Preston Rowe Paterson®
International Property Consultants

# Property Market Report

## Victoria

## March Quarter 2018

### INSIDE THIS ISSUE:



### HIGHLIGHTS

- The PCA Office Market Report January 2018 edition indicated that office stock in Melbourne CBD increased by 2.0% over the six months to January 2018.
- Total vacancy for the East Melbourne and St Kilda office markets declined by 0.8% to 2.5% and 4.0% to 7.2% over the six months to January 2018, suggesting a strengthening fringe market.
- The Australian Bureau of Statistics recorded a 0.23% increase in Victoria's total retail turnover over the month to March 2018.
- Over the month to March 2018, the total building approval in Victoria increased by 12.74% to 5,539 approvals from 4,934 approvals in February 2018.
- The Real Estate Institute of Australia (REIA)'s Real Estate Market Facts December Quarter 2017 reported a quarterly increase of 1.1% in Melbourne's house prices, with median house price of $821,000.


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# COMMERCIAL OFFICE MARKET

## Melbourne CBD

### Supply by Grade (Stock)

The PCA Office Market Report indicated an increase of 2.0% in Melbourne CBD's office supply over the six months to January 2018, reflecting a total stock of 4,526,062 square metres. Amongst the office grades, A Grade stocks made the largest contribution to the increase, adding 93,768 square metres (to 2,239,962 sqm) followed by C Grade which increased by 6,011 square metres (to 547,955 sqm). On the contrary, Premium Grade and B Grade office supply declined over the same period by 5,500 square metres (to 746,387 sqm) and 6,041 square metres (to 875,344 sqm) respectively.

Over the six months to January 2018, the net addition in Melbourne CBD totals to 88,238 square metres. However, even with the supply addition during this period, the Melbourne CBD office market seemed to remain undersupplied with high lease pre-commitment levels. It is noted that several new developments are fully or almost fully leased prior to completion suggesting high demand and a considerably unbalanced market.

### Total Vacancy

The total vacancy in Melbourne CBD shrunk by 5.9% over the six months to January 2018 to 4.6%. This figure marks the lowest vacancy rate since January 2009. The decrease in vacancy rates over the period occurred across all office grades except B Grade office, which eased by 1.1% to reach 7.1%. C Grade office recorded the steepest decline of 4.5% from 9.0% followed by A Grade (-2.8% to 3.3%), Premium Grade (-0.2% to 6.1%), and D Grade (-1.4% to 2.3%).

New commercial supply will not hit the market until 2020, meaning vacancy rates may remain at these record lows in the short term. If vacancy rates continue to fall, rental gains may persist in the market with tenants of both large and small size competing to secure for the limited options. In addition to this, the strong growth in white-collar employment in Melbourne CBD drives rental growth up and vacancy down.

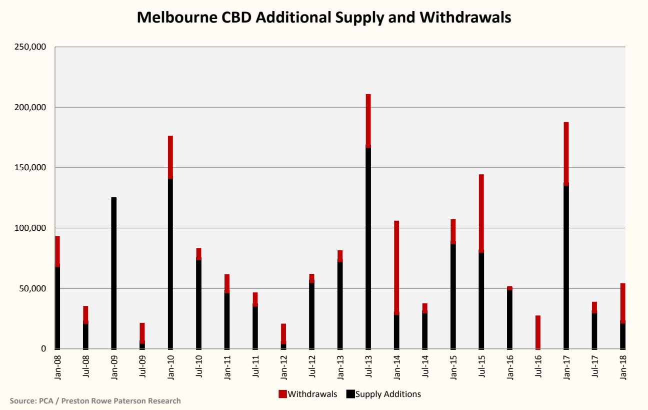


Chart 1 – Melbourne CBD Additional Supply and Withdrawals – Source PCA

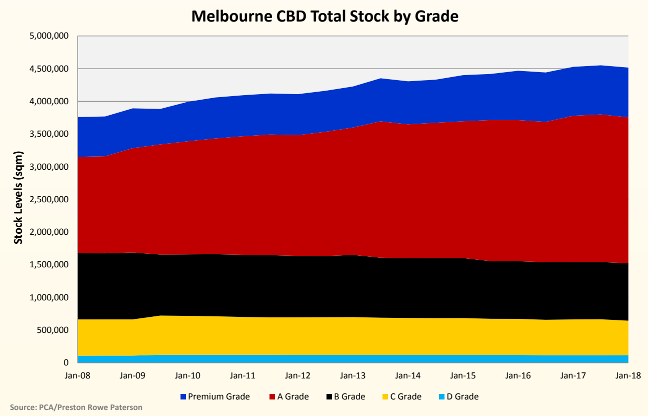


Chart 2 – Melbourne CBD Total Stock by Grade – Source PCA

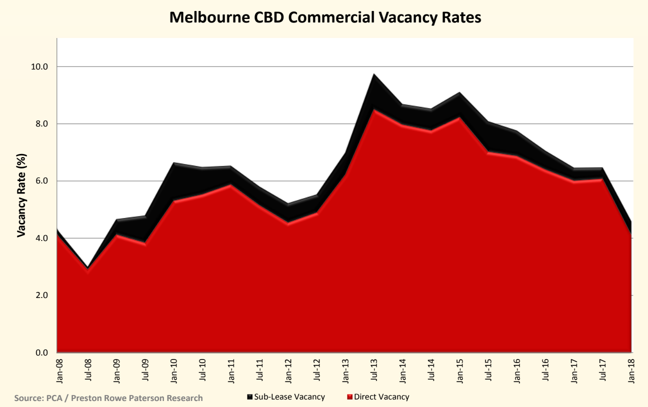


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA

### Development Sites

| Project Name | Address | Stage of Development | Owner | Net Lettable Area (SQM) | Completion Date |
|---|---|---|---|---|---|
| **80 Collins Street South** | 80 Collins Street, Melbourne, VIC 3000 | Construction | Queensland Investment Corporation (QIC) | 43,000 | Q1 2020+ |
| **371 Spring Street** | 371 Spring Street, Melbourne, VIC 3004 | Construction | ISPT | 15,600 | Q3 2019 |
| **Wesley Church Development** | 130 Lonsdale Street, Melbourne, VIC 3000 | Site Works | Charter Hall | 55,000 | Q1 2020+ |
| **Collins Arch** | 447 Collins Street, Melbourne, VIC 3000 | Construction | Cbus Property | 49,000 | Q4 2019 |
| **The Olderfleet** | 477 Collins Street, Melbourne, VIC 3000 | Construction | Mirvac Group | 50,000 | Q1 2020+ |
| **405 Bourke Street** | 405 Bourke Street, Melbourne, VIC 3000 | Site Works | Brookfield Office Properties (Brookfield Multiplex) | 66,000 | Q1 2020+ |

Table 1 – Development Sites Melbourne CBD – Source PCA

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## Investment Activity

### 185-187 Lonsdale Street, Melbourne, VIC 3000


A private Chinese investor has paid **$10.15 million** for a 3-level retail and commercial building. The building is fully leased to two tenants who have both signed new 10-year deals, generating a combined $400,000 p.a. in net income. The 188 square metre site has a floor area of 550 square metres and is positioned on a prized corner CBD lot. This sale was done on a **3.92% yield** and shows a **rate of $18,455 per square metre lettable area**.

