



Preston
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International Property Consultants

Property Market Report

Victoria

September Quarter 2017

HIGHLIGHTS

- July 2017's Office Market Report from the Property Council of Australia indicates that Melbourne CBD's office market increased by nearly 24,000 square metres over the six months to July.
- East Melbourne's office market benefited from an increase of 7,000 square metres in office stock over the six months to July 2017, whilst total office stock in the Southbank office market declined by nearly 4,600 square metres over the same period.
- Retail turnover figures for September indicate Victoria recorded a seasonally adjusted turnover of \$6,570.8 million.
- In the Great Melbourne region, total number of dwellings approved for construction in September stands at 4,497. This figure indicates a decline of -7.8% when compared to the previous month, and an increase of 0.5% when compared to twelve months prior.
- Median sale price of houses in Melbourne increased by 2.9% to a median price of \$822,000, whilst median sale price of other dwellings in Melbourne increased by 4.3% to \$606,500.

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COMMERCIAL OFFICE MARKET

Melbourne CBD

Supply by Grade (Stock)

July 2017's Office Market Report from the Property Council of Australia indicates that Melbourne CBD's office market increased by nearly 24,000 square metres over the six months to July. Total supply stands at 4,550,598 square metres, which indicates that the Melbourne CBD office market had increased by 0.5% over six months and 2.5% over the past year.

Total Premium Grade stock stands at 751,400 square metres as at July 2017, approximating to 16.5% of total office stocks in Melbourne CBD. Over the six months to July, Premium Grade stock had increased by 3,900 square metres, or 0.5%, though had declined by -0.5% when we compare to total Premium Grade stock from twelve months prior. Additionally, there are 2,257,779 square metres of A Grade stock in Melbourne CBD. Over six months, total A Grade stock had increased by 17,817 square metres, or 0.8%, whilst over the twelve months to July 2017, total A Grade stock had increased by 5.2%. Currently, A Grade stock dominates Melbourne CBD's total office market with a share of 49.6% of total stock.

B Grade stock takes up 19.2% of Melbourne CBD's total office stock, with 875,344 square metres of office space. No change in B Grade office stock was recorded over the half year, though total B Grade stock had declined by -0.7% over the twelve months to July 2017. C Grade stock takes up 12.1% of Melbourne CBD's total office stock, with 549,661 square metres of office space. This figure indicates an increase of 0.3% over six months, and 1.4% over twelve months. D Grade stock remains unchanged over the year with 116,414 square metres of stock, or 2.6% of total Melbourne CBD office stocks as at July 2017.

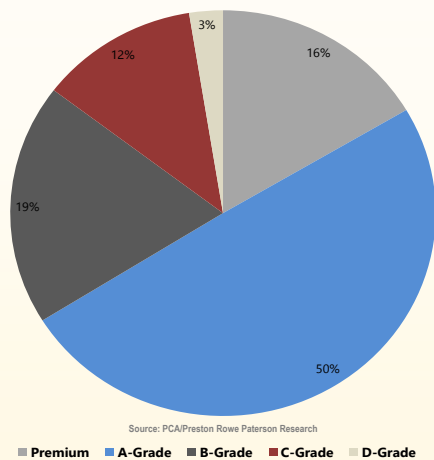


Chart 1 – Melbourne CBD Total Stock by Grade – Source PCA

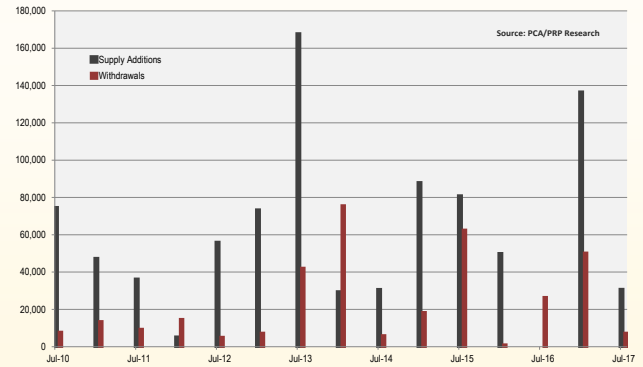


Chart 2 – Melbourne CBD Additional Supply and Withdrawals – Source PCA

Net Absorption

Over the six months to July 2017, Melbourne CBD's office market absorbed 21,430 square metres of net office space, which equates to 0.5% change in occupied stock. When we look at the twelve months to July 2017, Melbourne CBD's office market absorbed 128,389 square metres of space, which equates to a decline of -3.1% in occupied stock over the period.

When we look at Premium Grade offices in Melbourne CBD, the twelve months to July 2017 resulted in 13,842 square metres of net absorption. Furthermore, the Premium Grade office market experienced an increase of 2.0% in occupied stock over the same period. There were 106,772 square metres of A Grade space absorbed over the period, and a 5.3% change in occupied A Grade stock over the twelve months to July 2017. There were 2,011 square metres in net absorption of B Grade office space over the twelve months to July, which led to an increase of 0.2% in occupied B Grade stocks. C Grade stock experienced an increase of 7,516 square metres in net absorption over the twelve months, which led to an increase of 1.5% in occupied stock. D Grade stock experienced a decrease of 1,752 square metres in net absorption, which led to a decline of -1.5% in occupied stock over the twelve months to July 2017.

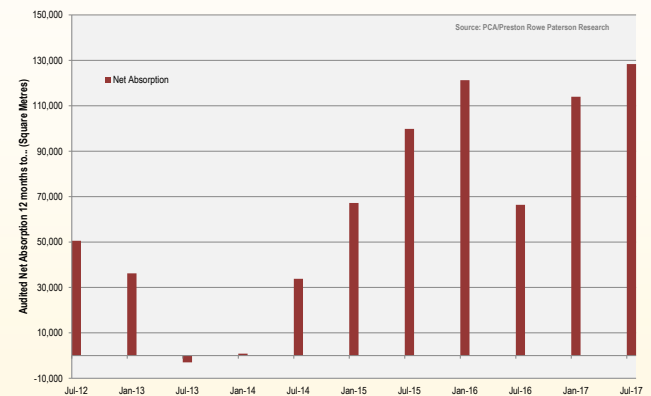


Chart 3 – Melbourne CBD Net Absorption over 12 months to... – Source PCA

Development Sites

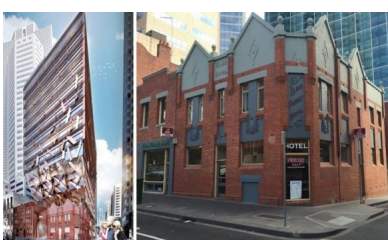
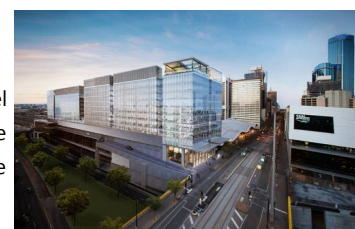
According to the Property Council of Australia (PCA)'s Office Market Report January 2017, the following new developments are expected to be completed in Melbourne's CBD:

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	26000	Q3 2017
One Melbourne Quarter	699 Collins Street, Docklands, VIC 3008	Construction	APPF Commercial	26400	Q3 2018
Melbourne Quarter Tower	693 Collins Street, Docklands, VIC 3008	Site Works	Lendlease	54000	Mooted
5 Collins Square - Site 4E	737 Collins Street, Docklands, VIC 3008	DA Approved	Walker Corporation Pty Ltd	20000	Mooted
New Quay	396 Docklands Drive, Docklands, VIC 3008	DA Approved	MAB Corporation	8500	Mooted
80 Collins Street	80 Collins Street, Melbourne, VIC 3000	DA Approved	Queensland Investment Corporation (QIC)	40000	Q1 2019
271 Spring Street	271 Spring Street, Melbourne, VIC 3000	DA Approved	ISPT	21000	Q3 2019
Wesley Upper Lonsdale Development	130 Lonsdale Street, Melbourne, VIC 3000	DA Approved	Charter Hall	50000	Mooted
Enterprise House	555 Collins Street, Melbourne, VIC 3000	DA Applied	Harry Stamoulise	11280	Mooted
Rialto (DEV)	525 Collins Street, Melbourne, VIC 3000	Construction	Grollo Group; St. Martins Properties	6000	Q1 2017
The Olderfleet	477 Collins Street, Melbourne, VIC 3000	Construction	Mirvac Group	55000	Q1 2019
Collins Arch	447 Collins Street, Melbourne, VIC 3000	Construction	Cbus Property	49000	Q1 2019
405 Bourke Street	405 Bourke Street, Melbourne, VIC 3000	DA Approved	Brookfield Office Properties (Brookfield Multiplex)	61000	Mooted

Table 1 – Development Sites Melbourne CBD – Source PCA

664 Collins Street, Docklands, VIC 3008

Construction of Mirvac's new Docklands office building at 664 Collins Street have begun, of which the nine-level development will supply 26,000 square metres of office space upon its completion. The building has a floorplate size of 2,700 square metres, and will be anchored by accounting firm Pitcher Partners over 10,000sqm of office space. Expected date of completion is set at the third quarter of 2017.



271 Spring Street, Melbourne, VIC 3000

Plans for the construction of a commercial office building at 271 Spring Street have been DA Approved, which will further add an extra 21,000 square metres into Melbourne's supply of office space by 2019. The building, owned by ISPT, will contain 16 levels of office space, though to date, we do not have knowledge of the floorplate size.

