



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Property Market Report

## Victoria

### ABOUT THIS REPORT

Preston Rowe Paterson prepare standard research reports covering the main markets within which we operate in each of our capital cities and major regional locations.

The markets covered in this research report include the commercial office market, industrial market, retail market, hotel and leisure market and residential market as well as economic factors impacting on the real estate markets within we operate.

We regularly undertake valuations of commercial, retail, industrial, hotel and leisure, residential and special purpose properties for many varied reasons, as set out later herein. We also provide property management services, asset and facilities management services for commercial, retail, industrial property as well as plant and machinery valuation.

To compile the research report we have considered the most recently available statistics from known sources. Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them. Where possible we consider short term movement in the statistics by looking at daily published data in the financial press. Where this shows notable fluctuation, when compared to the formal published numbers we have commented accordingly.

### September Quarter 2016

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## COMMERCIAL OFFICE MARKET

### Melbourne CBD



#### Investment Activity

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

##### **33 King Street, Melbourne, VIC 3000**

Asia One has sold a 2-storey commercial building to BPM for **\$12.35 million**. The previous owner secured a permit for 120 apartments to be built across 29-levels on the 350 m2 site. However, BPM will apply for an amended permit to construct a mixed-use development with a luxury hotel, café and restaurant, as well as penthouse apartments. The sale reflects a **rate of \$35,286 psm**.

##### **114 William Street, Melbourne, VIC 3000**

Straits Real Estate has sold a commercial tower for **about \$170 million** on a **yield of 5.3%**. The 26-storey, 21,000 m2 tower is fully leased. The sale reflects a **rate of around \$8,095 psm**.



#### Leasing Activity

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

##### **700 Collins Street, Docklands, VIC 3008**

Open Universities Australia has agreed to occupy 2,682 m2 of space from Cromwell Property Group for **8-years**. The lease will begin on the 1st of January, 2017 and will mean that the 17-storey building is 100% occupied. The building was refurbished in 2015. Docklands is located about 2 km west of the Melbourne CBD.

##### **727 Collins Street, Docklands, VIC 3008**

Lang Walker has secured Tabcorp over 4-floors at its \$2.5 billion **Collins Square** project for 10-years. Tabcorp will occupy 9,213 m2 of space in Tower 2. Docklands is located 2 km west of Melbourne's CBD.



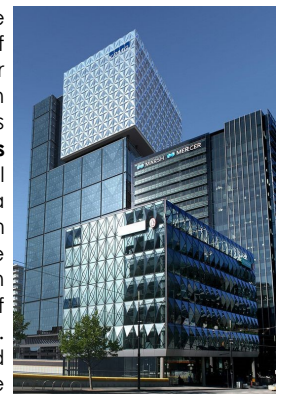
##### **33 Lincoln Square South, Carlton, VIC 3053**

Meat Industry Employees Superannuation Fund Pty Ltd has secured Save the Children as a tenant for **8-years**. The not-for-profit organisation will occupy over 3,000 m2 of office space for a net **annual rent of over \$320 psm**. Carlton is located about 1.9 km north-west of Melbourne's CBD.

#### Development Sites

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

**Tower 2 Collins Square**, due to be completed in the third quarter of 2016, will be the tallest tower constructed in Melbourne's CBD in more than 10 year upon its completion. Located on **727 Collins Street** near Docklands, Tower 2 will have 55,000 sqm net lettable area available, amongst which 5,525sqm will be used for retail purposes. There will be 26 level of office space, with an average floorplate size of 2,300sqm and 86 car spaces in total. The A Grade office building, owned by Walker Corporation, will achieve a 5-star Green Star energy rating.



The **Rialto Regeneration Project**, located on **525 Collins Street**, is still under construction and due to be completed in the fourth 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.

## Supply by Grade (Stock)

The July 2016 PCA Office Market Report revealed that there was a decline of 0.44% in office market space over the six months to July. This is the result of 26,343 sqm of withdrawals over the period, bringing the total Melbourne CBD office market space to 4,437,824 sqm.

A Grade stock dominates the Melbourne CBD office market, with nearly half of the share of total stock at 48.4%. Premium and B Grade office take up similar shares in the market, assuming 16.9% and 19.9% respectively. Following this, C Grade stock takes up 12.2% and D Grade with 2.6% of total share as of July 2016.

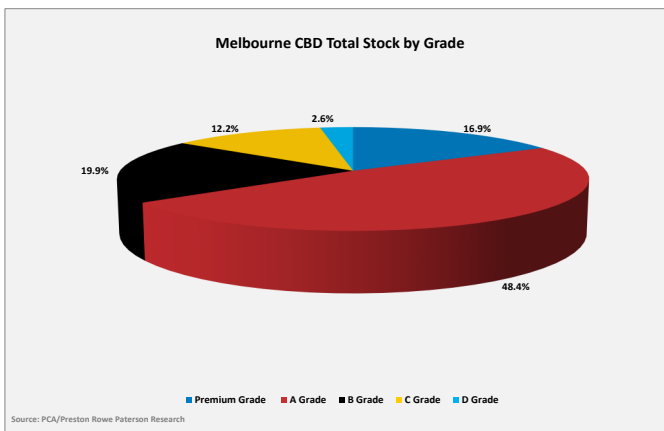


Chart 1 – Melbourne CBD Total Stock by Grade – Source PCA

## Net Absorption

Over the twelve months to July 2016, Melbourne CBD'S office market absorbed an additional 67,026 sqm of office space. Positive net absorption was recorded across all, but C and D Grade offices. Premium, A and B Grade offices recorded changes over the year of 5.7%, 1.1% and 2.1% respectively. Over the same period, C and D Grade office stocks reduced by 0.8% and 3.2%, respectively.

Premium and A Grade office stock absorbed the largest amount at 19,024 sqm and 24,768 sqm respectively in the six months to January. Followed by B Grade at 8,930 sqm, C Grade at 2,442 sqm and D Grade at 693 sqm.

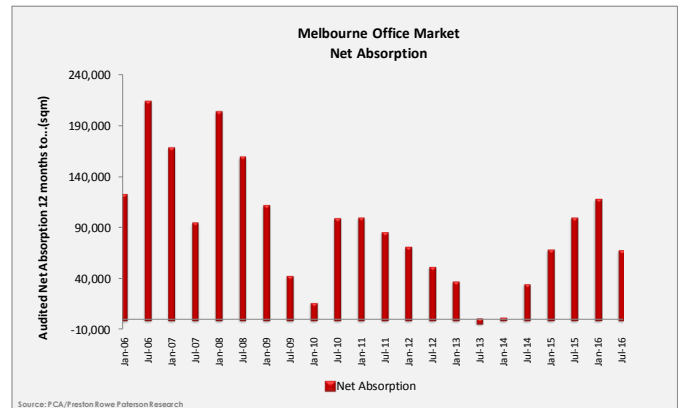


Chart 2 – Melbourne CBD Office Net Absorption - Source PCA

## Vacancy Rates

The Melbourne CBD office market total vacancy recorded a decrease of 0.7% to 7.0% in the six months to July 2016. This reflected a total market vacancy of 312,683 sqm.

Tightening in vacancy rates occurred across all graded stocks, with the largest decrease stemming from Premium Grade office space with a decline of 1.9%. Its current vacancy rate stands at 8.4%. A, B, C and D Grade experienced decreases of 0.4%, 0.8%, 0.3% and 0.2% respectively. Their respective vacancy rates stand at 6.1%, 7.5%, 9.1% and 2.2% as of July 2016.

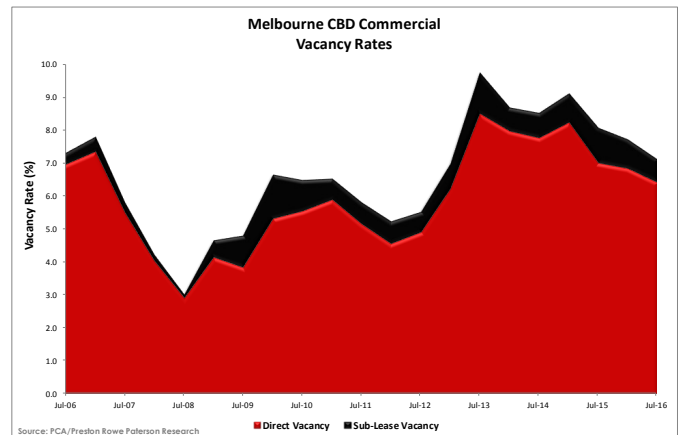


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA



## East Melbourne CBD



### Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the East Melbourne office market during the three months to September 2016:

#### 200-216 Victoria Parade, East Melbourne, VIC 3002

Time & Place has paid **around \$60 million** for two office buildings from National Australia Bank. NAB is currently the sole occupant in the buildings taking up over 15,000 m2 of space. However, NAB will be moving its technology operations to a new data centre. The site has the potential for a mixed-use redevelopment. The sale reflects a **rate of around \$4,000 psm**. East Melbourne is located about 2.2 km east of the Melbourne CBD.