### 22 Sutherland Street, Melbourne, VIC 3000

A fraternal group known as the *Royal Antediluvian Order of Buffaloes* has sold a two-storey warehouse situated on a 308 square metre CBD corner lot for **$6.25 million**. The property last traded in 1952 - since then the surrounding area has substantially built up with residential, hospitality and educational facilities. The adjoining building is over 40-levels high. The property sold to a local hospitality operator with vacant possession and a 24-hour liquor licence in place. With a floor area of 517 square metres, this sale reflects a **rate of $12,089 per square metre lettable area**.

### 370 Bourke Street, Melbourne, VIC 3000

The *Law Institute of Victoria (LIV)* sold its headquarters to private investors for more than **$ 30 million**. *LIV* bought the nine-level building for $1.5 million in 1978 and has been *LIV's* home for forty years. The 916 square metre site with net lettable area of 3,339 square metres is sold on a six month lease back arrangement for *LIV* to have enough time to relocate to a new home. This sale represents **a rate of $8,984 per square metre lettable area.** Note that this sale result has not been fully disclosed.

## Leasing Activity

### 130 Lonsdale Street, Melbourne, VIC 3000 (Pre-commitment)

*Charter Hall Prime Office Fund* has secured a **10-year** commitment from financial services firm *Vanguard* for their **Wesley Place** office development in the north-eastern corner of Melbourne's CBD. *Vanguard* will occupy 10,500 square metres over six floors of the office tower upon completion of the building which is scheduled for 2019.

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# East Melbourne

## Supply by Grade (Stock)

The supply of office market in East Melbourne over the six months to January 2018 remains unchanged. B Grade offices continue to dominate the market, with 89,164 square metres (50.2%), followed by A Grade with 61,352 square metres (34.6%), C Grade with 18,278 square metres (10.3%) and D Grade with 8,667 square metres (4.9%). The total stock in East Melbourne is 177,461 square metres.

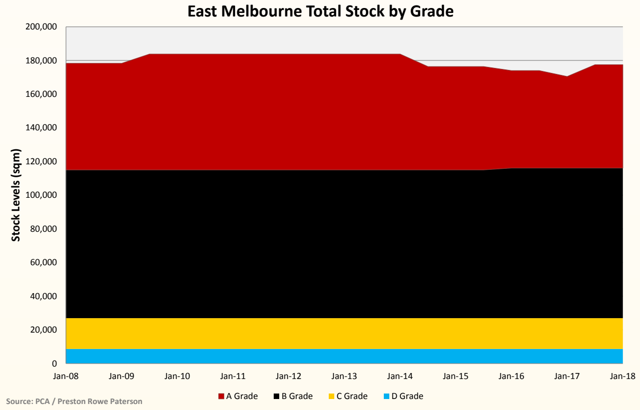


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

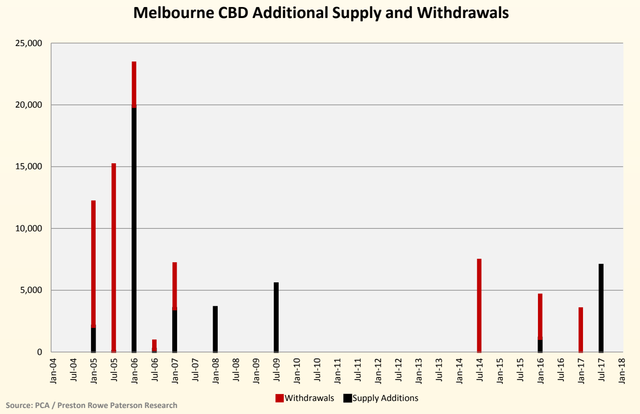


Chart 5 – East Melbourne Additional Supply and Withdrawals – Source PCA

## Total Vacancy

Over the half year to January 2018, the total vacancy for East Melbourne office market slightly tipped by 0.8% to 2.5%. This was all attributed to the change in direct vacancy, which decreased to 2.5%, whilst sub-lease vacancy remained at 0.0%.

The steepest fall in office vacancy is seen in D Grade offices, which fell 3.0% to 2.9% over the half year followed by A Grade -2.5% to 2.8%. In contrast to this, B Grade office vacancy increased by 0.4% to 1.9% and C Grade offices remain unchanged over the period.

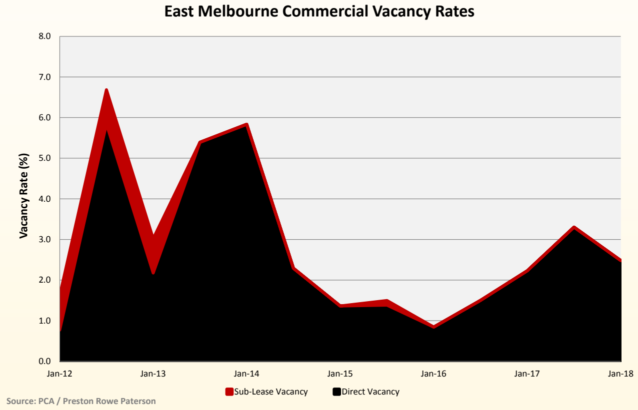


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

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# Southbank

## Supply by Grade (Stock)

In Southbank, over the six months to January 2018, a total net addition of 29,719 square metres was recorded with 30,519 square metres of additional space offset by 800 square metres of withdrawals. The supply additions mainly stemmed from A and B Grade office stock that increased by 31,010 square metres and 3,109 square metres respectively. A Grade stocks continue to dominate Southbank's office market attributing to 64.3% of the total office stock while B Grade covers 24.4% and C Grade consisting only 10.6%.

## Total Vacancy

The vacancy rate in Southbank's office market increased by 1.8% to 5.1% over the six months to January 2018, however, this figure is still below the ten-year average of 6.5% from January 2008. It is thought by industry experts that vacancy in Southbank may tighten by the first half of 2019 when major leases commence, including the *Carlton and United Breweries* move to the area, taking up 6,500 square metres on a 10-year lease.

## Investment Activity

**800 Collins Street, Docklands, VIC 3008**

Canadian Insurer *Manulife* has bought a fully-occupies A Grade office building for **$295.2 million** from investment platforms of *Lendlease* and *Savills*, who collectively owned the property. The property's primary tenant is *Myers*, who use the building as their national support office and have signage rights over the building. *Latitude Financial Services* have recently signed a 10-year lease. The building, completed in 2010, comprises 28,619 square metres of office space and 873.4 square metres of ground floor retail space. There are two floors of car parking and the building has a 5-Star NABERS Energy rating. This sale reflects a **rate of $10,009 per square metre lettable area**, whilst the deal is believed to have been struck at an approximate **yield of 5.15%.** Docklands is located 2 km west of Melbourne's CBD.

**387-389 City Road, South Melbourne, VIC 3205**

A fully leased, corner office building has sold for **$12.1 million** to local developer *Clement Lee*. This property sold $5 million over reserve, despite a short WALE profile and an industrial zoning. Melbourne's suburban office market has become popular with commercial investors who believe it has still yet to mature to Sydney's levels. The property sold on a **yield of 3.3%** and shows a **rate of $9,037 per square metre lettable area**. South Melbourne is located 2.3 km south of Melbourne CBD.

