



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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

June Quarter 2016

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COMMERCIAL OFFICE MARKET

Melbourne CBD



Investment Activity

Preston Rowe Paterson Research recorded the following reported sales transaction that occurred in the Melbourne CBD office market during the three months to June 2016:

10-12 Collins Street, Melbourne, VIC 3000

The Sun family has bought a heritage office property that was built in 1924 for **\$18.675 million**. The 4-storey, 2,000 m2 of net lettable building is known as the **Victor Horsley Chambers**. The sale reflects a **yield of just 2.4%** and a **rate of \$9,350 psm**.

Leasing Activity

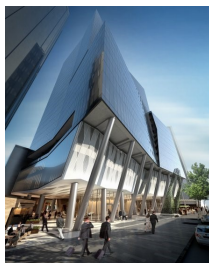
Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Melbourne CBD office market during the three months to June 2016:

485 La Trobe Street, Melbourne, VIC 3000

Salmat will move into eight-floors in an office building in January next year. The property is a 33,500 m2, A-grade office complex owned by the *Lendlease*-managed **Australian Prime Property Fund Commercial**. *Salmat* will occupy 8,400 m2 of space and has plans to take up a further 3,300 m2. The lease is for **6-years** and other details, such as the rent or lease incentive, have not been disclosed.

567 Collins Street, Melbourne, VIC 3000

Investa has negotiated three new leases for a total of 3,200 m2 of office space. *Connective* will relocate to 2,059 m2 for **8-years** in the largest of the deals. The other deals include *Regus* leasing 866 m2 and *Victory Management* leasing 350 m2. Around 10,000 m2 is still vacant in the building.



Development Sites

According to the Property Council of Australia (PCA)'s Office Market Report July 2016, the following new developments are expected to be completed in Melbourne's CBD:

Tower 2 Collins Square, due to be completed in the third quarter of 2016, will be the tallest tower constructed in Melbourne's CBD in more than 10 year upon its completion. Located on **727 Collins Street** near Docklands, Tower 2 will have 55,000 sqm net lettable area available, amongst which 5,525sqm will be used for retail purposes. There will be 26 level of office space, with an average floorplate size of 2,300sqm and 86 car spaces in total. The A Grade office building, owned by Walker Corporation, will achieve a 5-star Green Star energy rating.



525 Collins Street, Melbourne, VIC 3000

The **Rialto Regeneration Project**, located on **525 Collins Street**, is still under construction and due to be completed in the fourth quarter of 2016. The PCA reports there will be 6000sqm net lettable area, and will contain new offices, retail, dining and health and wellbeing services.

Supply by Grade (Stock)

The July 2016 PCA Office Market Report revealed that there was a decline of 0.44% in office market space over the six months to July. This is the result of 26,343 sqm of withdrawals over the period, bringing the total Melbourne CBD office market space to 4,437,824 sqm.

A Grade stock dominates the Melbourne CBD office market, with nearly half of the share of total stock at 48.4%. Premium and B Grade office take up similar shares in the market, assuming 16.9% and 19.9% respectively. Following this, C Grade stock takes up 12.2% and D Grade with 2.6% of total share as of July 2016.

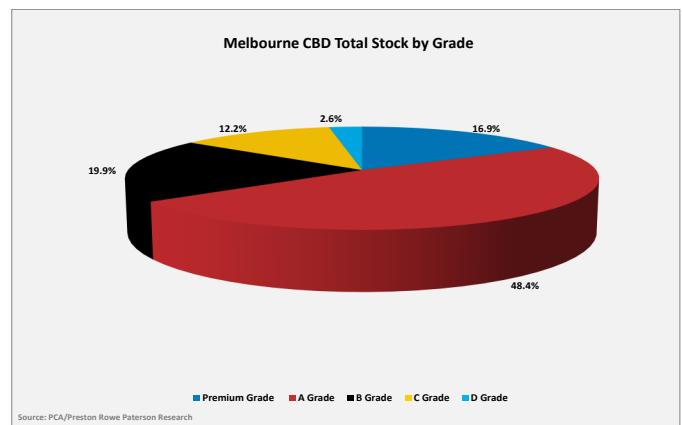


Chart 1 – Melbourne CBD Total Stock by Grade – Source PCA

Net Absorption

Over the twelve months to July 2016, Melbourne CBD'S office market absorbed an additional 67,026 sqm of office space. Positive net absorption was recorded across all, but C and D Grade offices. Premium, A and B Grade offices recorded changes over the year of 5.7%, 1.1% and 2.1% respectively. Over the same period, C and D Grade office stocks reduced by 0.8% and 3.2%, respectively.

Premium and A Grade office stock absorbed the largest amount at 19,024 sqm and 24,768 sqm respectively in the six months to January. Followed by B Grade at 8,930 sqm, C Grade at 2,442 sqm and D Grade at 693 sqm.

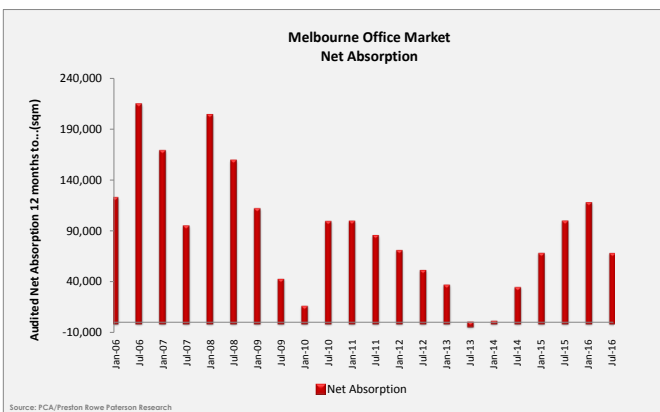


Chart 2 – Melbourne CBD Office Net Absorption - Source PCA

Total Vacancy

The Melbourne CBD office market total vacancy recorded a decrease of 0.7% to 7.0% in the six months to July 2016. This reflected a total market vacancy of 312,683 sqm.

Tightening in vacancy rates occurred across all graded stocks, with the largest decrease stemming from Premium Grade office space with a decline of 1.9%. Its current vacancy rate stands at 8.4%. A, B, C and D Grade experienced decreases of 0.4%, 0.8%, 0.3% and 0.2% respectively. Their respective vacancy rates stand at 6.1%, 7.5%, 9.1% and 2.2% as of July 2016.

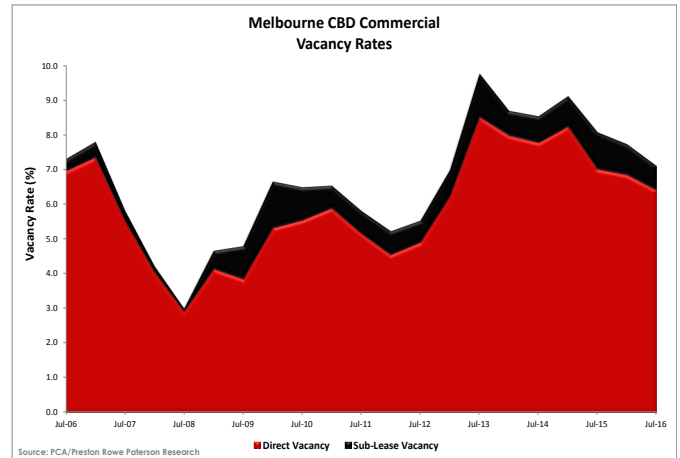
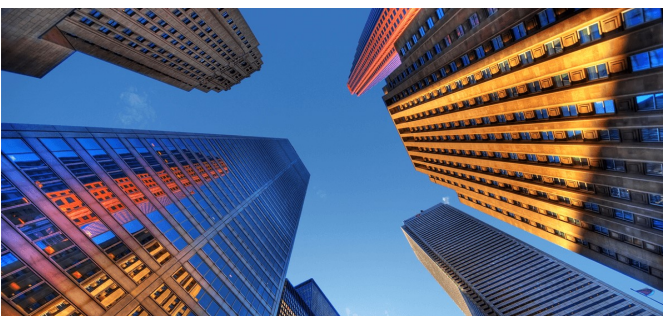


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA

East Melbourne CBD



Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the East Melbourne office market during the three months to June 2016:

Church Street, Richmond, VIC 3121

Fraser's Property Australia has sold an unoccupied office building for **\$46.7 million**. Richmond is located around 3.8 km east of Melbourne's CBD.

