



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Property Market Report

## New South Wales

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

### December Quarter 2016

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## COMMERCIAL OFFICE MARKET

### Sydney CBD

#### Investment Activity

Preston Rowe Paterson Research recorded the following major sales transactions that occurred during the three months to December 2016:

##### 235 Pyrmont Street, Pyrmont, NSW 2009

*Kador Group* has bought an 8-level, 10,628 m<sup>2</sup> of NLA office building for **\$80 million** on a **sub-6% yield**. The B-grade property was extensively refurbished in 2011. Pyrmont is located 2 km west of Sydney's CBD.

##### 303-305 Pitt Street, Sydney, NSW 2000

The *City of Sydney Council* has acquired a commercial building for **\$43 million** that will be developed into a new civic boulevard. The 3,410 m<sup>2</sup> building is nearly fully-leased with a WALE of over 3-years. The sale reflects a **rate of \$12,610 psm**.

##### 39 Martin Place, Sydney, NSW 2000

*Transport for NSW* has paid **\$332 million** to the *DEXUS Property Group* and *DEXUS Wholesale Property Fund* for a B-Grade office tower. The 20-storey building was acquired by the NSW government for the Sydney Metro rail system. The property has six retail outlets, end-of-trip amenities and basement parking for 68 cars.

##### 55 Clarence Street, Sydney, NSW 2000

An Asian Investment House has acquired a 14,888.1 m<sup>2</sup>, 96% occupied office tower for **close to \$170 million**. The sale reflects an **initial yield of approximately 5.4%**. The B-grade property has a WALE of 2.2 years and 88 car bays over 3 levels. The building was completed in 1973 but has undergone extensive refurbishment between 1996 and 1998, with the foyer and lobby undergoing further refurbishment in 2005. The sale reflects a **rate of \$11.419 psm**.

##### 485-489 Elizabeth Street, Surry Hills, NSW 2010

A private trust has paid **\$10 million** for a mixed-use property. The property comprises a recently refitted 5-storey office building and a renovated 2-level Georgian terrace on the one title. The 910 m<sup>2</sup> office building has end-of-trip facilities, a kitchenette and amenities, as well as a secure car park. The 140 m<sup>2</sup> terrace is heritage listed and can be used for residential or commercial purposes. The sale of the 404 m<sup>2</sup> site reflects a **rate of \$24,752 psm**. Surry Hills is located around 3 km south-east of Sydney's CBD.

##### 223 Liverpool Street, Darlinghurst, NSW 2010

*Fidnam Australasia Real Estate* has paid **\$33 million** for a 4,477 m<sup>2</sup> office building. There will be an extensive base building upgrade will be completed during 2017. The sale reflects a **rate of \$7,371 psm**. Darlinghurst is located 1.5 km south-east of the Sydney CBD.

##### 92 Pitt Street, Sydney, NSW 2000

A private domestic investor has bought a 4,342 m<sup>2</sup> office tower from *EG Funds Management* for **\$52.17 million**. The B-grade, 14-level building has office space, ground floor retail and a basement restaurant. The property has 94% occupancy. The sale reflects a **rate of \$12,015 psm**.

##### 43-51 Brisbane Street, Surry Hills, NSW 2010

*Marks Henderson* has paid **\$13.1 million** for a 2-level art deco office building. The property is leased by *Bates Smart* until January 2024. The property was recently renovated. The sale reflects a **yield of around 6.5%**. Surry Hills is located around 3 km south-east of Sydney's CBD.

##### 33 Alfred Street, Sydney, NSW 2000

*AMP* has sold its headquarters to *AMP Capital Diversified Property Fund (ADPF)* and *AMP Capital Wholesale Office Fund* for **between \$430 million and \$460 million**. The sale of the 26-storey A-grade office tower comes after AMP group decided to move to the soon-to-be developer Quay Quarter Tower.

#### Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the Sydney CBD office market during the three months to December 2016:

##### 101 Miller Street, Sydney, NSW 2000

*Mirvac* and *TH Real Estate* have secured *Ace Insurance* as a new tenant on levels 19, 18 and part of level 17 for 10-years. The lease is for a **net annual rent of between \$700 and \$765 psm**. The total space is 3,500 m<sup>2</sup>.