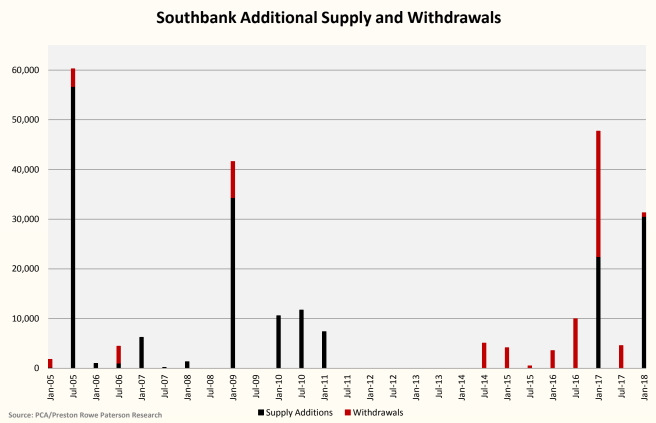



Chart 8 – Southbank Additional Supply and Withdrawals – Source PCA

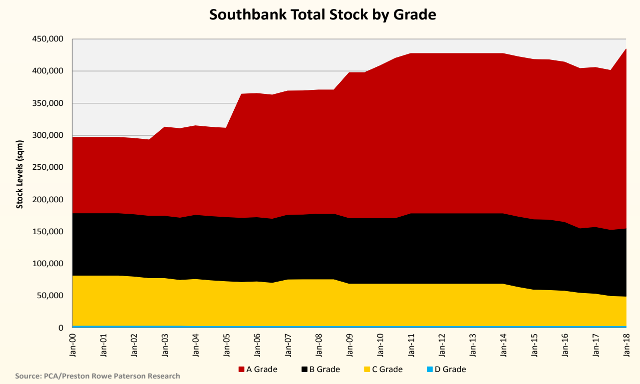



Chart 7 – Southbank Total Stock by Grade – Source PCA

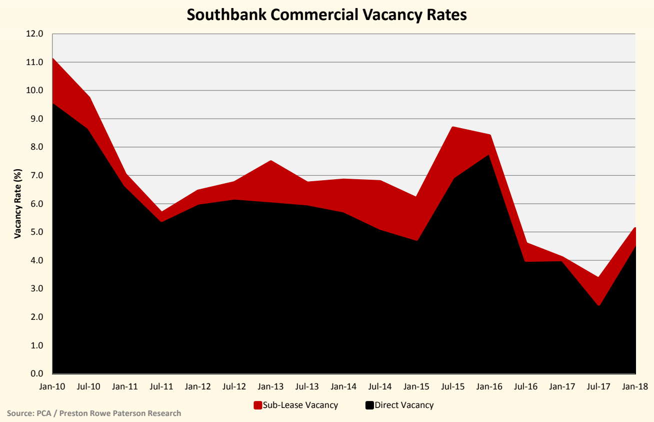



Chart 9 – Southbank Commercial Vacancy Rates – Source PCA

**425 Docklands Drive, Docklands, VIC 3008**

A group of 14 strata office units have been purchased in-one-line for **$7.25 million**. The first floor offices are fully leased with a WALE of 2.5 years and a net annual income of $438,000. They are set over 1,493 square metres of floor area, opposite NewQuay Park and in the midst of a growing retail sector. The property sold on a **6% yield** and a rate of **$4,853 per square metre lettable area**.

**77 Southbank Boulevard, Southbank, VIC 3006**

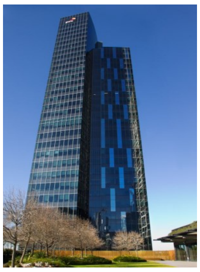
The *Victorian Government* has purchased the 6-level **Carlton & United Breweries headquarters** building from *CUB* for **$95.5 million**. The sale is likely to be the first of an array of Government purchases of a similar nature as part of a regeneration plan for the Southbank area which will eventually see some sites returned to public use. Since the sale, previous owner and occupier *CUB* has abandoned the 3-year lease of the premises and moved to 2 Southbank Boulevard. The building comprises 6,100 square metres of office space, giving this sale a **rate of $15,656 per square metre lettable area.** Southbank is located 1 km south of Melbourne's CBD.

**691 Collins Street, Docklands, VIC 3008**

*Lendlease* has sold a yet-to-be-constructed 25-level commercial office building, **Two Melbourne Quarter**, to *First State Super* and a separate investment branch of *Lendlease*, who will each own a 50% interest in the property. The project sold for **$550 million**, in no small part due to **Energy Australia**'s pre-commitment to occupy 10 and a half levels of the asset. Construction is scheduled to commence this month on the tower which will form part of the $2.5 billion **Melbourne Quarter** urban regeneration project. The building is designed by Woods Bagot and will have a 5.5 star NABERS Energy rating and 46,349 square metres of floor area, reflecting a **rate of $11,866 per square metre lettable area**.

## Leasing Activity

**2 Southbank Boulevard, Southbank, VIC 3006**



*Carlton and United Breweries* has signed a new **10-year** lease at the premium grade mixed-use complex **Freshwater Place**. The lease of the 6,500 square metre floor space is at a rate of **low to mid $800 per square metre lettable area**. The building is jointly owned by *GPT Group* and *Singapore's Fraser's Property Australia.*

## Development Sites

| Project Name | Address | Stage of Development | Owner | Net Lettable Area (SQM) | Completion Date |
|---|---|---|---|---|---|
| **664 Collins Street** | 664 Collins Street, Docklands, VIC 3008 | Construction | Mirvac Group (50%) / Morgan Stanley Real Estate (50%) | 26,395 | Q2 2018 |
| **One Melbourne Quarter** | 699 Collins Street, Docklands, VIC 3008 | Construction | APPF Commercial | 26,400 | Q3 2018 |
| **Tower 5 - Collins Square** | 737 Collins Street, Docklands, VIC 3008 | Construction | Walker Corporation Pty Ltd | 40,000 | Q4 2018 |
| **ANZ** | 839 Collins Street, Docklands, VIC 3008 | Construction | Invesco / Challenger | 39,000 | Q1 2019 |
| **VIC Police Centre** | 311 Spencer Street, Docklands, VIC 3008 | Construction | Cbus Property / Australia Post | 65,000 | Q1 2020+ |
| **Melbourne Quarter Tower** | 693 Collins Street, Docklands, VIC 3008 | Site Works | | 61,000 | Mooted |
| **396 Docklands Drive** | 396 Docklands Drive, Docklands, VIC 3008 | DA Approved | MAB Corporation | 8,880 | Mooted |

Table 2 – Development Sites Southbank– Source PCA

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# St Kilda

## Supply by Grade (Stock)

An analysis of the St Kilda's office market revealed that withdrawals remained the fundamental attribute of the market for the past three years. 21,979 square metres were withdrawn along St Kilda in the six months to January 2018. The withdrawals are mainly of B Grade offices and most are withdrawn permanently, to be converted into high-end residential premises. There was no reported additional supply in the market over the same period, totalling to 645,302 square metres stock in St Kilda as at January 2018.

## Total Vacancy

Over the six months to January 2018, the total vacancy in St Kilda declined by 4.0% to 7.2%. Both the primary and secondary offices experienced tightening vacancy with total net absorption of 6,464 square metres. St Kilda has historically been an affordable option for many businesses from the CBD, thus with the market being in a withdrawal cycle, the remaining existing tenants are renewing their leases as large options become considerably more scarce.

