Preston Rowe Paterson

International Property Consultants

Property Market Report

Victoria

September Quarter 2018

HIGHLIGHTS

- The Melbourne CBD office market recorded the highest volume of net absorption amongst other office markets nationally over the six months to July 2018.
- Retail turnover statistics from the Australian Bureau of Statistics recorded an increase in total retail turnover for Victoria of a modest 0.72% over the month to September 2018.
- The overall retail property market in Victoria continues to perform well with increasing demand from foreign investors.
- The Real Estate Institute of Australia (REIA)'s 'Real Estate Market Facts June 2018' reported that the median house price in Melbourne declined by -0.6% to $840,000 while the median price for units increased by a modest +0.5% to $604,000 over the quarter.

INSIDE THIS ISSUE:

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COMMERCIAL OFFICE MARKET

Melbourne CBD

The Melbourne CBD recorded the highest volume of net absorption nationally during the six months to July 2018, supported by the continued strong employment growth across Victoria.

On the back of the strong demand for office space, the CBD experienced solid office leasing activity across both prime and secondary markets, both with 93,644 sqm and 28,500 sqm absorbed respectively in the last 12 months, equating to 122,144 sqm in total which is well above the 10 year average of 76,003sqm.

The expansion of co-working spaces continues in Melbourne's CBD, highlighted by the opening of Hub Australia's second Melbourne location in the Georges Building (162 Collins Street). Hub Australia is also anticipating the opening of its third Melbourne location in the second quarter of 2019 at 1 Nicholson Street. The increased supply of co-working spaces in the market highlights the growing trend of larger corporations providing a flexible working spaces and environments.

Gross CBD office completions totalled 59,613 sqm in the six months to July 2018. Forty four per cent of this amount stemmed from new development completions, with the remainder emanating from refurbishments.

Vacancy Rates

Vacancy rates in the Melbourne CBD have hit a near record low of 3.6% as at July 2018 of which 3.2% is direct vacancy and the remaining 0.4% sublease vacancy. Vacancy rates may remain at low levels in the short term as there is limited supply in the market and a number of larger upcoming vacancies being mostly pre-committed.

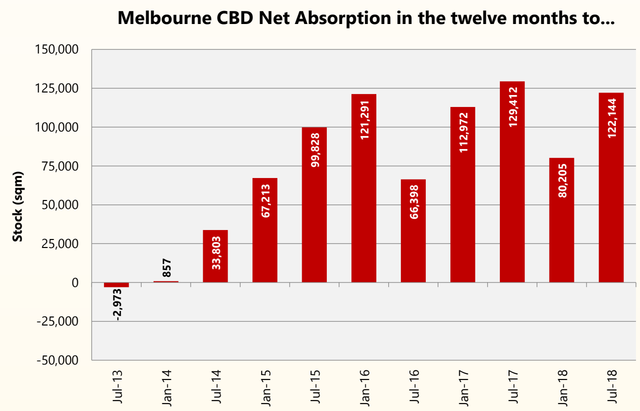

Chart 1 – Melbourne CBD Net Absorption – Source PCA / PRP Research

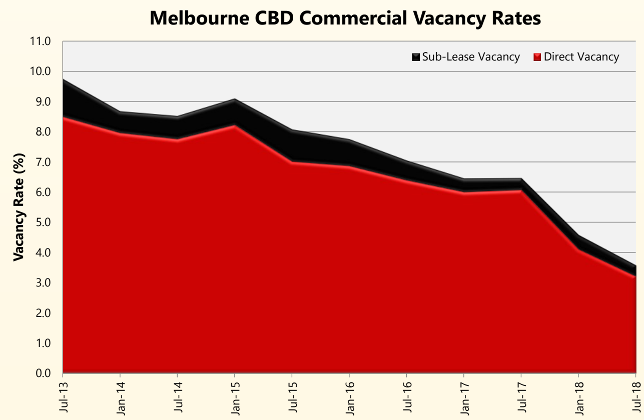

Chart 2 – Melbourne CBD Commercial Vacancy Rates – Source PCA / PRP Research

Refurbishment Sites

Project Name	Address	Refurbishment Type	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
Qantas House	50 Franklin St, Melbourne	Full	Complete	Lian Beng	11,300	Q2 2018
Melbourne Central Tower	360 Elizabeth St, Melbourne	Partial	Complete	The GPT Group	7,500	Q1 2018
161 Collins Street	161 Collins St, Melbourne	Partial	Complete	Pembroke Real Estate	3,055	Q2 2018
161 Collins Street	161 Collins St, Melbourne	Partial	Construction	Pembroke Real Estate	14,945	Q4 2018
120 Collins Street	120 Collins St, Melbourne	Partial	Construction	Investa Property Group	3,580	Q3 2018
Collins Place	35 Collins St, Melbourne	Partial	Construction	AMP Capital	8,000	Q4 2018
15W	15 William St, Melbourne	Partial	Complete	Deka Immobilien Investment	7,183	Q1 2018
385 Bourke Street	385 Bourke St, Melbourne	Partial	Construction	DEXUS Property Group	3,855	Q3 2018
15W	15 William St, Melbourne	Partial	Construction	Deka Immobilien Investment	8,400	Q4 2018

Table 1 – Refurbishment Sites in Melbourne CBD – Source PCA / PRP Research

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Investment Activity

277 William Street, Melbourne, VIC 3000

One of Hong Kong's richest families has dropped **$94.88 million** on a B-grade commercial asset in Melbourne's CBD. The *Fu family* acquired the building on a **4.65% yield**, reflecting record high levels of confidence in Melbourne's commercial property market. The price is more than double what fund manager and vendor *EG* paid for the building in 2015, when it sold on a 7.5% yield. The 12,080 sqm building comes fully leased to such tenants as *Shine Lawyers, Australia Post* and the *Sheriff's Office*. The deal was struck at a **rate of $7,772 psm lettable area**.

60 Collins Street, Melbourne, VIC 3000

The *Reserve Bank of Australia* has sold its headquarters in the 'Paris end' of the Victorian Capital for **$160 million**, well exceeding initial expectations of $100 million. The RBA has put its money where its mouth is with this sale, following their warnings to commercial property owners of a "frothy" market near its peak. The buyer, *Dexus*, would not be too concerned though, because this property adjoins another strategic holding at 52 Collins Street, giving Dexus a mega site area capable of over 35,000 sqm of new commercial office space, likely to be seized upon in the next supply cycle. The building's floor area of 13,817 sqm gives this sale a rate of **$11,560 psm lettable area**.

383 La Trobe Street, Melbourne, VIC 3000

Mirvac has picked up a seven-storey commercial office tower in Melbourne for **$122 million** with plans to demolish the building to make way for a commercial building of up to 70 storeys and with 40,000 sqm of new commercial floor space. In the short-term, the existing 9,679 sqm building will provide holding income from its primary tenant, **the Australian Federal Police**, the sale generating **a 5.7% yield** on income. A residential development of 70 storeys was approved two years ago by City of Melbourne Council and Mirvac will now attempt to change the proposed usage to office space, despite some industry figures speculating of an impending oversupply in Melbourne's commercial market. The deal was struck at **rates of $43,568 psm of site area** and **$12,605 psm of lettable area.**

Leasing Activity

162 Collins Street, Melbourne, VIC 3000

Hub Australia will open a new co-working office space in the historic **Georges Building** after taking out a **15-year lease** for approximately **$525 psm net per annum**. The 3,500 sqm area occupies the upper three levels of the four-storey building, which was built in 1880. *Hub Australia* will fitout the space with a café, exercise rooms, photography studios in addition to co-working facilities such as work desks, meeting rooms and high-speed internet. The deal will see the undisclosed landlord receive **$1,837,500 net per annum**.

