



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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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 2016

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COMMERCIAL OFFICE MARKET

Melbourne CBD



Investment Activity

Preston Rowe Paterson Research recorded the following reported sales transactions that occurred in the Melbourne CBD office market during the three months to March 2016.

1 Collins Street, Melbourne, VIC 3000

Harry Stamoulis has acquired an office complex from Robert Magid and Eleanor Goodridge for **\$125 million**. The **One Collins Street** tower complex features a 17-storey modern tower and a 1870s heritage residence. The sale reflected a tight yield of **5.25%**.

395 Collins Street, Melbourne, VIC 3000

Yong Queck has bought a 10-storey heritage listed building for **around \$35 million** on a **yield of just below 6%**. The gothic style commercial property has 5,781 sqm of space and is 94% occupied. The main tenant in the property is software company Zendesk. The sale reflected a rate of \$6,054.30 psm.



55 King Street, Melbourne VIC 3000

Charter Hall's Core Plus Office Fund has acquired the **Exchange Square** from LaSalle Investment Management for **\$78.5 million**. The 7 storey office building features 12,400 sqm of net lettable area and is fully leased to the Victorian Civil and Administrative Tribunal and the telecommunications firm M2 Group. The property sits on a 2,328 sqm corner-site that has future development potential. The sale reflected a rate of \$6,330.65 psm.

533 Little Lonsdale Street, Melbourne, VIC 3000

Fidinum has purchased a small office tower from Vantage Property Investments for **\$35.25 million** on an **initial yield of 6%**. The 13-storey building was recently refurbished and leased up and has 6,600 sqm of office space. The \$2.4 million refurbishment focused on the 15% vacancy and now the building is fully-leased with income rising from \$1.49 million to \$2.13 million. The sale reflected a rate of \$5,340.90 psm.

406 Collins Street, Melbourne, VIC 3000

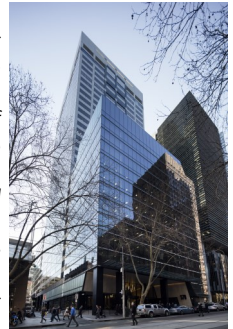
A local investor has paid **\$23.1 million** for a privately-held, freestanding commercial building on a **passing yield of 4.43%**. The 3,756 sqm office occupies a 441 sqm site. The sale reflected a rate of \$52,380.95 psm.

Leasing Activity

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

570 Bourke Street, Melbourne, VIC 3000

Three new leasing deals have occurred at Charter Hall's 31-level, 35,000 sqm office building including two new federal government tenants. Department of Human Services will consolidate from two separate locations by leasing around 17,000 sqm in the building. Victoria Legal Aid will occupy 8,000 sqm in the building and Jardine Llyod Thompson will move into 1,500 sqm of space. The property was redeveloped at a cost of \$150 million last year.



2-3/440 Collins Street, Melbourne, VIC 3000

Energy Australia will occupy 2,500 sqm of space over two floors from landlord Julliard Group on a **one-year deal**. The tenant will pay a net rent of around \$1 million for two floors in the 17-storey mixed-use building. The lease reflected a **rate of about \$400 psm**.

120 Spencer Street, Melbourne, VIC 3000

Sage Institute of Education has leased an additional 6,100 sqm of space on a **10-year deal**. The company will occupy the top four levels of the building at an **annual rent of \$450 psm**.

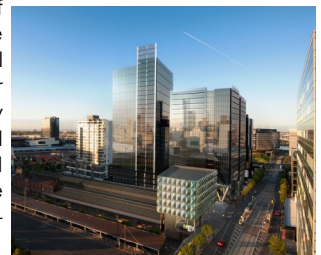
277 William Street, Melbourne, VIC 3000

Danford College has signed an agreement to lease 960 sqm of space at a **net annual rent of \$380 psm**. The lease is for **5-years**.

Development Sites

According to the Property Council of Australia (PCA)'s Office Market Report January 2016, new developments is expected for completion in the Melbourne CBD.

One of the highly anticipated development is **2 Collins Square—Site 4D** located on **727 Collins Street** near Docklands. It will comprise of 55,000 sqm of office space across 26 levels at an average floorplate size of 2,300 sqm. Tower 2 Collins Square will include 4,525 sqm of retail space and incorporate 86 car spaces. The development by Walker Corporation is expected to be completed in the 2nd quarter of 2016. The A Grade office building will achieve a 5-star Green Star energy rating.



Supply by Grade (Stock)

The PCA Office Market Report January 2016 revealed a there was an additional supply of 45,069 sqm of office space released in the six months to January. This was offset by the 929 sqm withdrawals, resulting in an increase of the total Melbourne CBD office market space to 4,457,452 sqm.

The Melbourne CBD office market is dominated by the A Grade stock which takes up almost half of the total market supply at 48.4%. Premium and B Grade office stock have similar shares in total market supply assuming 16.8% and 19.8% respectively. The total market share of C Grade stock was 12.4% and D Grade stock was 2.7%.

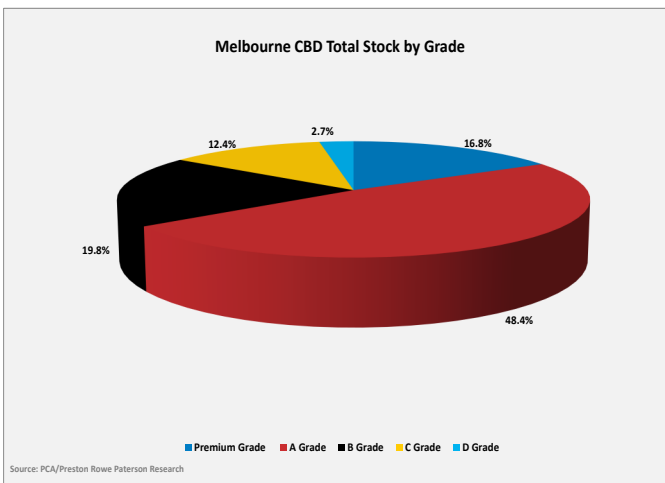
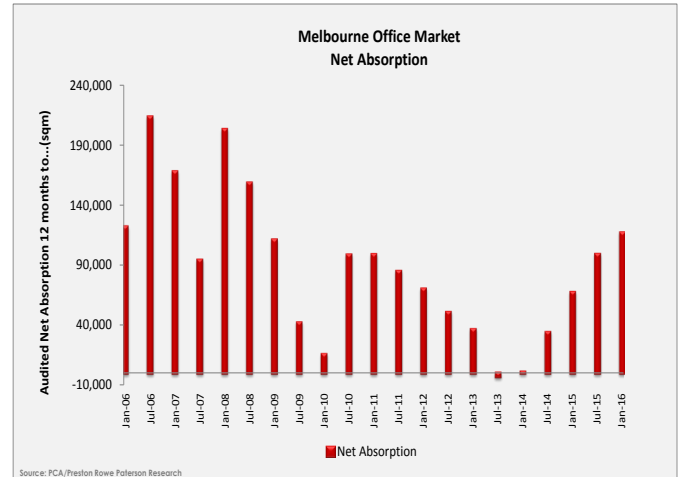


Chart 1 – Melbourne CBD Total Stock by Grade – Source PCA

Net Absorption

The Melbourne CBD office market has absorbed 116,763 sqm of space in the 12 months to January 2016. In the six months to January, the market absorbed 55,857 sqm.

Positive net absorption was recorded across all office grades. 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.