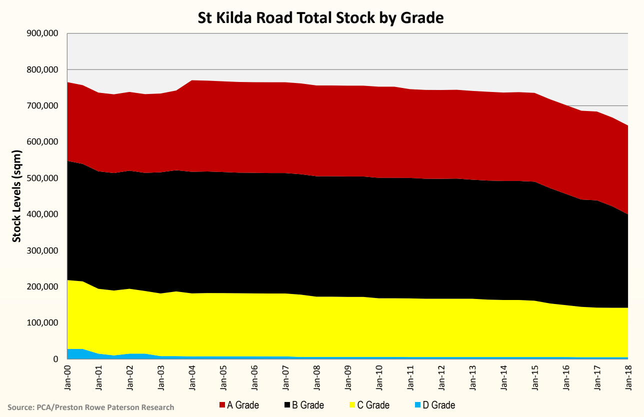


Chart 10 – St Kilda Road Total Stock by Grade – Source PCA

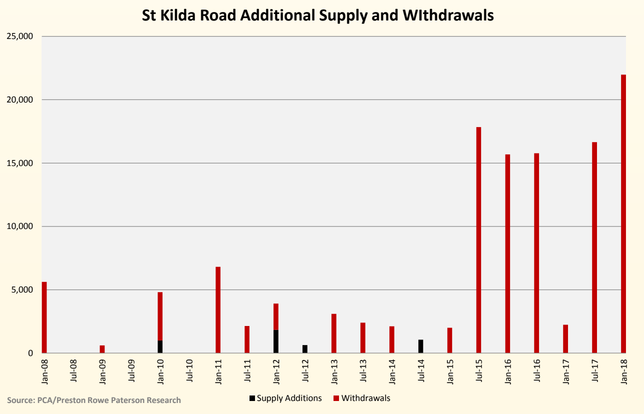


Chart 11 – St Kilda Road Additional Supply and Withdrawals – Source PCA

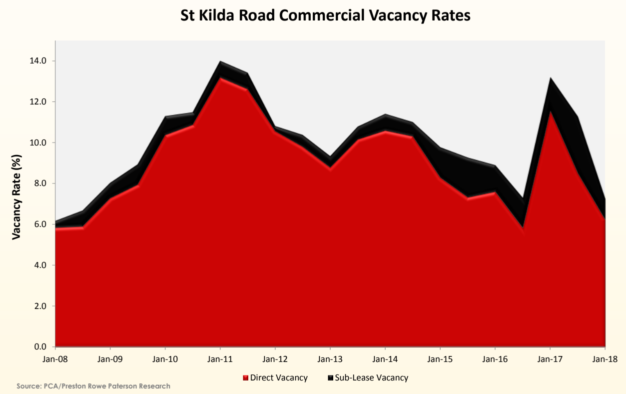


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA

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# RETAIL MARKET

## Retail Statistics

The Australian Bureau of Statistics recorded an increase of 0.23% in Victoria's total retail turnover over the month to March 2018. The seasonally adjusted turnover for March in Victoria stands at $6,849.1 million, representing a 5.48% increase over the year. All of the major retail groups experienced positive year-on-year growth with Clothing, footwear and personal accessory leading with +9.99% turnover followed by Other retailing at +7.44%.

The overall retail property market in Victoria continues to perform well with private investors looking for value-add retail asset opportunities. The further increase in foreign investment, the strong tourism market and population growth supports the retail market. Landlords of retail properties in Melbourne CBD are focusing on high profile tenants as demand from international entrants and high-end flagship stores grows further. This include the recently signed Versace that will open its first Australian stand-alone flagship store in the T&G Building on 161 Collins Street next to Gucci following other European luxury brands that has made its mark on Melbourne's retail sector.


Chart 13 – Victoria Retail Turnover – Source ABS


Chart 14 – Victoria Turnover % Monthly Change – Source ABS

## Investment Activity

**41 Bristol Road, Torquay, VIC 3228**

*David Feldman* has purchased **Torquay Village Shopping Centre** from *Wesfarmers* for **$35 million**. The 1.4 hectare neighbourhood shopping centre has a 6,780 square metre floor area, parking for 260 vehicles and is anchored by *Coles Supermarket, Liquorland* and 15 specialty stores with a WALE of 10.17-years. It sold on a **5.9% yield**, reflecting a rate of **$5,162 per square metre lettable area.** Torquay is located 98.3 km south-west of Melbourne's CBD.

**10-16 Ocean Beach Road, Sorrento, VIC 3943**

An award-winning heritage retail building has sold for **$7.125 million**. The c.1905 building is occupied by **Country Road** on a 7-year lease with two 5-year remaining options, currently generating $279,505 per annum. The 589 square metre store occupies a 750 square metre site with rear lane access and a 20m street frontage. The sale was struck on a **3.6% yield**, reflecting a **rate of $12,097 per square metre lettable area**. Sorrento is located on the Mornington Peninsula, 91 km south of Melbourne's CBD.

**1389 Centre Road, Clayton, VIC 3168**

A group of local investors - all involved in fruit and vegetable trade - have purchased a Coles supermarket for **$17.115 million.** The standalone supermarket with a lease expiring in 2033, including option periods sold on a **record low yield of 2.57% for this asset class**. The property occupies a significant 2,833 square metre corner position, adjacent to a separate on-grade car park with capacity for 336 vehicles. The new owners intend to hold the land and potentially develop the site in the future. The sale returns a **rate of $6,005 per square metre lettable area**. Clayton is located 20.6 km south east of Melbourne's CBD.

## INDUSTRIAL MARKET

### Investment Activity

**20-30 Heaths Court, Mill Park, VIC 3082**

*Kraft/Heinz* has sold the 11,420 square metre industrial property for **$6.885 million** to an undisclosed purchaser. The facility is situated on a 3.07 hectare site and includes office space over multiple buildings and juicing/cooling rooms. The sale represents a **rate of $603 per square metre lettable area.** Mill Park is located 19 km north of Melbourne's CBD.

**121-139 Dohertys Road, Altona North, VIC 3025**

Lendlease's investment arm, *Australian Prime Property Fund (APPF) Industrial,* has acquired a **Myer distribution centre** for **$38.15 million** from *Dexus*. The 30,400 square metre facility sits on an 11.59 hectare site and may have future development potential on un-utilised land. The facility, fully leased to *Myer* for the next 6-years, generates $2.3 million of annual income, whilst the sale reflects a **yield of around 6%** and a **rate of $1,266 per square metre lettable area**. Altona North is located 12.8 km south-west of Melbourne's CBD

**25-33 Fourth Avenue, Sunshine, VIC 3020**

*GPT Group* has purchased a major logistics and distribution hub for **$74 million** from the *Taylor Family*. The premises comprises of four buildings that span 52,804 square metres whilst the property has a weighted average lease expiry of 9-years. The sale reflects a **rate of $1,401 per square metre lettable area**. Sunshine is located 13 km west of Melbourne's CBD.

**15-33 Alfred Street, Blackburn, VIC 3130**

Perth-based *GM Property Group* has purchased the 20,400 square metre warehouse and office facility from *Forza Capital* for **$31.5 million**. The property is fully leased and reportedly **sold on a 6.75% yield**. This sale reflects a **rate of $1,544 per square metre lettable area**. Blackburn is located 17.9 km east of Melbourne's CBD.

### Leasing Activity

**165 Bazalgette Crescent, Dandenong South, VIC 3175**

Manufacturer *Norma Group* has pre-committed to lease a purpose-built 3,000 square metre office and warehouse facility at the **Logis Eco-Industrial Business Park**. The **7-year** deal will commence when owners *BFD Construction* complete the build, which has already won numerous design awards and seen a surge in demand from businesses who want to relocate to the area. The deal was done at a **gross rate of $110 per square metre lettable area**. Dandenong South is located 31.3 km south east of Melbourne's CBD.