222 Exhibition Street, Melbourne, VIC 3000

LaSalle Investment Management has felt hardly any downtime leasing up 20,000 sqm of office space made suddenly vacant in their north-end CBD commercial asset. WorkSafe last month left the property in a move to a new headquarters in Geelong, leaving *LaSalle's* property totally vacant. The *Victorian Government (VicRoads)* quickly snapped up 15,000 sqm of the available space, paying **approximately $625 psm net** on an undisclosed term. Co-working provider WeWork wrapped up the remaining 5,000 sqm. *LaSalle* were able to quickly lease the space due to a recent major refurbishment of facilities including sustainability upgrades, in addition to 10-year high demand for office space, which has seen CBD office vacancy hit 3.6%. The lease amount equates to **approximately $9,375,000 per annum**.

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East Melbourne

The East Melbourne office market net absorption in the twelve months to July 2018 recorded a modest increase of 400sqm. Despite A and D Grade offices in the area recording positive net absorptions of 1,527 sqm and 513 sqm, B and C grade offices recorded negative net absorption of -1,250sqm and -390sqm respectively resulting in a modest increase over the year to July 2018.

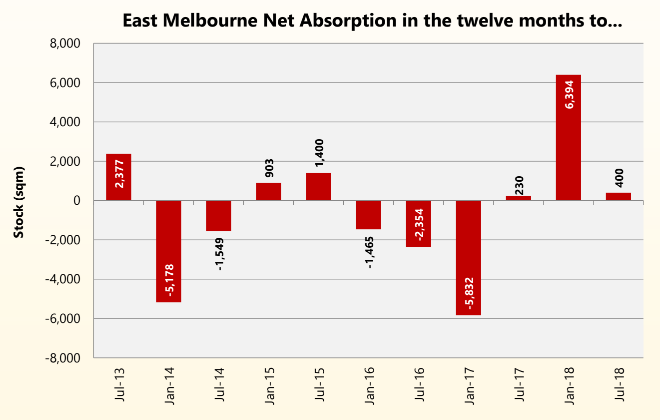

Chart 3 – East Melbourne Net Absorption – Source PCA / PRP Research

Southbank

Over the year to July 2018, Southbank office market recorded a net absorption of 4,687 sqm. Analysis shows that demand is concentrated in offices with higher grades. A and B Grade offices recorded a net absorption of 6,240 sqm and 2,336 sqm whilst C Grade offices recorded a negative net absorption of -4,119 sqm.

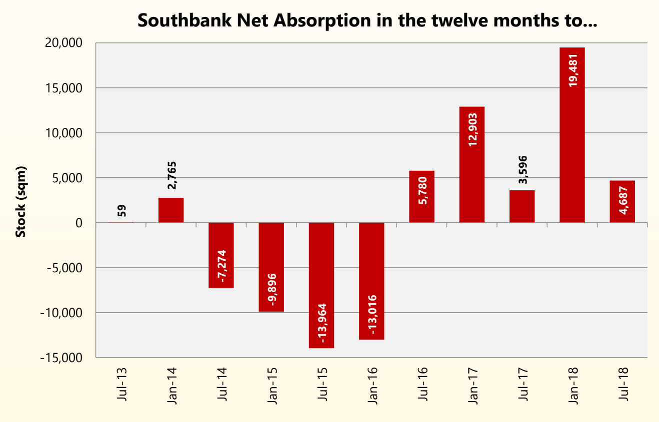

Chart 5 – Southbank Net Absorption – Source PCA / PRP Research

Vacancy Rate

The vacancy rate in East Melbourne increased by 0.6% to 3.1% in the six months to July 2018. After two and a half years of full sublease occupancy, East Melbourne sublease market gained 0.9% vacancy. The increase in overall vacancy rates in East Melbourne is attributed to the increased sublease vacancy over the period despite direct vacancy modestly decreasing by -0.3%.

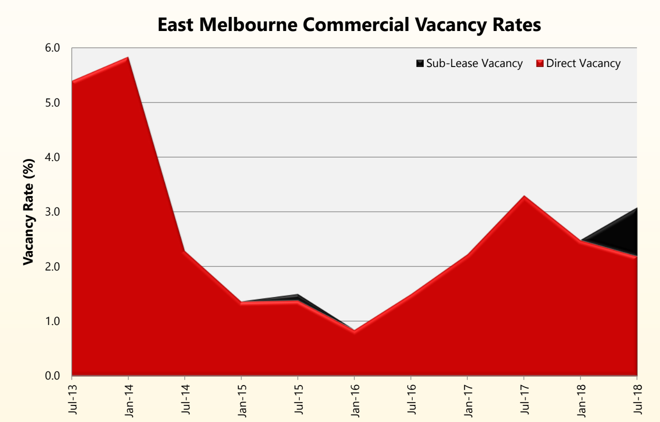

Chart 4 – East Melbourne Vacancy Rates – Source PCA / PRP Research

Vacancy Rate

Southbank's office vacancy increased by 2.6% to 6.1% over the six months to July 2018. Full sublease occupancy was achieved over the same period whilst direct vacancy increased by 3.1% to 6.1%. The significant increase in direct vacancy is from the completion of 1 Freshwater Place, which although mostly pre-committed, was still not in actual occupancy when the data was recorded.

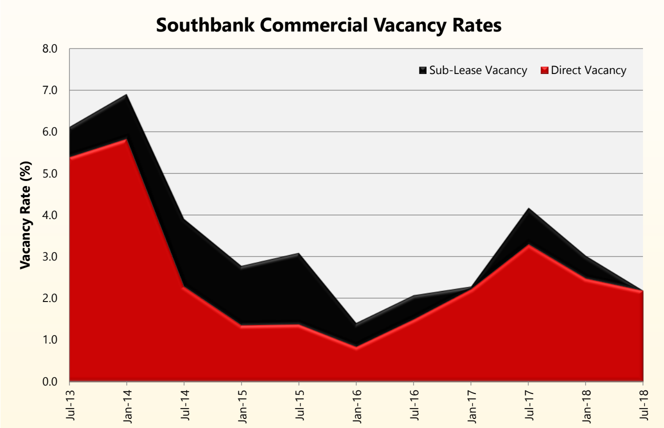

Chart 6 – Southbank Vacancy Rates – Source PCA / PRP Research

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St Kilda Road

July 2018 marks the second consecutive semi-annual period of positive yearly net absorption (13,869 sqm) in the St Kilda Rd office market. Positive absorptions were recorded throughout the period for all office grades with A, B and C Grade absorbing 2,969 sqm, 6,746sqm and 4,154 sqm respectively.

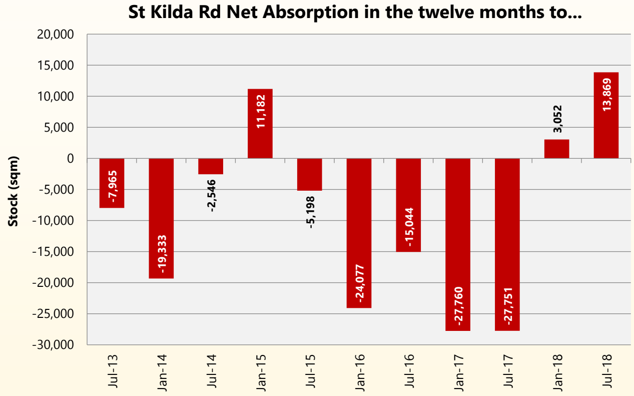

Chart 7 – St Kilda Road Net Absorption – Source PCA / PRP Research

Vacancy Rates

The St Kilda Road office market vacancy increased by 0.2% to 7.4% in the six months to July 2018. The increase in vacancy over the period was attributed to direct vacancy which gained 0.4% to 6.6% whilst sublease vacancy declined by 0.2% to 0.8%. Nonetheless, St Kilda office vacancy is still well below its 10-year average of 10.3%.