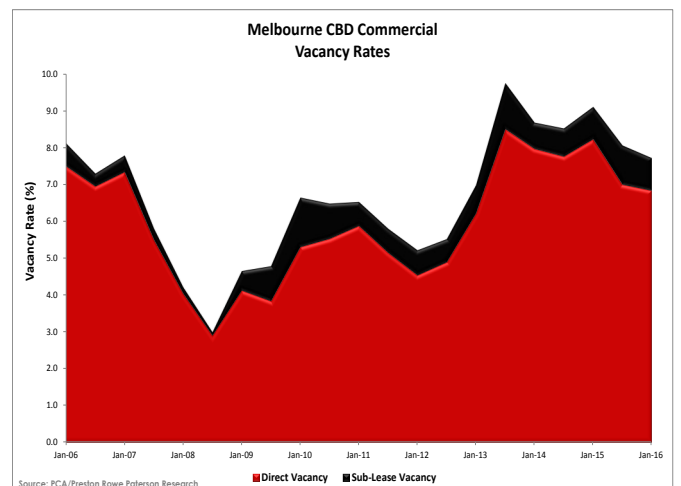
Source: PCA/Preston Rowe Paterson Research

Chart 2 – Melbourne CBD Office Net Absorption - Source PCA

Total Vacancy

The Melbourne CBD office market total vacancy recorded a decrease of -0.3% to 7.7% in the six months to January 2016. This reflected a total market vacancy of 344,480 sqm.

Vacancy rate has tightened across all office grades except for Premium Grade which increased by 3.1% to 10.3% vacancy. The largest fall in vacancy was recorded in A Grade stock which decreased by 1.1% to 6.5%. Both C and D Grade office vacancy fell by -0.6% to 9.4% and 2.4% respectively. B Grade vacancy decreased by -1% to 8.3%.



Source: PCA/Preston Rowe Paterson Research

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 March 2016.

2 Luton Lane, Hawthorn, VIC 3123

A Cyprus-based syndicate of Russian investors have sold a 5,600 m2 suburban office building for **over \$35 million**. The sale reflected a rate of over \$6,250 psm. Hawthorn is located about 7.8 km east of the Melbourne CBD.



Supply by Grade (Stock)

The PCA's Office Market Report January 2016 noted that the total East Melbourne office market has an additional supply of 1,100 sqm which was outweighed by 3,500 sqm of space withdrawal. The East Melbourne total office stock totalled to 173,961 sqm.

B Grade stock dominates the East Melbourne market taking 51.3% of total market share followed by A Grade at 33.3%. C Grade assumed 10.5% and D Grade accounted for 5% of total market share.

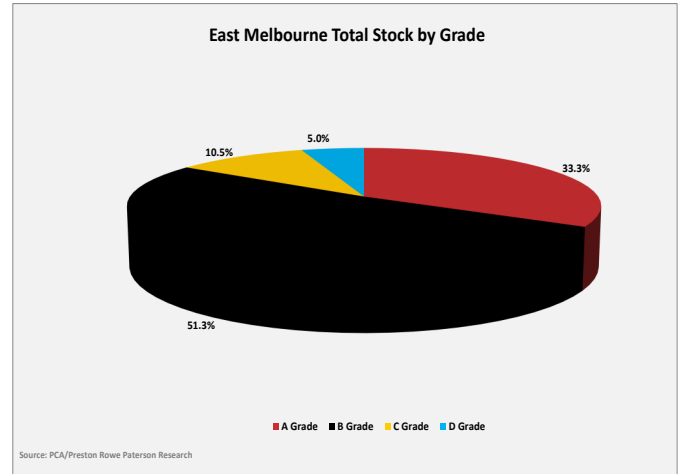


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

Net Absorption

The Melbourne CBD office market has recorded a negative absorption of -1,465 sqm in the twelve months to January 2016. This was also mirrored with a reported negative absorption of -1,228 sqm in the six months to January.

The only negative absorption in the six months to January was recorded in A Grade stock at -2,819 sqm. B, C and D Grade stock experienced positive absorption of 1,024 sqm, 67 sqm and 500 sqm respectively.

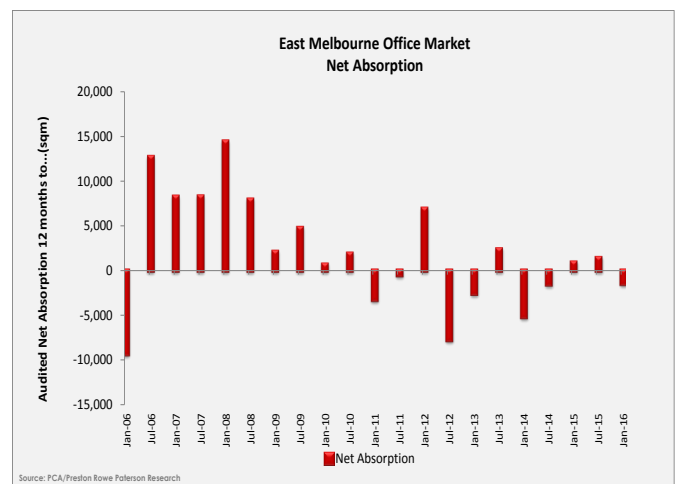


Chart 5 – East Melbourne Net Absorption – Source PCA

Total Vacancy

As at January 2016, the East Melbourne's office total vacancy rate has tightened by -0.7% to 0.8% , which translates to 1,467 sqm of vacancy.

D Grade stock recorded the largest decrease in vacancy rate of -5.8% to 10.4% . C Grade office noted a -0.4% decrease to a 1% vacancy and B Grade office vacancy increased by 0.1% to 0.4% . The A Grade office stock recorded no vacancy as at January 2016.

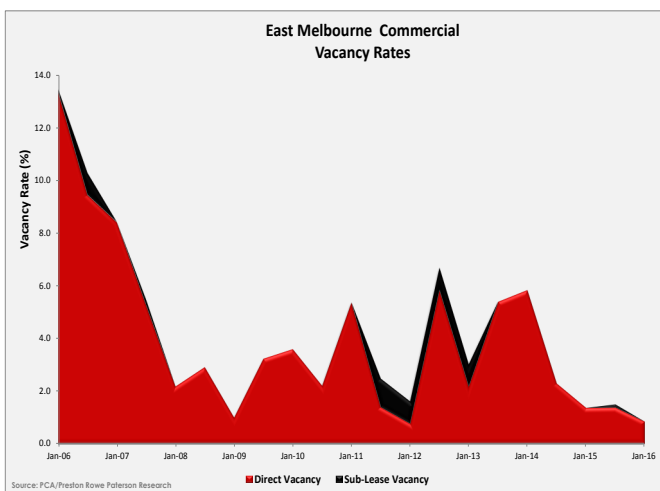


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

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 March 2016.

30 Convention Centre Place, South Wharf, VIC 3000

Universal-Investment has paid around **\$150 million** for the 21,000 sqm **South Wharf Tower** from *Deka-ImmobilienGlobal*. Built in 2010, the 12-level building is fully-occupied and houses ANL shipping on the top three floors. *Baulderstone*, a division of *Lend Lease*, and car management multinational *LeasePlan* occupy another 3 levels. The remainder of the building is leased to confectionary giant *Mondelez International*, formerly known as *Kraft Foods* and *Cadbury*. The purchase of the 4.5-star NABERS rated building was made on behalf of *Bayerische Versorgungskammer*. The sale reflects a rate of $\$7,142.85$ psm



Supply by Grade (Stock)

As shown in the PCA's Office Market Report January 2016, the total Southbank office stock recorded $-3,587$ sqm of stock withdrawals and no additional supply. The total office market stock was 414,083 sqm.

A Grade stock dominates the Southbank market, taking 60.1% of total market share. B and C Grade have similar market shares at 25.9% and 13.3% respectively whilst D Grade only accounted for 0.7%.