#### 800 Toorak Road, Hawthorn East, VIC 3123

Investa Office Fund has sold a half-share in Coles' Melbourne headquarters to Charter Hall Group for **\$140.5 million**. The 39,400 m2 building is fully leased to Coles Group for an initial 15-year lease to 2030. The sale reflects a **rate of \$3,566 psm**. Hawthorn East is located about 7.8 km east of the Melbourne CBD.



## Supply by Grade (Stock)

PCA's Office Market Report revealed that there was no change in the supply of commercial offices in East Melbourne for July 2016. There were no changes in both supply and withdrawal numbers for the period, with the total office stock remaining unchanged from the beginning of the year at 173,961 sqm.

East Melbourne's office market is dominated by B Grade office supply, of which it takes of 51.3% of total stock or 57,852 sqm in space. A Grade stock takes up 33.3% of market supply, totalling 57,852 sqm in space. C and D Grade supply take up 10.5% and 5% respectively. They currently take up 18,278 sqm and 8,667 sqm respectively.

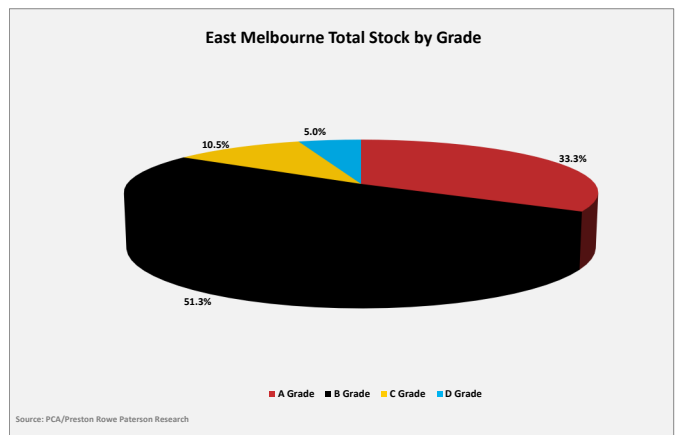


Chart 4 – East Melbourne Total Stock by Grade – Source PCA

## Net Absorption

The Melbourne CBD office market recorded a negative net absorption of 2,354 sqm (or 1.4%) over the year to July 2016.

Over the six months to July, A, C and D Grade office stock experienced negative net absorption of -2,260 sqm, -6,643 sqm and -4,399 sqm respectively. In contrast to this, B Grade stock performed well over the same period, with a positive net absorption of 7,684 sqm.

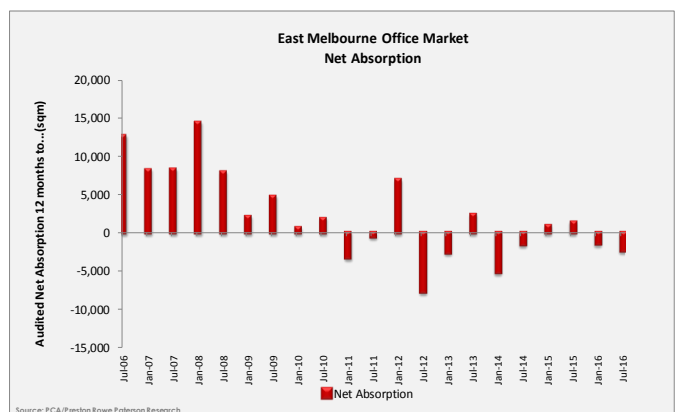


Chart 5 – East Melbourne Net Absorption – Source PCA

## Total Vacancy

As at July 2016, East Melbourne's total office vacancy rate increased by 0.7% over the half year to 1.5%. This is all covered by direct vacancy rate since there is no market for sub-leasing in East Melbourne.

D Grade stock recorded the largest decline in vacancy rate, from 10.4% in January to 0% in July. No change was recorded in vacancy of C Grade offices. However there were increases in the vacancy rates of A Grade and B Grade offices, to 3.2% and 0.7% respectively.

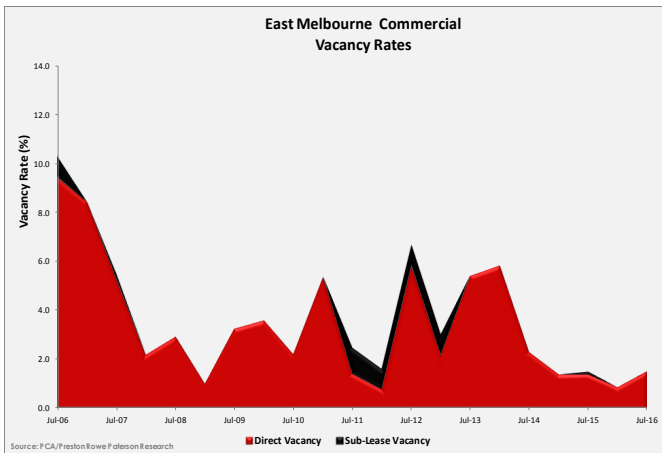


Chart 6 – East Melbourne Commercial Vacancy Rates – Source PCA

## Southbank



### Investment Activity

Preston Rowe Paterson Research recorded a number of reported sales transactions that occurred in the Southbank office market during the three months to September 2016:

#### 3 Southgate Avenue, Southbank, VIC 3006

ARA Asset Management has acquired the office and retail Southgate complex from DEXUS Property Group for **\$578 million**. The complex includes two A-grade office buildings, HWT Tower and IBM Centre, a 3-level retail plaza and a basement car park, comprising a total of 76,600 m<sup>2</sup>. The WALE is 4.6-years and occupancy is at 88%. The sale reflects a **rate of \$7,546 psm**. Southbank is located 1 km south of the Melbourne CBD.

#### 28 Freshwater Place, Southbank, VIC 3006

Frasers Property Australia and the GPT Wholesale Office Fund have sold an office tower to JP Morgan Asset Management's Asia Pacific property fund for **\$286 million**. The 5-star NABERS rated, 33,900 m<sup>2</sup> building delivers an annual income of \$18.9 million. The tower is fully-leased to 14-tenants with a WALE by income of 3.3-years. The sale reflects an **initial yield of 6.6%** and a **rate of \$8,437 psm**. Southbank is located 1 km south of the Melbourne CBD.

### Supply by Grade (Stock)

PCA's Office Market Report for July 2016 recorded no supply addition and 10,002 withdrawals for the Southbank office market. Total Southbank office market stock, as at July 2016, is 404,081 sqm.

Southbank office market is dominated by A Grade stock, with 61.5% of the share, or 248,819 sqm of total area. B and C Grade take up 24.9% (100,418 sqm) and 12.8% (51,762 sqm) of total market, respectively. D Grade offices do not have a big impact on Southbank's office market, with a small share of 0.8% or 3,082 sqm of the total office market.



28 Freshwater Place, Southbank sold for \$285 million in July 2016 to JP Morgan Asset Management's Asia Pacific property fund.

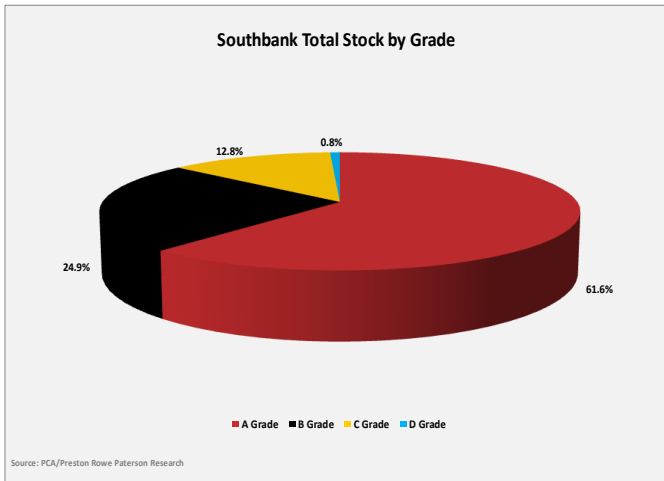


Chart 7 – Southbank Total Stock by Grade – Source PCA

### Net Absorption

A positive net absorption of 5,780 sqm was recorded in the twelve months to July 2016. When we look at the six months to July, we notice that net absorption was at 7,906 sqm.

