



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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

March Quarter 2015

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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 March 2015.

424 St Kilda Road, Melbourne VIC 3000

The **Illoura Plaza** has been purchased by *Dongguan Huajian Property Investment* for **\$45 million**. The 6 storey property is a mixed office and retail complex. The property is earmarked for future residential development.

383 King Street, Melbourne VIC 3000

Haileybury College has purchased a 10-level office building from Singapore-listed *Aspial* for **\$52 million**. The 13,000 sqm property will be used as a new city campus for the privately run secondary school. The sale reflects a rate of \$4,000 psm.

23-31 Lincoln Square South, Carlton, VIC 3053

Singapore-listed *KLW Holdings* has bought a seven storey office building on the city fringe for **\$12.5 million**. The sale of the 3,745 sqm building reflects a rate of \$3,338 psm. The building is fully leased to *Victoria University* until late 2020. Carlton is located 2km north of the Melbourne CBD.

555 Swanston Street, Melbourne, VIC 3000

The **Maltstore** building on the former **CUB Brewery Site** has been sold to a private syndicate for **\$17 million**. The five storey building is currently undergoing refurbishment and consists of 3,334 sqm of retail and office space. The sale reflects a rate of \$5,098.98 psm.

410 Collins Street, Melbourne, VIC 3000

Vaughan Constructions has sold the Melbourne headquarters of *China Construction Bank* to a local private investor for **\$28.25 million**. The 14 level, B-grade office building was sold on an area record of \$7,200 psm at a **passing yield of 4.59%**.

446 Collins Street, Melbourne, VIC 3000

A private Asian investor has bought a partly vacant office building from the Cohen family for about **\$34 million on an initial yield of 4.47%**. The 11 storey property features short lease expiries and there are future plans for repositioning to attract new tenants.

600 Collins Street, Melbourne NSW 3000

A small group of investors with connections to Germany, China and Malaysia has acquired an 2,400 sqm four-storey retail and office building for **\$60 million** from private syndicator *Henkell Brothers Investment Management*. The sale reflects a rate of about \$25,000 psm and the **yield of about 3%**. The large site has significant development potential.

90 Maribyrnong Street, Footscray VIC 3011

Impact Investment Group has acquired a 4-level office building on a **yield of 13%** for **\$13.5 million**. The building comprises 7,300 sqm of floor space and the sale reflects a rate of \$1,849 psm. Footscray is located about 5km west of Melbourne's CBD.

415-417 Collins Street, Melbourne, VIC 3000

The founder of Melbourne construction firm *Probuild*, Phil Mehrten, former Probuild business partner and ex-AFL player Wayne Judson and fellow Probuild director Edward Yencken, have sold a three-level office building to a Chinese family for **\$8,888,888**. The property sold for \$2.5 million above reserve on a **yield of just 2.2%**. The partially vacant property sold at a rate of nearly \$10,300 psm of net lettable area.

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Melbourne CBD Office Market during the three months to March 2015;

700 Collins Street, Docklands, VIC 3008

Cromwell Property Group has secured Melbourne train operator, *Metro*, as a tenant in its Collins Street office tower in Docklands. *Metro* have signed a lease for 7,577 sqm of office space over levels 15, 16 and 17. The deal is worth more than \$3 million a year in net rent. The rental term had not yet been disclosed, but it is understood that *Metro* will pay a net rent of around **\$400 psm**, market incentive included, on a long term lease. Docklands is located 2 km west of Melbourne's CBD.

505 Little Collins Street, Melbourne VIC 3000

Education provider *Study Group* has snapped up office space from *Credit Suisse AG* in the heart of the CBD. *Study Group* will lease 6,700 sqm of office space for a **9.5 year term**. The lease was secured on a **\$300 psm** net rent deal.

399 Lonsdale Street, Melbourne, VIC 3000

A 4,760 sqm office space has been leased by education group *Australian Technical and Management College* at former **Taylor's House**. They will pay a gross annual rent of **\$400 psm** for five floors in the building on a **3-year lease**. The ground floor has recently been refurbished with three retail units.

555 Bourke Street, Melbourne, VIC 3000

Yarra Trams has leased 5,100 sqm of office space in Melbourne's CBD for **\$390 psm** net per annum.

Development Sites

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

The **City West – Police Complex** located on **313 Spencer Street** near **Docklands** will comprise of 27,500 sqm of office space spread across 10 levels at an average floorplate size of 2,100 sqm. The new Victorian Police HQ development will also have 230 sqm of retail space and incorporate 300 car spaces. The development co-owned by Cbus Property and Invesco is expected to be completed in the 1st quarter of 2015. The 15 storey A Grade office building will have a 5-star NABERS energy rating and a 4.5-star NABERS water rating.



Another new commercial development is the **567 Collins Street** project located at 559-587 Collins Street in the Spencer Street corridor. The Leighton Properties project is expected to be completed in the 3rd quarter of 2015. The commercial building comprise of 55,000 sqm of office space over 26 levels, 1,000 sqm of ground floor retail space, 162 car spaces and 5-star NABERS energy rating.



Supply by Grade (Stock)

The PCA Office Market Report January 2015 recorded that in the six months to January there was a new supply of 87,795 sqm of new supply which entered the Melbourne market which was offset by 18,311 sqm of withdrawal, resulting in a growth of 2.37% of the total Melbourne CBD Commercial Office market to 4,396,992 sqm.

A Grade office stock takes up almost half (48.7%) of the available office space in the Melbourne CBD. B Grade followed accounting for 20.9% of total office space and C Grade at 12.8%.

Premium Grade and D Grade office space did not record changes in the six months to January 2015. Premium Grade amounted to 14.9% of total office space whereas D Grade totalled to 2.8%.

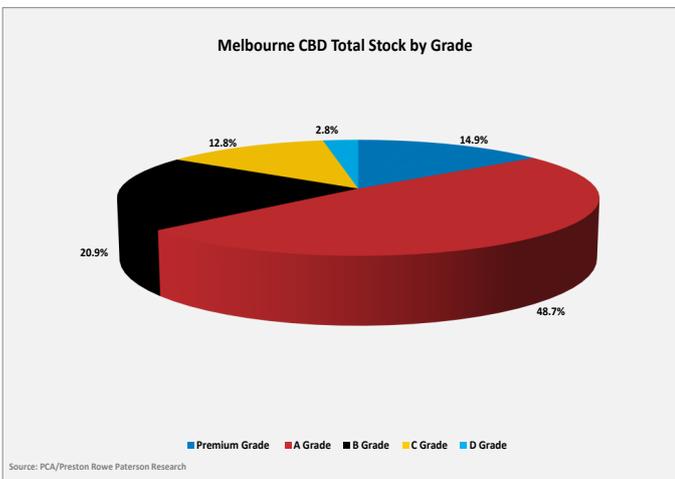


Chart 1 – Melbourne CBD Total Stock by Grade – Source PCA

Net Absorption

The Melbourne CBD office market recorded a total market net absorption of 67,212 sqm in the twelve months to January 2015. All grades of office space had recorded positive net absorption. The highest net absorption was recorded in A Grade offices, amounting to 22,711 sqm. Premium, B and D Grade stock reported 9,407 sqm, 12,711 sqm and 1,097 sqm net absorption respectively in the six months to January 2015. C Grade noted a negative stock absorption of -8,004 sqm.