525 Collins Street, Melbourne, VIC 3000

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



East Melbourne CBD

Supply by Grade (Stock)

East Melbourne's office market benefited from an increase of 7,000 square metres in office stock over the six months to July 2017, with total office stock increasing to 177,461 square metres. All of this increase stemmed from the increase in A Grade office stock, which increased to 61,352 square metres. As at July 2017, A Grade office stock takes up 34.6% of total stock in East Melbourne's office market. B Grade office stock in East Melbourne remained unchanged over the period, with a total of 89,164 square metres in stock– which dominates East Melbourne's office market, with its share of 50.2% of total office stock. C Grade stock in East Melbourne takes up 10.3% of total stock with 18,278 square metres in total space. D Grade stock also remained unchanged with 8,667 square metres of total office stock, and taking up 4.9% of total office stock in East Melbourne.

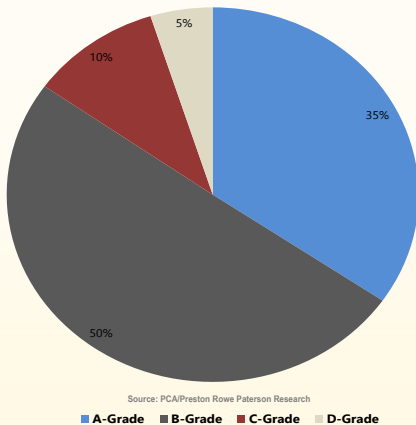


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

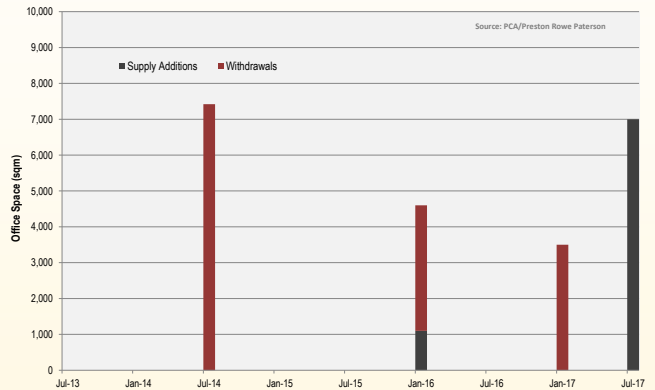


Chart 5 – East Melbourne Additional Supply and Withdrawals – Source PCA

Net Absorption

Over the six months to July 2017, East Melbourne's office market absorbed 4,936 square metres of net office space, which equates to 3.0% change in occupied stock. When we look at the twelve months to July 2017, Melbourne CBD's office market absorbed 230 square metres of net office space, which led to an increase of 0.1% in occupied stock over the period.

There were 2,071 square metres of A Grade space absorbed over the period, alongside an increase of 3.7% in occupied stock over the twelve months to July 2017. There was a decline of -811 square metres in net absorption of B Grade office space over the twelve months to July, which led to a decrease of -0.9% in occupied B Grade stocks. C Grade stock experienced a negative net absorption of -517 square metres over the twelve months, which led to a decrease of -2.9% in occupied stock. D Grade stock experienced a negative net absorption of -513 square metres, which led to a decline of -5.9% in occupied stock over the twelve months to July 2017.

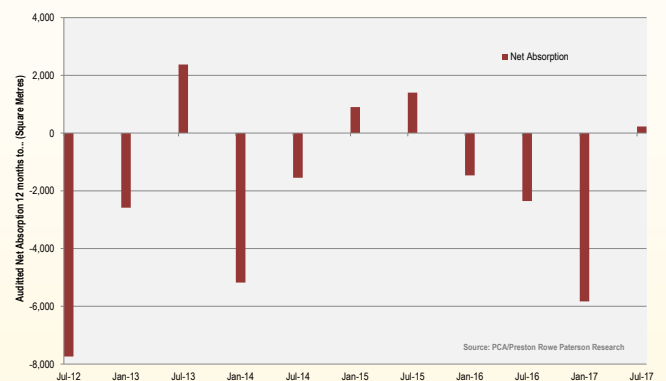


Chart 6 – East Melbourne Office Market Net Absorption over the twelve months to... – Source PCA

Southbank

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Southbank office market during the three months to September 2017:

60 City Road, Southbank, VIC 3006

Alinta Energy will lease level 16 of the 1,308 m² of office building for **6-years** with options. The lessee will pay a **net annual rent of \$500 psm**. Southbank is located approximately 1 km south of Melbourne's CBD.



Supply by Grade (Stock)

Total office stock in the Southbank office market declined by nearly 4,600 square metres over the six months to July 2017. A Grade and D Grade office stocks remained unchanged over the period, at 248,263 square metres and 3,082 square metres, respectively. A Grade office stock takes up 61.9% of total stock and D Grade office stock takes up 0.8% of total office stock. There were 995 square metres of B Grade office stock withdrawn over the period, with total B Grade stock declining to 102,994 square metres. As at July 2017, total B Grade stock takes up 25.7% of total office space. Similarly, there were 3,600 square metres of C Grade office stock withdrawn over the six months to July 2017, resulting in total C Grade office stock declining to 46,803 square metres. Total C Grade office stock now takes up 11.7% of total office stock in the Southbank office market.

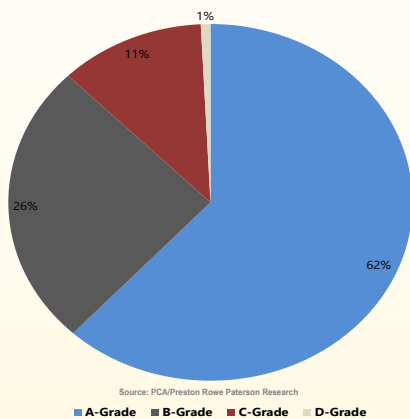


Chart 7 – Southbank Total Stock by Grade – Source PCA

Net Absorption

Southbank's office market experienced a decline of -1,401 square metres in net absorption over the six months to July 2017. However, when we look at the twelve months to July, a decline of -4 square metres in net absorption was recorded, resulting in zero change in occupied stock over the period.

A Grade office stock in Southbank experienced an increase of 2,604 square metres in net absorption over the twelve months to July 2017. This equates to an increase of 1.1% in occupied stock over the period. When we look at B Grade stock, an increase of 1,209 square metres of net absorption was recorded, which led to an increase of 1.2% in occupied B Grade stock. C Grade stock experienced negative net absorption of -3,802 square metres over the twelve months to July 2017, which led to a decline of -7.6% in occupied stock over the same period. When we look at D Grade stock in Southbank's office market, a negative net absorption of -15 square metres was recorded, which led to a decline of -0.5% in occupied stock over the period.

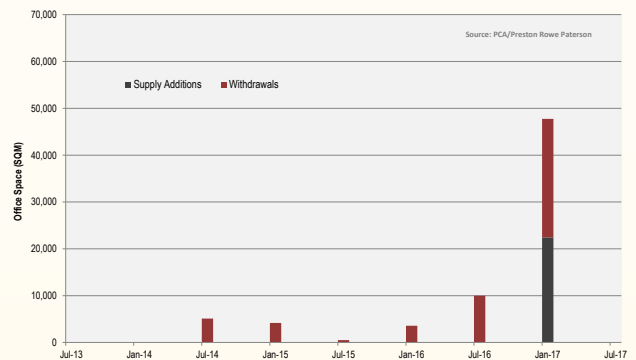


Chart 8 – Southbank Additional Supply and Withdrawals – Source PCA

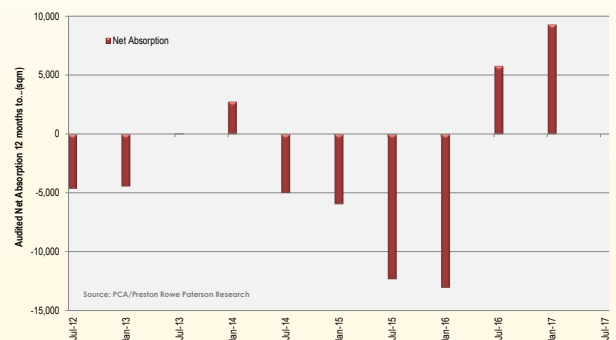


Chart 9 – Southbank Office Market Net Absorption over the twelve months to... – Source PCA

St Kilda Road

Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the St Kilda Road office market during the three months to September 2017:

417 St Kilda Road, Melbourne, VIC 3004

Mapletree Investments has bought the A-grade office tower for **\$145 million** on a sub. **6% yield**. The property has 20,441 m² of lettable area over 10-levels. The tower has capacity for some 472 vehicles and has a 4-star NABERS Energy rating. The sale reflects a **rate of \$7,094 psm lettable area**.

420 St Kilda Road, Melbourne, VIC 3004

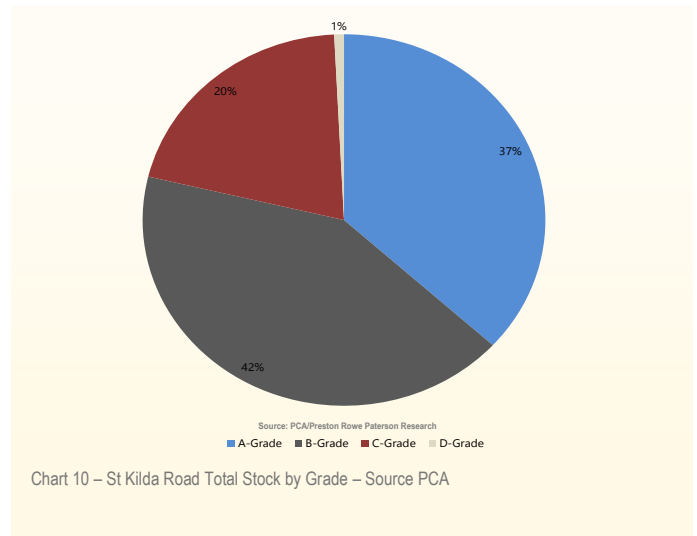
Vantage Property Investments, acting on behalf of US private equity giant KKR has paid **\$68.84 million** for the commercial office tower. The 10-level tower is situated on a 2,286 m² site and has 10,459 m² of lettable area. The building has two basement parking levels with capacity for some 134 vehicles and has a 3.5-star NABERS Energy rating. The sale reflects a **rate of \$6,582 psm lettable area**.

