5 years. The property comprises **9,236 sqm** of office space on an island site, and sold on a **passing yield of 5.6%**.

488 La Trobe Street, Melbourne, VIC 3000
A developer with links to mainland China has purchased a two storey office building in the heart of Melbourne's CBD. Located on La Trobe Street the property which stands on a **1,012 sqm** site was sold for **$10 million** on a **passing yield of 3.85%.** The property sold without a planning permit however it has the potential to be redeveloped into high rise apartments or a hotel. The fully leased property passes a **current annual net income** of around **$385,950**.

Leasing Activity

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

2-22 McDonalds Lane, Nexus Court Mulgrave, VIC 3170
BMW Finance has signed a lease for offices at Salta Properties' $330 million **Nexus Corporate Estate** in Melbourne's south east. The lease of the **2,925 sqm** property totals to **$1.3 million for the 3 year period**. The deal displays approximately **$150 psm** for the B-Grade office accommodation. Tenants in the hi-tech business park are located at the intersection of Monash Freeway and Springvale Road, and are located approximately 20 km from Melbourne CBD.

Level 16, 8 Exhibition Street, Melbourne, VIC 3000
Global investment bank UBS have renewed the lease on its offices at the Paris end of the Melbourne CBD. The property which is co-owned by GPT Group's wholesale office fund and Singapore's Keppel REIT has a **weighted average lease expiry of more than 6.5 years** as a result of the **4,800 sqm** lease to UBS.

414 La Trobe Street, Melbourne, VIC 3000
Melbourne accountancy and advisory firm Blue Rock has signed a **7 year lease** to occupy 1.5 floors out of the 17 level office building on top of Flagstaff Hill in Melbourne's CBD. Blue Rock will lease **1,273 sqm** over the top 2 floors of the refurbished 14,000 sqm A-grade tower. The lease, which will commence in June 2014, displays a rate of **mid to high $300s psm**.

120 Spencer Street, Melbourne, VIC 3000
Melbourne property baron Harry Stamoulis has secured **Central Queensland University** as a major tenant of his Spencer Street office tower. The university is understood to have agreed to a **12 year deal** commencing **early 2015 for 8,000 sqm** of space across the first six levels of the refurbished B-grade office tower. The rental has not been disclosed but is understood to be in the **early to mid-$400s psm**. Central Queensland University will take up space previously occupied by National Australia bank. The lease also includes permission for the university to have signage down one side of the building.

Development Sites

There are 2 new development sites expected for completion towards the end of the year in the Melbourne CBD which are expected to provide 67,000 sqm of new supply into the market.

The major site which will comprise of 47,000 sqm is situated at **720 Bourke Street**. The new development owned buy CBUS Property will consist of 16 office levels with an average floor plate size of 2,850 sqm and 70 car spaces.

The second site owned by GPT Wholesale Office Fund which will add 20,000 sqm of new supply to the market is located at **150 Collins Street** and will consist of 12 office levels with an average floor plate size of 1,600 sqm and 143 car spaces.

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2013 have been analysed to derive at the following findings:

Supply by Grade (Stock)

In the six months to January 2014, the was a new supply of 29,344 sqm of new supply which entered the Melbourne market was, however, offset by 75,532 sqm of withdrawals, resulting in tightening 1.06% of the total Melbourne CBD Commercial Office market to 4,295,354 sqm.

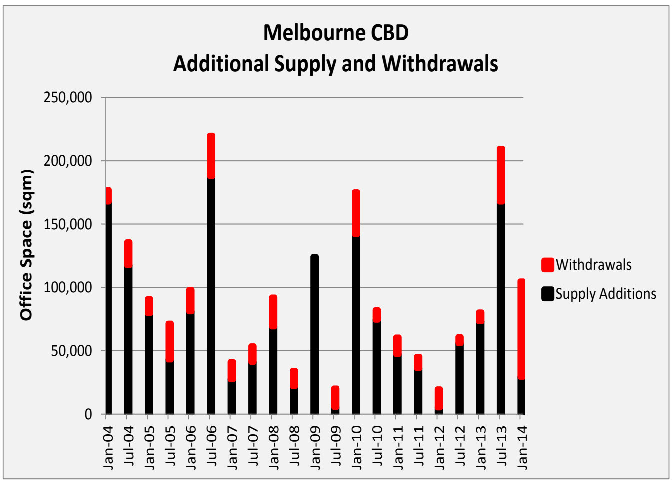

Chart 6 – Melbourne CBD Additional Supply and Withdrawals – Source PCA

A Grade office stock dominates the Melbourne CBD market accounting for 47.7% of total stock with 979 sqm of the supply additions and 37,800 sqm of the withdrawals. Followed by B Grade stock with 28,365 sqm of supply and 33,198 sqm of withdrawals reflecting 21.1% of total stock. C Grade office space accounted only for 4,534 sqm of withdrawal and comprises 13.1% 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 January 2014 therefore remained unchanged at 655,103 sqm and 121,152 sqm respectively.