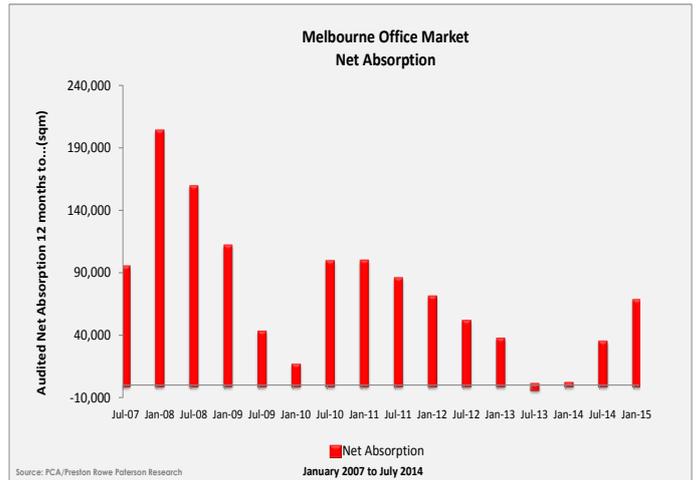


Chart 2 – Melbourne CBD Office Net Absorption - Source PCA

Total Vacancy

The Melbourne CBD office market recorded an increase of 0.6% in total vacancy to 9.1% in the six months to January 2015. Sub-lease vacancy accounted for 0.9% and direct vacancy was at 8.2%. The increase in vacancy reflects an increase in total vacant stock to 400,783 sqm of which 362,203 sqm is direct vacancy and 38,580 sqm is sub-lease vacancy.

Over six months to January 2015, mixed results were recorded in office stock vacancy rate. A Grade and C Grade office stock vacancy rate grew by 2% and 1.6% to 8.5% and 11.3% respectively. Premium, B and D Grade stock vacancy rate tightened to 5.1%, 12.5% and 2% respectively.

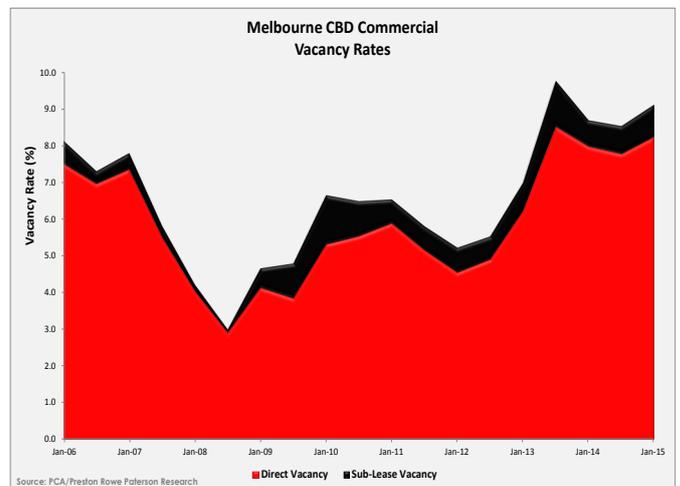


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA



East Melbourne CBD



Investment Activity

Preston Rowe Paterson Research recorded limited sales transactions that occurred in the East Melbourne CBD Office Market during the three months to March 2015.

61-71 Wellington Street & 37-39 Langridge Street, Collingwood VIC 3066

Cbus Property has paid a price of about **\$23 million** for a full city block in Collingwood. The 2,100 sqm site bounded by Wellington, Langridge, Cambridge and



Derby Streets, is situated within Collingwood's mixed-use "golden pocket". The "golden pocket" allows for high density development and is located just 1 km from the CBD. Cbus Property is expected to seek approval for an upmarket high-rise project of between 250 and 300 apartments that could have an end value exceeding \$250 million. The sale reflects rate of \$10,952.38 psm. Collingwood is located about 3km north-east of the Melbourne CBD.

Supply by Grade (Stock)

The PCA's Office Market Report January 2015 noted that the total East Melbourne office market did not receive any additional supply or withdrawals in the six months to January 2015. The East Melbourne total office stock amounts to 176,361 sqm.

The East Melbourne office market is dominated with B Grade stock which assume almost half (49.9%) of the total market share, followed by A Grade at 34.8%, C Grade at 10.4% and D Grade at 4.9%.

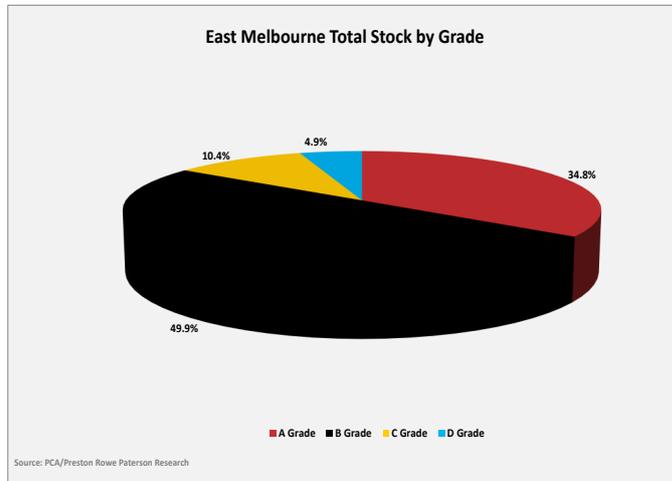


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

Net Absorption

The total East Melbourne office market recorded a positive absorption of 903 sqm in the 12 months to January 2015.

In the six months to January 2015, positive net absorption was recorded across all grades. The highest net absorption was recorded in the B Grade office stock absorption of 1,276 sqm and A Grade stock saw a net absorption of 902 sqm.

C and D Grade did not report any office stock absorption in the six months to January 2015.

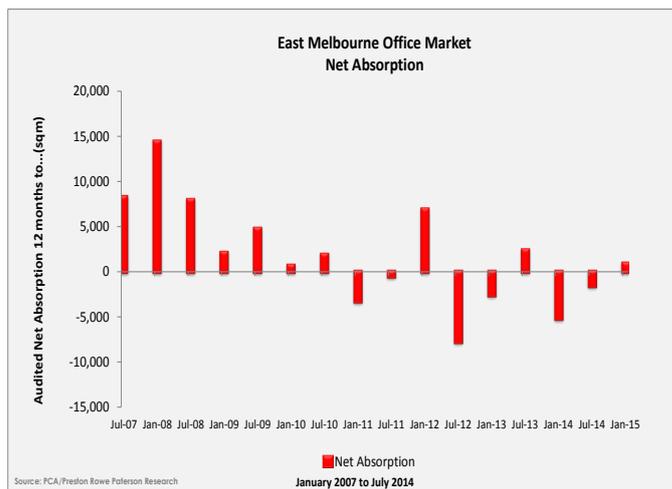


Chart 5 – East Melbourne Office Net Absorption – Source PCA

Total Vacancy

As at January 2015, the East Melbourne's office total vacancy rate is 1.4%, which translates to 2,402 sqm of vacancy. Total vacancy rate has decreased by 0.7% in the past six months to January 2015. All office vacancy is attributed to direct vacancy.

A and B Grade office stock recorded a tightening of vacancy to a rate of 1.1% and 1.3% respectively. C Grade stock recorded no vacancy available as at January 2015. D Grade had reported a 6.2% growth in vacancy to 6.8%.