390 St Kilda Road, Melbourne, VIC 3004

Australian Property Opportunities Fund which is managed by Forte Street Real Estate Capital has sold the 22-level office building for **\$98 million** to Rockworth Capital Partners. The 16,307 m² tower has undergone refurbishment of the ground-floor lobby and façade in order to increase and diversify the tenant mix. The tower features basement parking with a capacity for some 212 vehicles and has a 3.5-star NABERS Energy rating. The sale reflects a **rate of \$6,010 psm of lettable area**.

Supply by Grade (Stock)

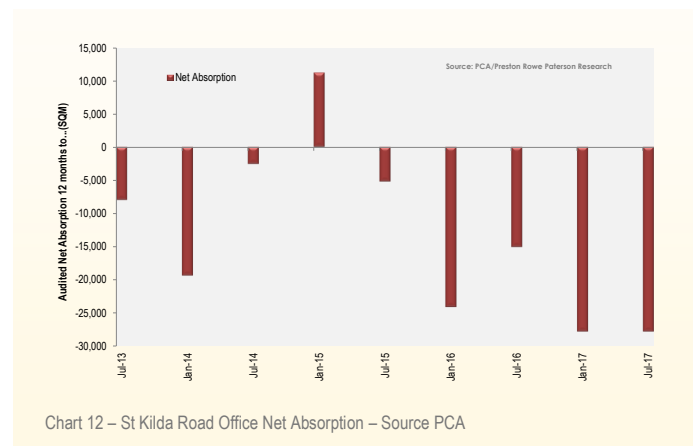
Total office stock in the St Kilda Road office market declined by more than 16,600 square metres over the six months to July 2017, and now currently stands at 667,281 square metres. No change was recorded in A Grade and D Grade stocks over the period, with total A Grade stock remaining at 245,325 square metres whilst D Grade stock remains at a total of 5,224 square metres. As at July 2017, A Grade stock takes up 36.8% of total office stock on St Kilda Road, whilst D Grade stock takes up 0.8% of total office stock. There were 16,285 square metres of B Grade stock withdrawn over the six months period, resulting total B Grade stock declining to 280,208 square metres. B Grade stock still dominates the office market on St Kilda Road, taking up 42.0% of total office space. When we look at C Grade stock in the St Kilda Road office market, 370 square metres of space was withdrawn, with total C Grade stock declining to 136,524 square metres as a result. C Grade stock takes up 20.5% of total office space.



Net Absorption

The six months to July 2017 led to a negative net absorption of -3,412 square metres, resulting in a decline of -0.6% in total office stock in St Kilda Road's office market. Over the twelve months to July 2017, a negative net absorption of -27,751 square metres was recorded, resulting in a decline of -4.5% in occupied stock over the period.

A Grade office stock on St Kilda Road recorded a negative net absorption of -7,937 square metres over the twelve months to July 2017, which led to a decline of -3.3% in occupied stock over the period. When we look at B Grade stock, a negative net absorption of -12,712 square metres was recorded, resulting in a decline of -4.9% in occupied stock over twelve months. C Grade stock in Parramatta recorded a negative net absorption of -7,102 square metres, which has led to a decline of -6.0% in occupied stock over the twelve months to July 2017. D Grade office stock on St Kilda Road experienced no change in net absorption over the twelve months to July 2017, leading to no change in occupied stock over the period.



RETAIL MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following retail transactions that occurred in the Melbourne metropolitan area during the September quarter 2017:

Corner Glenferrie Rod and Dandenong Road, Malvern VIC 3144

Kokoda Property will acquire the 4,720 site for **\$40 million**. The site currently has retail and office properties and is anchored by **Angel Tavern**. The site is has the potential to be re-developed into a \$600 million mixed use transport hub which will include hospitality outlets, retail and residential components. The sale reflects a **rate of \$8,475 psm of site area**. Malvern is located 9.4 km south-east of Melbourne CBD.

9 Village Way, Pakenham, VIC 3810

Three private owners have sold **Lakeside Square Shopping Centre** for **\$30.38 million** on a **5.8% yield** to a private Sydney investor. The centre is anchored by Woolworths Supermarket and BWS liquor store as well as a medical centre and a further 14 specialty stores. Pakenham is located 58.6 km south-east of Melbourne's CBD.

421 Bourke Street, Melbourne, VIC 3000

The *Shaw* family has sold the retail and office building at auction for **\$7.6 million** to the *Giannarelli* family. The building situated in the heart of Melbourne, was built in c.1859 and features a three level building with 380 m2 of lettable area on a 130m2 site. The sale reflects a **rate of \$20,000 psm lettable area**.

130-138 Bromfield Street, Colac, VIC 3250

A private Melbourne family have bought the 6,500 m2 retail property for **\$7.8 million** on a **6.1% yield**. The whole property is currently leased to Wesfarmers owned- **Bunnings Warehouse** on an **8-year** lease. The sale reflects a **rate of \$1,200 psm of lettable area**. Colac is located 154 km south-west of the Melbourne CBD.

120-200 Rosamond Rd, Maribyrnong VIC 3032

GPT Group's unlisted fund *GPT Wholesale Shopping Centre Fund*, have acquired the remaining 25% stake of **Highpoint Shopping Centre** from the *Besen* family for **\$680 million** on a **4.2 % yield**. *GPT Wholesale Shopping Centre Fund* now has 83.33% shares and *GPT Group* holds the remaining 16.67% shares in the retail asset. The property features 154,000 m2 of lettable area and incorporates up to 500 retailing stores namely; **Myer, David Jones, Woolworths, Zara, Topshop, Apple** and **Samsung**. **Highpoint Shopping Centre** is in the top-5 best retailing centres in Australia and generates an annual turnover of just under \$1billion.

Unit 4/ 153-161 Old Geelong Road, Hoppers Crossing, VIC 3029

A local private investor has bought an 8,933m2 **Good Guys Retail** property for **\$11 million** on a **6.3% yield**. The sale reflects a **rate of \$1,232 psm of lettable area**. Hoppers Crossing is located 27 km south-west of Melbourne CBD.

789 Heidelberg Road, Alphington, VIC 3078

A private family have sold a 6,416 m2 **Dan Murphey's** liquor store for **\$22.5 million** on a **3.2% yield** to an Italian family. The corner site com-prises of a 2,663 m2 building and onsite parking for some 84 vehicles. There is a secured lease to **Woolworths Limited** and **Dan Murphey's** liquor expir-ing in 2032. The sale reflects a **rate of \$8,449psm of lettable area**. Alphington is located approximately 8.3 km north-east of Melbourne CBD.

131-141 Lava Street, Warrnambool, VIC 3280

A **Coles Supermarket** has sold for **\$14 million** on a **5.7% yield** to a private investor. The 4,022 m2 site comprises a 2,670 m2 freestanding building which is located near a main retail strip. The sale reflects a **rate of \$5,244 psm lettable area**. Warrnambool is located 253 km south-west of Melbourne CBD.

Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the Melbourne metropolitan areas during the September Quarter 2017:

Corner Benetook Avenue and Calder Highway, Mildura, VIC 3500

Pets Domain will lease a 1,152 m2 retail showroom from landlord *MPG Funds* for **8-years** at the **Mildura Homemaker Centre**. The annual rent was not disclosed but indicative rents in the vicinity are about **\$80 - \$140 psm**. Mildura is located 540 km north-west of Melbourne's CBD.

280-282 Bourke Street, Melbourne, VIC 3000

Pandora has agreed on terms to lease the entire building which comprises 5-levels from the *Snowden Family*. The 90 m2 ground floor level of the building will be used as a retail outlet and the remaining levels will be used for other non-retail use and storage. The tenant will pay **\$1 million annual rent**.

Retail Statistics

Retail turnover figures released by the Australian Bureau of Statistics (ABS) for September indicate Victoria recorded a seasonally adjusted turnover of \$6,570.8 million. This figure indicates that turnover remained flat over the month, after a month-on-month decline of -0.7% recorded in August. Retail turnover for September indicates a growth of 2.3% when compared to twelve months prior. When we take a look around the country, New South Wales (+0.2%), Queensland (+0.3%), South Australia (+0.7%), Tasmania (+0.6%) and the Australian Capital Territory (+0.1%) all recorded increases in retail turnover over the month to September. In contrast, Western Australia (-1.3%) and the Northern Territory (-1.7%) both recorded declines in retail turnovers over the same period.

Over the month to September, increases in turnovers were recorded in Department store sales, Food retailing and Café, restaurants & takeaway food service sales. Department store sales recorded a strong growth of 3.5% , lifting turnover for September to \$395.9 million. Food retailing and Café, restaurant & takeaway food services sales increased by 0.4% and 0.1% respectively. Turnover for Food retailing for the month increased to \$2,560.7 million, whilst café, restaurant & takeaway food services turnover increased to \$857.0 million. In contrast, Household goods retailing, Clothing, footwear & personal accessory retailing and Other retailing all recorded monthly declines in their turnover figures. Household goods retailing declined by -0.6%, down to \$1,170.8 million, Clothing, footwear & personal accessory retail turnover declined by -0.4% to \$548.3 million and Other retailing turnover declined by -1.3% to \$1,038.1 million.