##### 363 George Street, Sydney, NSW 2000

*Atlassian* has agreed to lease a 5,500 m<sup>2</sup> office space over multiple floors from landlord *ISPT*. The lease is for **5-years**.

##### 50 Bridge Street, Sydney, NSW 2000

*AMP* will move its headquarters to the soon-to-be-developed Quay Quarter Tower. The group will occupy 36,500 m<sup>2</sup> of space in the building from 2021 for **12-years**.

## Development Sites

January's edition of the PCA's Office Market Report have reported that 6 new developments in the Sydney CBD will be completed within the next three years, ultimately supply the city with close to 360,000 square metres of Net Lettable Area after completion. The following table outlines details of the projects that are currently in the works within the Sydney CBD:

Project Name	Address	Stage of Development	Owner	Net Lettable Area(SQM)	Completion Date
333 George Street	333 George Street, Sydney, NSW 2000	Complete	Charter Hall (Core Plus Office Fund)	12,514	Q4 2016
Tower 1, International Towers Sydney	100 Barangaroo Avenue, Sydney, NSW 2000	Complete	Lendlease Corporation	103,041	Q4 2016
Central Park	100 Broadway, Sydney, NSW 2000	Construction	Frasers Property Group / Seksui House Australia	5,447	Q2 2018
Kindersley House	33 Bligh Street, Sydney, NSW 2000	DA Approved	Investa + Ausgrid	24,000	Mooted
Wynyard Place (DEV)	10 Carrington Street, Sydney, NSW 2000	DA Approved	Sovereign Wynyard Centre Pty Ltd	56,000	Q2 2019+
275 George Street	275 George Street, Sydney, NSW 2000	DA Approved	LaSalle Investment Management	6,363	Q3 2018
Quay Quarter Sydney/AMP Precinct	(QQS) 2-10, 20 Loftus & 5-17 Young Streets, Sydney, NSW 2000	DA Approved	AMP Capital Investors (AMP Wholesale Office Fund)	90,000	Q3 2019+
(DEV) 60 Martin Place	60 Martin Place, Sydney, NSW 2000	Site Works	Investa Property Trust/Martin Place Wholesale Syndicate	38,600	Q3 2019+

Table 1 – Development Sites around Sydney CBD – Source PCA

### Central Park

Located at 100 Broadway, this mix-used commercial building will provide the Southern part of Sydney's CBD with 5,447 square metres of NLA and 3,000 square metre of retail area upon its completion in 2018. The 18-level building has an average floorplate size of 3,500 square metres and a total of 235 car spaces, with reports that it will be one of Australia's most advanced sustainable mixed-use developments. The building is located close to the University of Technology, and has multiple access points to Central Railway Station as well as the proposed George Street light rail.



### Tower 1, International Towers Sydney

The mixed use office building at 100 Barangaroo Avenue will see its development being completed by the fourth quarter of 2016. This larger development, under the same owner as Tower 2 (completed June 2015) and 3, will have a net lettable area of 101,729 sqm over 48 office floors and of which 8000 square metres will be retail space. The building will have an average floorplate size of 2,300 square meters, and will contain 167 carpark spaces in total.

### Wynyard Place

The 27-level Premium Grade commercial building, located at 10 Carrington Street, has been DA approved for construction and is expected to be completed by 2019. The building will contain 56,000 square metres of commercial space and 5,900 square metres of prime retail space that will have access to a major transport hall. The building will have an average floorplate size of 2,888 square metres and will contain 170 carpark spaces in total upon completion. National Australia Bank will be the anchor tenant, which will see them occupy 31,000 square metres of space from level 1 to level 9, and is due to move into the building mid-2020 under a twelve-year lease agreement.



## Supply by Grade (Stock)

The Property Council of Australia's January 2017 Office Market Report indicated that there was an addition of 126, 010 square metres of supply to Sydney CBD's office market, offset by 128, 326 square metres of withdrawals in the six months to January 2017. Overall, total office spaces decreased by 2,316 square metres down to 5,079,899 square metres over the six month period.