Mixed results when we look at net absorption in different grade stocks for the half year to July 2016. Both A and B Grade recorded positive absorption of 9115 sqm and 058 sqm respectively. C and D Grade stocks recorded negative net absorption of -2052 sqm and -215 sqm respectively.

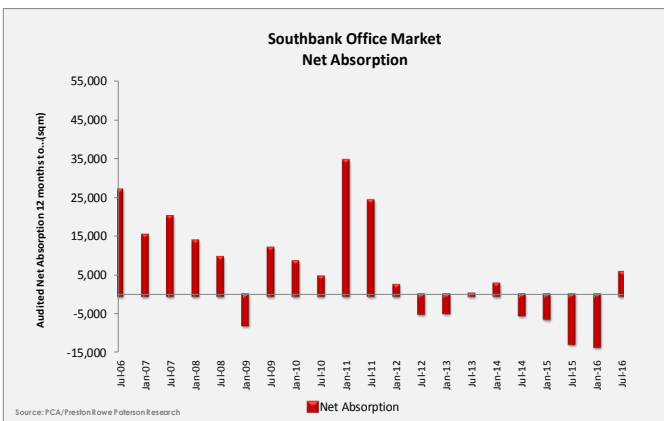


Chart 8 – Southbank Office Net Absorption – Source PCA

### Total Vacancy

The overall office vacancy in Southbank had fallen by 3.8% to 4.6% in the six months to July 2016. The area of total vacancy amounts to 18,536 sqm.

In the same period, the largest decrease in vacancy rate came from B Grade stock, which dropped 5.3% to a current rate of 7.0%. A and C Grade also had a decline in vacancy rate of 3.7% and 2.0% respectively, to reach their new vacancy rate of 4.4% and 0.6%.

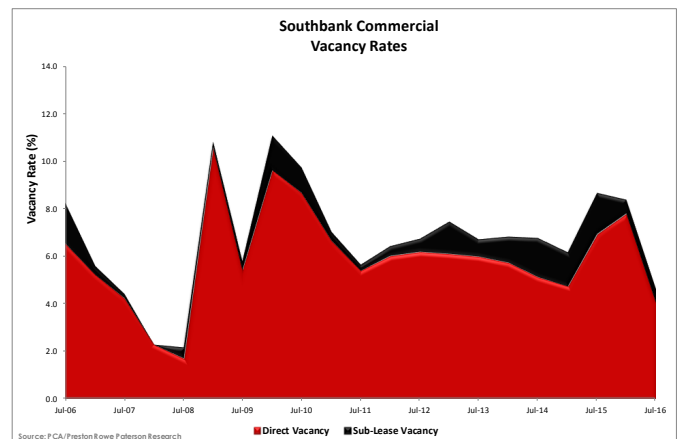


Chart 9 – Southbank Commercial Vacancy Rates – Source PCA



## St Kilda Road



### Supply by Grade (Stock)

Analysis of the PCA's Office Market Report July 2016 has revealed that there was 15,775 sqm of office space withdrawal along the St Kilda Road in the six months to July. There was no reported additional space supply in the market in the same period. The total St Kilda Road office market space as of July 2016 stands at 686,175 sqm.

The St Kilda Road office market is largely populated by the A and B Grade stock, assuming up to 35.8% and 43.2% of total supply respectively. This is followed by C Grade at 20.3% and D Grade at 0.8%.

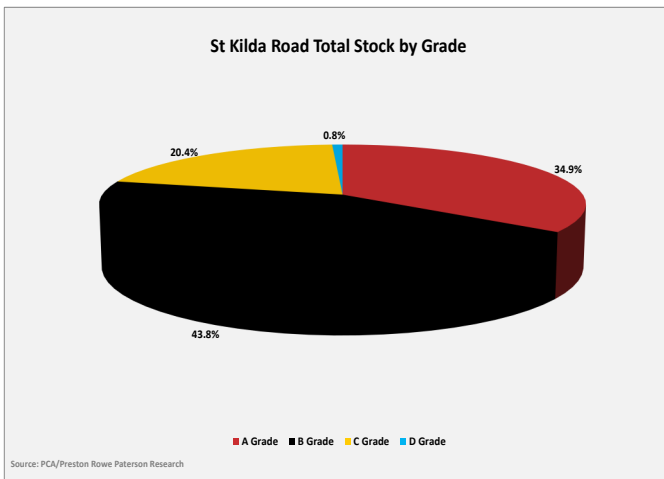


Chart 10 – St Kilda Road Total Stock by Grade – Source PCA

### Net Absorption

The St Kilda Road office market has recorded a negative absorption of –15,044 sqm in the twelve months to July 2016. In the six months to July, the office market recorded a –3,421 sqm absorption.

Positive absorption was recorded in A and C Grade stocks at 10,011 sqm and 50 sqm respectively. Negative absorption in the six months to July was reported in B Grade and D Grade at –13,217 sqm and –265 sqm respectively.

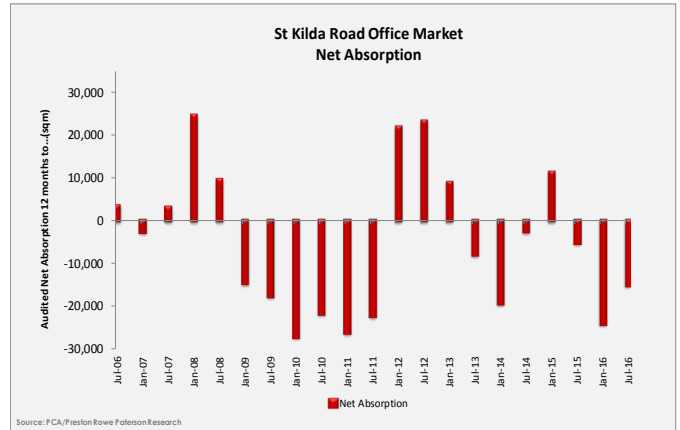


Chart 11 – St Kilda Road Office Net Absorption - Source PCA

### Total Vacancy

The total vacancy in the St Kilda Road office market had tightened by 1.6% to 7.3% in the past six months to July 2016. The total vacant stock in the St Kilda Road market amounts to 50,083 sqm.

The only increase in vacancy was recorded in B Grade stock, which added on 1% to a new rate of 7.6%. A, C and D Grade stock all recorded a decrease in vacancy of –4.1%, –2.6% and –2.4% respectively. Their vacancy rate as at July 2016 stands at 2.8%, 14.8% and 0.0% respectively.

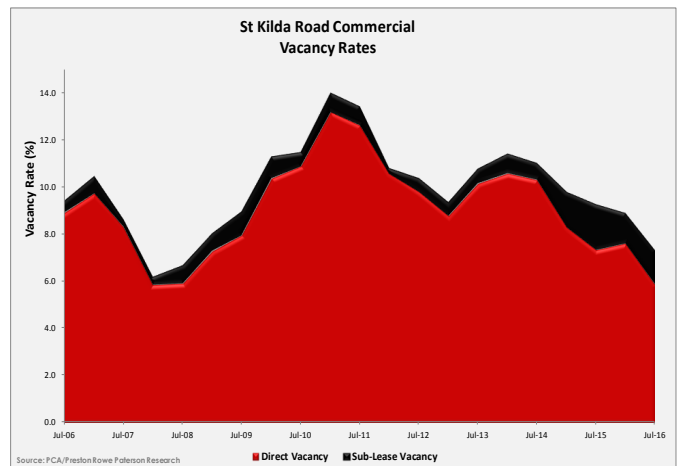


Chart 12 – St Kilda Road Commercial Vacancy Rates – Source PCA

## RETAIL MARKET



### Investment Activity

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

#### Cnr Murray Valley Highway and Frank Drive, Yarrowonga, VIC 3730

A new *Bunnings Warehouse* has been offered by *Pellicano Group* off the plan for **\$11.5 million**. A mainland Chinese investor purchased the retail property on a **yield of below 5%**. The 6,863 m<sup>2</sup> property on a 1.464-hectare site will be leased for 10-years until 2027 with 6 x 5-year options. There will be 143 at grade car spaces. The sale reflects a **rate of \$786 psm**. Yarrowonga is located about 260 km north of Melbourne's CBD.

#### 205-207 Russell Street, Melbourne, VIC 3000

Two private offshore investors have paid **\$9 million** for a freestanding retail building. The 5-storey building occupies a 120 m<sup>2</sup> site and is leased by *Sugarbun*. The sale reflects a **yield of 3.8%** and a **rate of \$75,000 psm**.