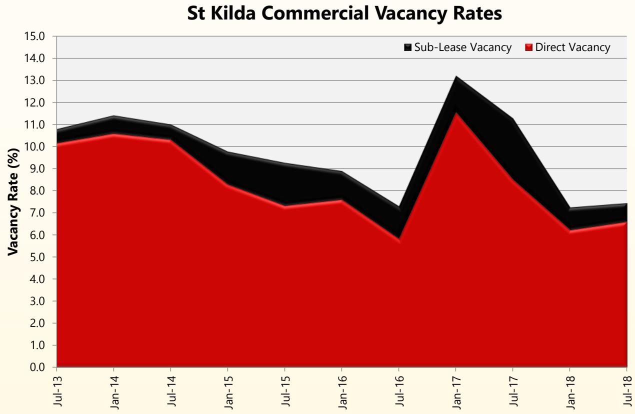

Chart 8 – St Kilda Road Vacancy Rates – Source PCA / PRP Research

RETAIL MARKET

Retail Statistics

Retail turnover statistics from the Australian Bureau of Statistics indicate that the total retail turnover for Victoria increased by 0.72% over the month to September 2018. The seasonally adjusted turnover for September in Victoria is $7.023 billion, representing a 6.73% increase over the year. All of the major retail groups experienced positive year-on-year growth. Other retailing category that includes newspaper & books, entertainment medias, toys & games, pharmaceutical, cosmetic & toiletry goods performed best amongst the retail categories, increasing by 9.74% over the year. This is followed by Cafés & Restaurants and Clothing, footwear & personal accessories that increased by 8.24% and 8.18% over the same period.

The overall retail property market in Victoria continues to perform well with increasing demand from foreign investors. Preston Rowe Paterson recorded three retail transactions above $5 million over the quarter purchased by foreign investors; 283-285 Burwood Road, Hawthorn; 487-495 Bridge Road, Richmond; and 42-50 Burwood Highway, Burwood East.

Chart 9 – Victoria Retail Turnover – Source ABS / PRP Research

Chart 10 – Victoria Turnover % Monthly Change – Source ABS / PRP Research

Investment Activity

283-285 Burwood Road, Hawthorn, VIC 3122

A Chinese investor has beaten 191 other enquirers for a large format retail asset in Melbourne's east, paying **$25 million** on a sharp **3.14% yield**. The sale is certainly eye-catching, coming at a time when there is mounting evidence of a softening large format retail sector. There is no doubt, however, that the land component of this sale occupies a large portion of value. The property occupies a 2,593 sqm slice of real estate in Central Hawthorne, has 143 metres of combined frontage on a triple sided site and is zoned Commercial Zone 1. The 4,427 sqm building is fully leased **to Snooze, Sofas Direct** and **National Storage**. It sold at a **rate of $5,647 psm lettable area**. Hawthorn is located 7 km east of Melbourne's CBD.

455-457 Sydney Road, Brunswick, VIC 3056

A **Crust Gourmet Pizza Bar** in Melbourne's inner northern suburbs has sold at auction, trading from one local investor to another in a **$1.135 million** deal. The 100 sqm shop is strata title and is positioned on a prominent street-front with a tram stop outside and a train station 300 metres west. **Crust** has over 150 stores nation-wide and has both bank and personal guarantees in place over this lease. The tenant pays $54,080 net per annum, giving this sale a **4.76% yield**, whilst the area gives a **rate of $11,350 psm of lettable area**. Brunswick is located 5.3 km north of Melbourne's CBD.

89-91 Church Street, Brighton, VIC 3186

Local property investor and businessman *Trevor Spencer* has purchased a single level suburban strip retail building leased to a fashion retailer at a **yield of just 2.37%.** In a retail environment where major landlords are shifting their attention away from non-discretionary tenants, (i.e. fashion, due to its exposure to the growing e-commerce trade) the sale is sure to turn a few heads. With that being said, vacancy along the Brighton strip has compressed to 1% recently and the business, **Sportsgirl**, has been in operation for the last 25 years; which is perhaps the reason behind the strong local interest, which saw seven local investors vying off for the property at its auction. *Spencer* paid **$8.2 million** for the property, $3.2 million over the reserve, to record a **rate of $25,949 psm of lettable area**. Brighton is located 11.4 km south east of Melbourne.

487-495 Bridge Road, Richmond, VIC 3121

A single storey retail showroom building on the eastern CBD fringe has sold to an Asian syndicate for **$14.8 million**. The 1,658 sqm site has a lease to multinational homewear provider **Adairs** generating a combined $422,282 p.a., revealing a **yield of just 2.85%.** The site has 50-metre frontages to both front and rear and an on-grade car park for some 20 vehicles. This property has significant future development prospects. The property sold at a **rate of $13,040 psm lettable area**. Richmond lies 3.8 km east of Melbourne's CBD.

42-50 Burwood Highway, Burwood East, VIC 3151

A standalone **Woolworths** and **BWS** site in Melbourne's eastern suburbs has sold under the hammer for **$18.7 million** to an Asian investor. The property has a 'renewed' net lease, generating $832,000 net per annum for the new owners. CBRE, who sold the property for the *Nossbaum Family* as part of their newly established portfolio auctions, says Asian investors are now more educated on the fundamental strengths of a Wesfarmers or a *Woolworths* commercial tenancy, being the non-discretionary basis of consumer spending and the often high underlying land values of these properties. The property is 1.51 hectares large, comprising on-grade parking for some 394 vehicles, a supermarket of 3,400 sqm, located in a high-growth residential area that includes the new Brickworks development of over 700 homes. The sale generates a **rate of $5,500 per metre of lettable area,** whilst giving a **net yield of 4.45%**. Burwood East lies 18.4 km east of Melbourne's CBD.

Leasing Activity

146 Little Collins Street, Melbourne, VIC 3000

The Blow Australia, a new entrant to the hair salon market from the US, has found a 50 sqm retail space in Melbourne's CBD to open its first store. The business will pay a **gross annual rent of $90,000** for a term of **five years** with options to a private landlord. This equates to a **rate of $1,800 psm of lettable area**.

423-425 Elizabeth Street, Melbourne, VIC 3000

A 200 sqm retail shopfront in Melbourne's north-end has gone to a Chinese dessert business, securing the shop on a **rate of $2,000 psm of lettable area** for the next **10 years**. The property was the long-term home of Spot On Motorcycles, having never been on the market before. A local investor will receive **$400,000 per annum** for the duration of the term.

386 Smith Street, Collingwood, VIC 3066

A wide-fronted retail building in Melbourne's inner north-east has been let for **$90,000 per annum**, reflecting a **rate of $371 psm of lettable area**. The property has 241 sqm of ground floor internal area with side loading facilities and double ceiling height that allows for the 129 sqm mezzanine level. It was secured by *Have it Made Furniture* on a **three year** lease with options, the company citing greater business exposure as a reason for the move. Collingwood is located 2.7 km north west of Melbourne's CBD.

1033 High Street, Armadale, VIC 3143

Women's fashion retailer *Megan Park* will take up a new tenancy in Melbourne's inner-east, securing an 85 sqm shop for **$74,800 net per annum**. The area is popular with many fashion retailers of international standing and the shop came fully fitted out for the new tenant. The tenant agreed to a **3x3 year lease** at **$880 psm lettable area per annum,** whilst the landlord included a 3 month rent free incentive. Armadale is located 8.1 km south-east of Melbourne's CBD.

10 Prospect Hill Road, Camberwell, VIC 3124

Sydney institution *Chargrill Charlie's* will open their first shopfront in Melbourne. The group has found an excellent property; a triple fronted ground floor retail shop in a popular retail area measuring 365 sqm, previously used as banking retail by HSBC. *Chargrill Charlies* began in Sydney's eastern suburbs, specialising in charcoal chicken, burgers and salads. The lease will see *Chargrill Charlie's* fork out **$228,000 net per annum**, equating to **$625 psm of lettable area per annum**. Camberwell lies 10.6 km east of Melbourne's CBD.

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INDUSTRIAL MARKET

Investment Activity

17-21 Gaine Road, Dandenong, VIC 3175

Demand for south-eastern industrial property continues to remain strong, with a private investor picking up a high quality 4,020 sqm warehouse/office building in the **Quantum Industrial Park** for **$5.715 million**. The site has a substantial hardstand, two gantry cranes and 63 parking bays, whilst the warehouse has an eight metre minimum internal clearance. The property is leased to **Australian Roll Forming**, with the income generating a **6.2% yield on purchase price**. The deal was carried out at a **rate of $1,422 psm lettable area**. Dandenong lies 31.3 km south east of Melbourne's CBD.