96 Wellington Parade, East Melbourne, VIC 3002

A Melbourne property investor has paid **\$9.53 million** at auction for a 5-level, 1,127 m² office building. The property also has 17 car spaces. The sale reflects a **rate of \$8,456.08 psm**. East Melbourne is located around 2.2 km east of the Melbourne CBD.



Supply by Grade (Stock)

PCA's Office Market Report revealed that there was no change in the supply of commercial offices in East Melbourne for July 2016. There were no changes in both supply and withdrawal numbers for the period, with the total office stock remaining unchanged from the beginning of the year at 173,961 sqm.

East Melbourne's office market is dominated by B Grade office supply, of which it takes up 51.3% of total stock or 57,852 sqm in space. A Grade stock takes up 33.3% of market supply, totalling 57,852 sqm in space. C and D Grade supply take up 10.5% and 5% respectively. They currently take up 18,278 sqm and 8,667 sqm respectively.

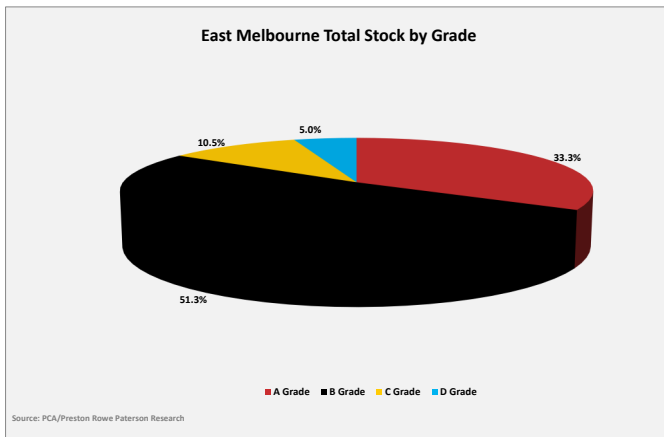


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

Net Absorption

The Melbourne CBD office market recorded a negative net absorption of 2,354 sqm (or 1.4%) over the year to July 2016.

Over the six months to July, A, C and D Grade office stock experienced negative net absorption of -2,260 sqm, -6,643 sqm and -4,399 sqm respectively. In contrast to this, B Grade stock performed well over the same period, with a positive net absorption of 7,684 sqm.

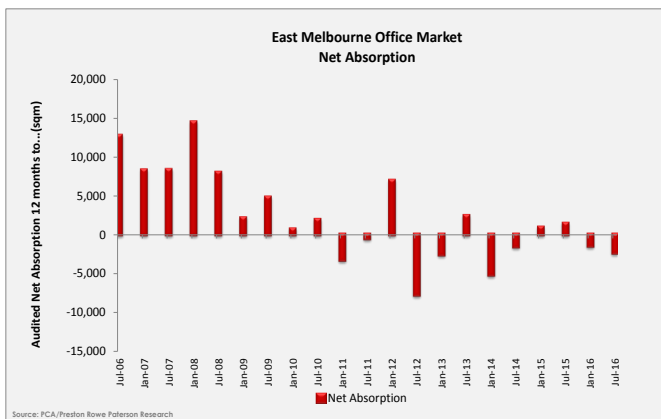


Chart 5 – East Melbourne Net Absorption – Source PCA

Total Vacancy

As at July 2016, East Melbourne's total office vacancy rate increased by 0.7% over the half year to 1.5%. This is all covered by direct vacancy rate since there is no market for sub-leasing in East Melbourne.

D Grade stock recorded the largest decline in vacancy rate, from 10.4% in January to 0% in July. No change was recorded in vacancy of C Grade offices, However there were increases in the vacancy rates of A Grade and B Grade offices, to 3.2% and 0.7% respectively.

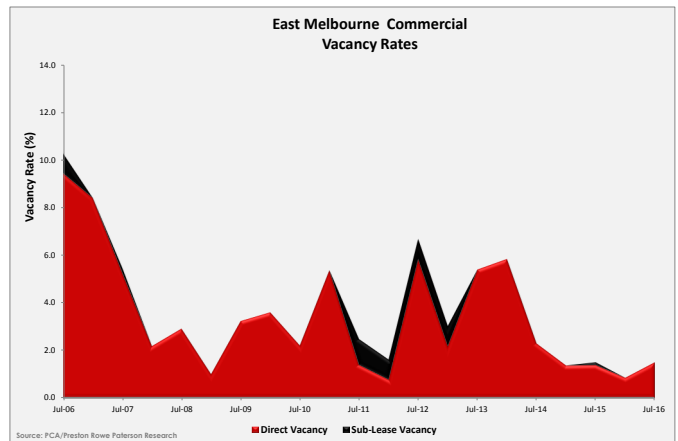


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

Southbank



Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the Southbank office market during the three months to June 2016:

Toorak Road & Chapel Street, South Yarra, VIC 3141

The Como Centre has been acquired by *Newmark Capital* from *Mirvac Group* for **close to \$230 million**. The property occupies a two-hectare site and generates more than \$14 million in net income. There is 25,000 m² of office space, 6,600 m² of retail space and a 113-room luxury hotel. The hotel is operated by *Accor* who leasing until June 2021 with a 5-year option. There are also 614 car spots. Office tenants include *Channel 10* and *Clemenger*. The sale reflects a **rate of close to \$11,500 psm**. South Yarra is located about 4.7 km south-east of the Melbourne CBD.

9-17 Raglan Street, South Melbourne, VIC 3205

An office building has been purchased at auction by a private investor for **\$9.125 million**. The 1,696 m², four-level building sits on an 835 m² site. The new owner will occupy one of the floors and lease out the remaining space. The property has the potential to earn a fully-leased net annual income of \$600,000. There is also 29 car spaces onsite. The sale reflects a **rate of \$10,928.14 psm**. South Melbourne is located about 2.4 km south of the Melbourne CBD.

75 Dorcas Street, South Melbourne, VIC 3205

Growthpoint Properties Australia has purchased an office tower for **\$160 million**. The property has close to 24,000 m² of office space and is fully-leased. The building also has a WALE of 5-years. South Melbourne is located around 2.4 km south of the Melbourne CBD.

Supply by Grade (Stock)

PCA's Office Market Report for July 2016 recorded no supply addition and 10,002 withdrawals for the Southbank office market. Total Southbank office market stock, as at July 2016, is 404,081 sqm.

Southbank office market is dominated by A Grade stock, with 61.5% of the share, or 248,819 sqm of total area. B and C Grade take up 24.9% (100,418 sqm) and 12.8% (51,762 sqm) of total market, respectively. D Grade offices do not have a big impact on Southbank's office market, with a small share of 0.8% or 3,082 sqm of the total office market.

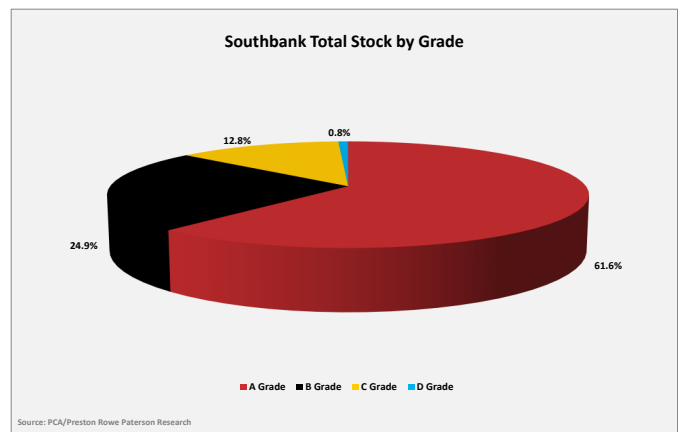


Chart 7 – Southbank Total Stock by Grade – Source PCA

Net Absorption

A positive net absorption of 5,780 sqm was recorded in the twelve months to July 2016. When we look at the six months to July, we notice that net absorption was at 7,906 sqm.