#### 259-263 High Street, Nagambie, VIC 3608

A Chinese investor has bought the **Nagambie Central Shopping Centre** for **\$7.8 million** on a **3.9% yield**. The centre is anchored 2,200 m<sup>2</sup> *Supa IGA* who are on a 15-year lease. There are also six specialty shops. Nagambie is located 132 km north of the Melbourne CBD.



#### 314-336 Bourke Street, Melbourne, VIC 3000

*TH Real Estate* has purchased a one-third stake in the *Myer* store in the **Bourke Street Mall** for **\$151.3 million**. The *Myer* family sold their stake on a **yield of just over 4.5%**. The 40,000 m<sup>2</sup> building was built in 1914 and recently refurbished in 2011.

#### 95-103 Pakington Street, Geelong West, VIC 3218

*Xinhai Investments* has acquired the **Pakington Strand Shopping Centre** from *Charter Hall Retail REIT* for **\$32 million**. The 6,076 m<sup>2</sup> neighbourhood shopping centre sold on a **passing yield of 4.7%** and a **fully leased yield of around 5.2%**. The centre is anchored by a *Woolworths* supermarket and 14 specialty shops. The weighted average lease expiry is 14.8-years. Geelong West is located 2.6 km north-west of Geelong's CBD.

## Leasing Activity

Preston Rowe Paterson Research recorded a number of leasing transactions that occurred in Melbourne's retail market during the three months to September 2016:

#### 459 Heidelberg Road, Fairfield, VIC 3078

A private landlord has secured 3 *Point Motors Mercedes-Benz* as a tenant for **3-years with options**. The net annual rent for the 856 m<sup>2</sup> prestige car showroom is \$190,000. The lease reflects a **rate of \$222 psm**. Fairfield is located about 6.2 km south-west of the Melbourne CBD.

#### 399 Lonsdale Street, Melbourne, VIC 3000

*Chisholm Institute* will lease a whole floor from an offshore landlord for its hair, beauty and make-up courses. The gross annual rent for the 890 m<sup>2</sup> property is in the **mid-\$400 psm range**.

#### 315 Glenelg Highway, Delacombe, VIC 3356

*H. Troon* has leased a 1,100 m<sup>2</sup> six-screen cinema complex to *Showbiz* on a **10-year deal**. *Showbiz* will join anchor tenants *K-Mart* and *Woolworths*, as well as 37 specialty retailers in the 20,000 m<sup>2</sup> **Delacombe Town Centre**. There are 850 car parks at the shopping precinct. Delacombe is located around 118 km west of the Melbourne CBD.

## Retail Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (September 2016), the retail turnover figures recorded in Victoria produced a modest positive result for the September quarter. The total retail turnover in Victoria increased by 0.59% over the month, with an annual retail turnover growth of 2.91% to \$6,343.3 million.

The largest monthly growth in retail turnover stemmed from Household goods, which grew by 1.23% to \$1,155.7 million. Department stores recorded a 1.18% growth in turnover over the month to reach \$387.2 million. Café & restaurants experienced the lowest growth, at 0.25% over the month to \$852.5 million.

Year on year growth in Café & restaurant turnover was the strongest amongst all sub-groups, at 7.72%. Household goods, on the other hand, experienced the lowest growth at 0.54% over the year.

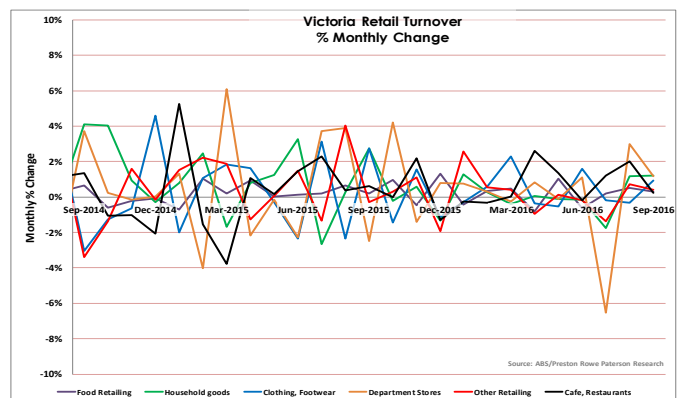


Chart 13 – Victoria Turnover % Monthly Change – Source ABS



## INDUSTRIAL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded a number of sales transactions that occurred in the Melbourne industrial market, during the three months to September 2016:

#### 96-118 Toll Drive, Altona North, VIC 3025

*Logos Property* has paid **about \$35 million** for *Toll's* existing building and a parcel of land adjacent to it, which will be built into an expanded new facility of around 30,000 to 40,000 m<sup>2</sup>. *Toll* will lease this space on a new 12-year lease. The 24,380 m<sup>2</sup> site currently has a building area of 5,175 m<sup>2</sup>. The new facility will be completed in 2017. The sale reflects a **rate of about \$1,436 psm**. Altona North is located around 12.8 km south-west of the Melbourne CBD.

#### 12-18 Distribution Drive, Truganina, VIC 3029

*Charter Hall Group* has purchased the *Coles* distribution centre from *RF Capital* for **over \$100 million**. The 69,000 m<sup>2</sup> property has a 15.3-year WALE and was sold on a **yield on the lower 5% range**. The centre was purpose built for *Coles* who are on a lease until 2032. The sale reflects a **rate of over \$1,449 psm**. Truganina is located about 23.5 km south-west of the Melbourne CBD.

#### 11-13 Cubitt Street, Richmond, VIC 3121

An industrial property has been purchased by an owner occupier for **\$5.1 million**. The property has 2-roller shutter doors and sits on a 624 m<sup>2</sup> site. The sale reflects a **rate of \$8,173 psm**. Richmond is located about 3.8 km east of Melbourne's CBD.



#### 197-219 Discovery Road, Dandenong South, VIC 3175

*Ascendas REIT* has paid **around \$25 million** for a logistics site within the **Power Park Industrial Estate**. *Goodman Group* sold the property which will be completed in 2017. The site is leased to *Bunzl* for the next 8-years. The sale reflects a **yield of close to 7%** due to stamp duty savings. Dandenong South is located about 31.3 km south-east of the Melbourne CBD.

#### 63-69 Fairbank Road, Clayton South, VIC 3169

A local investor has purchased a 5,844 m<sup>2</sup> office and warehouse property for **around \$6 million**. The 1.1-hectare site is leased to *McCormick Foods* for \$442,496 in annual rent. The sale reflects a **yield of just over 7%** and a **rate of around \$545 psm**. Clayton South is located about 22.7 km south-east of Melbourne's CBD.



#### 11-13 Cubitt Street, Richmond, VIC 3121

A private owner-occupier has purchased a vacant warehouse for **\$5.1 million** from a local investor. The warehouse also has a small office and two-roller shutter doors. The buyer bought the 624 m<sup>2</sup> site at auction. The sale reflects a **rate of \$8,173 psm**. Richmond is located about 3.8 km east of the Melbourne CBD.

#### 180 Princes Highway, Werribee, VIC 3030

An industrial property has been sold on a partial lease to the vendor, *Dairy Innovations Australia* for **\$4.375 million**. The 2,088 m<sup>2</sup> office/laboratory facility was purchased by *Western Institute of Technology* and will be used to expand its educational services. The 6,001 m<sup>2</sup> site has 41 on-site car spaces. The sale reflects a **yield of 3.79%** and a **rate of \$729 psm**. Werribee is located around 31.2 km south-west of Melbourne's CBD.

#### 57-63 Henderson Road, Rowville, VIC 3178

*Prochoice Global Investments* has acquired a 4,044 m<sup>2</sup> industrial facility for **\$4.7 million**. The sale reflects a **rate of \$1,162.22 psm**. Rowville is located about 30.4 km south-east of the Melbourne CBD.

#### 191 Salmon Street, Fishermans Bend, VIC 3207

The Victorian government has paid **\$130 million** to *Holden* for a 37-hectare industrial site. *Holden* will close its assembly plant as it discontinues manufacturing in Australia next year. The site has redevelopment potential. The sale reflects a **rate of \$351 psm**. Fishermans Bend is located 6.6 km south-west of the Melbourne CBD.



#### Cawley Road, Yarraville, VIC 3013

*Sector Property Group* has sold 25 urban workspaces at its project **'The Base'** for **\$10 million**. The commercial/industrial workspaces are half of the entire project and have truck access, landscaped driveways and container height roller doors. One unit has a kitchenette. Yarraville is located around 8 km west of the Melbourne CBD.

#### 31-49 Browns Road, Clayton, VIC 3168

*Abacus Property Group* has sold an industrial property with future residential redevelopment potential to *Pomeroy Pacific*, on behalf of an overseas buyer, for **\$51.5 million**. The sale reflects a **yield of 4%** with 7-years left on the lease. The seller will provide 75% vendor finance for the next 3-years. Clayton is located around 20.6 km south-east of the Melbourne CBD.