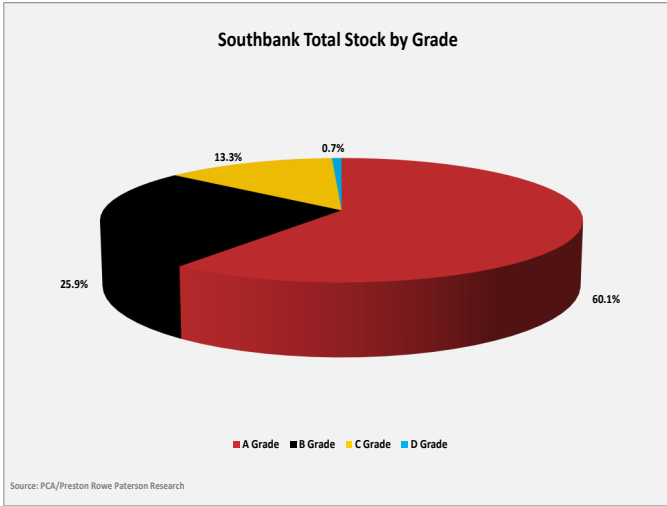


Chart 7 – Southbank Total Stock by Grade – Source PCA

Net Absorption

The Southbank office market has recorded a negative absorption of –13,016 sqm in the twelve months to January 2016. Negative absorption was also reflected in the six months to January at –2,126 sqm.

The largest negative absorption was recorded in B Grade stock at –2,281 sqm in the six months to January, followed by C Grade at –381 sqm. A Grade noted 536 sqm of net absorption and D Grade did not record any absorption.

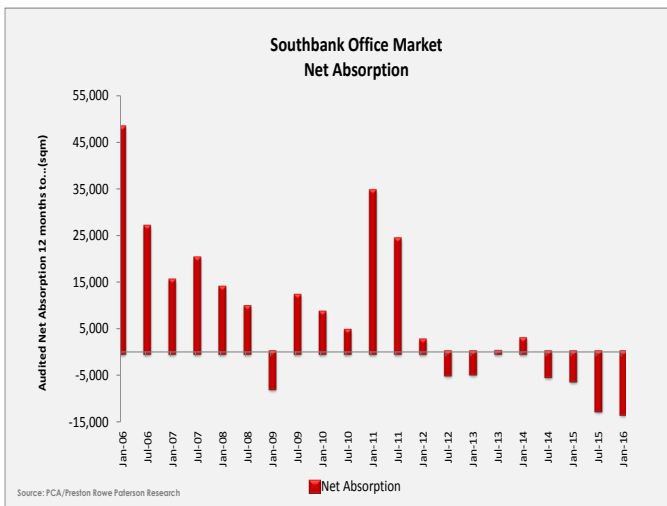


Chart 8 – Southbank Office Net Absorption – Source PCA

Total Vacancy

The overall office vacancy in Southbank had fallen by –0.3% to 8.4% in the six months to January 2016. The area of total vacancy amounts to 34,700 sqm.

The highest vacancy rate was recorded in B Grade stock at 12.3%. A Grade vacancy level was at 8.1% and C Grade was 2.6%. There was no vacancy in the D Grade office stock.

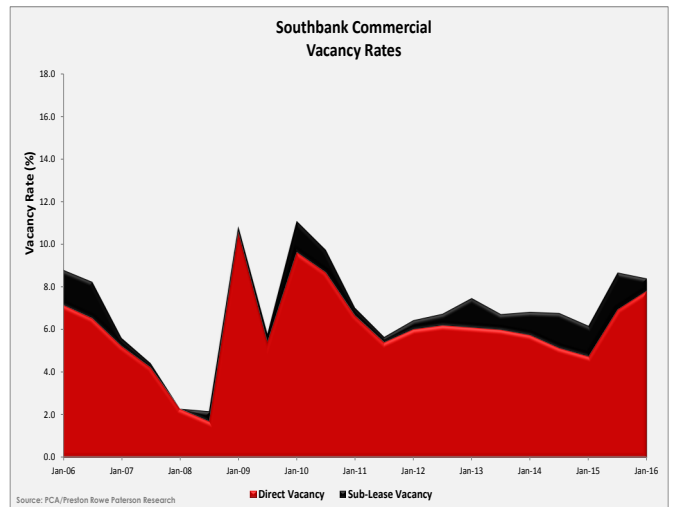


Chart 9 – Southbank Commercial Vacancy Rates – Source PCA

St Kilda Road



Supply by Grade (Stock)

Analysis of the PCA's Office Market Report January 2016 has revealed that there was -15,685 sqm of office space withdrawal along the St Kilda Road in the six months to January. There was no reported additional space supply in the market in the six months to January. The total St Kilda Road office market space was 701,950 sqm.

The St Kilda Road office market is largely populated by the A and B Grade stock, assuming up to 34.9% and 43.8% of total supply respectively. Followed by C Grade at 10.9% and D Grade at 0.8%.

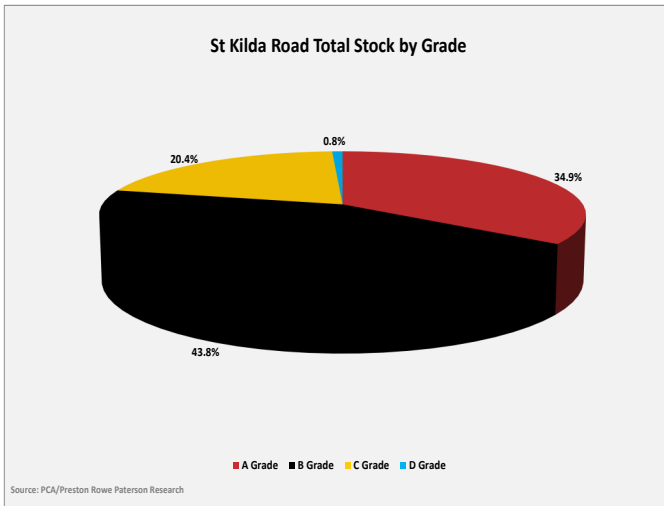


Chart 10 – St Kilda Road Total Stock by Grade – Source PCA

Net Absorption

The St Kilda Road office market has recorded a negative absorption of -24,077 sqm in the twelve months to January 2016. In the six months to January, the office market recorded a -11,623 sqm absorption.

Positive absorption was recorded in A Grade stock at 1,347 sqm. Negative absorption in the six months to January was reported in B Grade and C Grade at -7,889 sqm and -5,081 sqm respectively. D Grade office stock did not record stock absorption.

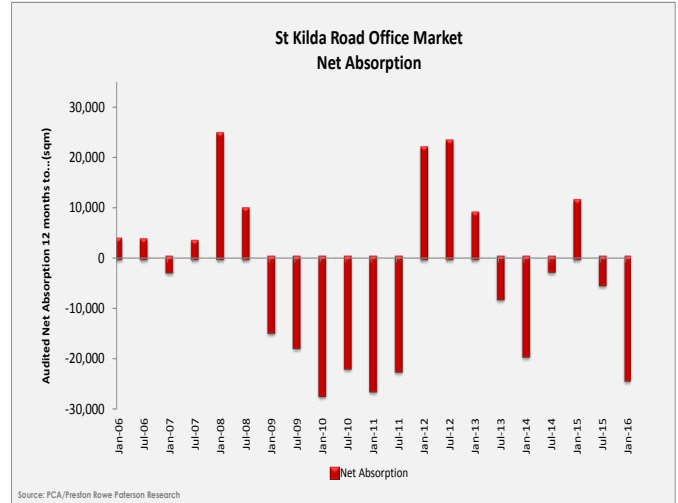


Chart 11 – St Kilda Road Office Net Absorption - Source PCA

Total Vacancy

The total vacancy in the St Kilda Road office market had tightened by -0.4% to 8.9% in the past six months to January 2016. The total vacant stock in the St Kilda Road market amounts to 62,437 sqm.