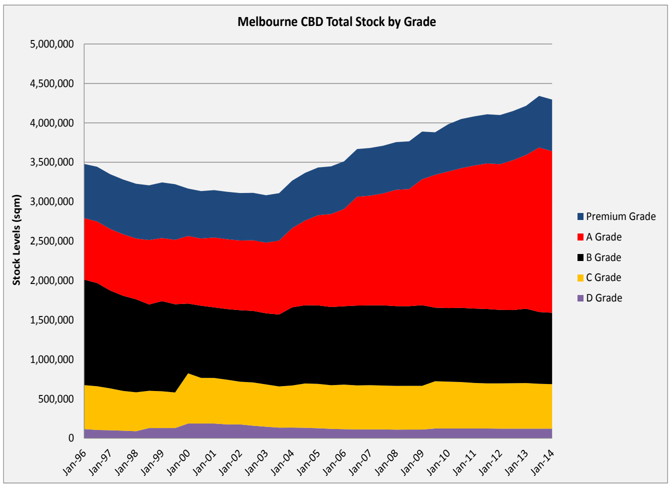

Chart 7 – Melbourne CBD Total Stock by Grade – Source PCA

Total Vacancy

In regard to vacancy, the Melbourne CBD office market recorded an decrease of 1.1% to 8.7% as at January 2014. Sub-lease vacancy accounted for 0.7% of the total and direct vacancy was 8%. The tightening in vacancy reflects an a decrease in vacant stock of 50,700 sqm, with 343,125 sqm attributed to direct vacancy and 30,747 sqm to sub-lease vacancy.

Premium Grade office space recorded 52,587 sqm of vacant stock which reflects a vacancy rate of 8%. A Grade total vacant stock was at 129,655 sqm reflecting a rate of 6.3%.

B Grade office stock experienced the highest vacancy rate of 13.6% at 122,868 sqm of which the majority was in direct vacancy at 13.3%, followed by C Grade's total vacancy rate of 11.6% at 65,297 sqm.

D Grade vacant stock was recorded at 3465 sqm which compromise of 2,870 sqm direct vacancy and 595sqm sub-lease vacancy.

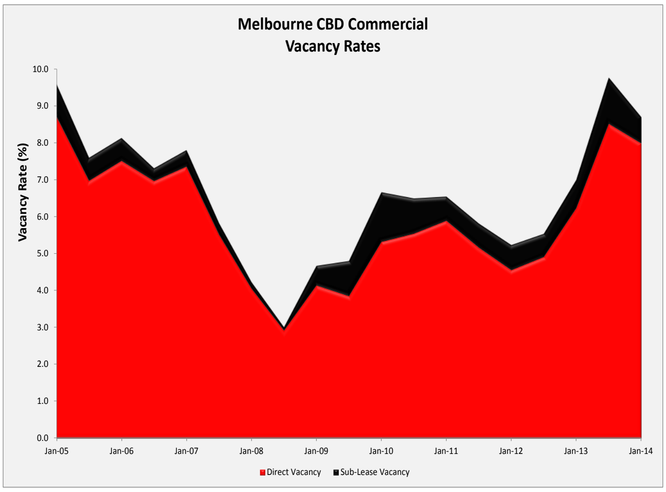

Chart 8 – Melbourne CBD Commercial Vacancy Rates – Source PCA

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East Melbourne CBD

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2013 have been analysed to derive at the following findings:

Supply by Grade (Stock)

In the six months to January 2014, the total East Melbourne office market did not receive any additional supply nor withdrawals. Preston Rowe Paterson Research could not observe any movement in East Melbourne office space supply since January 2010.

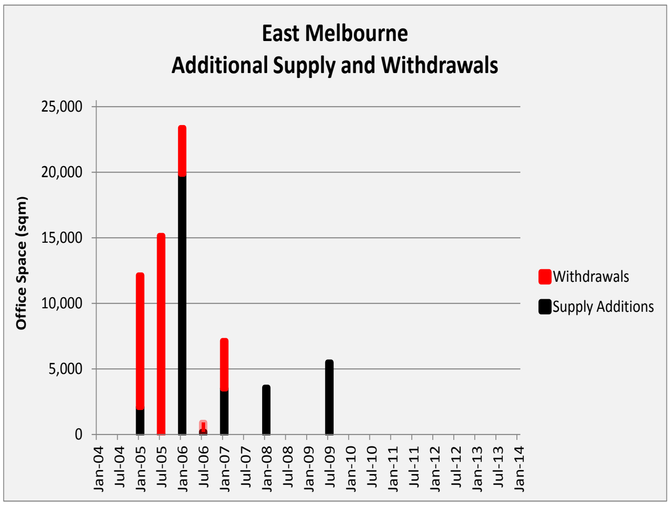

Chart 9 – East Melbourne Additional Supply and Withdrawals– Source PCA

A Grade stock assumed 37.4% (68,772 sqm) of total office space in East Melbourne. B Grade stock was the most prominent at 47.9% (88,064 sqm), C Grade 9.9% (18,278 sqm) and D Grade assumed the least at 4.7% (8,667 sqm).

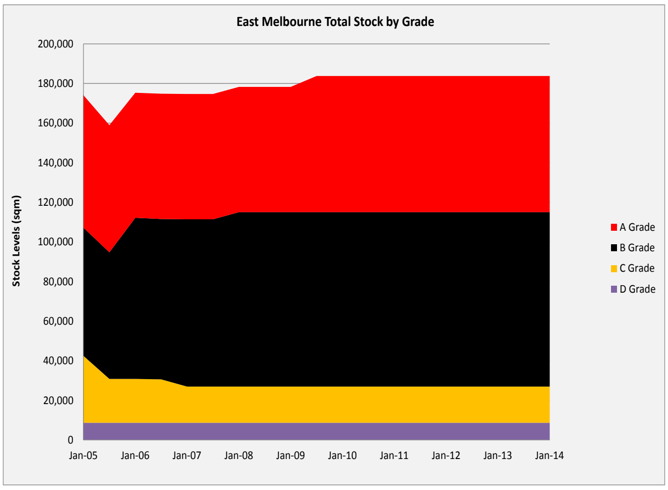

Chart 10 – East Melbourne Total Stock by Grade – Source PCA

Total Vacancy

According to PCA, as at January 2014 a slight increase in total vacancy rate was recorded. East Melbourne's total office vacancy was 5.8% There were 10,725 sqm of total vacant space recorded in the past six months.