### Leasing Activity

Preston Rowe Paterson Research recorded a number of leasing transactions that occurred in the Melbourne industrial market during the three months to September 2016:

#### 5 Levida Drive, Carrum Downs, VIC 3201

*Lettieri Property Group* has leased a 1,084 m<sup>2</sup> warehouse and showroom to *Crane Distribution (Tradelink)* for **7-years**. The **gross annual rent is around \$97 psm**. Carrum Downs is located about 41.6 km south-east of the Melbourne CBD.

#### 39-35 Lloyd Street, West Melbourne, VIC 3003

*Melbourne Buggy Tours* has agreed to lease a former builder's yard for **2-years with options**. The annual rent for the 1,690 m<sup>2</sup> property is \$25,000. The lease reflects a **rate of \$14.79 psm**. West Melbourne is located about 1.8 km north-west of



**354 Boundary Road, Dingley, VIC 3172**

Nolan UDA will rent a property that backs onto its existing property for **3-years with options**. The lessee will pay an **annual rent of \$69 psm** for the 2,200 m2 clear-span warehouse with multiple roller-door access. Dingley is located about 25 km south-east of the Melbourne CBD.

**57-67 Letcon Drive, Dandenong South, VIC 3175**

A private company has leased a 1.5-hectare industrial property for **5-years**. The company will pay a **net annual rent of \$119 psm**. Dandenong South is located about 31.3 km south-east of Melbourne's CBD.

**32 Healey Road, Dandenong, VIC 3175**

Access Service Australia will occupy a 2,070 m2 distribution facility for **5-years**. The lease is for **around \$75 psm**. Dandenong is located around 31.3 km south-east of Melbourne's CBD.

**5 Fowler Road, Dandenong South, VIC 3175**

Fulton Hogan has signed a deal to lease a 2,810 m2 office and warehouse property for an **annual rent of \$93 psm**. Dandenong is located around 31.3 km south-east of Melbourne's CBD.



**9 Business Park Drive, Lynbrook, VIC 3975**

Avem will occupy a 2,507 m2 office and warehouse property for the next **5-years**. The lessee will pay an **annual rent of around \$82 psm**. Lynbrook is located about 39.6 km south-east of Melbourne's CBD.

**610 Heatherton Road, Clayton, VIC 3168**

Melbourne Metro Trains and Lendlease have agreed to occupy a 24,065 m2 property for the next **3-years**. The two companies will lease a 4,600 m2 workshop property, a 3,865 m2 office, 12,000 m2 of hardstand space and 413 car spaces. The gross annual rent is \$2.6 million. The lease reflects a **rate of \$108 psm**. Clayton is located around 20.6 km south-east of Melbourne's CBD.



**61-65 Geddes Street, Mulgrave, VIC 3170**

Littil Group has agreed to occupy a 1,440 m2 industrial facility with a rear yard from a private landlord. The lessee will pay a **net annual rent of about \$90 psm**. Mulgrave is located around 23 km south-east of the Melbourne CBD.

**2 Acacia Place, Notting Hill, VIC 3168**

Goodman Group has leased a 2,283 m2 office and showroom to Dennis Family Homes for **10-years**. The lessee will pay in the **mid-\$300 psm range** for the property at **Ferntree Business Park**. Notting Hill is located about 21.1 km south-east of the Melbourne CBD.

**84 Micro Circuit, Dandenong, VIC 3175**

A Melbourne investor has secured a new tenant at its 1,238 m2 office and warehouse site. Fokust Pty Ltd will occupy the 188 m2 two-level office and high-clearance warehouse for **5-years** at a net annual rent of \$100,000. The lease reflects a **rate of \$81 psm**. Dandenong is located about 31.3 km south-east of the Melbourne CBD.

**32 Healey Road, Dandenong, VIC 3175**

Access Service Australia has signed a lease to occupy a 2,070 m2 distribution facility with hardstand. The company will pay a **net annual rent of \$75 psm for 5-years**. Dandenong is located around 31.3 km south-east of the Melbourne CBD.



**3/68-72 Fitzgerald Road, Laverton North, VIC 3026**

Quan Lac Pty Ltd will occupy a 1,975 m2 warehouse from landlord Larkfield Estates. The lessee will pay a **gross annual rent of \$50 psm**. Laverton North is located about 14.6 km west of the Melbourne CBD.

**13 Lennox Street, Moorabbin, VIC 3189**

A private landlord has secured a tenant in a new office and warehouse property for an annual rent of \$60,000. Knight Building Group will occupy the 900 m2 warehouse and 100 m2 office for **3-years with options**. The lease reflects a **rate of \$60 psm**. Moorabbin is located about 15.5 km south-west of the Melbourne CBD.



**81 Discovery Road, Dandenong, VIC 3175**

A private Melbourne investor has struck a deal with MCV Pty Ltd for a **3-year lease**. MVC will occupy the 997 m2 office/warehouse property at **Innovation Park** which has 189 m2 two-level office and an 808 m2 high clearance, clearspan warehouse. The **net annual rent is for \$85 psm**. Dandenong is located around 31.3 km south-east of the Melbourne CBD.

**2-4 Pipe Road, Laverton North, VIC 3026**

A private landlord has secured Elite IBC Cleaning as a tenant in a 2,200 m2 industrial hardstand for **5-years**. The lessee will use the site for vehicle cleaning and will pay an **annual rent of \$22.50 psm plus outgoings**. Laverton North is located around 14.6 km west of Melbourne's CBD.

## RESIDENTIAL MARKET

### Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals September 2016, the total number of house dwelling approvals in the Melbourne Statistical Division over the month decreased by 11.5% from 2,567 approvals in August to 2,273 approvals in September. A year-on-year analysis shows that there's been a decline of 4%.

The total number of non-house dwelling approvals decreased by 28.7% over the month to 2,132 approvals for September. Year-on-year shows that there has been a decrease of 26.79% in approvals for non-house dwellings.

The total number of approvals in the year to date is reported to be 43,311, which indicate a yearly decline of 16.6% from September last year. These figures clearly show a slowdown in Melbourne's construction booms.

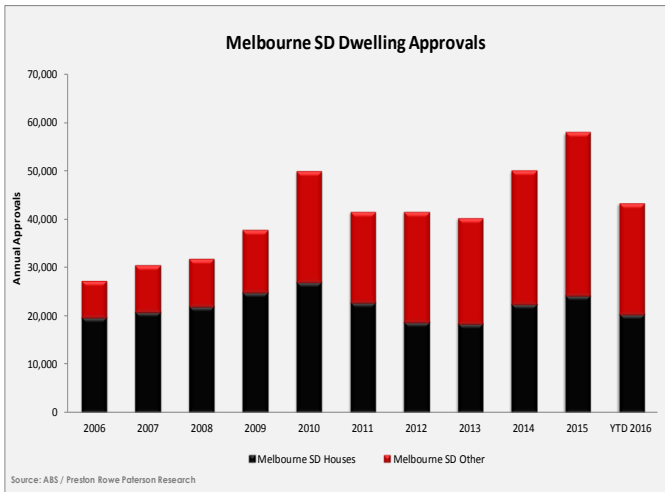


Chart 14 —Melbourne SD Dwelling Approvals—Source ABS

## MELBOURNE

### Market Affordability

Market affordability figures for the September quarter 2016 are yet available from the Real Estate Institute of Australia (REIA), however, we have used the latest figures from the June quarter 2016 for our analysis.

Median house price in Melbourne increased by 3.6% over the quarter to \$725,000. All Melbourne zones recorded positive growths over the quarter, with Outer Melbourne leading the pack with a 2.5% increase in median price to \$568,000. Inner Melbourne median house prices increased by 1.8% to \$1,270,000, whilst Middle Melbourne prices increased by 0.5% to \$829,500.

The twelve months to March 2016 resulted in the most marked growth coming from Outer Melbourne at 8.6%. Inner and Middle Melbourne experienced more modest increases, of 2.3% and 0.5% respectively.