23 Scanlon Drive, Epping, VIC 3076

Frasers Property Australia has sold a 12,361 sqm warehouse and office asset for **$15.7 million** after assessing it as surplus to the business' requirements. A private investor picked up the site on a **6.2% yield**. It has a new six year lease in place to **Criterion Industries** with options until 2032. The building has 8.5 metre clearance, five roller shutter doors and parking for some 140 vehicles, whilst the 2.43 hectare site sits close to the Melbourne Fruit and Vegetable Market and stands to benefit from an upgrade to the CityLink Tullamarine Freeway which is underway. The deal equates to a **rate of $1,207 psm lettable area**. Epping is located 19 km north of Melbourne's CBD.

4 Redland Drive, Mitcham, VIC 3132

Harvey Norman will open a distribution centre to service the eastern Melbourne region, securing a 2,950 sqm office/warehouse for **three years**. The property features clearspan warehousing, a modern two level office appointment, dual roller shutter doors and on-site parking, close to main arterial roads. The group will pay **$120 psm gross per annum**, reflecting a cost of **$354,000 per annum**. Mitcham lies 21 km east of Melbourne's CBD.

21-29 Radford Road, Reservoir, VIC 3073

The former home of Lakeside Secondary College in Melbourne's north east has been picked up for **$12 million**. The *Victorian Department of Treasury and Finance* offloaded the vacant 5.33 hectare site, cleared of all prior improvements, with a private owner-occupier picking it up. The price generates a **rate of $225 psm of site area**. It sits on the edge of Merri Creek which has a public walking trail. Reservoir lies 12.4 km north east of Melbourne's CBD.

508-520 Wellington Road, Mulgrave, VIC 3170

Pomeroy Pacific, a family development company, will take the reigns over a 4.11 hectare site in south-east Melbourne, having paid **$30.5 million** to the *Makhmalbaf family*. The vendor has doubled their money since purchasing the property for $15.5 million only 18 months ago, reflective of the dearth of quality sites in established suburbs. The new owners say they are planning a new industrial development on the site, once the lease to **Renold Australia** expires in March 2020. The sale equates to a **rate of $742 psm of lettable area**. Mulgrave is 23 km south east of the Melbourne CBD.

1314 Ferntree Gully Road, Scoresby, VIC 3179

A 16,134 sqm industrial facility in Melbourne's outer eastern suburbs, the former headquarters of home-wear provider Décor, has sold with vacant possession to *Ascendas REIT Australia* for **$16.25 million**. The property sits on 25,895 sqm of land, whilst internally the buildings features three levels of office space and industrial racking of up to 16 metres. *Ascendas* have been extremely active in the industrial marketplace, with one recent acquisition of a $1.1 billion industrial portfolio signalling their investment intent. The group paid **$1,007 psm lettable area** to secure the building. Scoresby is located 28.5 km east of Melbourne's CBD.

85 Fulton Drive, Derrimut, VIC 3030

A private owner-occupier will reside over 3,450 sqm of warehouse and office space the undisclosed party made the purchase of a West Melbourne property for **$5.1 million**. The 1.073 ha site is in the **Gilbertson Industrial Estate**, with nearby neighbours including Aldi, Bridgestone and Mercedes Benz. The corner property has extensive yard area with dual driveway access, modern office furnishings and three roller shutter doors. *Efxpress* sold the building on a **rate of $1,478 psm lettable area**. Derrimut is positioned 19.4 km west of Melbourne's CBD.

78 Willandra Drive, Epping, VIC 3076

A vacant industrial site in Melbourne's northern suburbs has sold for **$2.1 million**. *Hope Capital* were the vendors of the 4,721 sqm site which comes with approval for a 16 lot office and warehouse subdivision, giving each future building a gross average land parcel of 295 square metres to build on, whilst the price reveals a **rate of $131,250 per lot**. Epping is approximately 21.2 km north of Melbourne's CBD.

285 Palmers Road, Truganina, VIC 3029

A 27.5 hectare industrial development site in western Melbourne has gone to *LOGOS* for about **$28 million** with plans to develop as much as 160,000 sqm of premium industrial space. The major industrial developer and investor believes the purchase will position them well for when industrial land opportunities start to really tighten in two to three years in Melbourne's west as a result of greater penetration of e-commerce retailing. The development could be worth as much as $250 million upon completion. Petroleum and property player *Nick Adrianakos* was the vendor and completed the deal with *LOGOS* on a **rate of $102 psm of site area**. Truganina is positioned 23.5 km west of Melbourne's CBD.

2-12 Banfield Court, Truganina, VIC 3029

LOGOS has continued its purchasing run on Melbourne's western industrial market, completing the purchase of a **Kmart distribution centre** for **$119 million**. The 76,938 sqm development is fully leased to **Kmart** with 7.9 years remaining on the lease, giving *LOGOS* a $6,485,152 net annual income stream. US fund manager *Invesco* sold the building to capitalise on strong investor demand for large logistics property, achieving a **net yield of 5.45%.** The Macquarie-backed *LOGOS* has been extremely active in the logistics marketplace recently, having picked up a $28 million site on nearby Palmers Road last month (*See*: *July 2018 - Transactions in Review, Industrial*). This sale reached a **rate of $1,547 psm of lettable area**. Truganina is located 23.5 km west of Melbourne's CBD.

Leasing Activity

51 Bazalgette Drive, Dandenong, VIC 3175

Rydell Beltech has agreed with landlord *LWE Pty Ltd* over a **10 year lease** with two five year options for a modern, freestanding industrial warehouse and office building in Melbourne's outer south east. The new tenants provide belting solutions for a wide array of industries, including food manufacturing The lease is an expansion play, with the company moving into the larger 2,655 sqm building from a smaller site in Moorabbin. The warehouse is high clearance (10.3 metres) and has four roller shutter doors with a nine metre loading canopy. It sits on a 4,000 sqm site with hardstanding and parking available as well as two floors of modern office space. The deal was agreed at a **rate of $93 psm net**, or a total of **$246,915 per annum**. Dandenong lies 30 km south east of Melbourne's CBD.

RESIDENTIAL MARKET

Building Approvals

The Australian Bureau of Statics reported that building approvals over the month to September 2018 totalled 2,137 for houses and 2,833 for units in Greater Melbourne. The overall increase of 10.54% to 4,970 approvals was mainly a result of the fluctuation in unit approvals whilst approvals for houses decreased over the same period. Nonetheless, the increase in unit approvals is believed to be a seasonal fluctuation, however, if it continues, it may create an oversupply in Greater Melbourne's residential market on the back of the deteriorating sentiment for residential properties and strict lending requirements.

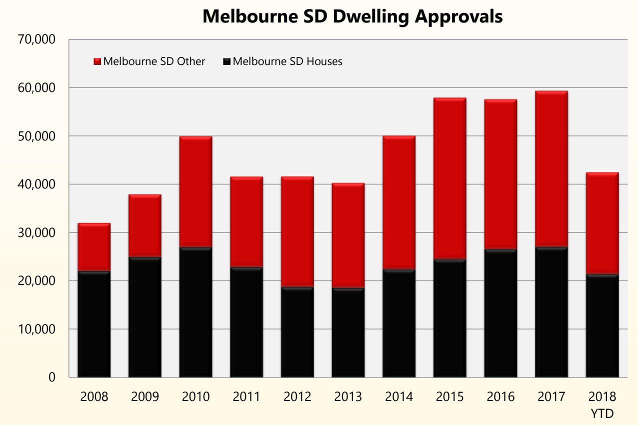

Chart 11 —Melbourne SD Dwelling Approvals—Source ABS / PRP Research

Market Affordability

The Real Estate Institute of Australia (REIA)'s Real Estate Market Facts June 2018 reported that the median house price in Melbourne declined by -0.6% to $840,000 over the quarter. However, this figure still indicates an annual increase of +3.4% over the year to June 2018. Despite the annual increase, the 3.4% growth is lower than the yearly growth recorded on March 2018 at +7.4%. This decline in year on year changes continues as the residential market eases on the back of tight lending restrictions and faltering confidence.