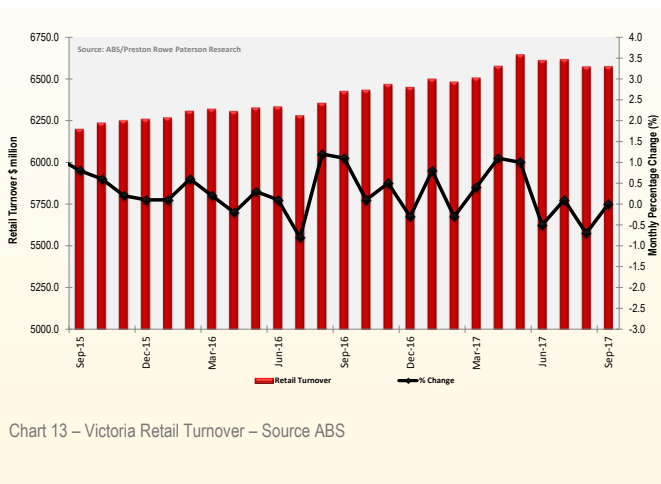


Chart 13 - Victoria Retail Turnover - Source ABS

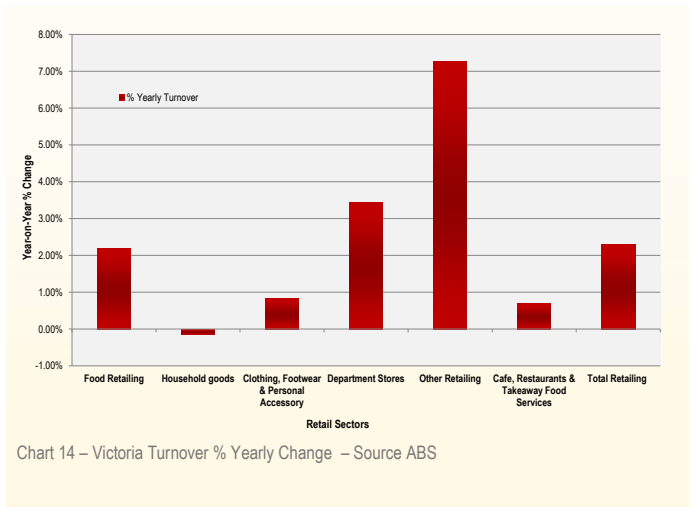


Chart 14 - Victoria Turnover % Yearly Change - Source ABS

Online Retail

The Australian & New Zealand Standard Industrial Classification (ANZSIC) defines 'retail trade' as "the purchase and on-selling, commission-based buying, and commission-based selling of goods, without significant information, to the general public".

National Australia Bank's latest release of the Online Retail Sales Index indicates that over the month to August, online sales increased by a seasonally adjusted 1.7%, which the bank has stated to be 'beyond the usual' seasonal pattern for August. Furthermore, when looking at year-on-year changes, a strong 10.3% growth was recorded when compared to online sales from last year. National Australia Bank estimated consumers have spent approximately \$23.28 billion over the twelve months to August 2017- a figure that is equivalent to 7.5% of the spending in traditional retailers (as measured by the Australian Bureau of Statistics in the twelve months to July 2017).

Over the year to August 2017, Games & toys (+21.7% year-on-year), Food catering (+18%), Daily deals (+12.8%) and Grocery & liquor (+9.3%) all experienced strong growths. A slow-down, albeit still strong growths, were recorded for Homeware & appliances (+11.7% year-on-year), Personal & recreational (+1.4%) and Fashion (+0.6%).

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 September 2017:

Dalton Road, Thomastown, VIC 3074

Forté Developments have sold **\$16.3 million** in off the plan units. **Dalton Link Business Park** features 60 units on a 26,000 m2 site. Each unit has secure roller door access, mezzanine office spaces, kitchenettes and loading bays. Units ranged from 130 m2 to 600 m2. The site also has an onsite café and parking. Dalton is located approximately 16.6 km north of Melbourne's CBD.

90 Mills Road, Braeside, VIC 3195

Fund manager, *Propertylink* has sold a 40,554 m2 warehouse for **\$50.6 million** to *Dexus*. The distribution centre is currently leased to multiple tenants and has a WALE of 12.3 with a lease term of 15-years. The sale reflects a **rate of \$1,248 psm of lettable area**. Braeside is located 26.6 km south-east of Melbourne CBD.



207-219 Browns Road, Noble Park, VIC 3174



Centuria has bought a 43,000 m2 warehouse for **\$37 million** on a **6.9% yield** from *Adam Davidson* who runs *Up Property*. The sale reflects a **rate of \$860 psm**. Nobel Park is located approximately 26.8 km south-east of Melbourne's CBD.

34-58 Marshall Court, Altona, VIC 3018

LOGOS has purchased an 82,960 m2 site comprising an office/warehouse and a further two adjoining lots for **\$18.75 million** from the *Scalzo* family. The office/warehouse component of the property was built in 2007 and utilises 23,300 m2 and features 7-recessed docks, concrete hardstand and a loading canopy. The office/warehouse is currently leased to *Scalzo* on a new **5-year** lease. There are plans to develop a further 30,000 m2 vacant lettable area into a Logistics asset. The sale reflects a **rate of \$226 psm of site area**. Altona is located 16.8 km south-west of the Melbourne CBD.

56-92 Langford Street, North Melbourne, VIC 3051

A private investor has purchased the vacant 2,137 m2 office/warehouse for **\$8.25 million**. The sale reflects a **rate of \$3,861 psm of lettable area**. North Melbourne is located 2 km north-west of Melbourne's CBD.



411-415 Ferntree Gully Road, Mount Waverley, VIC 3149

A private owner occupier has acquired a 5,956 m2 site for **\$7.25 million**. The site currently has a freestanding 2,956 m2 warehouse-office which is currently leased to **Toshiba**. The sale reflects a **rate of \$2,453 psm lettable area**. Mount Waverly is located 18.1 km south-west of Melbourne's CBD.

2 Banool Avenue, Yarraville, VIC 3013

ID_Land has acquired the former **Morlynn Insulators Factory** for **\$20 million** from *Stambo's Group*. The 1.42 hectare industrial site has future redevelopment potential. The sale reflects a **rate of \$14,084,507 per hectare showing \$1,409 psm site area** Yarraville is located approximately 8km west of Melbourne CBD.

Hallam, VIC 3803

Investec Australia Property Fund has paid **\$22 million** on a **\$6.3 yield** for a 15,405 m2 industrial property. The property comprises two individual buildings and office areas. The property is currently fully leased to **Focus on Furniture**. The sale reflects a **rate of 1,428 psm lettable area**. Hallam is located approximately 38.7 km south-east of 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 September 2017:

Melbourne Airport Business Park, VIC

A cosmetic company will lease the purpose built, 15,000 m2 office/warehouse distribution centre for a **gross annual rent of \$85 psm on 10-year** term.



7-9 Distribution Drive, Truganina, VIC 3029

Hufcor Australia will lease 7,869 m2 warehouse and office facility from *Dexus*. The warehouse has office amenities and indicative net annual rents for the area between **\$75- \$80 psm**. Truganina is located 23.5 km south-west of Melbourne's CBD.

96 Lewis Road, Wantirna South, VIC 3152

Landlord *Z Miller Nominees* will lease its 3,390 m2 warehouse on a 9,000 m2 site to *Essential Site Worx* on a **5-year** lease. The tenant will pay **\$72 psm gross annual rent**. Wantirna South is located 25.8 km east of Melbourne CBD.



10-12 Dreamhaven Court, Epping, VIC 3076

Country Care Group has agreed to lease a 6,500 m2 office-warehouse for **3-years**. The property features hardstand areas, high clearances and multiple roller-shutter doors. The tenant will pay an **annual rent of \$55 psm**. Epping is located 21.2 km north of Melbourne's CBD.

1 Banfield Court, Truganina, VIC 3029

Auswide Transport Solutions will lease a 15,000 m2 warehouse for **3-years**. The property features a 9,545 m2 hardstand with multiple track access points as well as a 3,000 m2 warehouse. The lessee will pay an **annual rent of \$274,500 showing \$18.32 psm lettable area**. Truganina is located approximately 23.5 km south-west of Melbourne's CBD.

43 Toll Drive, Altona North, VIC 3025

Storage Material Handling Group will lease a 16,299 m2 warehouse facility for **3-years**. The seven hectare site consists of extensive hardstand and features separate truck parking, external storages and roller door access. The tenant will pay an **annual rent of \$1.29 million showing \$79.15 psm lettable area**. Altona North is located approximately 12.8 km south-west of Melbourne CBD.



160 Cowper Street, West Footscray, VIC 3012



Addictive Entertainment & Tours Pty Ltd has leased a 1,080 m2 warehouse on a **5-year** term. The tenant will **pay an annual rent of \$130,000 showing \$121 psm**. West Footscray is located 8.4 km north-west of Melbourne CBD.

600 Geelong Road, Brooklyn, VIC 3012

BagTrans will lease an 8,333 m2 warehouse on a **7-year** term from *GM Property Group*. The property comprises a warehouse and hardstand. The tenant will **pay an annual rent of \$65 psm**. Brooklyn is located approximately 12.6 km west of Melbourne CBD.



22-24 Research Drive, Croydon South, VIC 3136

Melbourne Performance Centre has agreed terms to lease a 3,870 m2 warehouse over **5-years**. The property comprises a warehouse and office along with some 40 vehicle parking spaces. The tenant will **pay an annual rent of \$240,000 showing \$62 psm**. Croydon South is located 29.8 km east of Melbourne CBD.