All of the increase in office stock were from the addition of Premium and A Grade office space, mainly from the new developments and partial refurbishment across the city. On the other hand, withdrawals of C and D Grade office stocks contributed to all of the withdrawal over the six month period. The withdrawals from Sydney CBD were mainly from the demolition of buildings in preparation of Sydney's Metro Line project, conversion of office space into residential and hotel spaces and the partial/full refurbishment of office space.

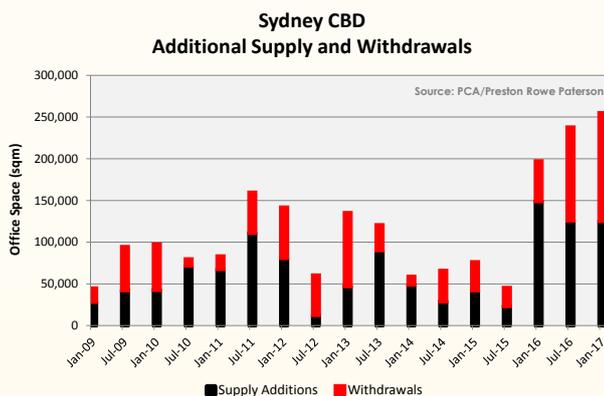


Chart 1 – Sydney CBD Additional Supply and Withdrawals – Source PCA

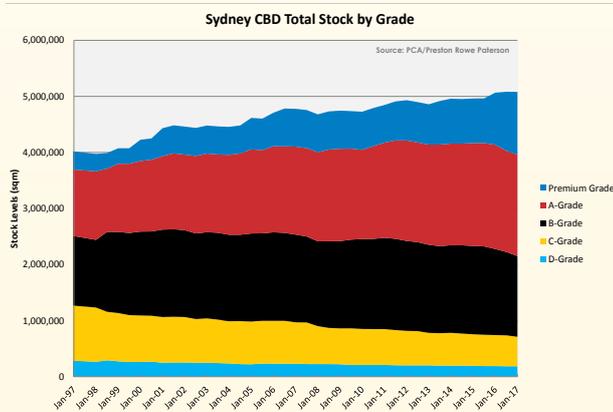


Chart 2– Sydney CBD Office Stock by Grade - Source— PCA

Sydney CBD office market is dominated by A-Grade and B-Grade office buildings, each with 1,809,622 sqm (+ 4,396 sqm from July 2016) and 1,439,949 sqm (-47,088 sqm from July 2016) in stock respectively. Premium Grade buildings increased to 1,118,972 sqm (+66, 124 sqm) over the six months whilst stocks of C Grade buildings declined to 525, 730 (- 25,748 sqm). There was no change in D-Grade stocks which remained at 185, 626 sqm.

## Vacancy Rates

Total vacancy of Sydney CBD's office buildings increased over the half year to January 2017, by 0.6% to 6.2%. This increase was attributed to the increase in direct vacancy, which jumped 0.7% to 5.6% over the period. Sub-lease vacancy declined by 0.1% down to 0.6%.

All office grades, except for D-Grade offices, increased in office vacancies over the six month period. Premium Offices experienced an increase of 1.1% in vacancy to 12.3%, whilst A, B and C Grade Offices increased to 4.2% (+ 0.2%), 4.0% (+0.6%) and 6.6% (+0.7%) respectively. D Grade buildings experienced a decline of 0.9%, down to 2.9% during the period.

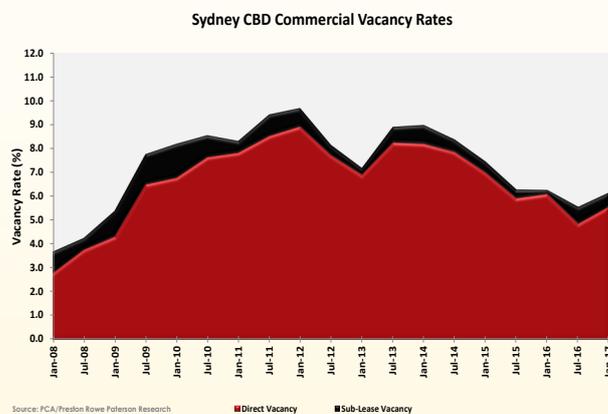


Chart 3 – Sydney CBD Office Vacancy – Source— PCA



## **North Sydney**



### **Investment Activity**

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to December 2016:

#### **42-44 Victoria Street, McMahon's Point, NSW 2060**

A refurbished freestanding art deco building has been acquired by a private investor at auction for **\$12.75 million**. The property is currently leased to *Southern Star Entertainment Holdings* on a 7-year lease with a 7-year option. The 1,178 m<sup>2</sup> building sits on a 4,982 m<sup>2</sup> site and has 20 car spaces. The sale reflects a **net yield of 5.8%** and a **rate of \$2,559 psm**. McMahon's Point is located about 4.4 km north of the Sydney CBD.

### **Leasing Activity**

Preston Rowe Paterson Research recorded the following leasing transaction that occurred in the North Sydney office market during the three months to December 2016:

#### **76 Berry Street, North Sydney, NSW 2060**

*BT Australasia* will occupy a 1,400sqm office from landlord *Local Government Super* for **6-years**. The A-grade building was refurbished in 2005 and has a 4-star NABERS energy rating. The building also has a lobby café, a 24-hour gym, a restaurant and bicycle racks. The **gross annual rent is \$661 psm**. North Sydney is located about 3.8 km north of the Sydney CBD.

#### **101 Miller Street, North Sydney, NSW 2060**

*White Clark* will lease 1,420 m<sup>2</sup> of space from joint owners *Mirvac* and *TH Real Estate* for **5-years**. The space is located on level 15 and the lessee will pay between **\$700 and \$765 psm in net annual rent**. North Sydney is located around 3.8 km north of Sydney's CBD.

### **Development Sites**

The Property Council of Australia's (PCA) Office Market Report for January 2017 indicated that there are three new developments due to be completed by the beginning of 2019:

#### **177-199 Pacific Highway, North Sydney, NSW 2060**

The Norberry Terrace project, located at the corner of Berry Street and Pacific Highway, was completed in the fourth quarter of 2016. The development will provide 39,383 sqm of net lettable area over 31 office levels. Its average floorplate size stands at approximately 1570 sqm, with the additional 112 car park spaces available.

#### **100 Mount Street, North Sydney, NSW 2060**

The project at 100 Mount Street is currently under construction and is expected to deliver 42,000 sqm of Premium Grade office buildings, along with 400 sqm of retail space. Two existing buildings (90 and 100 Mount Street) were demolished to make way for the 34 level office building, that will include 6 basement levels and 2 ground level retail space. The building will have an average floor plate size of 1,250 sqm, and a total of 113 car park spaces. The project is due to be completed in the first quarter of 2019, and once complete, will become the tallest building in North Sydney designed to have a 5-Star Green Star Design.

#### **1 Denison Street, North Sydney, NSW 2060**

Winten Property Group's project at 1 Denison Street will provide North Sydney with 45,720 square metres of NLA, including 2,700 sqm of retail area over 32 levels. The building will have an average floorplate size of 1,850 sqm, will contain 150 carpark spaces and will become one of North Sydney's tallest towers upon completion.

## Supply by Grade (Stock)

North Sydney's office market recorded a notable change in their withdrawals and supply through the six months to January 2017. There was an addition of 45,132 sqm, offset by 15,118 sqm of space withdrawn over the period. In total, North Sydney's office market gained a net total of 30,014 sqm of space over six months.