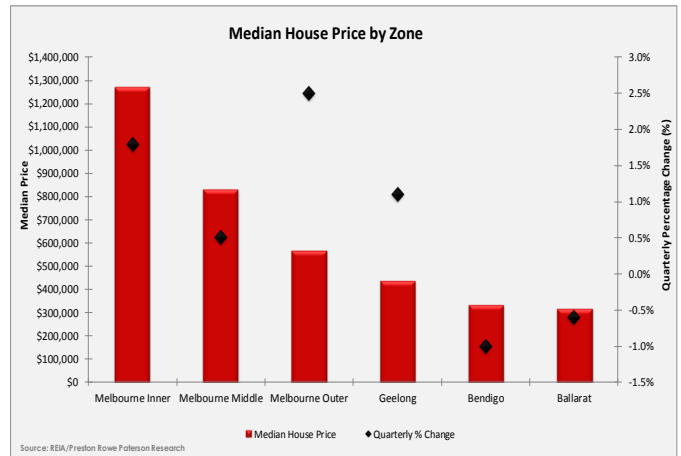


Chart 15 – Median House Price by Zone – Source REIA

Other dwellings median sale prices revealed mixed results over the March quarter. There was an overall increase of 2.3% in the median sales prices for Other dwelling, which stands at \$538,500 as of September 2016. A decrease in prices was recorded in Inner Melbourne, which dropped by 0.8% over the quarter to a median price of \$550,000. Outer Melbourne experienced a moderate increase of 1.1% to its median price of \$425,000. Middle Melbourne experienced an outstanding 8.2% increase in prices to \$600,500 for the quarter.

Year on year analysis of Melbourne Other dwellings revealed all positive results across all zones. The highest annual growth was recorded in Outer Melbourne at 6.3%, followed by Middle Melbourne at 4.3% and Inner Melbourne at 0.5%.

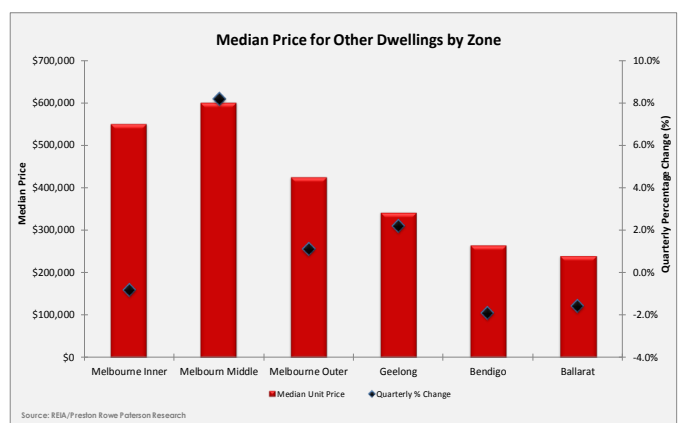


Chart 16 – Median Price for Other Dwellings by Zone – Source - REIA



## Rental Market

Over the March quarter 2016, modest growths were recorded in Melbourne's house rental market. The only decrease in median weekly rents was recorded in the Inner Melbourne's 4 bedroom house rents, which declined by 2.2% to a median weekly price of \$900, and Middle Melbourne's 3 bedroom house rents which declined by 2.1% to \$470 per week.

The highest quarterly growth derived from Inner Melbourne's 3 bedroom house rents, which increased by 2.8% to \$730 per week. This is followed by Inner Melbourne's 2 bedroom house rents, which increased by 1.8% to \$560 per week.

All other house types in the other Melbourne zones experienced stagnation in their weekly rents throughout the quarter. Middle Melbourne's 2 bedroom house rents and 4 bedroom rents remain at \$420 and \$600 per week, respectively. Outer Melbourne's 2, 3 and 4 bedroom house rents also remained unchanged at \$310, \$350 and \$400 per week.

Year on year analysis of median house rents in Melbourne revealed mixed results. The largest annual increase in rent was found in Inner Melbourne's 2 bedroom house rents, which increased by 5.7%. Middle Melbourne experienced no growth over the year, and all other house types experienced a growth in between the two mentioned above.

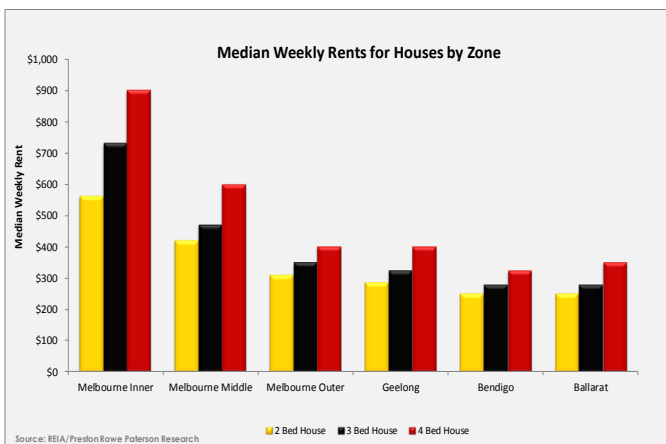


Chart 17— Median Weekly Rents for Houses by Zone – Source - REIA

Other dwellings median weekly rentals recorded mixed results across all Melbourne zones throughout the quarter. Middle Melbourne's 1 bedroom units as well as Inner Melbourne's 1 and 3 bedroom units experienced strong quarterly growths of 7.3%, 5.7% and 3.2% respectively. Their respective weekly rents stand at \$295, \$370 and \$750.

Middle Melbourne's 2 bedroom units and Outer Melbourne's 2 bedroom units experienced declines in their weekly rents, of -1.3% and -1.6% respectively. Their prices as of June stand at \$380 and \$310 respectively.

Inner Melbourne's 2 bedroom units, Middle Melbourne's 3 bedroom and Outer Melbourne's 1 and 3 bedroom units did not experience any changes in their rents over the quarter. They remain at \$500, \$480, \$240 and \$360 respectively.

Year on year analysis also revealed all positive results in the annual changes in weekly median prices of Other dwellings. The highest annual growth was recorded in the Middle Melbourne's 1 bedroom units recording an annual growth of 5.4%. Lowest growth stemmed from Middle Melbourne's 3 bedroom and Outer Melbourne's 1 bedroom units' rental price, which both increased by 2.1%.

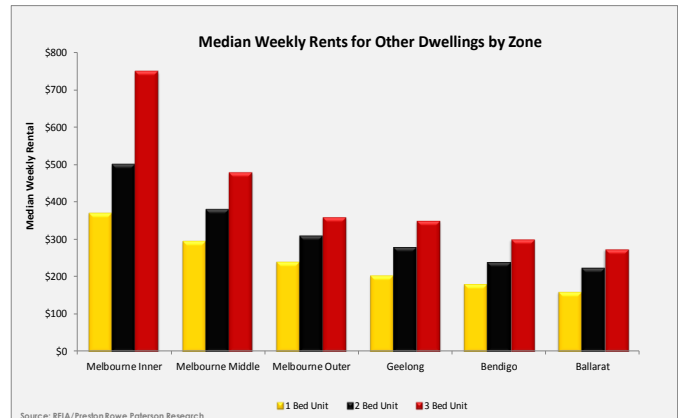


Chart 18 - Median Weekly Rents for Other Dwellings by Zone – Source - REIA

## GEELONG

### Market Affordability

Over the June quarter, the median house price in Geelong increased by 1.1% to \$440,000. Other dwelling median sales price increased by 2.2% to \$342,500 over the same period.

### Rental Market

Geelong's 2, 3 and 4 bedroom house rents all experienced declines throughout the quarter. 4 bedroom house prices decreased by 4.8% to \$400. 2 bedroom house rents declined by 1.7% to \$285, whereas 3 bedroom house rents decreased by 1.5% to \$325.

The rental prices for all other dwellings with 1, 2, and 3 bedroom experienced mixed changes throughout the quarter. 1 bedroom unit rental prices declined 3.3% over the quarter to \$203. 2 bedroom unit rent remained unchanged at \$280 per week. 3 bedroom unit rents increased by 2.9% to \$350 per week.

## BENDIGO

### Market Affordability

The median house prices in the Bendigo region decreased by 1.0% over the quarter down to \$335,000. Over the same period, Bendigo's Other dwelling sale price decreased by 1.9% to \$265,000.

## Rental Market

The median weekly house rents in Bendigo experienced mixed changes throughout the quarter. Bendigo's 3 bedroom houses experienced a decline of 3.4% in their weekly rents, down to \$280 per week. 2 bedroom houses experienced no change in their rents, remaining at \$250 per week. 4 bedroom houses experienced an increase of 1.6% to \$325 per week.

Bendigo's 1 and 2 bedroom Other dwellings also remained unchanged through the June quarter. Their respective rents stand at \$180 and \$240 per week. Bendigo's 3 bedroom units experienced an increase of 7.1% in rental prices, to \$300 per week.

## BALLARAT

### Market Affordability

The median house sales price in the Ballarat region declined by 0.6% over the June quarter to \$320,000. Median sales price in Other dwellings declined by 1.6% over the same period, to \$240,000.