RESIDENTIAL MARKET

Economic Statistics

Building approval statistics released by the Australian Bureau of Statistics (ABS) indicate that seasonally adjusted estimate for the number of dwellings approved for construction in Australia increased by 1.5% in September- the second consecutive increase over the month. When we look approval for the construction of houses, a seasonally adjusted increase of 0.6% was recorded over the month, whilst approval for the construction of dwellings excluding houses increased by a seasonally adjusted 2.6%.

In the Great Melbourne region, total number of dwellings approved for construction in September stands at 4,497. This figure indicates a decline of -7.8% when compared to the previous month, and an increase of 0.5% when compared to twelve months prior. When we look at approvals for the construction of houses in September, a decline of 10.8% was recorded over the month, bringing the figure down to 2,332. In saying this, September 2017's figure signifies an increase of 3.3% when compared to twelve months prior. Total number of dwellings other than houses that were approved in September amounts to 2,165. This figure indicates a decline of -4.3% when compared to the previous month's, and a decline of -2.4% when compared to twelve months prior. Total building approvals in the first nine months of 2017 amounts to 39,447, of which 20,155 are for the construction of houses and 19,292 are for the construction of dwellings excluding houses.

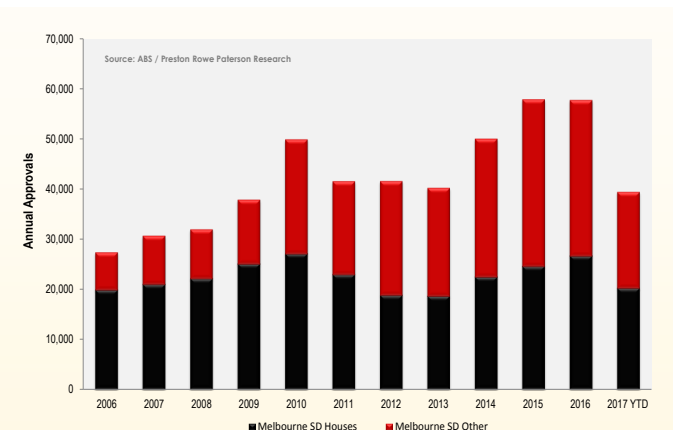


Chart 15 —Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

The Real Estate Institute of Australia's quarterly review of Australia's property market indicates that over the June quarter, overall house price in Melbourne increased by 2.9% to a median price of \$822,000. This figure represents an annual increase of 16.9%. When we look at Inner Melbourne house prices, median price had declined by -2.1% over the June quarter (+14.0% over the year) to \$1,468,000. There were 1,940 sales recorded, with sale prices ranging from \$1,137,000 and \$2,026,500. In Middle Melbourne, 3,458 sales were recorded with sale prices ranging from \$705,500 and \$1,397,500. Median house price in Middle Melbourne increased by 3.2% over the June quarter (+18.7% over the year) to \$991,500. Outer Melbourne recorded 5,216 sales over the period, with sale prices ranging from \$479,500 and \$780,000. Median house price in Outer Melbourne increased by 3.7% over the quarter (+14.3% over the year) to \$642,000.

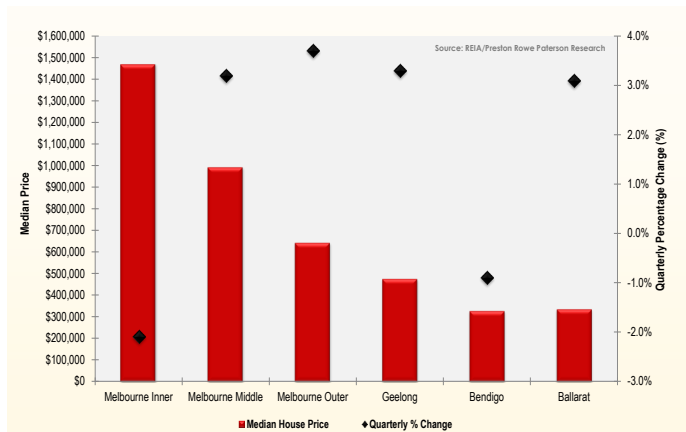


Chart 16 – Median House Price by Zone – Source REIA

Median sale price of other dwellings in Melbourne increased by 4.3% over the June quarter (+13.9% over the year) to \$606,500. Inner Melbourne's median price had increased by 6.5% over the quarter (+13.6% over the year) to \$630,500. There were 2,348 sales recorded over the quarter, with sale prices ranging from \$455,500 and \$855,500. Middle Melbourne recorded 1,868 sales over the period, with sale prices ranging from \$508,500 and \$910,500. Median sale price in Middle Melbourne increased by 6.7% over the quarter (+14.6% over the year) to \$681,000. Outer Melbourne recorded 1,016 sales over the period, with median sale price in this region increasing by 4.3% over the quarter (+17.5% over the year) to \$490,000. Sale prices over the period ranged from \$390,000 and \$622,000.

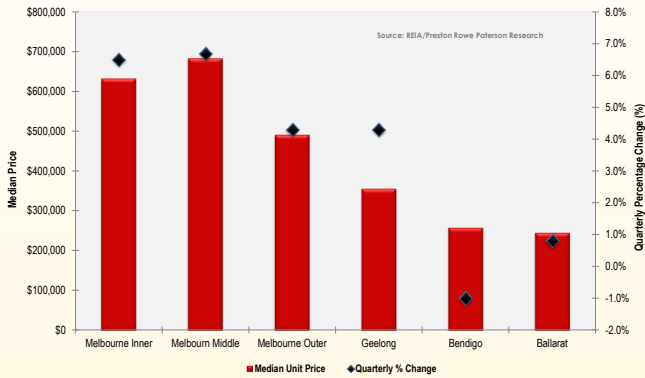


Chart 17 – Median Price for Other Dwellings by Zone – Source - REIA

The rental market for other dwellings in Victoria performed strongly over the June quarter, with increases in median weekly rent recorded for Inner Melbourne’s 1 bedroom and 3 bedroom dwellings and Middle Melbourne’s 1 bedroom and 3 bedroom dwellings. Median weekly rents for Inner Melbourne’s 1 bedroom and 3 bedroom dwellings increased by 2.6% and 1.3%, respectively, to \$390 and \$760, whilst median rent for Middle Melbourne’s 1 bedroom and 3 bedroom dwellings experienced an increase of 6.9% and 2.0%, respectively, to \$310 and \$510. Median weekly rents for Inner Melbourne’s 2 bedroom dwellings, Middle Melbourne’s 2 bedroom dwellings and Outer Melbourne’s 3 bedroom dwellings remained unchanged over the quarter, at \$530, \$400 and \$370, respectively. Outer Melbourne’s 1 bedroom and 2 bedroom dwellings experienced declines of -3.8% and -1.5% in their median weekly rents, respectively, to \$255 and \$320.

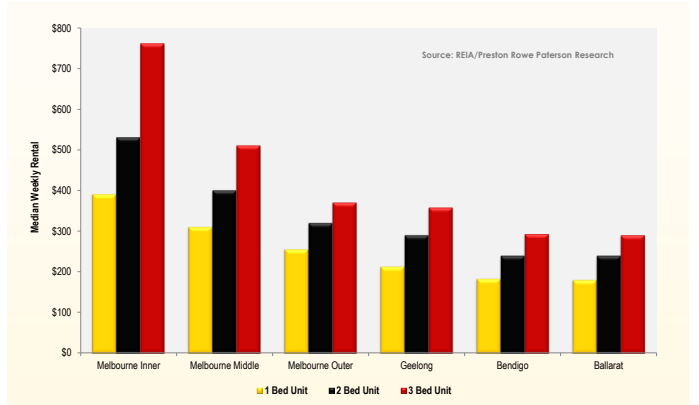


Chart 19 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA

Rental Market

Over the June Quarter 2017, Melbourne’s housing rental market remained relatively flat, with median weekly rent remaining unchanged for most houses around the city. Median weekly rents for Inner Melbourne’s 2 bedroom houses, Middle Melbourne’s 2 bedroom houses, Outer Melbourne’s 3 and 4 bedroom houses remained unchanged. Median rent for Inner Melbourne’s 2 bedroom houses is currently at \$560 per week; Middle Melbourne’s 2 bedroom house rent remained at \$440 per week, whilst Outer Melbourne’s 3 and 4 bedroom median weekly house rents remained at \$360 and \$410, respectively. Inner Melbourne’s 3 bedroom and 4 bedroom houses experienced strong rental growth over the quarter, of 2.5% and 1.1% respectively. The median weekly rent for 3 bedroom houses in the area increased to \$748, whilst rent for 4 bedroom houses increased to \$950 per week. In contrast, Middle Melbourne’s 3 bedroom and 4 bedroom houses recorded declines in median weekly rent, of -2.0% and -3.1% respectively. 3 bedroom house rent declined to \$480 per week, whilst 4 bedroom house rent declined to \$630 per week.

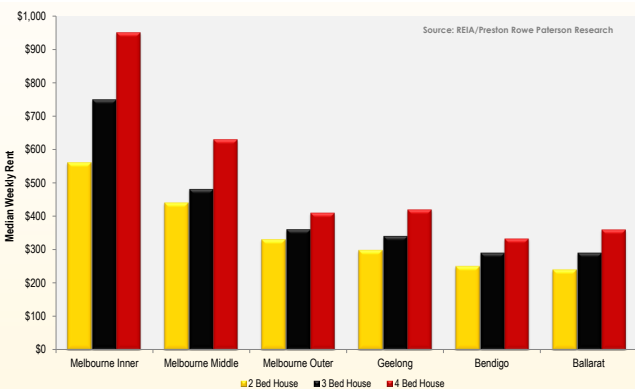


Chart 18— Median Weekly Rents for Houses by Zone – Source - REIA

GEELONG



Market Affordability

The median house price in Geelong recorded an increase of 3.3% to \$475,000 over the June quarter. This price reflects an annual increase of 8.7%. There were 2,780 sales over the quarter, with sale prices ranging from \$377,500 to \$625,000. Median sale price of other dwellings in Geelong increased by 4.3% over the quarter (+6.0% over the year) to \$355,000. There were 526 sales recorded over the quarter, with sale prices ranging from \$280,000 and \$478,300.