Both A and B Grade office spaces realised an increase in total vacancy of 1.1% and 1% to 11.5% and 2.5% respectively which translates to about 7,875 sqm and 2,190 sqm of vacant space respectively.

There were no recorded vacancies in C Grade office space since July 2007. D Grade office stock recorded a 10.1% decline in vacancies to 7.6%.

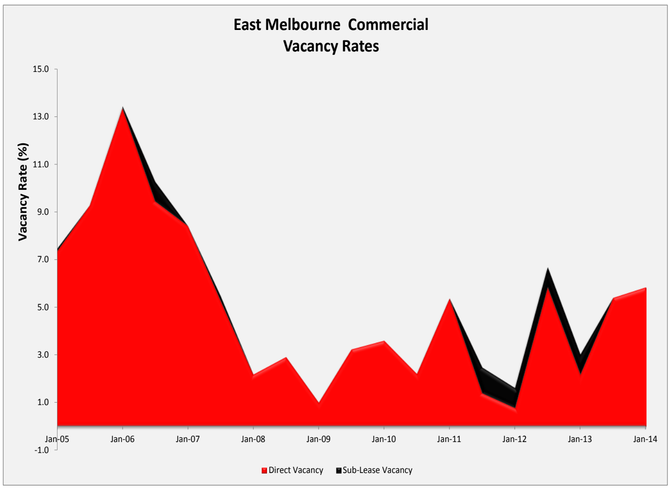

Chart 11 – East Melbourne Commercial Vacancy Rates – Source PCA

Southbank

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2013 have been analysed to derive at the following findings:

Supply by Grade (Stock)

In the six months to January 2014, the total Southbank office market did not receive any additional supply nor withdrawals. Preston Rowe Paterson Research could not observe any movement in the South-bank office space supply since July 2011.

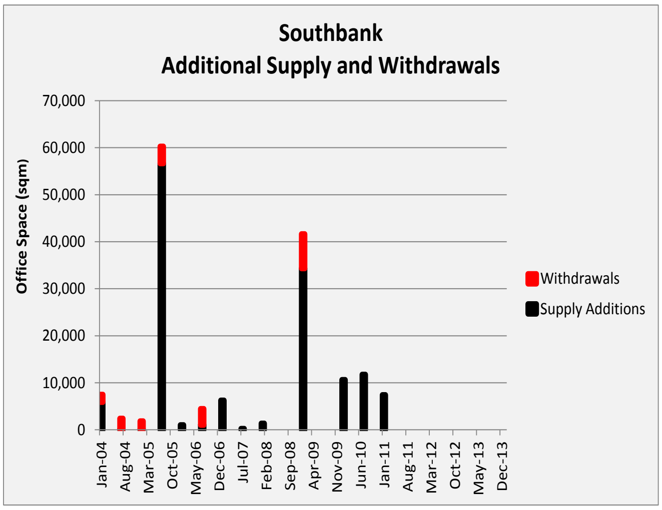

Chart 12 – Southbank Additional Supply and Withdrawals – Source PCA

The office stock in Southbank is predominantly A Grade spaces at 248,819 sqm, followed by B Grade and C Grade stock at 109,656 sqm and 65,899 sqm respectively. There were only 3,082 sqm of D Grade office space in Southbank.

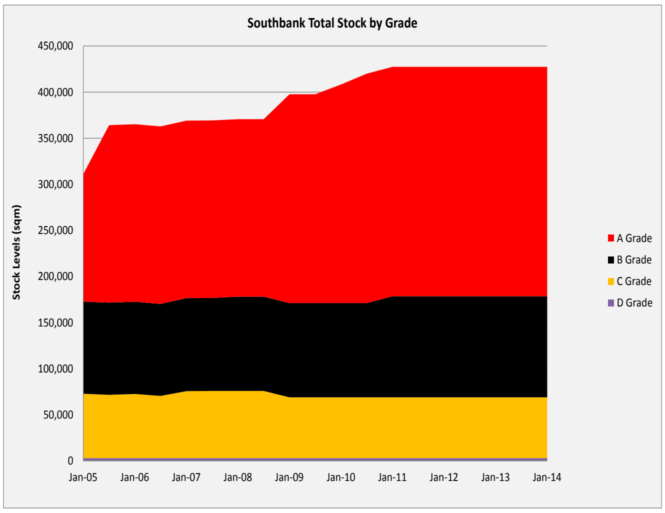

Chart 13 – Southbank Total Stock by Grade – Source PCA

Total Vacancy

The total office vacancy in Southbank had tightened by 0.2% to 5.7% over six months to January 2014. The direct vacancy assumed 6.8% and sublease vacancy was 1.1%.

Varied results were recorded across the four grades of office space. A Grade office recorded an increase of 1.4% to 2.8% vacancy. B Grade and C Grade office stocks both declined by 2.7% and 0.2% to total vacancy levels of 7.5% and 21.2 % respectively. Since July 2011, D Grade stock vacancy had remained zero.