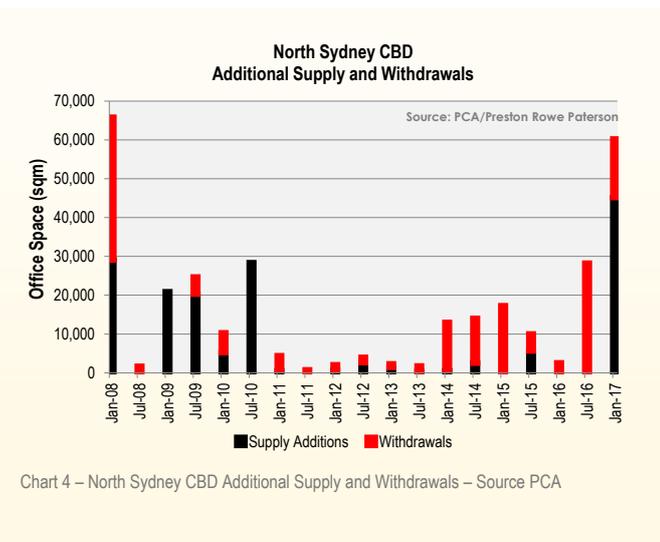
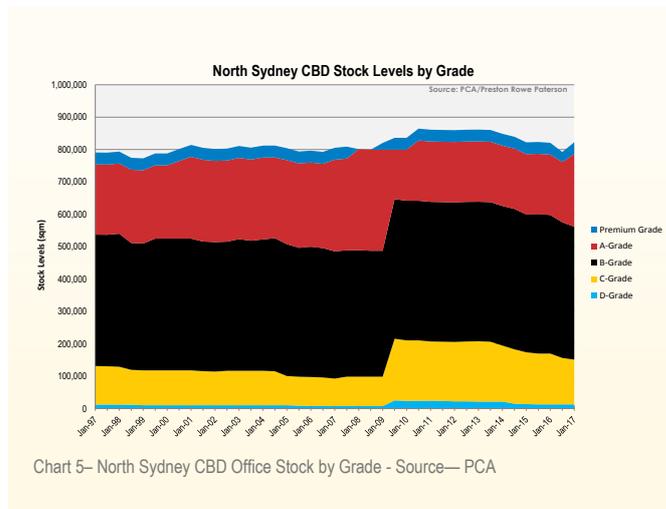


Chart 4 – North Sydney CBD Additional Supply and Withdrawals – Source PCA

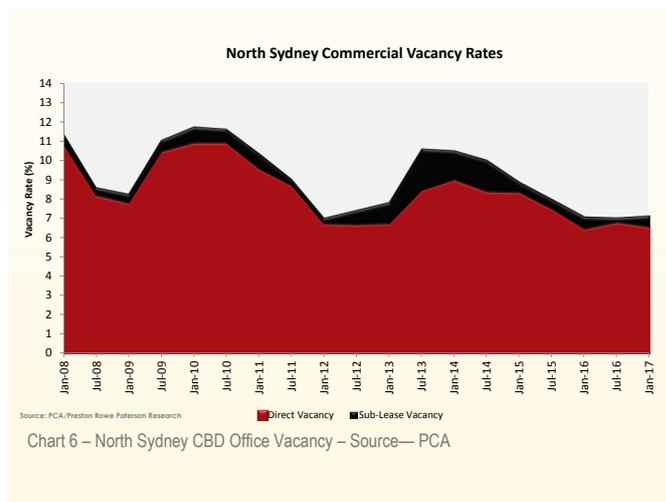
The majority of space addition derived from A-Grade office buildings that have entered the market, either through the completion of new developments or refurbishments through the six month period. 38,011 sqm of A-Grade space was added onto the market, followed by 5,713 sqm of Premium Grade space. In contrast, North Sydney lost B-Grade and C-Grade spaces over the same period. There was a withdrawal of 8,462 sqm of B-Grade space, in conjunction with the withdrawal of 5,248 sqm in C-Grade space. No change was recorded in the supply of D-Grade offices, remaining at 12,932 sqm.



## Vacancy Rates

North Sydney's office market vacancy rate declined by -0.1% over the six months to January 2017. As at January, there is 58,549 sqm of total vacancy in North Sydney's office market, of which 53,644 sqm of space is direct vacancy and 4,905 sqm is sub-lease vacancy. These figures reflect a 6.5% direct vacancy rate and 0.6% sub-lease vacancy rate.

We note that total vacancy rate for Premium offices declined from 41.2% since July 2016, to the current rate of 25.2% for January 2017. Vacancy rates for A Grade and C Grade offices declined over the period, to 5.2% and 3.5% respectively. In contrast, B Grade and D Grade offices experienced increases in their vacancy rates, to 6.7% and 3.3% respectively.