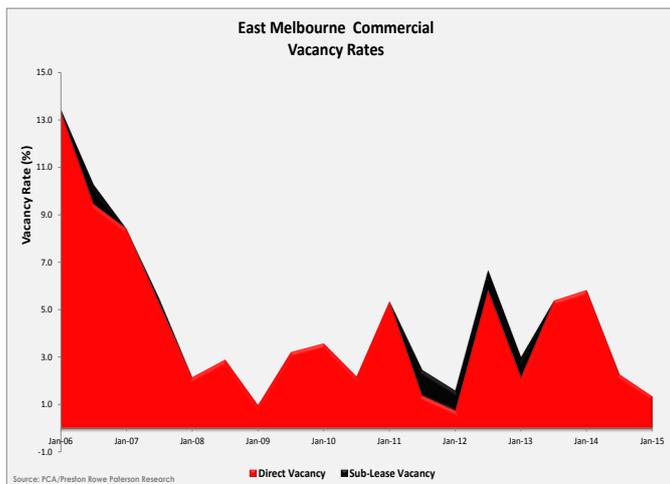


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

Southbank



Investment Activity

Preston Rowe Paterson Research recorded only one sales transaction that occurred in the Southbank Office Market during the three months to March 2015.

627 Chapel Street, South Yarra, VIC 3141

Fridcorp, a Melbourne-based private developer has snapped up an office building for around **\$40 million**, says market sources. The prominent six-level office tower was acquired from private investors the *Henkell Brothers*. The 2,000 sqm site reflects a rate of \$6,666.67 psm, and has an additional 6,000 sqm of space. The building is *Fridcorp*'s headquarters. South Yarra is located about 6 km south-east of the Melbourne CBD.



Supply by Grade (Stock)

In the six months to January 2015, the PCA's Office Market Report January 2015 recorded that the total Southbank office market did not receive any additional supply. There was, however, approximately 5,103 sqm office space withdrawal from the market, bringing the total Southbank office stock down to 422,353 sqm.

The office stock in the Southbank market is predominantly A Grade spaces which assumes 59.5% of the total office stock. B Grade accounted for 26.2% and C Grade office stock fell by 4,170 sqm to amount to 13.5% of total market share. There was only 0.7% of the Southbank office stock that was classified as D Grade.

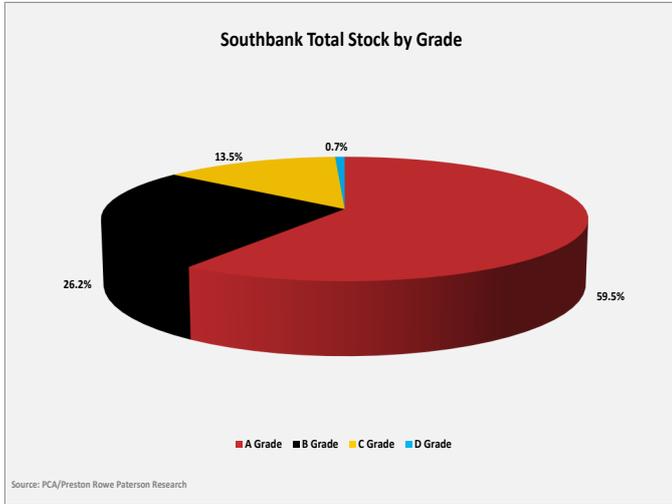


Chart 7 – Southbank Total Stock by Grade – Source PCA

Total Vacancy

The overall office vacancy in Southbank has tightened to 6.2% in the six months to January 2015. Direct vacancy tightened by 0.4% to 4.7% and sub-lease vacancy fell to 1.4%.

There was a general decline in vacancy rates across all grade of office space, except for B Grade which recorded a 3% vacancy rate growth to 9.5%. A Grade and C Grade office space reported vacancy rates of 4.5% and 7.3% respectively. D Grade office space recorded no observable vacancy.

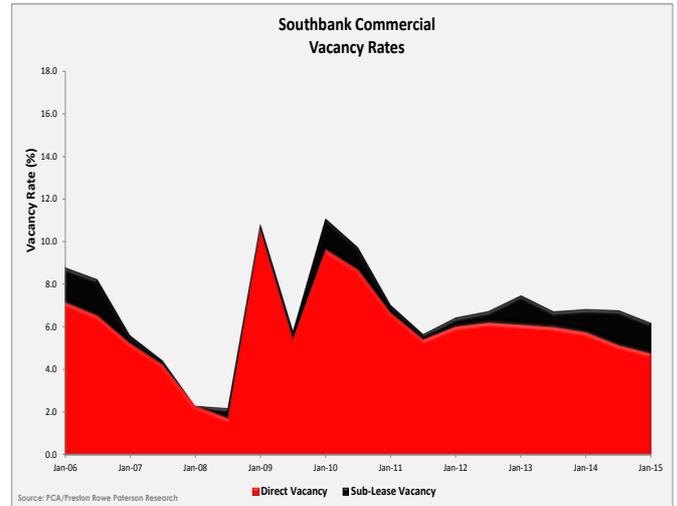


Chart 9 – Southbank Commercial Vacancy Rates – Source PCA

Net Absorption

The total market net absorption in Southbank was –5,923 sqm in the twelve months to January 2015. The market net absorption was generally positive in the six months to January. The only negative absorption was recorded in the B Grade office stock at –3,248 sqm.

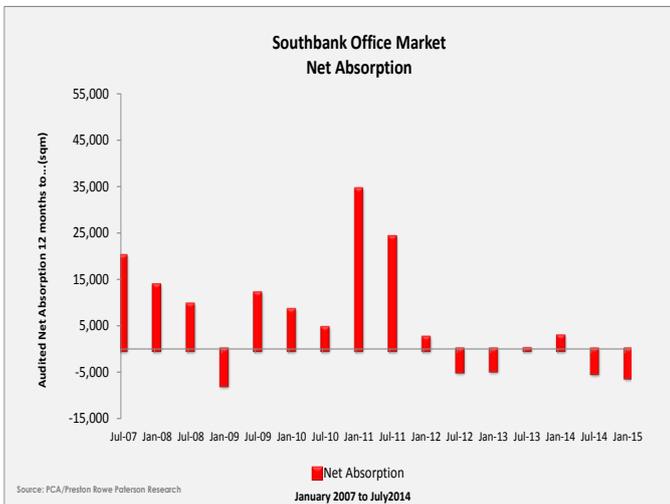
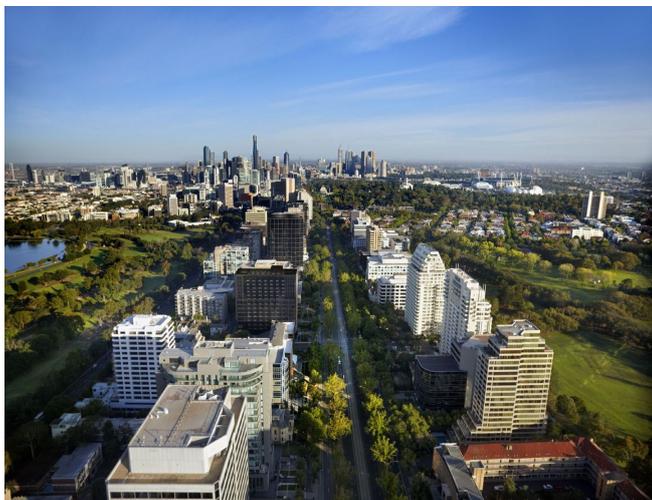


Chart 8 – Southbank Office Net Absorption – Source PCA

St Kilda Road



Supply by Grade (Stock)

According to the PCA Office Market Report January 2015, the St Kilda Road total office market recorded 2,000 sqm office space withdrawal in the six months to January 2015. Total office stock in the St Kilda Road market recorded a total office space of 735,476 sqm.