Mixed results when we look at net absorption in different grade stocks for the half year to July 2016. Both A and B Grade recorded positive absorption of 9115 sqm and 058 sqm respectively. C and D Grade stocks recorded negative net absorption of -2052 sqm and -215 sqm respectively.

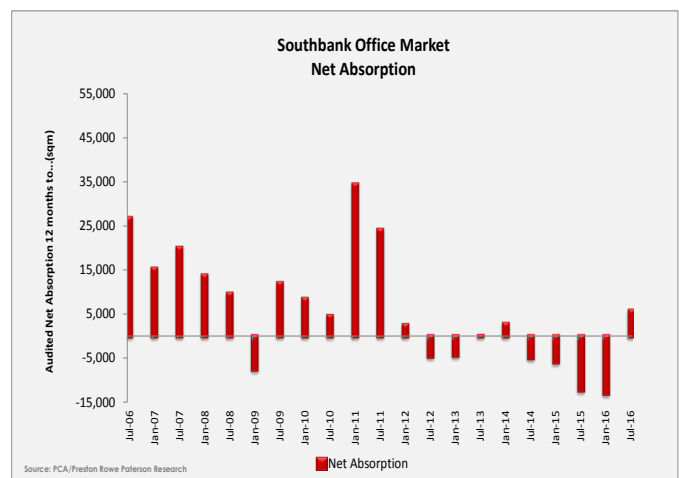


Chart 8 – Southbank Office Net Absorption – Source PCA

Total Vacancy

The overall office vacancy in Southbank had fallen by 3.8% to 4.6% in the six months to July 2016. The area of total vacancy amounts to 18,536 sqm.

In the same period, the largest decrease in vacancy rate came from B Grade stock, which dropped 5.3% to a current rate of 7.0%. A and C Grade also had a decline in vacancy rate of 3.7% and 2.0% respectively, to reach their new vacancy rate of 4.4% and 0.6%.

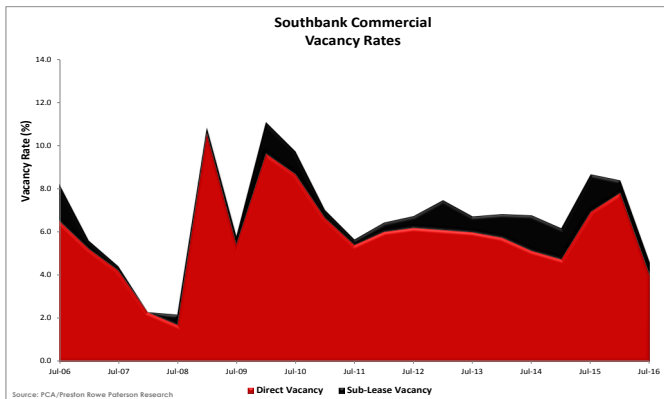


Chart 9 – Southbank Commercial Vacancy Rates – Source PCA

Development Sites

2 Riverside Quay, Southbank

The Riverside Quay, set to be completed by the fourth quarter of 2016, will provide an 11 level office building over 21,000 sqm of net lettable area. This development is being built under the partnership of the City of Melbourne and Mirvac and will provide 150 sqm of retail space and 579 car spaces.



102 Sturt Street, Southbank

The ABC Development under owner Australian Broadcasting Corporation is due to be completed by the fourth quarter of 2016. There will be 30,000 sqm of net lettable area available, of which 6 levels will be office levels. The building will have an average floorplate size of 2600 sqm, with 70 car spaces in total. The reported \$176 million expansion will no longer contain ABC's Ripponlea complex, but now will house the Melbourne Symphony Orchestra upon completion.



St Kilda Road



Supply by Grade (Stock)

Analysis of the PCA's Office Market Report July 2016 has revealed that there was 15,775 sqm of office space withdrawal along the St Kilda Road in the six months to July. There was no reported additional space supply in the market in the same period. The total St Kilda Road office market space as of July 2016 stands at 686,175 sqm.

The St Kilda Road office market is largely populated by the A and B Grade stock, assuming up to 35.8% and 43.2% of total supply respectively. This is followed by C Grade at 20.3% and D Grade at 0.8%.

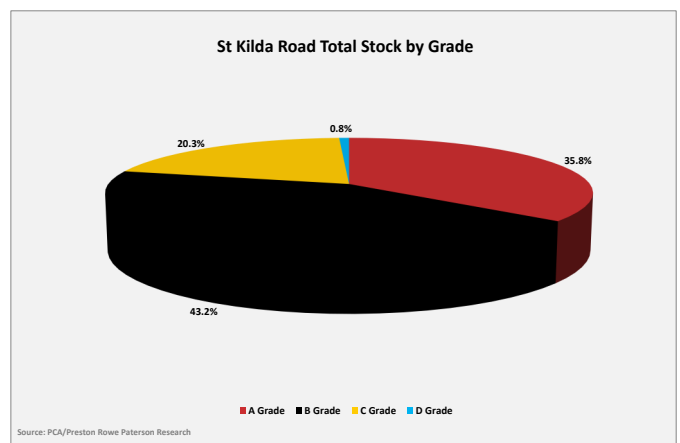


Chart 10 – St Kilda Road Total Stock by Grade – Source PCA

Net Absorption

The St Kilda Road office market has recorded a negative absorption of -15,044 sqm in the twelve months to July 2016. In the six months to July, the office market recorded a -3,421 sqm absorption.

Positive absorption was recorded in A and C Grade stocks at 10,011 sqm and 50 sqm respectively. Negative absorption in the six months to July was reported in B Grade and D Grade at -13,217 sqm and -265 sqm respectively.

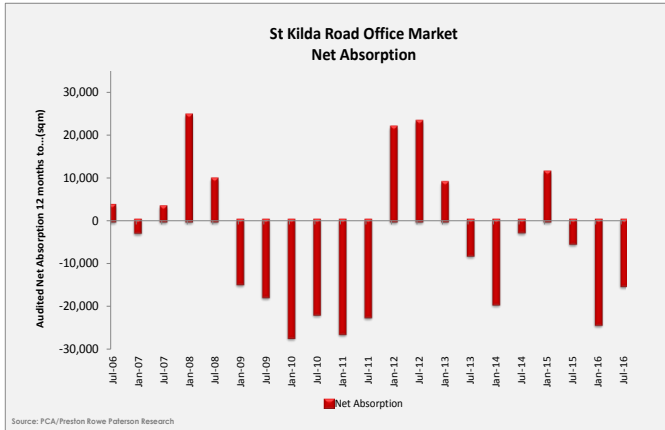


Chart 11 – St Kilda Road Office Net Absorption - Source PCA

Total Vacancy

The total vacancy in the St Kilda Road office market had tightened by 1.6% to 7.3% in the past six months to July 2016. The total vacant stock in the St Kilda Road market amounts to 50,083 sqm.

The only increase in vacancy was recorded in B Grade stock, which added on 1% to a new rate of 7.6%. A, C and D Grade stock all recorded a decrease in vacancy of -4.1%, -2.6% and -2.4% respectively. Their vacancy rate as at July 2016 stands at 2.8%, 14.8% and 0.0% respectively.