On the contrary, the median price for units in Melbourne increased by a modest +0.5% over the same period to $604,000. This figure indicates an annual increase of +0.3%, which is lower than the annual increase recorded on for the March 2018 at +4.7%.

Out of the three Melbourne zones; Inner, Middle and Outer; Outer Melbourne performed best over the quarter for both houses and units, increasing by 0.5% and 1.6% to $681,000 and $532,500 respectively. Middle Melbourne performed worst amongst the zones, with both houses and units median price declining by -5.4% and -1.8% to $974,500 and $656,500. Meanwhile inner Melbourne showed varied results with median house price declining by -4.9% to $1,459,000 over the quarter and median unit price increasing by 1.4% to $605,000 over the same period.

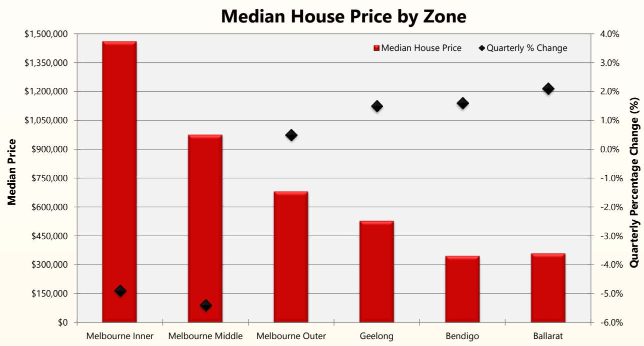

Chart 12 – Median House Price by Zone – Source REIA / PRP Research

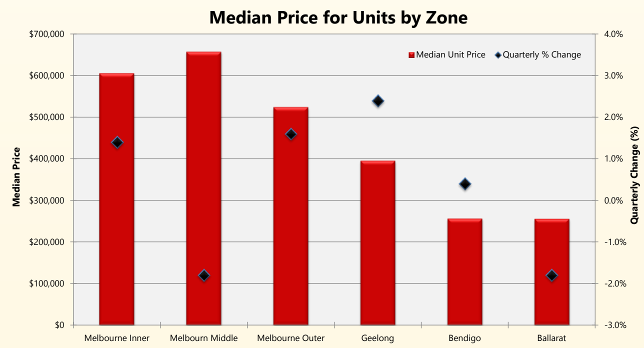

Chart 13 – Median Price for Units by Zone – Source - REIA / PRP Research

Rental Market

Melbourne houses recorded a predominantly unchanged quarterly rental price. 2, 3 and 4 bedroom median house price in both middle and outer areas of Melbourne remained unchanged at $450, $500, $650 and $340, $370, $420 respectively. Following this trend, 2 and 4 bedroom houses in inner Melbourne remained unchanged at $509 and $950 weekly, however, 3 bedroom houses in the same area recorded a quarterly rental increase of 3.2% to $800 weekly.

Weekly rents for unit dwellings in Melbourne showed a predominantly positive quarterly growth. The 1 and 3 bedrooms of middle areas of Melbourne recorded quarterly median rent increases of +6.7% and +2.9% to $320 and $540 weekly, whilst its 2 bedroom units recorded unchanged weekly rentals over the same period of $420. This trend is followed by outer areas of Melbourne, recording +2.3% (to $270 weekly), +0.0% (to $340 weekly) and +2.6% ($390 weekly) for its 1, 2 and 3 bedroom units. In contrast to this, inner Melbourne recorded unchanged median weekly rental price for its 1 and 2 bedroom units, remaining at $400 and %550 weekly whilst its 3 bedroom unit rental price declined by -3.6% over the same period to $755 weekly.

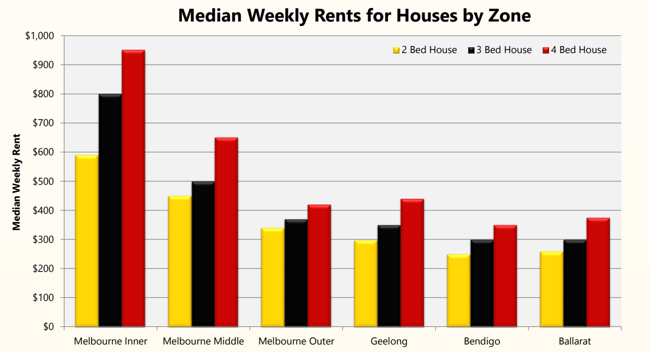

Chart 14— Median Weekly Rents for Houses by Zone – Source - REIA / PRP Research

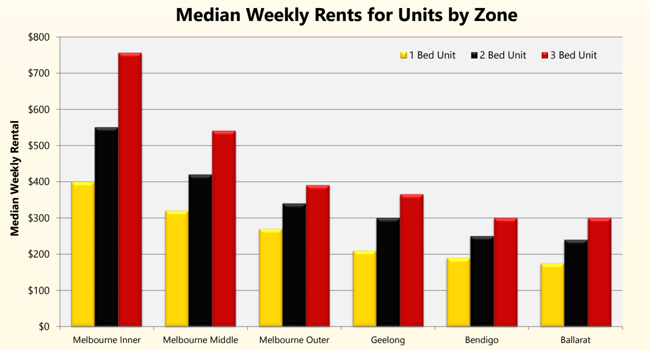

Chart 15 - Median Weekly Rents for Units by Zone – Source - REIA / PRP Research

BALLARAT

Market Affordability

The median house price in Ballarat saw an increase of 2.1% over the quarter to $360,000 while the median unit price in Ballarat declined by -1.8% to $255,400 over the same period.

Rental Market

Ballarat's median rents for houses of 2, 3 and 4 bedrooms remained at $260, $300 and $375 weekly. The rental unit price of 3 bedrooms in Ballarat also remained unchanged at $300 weekly while 1 bedroom units gained 2.9% over the quarter to $175 weekly and 2 bedroom unit rental price declined by -2.0% to $240 weekly.

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GEELONG

Market Affordability

Median house price in Geelong has been increasing over the past two years despite the slowdown in the national residential market. Industry experts dubbed Geelong as one of the hottest regional areas amongst residential markets. Over the June 2018 quarter, the median house price in Geelong increased by 1.5% to $528,000. This figure represents an 11.2% increase over the year. Similarly, median unit price of unit dwellings in Geelong depict an increase of 2.4% over the quarter, bringing median price up to $395,000, reflecting a strong yearly growth of 12.9%. The strength in the housing market in Geelong is supported by the increasing migration levels in Geelong and because of its growth levels, investors are also increasingly starting to look at Geelong as an investment option at the back of the undersupplied market.

Rental Market

Geelong's rental market continues to ease, aligning with the overall slowing residential market nationally. Geelong's houses experienced varied changes over the quarter. The median rental price for 2 bedroom houses in Geelong declined by -6.9% over the quarter to $298 weekly while its 3 bedroom houses remained at $350 weekly and its 4 bedroom rental price increased by 2.4% to $440 weekly. Unit dwelling in Geelong performed worse than its houses, recording an overall decline in rental price. Although Geelong's 2 bedroom units recorded an unchanged weekly rental price of $300 but its 1 and 3 bedroom units recorded declines of -6.7% and -0.8% to $210 and $365 weekly.

BENDIGO

Market Affordability

House sales in Bendigo remained resilient over the quarter with median price increasing by 1.6% to $347,000 whilst unit median price increased by a modest 0.4% to $256,000.

Rental Market

The median rents for 3 and 4 bedroom houses in Bendigo remained at $300 and $350 weekly whilst 2 bedroom houses saw a decline of -3.8% over the quarter to $250 weekly. Units in Bendigo are less resilient than houses in the rental market with its 1 and 3 bedroom rental price declining at -5.0% and -3.2% to $190 and $300 weekly while the rental price for its 2 bedroom units remained at $250 weekly.