Rental Market

Geelong's house rental market remained stagnant over the June quarter, with median rent per week for 3 bedroom and 4 bedroom houses remaining unchanged at \$340 and \$420 per week, respectively. 2 bedroom houses in Geelong recorded a slight drop of -0.7% in median weekly rent over the quarter, declining to \$298 per week. The rental market for Geelong's other dwellings experienced declines over the quarter, with 1 bedroom and 3 bedroom dwellings both experiencing declines in median rent per week. Median weekly rent for 1 bedroom dwellings declined by -0.9% to \$213, whilst rent for 3 bedroom dwellings declined by -3.2% to \$358. Median weekly rent for 2 bedroom dwellings remained unchanged at \$290.

BENDIGO



Market Affordability

The median house price in Bendigo recorded a decline of -0.9% to \$327,000 over the June quarter. This price reflects a decline of -3.4% over the year. There were 1,146 sales over the quarter, with prices ranging from \$260,000 and \$410,000. Median sale price of other dwellings in Bendigo recorded a decline of -1.0% over the quarter (-2.8% over the year) to \$257,500. There were 277 sales recorded over the quarter, with sale prices ranging from \$202,000 and \$299,000.

Rental Market

Bendigo's house rental market experienced various changes in rental growths over the June quarter. Median weekly rent for 2 bedroom houses remained unchanged over the June quarter, remaining at \$250. Median weekly rent for 3 bedroom houses experienced a decline of -1.7%, down to \$290. In contrast, 4 bedroom houses recorded an increase of 0.9% in weekly median rent to \$333. Bendigo's other dwellings recorded notable changes in rental growth. 1 bedroom dwellings recorded a 7.6% increase in median weekly rent, up to \$183. 3 bedroom dwelling's median weekly rent increased by 1.0%, to \$293, whilst median weekly rent for 2 bedroom dwellings declined by -2.0% to \$240.

BALLARAT



Market Affordability

The median house price in Ballarat recorded an increase of 3.1% to \$335,000 over the June quarter. This price reflects a growth of 5.0% over the year. There were 1,831 sales over the quarter, with prices ranging from \$265,000 to \$425,000. Median sale price of other dwellings in Ballarat increased by 0.8% over the quarter to \$245,000. This price reflects an annual growth of 1.2%. There were 277 sales recorded over the June quarter, with sale prices ranging from \$202,000 and \$299,000.

Rental Market

Ballarat's house rental market experienced a downturn over the June quarter, with both median weekly rent for 2 bedroom and 4 bedroom houses declining over the period. Weekly median rent for 2 bedroom houses experienced a decline of -4.0% down to \$240, whilst 4 bedroom house rents declined by -1.4% to \$360. Weekly median rent for 3 bedroom houses remained unchanged at \$290. When we look at Ballarat's the rental market for other dwellings, the only increase in median weekly rent was recorded for 1 bedroom dwellings, of which median rent increased by 5.9% to \$180 per week. Median weekly rent for 2 bedroom and 3 bedroom dwellings in Ballarat remained unchanged at \$240 and \$290, respectively.

RESIDENTIAL DEVELOPMENTS

Investment Activity

Preston Rowe Paterson Research recorded the following residential developments reported during the three months to September 2019:

Black Forest Road, Wyndham Vale, VIC 3024

Country Garden had purchased a 363-hectare rural site that has been rezoned for residential development, for **\$400 million**. The property can support up to 5,000 dwellings and up to 25,000 residents. *Country Garden* will pay for the site over the next 4.5 years with final settlement due in 2022. The sale reflects a **rate of \$1,101,928 per hectare**. Wyndham Vale is located approximately 36 km south-west of Melbourne CBD.

390 Burwood Highway, Wantirna, VIC 3152

The *Allison Family* have sold one of their **Allison Monkhouse** funeral home for **\$10.15 million**. The 7,610 m² property has the proposed plans of a multi-level mixed use development. The sale reflects a **rate of \$1,334 psm land area**. Wantirna is located 25.8 km east of Melbourne's CBD.



278-288 Blackshaws Road and 8-38 Kyle Road, Altona North, VIC 3025

Stockland has acquired a 63,000 m² industrial site, comprising of two adjoining properties for **\$48 million** from two separate owners. There are plans in process for a 276 townhouse redevelopment to begin in 2020. The sale reflects a **rate of \$762 psm of site area**. Altona North is located approximately 12.8 km south-west of Melbourne's CBD.

Duke Street, Sunshine North, VIC 3020

Yourland has sold the former basalt quarry for **\$34 million** to Melbourne developer *Pace*. The purchaser has plans to develop a medium-density townhouse project on the 20 hectare site. It is unclear if remediation costs have been included in the sale price. The sale reflects a **rate of \$1,700,000 per hectare**. Sunshine North is located approximately 13 km north-west of Melbourne's CBD.

285 Patullos Road, Lara, VIC 3212

Soaraway Developments has bought the 80-hectare residential development site for **\$25 million**. The site sits within the 389-hectare **Laura West Precinct Structure Plan** which will be developed into a new community consisting of 909 lots and capacity for 11,600 residents. The sale reflects a **rate of \$312,500 per hectare**. Lara is located 65.3 km south-west of Melbourne's CBD.

448 St Kilda Street, Brighton, VIC 3186

An off shore developer has acquired the 1,958 m² site which has been approved for a low rise residential development for **\$11 million**. The sale reflects a **rate of \$5,618 psm of site area**. Brighton is located approximately 11.4 km south-east of Melbourne's CBD.



30 Cramer Street, Preston, VIC 3072

A Local private developer has purchased the 1,761 m² site which is currently a commercial car park for **\$8 million**. The development site has a permit pending for 95 residential units. The sale reflects a **rate of \$84,211 per proposed unit**. Prestons is located approximately 9.9km north-east of Melbourne CBD.

478-488 Elizabeth Street, Melbourne, VIC 3000

GreenFort Capital has bought a 1,172 m² development site for **\$35 million** from *Girdhari and Geeta Lamba*. The site has DA approval for a 30,644 m² high rise development. GreenFort has future plans for a 52 level tower yielding 400 apartments and 200 hotel rooms. The sale reflects a **rate of \$1,142 psm of approved lettable area**.



SPECIALIZED PROPERTY MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following specialized property transactions that occurred in Victoria during the September quarter 2017:

145/149 Furlong Road, St Albans VIC 3021

Healthcare Property Trust has bought **Sunshine Private Medical Centre** and **Western Day Surgery** for **\$20 million** on a **6.88% yield** from RND Melbourne. The site is currently leased to the **Royal Children's Hospital, Monash IVF, Western Day Surgery, Fresenius Dialysis Clinic** and **Melbourne Pathology**. *Health Care Property Trust* is also acquiring the adjoining property that has development approval for a 150 bed, private hospital which was bought for a further **\$13 million**. St Albans is located approximately 16.8 km north-west of Melbourne's CBD.

56 Victor Crescent, Narre Warren, VIC 3805

A private investor has purchased the 4,117 m2 property for **\$11 million** on a **4.97% yield**. The medical centre has permit approval for 20 practitioners. The sale reflects a **rate of \$2,672 psm site area**. Narre Warren is located 41.2 km south-east of Melbourne's CBD.

926-930 High Street, Armadale, VIC 3143

The **Armadale Theatre Building** has sold for **\$10 million**. The 1,221 m2 site features a 1,400 m2 building. The sale reflects a **rate of \$7,143 per lettable area**. Armadale is located 8.1 km south-east of Melbourne CBD.



Banksia Street, Heidelberg, VIC 3084

Barwon Investment Partners have acquired a pathology lab for **\$24.6 million**. The property is currently leased to **Dorevitch Pathology** for **14-years**. Heidelberg is located approximately 12.7 km north-west of Melbourne's CBD.

843 Whitehorse Road, Box Hill, VIC 3128

Andreas Andrianopoulos has sold the 1,972 property for **\$22.55 million** to Melbourne developer *Longriver*. The **BP petrol station** is surrounded by major development sites, but does not have any DA approval for future development. The sale reflects a **rate of \$11,435 psm**. Box hill is located approximately 15 km east of Melbourne's CBD.



31-35 Prospect Street, Box Hill, VIC 3128

A private developer, backed by offshore investors has bought the car park for **\$13.5 million** from a local family. The 1,653 m2 site will remain as is until DA approval is granted. The site can yield two commercial or residential projects up to 20-levels. The sale reflects a **rate of \$8,167 psm of site area**. Box Hill is located 15 km east of Melbourne CBD.

215-221 Sunshine Road, Tottenham, VIC 3012

A private Sydney investor has acquired the purpose built container transport facility for **\$16.75 million** on a **5.9% yield**. The property is currently leased to **SCF Group**, which has a remaining six-year lease paying one million dollars in annual rent.



374-378 Nepean Highway, Frankston, VIC 3199

A local private investor has paid **\$5.6 million** on a **3.2% yield** for the 1,281 m2 medical property. The property, which sits on a 3,405 m2 site, is currently leased to **Psoriasis Eczema Clinic Australia** and **CPAP**. The sale reflects a **rate of \$4,372 psm lettable area**. Frankston is located 44 km south-east of Melbourne CBD.

2 Scholar Drive, Bundoora, VIC 3083

Continental Automotive has sold its purpose built manufacturing facility for **\$17.75 million**. The 3.3 hectare site comprises a 16,440 m2 facility which is used for the production, research and development operations. The sale reflects a **rate of \$1,080 psm lettable area**. Bundoora is located 17 km north-east of Melbourne CBD.