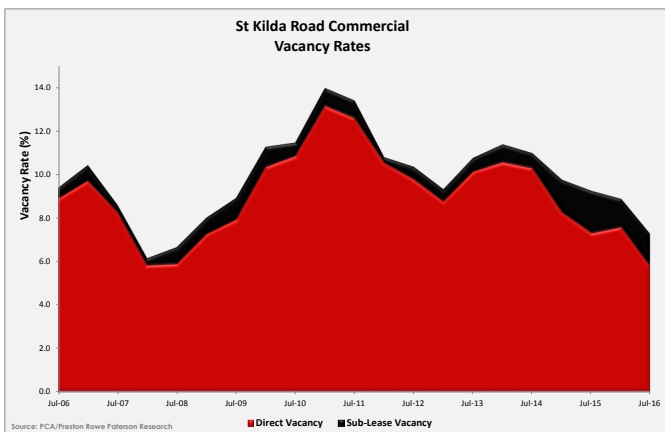


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA

RETAIL MARKET



Investment Activity

Preston Rowe Paterson Research recorded the following retail transactions that occurred in the Melbourne metropolitan area during the June quarter 2016:

Freshwater Place, Southbank, VIC 3006

Criniti's has signed a deal for an 800 m2 retail property at a **rent of \$750 psm**. The lease is for **9-years**. Southbank is located about 1 km south of Melbourne's CBD.

55-67 Frankston Road, Dandenong, VIC 3175

Supercheap Auto will occupy a 1,061 m2 showroom on a **10-year term**. The net lease is believed to be in the **high \$100s psm**. Dandenong is located around 31.3 km south-east of the Melbourne CBD.

Australia Shopping Centre Sales Wrap

Blackstone and Mirvac have acquired a four-asset portfolio of shopping centres from Vicinity Centres for **\$841.1 million**. Blackstone will acquire three malls, including **Clifford Gardens** in Queensland, **Forest Hill Chase** and **Brimbank Shopping Centre** in Victoria, for **\$613.3 million**. Mirvac will buy the Vicinity's shopping centre at Toombul in Queensland for **\$228.1 million**. The **average yield was 7%**.

55-67 Frankston-Dandenong Road, Dandenong, VIC 3175

Sentinel Property Group has acquired the Home Quarter complex for \$29.8 million. The fully-leased complex is anchored by nine national retail tenants including Clark Rubber and Officeworks. The sale reflected a **yield of around 8%**. Dandenong is located around 31.3 km south-east of the Melbourne CBD.



48-50 Douglas Parade & 52-56 Douglas Parade, Williamstown, VIC 3016

Two buildings that are leased to three banks have sold to a private investor for **\$11.34 million**. The 950 m2 properties sold at two separate auctions to the same buyer. Williamstown is located around 10.5 km south-west of the Melbourne CBD.

Vantage Boulevard, Craigieburn, VIC 3064

A private developer has acquired a retail development site from Peet Group for **over \$11 million**. The **Aston Square** site has a permit for a 6,700 m2 shopping centre. The sale reflects a **rate of \$350 psm**. Craigieburn is located around 24.5 km north of the Melbourne CBD.

5-35 Kingsway, Glen Waverley, VIC 3150

A private investor has bought a freestanding retail property for **\$33 million**. The property is leased to *Dan Murphy's* and was sold on a **yield of 1.4%**. The 6,620 m2 site has future development potential. The sale reflects a **rate of \$4,984.89 psm**. Glen Waverley is located about 21.2 km south-east of the Melbourne CBD.

Creswick Road, Ballarat, VIC 3353

A private investor has acquired a 2,117 m2 retail property for **\$7.75 million**. *Wesfarmers* is leasing the property for 8-years at \$190 gross per annum. The sale reflects a **yield of 5.2%** and a **rate of \$3,660.84 psm**. Ballarat is located about 114 km north-west of the Melbourne CBD.

5 Brentford Square, Forest Hill, VIC 3131

A private investor has paid **\$6.33 million** at auction for a 1,402 m2 retail property. The building is leased to *Woolworths* until 2037 and is operated by *Dan Murphy's*. The sale reflects a **yield of 4.70%** and a **rate of \$4,514.98 psm**. Forest Hill is located around 20 km east of Melbourne's CBD.

Retail Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (June 2016), the retail turnover figures recorded in Victoria produced mixed results for the June quarter. The total retail turnover in Victoria decreased by 0.10% over the month of June, with an annual retail turnover growth of 4.15% to \$6302.7 million.

The largest monthly growth in retail turnover was the Clothing, footwear and personal accessory retailing which grew by 1.74% in June to monthly turnover of \$537.9 million. Department stores and Other retailing both recorded growth over the month, by 1.46% and 0.15% to a monthly turnover of \$537.9 million and 913.5 million respectively.

Decreases in monthly turnover were recorded in the Food retailing, Café & restaurants and Household goods retailing revealing a decrease of 0.74%, 0.44% and 0.06% to the monthly turnover of \$2478.4 million, \$818.2 million and 1152.5 million respectively.



Chart 13 – Victoria Retail Turnover – Source ABS



An analysis of the six retail sectors had revealed positive turnover results where all categories recorded growth over the year to June 2016.

The most marked growth was in Department stores (11.47%) followed by Café & restaurants (7.54%), Clothing and footwear (6.01%), Other retailing (4.52%), Food retailing (3.27%) and Household goods (0.32%).

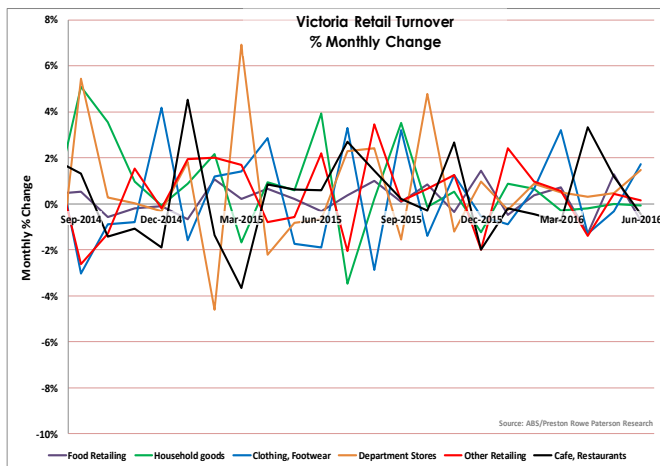


Chart 14 – Victoria Turnover % Monthly Change – Source ABS

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 June 2016:

119 Studley Court, Derrimut, VIC 3030

Ivan Vigloroni has purchased an office and warehouse complex for **\$4.65 million** on a **yield of 7.8%**. The 1.2-hectare property brings in a net annual rent of \$384,710 from *Pelikan Artline* and *NHP Electrical*. There is a large hardstand, a truck marshalling area and 60 car spaces on the site. The sale reflects a **rate of \$387.50 psm**. Derrimut is located about 19.4 km west of Melbourne's CBD.

236-242 Edwardes Road, Reservoir, VIC 3073

A private investor paid **\$5.27 million** for 17 industrial units in one-line. Each unit has a lettable area of 139 m². The sale reflects a **yield of 5.5%** and a **rate of \$2,230.22 psm**. Reservoir is located 12.4 km north-east of the Melbourne CBD.

134 Moray Street, South Melbourne, VIC 3205

A local developer has acquired a warehouse and office building for **\$7.1 million**. The freestanding property features 795 m² of office space and 655 m² of highly specialised data centre facility space. The sale of the 1,050 m² site reflects a **rate of \$6,761.90 psm**. South Melbourne is located around 2.4 km south of the Melbourne CBD.

409-415 Warrigal Road, Cheltenham, VIC 3192

An industrial property on a 9,721 m² site has sold to a private investor for **\$6.66 million**. The property is leased to *Gemini* for 10-years plus an option to 2028. The 3,891 m² office and warehouse has 168 car parks on title. The sale reflects a **yield of 6.34%** and a **rate of \$685.11 psm**. Cheltenham is located about 19.1 km south-east of the Melbourne CBD.