LUXURY RESIDENTIAL INVESTMENT ACTIVITY

146 Toorak Road, South Yarra, VIC 3141

A local downsizing couple, stymied by a lack of suitable choices, have splashed **$16 million** for an off-the-plan penthouse in a boutique apartment development in Melbourne's popular south-east. The **Fawkner House** development from *Beulah International* is targeting that exact wealthy downsizer demographic for those who are after a 400-500 sqm apartment with multiple car spaces and not-too-many neighbours. This is a market where previously very little to no stock existed, and in light of the ageing, asset-rich population, it isn't hard to imagine this sort of development dominating the residential development market in the next 2-3 years whilst investors remain at bay. The couple bought the top two units and will combine them for a two storey penthouse, whilst prices for the remaining three units start at a mere $4.99 million.

7 Teringa Place, Toorak, VIC 3142

A highly contemporary, visually striking home in Melbourne's prestige inner eastern suburb of Toorak has been sold for about **$15 million**. The two level home catches the eye with two curved, inward facing facades, covered almost entirely by glass panels. Beyond the facade, the house features five bedrooms including a master suite, five bathrooms, a theatre room, gym, in-ground pool and spa and a basement car park for 7 vehicles. *Gary Simonds* sold the home after 119 days on the market and 390 groups inspecting the home, with demand for new family homes "out of control" according to selling agents RT Edgar Toorak. With a land size of 866 sqm, the property shows a **rate of around $17,321 psm of site area**. Toorak is located 6.3 km south east of Melbourne's CBD.

RESIDENTIAL DEVELOPMENTS

222 Burke Road, Glen Iris, VIC 3146

Local developers have exchanged an approved boutique development site for **$5.5 million**. Smaller scale, up-market developments are the most popular projects amongst residential developers at the moment due as their appeal to retiring downsizers rather than investors, who've withdrawn from the market all together in the midst of a residential slump and tightening of credit access. The site is a 1,019 sqm corner block in close proximity to Gardiner station and comes with approval for 16 luxury apartments, offering a **rate of $343,750 per apartment site**. The sale achieved a **land rate of $5,397 psm.** Glen Iris is located 11 km south east of Melbourne's CBD.

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250 Wedge Road, Skye, VIC 3977

Housing in Melbourne's suburban fringe continues to surge, with the sale of a 14.3 hectare south east land parcel for **$45 million**. Long term business partners *Wolfdene*, a Melbourne-based developer, and *Blueways Group* from China made the purchase to add to their $1.5 billion joint housing development portfolio. They intend to begin construction in late 2019 on 300 new housing lots. The site is located by the Sandhurst Golf Course and various schools, most of which is recently developed estate. The sale retrieves a **rate of $150,000 per proposed lot**. Skye is located 38 km south east of Melbourne's CBD.

250 Lancefield Road, Sunbury, VIC 3429

John Meagher, a Melbourne Cup winning trainer, has sold his 82 hectare property known as Huntly Lodge for about **$50 million**. The farm where Meaghan ran sheep, cattle and horses, will likely be developed by purchasing party *Mondous Property Group* as the lot falls within the boundaries of a new masterplanned community. The site has capacity for 1,000 homes, giving a value of **$50,000 per lot**. Approval for the precinct is said to be "imminent" from the Victorian Government. Sunbury is located 42.4 km north west of Melbourne's CBD.

RURAL PROPERTY MARKET

185 Tucks Road, Main Ridge, VIC 3928

Founder of Vodafone Australia *Phillip Cornish* has bought a 'legacy' property for future generations of his family, a 46 hectare rural getaway on the Mornington Peninsula with views over Port Bay to the west. The telco figure paid **$10.175 million** for the property which came on two land titles. According to selling agents from Sotheby's, these sorts of property are being bought by the 'next echelon' of wealthy investors as family compounds and lifestyle investments, usually held in trusts to avoid liquidation, with grandchildren and beyond in mind. The property sold on a **rate of $221,196 per square hectare**. Main Ridge is located 78 km south east of Melbourne's CBD.

758 Zanelli Road, Nagambie, VIC 2507

The **Goulburn Valley Intensive Farms** in central Victoria have been picked up by a private egg farmer for **$10 million**. The two adjoining farms come with substantial on-site accommodation as well as farming infrastructure including 14 production sheds measuring a combined 3.36 square hectares. The new owner has reached a grower contract with a separate chicken meat processor to operate on the property. The farms, measuring a combined 147 hectares, come in at a **rate of $68,027 per hectare**. Nagambie is positioned 122 km north of Melbourne.

473 Warburton Highway, Seville, VIC 3139

Chinese investors have traded a boutique Yarra Valley winery and events venue for **$8.5 million**. **Wild Cattle Creek**, previously known as the Langbrook Estate, was picked up for virtually the same price as it was in 2016 when China's *Lusheng Pty Ltd* bought the 7.62 hectare property. The property is a well-known wedding and events venue with onsite accommodation for guests. The deal equates to a rate of **$111 psm of land area**. Seville lies 52 km east of Melbourne.

Telopea Downs, Victoria

Qatari sovereign wealth fund *Hassad Australia* has sold its 47,677 square hectare property in western Victoria for more than **$70 million,** with fifth generation wool producers *A.J. & P.A. McBride* securing the property. *Hassad* put together the aggregation of properties in 2012 as a sheep breeding hub however are now said to be entering a divestment phase with properties being sold in NSW, South Australia and Queensland. The deal reflects the largest Victorian farm for farming purposes sale in Victorian history. Settlement will reveal the final price, however the rate paid will be above **$1,468 per hectare**. Telopea is located on the border of South Australia, approximately 400 km north west of Melbourne.

SPECIALIZED PROPERTY MARKET

188 Tucker Road, Bentleigh, VIC 3204

A Chinese investor has seemingly cast aside concerns of a market oversupply to acquire a purpose built childcare centre in the city's south east for **$11.7 million** on a **5.54% initial yield**. The brand new, 144 place centre is leased to **Buckets Early Learning Centre** on a new **20 year** lease. It is built on a 1,310 sqm corner site and has basement parking for 28 vehicles. It sold at a rate of **$8,931 psm of site area**. Bentleigh is 14.3 km south east of Melbourne's CBD.

6-10 Queen Street, Warragul, VIC 3820

A regional service station with tenancies to **Shell Coles Express**, **KFC** and **Dominos Pizza** has sold for **$8.1 million** at a **5.98% yield.** The buyer was a Melbourne based investor who picked it up via an expressions of interest campaign. Warragul is located 102 km south east of Melbourne.

14D Oleander Drive, Mill Park, VIC 3082

A brand new 1,188 sqm building in north east Melbourne has been secured by *Melbourne Health*, a Victorian public health service provider, on a **15 year lease** with two five year options. The group will fitout the two storey premises themselves and pay an **net annual rent of $409,860**, equating to **$345 per metre**. Mill Park is located 20 km north east of Melbourne's CBD.

20-22 Overton Road, Frankston, VIC 3199

A local investor has acquired a car dealership on the Mornington Peninsula leased to ASX-listed **AHG Group** for **$13.25 million**. The property is on a five year, triple-net lease expiring in 2022, generating $757,976 p.a., giving this sale a **passing yield of 5.71%**. The agent expects the dealership to stay in the property beyond the lease term due to a shortage of available space. Frankston is located 44 km south east of Melbourne's CBD.

224-232 Caroline Springs Boulevard, Caroline Springs, VIC 3023

A multi-tenancy medical centre in outer north-west Melbourne has been picked up by a local investor for **$12.5 million** on a **yield of 4.88%**. The premium centre has tenancies to a radiologist, dentist and general practitioners with a combined rental income of $665,189 p.a. plus parking for 42 vehicles. The site rests on a 3,135 corner allotment and has "Comprehensive Development Zoning", giving weight to a future development, especially considering the surrounding development such as the Quest Apartments opposite the property and the new railway station providing access to the CBD. The deal was done at a **rate of $8,597 sqm of lettable area**. Caroline Springs is located 25 km north west of Melbourne's CBD.

31 Nepean Highway, Elsternwick, VIC 3185

A future childcare centre, underwritten by a 20 year lease to **Nino Early Learning Adventures**, has sold for **$11.3 million** at a **yield of 6.36%**. The site is located in Melbourne's prestige south east, where median house prices exceed $2.1 million. The property rests on a 2,186 sqm site with a favourable zoning of Residential Growth Zone 1, further solidifying its value. Construction is soon to commence on the property which will build around a historic homestead and host 128 kids. The sale gives a **rate of $11,035 psm of lettable area** or **$88,281 per placement**. Elsternwick is located 9.3 km south east of Melbourne's CBD.