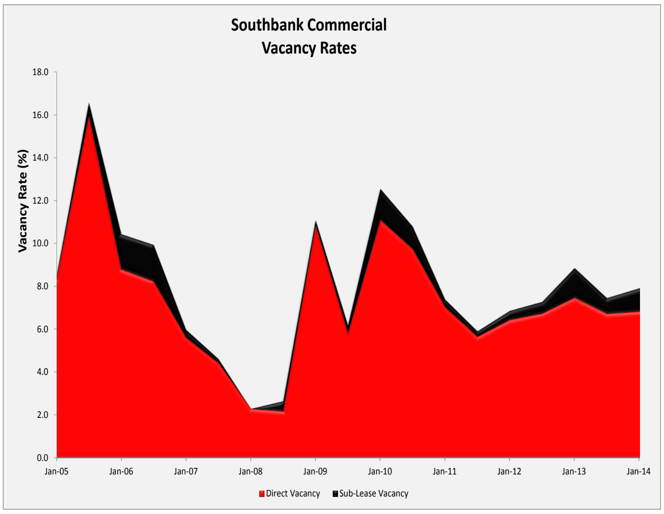

Chart 14 – Southbank Commercial Vacancy Rates – Source PCA

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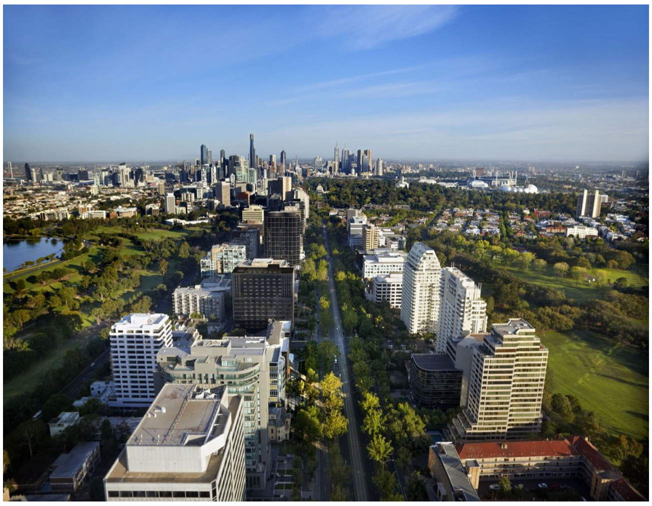
St Kilda Road



Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2013 have been analysed to derive at the following findings:

Supply by Grade (Stock)

The St Kilda Road total office market recorded 2,114 sqm withdrawal of office space and no additional supply in the six months to January 2014. Over 12 months to January 2014, approximately 7,614 sqm of office space had been withdrawn from the market.

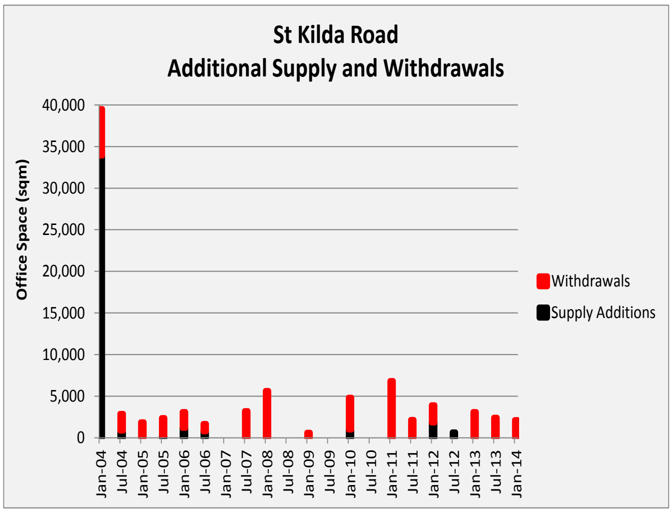


Chart 15 – St Kilda Road Additional Supply and Withdrawals – Source PCA

Total office stock in the St Kilda Road office market recorded a 0.29% decline to total office space of 736,418 sqm. A Grade and C Grade office stock had tightened by 0.43% and 0.7% respectively to 244,267 sqm and 157,594 sqm. B Grade and D Grade office space remained unchanged at 328,933 sqm and 5,624 sqm respectively.

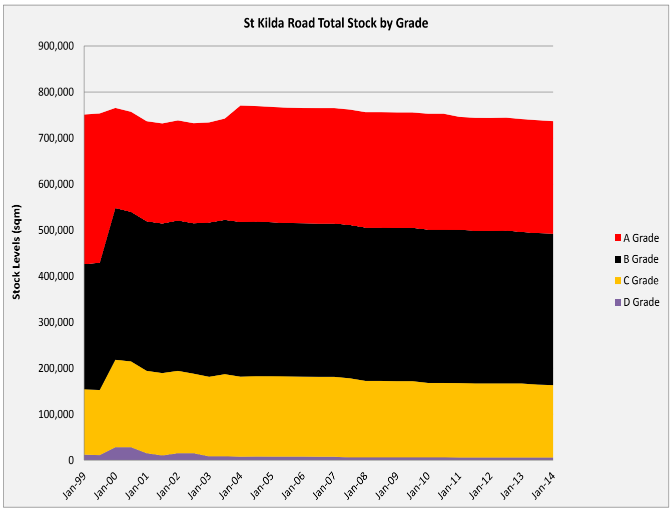


Chart 16 – St Kilda Road Total Stock by Grade – Source PCA

Total Vacancy

The total vacancy in the St Kilda Road office market had increased by 0.6% to 11.4% in the past six months to January 2014. The total vacancy comprises of 10.6% (77,959 sqm) direct vacancy and 0.8% (6,051 sqm) sublease vacancy.

Mixed results were observed in the office stock vacancies. A Grade office stock vacancy realised a tightening of 0.7% to 20,948 sqm. B Grade and C Grade office space recorded an increase in total vacancies at 10.6% and 14.2% respectively to 35,005 sqm and 22,303 sqm vacant space.

D Grade office stock recorded no vacancies in six months to January 2014.