11 Monterey Road, Dandenong South, VIC 3175

Komipharm International has purchased a 6,250 m² office and warehouse for **\$6.4 million**. The site has further development potential. The sale of the 17,340 m² site reflects a **rate of \$369.09 psm**. Dandenong South is located about 31.3 km south-east of Melbourne's CBD.

275 Perry Road, Keysborough, VIC 3173

A Melbourne-based developer has purchased a 6-hectare englobo parcel of land from a private land owner for **\$6 million**. The site will be used for a \$100 million industrial estate. The sale reflects a **rate of \$100 psm**. Keysborough is located around 26.2 km south-east of the Melbourne CBD.



26-38 Harcourt Road, Altona, VIC 3018

Mirvac has acquired an industrial property for **\$25 million**. The property has a total building area of 32,700 m² and occupies a 6.4-hectare site. The sale reflects a **rate of \$390.63 psm**. Altona is located about 16.8 km south-west of the Melbourne 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 June 2016:

Efficient Drive, Truganina, VIC 3029

Toll Logistics has leased an 11,417 m² office and warehouse property at *Frasers Property Australia's West Park Industrial Estate* for **5-years**. Truganina is located about 23.5 km south-west of the Melbourne CBD.

Indian Drive, Keysborough, VIC 3173

Dana will move into a new 10,000 m² manufacturing and distribution facility at *Frasers Property Australia's Key Industrial Park*. The lease is for **7-years**. The lease is estimated to be for **between \$70 to \$90 psm**. Keysborough is located around 26.2 km south-east of Melbourne's CBD.

Felstead Road, Truganina, VIC 3029

DEXUS has agreed to a **10-year** industrial build lease with *PGG Wrightson Seeds Australia*. The lease is for a 1-hectare property and the lessee will pay a net annual rent of \$775,000. The lease reflects a **rate of \$77.50 psm**. Truganina is located around 23.5 km south-west of the Melbourne CBD.

81-87 South Park Drive, Dandenong, VIC 3175

Scaunich Investments has locked *Premium Floors* into a new lease for a warehouse and office property. The 5,000 m² property will be leased for **around \$75 to \$85 psm** for **7-years**. Dandenong is located about 31.3 km south-east of the Melbourne CBD.

Colemans Road, Carrum Downs, VIC 3201

Tempur Australia has agreed to a **10-year lease** for a purpose-built 4,650 m² building. The property comprises a 4,000 m² warehouse, five loading docks and an adjoining 650 m² office and showroom. The building occupies a 1.3-hectare site. Carrum Downs is located around 41.6 km south-east of the Melbourne CBD.

50-58 Castro Way, Derrimut, VIC 3030

A private landlord has leased a 3,015 m² high clearance warehouse to *Bost Group* for **3-years**. The property sits on a 1.6-hectare site. The lease is for **\$70 psm gross**. Derrimut is located about 19.4 km west of the Melbourne CBD.

Mace Way, Melbourne Airport, VIC 3045

Seaway Logistics has taken out a new lease at a purpose-built facility. The 2,348 m² office and warehouse will be **leased for around \$100 psm**. Melbourne Airport is located around 23.4 km north-west of Melbourne's CBD.

202 Discovery Road, Dandenong South, VIC 3175

Cameron Pty Ltd will occupy a 1,537 m² warehouse property for the next **5-years**. The lease reflects a rate of **\$76 psm gross**. Dandenong South is located 31.3 km south-east of the Melbourne CBD.

27 Transport Drive, Somerton, VIC 3062

Spanish Silestone will open its first facility in Australia after leasing a 2,180 m² office and warehouse property. The lessee will pay an **annual rent of \$75 psm** to the landlord *Charter Hall*. The lease is for **7-years**. Somerton is located around 19.9 km north of the Melbourne CBD.

176 Hall Street, Spotswood, VIC 3015

Victorian Institute of Culinary Arts & Technology will lease a 1,256 m² office and warehouse property for **3-years**. The **net rent per annum is \$95.5 psm**. Spotswood is located around 8.9 km south-west of the Melbourne CBD.

11-25 Toll Drive, Altona, VIC 3018

Stockland has leased a 14,000 m² warehouse and a 2,144 m² office for **10-years**. The annual rent for the 4.7-hectare site is **between \$70 and \$80 psm**. Altona is located about 16.8 km south-west of the Melbourne CBD.

4/71-93 Western Avenue, Tullamarine, VIC 3043

A private landlord has leased an industrial facility to *HYH Management Group* for **5-years**. The net annual rent will be **\$70 psm** for the 2,585 m² office and warehouse. Tullamarine is located around 16.4 km north-west of Melbourne's CBD.

11-25 Toll Drive, Altona, VIC 3018

Seaway Logistics has agreed to lease a 16,144 m² industrial property for a **net annual rent of \$75 psm**. The lease is for **10-years**. Altona is located around 16.8 km south-west of Melbourne's CBD.

77 Millers Road, Brooklyn, VIC 3012

New Aim has leased a 5,950 m² warehouse at *Stockland's Brooklyn Distribution Centre* for **3-years**. The company will pay a net annual rent of \$357,000. The lease reflects a **rate of \$60 psm**. Brooklyn is located 12.6 km west of the Melbourne CBD.

397-401 Albert Street, Brunswick, VIC 3056

A private landlord has found a new tenant for its 1,000 m² warehouse and office property. *Taxibox* will pay an **annual rent of \$100 psm** for the site on a **1-year lease**. Brunswick is located around 5.3 km north of Melbourne's CBD.

RESIDENTIAL MARKET

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals June 2016, the total number of house dwelling approvals in the Melbourne Statistical Division over the month decreased by 4.49% from 2,363 approvals in May to 2,257 approvals in June. In comparison to June 2015, there was a 15.39% growth in house dwelling approvals.

The total number of non-house dwelling approvals decreased by 0.15% to 2,607 dwelling approvals in June. Compared to the 2016 results, an increase of 39.11% was recorded.

The total number of approvals in the year to date was 27,870, portraying a year on year increase of 27% from June 2015. The dwelling approval figures analysed above showed a slowing down of residential development activity in the Melbourne market, with June figures portraying a third consecutive monthly decrease in total of house dwelling approvals, and a second consecutive monthly decrease in non-dwelling approvals.

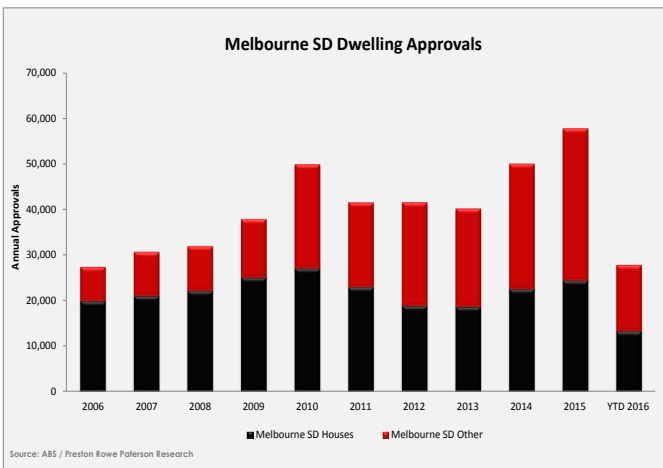


Chart 15 —Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

Market affordability figures for the June quarter 2016 are not available from the Real Estate Institute of Australia (REIA), however, we have used figures from the March quarter 2016 for our analysis.

According to the Real Estate Institute of Australia (REIA) December issue, the median house price in Melbourne had increased by 0.7% over the quarter to \$713,000. There is a variance in growth around the inner, middle and outer suburbs of Melbourne, with respective changes over the quarter of 0.2%, -0.9% and 0.5% for each zone. The median house prices as of the March quarter in Inner, Middle and Outer stands at \$1,256,500, \$827,500 and \$557,500 respectively.

The twelve months to March 2016 resulted in the most marked growth stemming from Inner Melbourne, at 16.3%, followed by Middle and Outer Melbourne with growths of 13.0% and 10.2% respectively.