**68 Boundary Road, Sunshine West, VIC 3020**

*Britax Childcare Products* will move to the 2,112 square metre industrial facility for the next **5-years**. The warehouse includes two high clearance roller doors, all-weather loading awnings and two levels of modern office accommodation. The annual rent achieved for the property is **$158,400 net per annum**, reflecting a rate of **$75 per square metre lettable area**.

**92-96 Pipe Road, Laverton North, VIC 3026**

Ebay subsidiary *Princess Trade* have secured a lease over the high clearance warehouse and office building for **$157,000 net per annum.** The 2,142 square metre building was leased at a **rate of $73 per square metre lettable area.**

**287 Wellington Road, Mulgrave, VIC 3170**

*PGA Group* have leased out their industrial facility to manufacturer *Nutex Coatings* for the next **5-years**. The 3,281 square metre facility was leased at **a gross rate of $100 per square metre lettable area.**

**2/24 Columbia Court, Dandenong, VIC 3175**

Investment and development group *Goodman* has leased a newly built industrial and office facility for **$90 net per square metre lettable area** over **5-years**. The property is a high-clearance warehouse with two on-grade roller shutter doors and two floors of modern office and lobby space, measuring 3,041 square metres floor area. *Romak Hardware Distributors* secured the facility which was also offered for sale for $4.41 million.

**41-55 Leakes Road, Laverton North, VIC 3026**

Construction company *Hickory Group* has signed a **10-year** lease for the brand-new, purpose-built industrial and office facility. The property is situated on a 6.6 hectare site, whilst the facility itself measures 21,733 square metres. The property will generate an annual income of **$1.555** million, reflecting a **rate of $72 per square metre lettable area.** Laverton North is situated 14.6 km west of Melbourne's CBD.

**59-68 Wedgewood Road, Hallam, VIC 3803**

*Manufacturer Zip Industries* has secured a **5-year lease** of a 1,661 square metre office/showroom facility in Melbourne's south-east for a **gross annual rent of $82 per square metre lettable area**.

**290 Salmon Street, Port Melbourne, VIC 3207**

*Diam International* has signed a **5-year** lease for a *GPT Group*'s owned industrial unit. The property features a warehouse with high-clearance roller doors, modern office space, showroom space and hardstand. The site is leased at a **net annual rent of $248,490**, reflecting a **rate of $130 per square metre lettable area**. Port Melbourne is positioned 5 km south-west of Melbourne's CBD.

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# RESIDENTIAL MARKET

## Building Approvals

The Australian Bureau of Statics reported that the building approval over the month to March 2018 totalled to 2,352 (+9.70%) for houses and 2,870 (+20.13%) for units in Greater Melbourne. These figures indicate an increase of 19.74% as compared to approvals a year earlier.

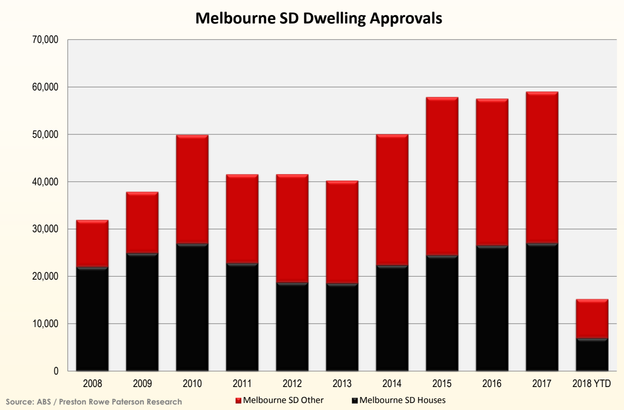


Chart 15 —Melbourne SD Dwelling Approvals—Source ABS

## Market Affordability

The Real Estate Institute of Australia (REIA)'s December Quarter 2017 reported a quarterly increase of 1.1% in Melbourne's house prices with a median of $821,000. Over the past quarter, Outer Melbourne recorded the largest increase, elevating the median house price by 2.4% to $666,500, reflecting 11.3% increase year on year.

Inner Melbourne's house prices recorded a 0.9% increase over the quarter to $1,513,000. 2,177 houses were sold in Inner Melbourne during this period, representing a 5.5% yearly increase in Inner Melbourne's house prices. Middle Melbourne house prices saw a modest increase of 0.3% over the quarter to $988,000. This figure reflects an annual median house price change of 8.8%.

In Melbourne, the median price for units carried up to $594,500 (+1.2%) in the quarter. The year on year change was recorded at a

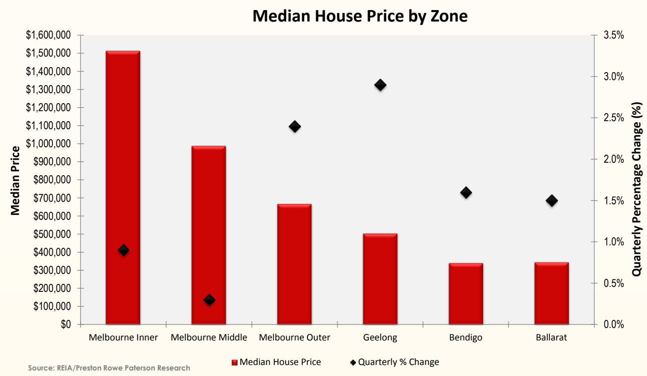


Chart 16 – Median House Price by Zone – Source REIA

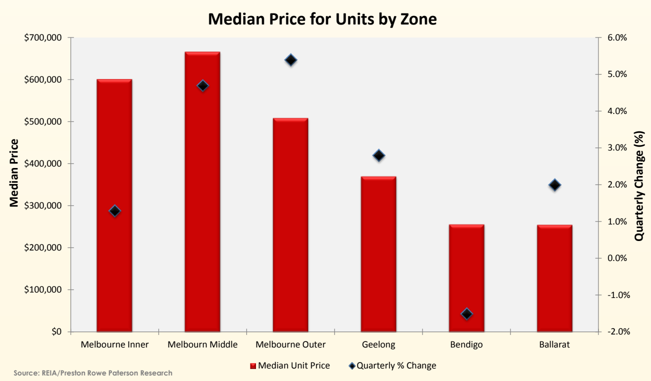


Chart 17 – Median Price for Units by Zone – Source - REIA

higher rate of 6.5%. Similar to the house sales trends, Outer Melbourne units recorded the largest median price increase over the quarter rising by 5.4% to $508,500.

After a steep fall of 5.6% over the September 2017 quarter, Middle Melbourne unit price recorded a quarterly increase of 4.7% on December 2017 with 1,881 sales transaction recorded. This same trend was also seen in Inner Melbourne where median price of unit dwellings increased by 1.3% after a steep fall of 5.6% during the September 2017 quarter. There were 2,477 transactions recorded for units in Inner Melbourne, reflecting a yearly change of 2.2%.

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## Rental Market

Over the December 2017 quarter, Melbourne houses recorded predominantly positive rental price growth. Houses in Middle Melbourne performed the strongest, with 2, 3 and 4 bedroom houses recording positive rental growth of 2.3%, 2.0% and 2.4% to $450, $500 and $650 respectively.

Inner Melbourne's 2 and 4 bedroom houses weekly rent remains unchanged at $565 and $950 respectively whilst 3 bedroom houses experienced an increase of 2.3% to $750 per week. Outer Melbourne 2 bedroom house weekly rent remains unchanged at $330 per week meanwhile the 3 and 4 bedroom houses recorded similar growth rates of 1.4% and 1.2% resulting to a $370 and $415 weekly rent respectively.