## Crows Nest/St Leonards



### Investment Activity

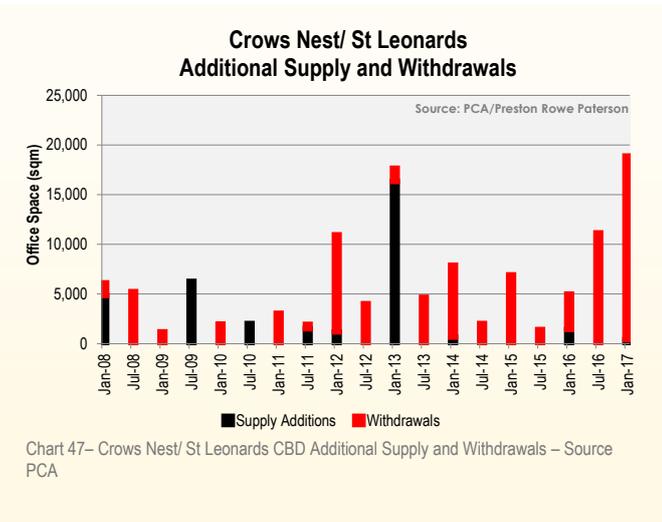
Preston Rowe Paterson Research did not identify any sales transactions that occurred during the three months to December 2016 in the Crows Nest/St Leonards office market.

### Leasing Activity

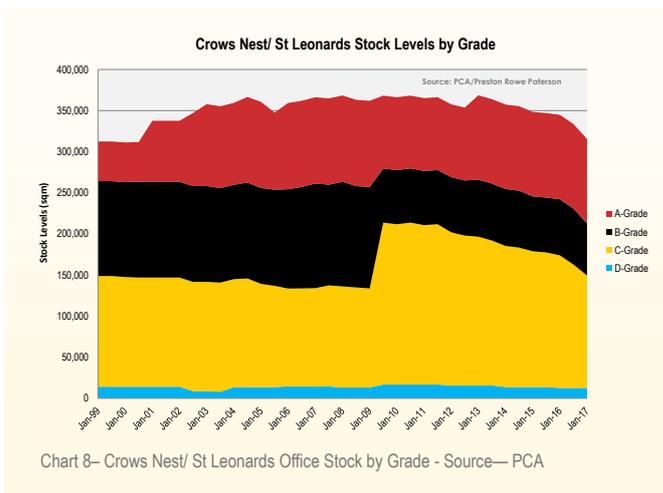
Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to December 2016 in the Crows Nest/St Leonards office market.

### Supply by Grade (Stock)

PCA's Office Market Report for January 2017 indicated that there was a withdrawal of 18,489 sqm of office space within a six month period. Over the same period, 400 sqm was added onto the market, bringing the total stock down to 315,542 sqm. We note that all of this withdrawal stems from the decrease in C-Grade and B-Grade office spaces.



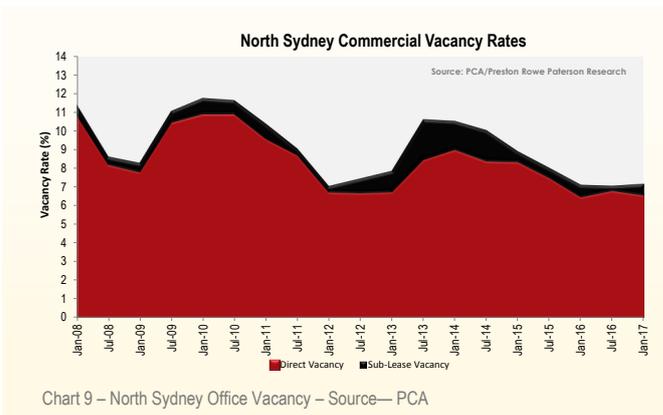
Despite the large withdrawal of C-Grade office spaces, Crow's Nest/St Leonards' office market is still dominated by C-Grade offices with 136,897 sqm in space. B-Grade offices also experienced a decline in their stocks, declining to 63,377 sqm. A and D Grade office did not experience any changes in their stocks, remaining at 102,699 sqm and 12,569 sqm



### Total Vacancy

There were notable changes that occurred over the six months to January 2017, which all contributed to the increase in total vacancy rate to 10.5%. This increase was attributed to by the increase in direct vacancy, which increased from 7.3% to 9.5% over the period, whilst sub-lease vacancy remained unchanged at 1.0%.