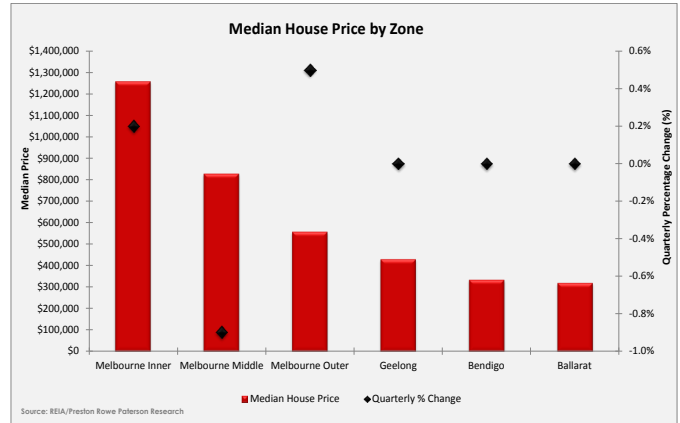


Chart 16 – Median House Price by Zone – Source REIA

Other dwellings median sale prices revealed negative results over the March quarter. There was a decrease of 1.8% in the median sales prices for other dwelling, in which it stands at \$525,500 as of March 2016. The largest decrease in prices stemmed from Other dwellings in Middle Melbourne, which dropped by 6.3% to a median price of \$556,500. Less striking decrease in growth came from the Inner and Outer zones of Melbourne, recording a decline of 0.8% and 0.9% respectively, to the current prices of \$555,500 and \$418,000.

Year on year analysis of Melbourne other dwellings revealed more positive results with growth across all zones. The highest annual growth was recorded in Outer Melbourne at 5.9%, followed by Middle Melbourne at 5.5% and Inner Melbourne at 2.6%.

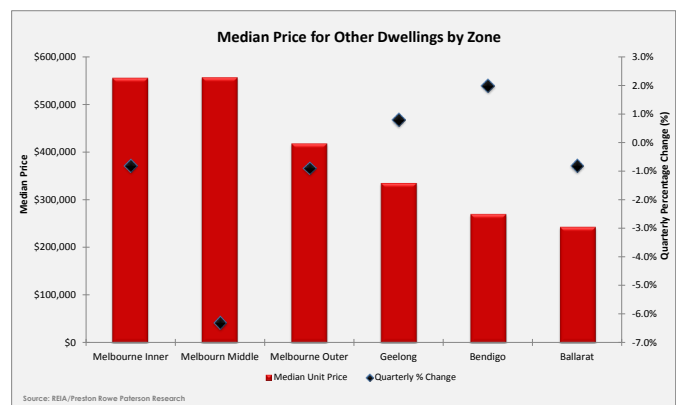


Chart 17 – Median Price for Other Dwellings by Zone – Source - REIA

Rental Market

Over the March quarter 2016, mainly positive results were recorded in the Melbourne house rental market. The only decrease in median weekly rents was recorded in the Outer Melbourne 2 bedroom house rents, which declined by 1.6% to a median weekly price of \$310.

The standout growth derived from 4 bedroom houses in Inner Melbourne, with a 15% jump in the quarter to a median weekly price of \$920 as of March. 2 and 3 bedroom houses in Inner Melbourne also fared well, with a respective growth of 3.8% and 4.4% to their median weekly prices of \$550 and \$710.

Middle Melbourne's 2 and 3 bedroom house rents increased by 2.4% and 4.3% respectively, to their March median prices of \$420 and \$480 per week. There was no growth in 4 bedroom rent prices for this zone, with median price per week remaining at \$600 per week.

Outer Melbourne recorded softer growths when compared to the other zones. No growth was recorded for the March quarter for 3 bedroom houses, remaining at a median price of \$350 per week. A 1.3% growth was recorded for 4 bedroom houses, increasing to a median price of \$400 per week.

Year on year analysis of median house rents in Melbourne revealed overall positive results. The largest annual increase in rent was noted in the Inner Melbourne 4 bedroom house (8.2%), with the lowest of 0% growth in Inner Melbourne's 2 bedroom houses.

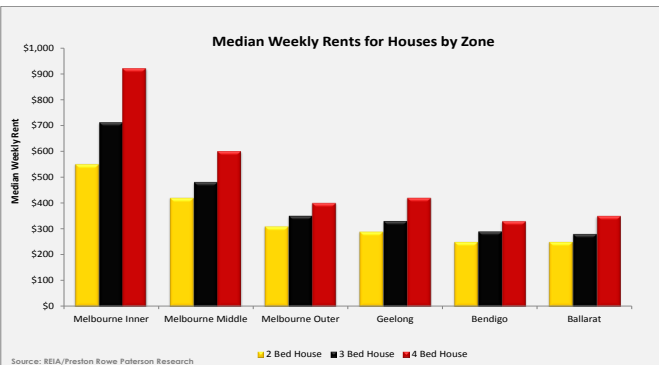


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

Other dwellings median weekly rentals recorded mixed results across the Melbourne zones in the quarter. The quarterly decrease in median weekly rents were recorded in the Middle Melbourne 1 bedroom of -5.2% (\$275), Outer Melbourne 1 bedroom of -4.0% (\$240) and Inner Melbourne 1 bedroom of -2.8% (\$350).

The highest other dwellings rental growth was Inner Melbourne's 3 bedroom by 3.6% to \$725. This is followed by Inner Melbourne's 2 bedroom, Outer Melbourne's 3 bedroom and Middle Melbourne's 2 bedroom rents which increased by 3.1% (\$500), 2.9% (\$360) and 1.3% respectively. Middle Melbourne's 3 bedroom other dwellings remained unchanged at the median weekly price of \$480.

Year on year analysis also revealed positive results in the other dwellings median weekly rents. The highest annual growth was recorded in the Outer Melbourne zones' other dwellings, with its 1, 2 and 3 bedroom weekly rent prices increasing by 4.3%, 5.0% and 4.3% respectively.

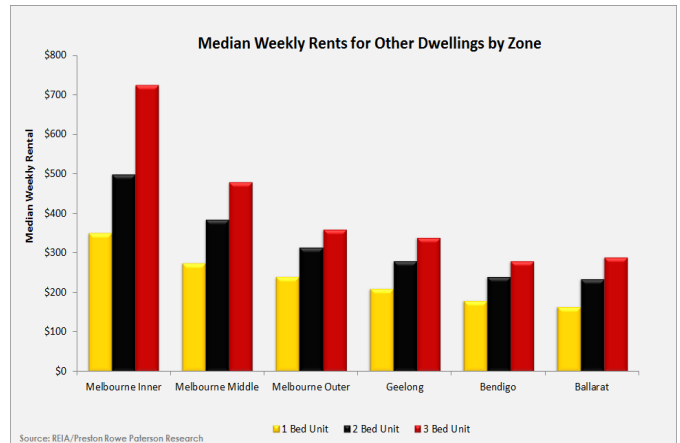


Chart 19 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA

GEELONG



Market Affordability

Over the March quarter, the median house price in the Geelong region remained unchanged at \$430,000. Other dwellings median sales price in the region increased by 0.8% over the quarter to \$335,000.

Rental Market

The 3 & 4 bedroom house median weekly rents in the Geelong region increased by 1.5% and 5% over the quarter to the median weekly rental of \$330 and \$420 respectively. 2 bedroom houses for rent in the region remained stable, at the median weekly price of \$290.

The rental prices for all other dwellings with 1,2, and 3 bedroom in Geelong remained stable over the quarter, at the median weekly prices of \$210, \$280 and \$340 respectively.

BENDIGO



Market Affordability

The median house prices in the Bendigo region recorded zero growth over the quarter, remaining at \$335,000. Over the same period, other dwelling median sales price in Bendigo increased by 2% to \$270,000.