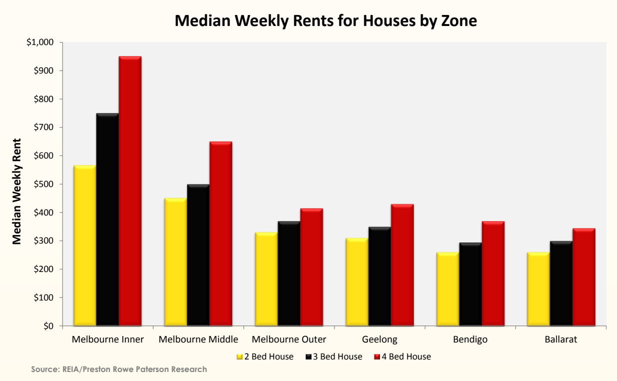


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

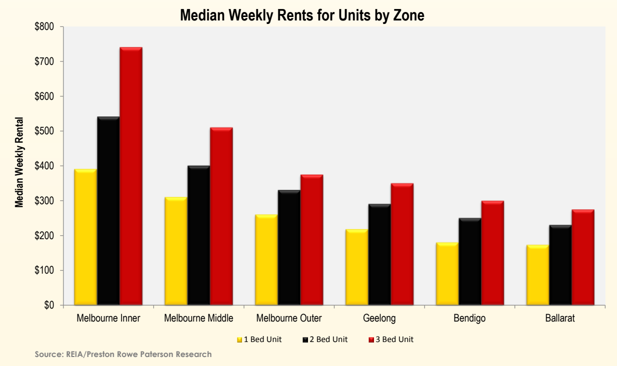


Chart 19 - Median Weekly Rents for Units by Zone – Source - REIA

The weekly rent for units in Inner Melbourne recorded a slight increase of 1.3% to $395 for 1 bedroom units while the 3 bedroom units recorded an accelerated increase of 5.4% to $780 weekly rent. However, 2 bedroom units declined by 1.9% to $530 per week.

Middle Melbourne units experienced an overall increase in its weekly rental income. The 1 bedroom dwellings experienced the highest increase followed by the 2 and three bedroom increasing at 3.2%, 2.5% and 1.0% to $320, $410 and $510 per week respectively. Outer Melbourne's 1 and 2 bedroom units remained unchanged at $260 and $330 per week meanwhile 3 bedroom units recorded an increase of 1.1% over the quarter to $379 weekly.

## GEELONG

## Market Affordability

Over the December quarter 2017, the median house price in Geelong increased by 2.9% to $450,000. This figure represents a 12.0% increase over the year. Similarly, the median price of units in Geelong depict a rise of 2.8% over the quarter, bringing median price up to $370,000, reflecting a 10.4% increase year on year.

## Rental Market

Geelong's houses experienced an overall increase over the quarter to December 2017. The median rent for 1, 2 and 3 bedroom houses experienced 6.9%, 2.9% and 2.4% increase, bringing median rent per week to $310, $350 and $430 respectively. Units in Geelong performed similarly strong in-terms of rental growth, with 1, 2 and 3 bedroom units experiencing a respective increase of 2.3%, 3.4% and 4.3% to $220, $300 and $365 weekly rent.

## BENDIGO

## Market Affordability

Over the December quarter, Bendigo's median house price declined by 1.8%, down to $332,500. Units in Bendigo experienced a similar decline, of 1.9%, bringing unit mean price down to $265,000.

## Rental Market

Bendigo's 2 and 3 bedroom houses experienced 4.0% and 3.5% increase in weekly rent. The 2 bedroom house rent increased to $260 per week, whilst 3 bedroom house rent increased to $295. However, the 4 bedroom house rent remained unchanged at $330. In contrast to this, 2 bedroom units in Bendigo recorded a positive growth (+1.3% to $245) whereas 1 bedroom and 3 bedroom unit rents remained unchanged, at $180 and $300 per week, respectively.

## BALLARAT

### Market Affordability

Ballarat's median house price remained unchanged over the December quarter, at $320,000. In contrast to this, a decline of 2.8% was recorded for units in this area, with median price declining to $234,000.

### Rental Market

Ballarat's 2 and 4 bedroom houses both recorded a quarterly rental income increase of 2.9%, to bring their respective weekly rent up to $250 and $360. The weekly rent for 3 bedroom houses remained unchanged over the period, remaining at $290. Ballarat's 2 and 3 bedroom units also recorded positive growths of 2.1% and 3.6% to $240 and $285 respectively, however 1 bedroom unit rent remained unchanged over the quarter at $165.

## HOTEL & LEISURE

### Investment Activity

**42 Melba Highway, Yering, VIC 3770**

Chinese investor *William Wei* has acquired the **Chateau Yering Hotel** in the Yarra Valley from *Len and Elly Milner* for approximately **$14 million**. Originally built circa 1854, the property has been transformed into a luxury countryside hotel, wedding venue and conference centre, spread over 100 hectares. The facility offers 32 luxury suites, a restaurant, café and extensive gardens which were designed by a world-renowned botanist. The sale reflects a **rate of approximately $437,500 per suite**. Yering is located 47 km north-east of Melbourne's CBD.

**27 Little Collins St, Melbourne VIC 3000**

*Qatar Airlines* have purchased the **Sheraton Melbourne Hotel** from *Golden Age Group* for **$135 million**. The 5-star, 174-room hotel opened in 2014 and includes two restaurants, a rooftop bar, function space, spa, gym and an indoor heated pool. The sale gives a **rate per room of $775,862**.

## SPECIALIZED PROPERTY MARKET

### Investment Activity

**502-504 Middleborough Road, Blackburn, VIC 3130**

Private investors have exchanged the purpose built child care centre for just over **$9 million.** The centre is leased to ASX listed **G8 Education** for 10 years with options. The centre has a 110 child placement capacity and 21 parking bays over a 2,007 square metre site area. The sale reflects a **rate of $81,818 per placement** and was sold on a **yield of 4.72%.** Blackburn is located 17.9 km east of Melbourne's CBD.

**519 Melbourne Road, Newport, VIC 3015**

An under-construction childcare centre in Melbourne's south-west has sold for **$8.2 million**. The facility, which is scheduled to open in October this year, will have a 130 placement capacity, 3,204 square metres of floor area and comes with a brand new 15+10+10 year lease agreement which expires in 2052. With a net income of $520,000 per annum, this sale reflects a **yield of 6.34%**, whilst it shows a rate of **$63,077 per placement**. Newport is located 9.6 km south-west of Melbourne's CBD.

**1-11 Dunnings Road, Point Cook, VIC 3030**

Local Pharmacists *Tony Maher* and *Ashim Marfatia* have sold their Point Cook medical facility for **$9.3 million** to a Hong Kong investor. The 5,332 square metre corner site is fully-occupied by medical tenants with a passing income of $493,875 p.a. and a WALE of 6.3 years. It is approved for 25 medical practitioners. The sale **yields a 4.93% return** and gives **rates of $1,744 per square metre site area** and **$8,509 per square metre lettable area**. Point Cook is located 29 km south-west of Melbourne's CBD.

## PROPERTY FUNDS & CAPITAL RAISINGS

**Normura funds Wolfdene land acquisition in Melbourne's southeast.**

A global syndicate funded by Japanese bank *Normura* have financed the **$100 million** acquisition of **Brompton,** a 100 hectare Greenfield development site in Cranbourne South. This move follows a trend of local developers turning to international capital, due to traditional finance sources losing their appetite for large development loans.