Increase in vacancy was recorded in C Grade stock which grew by 0.9% to 17.4%. The A and B Grade stock tightened by -0.5% and -0.8% to 6.9% and 6.6% respectively. D Grade vacancy remain unchanged at 2.4%.

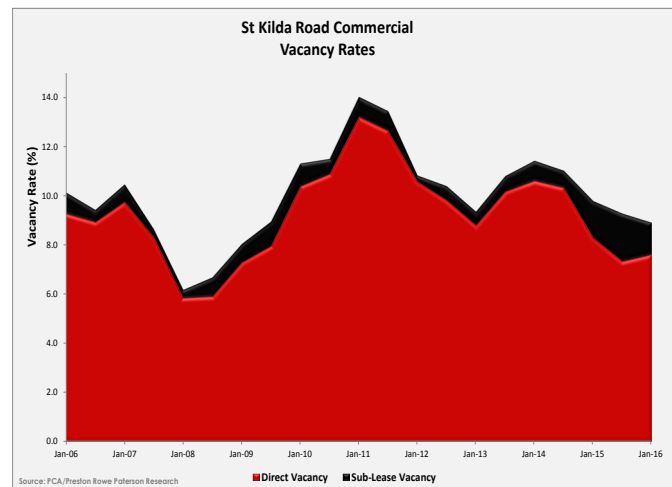


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA

RETAIL MARKET



Investment Activity

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

59-63 Bourke Street, Melbourne, VIC 3000

A local investor has bought a four-level hospitality building from Richard Gu for **\$9.8 million** on a **passing yield of 3.3%**. The 500 sqm site contains the popular Italian restaurant **Spaghetti Tree** and the **Madame Brussels** rooftop bar. The sale reflected a rate of \$19,600 psm.

25-31 Plenty Road, Bundoora, VIC 3083

Five Squared has purchased the **Bundoora Square** shopping centre for **around \$26 million** from CoINVEST. The **Coles** supermarket-anchored neighbourhood shopping centre has a gross lettable area of 5,000 sqm. There is close to 100 shops in the centre. The sale reflected a **tight yield of 6.2%** and a rate of about \$5,200 psm. Bundoora is located about 17 km north-east of the Melbourne CBD.



27-29 Nepean Highway, Mentone, VIC 3194

The Property Advisory has bought the 12,500 sqm **Mentone Centre** large format retail centre from H.Troon for **\$40 million**. The centre is fully-leased to tenants including **Aldi**, **Spotlight** and **Amart Sports**. The sale reflected a rate of \$3,200 psm. Mentone is located about 21.4 km south-east of the Melbourne CBD.

670 Chapel Street, South Yarra, VIC 3141

MTAA Super has bought the **Vogue Shopping Plaza** from Harry Stamoulis for **\$92 million**. The shopping centre comprises the ground floor and first level of the Vogue residential tower and is anchored by a **Big W** outlet, **Woolworths** and a **Guardian** childcare centre. There is also 18,000 sqm of commercial space. South Yarra is located 4.7 km south-east of the Melbourne CBD.

246 Bridge Street & 254-256 Church Street, Richmond, VIC 3121
The **Alexanders Corner** was purchased by a local investor for **\$11 million** on a **4.3% yield**. The 1,560 sqm property sits on an 892 sqm site and is fully leased to nine tenants including **Commonwealth Bank** and **Priceline**. The building has four ground level shops, four first-floor office suites and an upper level dance studio. The property delivers an annual net income of \$381,300. The sale reflected a rate of \$12,331.85 psm. Richmond is located 3.8 km east of the Melbourne CBD.



Retail Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (March 2016), the retail turnover figures recorded in Victoria produced positive results. The total retail turnover in Victoria increased by 0.51% over the month of March 2016, with an annual retail turnover growth of 5.31% to turnover of \$6,290.3 million.

The largest monthly growth in retail turnover was the Clothing, footwear and personal accessory retailing which grew by 3.21% in March to monthly turnover of \$537.3 million. Food retailing, Other retailing and Department stores retailing increased by 0.73%, 0.57% and 0.49% to a monthly turnover of \$2,497.6 million, \$920.8 million and \$393.3 million respectively.

Decreases in monthly turnover were recorded in the Cafes, restaurants and takeaway food services retailing and Household goods retailing revealing a decrease of -0.77% and -0.3% to the monthly turnover of \$786.1 million and \$1,155.2 million respectively.

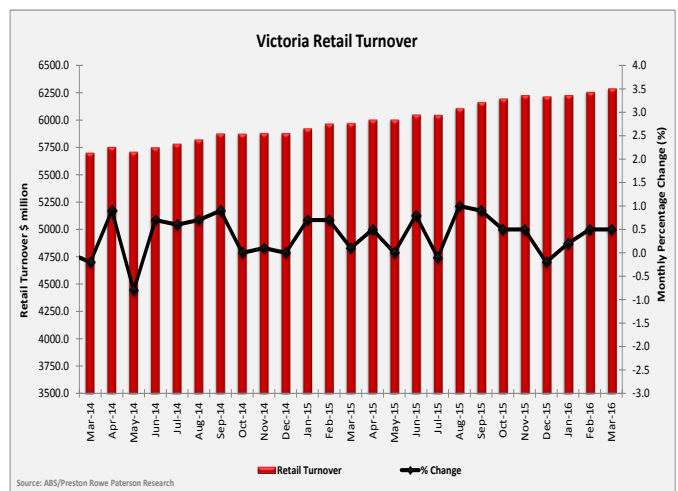


Chart 13 – Victoria Retail Turnover – Source ABS



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

The most marked growth was in Other retailing (6.23%) followed by Household goods (6.13%), Cafes, restaurants and takeaway food services (5.5%), Department stores (5.02%), Clothing, footwear and personal accessory retailing (5%) and Food retailing (4.65%).

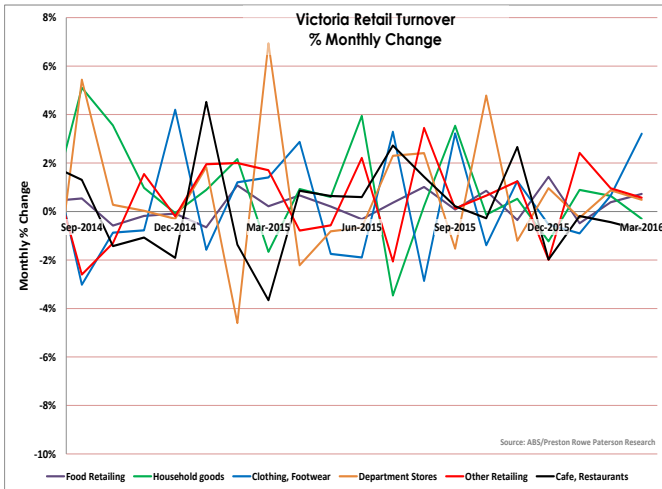


Chart 14 – Victoria Turnover % Monthly Change – Source ABS

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 2016;

252 Chesterville Road, Moorabbin, VIC 3189

Up Property has acquired an office and manufacturing facility from Philip Morris for **more than \$20 million**. Over 50,000 sqm of office, warehouse and factory space occupies the 6.3-hectare site that has been held by Philip Morris since 1954. The buyer plans to create a business park and some of the existing buildings will be retained and refurbished. New buildings will also be constructed. The sale reflected a rate of over \$317.45 psm. Moorabbin is located about 15.5 km south-west of the Melbourne CBD.