The only observable movement in the St Kilda office stock was the withdrawal of 2,000sqm of C Grade office stock, reducing a market share of 21.2%. Other grades of office did not change; A Grade remained at 33.4%, B Grade at 44.7% and D Grade at 0.8%.

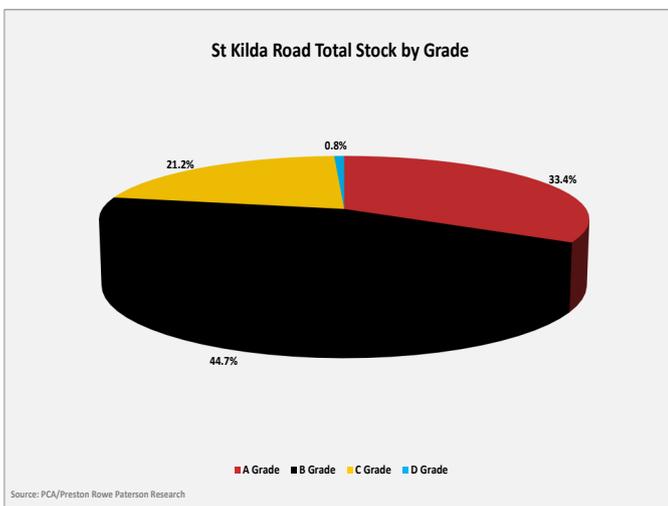


Chart 10 – St Kilda Road Total Stock by Grade – Source PCA

Net Absorption

Market net absorption in the St Kilda office market recorded a positive absorption of 11,182 sqm in the twelve months to January 2015. B Grade office absorbed the highest amount of floor space at 8,619 sqm net absorption in the six months to January.

D Grade measured 275 sqm of absorption. A Grade recorded the highest negative absorption rate of –1,631 sqm. C Grade office reported a –7 sqm net absorption.

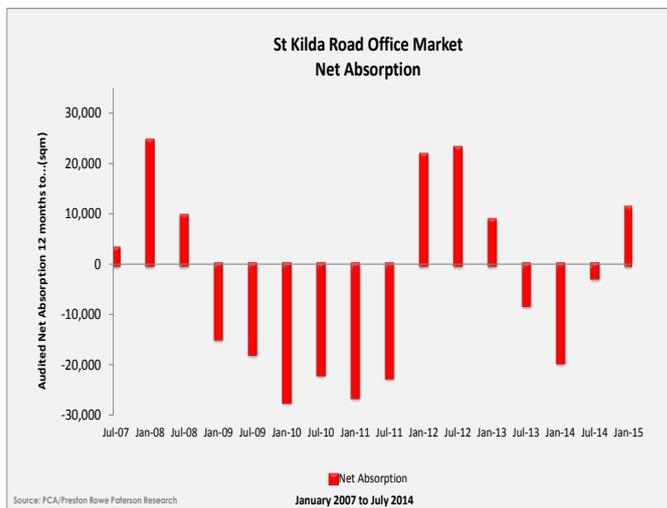


Chart 11 – St Kilda Road Office Net Absorption - PCA

Total Vacancy

The total vacancy in the St Kilda Road office market had tightened by –1.2% to 9.8% in the past six months to January 2015. The total vacancy rate is split into 8.3% of direct vacancy and 1.5% of sub-lease vacancy. The total vacant stock in the St Kilda Road market amounts to 71,886 sqm.

All grades of office stock recorded a decrease in vacancy, except for A Grade which grew by 0.7% to 9.2% vacancy as at January 2015. The largest fall in vacancy was in D Grade with a –4.9% decrease to 2.4%, followed by B Grade and C Grade vacancy reduced by –2.6% and –1.1% to 9.3% and 12% respectively.

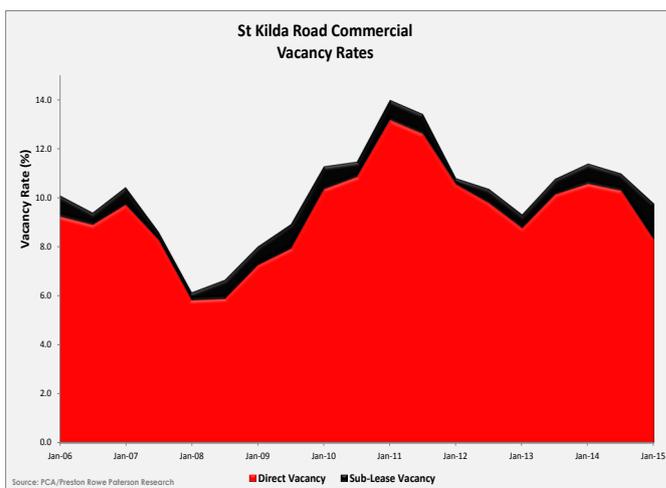


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA



Retail Market



Investment Activity

Preston Rowe Paterson Research recorded the following retail transactions that occurred in the Melbourne metropolitan area during the March quarter 2015;

52-62 Old Princes Highway, Beaconsfield VIC 3807

The **Beaconsfield Hub** retail centre was sold to a private investor for **\$7.4 million**. The 1,883 sqm bulky goods centre comprise of 8 retail spaces and 71 car spaces. Beaconsfield is located about 46km south-east of the Melbourne CBD.



601 Victoria Street, Richmond VIC 3121

A Sydney investor has purchased a 1,176 sqm retail property for **\$6.5 million**. The property was sold subject to a 10 year lease to **1st Choice Liquor** store. The store is at the base of a new apartment building developed by **Salvo Property Group**. Richmond is located 3km south-east of the Melbourne CBD.

31-43 Puckle Street, Moonee Ponds VIC 3039

A Melbourne investor has purchased a retail property for **\$8.3 million** on a tight **yield of 3.9%**. The 1,202 sqm property features a retail arcade with 14 ground floor shops and a gym. The 1,900 sqm site has the potential for development. Moonee Ponds is located approximately 7km north-west from Melbourne's CBD.

401-415 Maroondah Highway, Croydon North, VIC 3136

A private investor has paid **\$13.3 million** for the **Maroondah Village Shopping Centre** on a **passing yield of 5.4%**. The 3,092 sqm centre is anchored by **Coles** with 11 specialty stores and 113 car spaces. The sale reflects a rate of \$4,301 psm. Croydon North is located 36.1 km north-west of the Melbourne CBD.



Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Melbourne Retail Market during the three months to March 2015;

27-29 Nepean Highway, Mentone, VIC 3194

Discount supermarket **Aldi** has pre-committed to leasing space in a \$40 million new large format bulky goods retail centre. A 12,500 sqm retail centre is currently under construction and more than 80% of the development has pre-committed tenants such as **Pet Barn**, **Tasman Meats**, **Spotlight** and **Amart Sports**. The tenants will trade alongside the existing Bunnings Mentone store. Aldi's rent is unknown, however rents in the complex range from **\$200 to \$300 psm** with incentives from 8-12%. Mentone is located around 22 km south-east of the CBD.



Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (March 2015), the retail turnover figures recorded in Victoria produced varied results. The total retail turnover in Victoria remained unchanged over the month of March 2015, with an annual retail turnover growth of 4.74% to turnover of \$5,980.6 million.