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# ECONOMIC FUNDAMENTAL

## Consumer Price Index

Over the three months to March 2018, Australia's Consumer Price Index (CPI) increased by 0.4%, elevating the inflation rate to 1.9% over the last twelve months. Over the quarter, strong increases stemming from the education sector (+2.6%), health (+2.2%) and transport (+1.1%) were offset by the declines in clothing & footwear (-2.0%), recreation & culture (-0.7%), furnishings, household equipment and services (-0.4%) as well as communication (-0.4%).

CPI of all of Australia's capital cities increased apart from Darwin. The CPI of Darwin remains unchanged over the quarter, however, this figure reflects a +1.2% change over the year to March 2018. Melbourne recorded the largest increase in CPI at 1.0% over the quarter, followed by Canberra and Hobart at 0.9% and 0.8% increase respectively.

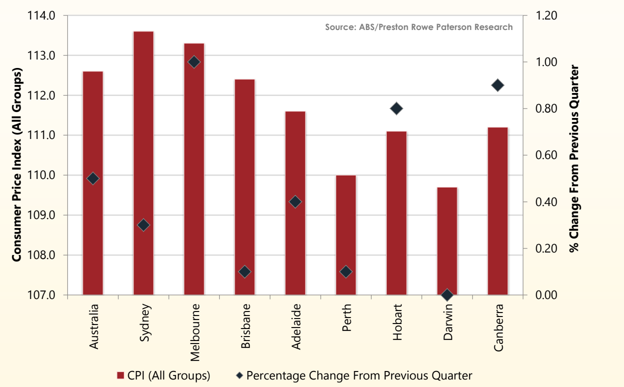


Chart 20—All Group CPI (Capital Cities) and Percentage Change — Source—ABS

## Consumer Sentiment

According to the Westpac—Melbourne Institute Consumer Sentiment Index, overall consumer sentiment in March 2018 increased by 0.2% over the month to an index of 103.0 from 102.7 in February. Westpac noted that consumer sentiment remains slightly optimistic as March 2018 holds the fourth consecutive month recording above the 100 index following a low performing 2017. The increase is influenced by the low interest rate environment and employment rate becoming more favourable than it was during 2017. However, there are still increasing concerns around domestic and international economic conditions and confidence around job prospects, keeping the consumer sentiment relatively modest.

## Business Sentiment

According to the NAB Quarterly Business Survey, confidence amongst Australian businesses remains unchanged at +7 index points over the quarter to March 2018. However, NAB did note that despite the unchanged business confidence, business conditions increased by two basis points to +17, the highest recorded level since 2007. The improvement in business conditions reflected the improvement in employment and trading conditions.

The NAB survey suggests that the main concerns affecting business confidence in Australia are pressure on margins, wage costs, government policies and regulations. Business confidence were positive for all industries other than property (-8) and finance (-3). Retail (+8), manufacturing (+7), wholesale (+7), transport & utilities (+4) and recreational & personal (+3) experienced strong levels of confidence, whilst mining (+19) construction (+10) and business (+11) continue to see the strongest levels of growth amongst all industries.

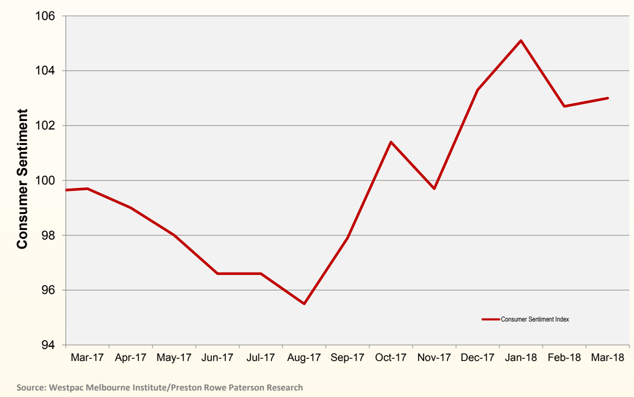


Chart 21—Consumer Sentiment Index —Source—Westpac Melbourne Institute Survey

| | Mar 2018 | Feb 2018 | Mar 2017 | Mar 2016 |
|---|---|---|---|---|
| **Consumer Sentiment Index** | 103 | 102.7 | 99.7 | 99.1 |
| **Family finances vs. a year ago** | 86.6 | 84.6 | 78.5 | 87.3 |
| **Economic conditions next 12 mth** | 100.4 | 98.8 | 98.1 | 95 |
| **Time to buy a dwelling** | 104.5 | 103.8 | 99.6 | 104.7 |

Table 3—Consumer Sentiment —Source—Westpac Melbourne Institute Survey

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## Gross Domestic Product

Australia's economy increased by a seasonally adjusted 0.4% over the December quarter 2017, following an increase of 0.7% recorded in the September quarter. Over the year, the economy grew by 2.4%, which is below Australia's historical trend growth rate of 2.75%. Over the December quarter, household final consumption expenditure increased by 1.0%, which is considerably higher than the upwardly revised September quarter figure of 0.5%. It is noted that all components of the group increased, except for Food and Utilities, with a major influence from discretionary spending in Hotels, cafes & restaurants and recreation & culture.

Overall final demand in Australia increased by 0.6% in the December quarter, with increases recorded in all states except for Western Australian and the Northern Territory. The Australian Capital Territory, Tasmania and New South Wales recorded the largest increases in final demand over the quarter, at 1.6%, 1.3% and 1.0% respectively. Queensland, South Australia and Victoria recorded increases of 0.9%, 0.8% and 0.3% respectively. The Northern Territory recorded a decline of 7.6% in final demand, whilst Western Australia recorded a decline of 0.2%.

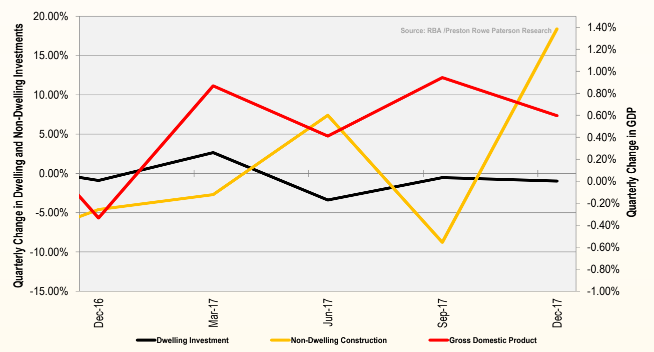


Chart 22— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

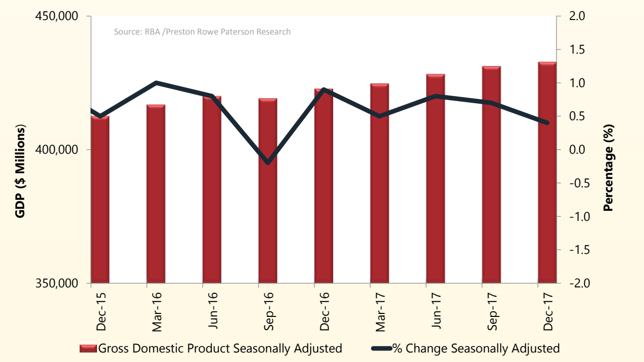


Chart 23— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

## Unemployment

The national unemployment rate remained unchanged at 5.5% over the quarter to March 2018 and the participation rate decreased by 0.1% to 65.5% over the same period. The 24,400 part time jobs filled over the month offset by the 25,100 decrease in full time job positions reflect a broader push to a casualization of the workforce. Over the year to March 2018, 366,300 persons have been employed, of which 226,500 were employed on a full time basis and 139,800 on part time employment. Notably, this is the first quarter that the employment rate remained unchanged after the consecutive monthly increase over the year to December 2017. Additionally, the employment to population ratio decreased by 0.1% to 61.9% over the month and increased by 0.8% over the year.