Rental Market

The median weekly house rents in Bendigo largely remain unchanged in the quarter. The rents for 2 & 4 bedroom houses remained at \$250 and \$330 respectively. 3 bedroom rent increased by 1.8% to \$290.

Bendigo's 1 bedroom other dwellings increased by 12.5% over the quarter to a median weekly rent of \$180. Its 3 bedroom other dwellings increased by 3.7% over the quarter to \$280. The 2 bedrooms other dwellings median weekly price remained unchanged at \$240.

BALLARAT



Market Affordability

The median house sales price in the Ballarat region remained unchanged over the quarter at the median price of \$320,000. The quarterly median sales price for other dwellings in Ballarat decreased by 0.8%, down to a new price of \$243,000 for the March quarter.

Rental Market

The Ballarat house median weekly rents was had mixed growth over the quarter.

Ballarat's 2 bedroom house median weekly rents increased by 4.2% over the quarter, to \$250. The median weekly rent for 3 bedroom dwellings remained unchanged \$280, however the 4 bedroom weekly rent decreased by 2.8% to a new weekly rent of \$350 in the March quarter.

Mixed growth also prevailed in Ballarat's other dwellings, with negative growth of 2.9% in 1 bedroom rents albeit an increase of 3.6% and 1.3 % in growths for 3 and 2 bedroom rents, respectively. The weekly rents for 1,2 and 3 bedroom other dwelling for the March quarter in Ballarat are \$165, \$235 and \$290 respectively.

SPECIALIZED PROPERTY MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following specialized property transactions that occurred in Victoria during the June quarter 2016.

16-32 Leicester Street, Carlton, VIC 3053

Redefine Properties has acquired a car park from the Lim Family for **\$30 million**. The buyer will develop the 6-level car park on a 2,040 m2 site into a \$130 million, high-rise student accommodation complex with around 700 beds. The sale reflects a **rate of \$14,705.88 psm or about \$42,857.14 per bed**. Carlton is located around 1.9 km north-west of the Melbourne CBD.

370 Grubb Road, Wallington, VIC 3221

Lifestyle Communities has bought a site within the **Kingston Estate** for **\$12.6 million**. The company will likely be affordable housing for over-50s. Wallington is located around 94.3 km south-west of the Melbourne CBD.

670-690 Princes Highway, Berwick, VIC 3806

The **Berwick Brae Aged Care Facility** has been sold by *Pellicano* to *Royal Freemasons* for **over \$7 million**. The facility contains 66 homes that were built in 1982 and 10 brand-new independent-living apartments. The nine-acre property has some vacant land that has the potential for future development. The sale reflects a **rate of more than \$192.19 psm**. Berwick is located around 44.6 km south-east of Melbourne's CBD.



HOTEL & LEISURE

Investment Activity

Preston Rowe Paterson Research recorded the following hotel/leisure property transactions that occurred in Victoria during the June quarter 2016:

263 William Street, Melbourne, VIC 3000

Bobby Zagame has sold **The Metropolitan Hotel** to a private investor for **\$8.61 million** on a **yield of 2.38%**. The 637 m² of lettable area pub was built in 1834 and features a lounge downstairs, a modern rooftop bar and a refined bistro. The sale of the 370 m² site reflects a **rate of \$23,270.27 psm**.

1143-1153 Raglan Parade, Warrnambool, VIC 3280

The Rafferty's Tavern has been acquired by a private investor for **\$5.7 million** at auction. The 5,660 m² corner site is on a new 10-year lease with options to 2056. The pub comprises a public bar, 250-seat bistro, 19 gaming machines, commercial kitchen, bottleshop and new boutique bar. The 1,524 m² building was refurbished in 2013 and extended in March 2016. The sale reflects a **yield of 7.3%** and a **rate of \$1,007.07 psm**.

Warrnambool is located about 253 km south-west of the Melbourne CBD.

REGIONAL MARKET

Rural

1551 Lismore - Pitfield Road, Wallinduc, VIC 3351

Alastair Wills has paid **\$17 million** to Graeme Croft for a 2,200-hectare farm. The farm has been developed, renovated and extended by the previous owner. The rural property comprises 12,000 breeding ewes for lamb production, a cattle fattening system turning over 5,000 head per annum, a 350 sow piggery and around 750-hectares of crops. The purchaser is planning to return the farm to its initial purpose of pure cropping use. This will involve growing wheat, oats, barley and granola. The sale reflects a **rate of \$7,727.27 per hectare**. Wallinduc is located about 154 km west of the Melbourne CBD.

ECONOMIC FUNDAMENTALS

GDP

GDP figures for the June quarter 2016 are not available until the 7 September, however, over the March 2016 quarter revealed that the Australian economy recorded a seasonally adjusted quarterly growth of 1.1%, contributing to an annual seasonally adjusted growth of 3.1%.

In seasonally adjusted terms, year-on-year analysis to March quarter 2016 sees the main industry gross value added contributors to GDP being Mining (0.9%), Finance and insurance services (0.4%), Public administration and safety (0.3%), Construction (0.2%) and Retail trade (0.2%). On the other hand, manufacturing was the main contributor to a decline in growth, with a yearly decrease of 0.2%.

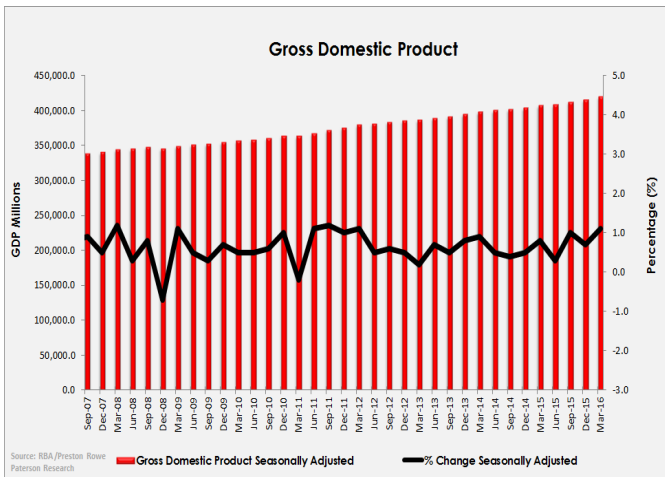


Chart 20 – Gross Domestic Product (GDP) – Source ABS

Interest Rate Movements

As at the date of publishing, the official Cash Rate for the month of June 2016 decreased by 25 basis points to 1.75%. The Reserve Bank of Australia's Media Release for June 2016, released on 7th June explained that:

"The global economy is continuing to grow, at a lower than average pace. Several advanced economies have recorded improved conditions over the past year, but conditions have become more difficult for a number of emerging market economies. China's growth rate moderated further in the first part of the year, though recent actions by Chinese policymakers are supporting the near-term outlook.

Commodity prices are above recent lows, but this follow very substantial declines over the past couple of years. Australia's terms of trade remain much lower than they had been in recent years... In Australia, recent data suggests overall growth is continuing, despite a very large decline in business investment. Other areas of domestic demand, as well as exports, have been expanding at a pace or above trend. Labour market indicators have been more mixed of late, but are consistent with continued expansion of employment in the near term."

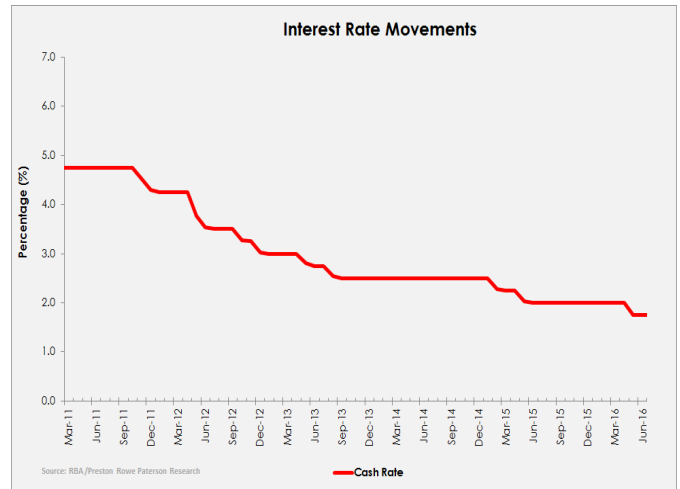


Chart 21 – Cash Rate – Source RBA

CPI

According to the Australian Bureau of Statistics (June 2016), Australia's All Groups CPI increased by 0.4% over the June quarter from 108.2 to 108.6. The annual CPI change to June 2016 recorded a growth of 1.0%, the weakest annual rise in CPI in seventeen years (since June quarter 1999).