HOTEL & LEISURE MARKET

33 King Street, Melbourne, VIC 3000

An ex-apartment developer has had great success in the hotel market recently, selling a 241 room hotel off-the-plan for **$91.3 million.** *Jonathan Hallinan* walked away from the apartment development scene in January this year amidst a withdrawal of residential investors, instead focussing his attention on the more in-demand hotel development sector. Hindsight has proven this to be a shrewd move, with *Hallinan* successfully finding Indian investors *Kapil and Rahul Bhatia* for the hotel, whilst unit prices in the Victorian Capital have begun to deflate, falling 1.1% in Q2 2018. The 30-level hotel sold on a rate of **$378,838 per room**.

192 Wellington Parade, East Melbourne, VIC 3002

The **Pullman Melbourne on the Park hotel** has sold to Asian investors for an undisclosed price, however inside sources believe the deal to be **close to $200 million**, which sits in line with the marketed price. The 419-room, five star hotel will join *iProsperity's* $1.8 billion hotel portfolio which includes the Sydney, Melbourne and Brisbane Crown Plazas. The group say they are targeting $10 billion of assets under management by 2020. Canadian real estate firm *Brookfield* sold the property in one of the biggest hotel deals of the year, done at a **reported rate of $477,327 per room**. East Melbourne is located 2.2 km east of the CBD.

139 Cecil Street, South Melbourne, VIC 3205

Historic metropolitan pubs continue to trade on strong terms despite the market appearing to be reaching its peak, evidenced by the sale of **The George Hotel** for **$5.2 million** on a tight **4.88% yield**. The property does however have strong fundamentals; it has been operational for over 150 years, it has a new lease in place with options to 2038 and it boasts a significant 406 sqm land holding on a corner opposite the ever-popular South Melbourne markets. The two level, 531 sqm pub traded on a **rate of $9,793 psm of lettable area**, whilst the sale reflected a 30% capital gain on its 2015 sale. South Melbourne lies 2.4 km south of the CBD.

ECONOMIC FUNDAMENTAL

Gross Domestic Product

The Australian economy grew by 0.89% over the quarter to June 2018, following the 1.15% increase over the quarter in March 2018. Consumer spending, financed by a shrinking household savings fuelled the increase in economic growth. Despite the quarterly increment decreasing slightly, annual figures show that the Australian economy grew in the June quarter with a year on year increase of 3.41%, the strongest year ended rate of growth since 2012. However, the yearly pick up figures were flattered to a degree by a large downward revision of June 2017 quarter GDP (from 1 per cent to 0.7 per cent), giving June 2018's annual growth rate a handy head start.

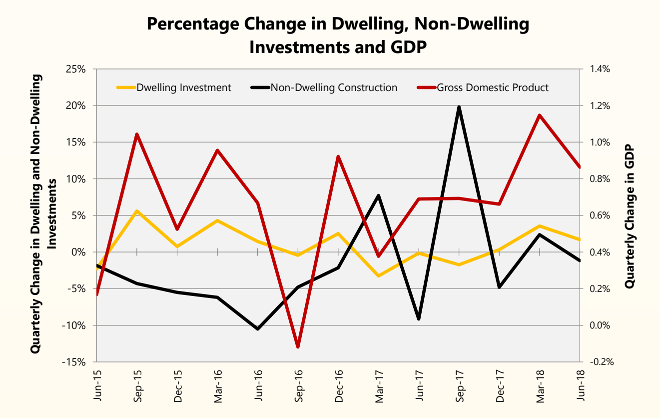

Chart 16— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

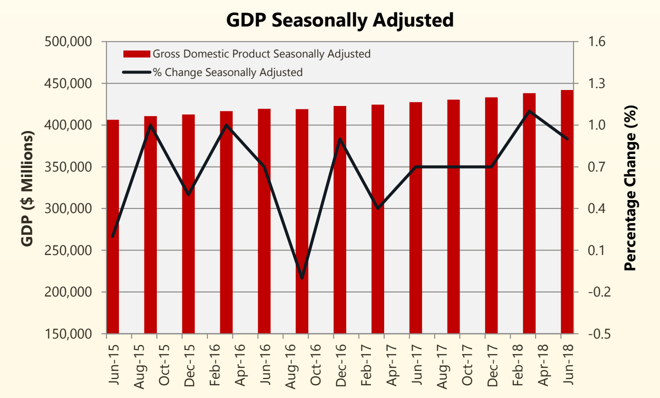

Chart 17— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

Consumer Price Index

Over the three months to September 2018, Australia's Consumer Price Index (CPI) increased by 0.4%, bringing the inflation rate to 1.9% over the last twelve months. Over the quarter increases from the recreation & culture sector (+1.6%) as well as alcohol & tobacco (+1.3%) were offset by the declines in communication (-1.4%) and household equipments (-1.2%).

The CPI of all Australian capital cities increased with Sydney, Perth, Hobart, Darwin and Canberra recording a high +0.7% whilst Melbourne slacked behind, increasing by only 0.20% over the quarter, showing the slowest CPI growth amongst all other capital cities in Australia.

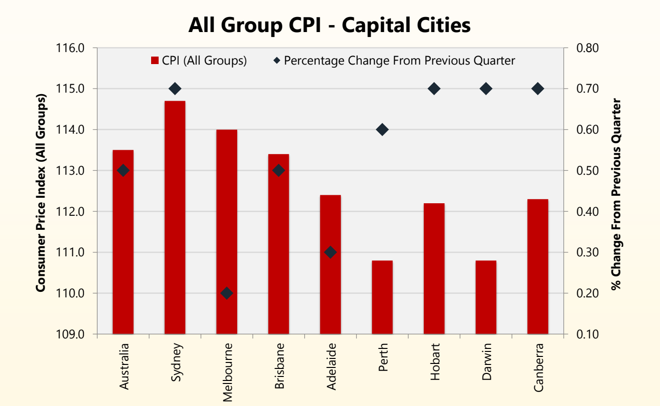

Chart 18—All Group CPI (Capital Cities) and Percentage Change — Source: ABS

Business Sentiment

The monthly business survey for September 2018 released by National Australia Bank (NAB) reported that the business confidence index increased by +1 to +6 index points. The strength in employment is especially encouraging for business confidence. The highest confidence on September 2018 seen from the Mining and Construction industries; however, retail is weak and deteriorating. Across the states, confidence is highest in South Australia (+10), followed by Western Australia and Queensland (both +8), whilst NSW still lags behind at +4 index points.

NAB business condition index rose modestly by 1 point to +15 points with Tasmania (+18), Victoria (+17) and Queensland (+15) recording highest levels whilst conditions remain weak in South Australia (+7).

Consumer Sentiment

According to the Westpac-Melbourne Institute survey on consumer sentiment, the overall Consumer Sentiment Index fell by 3% to 100.5 from 103.6 index point in August. The survey suggested that sentiments were affected by increases in mortgage interest rates, political instability and household budget pressures. However, these concerns are offset by the strong GDP growth figures and the improvement in the labour market.