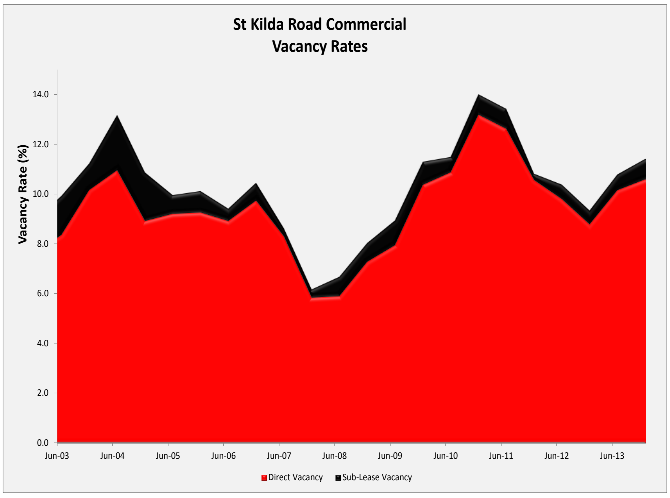


Chart 17 – St Kilda Road Commercial Vacancy Rates – Source PCA

Retail Market

Investment Activity

Preston Rowe Paterson Research recorded a number of retail transactions that occurred in Victoria during the June quarter 2014;

Cnr Bridge Road & Palmer Street, Richmond, VIC 3121
A private investor has purchased a Dan Murphy's site for **$12.3 million**. The two storey **1,942 sqm** property sold on a **5.3% yield**. The property includes 3,800 sqm of floor space plus parking for 50 cars. It has a 60 metre frontage to Bridge Street and Palmer Street. The property is on a **15 year lease with four 5 year options** to Woolworths owned liquor outlet Dan Murphy's. Dan Murphy's pays **an annual rent of $660,000**. Richmond is situated approximately 4.5 km south east of the Melbourne CBD.

1100 Nepean Highway, Morning Peninsula, VIC 3931
A new Bunnings Warehouse store along Victoria's Mornington Peninsula has been purchased by a local syndicate of private investors. The investors paid **$15.16 million** for the property on a **yield of 6.49%.**

282 Collins Street, Melbourne, VIC 3000
One of Melbourne's retail icons, the **Block Arcade** has been purchased for an amount suggested to be around **$100 million**. The buyer is an adjoining owner, the Cohen family. Completed in the early 1890's the shopping gallery was modelled on the Galleria Vittorio in Milan. The **2,632 sqm** L-shaped arcade which is home to 27 retailers, including Haigh's Chocolates, Orrefors Kosta and one founding tenant in position for over 100 years, the Hopetoun Tea Rooms. 20 years ago the property was bought at mortgagee auction for just $8 million.

Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (May 2014), the retail turnover figures recorded in Victoria produced varied results. The total retail turnover in Victoria fell by 1.13% over the month of May 2014, with an annual retail turnover growth of 5.44% to turnover of $5,682.7 million.

Over the month of May, declines were experienced across all retail industries. Department stores recorded the worst decline of 4.96% at $350.9 million monthly turnover, followed by clothing, footwear and personal accessory retailing declined by 3.64% at $499.8 million.

Cafes, Restaurants and takeaway food services, household goods, food retailing and other retailing fell by 1.26%, 1.15%, 0.29% and 0.07% to monthly turnover of $714.2 million, $961 million, $2,347.2 million and $809.5 million respectively.

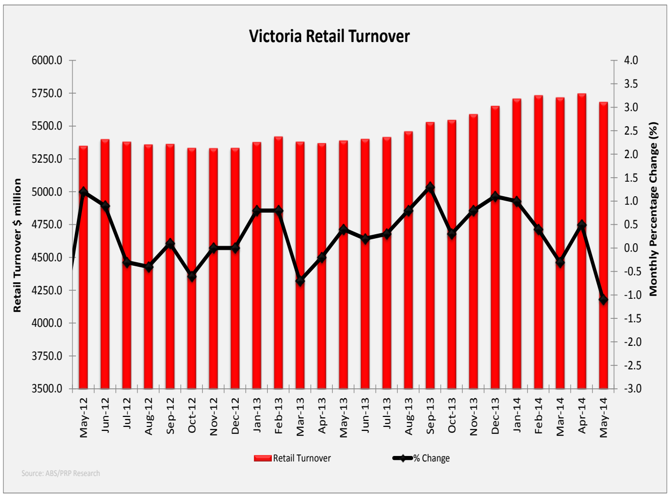


Chart 18 – Victoria Retail Turnover – Source ABS

Year on year analysis of the six categories revealed positive results, with all categories recording growth over the year except department stores which recorded a 1.87% fall. The most marked growth was in food retailing with 7.9%, followed closely by other retailing (7.09%) and cafes, restaurants and takeaway food services (6.3%). Household goods reflected a 3.05% growth whereas clothing, footwear and personal accessory retailing increased marginally by 0.77%.