HOTEL & LEISURE

Investment Activity

Preston Rowe Paterson Research recorded the following hotel/leisure property transactions that occurred in Victoria during the September Quarter 2017:

Art Series Wrap

Deague Group has sold management rights to the **Art Series Hotel** portfolio which has over 1000 rooms for **\$52.5 million** to *Mantra Group*. Management rights have been given to *Mantra Group* for any new **Art Series** hotels that are developed by *Deague Group*. The Art Series Portfolio includes a series of seven hotels which include; **The Cullen Hotel, The Olson Hotel, The Blackman Hotel, The Larwill Studio, The Schaller Studio, The Watson** and **The Johnson**, with locations across South Australia, Victoria and Queensland.

171-183 McIvor Highway, Bendigo, VIC 3550

Redcape Hotel Group has sold the 4-star **All Seasons Hotel Bendigo** for about **\$24 million** on a **6.5% yield** to a private investor. The 77 room hotel is leased to a private hotelier until 2052 with fixed 3.75% annual rental growth. The hotel features wedding, conference and function centre facilities, bar and dining areas, 100 gaming machines and other amenities. The sale reflects a **rate of about \$311,688 per hotel room**. Bendigo is located 156 km north-west of Melbourne's CBD.

13-21 Spring Street, Melbourne, VIC 3000

Cbus Property has purchased the **Mercure Melbourne Treasury Gardens Hotel** for more than **\$70 million** from the *Abu Dhabi Investment Authority*. The 1,270 m2 site comprises a 164 room, 4-star hotel. *Cbus Property* has future plans to develop the site into a residential apartment tower, and will maintain the hotel on an 'As Is' basis until *Cbus Property* lodge a development application. The sale reflects a **rate of about \$426,829 per room**.

REGIONAL MARKET

Investment Activity

Preston Rowe Paterson Research recorded the following significant sales transactions that occurred in regional Victoria during the three months to September 2017:

Mallee, VIC 2738

Rifa Holding Group has purchased **Kulwin Park** and **McNicholl's** rural estates for a combined price of **\$9 million**. There is a combined land size of more than 4,500 hectares. Currently there is 2,400 hectares of grown wheat, barley and canola crops which can be harvested, as well as 1,200 hectares of oats crops. The sale also included 3,000 sheep and 600 steers. The sale reflects a **rate of \$2,000 per hectare**. Mallee is located 540 km north-west of Melbourne's CBD.

65 Atkins Road, Winchelsea, VIC 3241

Rod and Rosalie Guye have sold **Barwon Heights** for just over **\$10 million** to a Melbourne family. The 410-hectare property spanning across 10 titles features a four bedroom brick-veneer house, farming sheds and has secure water connections. The sale reflects a **rate of \$24,390 per hectare**. Winchelsea is located 117 km south-west of Melbourne's CBD.

Buangor Park Road, Buangor, VIC 3375

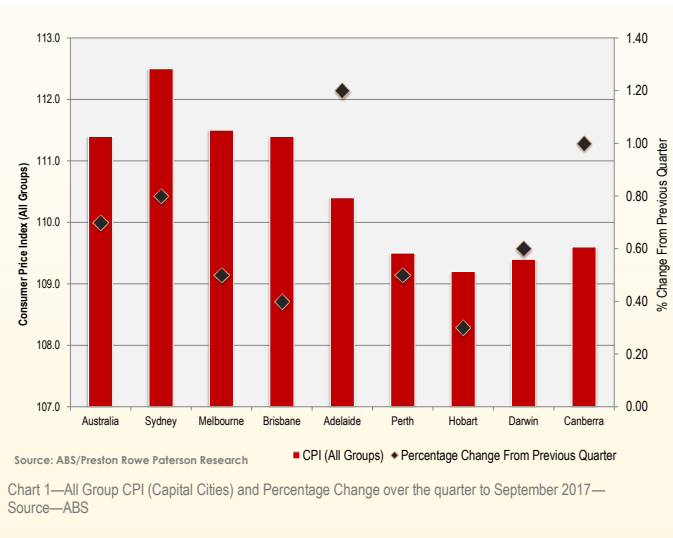
Justin Clark and *Jane Clark* have sold **Buangor Park** to a Western based private buyer. The 1,040 hectare property features a 4-bedroom c.1906 homestead with a renovated kitchen, veranda and a new roof. The property features 600 hectares of winter crops and has a 2,400-ewes capacity as well as two 700 tonne silos. Buangor is located approximately 185 km south-west of Melbourne's CBD.

Economic Fundamentals

Consumer Price Index

Consumer Price Index (CPI) increased by 0.6% over the three months to September 2017, bringing the inflation rate over the last twelve months to 1.8%. When we look at underlying inflation, which removes the volatile components of inflation and is closely more monitored by the Reserve Bank of Australia, an increase of 0.4% was recorded for the quarter- the second weakest increase ever recorded- leaving the annual rate unchanged at 1.9%. Over the quarter, strong increases stemming from the Housing group (+1.9%), Alcohol & tobacco group (+2.2%), Recreation & culture group (+1.3%) was offset by declines in Food & non-alcoholic beverages group (-0.9%), Communication group (-1.4%) and Clothing & footwear group (-0.9%).

When we look at the states and territories around Australia, All Groups CPI increased across all eight capital cities. Melbourne recorded the largest increase of 2.2%, followed by Canberra with 2.1% and Hobart with 2.0%. In contrast, Perth and Darwin recorded the lowest increase in inflation over the year to September 2017, of 0.8% and 0.6% respectively.



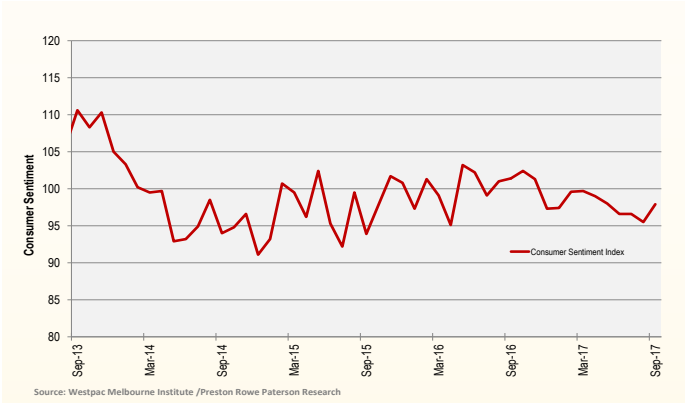
Business Sentiment

According to the National Australia Bank Business performance indicators, business conditions remain unchanged whilst business confidence performed strongly over the month to September, following declines recorded in the previous months. On the one hand, business conditions remained at +14 index points, which the National Australia Bank reports to be just below the peaks experienced prior to the GFC. The business confidence index, on the other, experienced a lift of 2 points over the month, bringing it to +7 index points and back to above long-run average.

Consumer Sentiment

The Westpac Melbourne Institute Index of Consumer Sentiment indicates an increase of 2.5% over the month to September, from 95.5 in August to 97.9 in September 2017. A reading below 100 indicates that the number of pessimists outweigh optimists in their outlook on the economy, which means that September is the tenth consecutive month in which the pessimism persists. Westpac notes the main factors influencing sentiment around the economy comes down to consumers' concerns around interest rates, pressures on family finances, rising energy prices and the housing affordability crisis. When combined, these factors outweigh the positivity stemming from an improved outlook in the job market, especially when the strengthening labour market is not leading to strong wages growths.

Family finance when compared to twelve months ago still indicates a strong area of concern, dropping to an index of 82.9. When looking at survey respondents' sentiment on the economic conditions in the next twelve months, the sub-index increased by 2.7% to 95.8, whilst the economic conditions in the next five years sub-index increased by 5.1%. Westpac reflected on the recent improvement in Australia's national accounts, as the economy showed a solid 0.8% increase in GDP over the June quarter, however noted the mediocre growth over the year may have influenced consumers to have more 'lukewarm' sentiments on future economic outlook.



	September 2017	June 2017	September 2016
Consumer Sentiment Index	97.9	96.2	101.4
Family finance vs. a year ago	82.9	81.4	89.5
Economic conditions next 12 months	95.8	91.3	90.8
Time to buy a dwelling	95.2	90.9	109.3

Table 2—Consumer Sentiment—September 2017—Source—National Australia Bank

Gross Domestic Product

Over the three months to the June Quarter 2017, Australia's Gross Domestic Product (GDP) increased by a seasonally adjusted 0.8%. Over the twelve months to June 2017, GDP increased by 1.8%. June quarter figures were considerably higher than the 0.3% growth recorded during the first quarter of the 2017 calendar year. Over the June quarter, domestic consumption contributed 0.4% to GDP growth. This was driven by a lift of 0.7% in household consumption expenditure, which was influenced by the increase in spending on food (1.5%), insurance & other financial services (1.3%) and rent & other dwelling services (0.5%). Over the year, Household consumption expenditure increased by a seasonally adjusted 2.6%.

The Australian Bureau of Statistics noted that household savings ratio in the June quarter 2017 is at 4.6%, a considerable fall from March Quarter 2017's ratio of 5.3%. Furthermore, gross disposable income over the past five quarters has increased on an average of 0.5%, which is noted to be consistently lower than the growth observed in household consumption expenditure.

Dwelling investment over the second quarter 2017 increased by a modest 0.2%, after the steep decline of 3.7% during the March quarter. Dwelling investment in New South Wales and Victoria continue to increase at elevated levels, whilst investment in Queensland has plateaued. Meanwhile, investment in Western Australia has declined significantly.