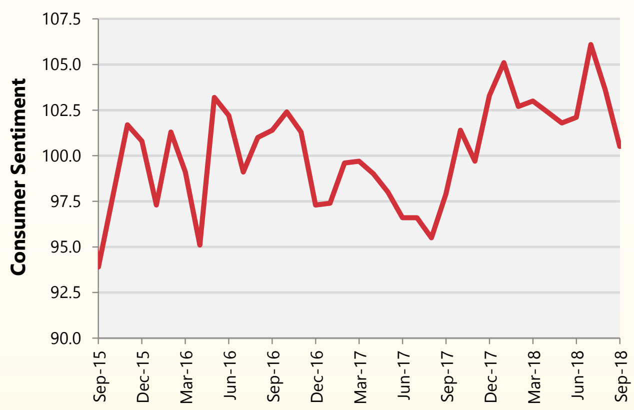

Chart 19—Consumer Sentiment Index —Source: Westpac Melbourne Institute Survey

	Sep 2018	Aug 2018	Sep 2017	Sep 2016
Consumer Sentiment Index	100.5	103.6	97.7	101.4
Family finances vs. a year ago	85.2	88.3	82.3	89.5
Economic conditions next 12 mth	100.2	106	98.3	104.2
Time to buy a dwelling	103.5	108.8	95.2	109.3

Table 2—Consumer Sentiment —Source: Westpac Melbourne Institute Survey

Interest Rates

The Australian Reserve Bank held the cash rate at record 1.5% low for the 26th consecutive period on 4th September 2018. The decision to hold on the low interest rate is believed to continue to support domestic economic growth; allowing further compression in unemployment rate, absorb the spare capacity in the labour market, trigger the increase in wage growth and push the current inflation rate (1.9%) up towards the midpoint of the target (Inflation Target: 2-3%).

A six-year low unemployment rate was recorded on September 2018, despite wage growth remaining low. The subdued growth in household income continues to be one of the key uncertainties for household consumption and core inflation outlook.

The members of the Reserve Bank of Australia believe that it is appropriate to maintain a steady cash rate while progress on wage growth and inflation unfolds.

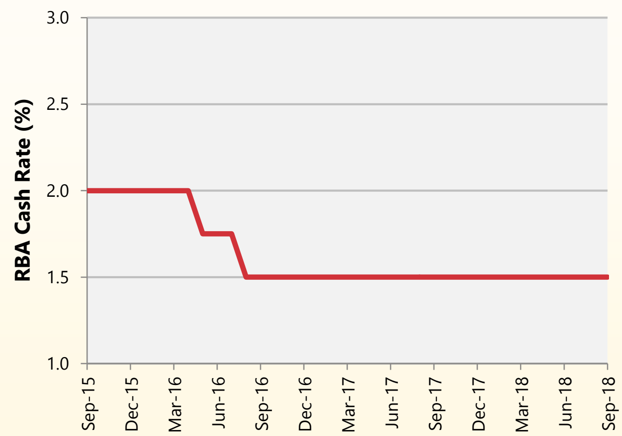

Chart 20— Movement of the Cash Rate — Source: RBA / PRP Research

10 Year Bond & 90 Day Bill Rate

Through the September 2018 quarter, the 10-year bond yield increased in the US by 20 basis points but only marginally increased by 4 basis points in Australia. The Australia-US bond spread widened by 16bps to -38bps over the same period.

The negative spread between the AU-US bond spread is widely caused by the different monetary stance between the two countries. Historically, the monetary stance between the two countries correlates, however, recent recordings show that this may no longer be the case.

The Australian 90 Day Bank bill rates continue to fall over the September 2018 quarter. The bill rate peaked at 2.10% in the beginning of July before it declines further, ending the quarter at 1.94%.

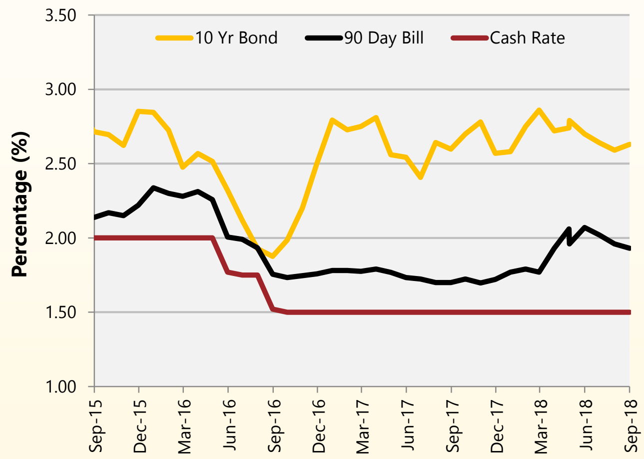

Chart 21— Monthly movement of 90-day Bill, 10-year bond yields and Cash rate — Source: RBA

Unemployment

Australia's unemployment rate fell to 5%, a six-year low, on September 2018 from August's 5.3%. The improved labour condition also influenced the wage growth in Australia, as the wage price index recorded by the Australian Bureau of Statistics (ABS) show the highest growth rate in three years in the September quarter, growing by 0.6%. This figure also reflects the largest annual increase in the three years at 2.3%. Nonetheless, considering that inflation increased by 1.9% over the quarter, that left real wage growth increasing by 0.4% over the year.

In the contrary, the Australian employment participation rate declined 3 basis points to 65.4 per cent over the month. The overall fall in participation rate is understandable as unemployment rate declines, less people will be looking for new jobs.

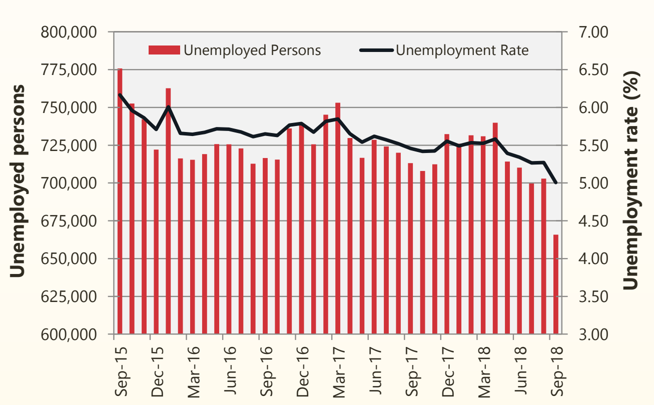

Chart 22— Unemployment Persons and Unemployment Rate— Source: ABS / PRP Research

	Unemployment Rate (%)			Participation Rate (%)		
	Aug	Sept		Aug	Sept	
Australia	5.3	5.0	▼	65.7	65.4	▼
New South Wales	4.6	4.4	▼	65.2	65.0	▼
Victoria	4.7	4.5	▼	65.4	65.6	▲
Queensland	6.3	5.8	▼	66.1	65.5	▼
South Australia	5.7	5.5	▼	62.1	62.0	▼
Western Australia	6.4	6.0	▼	68.7	68.6	▼
Tasmania	5.8	5.8	—	61.0	60.6	▼
Northern Territory*	4.0	4.1	▲	75.7	75.3	▼
Australian Capital Territory*	3.7	3.6	▼	70.6	70.6	—

Table 3— Unemployment Rate and Participation Rate — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly

Exchange Rate

Global economic conditions seem to remain positive for the Australian economy despite the risk around the international trade policy. A few central banks including the US Federal Reserve have increased policy rates on the back of rising inflationary pressures, resulting in a broad-based appreciation of the US Dollar. This resulted to a modest depreciation of the Australian Dollar, which is likely to have been helpful for domestic economic growth.

Over the month to September 2018, the Australian Dollar depreciated against most major currencies including the US Dollar (-0.5%), UK Pound (-1.0%) and Euro (-0.2%). As at the end of September 2018, $AUD1.00 equated to $US0.72, £0.55, €0.62, ¥81.96 and $NZD1.09.

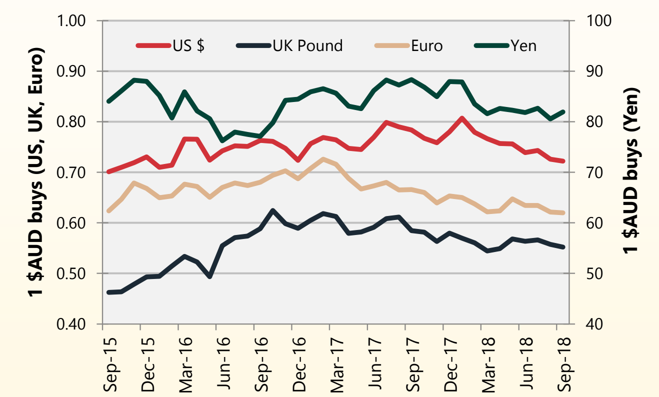

Chart 23— Movement in Exchange Rate — Source: RBA / PRP Research

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- 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
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