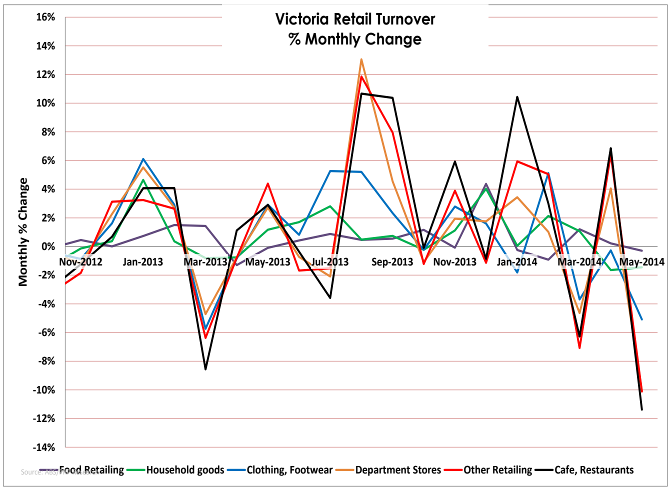


Chart 19 – Victoria Turnover % Monthly Change – Source ABS

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Industrial Market

Investment Activity

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

Cnr Hammond Road & Rodeo Drive, Dandenong South, VIC 3164
Melbourne based commercial builders Vaughan Construction purchased a **9 hectare site** from the Mitrousis and Romano families for a price understood to be in **excess of $15 million**. . The company have intentions to **develop the site** into a $50 million business and logistics park. The site is currently vacant and is in zone industrial 1 allowing for manufacturing, warehousing, distribution and office use. The large site is situated within close proximity to major transport routes including EastLink, Dandenong Bypass and the Monash Freeway. Vaughan Constructions are currently in the process of development plans to sell or lease land and building packages within the site, ranging in size from 5,000 sqm to 8 hectares incorporating buildings from 3,000 sqm to 40,000 sqm.

191 Rosamond Road, Maribyrnong, VIC 3032
A landholding just outside Melbourne's CBD has been sold by the **Department of Treasury and Finance** to a private developer. The **12,100 sqm site** sold for **$7.11 million**. The site comprises a warehouse and is located opposite the Highpoint Shopping Centre.

99-103 William Angliss Drive, Laverton North, VIC 3026
South Africa-backed Growthpoint Properties has paid **$19.85 million** for an **8,871 sqm** industrial property along Melbourne's urban fringe. The property is currently leased to Scott's Refrigerated Freightways for the next 15 years, comprises cold storage facilities as well as an office and workshop. The sale reflects a **yield of 8.3%** at approximately **$2,238 psm**. Laverton North is situated approximately 15 km south west of the CBD.

277-279 Flinders Lane, Melbourne, VIC 3000
Tomasetti House in Melbourne's CBD has been sold 2 weeks after the historic building was put on the market. The property which is built on **643 sqm of land** and had its first section constructed in 1853 sold for **$16.2 million.** Tomasetti House holds an important place in the city history; the five storey stone warehouse built to accommodate the Degraves flour mill was reworked in 1905 with additional floors and a poly-chromatic art nouveau façade and was then converted into a showroom and offices. The property is **currently 93% leased** to a range of tenants, most of whom have been in the building for many years. **Fully leased it is estimated** that the property will deliver a **yield of 7.1%**.

Leasing Activity

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

17-25 Wedgewood Road, Hallam, VIC 3803
EcoClassic Group has secured a **5 year lease** on an industrial space in Melbourne's south east. The lease of the **4,600 sqm** property has a **net annual rent of $475,552** displaying a **rate per sqm of approximately $103**. The property includes a 4,600 sqm warehouse and a 616 sqm office. Hallam is situated around 39 km south east of the Melbourne CBD.

1/530-540 Springvale Road, Glen Waverley, VIC 3150
Logistics consultancy group The Freight Consultants have leased **1,752 sqm** of office space in Victoria's Brandon Business Park. The company have agreed to a **3 year lease** with an asking **gross face rent** is approximately **$360 psm**.

88-92 Waterview Close, Dandenong, VIC 3175
School book supplier Campion Education has secured a new lease at an industrial property in Victoria's Dandenong South. The **6,061 sqm** property has a generous hard stand providing easy heavy vehicle movement, quality high clearance warehousing and fully refurbished office and showroom facilities. Campion Education will lease the property for **5 years** paying a **net face rent per sqm of $72.50**. Dandenong is located around 35 km south east of the CBD.

18-24 Ricketts Road, Mount Waverley, VIC 3149
Online outdoor furniture retailer Clickon Furniture has leased a new, larger warehouse in Melbourne's Mount Waverley. The popular online furniture business has secured a **3,600 sqm** warehouse owned by AMP Capital. Clickon will pay a **gross annual rental of $75 psm for 5 years, with a 5 year option** to extend the lease. The property is the only modern building in the Monash precinct that is larger than 3,000 sqm and still boasts high clearance warehouse space. Mount Waverley is situated approximately 20 km south east of the Melbourne CBD.

100-102 Woodlands Drive, Braeside, VIC 3195
International consumer goods packaging company Detmold Specialty Packing has secured a large office and warehouse space in Port Melbourne. The **2,594 sqm** facility includes office space over two levels, a high clearance warehouse measuring 2,300 sqm, dual driveways and extensive on-site parking. The rental is believed to be around **$160,000 p.a**. on a **3 year term** with options.

31 Gilby Road, Mount Waverley, VIC 3149
Power tool and home hardware manufacture TTI Brands will open a new office in Melbourne's eastern suburbs. The company have secured a **5 year lease with a 5 year option** for an office space and warehouse facility measuring nearly **2,500 sqm**. The premises are owned by DEXUS and comprise 1,710 sqm of office space and a 717 sqm warehouse. TTI will pay an **annual net rental of $205 psm**.

Lot 9 Marconi Drive, Dandenong, VIC 3175
Dalsteel Metals will move into the Dandenong LOGIS Estate in south east Melbourne. The group has secured a **2,029 sqm** industrial facility on a **6 year lease** with **two 5 year options**. The company will pay a **gross annual rental of $172, 465**. The site boasts high clearances, clear span warehouse and great exposure to Dandenong Bypass and Hammond Road.

Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals May 2014, the total number of house dwelling approvals in the Melbourne Statistical Division over the month has showed an increase of 16.63% from 1,738 approvals in April to 2,027 approvals in May 2014. This has reflected growth of 8.11% when compared to house dwelling approvals in May 2013.

The total number of non-house dwelling approvals has decreased by 36% from 2,227 dwelling approvals in April to 1,425 dwelling approvals in May. Similarly the twelve months prior in May 2013 marked a decline of 10.71%.