The Victorian retail market experienced positive growth over the March quarter of 1.66%.

Cafes, restaurants and takeaway food services recorded the worst decline of -3.42% at \$746.1 million monthly turnover. Household goods retailing revealed a small decrease of -1.63% to the monthly turnover of \$1,091 million.

The largest growth in retail turnover is the Department store retailing which grew by 5.28% in March to monthly turnover of \$372.6 million. Clothing, footwear and personal accessory retailing increased by 2.21% to a monthly turnover of \$513 million, Other retailing rise by 1.93% to \$870.5 million and Food retailing grew by 0.33% to \$2,387.4 million.



Chart 13 – Victoria Retail Turnover – Source ABS

An analysis of the six retail industries revealed positive turnover results with all categories recording growth over the year to March 2015.

The most marked growth was in Other retailing (10.98%) and Household goods retail (10.46%) followed by Department stores (6.21%), Cafes, restaurants and takeaway food services (7.12%), Other retailing (2.4%), Food retailing (1.59%) and Clothing, footwear and personal accessory retailing (0.98%).

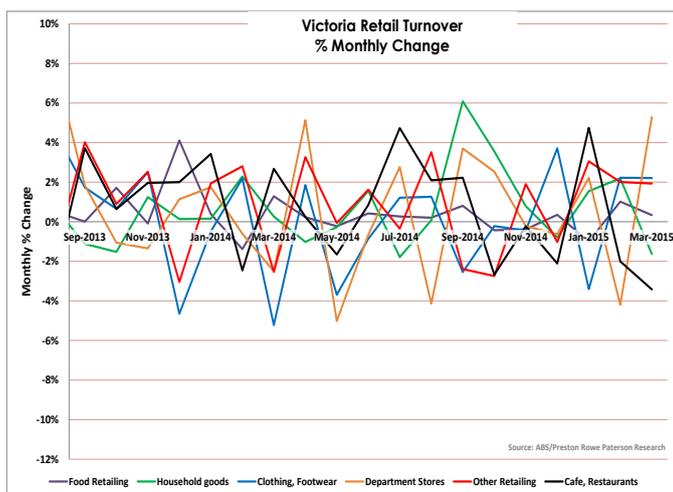


Chart 14 – Victoria Turnover % Monthly Change – Source ABS

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 March 2015;

67 Calarco Drive, Derrimut, VIC 3030

Investec Australia Property Fund has paid **\$8.1 million** for an industrial investment. The property includes 7,149 sqm of warehouse space and presents an initial **yield of 7.73%** or **7.25%** after all transaction costs. The majority of the properties income (93%) comes from a lease to *Groundmaster Engineering*, the remaining income comes from an advertising hoarding which fronts the Western Freeway. Derrimut is located around 30 km north-west of Melbourne's CBD.

72-76 Cherry Lane, Laverton North VIC 3026

Stockland has purchased a 9.8 ha industrial facility from the logistics company *Toll Group* for **\$29 million** on an **initial yield of 7.8%**. The facility features a 20,500 sqm warehouse area and about 4.5 ha of hardstand area.

Canterbury Road, Braeside, VIC 3195

A Melbourne developer has purchased a 23.29 ha industrial subdivision site for **\$6.5 million**. This sale reflects a **rate per m2 of \$279.09**. The block is close to the EastLink and the surrounding bayside suburbs. Braeside is around 44km south-east of the Melbourne CBD.

81-125 Princess Highway, Dandenong South, VIC 3164

Perth-based investment company and syndicator *Warrington Property* has acquired three warehouses on the former *Holden* manufacturing estate 'Estate One' from *Cbus Property* for **\$39.3 million**. The 33.7 ha property comprise of three modern industrial facilities measuring 27,919 sqm, reflecting a sales rate of \$1,407.64 psm. The facilities are leased to automotive parts group *GPI*, transport company *CEVA* and *Australia Meat Holdings*. The property's total net income is about \$6.7 million – reflecting a sales **yield of 7.7%**. Dandenong South is located 40km south-east of the Melbourne CBD.



90 Mills Road, Braeside, VIC 3195

An industrial asset in Victoria has been sold to *Propertylink* and investment bank *Moelis*' *Significant Investment Visa* for **\$36.6 million**. The 40,000 sqm **Kingston Distribution Centre** is located within the **Woodlands Industrial Estate** and is fully leased to logistics, warehousing and distribution firm *Simon National Carriers*. The sale reflects a rate of \$915 psm and an **acquisition yield of 7.9%**. Braeside is located about 33 km south-west of the Melbourne CBD.



1-3 Como Street, Malvern, VIC 3144

A local developer had bought an industrial property for **\$6 million** with plans for a medium density residential development. The property sits on a 934 m² land holding, reflecting a rate per m² of **\$6,423.98**.

Malvern is located 11 km south-east 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 March 2015;

8 Saintry Drive, Truganina, VIC 3029

Australand has committed to purchase a \$1 million a year leasing deal in Melbourne's western industrial market. The newly built facility in the **Westpark Industrial Estate** is a 14,000 sqm warehouse leased by the logistics and warehousing company *Fastline*. Fastline will pay about **\$75 psm** on a **12-year deal**. The entire Industrial Estate measures about 290 ha and some tenants include, *Australia Post*, *Catch of the Day* and *Mitre 10*. The western precinct has continued to see a tightening in the vacancy rate in recent months with a 6% reduction over the past six months. The industrial estate is located within 30km south-west to the Melbourne city centre.

4 Saligna Drive, Tullamarine VIC 3029

Hazard Systems has secured a lease on a freehold industrial property for **2 years** on a net annual rent of \$140,000, **\$94.34 psm**. The property comprise of 941 sqm warehouse space and 543 sqm office space. The property is located within close proximity to the Melbourne International Airport and has direct access to the Tullamarine Freeway. Tullamarine is located about 17km north-west of Melbourne's CBD.

400 City Road, Southbank, VIC 3006

Christian megachurch and music group *Planetshakers* for an office and warehouse property. Planetshakers has leased almost 9,000 sqm of space from India-based landlord *DEC* on a **5+5 years** deal. This lease reflects a rate of **\$111.11 psm**. The premises will be used as a head office incorporating an auditorium, recording studio, school, play centre and café. The property consists of a refurbished four-level office warehouse with on-site car parking and three street frontages. Southbank is located 1km south-west of the Melbourne CBD.



49 Calarco Drive, Derrimut, VIC 3030

Umicore, a materials manufacturer, and *Blackwood Downs* have agreed to a **3 year leasing deal** that will allow Umicore to relocate its operations from Tottenham to take advantage of superior freeway infrastructure in Derrimut. The site will be used for manufacturing, storing and distributing zinc and Umicore will pay a gross annual **rent of \$75 psm**. Derrimut is located about 23km north-west of the Melbourne CBD.

18-34 Aylesbury Drive, Altona North, VIC 3025

Australia's biggest vacuum and cleaning retailer, *Godfreys*, has leased a new warehouse for \$1 million-a-year from *Australand*. The 12,370 sqm facility reflects a rental rate of **\$80.84 psm**. The deal is for a **10 year lease** plus options. Godfreys will relocate from its recently rezoned premises in Port Melbourne when the building has finished construction later this month. Altona North is located 14km south-west of the Melbourne CBD.