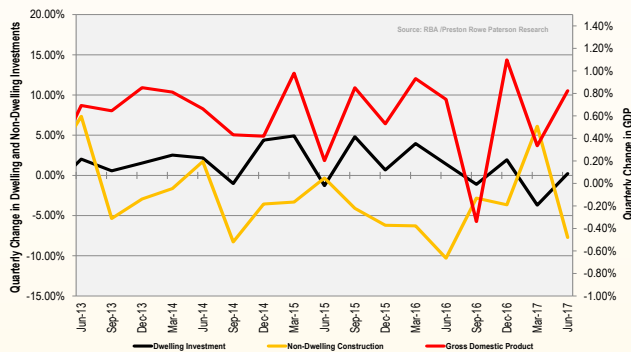


Chart 3—Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

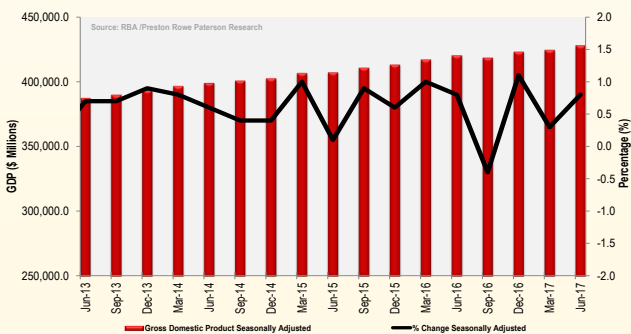


Chart 4—Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

Unemployment

In September 2017, Australia's seasonally adjusted unemployment rate declined by 0.1% to 5.5%— the lowest level of unemployment since March 2013. From August to September, seasonally adjusted employment increased by 19,800 persons, which comprises of 6,100 persons in full-time employment and 13,700 persons in part-time employment. In total over the last twelve months, full time employment has increased by 315,900 persons, whilst part time employment has increased by 55,600 persons. Over the month, the nation's participation rate increased slightly to 65.2%.

When we take a look around Australia, New South Wales experienced the largest increase in employment (21,100 persons), followed by Victoria (8,900 persons) and Western Australia (8,300 persons). New South Wales and Tasmania both recorded strong declines in seasonally adjusted unemployment, both down by 0.3%, followed by Western Australia which was down by 0.2%. In contrast, Queensland's unemployment rate increased by 0.2% over the month. When we look at the participation rates around the country, Western Australian recorded the largest increase in participation of 0.2%, whilst Queensland and South Australia experienced the largest declines of 0.1% over the month.

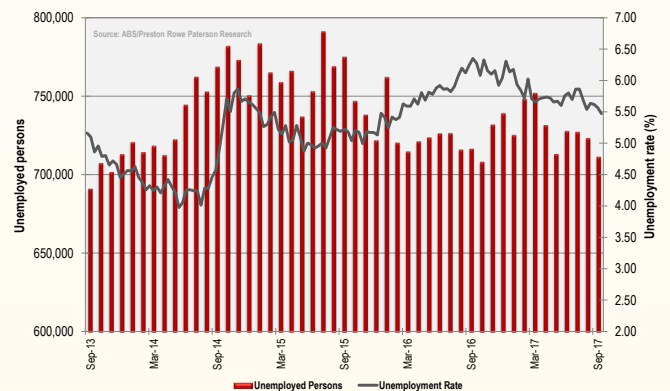


Chart 5—Unemployment Persons and Unemployment Rate, September 2013 to September 2017 — Source: ABS

	Unemployment Rate (%)		Participation Rate (%)		
	September 2017	June 2017	September 2017	June 2017	
Australia	5.5	5.6	65.2	65.0	▲
New South Wales	4.6	4.8	63.8	63.5	▲
Victoria	6.0	5.9	66.3	66.1	▲
Queensland	5.9	6.4	65.4	65.0	▲
South Australia	5.8	6.5	62.0	62.4	▼
Western Australia	5.7	5.6	68.2	68.0	▲
Tasmania	5.7	5.6	61.1	61.2	▼
Northern Territory*	4.1	3.5	73.2	74.8	▼
Australian Capital Territory*	4.4	4.3	71.3	70.6	▲

Table 3— Unemployment Rate and Participation Rate, September vs. June 2017 — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly available

10 Year Bond & 90 Day Bill Rate

Ten year Australian government bond yields floated between 2.50% and 2.85% during the September quarter, peaking at 2.86% towards the end of September and bottoming to a low of 2.53% at the beginning of August. Through July, bond yields increased by 21 basis points to a high of 2.65%, with different geopolitical factors influencing global bond yields throughout the month. The European Central Bank held their official interest rate steady which reflect steady bond yields globally during the first half of the month, whilst inflation data from the US market resulted in a short spur of declining bond yields. Nevertheless, unexpected strong employment data from Australia pushed bond yields up at the short end, reflecting the increased probability of an interest rate increase in the near future. Australian ten year bond yields increased more than the US ten year yields over the month, resulting in the widening of the US-Australia bond spread by 12 basis points to 35 basis points.

Over the month of August, yields declined in most advanced economies around the world, however Australia did not follow trend. Increases were recorded at the beginning and the end of the month, bringing Australian bond yields up by 3 basis points to 2.71% when compared to July's peak. Over the month, geopolitical events, notably tension between North Korea and the U.S., led to an increase in demand for safe-haven bonds, which resulted in the decline of global bond yields.

Through September, the ten year bond yield increased by 16 basis points, to 2.86%, reflecting increases in bond yields in all advanced economy markets globally. As usual, increases in Australian bond yields lagged behind their US counterparts' increase, with the spread between the Australian and US yields tightening by 5 basis points to 54 basis points.

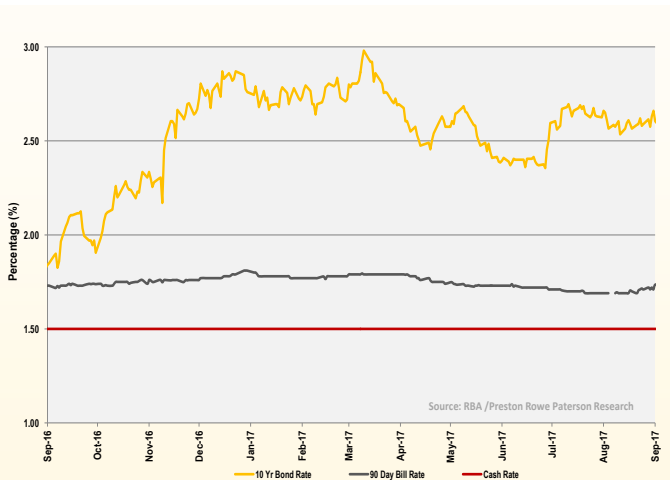


Chart 6— Daily Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

Interest Rates

Interest rates were left on hold throughout the September quarter, with the rate remaining at 1.50% since August 2016. The statement released by Reserve Bank of Australia's (RBA) Governor, Philip Lowe, points to an improvement in the global economy, with strong labour market figures and above-trend economic growth expected for several advanced economies. When we look at the Chinese economy, strong economic growth is supported by the increase in spending on infrastructure and property construction, though the country's high level of debt continues to be of a medium-term risk. Being Australia's largest trading partner, the strong growth in China will continue to support Australia's relatively high level of terms of trade.

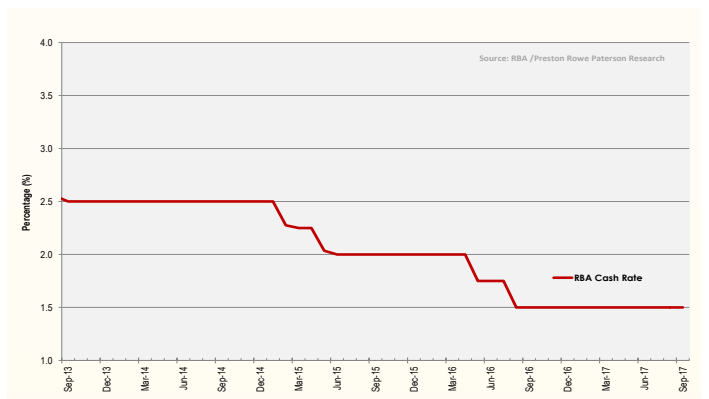


Chart 7— Reserve Bank of Australia Overnight Cash rate—Source: RBA

Exchange Rate

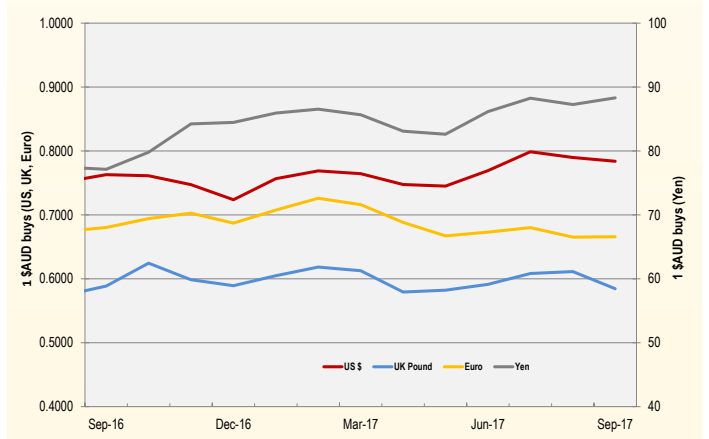


Chart 8— Movement in Exchange Rate over the year to September 2017— Source: RBA

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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- ◆ Japan
- ◆ Philippines
- ◆ Thailand

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We have *property* covered

Investment. Development. Asset. Corporate Real Estate. Mortgage.
Government. Insurance. Occupancy. Sustainability. Research.

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