The total number of dwelling approvals year to date in May 2014

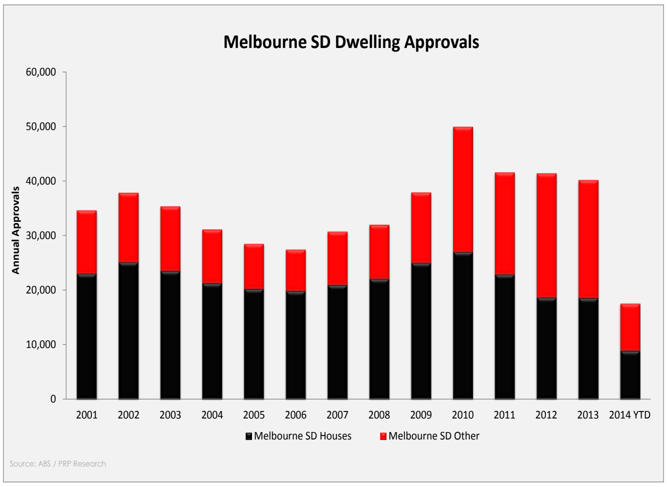

Chart 20 —Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

According to the Real Estate Institute of Australia (REIA) the median house price in Melbourne grew by 3.7% to $643,000 in the March quarter. All zones of Melbourne house prices recorded growth over the quarter with the most marked growth in Outer Melbourne with 1.9% to a median sale price of $479,500. Middle Melbourne followed with 4% growth to a median sale price of $717,000 and Inner Melbourne recorded growth of 3.8% to $1,016,000. Geelong and Bendigo recorded a decline over the quarter of 2.3% to $410,300 sales price and 3.4% to 328,500 sales price respectively. Ballarat recorded growth of 1.3% and 0.3% to median sale prices.

Over the twelve months to March 2014, the most marked growth in Victoria was experienced in Middle Melbourne with 11.8%, followed by Inner Melbourne, Geelong and Outer Melbourne with growth of 10.6%, 6.8% and 6.4% respectively. Bendigo and Ballarat experienced annual growth of 4.8% and 4.9% respectively.

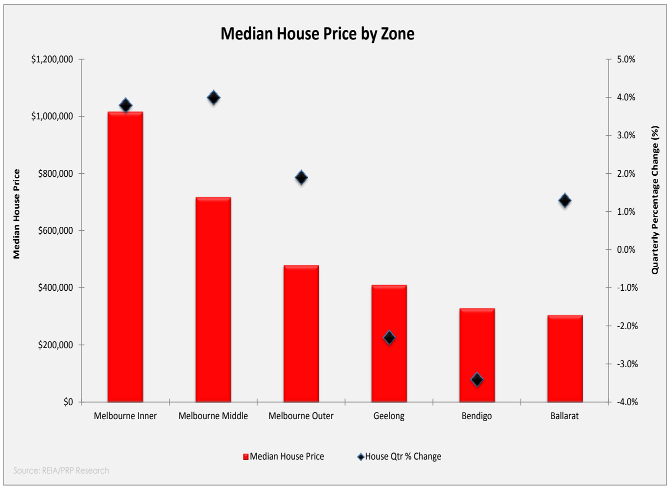

Chart 21 – Median House Price by Zone – Source REIA

Other Dwelling median sale prices revealed predominantly positive results over the March quarter, with the only declines attributed to Middle Melbourne and Geelong, with both zones declining by 0.4% and 7.1% to median sale prices of $520,500 and $313,500 respectively. Bendigo experienced the most marked growth of 17.8% to median sale price of $274,000. Inner, Outer Melbourne and Ballarat recorded quarterly growth of 0.8%, 1.9% and 5.1% to median sale prices of $515,500, $384,500 and $248,000 respectively.

Year on year analysis of Victoria Other Dwellings revealed growth in all zones bar Bendigo with declines of 0.1%. Inner, Middle and Outer Melbourne zones experienced annual growth of 5.8%, 9% and 5.9% respectively. Geelong recorded annual growth of 6% and Ballarat sales grew by 3.9%.

Chart 22 – Median Price for Other Dwellings by Zone – Source - REIA

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Rental Market

Over the March 2014 quarter, mixed results were recorded in the Victoria house rental market. The most marked growth was in Ballarat 2 bedrooms increasing by 6.8% to median weekly rental of $250. Geelong and Inner Melbourne 3 bedrooms followed with growth to median weekly rental of $320 (3.2%) and $680 (3%) respectively. Inner Melbourne 4 bedrooms, Bendigo 2 and 4 bedrooms and Ballarat 4 bedrooms were the only zones to record quarterly declines to median weekly rental of $510 (1.9%), $250 (2%), $335 (1.5%) and $350 (2.8%) respectively.

Year on year analysis of median house rents in Victoria revealed growth in all zones. The highest annual growth was Geelong 4 bedrooms rising by 7.9%. The only zone to record annual decline was Bendigo of 3.8%.