The most significant price rises over the June quarter were Automotive fuel (+5.9%), Hospital services (+4.2%), Tobacco (+2.1%) and New dwelling purchases by owner-occupiers (+0.9%). The greatest price fall over the quarter stemmed from lower spending on Domestic holiday travels and accommodation (-3.7%), Motor vehicles (-1.3%), and Telecommunication equipment and services (-1.5%).

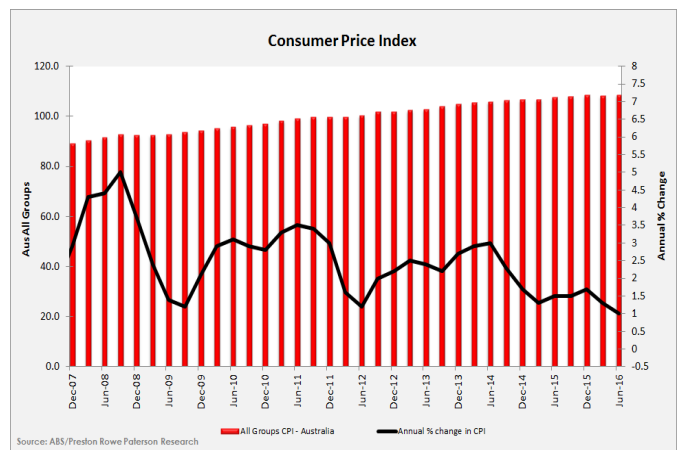


Chart 22– Consumer Price Index—Source—ABS

10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10 Year Government Bonds has revealed a 20 basis point decrease over the month of June to 2.12%. The 90 day bill rates had decreased by 2 basis points to the month end of 1.99%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of -11 basis points.

Over the June 2016 quarter, the 10 Year Government Bonds recorded a decrease of 45 basis points from 2.57%. The 90 Day Bill Rate recorded a decline of 32 basis points over the quarter from 2.31%.

In the twelve months to June 2016, the monthly 10 Year Bond Rate has increased by 86 basis points from 2.98%. Similarly, the monthly 90 Day Bill Rate rose by 16 basis points from 2.15%.

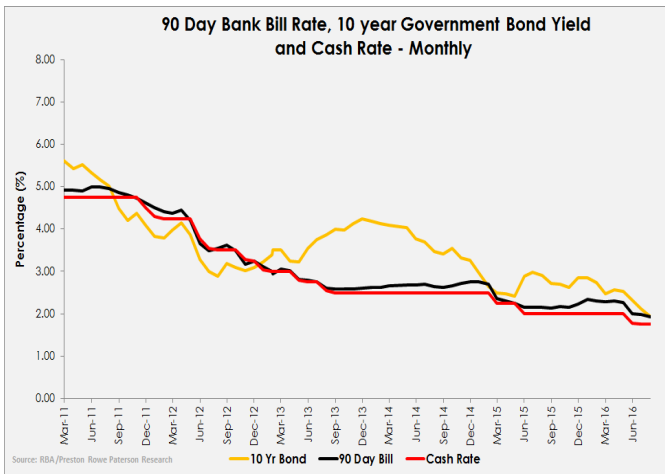


Chart 23 – 90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index dropped by 1% from 103.2 index points in May to 102.2 index points in June. Over the March quarter the index has decreased by 1.7 points and recorded 0.4% annual decline.

Westpac Senior Economist, Matthew Hassan, commented: "Coming after an 8.5% surge in May, the small decline in June most likely represents a consolidation at improved levels. Last month's surprise rate cut from the RBA was the main catalyst behind May's rally and although confidence has slipped back a touch in June this is a fairly common pattern following an interest rate driven bounce. At 102.2, the index is still in slightly 'positive' territory overall—recall that readings above 100 indicate optimists outnumber pessimists". (Westpac Melbourne Institute Survey, 15 June 2016).

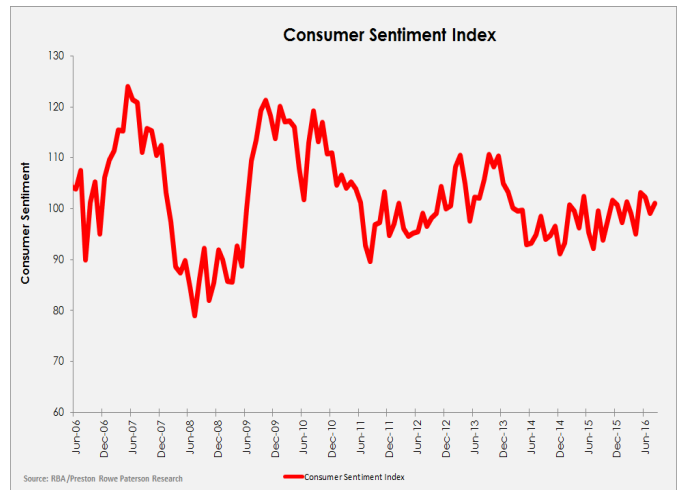


Chart 24 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Labour force

Over the month to June 2016, the number of unemployed people has declined by 199 from 726,135 in May to 725,935 in June, indicative of a decline of 0.03%. In comparison to June 2015, the number of unemployed people had decreased by 27,431 reflecting an annual decline of 3.64%. As of June 2016, the unemployment rate remains unchanged from the previous month at 5.7%.

The number of unemployed seeking full time employment recorded a decrease in June by 9,200 to 496,700 persons. However, the number of unemployed seeking part time employment increased over the month by 19,000 to 237,500 persons.

Victoria experienced a large absolute increase in seasonally adjusted employment by 24,600 persons to 3.041 million persons over the month of June. The unemployment status in Victoria, seasonally adjusted over month of June decreased by 0.1% to 5.7%.

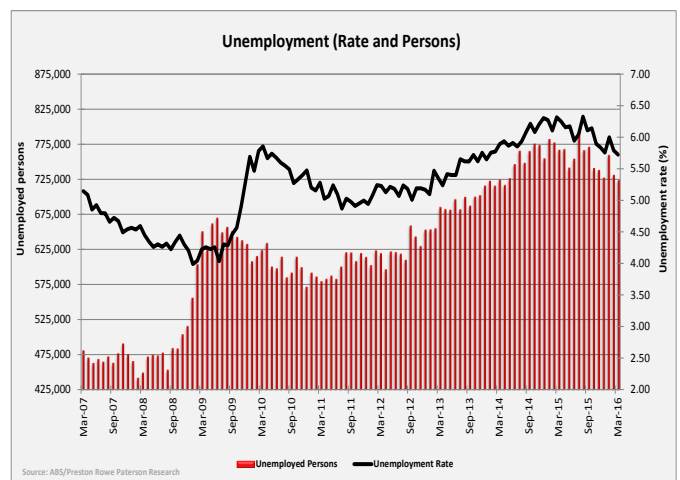


Chart 25 – Unemployment – Source ABS



Our Research

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

We have *property* covered

- . Investment
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- . Government
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- . 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:

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- . 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
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- . 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 & revaluations
- . Litigation support
- . Marketing & development strategies
- . Mortgage valuations
- . Property Management
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- . Relocation advice, strategies and consultancy
- . Rental assessments and determinations
- . Sensitivity analysis
- . Strategic property planning



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