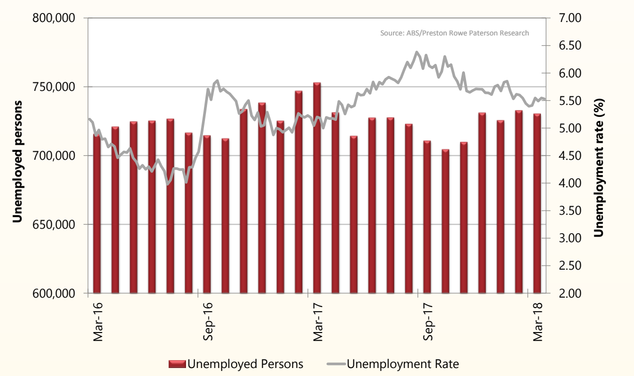


Chart 24— Unemployment Persons and Unemployment Rate— Source: ABS

| | Unemployment Rate (%) | | | Participation Rate (%) | | |
|---|---|---|---|---|---|---|
| | February | March | | February | March | |
| Australia | 5.5 | 5.5 | — | 65.6 | 65.5 | ▼ |
| New South Wales | 4.8 | 5.0 | ▲ | 64.6 | 64.5 | ▼ |
| Victoria | 5.7 | 5.3 | ▼ | 65.5 | 65.6 | ▲ |
| Queensland | 6.2 | 6.1 | ▼ | 66.2 | 65.9 | ▼ |
| South Australia | 6.2 | 5.6 | ▼ | 63.3 | 62.4 | ▼ |
| Western Australia | 6.1 | 6.9 | ▲ | 68.1 | 68.7 | ▲ |
| Tasmania | 6.0 | 6.1 | ▲ | 61.2 | 61.4 | ▲ |
| Northern Territory* | 4.3 | 4.3 | — | 76.1 | 76.2 | ▲ |
| Australian Capital Territory* | 4.0 | 4.0 | — | 72.0 | 71.7 | ▼ |

Table 4— Unemployment Rate and Participation Rate — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly

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## 10 Year Bond & 90 Day Bill Rate

The 10 Year Australian government bond yields floated between 2.58% to 2.86% over the quarter, peaking on February and down to an average of 2.72% on March. This figure indicates a decline by 0.16% over the month but an increase of 14 basis points from December's average of 2.58%. On the other hand, the 90-Day bank bill swap rate increased by 19 basis points over the month of March to 1.93% and 14 basis points over the year.

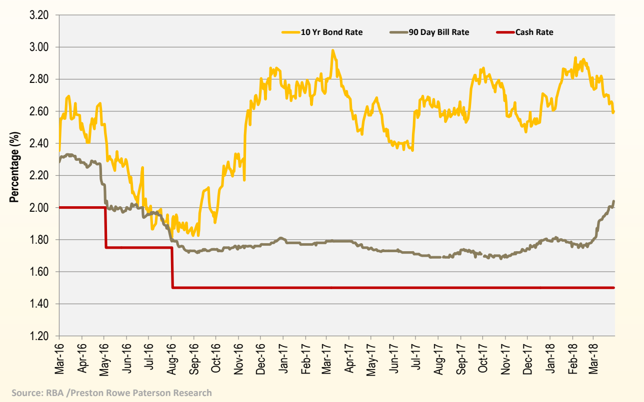


Chart 25— Monthly movement of 90-day Bill, 10-year bond yields and Cash rate — Source: RBA

## Interest Rates

Interest rate was kept unchanged for the eighteenth meeting in a row in March 2018, with the cash rate remaining at 1.5%. The Reserve Bank of Australia based its decision on the fact that although uncertainties remain, the global economy has improved modestly over the past year with advanced economies growing and low employment rates.

Australia's major trading partner, China, is also still showing solid growth and RBA noted that the authorities are paying more attention to debt risk in the financial sector. The global economy has also contributed to the price increase of oil and other commodities over the year and RBA expects Australia's terms of trade to decline in the near future, albeit remaining at a relatively high level.

Australia's economy is forecasted to grow on faster this year than 2017 as business conditions and non-mining business investment continues to grow. Inflation and wage growth remains low, as is the same for most developed countries, though the RBA expected for unemployment to reduce and inflation to return to the target gradually.

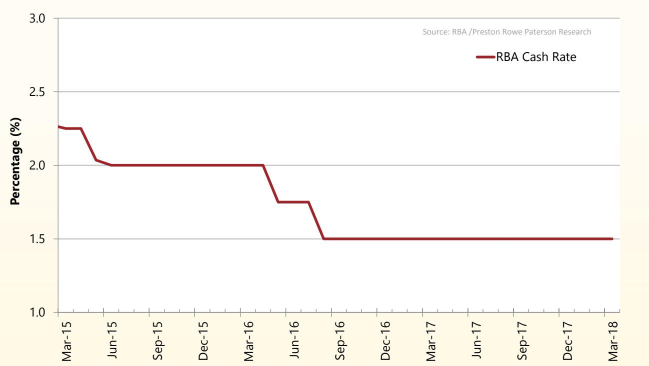


Chart 26— Movement of the Cash Rate — Source: RBA

## Exchange Rate

The Australian currency depreciated against most major currencies over the month to March. The Australian dollar slipped against the US Dollar, depreciating by 1.6% to buy $USD0.7665. Furthermore, the Australian Dollar declined against the UK Pound, the Euro, the Japanese Yen and New Zealand Dollar, with $AUD1 buying £0.5444 (-2.8% m-o-m), €0.6217 (-2.4% m-o-m), ¥81.61 (-2.3% m-o-m) and $NZD1.0646 (-1.2% m-o-m) respectively. Over the quarter, the Australian Dollar fared worse, depreciating 1.7% against the US Dollar, 6.1% against the UK Pound, 4.8% against the Euro, 7.2% against the Yen and 3.14% against the New Zealand Dollar. The Australian exchange rate remained within the range of where it has been over the past two years. RBA expects the low exchange rate will let the economy pick up in a faster rate.

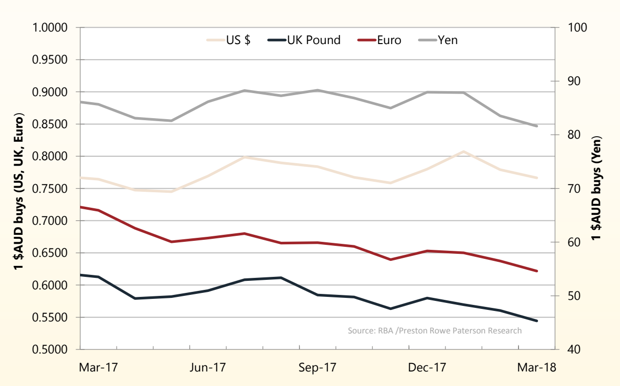


Chart 27— Movement in Exchange Rate — Source: RBA

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

## We have *property* covered

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- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
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- 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:

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- 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

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- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
- Investment advisors
- 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
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- Stock brokers
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From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices for special purpose real estate asset classes, infrastructure and plant & machinery.

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- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
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- 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
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- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
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