### Rental Market

The median weekly house rents in Ballarat remain unchanged for all 2, 3 and 4 bedroom houses throughout the quarter. Their respective rents remain at \$250, \$280 and \$325.

Ballarat's 1, 2 and 3 bedroom Other dwellings all experienced declines in their weekly rents throughout the quarter. 1 bedroom unit rents experienced a 3.0% drop to \$160 per week. 2 bedroom rents declined by 4.3% to \$225 and 3 bedroom rents declined by 5.5% to \$274.

## HOTEL & LEISURE

### Investment Activity

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

#### 270 Collins Street, Melbourne, VIC 3000

LaSalle Investment Management has sold the **Novotel Melbourne** to *Fraser's Hospitality Trust* for **\$237 million**. The 380-room hotel has 72 car spaces, a restaurant and bar, as well as a gym and indoor pool. The sale reflects a **rate of \$623,684 per room**.



## SPECIALISED PROPERTY MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in Victoria's specialised property market during the three months to September 2016:

#### 68-76 Union Street, East Brighton, VIC 3187

*Benetas* has sold a redundant respite facility to an aged care provider for **\$19 million**. The 5,751 m2 site is zoned for residential use. The sale reflects a **rate of \$3,303.77 psm**. East Brighton is located around 12.7 km south-east of Melbourne's CBD.

#### West Gate Freeway, Port Melbourne, VIC 3207

*MAB Corporation* has sold a 10,000 m2 service station and convenience store complex to a local private investor for **\$22.5 million**. The site is leased to *Shell/Coles Express, Hungry Jacks and Red Rooster* on 15-year terms. The sale reflects a **yield of 5.5%** and a **rate of \$2,250 psm**. Port Melbourne is located about 5 km south-west of the Melbourne CBD.



#### 151-159 Victoria Parade, Fitzroy, VIC 3065

A local investor has acquired a 1,684 m2 *Liberty* petrol station for **\$9.6 million** on a **net yield of 1.53%**. The property is on a lease to 2017 with options. The sale reflects a **rate of \$5,701 psm**. Fitzroy is located about 2.4 km north-east of Melbourne's CBD.

#### 154-158 St Kilda Road, St Kilda, VIC 3182

A Chinese investor has paid **\$10.2 million** at auction for a 7-Eleven service station. The 1,572 m2 site is on a 15-year lease commencing in June 2016 with further options until 2046. The property sold on an **initial net yield of 2.73%** and a **rate of \$6,489 psm**. St Kilda is located about 6.6 km south-east of the Melbourne CBD.



#### 786 Whitehorse Road, Box Hill, VIC 3128

A 7-Eleven service station on a 2,578 m2 corner site has sold to a Chinese investor for **\$8 million** on a **2.13% yield**. The property is on a brand new 15-year lease. The sale reflects a **rate of \$3,103 psm**. Box Hill is located about 15 km east of the Melbourne CBD.



## REGIONAL MARKET

### Investment Activity

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

#### **428 Coghill Road, Kenley, VIC 3597**

*Belvino Investments* has sold the **Del Rios** vineyard to *GoFarm Australia* for **between \$22-25 million**. The 1,048-hectare vineyard is predominantly planted to Chardonnay, Sauvignon Blanc, Merlot and Shiraz. There are also offices, staff amenities, shedding and homes on the site. The sale reflects a rate of **between \$20,993 and \$23,855 per hectare**. Kenley is located around 401 km north of Melbourne's CBD.

#### **Ballan Road, Melton South, VIC 3338**

**The Woodhouse Station** has been sold to *Fucheng Group* by the *Woodhouse Pastoral Company* for **around \$100 million**. The 4,953-hectare site operates as a cropping and grazing property. The zoning allows for agricultural and conservation use and the Victorian government has acquired more than 1,300-hectare for native vegetation offsets. The sale reflects a **rate of about \$20,190 per hectare**. Melton South is located about 42.6 km north-west of the Melbourne CBD.

#### **West Gate Freeway, Port Melbourne, VIC 3207**

*MAB Corporation* has sold a 10,000 m<sup>2</sup> service station and convenience store complex to a local private investor for **\$22.5 million**. The site is leased to *Shell/Coles Express*, *Hungry Jacks* and *Red Rooster* on 15-year terms. The sale reflects a **yield of 5.5%** and a **rate of \$2,250 psm**. Port Melbourne is located about 5 km south-west of the Melbourne CBD.

#### **151-159 Victoria Parade, Fitzroy, VIC 3065**

A local investor has acquired a 1,684 m<sup>2</sup> *Liberty* petrol station for **\$9.6 million** on a **net yield of 1.53%**. The property is on a lease to 2017 with options. The sale reflects a **rate of \$5,701 psm**. Fitzroy is located about 2.4 km north-east of Melbourne's CBD.

#### **154-158 St Kilda Road, St Kilda, VIC 3182**

A Chinese investor has paid **\$10.2 million** at auction for a 7-Eleven service station. The 1,572 m<sup>2</sup> site is on a 15-year lease commencing in June 2016 with further options until 2046. The property sold on an **initial net yield of 2.73%** and a **rate of \$6,489 psm**. St Kilda is located about 6.6 km south-east of the Melbourne CBD.

#### **786 Whitehorse Road, Box Hill, VIC 3128**

A 7-Eleven service station on a 2,578 m<sup>2</sup> corner site has sold to a Chinese investor for **\$8 million** on a **2.13% yield**. The property is on a brand new 15-year lease. The sale reflects a **rate of \$3,103 psm**. Box Hill is located about 15 km east of the Melbourne CBD.

#### **380 Flinders Street, Melbourne, VIC 3000**

A *Secure Parking* managed, 7-level car park has been acquired by *Wing Tai* for **over \$31 million**. The 315-bay car park sold on a **yield of around 3%**. The top floor is leased to AAPT for its fibre cabling network. The sale reflects a **rate of more than \$98,413 per bay**.



## ECONOMIC FUNDAMENTALS

### GDP

GDP figures for the September quarter will not be available until the 7th of December, and hence we will use June's figure for the following analysis of growth in the Australian economy. A seasonally adjusted chain volume growth of 0.5% was recorded for the second quarter, and 3.3% for the twelve months to June. The quarterly figure signifies twenty-one consecutive quarters of growth for Australia, with our last recession occurring 25 years ago in 1991. In trend terms, annual growth stood at 3.1%, with the main sources of growth being Mining (0.8%), Financial and insurance services (0.5%), Public administration and safety (0.3%), Construction (0.2%) and Wholesale trade (0.2%) industries. In contrast, the largest detractor to growth was manufacturing (-0.2%).

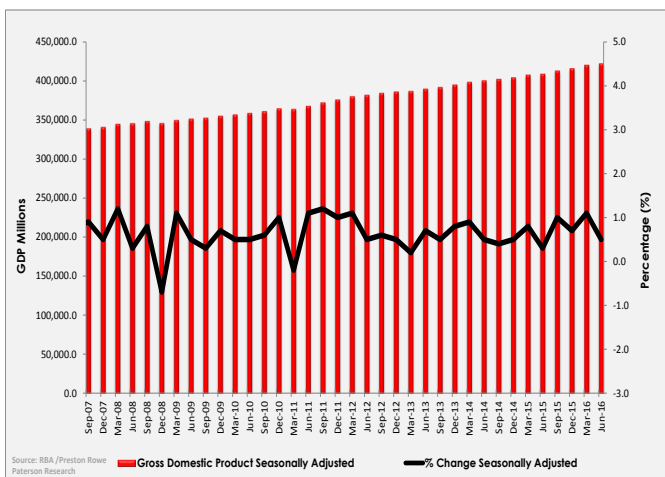


Chart 19 – Gross Domestic Product (GDP) – Source ABS

### Interest Rate Movements

Following the Reserve Bank of Australia's monthly meeting, the Board kept interest rates unchanged at 1.50% for October 2016. This comes at the back of the RBA's decision to cut interest rates to historic lows in August, as a result of inflation declining to its lowest level since 1999, in conjunction with slower than average growth in the world economy. The decision to have rates unchanged for the second month in a row is backed by modest improvements in Australia's economy, with declines in the mining industry being offset by growths in residential construction, public demand and imports. Furthermore, the RBA reiterated that commodity prices had been rising over the past few months, coming off the reduction in demand from China from the previous few years.