Cnr Doherty & Hume Road, Laverton North, VIC 3026

Logos Property has agreed to a sale-and-leaseback deal with Oxford Cold Storage for a 24-hectare site. Logos has paid **\$205 million** for the 20-year triple net leased property which comprises 120,000 sqm of building area. The sale reflected a **yield of 6.75%** and a rate of \$854.15 psm. Laverton North is located about 14.6 km west of Melbourne's CBD.



28 Salta Drive, Altona North, VIC 3018

Lendlease has agreed to a sale and leaseback deal with F Mayer Imports for a **\$40.1 million** warehouse. The 23,854 sqm building occupies a 50,088 sqm site. F Mayer Imports has a lease for the next 12-years. The sale reflected a rate of \$800.60 psm. Altona North is located around 16.8 km south-west of the Melbourne CBD.

209 Barry Road, Campbellfield, VIC 3061

Attila's Natural Stones have bought a 1.4-hectare industrial property for **\$5.5 million**. The sale reflected a rate of \$392.85 psm. Campbellfield is located about 15.3 km north 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 2016;

577 Somerville Road, Sunshine West, VIC 3020

SRV Road Freight Services has signed a deal to lease a 4,200 m2 property on a 24,000 m2 site from a private landlord. A net annual rent of \$420,000 will be paid over **four years**. The lease reflected a **rate of \$17.50 psm**. Sunshine West is located about 13 km west of the Melbourne CBD.

520 Graham Street, Port Melbourne, VIC 3207

Port Melbourne Motor Traders will occupy a warehouse from Goodman for **5-years**. The 4,380 sqm property has a mix of warehouse and office accommodations and ample car parking. It was leased for **\$85 psm**. Port Melbourne is located about 5 km south-west of Melbourne's CBD.

180-186 Barry Road, Campbellfield, VIC 3061

A private landlord has secured a tenant at a 6,440 sqm warehouse for **5-years**. A local engineering company will occupy the property for an annual rent of \$295,000 with outgoing. The lease reflected a **rate of \$45.80 psm**. Campbellfield is located about 15.3 km north of Melbourne's CBD.

Lot 115 & 116 Logis Boulevard, Dandenong South, VIC 3175

Woodhouse Timber Company has pre-leased an industrial facility that will be constructed by BFD Constructions. A 2,815 sqm office and warehouse will be built on a 5,940 sqm site at the industrial business park, **Dandenong Logis**. The lease is for **5-years** and a net annual rent of \$253,260, a **rate of \$42.65 psm**. Dandenong South is located around 31.3 km south-east of the Melbourne CBD.



126 Woodlands Drive, Braeside, VIC 3195

Cheltenham Youth Club has leased a 2,104 sqm warehouse for a net annual rent of \$137,000. The gymnastic club has agreed to a **10-year lease**. The lease reflected a **rate of \$65.10 psm**. Braeside is located

around 26.6 km south-east of Melbourne's CBD.

28 Tullamarine Park Road, Tullamarine, VIC 3043

A private landlord has leased a 5,429 sqm warehouse to a local collision repair business for an **annual rent of \$80 psm**. The lease is for **6-years**. Tullamarine is located around 16.4 km north-west of the Melbourne CBD.

56 Parkwest Drive, Derrimut, VIC 3030

Andiamo House will occupy a 16,000 sqm warehouse for the next **5-years**. The deal is worth more than \$1 million in annual rent, which reflected a **rate of \$60 psm**. Derrimut is located 19.4 km west of the Melbourne CBD.

RESIDENTIAL MARKET

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals March 2016, the total number of house dwelling approvals in the Melbourne Statistical Division over the month increased by 5.77% from 2,374 approvals in February to 2,511 approvals in March. In comparison to March 2015, there was a 17.94% growth to house dwelling approvals.

The total number of non-house dwelling approvals had significantly decreased by -4.93% to 2,238 dwelling approvals in March. Compared to the 2015 results, a -25.6% decline was recorded.

The total number of approvals in the year to date was 13,101. The dwelling approval figures analysed above showed that residential development activity in the Melbourne market was active in the March quarter despite a slowdown in other dwelling approvals.

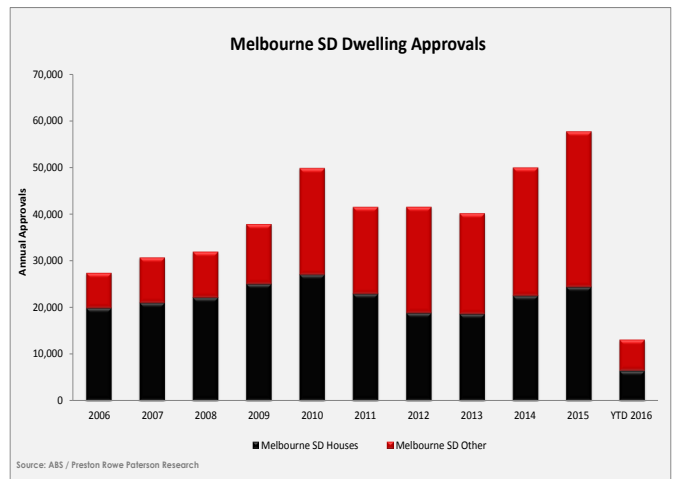


Chart 15 —Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

Market affordability figures for the March quarter 2016 are not available from the Real Estate Institute of Australia (REIA), however, we have used figures from the December quarter 2015 for our analysis.

According to the Real Estate Institute of Australia (REIA) December issue, the median house price in Melbourne had fallen by -10.1% to \$718,000 over the quarter. The highest median house price growth was recorded in Outer Melbourne where median prices grew by 2.9% to \$559,000 and Inner Melbourne prices increased by 1.3% to \$1,252,000. Middle Melbourne recorded a -2.2% quarterly decrease in median house prices to \$837,000.

Over the twelve months to December 2015, the most marked growth was experienced in Inner Melbourne at 17%, followed by Middle Melbourne at 13.2% and Outer Melbourne at 8.6%.

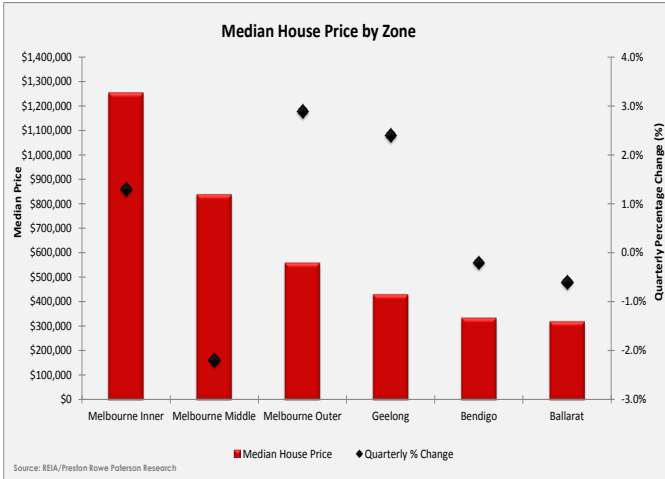


Chart 16 – Median House Price by Zone – Source REIA

Other dwellings median sale prices revealed positive results over the December quarter. The Melbourne median sales price for other dwellings increased by 1.6% to \$537,500.

Outer Melbourne recorded the highest quarterly median sales price growth of 3.2% to \$425,000, followed by Middle Melbourne at 1.8% to \$596,500 and Inner Melbourne at 0.5% to \$562,000.

Year on year analysis of Melbourne other dwellings revealed growth across all zones. The highest annual growth was recorded in Middle Melbourne at 8.8%, followed by Outer Melbourne at 5.1% and Inner Melbourne at 2.1%.