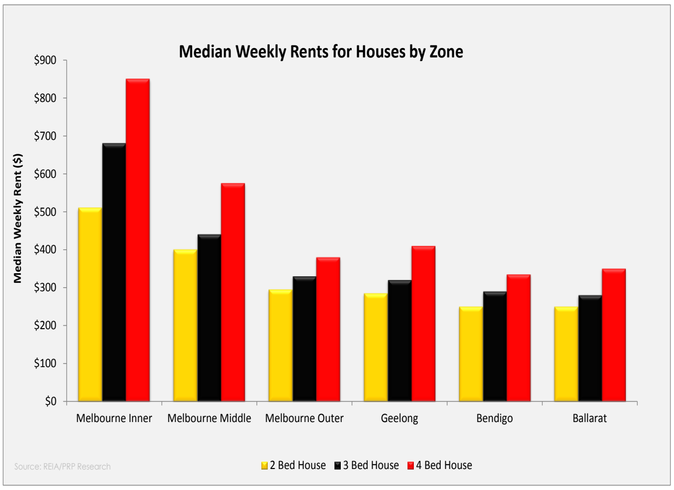

Chart 23— Median Weekly Rents for Houses by Zone – Source - REIA

Other Dwellings median weekly rentals recorded mixed results, with declines in Inner and Middle Melbourne 1 bedrooms of 2.9% and 3.7% and to median weekly rental of $340 and $260 respectively. Inner Melbourne 3 bedrooms recorded the most marked growth over the quarter of 7.7% to median rental of $700, followed by Ballarat 3 bedrooms (3.6%) and Geelong 3 bedrooms (2.9%) to median weekly rental of $290 and $350 respectively.

Year on year analysis recorded positive results with the only decline attributed to Inner Melbourne 2 bedrooms (1%) and Bendigo 3 bedrooms (1.7%) to rental of $475 and $295 respectively. The most significant growth over the year was in Geelong 1 bedrooms (8.1%) to $200 per week, followed by Bendigo 1 bedrooms (4.4%) to $165 per week and Outer Melbourne 2 bedrooms with 3.5% to median weekly rentals of $295.

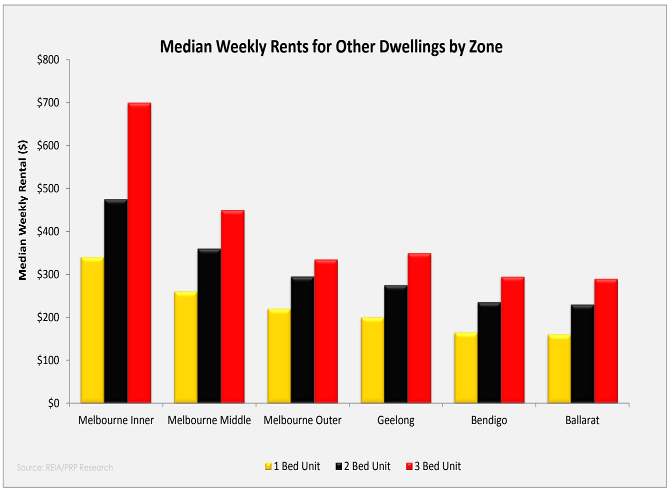

Chart 24 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA

Hotel & Leisure

Investment Activity

Preston Rowe Paterson Research recorded a number of hotel/ leisure transactions that occurred in Victoria during the June quarter 2014;

23-33 Lonsdale Street, Melbourne, VIC 3000
Hong Kong's **Ovolo Group** has beaten other off-shore investors in a bid to purchase the Oaks on Lonsdale serviced apartments complex in Melbourne's CBD. The group won the property with a sale price of **more than $70 million**. At the Paris End of Melbourne CBD, the 4.5 star property attracted huge demand from international buyers, with more than 22 inquiries. The property is currently leased until 2017 to Oaks Hotels & Resorts with a further 3, 5 year lease extensions. The property comprises 148 guest rooms, most of which are one or two bedroom apartments; the sale price displays a **rate per existing apartment of around $472,973**.

Regional Market

Preston Rowe Paterson Research recorded a few number of sales transactions that occurred in regional Victoria during the three months to June 2014;

Commercial Office

27-29 Franklin Street, Traralgon VIC 3844
A local investor had purchased the two storey office building for **$1.53 million** on a **yield of 5.55%**. The property is on a **342 sqm** site located at a prominent corner of the Traralgon town centre within close proximity to ANZ bank and the Traralgon train station. It is currently leased to Stockdale & Leggo Real Estate at **$85,000 per annum**.

206-208 Mair Street, Ballarat Central VIC 3350
The two storey office building was sold for **$3.35 million**. The modern office building is built on a 546 sqm site with **998 sqm** gross building area has a basement car park with 14 car spaces. The State Government currently leases the property at **$263,000 per annum** excluding GST on a 5 year term plus options.

12 Albert Street, Ballarat Central VIC 3350
The two storey, 4 star NABERS energy rating office building was sold for **$6.65 million**. The **2,060 sqm** office building has a secure basement car parking for 44 car spaces. It is located in the heart of the Ballarat CBD 'service' precinct within close proximity to the police complex, law courts and medical centre. Australian government tenant Centrelink had recently renewed its 4 year lease plus option through to 2026 at a rental of approximately **$613,560 per annum,** including the car park.

Retail

1837 Frankston-Flinders Road, Hastings VIC 3915
A new Bunnings Warehouse store along Victoria's Mornington Peninsula has been purchased by a local syndicate of private investors. The investors paid **$15.16 million** for the property on a **yield of 6.49%.**

Specialised Property

341 & 290 Sand Road Cnr Princes Highway, Longwarry, VIC 3816
A Fawkner property syndicate purchased twin service centres from the Spargo Group for **$23.2 million.** The sites are situated on the periphery of the major growth corridor to the southeast of Melbourne. The sites are occupied by Caltex on a double net lease until late 2020, with further options totalling 30 years. There is constant traffic flow passing by the properties with an estimate number of vehicles passing by in excess of 12,000 per day. The sale displays a **rate per service station of $11,600,000**.

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Our Research

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

We have *property* covered

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· Mortgage
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· Insurance
· Occupancy
· Sustainability
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· 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
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· Hotel furniture, fittings & equipment

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· Co-operatives
· Developers
· Finance and mortgage brokers
· 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

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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:

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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
- 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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