31 Technology Circuit, Hallam, VIC 3803

Air-conditioning supplier *Cool Breeze Rentals* has agreed to a lease deal for a warehouse and office at the **Hallam Central Business Park** to accommodate expansion. Cool Breeze will pay a net annual rent of \$160,640 for the 2,008 sqm property, reflecting a rental rate of **\$80 psm**. The site includes a 1,704 sqm high-clearance warehouse and a 304 sqm with the lease term being for **5 years**. Hallam is located around 39.7 km south-east of the Melbourne CBD.

Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals March 2015, the total number of house dwelling approvals in the Melbourne Statistical Division over the month has increased by 4.12% from 2,040 approvals in February to 2,124 approvals in March. In comparison to March 2014, there was a 19.26% growth to house dwelling approvals.

The total number of non-house dwelling approvals had tightened greatly by -31.54% to 2,453 dwelling approvals in March. This reflects an annual growth of 63.42%

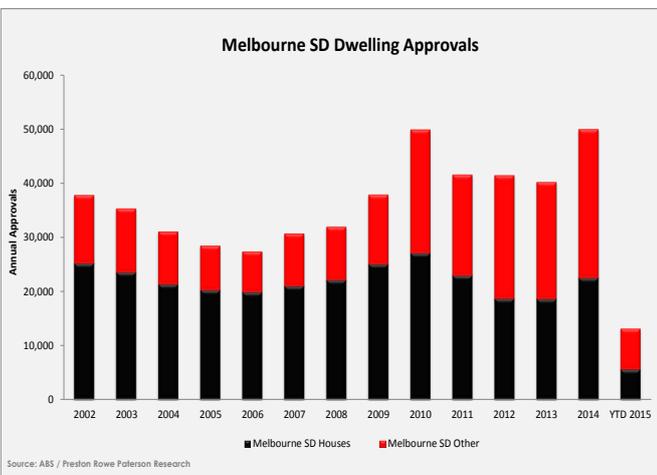


Chart 15—Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

According to the Real Estate Institute of Australia (REIA) December issue, the median house price in Melbourne has increased by 5.3% to \$669,000 over the quarter. All zones of Melbourne house prices recorded an increase in median sales price during this period. The highest median house price growth was recorded in the Inner Melbourne where it grew by 5.6% to \$1,093,500. Middle and Outer Melbourne house prices increased by 4.8% and 4.2% to \$759,000 and \$505,000 respectively.

Geelong was the only regional city to record a decrease in median house sales price to \$408,000 (-0.5%). Ballarat sales price grew by 2.3% to \$307,000 and Bendigo sales price increased by 0.6% to \$334,500.

Over the twelve months to December 2014, the most marked growth in Victoria was experienced in Middle Melbourne at 13.2%, followed by Inner Melbourne (11.7%), Outer Melbourne (8.9%), Bendigo (4.5%) and Ballarat (4.1%). Geelong house sales price experienced a year decline of -0.5%.

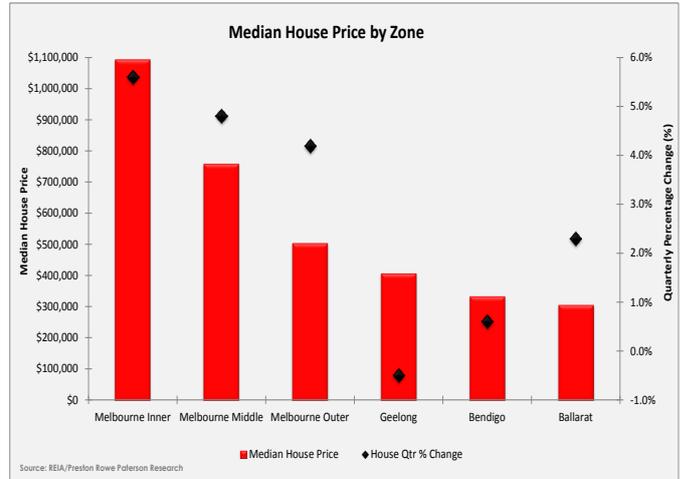


Chart 16 – Median House Price by Zone – Source REIA

Other Dwelling median sale prices revealed positive results over the December quarter, with the only decline attributed to Inner Melbourne at \$540,500 (-0.3%). The largest growth in other dwelling median sales price was recorded in Outer Melbourne which increased by 4.6% to \$406,000, followed by Bendigo at \$250,000 (2%), Geelong at \$330,000 (1.5%) and Middle Melbourne at \$556,500 (1%). The Ballarat other dwelling median sales price remain unchanged at \$245,000.

Year on year analysis of Victorian Other Dwellings revealed growth across all residential zones except for Ballarat which fell by -1%. Inner, Middle and Outer Melbourne zones experienced an annual growth of 4%, 7.2% and 7.4% respectively. Geelong reported an annual growth of 4.8% and Bendigo recorded 4%.



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

Rental Market

Over the December quarter 2014, mixed results were recorded in the Victorian house rental market. The overall Melbourne house rental market had been relatively stable, especially in Middle & Outer Melbourne where 2 and 3 bedroom houses noted no change to weekly median rents of \$400 and \$450, \$300 and \$330 respectively. The largest quarterly growth in the Melbourne market was the Middle Melbourne 4 bedroom house rent at 5.1% to \$620.

Year on year analysis of median house rents in Victoria revealed growth in all Melbourne zones except for Bendigo which recorded a tightening of rents across all types of houses. The Bendigo house rents fell by -2% for 2 bedroom (\$250), -1.7% for 3 bedroom (\$285) and -2.9% for 4 bedroom (\$330).

The highest growth recorded over the year to December 2014 was the Middle Melbourne 4 bedroom rent, increased by 8.8% to a median weekly rent of \$620.

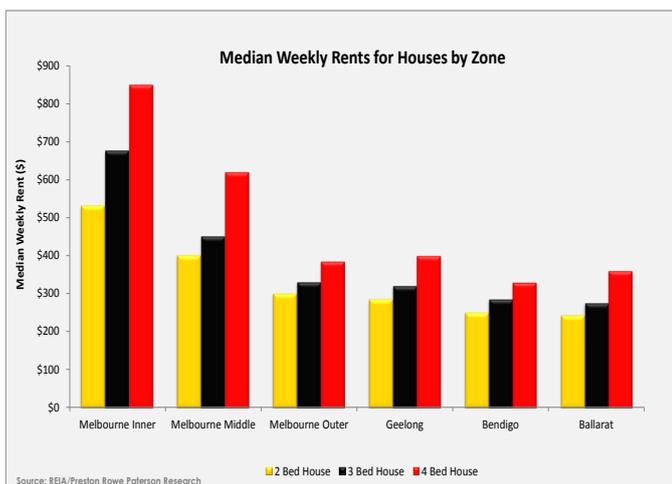


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

Other Dwellings median weekly rentals recorded mixed results across the Melbourne zones. Most of the Melbourne other dwelling median weekly rents remained unchanged in the December quarter. The Middle Melbourne 3 bedroom and Outer Melbourne 1 bedroom other dwelling has recorded a quarterly rental growth of 1.1% and 2.1% to a median weekly rent of \$460 and \$240 respectively.

Quarterly decreases in median weekly rent were reported in the Inner Melbourne 2 & 3 bedroom and Middle Melbourne 2 bedroom other dwellings at -2.1% (\$470), -3.6% (\$675) and -1.4% (\$360) respectively.