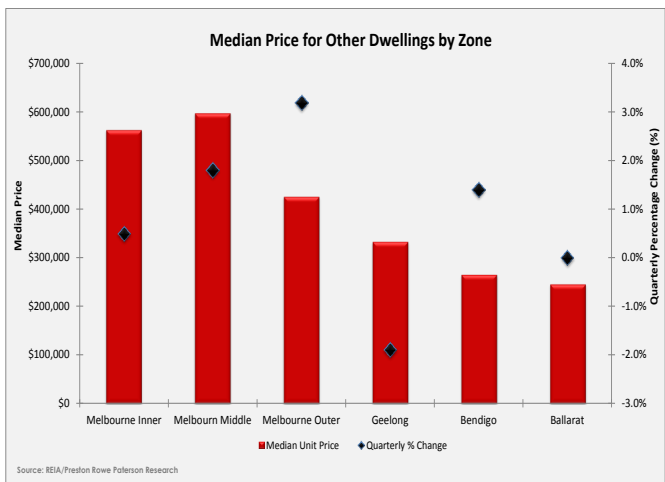


Chart 17 – Median Price for Other Dwellings by Zone – Source - REIA

Rental Market

Over the December quarter 2016, positive results were recorded in the Melbourne house rental market. The only decrease in median weekly rents were recorded in the Inner Melbourne 2 & 4 bedroom houses at -1.9% (\$530) and -1.1% (\$890) respectively.

The highest quarterly rental growth were the 3 bedroom house rents in the Melbourne market; Outer Melbourne rent noted the highest growth of 2.9% (\$350) and both Inner and Middle Melbourne rents grew by 2.2% (\$695 and \$460 respectively).

The Middle & Outer Melbourne 4 bedroom house rents increased by 0.8% (\$600) and 1.3% (\$395) respectively. And the Middle and Outer Melbourne 2 bedroom house rents grew by 1.2% (\$410) and 1.6% (\$315).

Year on year analysis of median house rents in Melbourne revealed positive results. The largest annual increase in rent was noted in the Outer Melbourne 3 bedroom house (6.1%) and the only annual decrease in rent was Middle Melbourne 4 bedroom house (-3.2%).

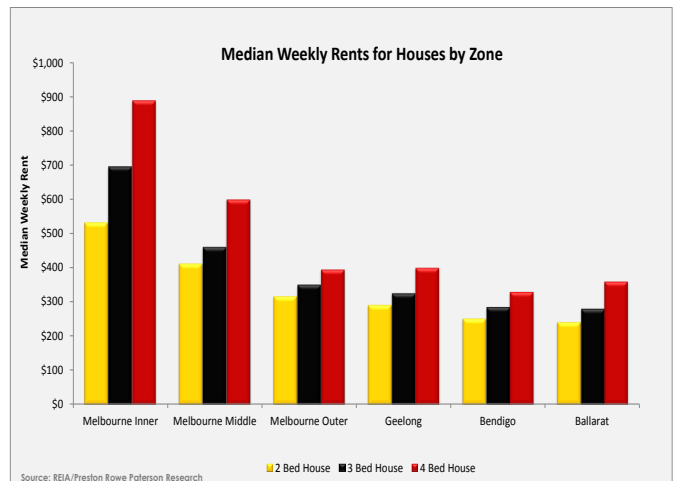


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

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 Inner Melbourne 2 bedroom of -3% (\$485) and Outer Melbourne 1 bedroom of -3.8% (\$250).

The highest other dwellings rental growth was Outer Melbourne 2 bedroom by 1.6% to \$310. Followed by Middle Melbourne 2 & 3 bedroom and Inner Melbourne 1 bedroom rents which increased by 1.3% (\$380), 1.1% (\$480) and 0.8% (\$360) respectively. Middle Melbourne 1 bedroom, Inner & Outer 3 bedroom median weekly rents remain unchanged in the quarter at \$290, \$700 and \$350 respectively.



Year on year analysis also revealed positive results in the other dwellings median weekly rents. The highest annual growth was recorded in the Middle Melbourne 1 & 2 bedroom other dwellings, increasing by 5.5% and 5.6%.

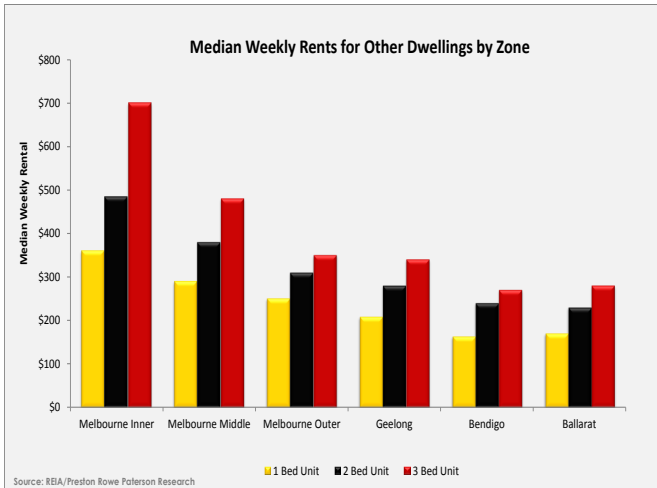


Chart 19 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA

GEELONG

Market Affordability

Over the December quarter, the median house price in the Geelong region increased by 2.4% to \$430,000. Other dwellings median sales price in the region decreased by -1.9% over the quarter to \$332,500.

Rental Market

The 2 & 3 bedroom house median weekly rents in the Geelong region increased by 3.6% and 1.6% over the quarter to the median weekly rental of \$290 and \$325 respectively. The 4 bedroom house median weekly remain unchanged at \$400.

Mixed quarterly results for other dwellings median weekly rentals in the Geelong was recorded. The 1 bedroom rent fell by -1% to \$208, 2 bedroom rent remain unchanged at \$280 and 3 bedroom rent grew by 1.5% to \$340.

BENDIGO

Market Affordability

The median house prices in the Bendigo region recorded a quarterly decline of -0.2% to \$335,000. Over the December quarter, the other dwellings median sales price in Bendigo increased by 1.4% to \$264,700.

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 \$285.

Bendigo other dwellings 3 bedroom rents remain unchanged at \$285. 1 bedroom rent increased by 6.3% in the quarter to \$170 and 2 bedroom rent tightened by -4.2% to \$230.

BALLARAT

Market Affordability

The median house sales price in the Ballarat region decreased in the quarter by -0.6% to \$320,000. The quarterly median sales price for other dwellings in Ballarat remain unchanged at \$245,000.

Rental Market

The Ballarat house median weekly rents was relatively stable over the quarter. The 2 & 3 bedroom house median weekly rent remain unchanged at \$240 and \$280, whereas 3 bedroom house rent increased by 2.9% to \$360.

Similarly the Ballarat other dwellings median weekly rents remained relatively stable. 1 bedroom other dwelling rents increased by 3% to \$170, and the 2 & 3 bedroom median weekly rents remain unchanged at \$230 and \$280 respectively.

SPECIALIZED PROPERTY MARKET

Investment Activity

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

164-168 Warrigal Road, Camberwell, VIC 3124

A purpose-built childcare centre, 98 places, on a 2,065 sqm site has been purchased by a Chinese investor for **\$6.82 million**. The property was sold on a **yield of 5.05%**. *Affinity Educational Group* is on a 10-year lease with options and is paying a net annual rental of \$344,986. The sale reflected a rate of \$69,591.85 per place. Camberwell is located about 10.6 km south-east of the Sydney CBD.

233-243 Whitehorse Road, Blackburn, VIC 3130

A private investor has paid **\$10.7 million** for a BP service station on a **3.6% yield**. The sale of the 4,200 sqm property reflected a sales rate of \$2,547.60 psm. Blackburn is located about 17.9 km east of the Melbourne CBD.