The twelve months to October saw the interest rate dropping 50 basis points, whilst the 10-Year government bonds and 90-Day Bill rate reducing by 71 basis points and 44 basis points

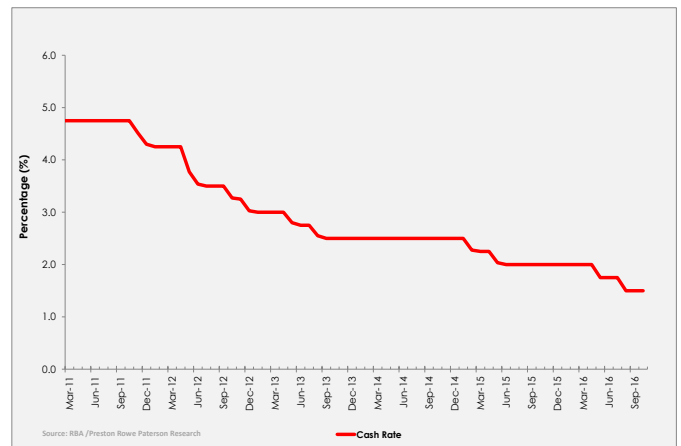


Chart 20 – Cash Rate – Source RBA

### CPI

Figures from the Australian Bureau of Statistics indicate that headline inflation in the third quarter of 2016 grew by 0.7%, with year-on-year growth at 1.3%. These figures show strong improvements in inflation from the last quarter, which only increased by 0.4% over the quarter and 1.0% over the year to June. However, when we look at underlying inflation for September, which measure inflationary pressures from only the change in market forces, a quarterly rise of 0.35% and yearly change of 1.5% were recorded.

The largest contributors to the hike in prices stemmed from Fruit (19.5%), Vegetables (5.9%), Electricity (5.4%) and Property rates (4.0%). In contrast to this, Index figures for Fuel and Telecommunications both declined over the quarter, by -2.9% and -2.5% respectively.

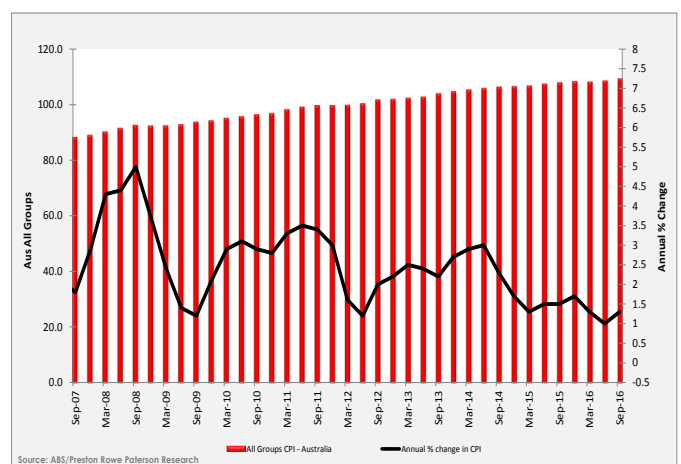


Chart 21 – Consumer Price Index—Source—ABS

## 10 Year Bond & 90 Day Bill Rate

Over the month to September, Australia's 10-Year Government Bonds rate increased by 11 basis points to 1.99%. This rate however, reflects a 0.14% (0.71%) decrease from three (twelve) months prior. The 90-Day Bill rate decreased by 0.02% over the month to 1.73%. This rate also reflects a decrease of 0.26% (0.44%) from the previous three (twelve) months. The monthly changes in the 10-Year bonds rate and the 90-Day bill rate reflect a yield spread of 2 basis points.

The 10-Year government bond rate reached an all-time low of 1.82% at the start of August, following drops in yields in the US and major European countries like Britain and Germany during that time. However, upward movements have been recorded ever since as the Australian bond market continue to mirror changes occurring in the US's bond market, reaching 34 basis points higher than its lowest, to a high 2.17% at one stage.

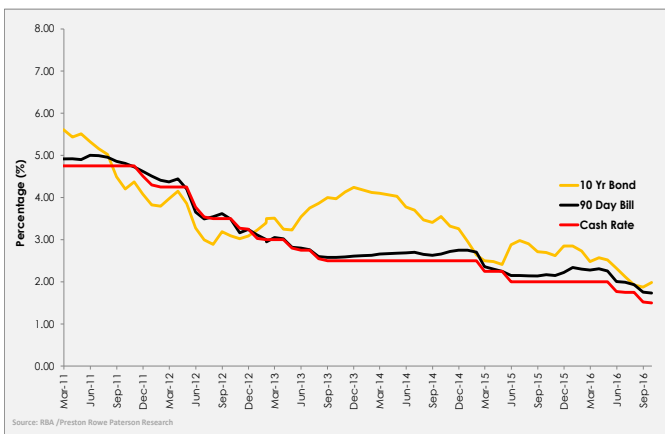


Chart 22 –90 Day Bill, 10 year bond and cash rate – MONTHLY – Source RBA

## Consumer Sentiment

September of 2016 has seen positive gains in consumer sentiment, in which the Westpac Melbourne Institute of Consumer Sentiment increased by 0.4% to 101.4 over the month. However, when compared to three months prior, consumer sentiment had decreased by 0.8%, from June's index of 102.2.

Westpac's Chief Economist, Bill Evans, stated that the index has remained relatively stable over the six months to September, despite the many economic events occurring during that time. Notably, two interest rate cuts (May and August), the Federal Election and Federal Budget, as well as major political changes occurring offshore (Brexit and the US Elections) have all occurred during this time. However, considering these outside forces, we have not experienced any drastic changes in consumers sentiment.

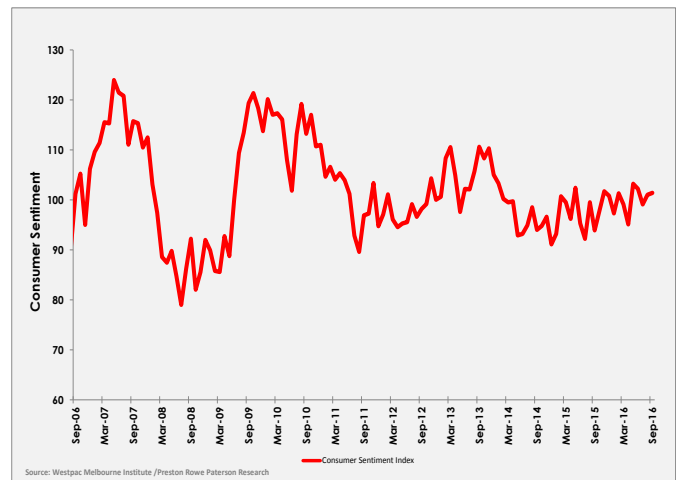


Chart 23– Consumer Sentiment Index – Source - Westpac—Melbourne Institute Survey

## Labour force

Unemployment rate fell 0.1 percentage point to 5.6% in September, with total number of people with jobs falling by 9, 800 (seasonally adjusted) in the month. Furthermore, full time employment reduced by 53,000 persons, and notably, part-time employment increased by 43,200 persons. When we look seasonally adjusted figures for states and territories, New South Wales and Tasmania were the only states to record an increase in employment over the month.

Over the month of September, Victoria experienced a decline in seasonally adjusted employment by 12,766 persons to 3,057 million. The unemployment rate in Victoria remained unchanged at 5.7% for September. Furthermore, Victoria's participation rate experienced a slight increase of 0.1% from the previous month to reach 59.0%.

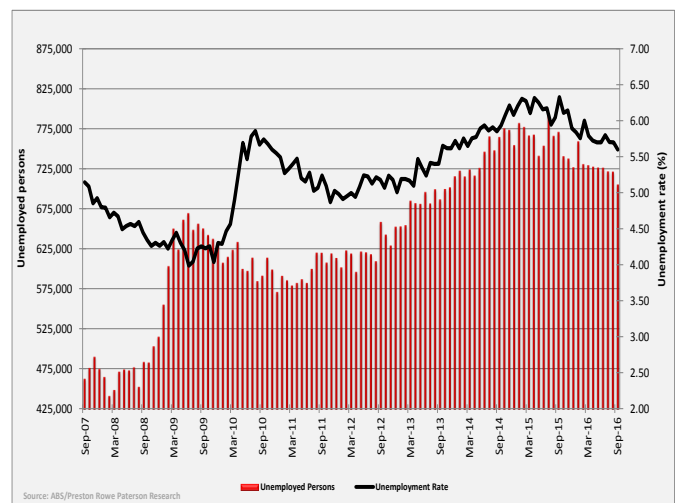


Chart 24 – Unemployment – Source ABS

## Our Research

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

## We have *property* covered

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

## We have all *real estate* types covered

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

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

## We have all types of *plant & machinery* covered

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

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

## We have all *client profiles* covered

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

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



## **We have all *locations* covered**

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

## **We have your *needs* covered**

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

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

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- ◆ Hong Kong
- ◆ Japan
- ◆ Thailand

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