In the regional areas, Geelong median weekly rents remained unchanged at \$200 for 1 bedroom, \$270 for 2 bedroom and \$300 for 3 bedroom. Ballarat median weekly rents all grew by 3.2% (\$160), 4.4% (\$235) and 3.3% (\$280).

Year on year analysis have revealed relatively positive results in the median weekly rents. Declines were attributed to the regional areas of Geelong 3 bedroom and Bendigo 2 & 3 bedroom other dwellings which fell by -2.9%, -4.2% and -3.4% to weekly rents of \$330, \$230 and \$280 respectively.

The highest annual growth was realised in the Outer Melbourne 1 bedroom other dwelling as it grew by 9.1%. This was followed by Bendigo 1 bedroom (4.8%), Inner Melbourne 3 bedroom (3.8%), Outer Melbourne 2 & 3 bedroom (3.4% and 3%). Middle Melbourne 3 bedroom and Ballarat 2 bedroom other dwellings both recorded a rental growth of 2.2%, and Middle Melbourne 1 bedroom rent increased by 1.9%.

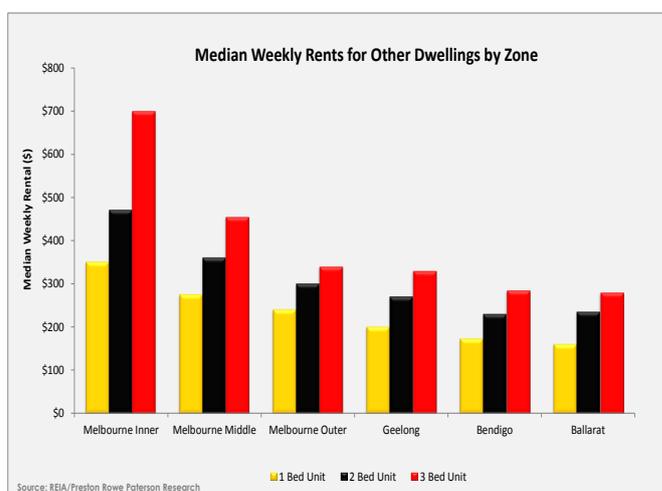


Chart 19 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA



Hotel & Leisure

Investment Activity

Preston Rowe Paterson Research recorded the following hotel/leisure property transactions that occurred in Victoria during the March quarter 2015;

95 Beach Road, Mentone, VIC, 3194

The **Mentone Hotel** in Melbourne's south-east has been bought by local developer *Momentum Developments* for about **\$9 million**. Momentum is considering a range of development options for the historic pub, 5,103 sqm site, that overlooks Port Phillip Bay. The sale reflects a **rate of \$1,763.67 psm**. Mentone is located 21km south-east of the Melbourne CBD.



Specialized Properties

Investment Activity

Preston Rowe Paterson Research recorded the following specialized property transactions that occurred in Victoria during the March quarter 2015;

20 Vantage Avenue, Clyde North VIC 3978

A private investor has purchased a childcare centre for **\$3.25 million** on a **yield of about 7%**. The property has a pre-lease to *Eclipse Early Education Group* on a 10 year term at an annual net rent of \$227,500. The property was sold off the market and is the second Eclipse-leased centre acquired by the same investor.



Regional Market

Preston Rowe Paterson Research recorded the following sales transactions that occurred in regional Victoria during the three months to March 2015;

Commercial

581-583 Napier Street, Bendigo VIC 3550

A modern, single-storey, freestanding office property was sold for **\$3.82 million**. The 775 sqm building is built 8 years ago and is leased to *Bendigo Bank* servicing as the national network and head office. The bank pays an annual rent of \$235,115 on a 20 year lease to 2026 plus options to 2046. The sale reflects an **initial yield of 6.15%**. The building sits on a large 2,515 sqm site which has direct access to the Midland Highway and is located adjacent to *BP* service station and *McDonald's* fast food retail. Bendigo is located about 150km north-west of Melbourne.



Retail

58-62 Hamilton Street, Horsham VIC 3400

An Adelaide investor has sold the single-level retail property was sold to a local investor for **\$4.3 million**. The property is fully leased to two long-term tenants, *Commonwealth Bank* and *Cheap as Chips*. The 2,120 sqm property attracts an annual return of \$408,726, showing an **equated yield of 9.51%**. Horsham is located approximately 300km north-west of the Melbourne CBD.

179-185 Allan Street, Kyabram VIC 3620

A leased retail property has been sold at an auction for **\$2.01 million**. The property has 1,271 sqm of net lettable area over two levels, which has been refurbished, is leased to *Wesfarmer's* subsidiary *Target Country* on a 10 + 5 + 5 year lease to March 2034. The annual rent is approximately \$140,000 which reflects an **initial yield of 6.97%** on the sale. The property located in the central business strip of Kyabram and is adjoined to the newly redeveloped Woolworths supermarket. Kyabram is located about 40km west of the regional city of Shepparton and 200km north of Melbourne.



Specialized Property

71-73 Midland Highway, Epsom VIC 3551

A medical centre was sold at an auction for **\$1.706 million on an initial yield of 6.64%**. The property features a modern medical centre on a 951 sqm site with highway frontage, pylon signage and has onsite parking for up to 46 cars. The Tristar Medical Group leases the 445 sqm medical centre on a 12 year lease to 2021 plus options. The annual rent is approximately \$113,886. The property is located close to the new Bunnings Warehouse and Epsom Shopping Centre. Epsom is located approximately 7km north of the city of Bendigo, and about 160km north-west of Melbourne.



Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the regional Victoria during the three months to March 2015;

Retail

Rossack Drive, Waurin Ponds, VIC 3216

Ashpark Nominees has leased a 1,000 sqm retail space to automotive retailer *Autobarn* on a **7-year deal**. Autobarn will pay a net annual rent of **\$205 psm**. The **Waurin Ponds Plaza** that has recently been renovated and also houses *Petbarn*, *Boating Camping and Fishing* and *Furniture Galore*. Waurin Ponds is located around 85 km south-west of the Melbourne CBD.



Economic Fundamentals

GDP

GDP figures for the March quarter 2015 are not available until the 3rd June 2015, however, over the December 2014 quarter revealed that the Australian economy recorded growth of 0.55% seasonally adjusted which reflected growth of 2.47% seasonally adjusted over the twelve months to December 2013.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.5%), Financial and insurance services (+0.5%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was the Professional, scientific and technical services (-0.5%).

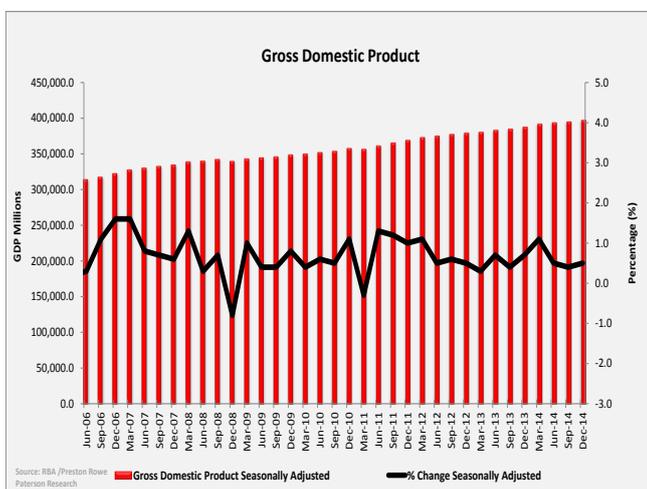


Chart 20 – Gross Domestic Product (GDP) – Source ABS

Labour force

Over the month to March 2015, the number of unemployed people decreased by 1,530 from 766,038 in February to 759,156 in March which is a 0.20% decrease. In comparison to March 2014, the number of unemployed people has increased by 42,327 which reflected an annual increase of 5.90%. The unemployment rate as at March 2015 is 6.2%.