534-540 Doncaster Road, Doncaster, VIC 3108

Benetas has acquired a 6,323 sqm site from local investors and the new owners plan to develop an aged-care and retirement facility on the site. The company paid **about \$18 million** on a **yield of around 1.5%**, based on a long-term lease to Malaysian restaurant *Papparich*. The lease allows for early termination for redevelopment from February 2021 onwards. Doncaster is located about 15.5 km north-east of Melbourne's CBD.

Leasing Activity

Preston Rowe Paterson Research recorded a number of leasing transactions that occurred in the Melbourne specialized property market during the three months to March 2016;



89 Cotham Road, Kew, VIC 3102

Australian Childcare Projects will occupy a new 1,000 sqm corner site on a **15-year lease**. ACP will pay a **net rental of \$350 psm**. Kew is located around 8.9 km north-east of Melbourne's CBD.

Monash Freeway, Mulgrave, VIC 3170

Platypus Junction will anchor a new \$12 million building at *Salta Properties'* **Nexus Business Park** after pre-committing to a **10-year lease**. The childcare centre will lease 1,400 sqm of space on the top two floors of the four-level building and will have 110 places. Mulgrave is located about 23 km south-east of the Melbourne CBD.

HOTEL & LEISURE

Investment Activity

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

606 Swanston Street, Carlton, VIC 3053

Aligned Funds Management has purchased the 225-room **Tune Hotel** from *TP Real Estate Holdings* for **\$52 million**. The hotel has a lobby lounge, dining area and courtyard terrace. The sale reflected a **rate of \$231,111.10 per room**. Carlton is located around 1.9 km north-west of Melbourne's CBD.



Hotel portfolio sale

Charter Hall has acquired **The Seaford Hotel** in Seaford and the **Royal Ferntree Gully Hotel** in Upper Ferntree Gully in a portfolio with another hotel in Hervey Bay, Queensland, for around **\$75 million**. All three hotels are operated by *ALH Group*. The portfolio sale reflects an **initial yield of 6.28%** and the average lease expiry is 19-years. The **Seaford Hotel** also features a *Dan Murphy's*, 13 motel style rooms and a kid's playground area. **Royal Ferntree Gully Hotel** has a bistro and sports bar. Analysis of the sale showed that the Seaford was sold for an approximate price of \$38.217 million and the Royal Ferntree Gully was sold for about \$24.363 million.

1-5 Queen Street, Melbourne, VIC 3000

Malaysian owners have sold the former **Fletcher Jones** showrooms to a local development syndicate for **\$18 million**. The 746 sqm site will likely be developed into a hotel after the buyer has the permit to allow for hotel development. The two-storey building was once called the **Cobden Buildings** and was developed in 1873. The sale reflected a rate of \$24,128.70 psm.

REGIONAL MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in regional Victoria during the three months to March 2016;

Retail

80-98 Ocean Beach Road, Mornington, VIC 3931

A local developer have acquired a shopping strip from *Benetook Nominees* for **\$11.465 million** on a **passing yield of 0.39%**. The property is currently leased to *Mitre 10* and *O'Brien's Removal and Storage* until 2020 with no further options. Mornington is located around 53.6 km south-east of the Melbourne CBD.



Richardson Grove, Berwick South, VIC 3806

A private investor has bought a new *Coles* supermarket from *Frasers Property Australia* for **\$23.4 million**. The full-line, 3,200 sqm supermarket opened this month with *Coles* committing to a 20-year lease. The freestanding property has an upgraded and expanded car park. The sale reflected a **yield of 5.8%** and a rate of \$7,312.50 psm. Berwick South is located about 44.6 km south-east of Melbourne's CBD.

Rural

Victoria Rural Sales Wrap

Altima Partners LLP has sold a 5,200-hectare cropping and grazing portfolio comprising 10 properties located between Skipton, Beaufort and Ararat for **close to \$30 million**. Local Western District farmers acquired the rural land and each farmer will take ownership of one the properties in the portfolio. The biggest property is **Bangaal South**, which are 1,400-hectares in size. The sale reflected a **rate of \$5,769.23 per hectare**.

445 Beckworth Court Road, Clunes, VIC 3370

Macquarie Group's Paraway Pastoral has paid **more than \$15 million** for the **Beckworth Court** rural property. The property features two four-bedroom homesteads, several staff cottages and over 100 subdivided paddocks. There is also extensive working improvements including, three hay sheds, machinery shedding, a 10 box stable complex and two shearing sheds. The sale of the 2,429-hectares of undulating countryside reflected a **rate of over \$6,175.38 per hectare**. Clunes is located around 138 km north-west of the Melbourne CBD.



ECONOMIC FUNDAMENTALS

GDP

GDP figures for the March quarter 2016 are not available until the 1st June, however, over the December 2015 quarter revealed that the Australian economy recorded growth of 0.6% seasonally adjusted which reflected growth of 3% seasonally adjusted over the twelve months to December 2015.

In seasonally adjusted terms, the main industry gross value added contributors to GDP were Mining (+0.4%), Finance and insurance services (+0.4%), Construction (+0.3%), Public administration and safety (+0.3%), and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was Manufacturing (-0.2%).

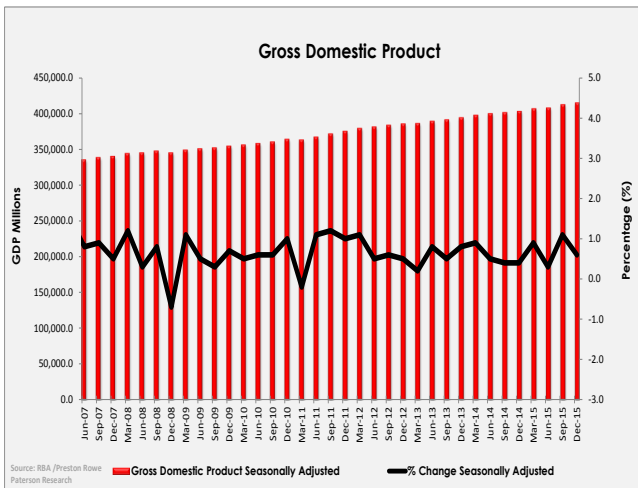


Chart 20 – Gross Domestic Product (GDP) – Source ABS

Interest Rate Movements

As at the date of publishing, the official Cash Rate over the March quarter 2016 has remain steady at 2%. The Reserve Bank of Australia's Media Release for March 2016, released on 1st March explained that;

"The global economy is continuing to grow, though at a slightly slower pace than expected. While several advanced economies have recorded improved growth over the past year, conditions have become more difficult for a number of emerging market economies. Commodity prices have declined very substantially over the past couple of years... The decline in Australia's terms of trade has continued... Financial markets have once again exhibited heightened volatility over recent months, as participants grapple with uncertainty about the global economic outlook and foreign policy settings among major jurisdictions... In Australia, the available information suggests that the expansion in the non-mining parts of the economy strengthened in 2015 despite contraction in spending in mining investments. This is reflected in improved labour market conditions. The pace of lending to businesses

also picked up. Inflation is quite low. With growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, inflation is likely to remain low over the next year or two."