The number of unemployed seeking full time employment recorded an increase over the month of March by 700 to 546,800 persons, reflecting a growth of 0.13%. The number of unemployed seeking part time employment recorded a decrease over the month by 2,200 to 217,700 persons, reflecting a decrease of 1.05%.

Victoria experienced an absolute increase in seasonally adjusted employment by 12,237 persons to 2,959.2 million persons. The unemployment status in Victoria over the March quarter decreased by 0.3% to 6.1%.

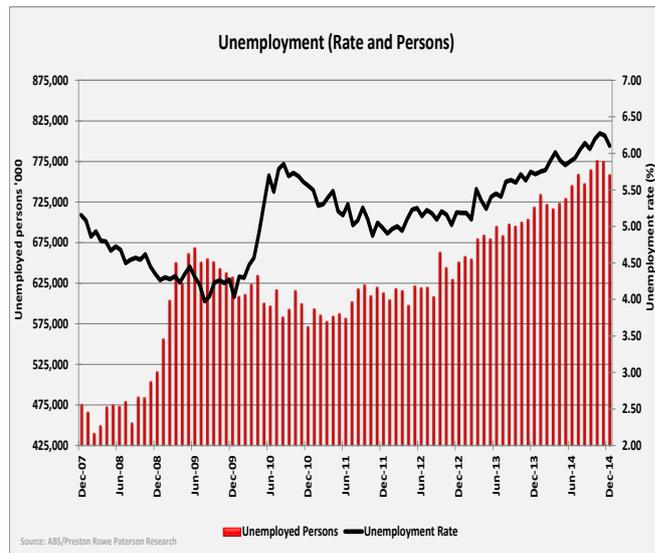


Chart 21 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the March quarter 2015 has decreased by 25 basis points to 2.25%. The Reserve Bank of Australia’s Media Release for March 2014, released 3rd March 2014 explained that;

“In Australia the available information suggests that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually moved higher over the past year. The economy is likely to be operating with a degree of spare capacity for quite some time yet...Credit is recording moderate growth overall, with stronger growth in lending to investors in housing assets...The Bank is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have risen, in part as a result of declining long-term interest rates.”

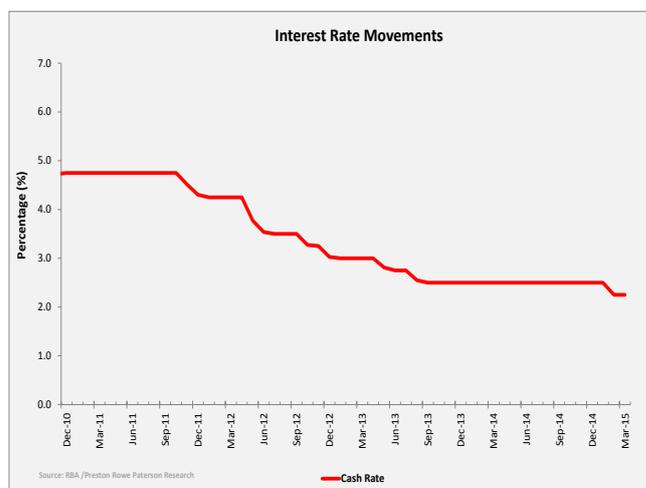


Chart 22 – Cash Rate – Source RBA



CPI

According to the Australian Bureau of Statistics (March 2015), the Australia's All Groups CPI increased by 0.2% over the March quarter from 106.6 to 106.8. The annual CPI change to March 2015 recorded a growth of 1.3%.

The most significant price rises over the March quarter were for Domestic holiday travel and accommodation (+3.5%), Tertiary education (+5.7%) and Medical and hospital services (+2.2%). The greatest price fall over the March quarter was attributed to Automotive fuel (-12.2%) and Fruit (-8%).

The Housing Group increased by 0.8% over the March quarter. The main contributors to the price rise were in new dwelling purchase by Owner-occupiers and Electricity recording a growth of 0.9% and 1.9% respectively. Over the twelve months to March 2015, the housing group recorded growth of 2.7% which was backed by the 4.8% annual growth in new dwelling purchases by Owner-occupiers and a 2.1% rise in Rents.

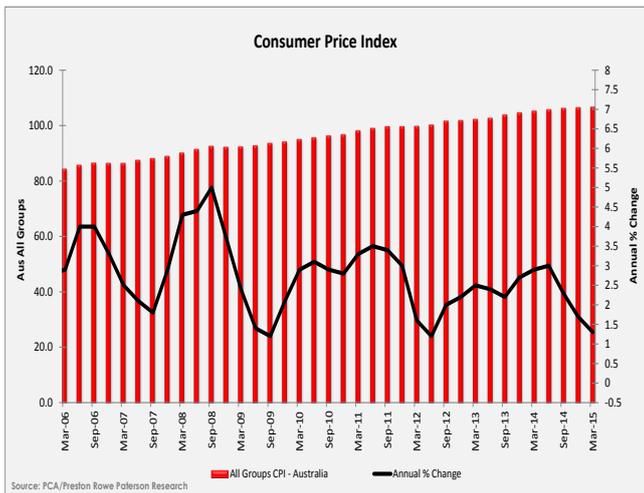


Chart 23- Consumer Price Index—Source—ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 1.2% in March from 100.7 index points in February to 99.5 index points in March. Over the quarter the index has increased by 8.4 points, a 9.22% growth. Over the twelve months to March 2015 the index recorded no annual change.

The Index is returning to its pre-budget level in May 2014. Westpac's Senior Economist, Matthew Hassan commented; *"Some softening in sentiment was always likely in March given the big lift (in February) following the RBA's surprise 25bp rate cut... The overall message seems to be that while consumers remain very concerned about the outlook for the economy and job security, they are less concerned than they were in December and acknowledge the more positive situation around interest rates."*

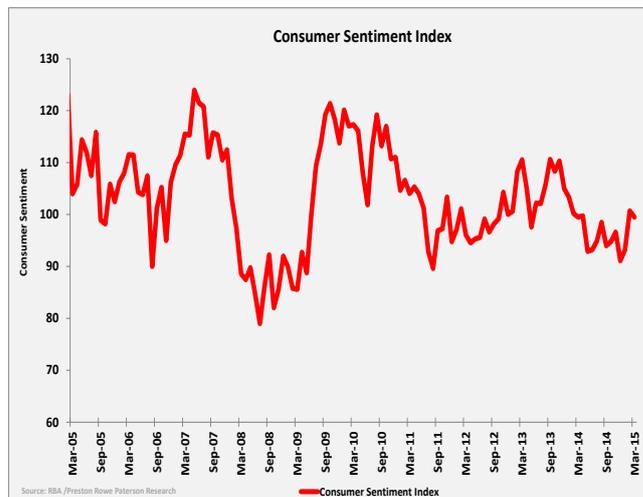


Chart 24 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey



Our Research

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

We have *property* covered

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

We have all *real estate* types covered

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

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

We have all types of *plant & machinery* covered

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

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

We have all *client profiles* covered

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

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



We have all *locations* covered

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

We have *your needs* covered

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

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



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