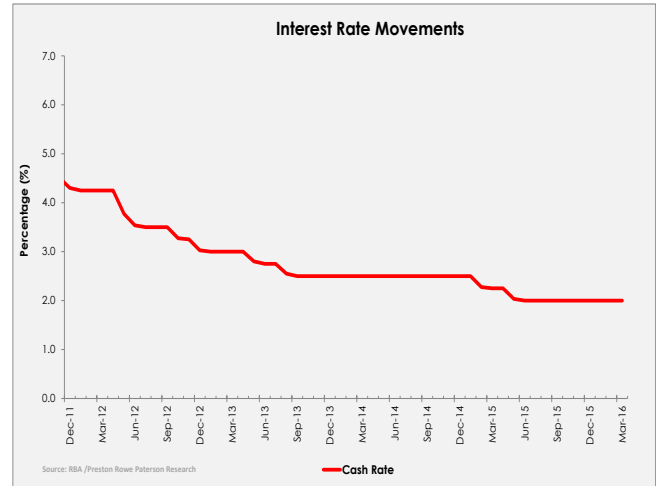


Chart 21 – Cash Rate – Source RBA

CPI

According to the Australian Bureau of Statistics (March 2016), the Australia's All Groups CPI decreased by 0.2% over the March quarter from 108.4 to 108.2. The annual CPI change to March 2016 recorded a growth of 1.3%.

The most significant price rises over the March quarter were Pharmaceutical products (+4.8%), Secondary education (+4.6), and Medical and hospital services(+1.6%). The greatest price fall over the quarter was attributed to are Fruit (-11.1%), Automotive fuel (-10%), and International holiday travel and accommodation (-2%).

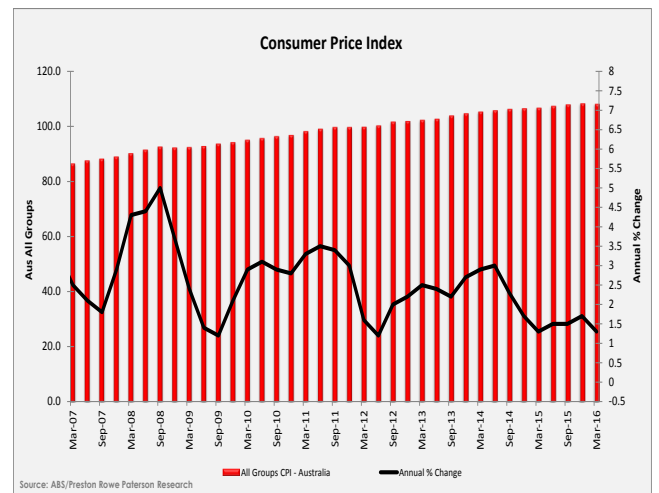


Chart 22- Consumer Price Index—Source—ABS

10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10 Year Government Bonds has revealed a 9 basis point increase over the month of March to 2.57%. The 90 day bill rates had increased by 3 basis points to the month end of 2.31%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of -5 basis points.

Over the March 2016 quarter, the 10 Year Government Bonds recorded a decrease of -28 basis points from 2.85%. The 90 Day Bill Rate recorded a decline of -3 basis points over the quarter from 2.34%.

In the twelve months to March 2016, the monthly 10 Year Bond Rate has increased by 9 basis points from 2.48%. Similarly, the monthly 90 Day Bill Rate rose by 1 basis points from 2.30%.

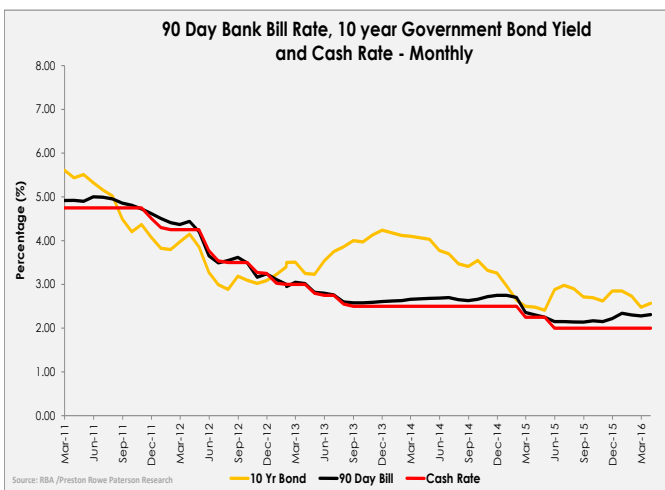


Chart 23 – 90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by -2.2% from 101.3 index points in February to 99.1 index points in March. Over the March quarter the index has decreased by -1.7 points and recorded 0.4% annual decline.

Westpac's Economist, Bill Evans commented; "The Index is back to around its average reading over the last six months...the market volatility and unfavourable media coverage on property markets appears to have triggered a reassessment of risk preferences...risk averse preferences also saw a 4.5% increase in the proportion of respondents favoured fixed interest investments, including bank deposits with significant reductions in the proportion nominating real estate and shares...We expect growth in the Australian economy of 2.8% in 2016 with the genuine prospect for some stability in our terms of trade through the year laying a foundation for a lift in incomes and spending going into 2017."

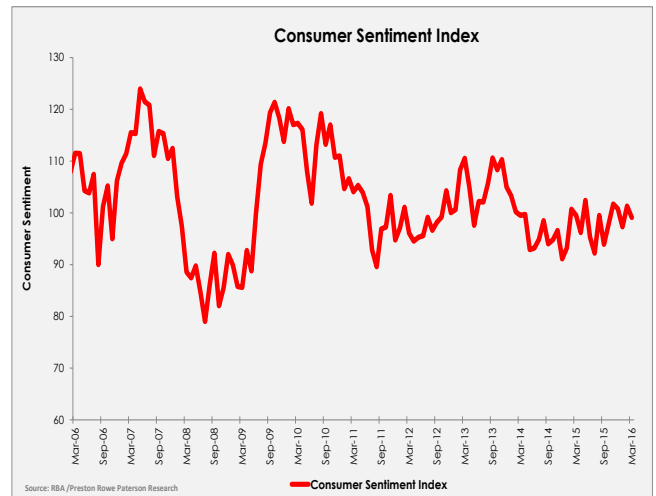


Chart 24 – Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

Labour force

Over the month to March 2016, the number of unemployed people has declined by 7,283 from 730,395 in February to 723,122 in March, reflecting a 1% decrease. In comparison to March 2015, the number of unemployed people had decreased by 42,903 reflecting an annual decline of -5.6%. The unemployment rate was 5.7% as at March 2016.

The number of unemployed seeking full time employment recorded a decrease in March by 7,900 to 515,900 persons. The number of unemployed seeking part time employment also decreased over the month by 1,800 to 208,400 persons.

Victoria experienced a large absolute increase in seasonally adjusted employment by 10,600 persons to 3.005 million persons over the month of March. The unemployment status in Victoria over the quarter decreased by 0.3% to 5.7%.

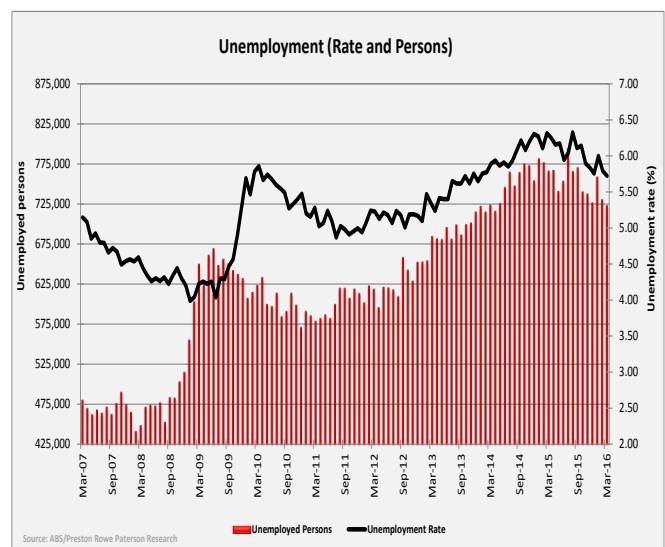


Chart 25 – Unemployment – Source ABS



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
- . 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 & revaluations
- . 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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