Vacancy rate increased in A Grade and B Grade offices over the six months to January 2017. A Grade vacancy increased from 2.9% to 7.0%, whilst B Grade offices experienced a notably increase from 6.3% to 17.8% over the same period. C Grade and D Grade offices experienced declines in vacancy rates, with C Grade declining from 12.4% to 9.6% and D Grade declining from 14.6% to 12.1%.



## Parramatta

### Investment Activity

Preston Rowe Paterson Research revealed the following sale transaction that occurred in the three months to December 2016:

#### **292-298 Church Street, Parramatta, NSW 2150**

A local purchaser has acquired a 3-storey office and retail property with redevelopment upside for **\$9.75 million**. The 789 m<sup>2</sup> property sold on a **net yield of just below 3%**. The ground-floor is leased to the 'Sicilian' restaurant until 2022 for \$400,000 in gross annual rent. Parramatta is located about 23 km west of the Sydney CBD.

### Leasing Activity

Preston Rowe Paterson Research recorded no significant leasing transactions that occurred during the three months to September in the Parramatta office market.

### Development Sites

The Property Council of Australia's (PCA) Office Market Report for January 2017 indicated that there are three new developments due to be completed by the beginning of 2019:

#### **169 Macquarie Street, Parramatta NSW 2150**

Stage 1 development of Parramatta Square is reported to be completed by the fourth quarter of 2016. Under its owner, *Charter Hall Group*, the site will provide a net lettable area of 26,000 sqm over 14 office levels. Its average floorplate size will be 2200 sqm, with 108 carpark spaces available upon completion.

#### **153 Macquarie Street, Parramatta NSW 2150**

In conjunction with the Parramatta Stage 1 development, the other significant development is **Parramatta Square (Stage 3)** project located on **153 Macquarie Street**. It is currently in its early feasibility stage. The Parramatta City Council proposed that the third stage of development will include 35,000 sqm of NLA over a 14 storey office tower, feature a 7,000 sqm are of public facilities including a civic building, community centre, library and facilitate a car park with 170 spaces. The project is expected to be completed in the 2nd quarter of 2018 or later.

#### **105 Phillips Street, Parramatta NSW 2150**

This A Grade office building will add 25,000 sqm of NLA once completed, along with 500 sqm of retail space over 13 levels. The building will home 1,800 NSW Department of Education employees from March 2018 following their move from the Sydney CBD office. The property's owner, DEXUS Property Group, have indicated the construction will be completed by the second quarter of 2018.

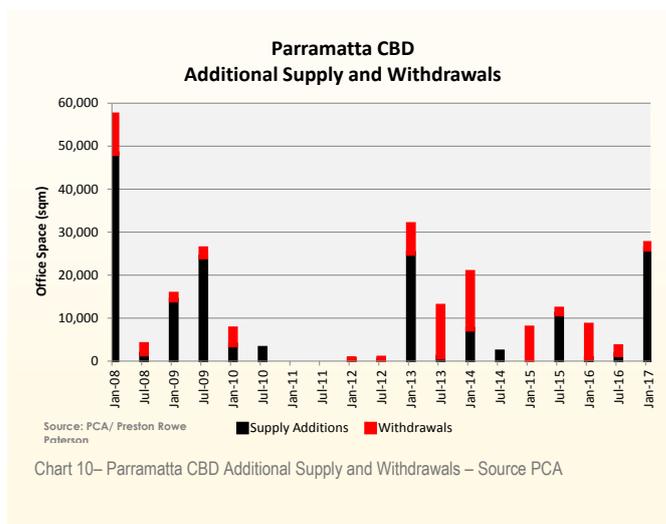
#### **30 Darcy Street, Parramatta NSW 2150**

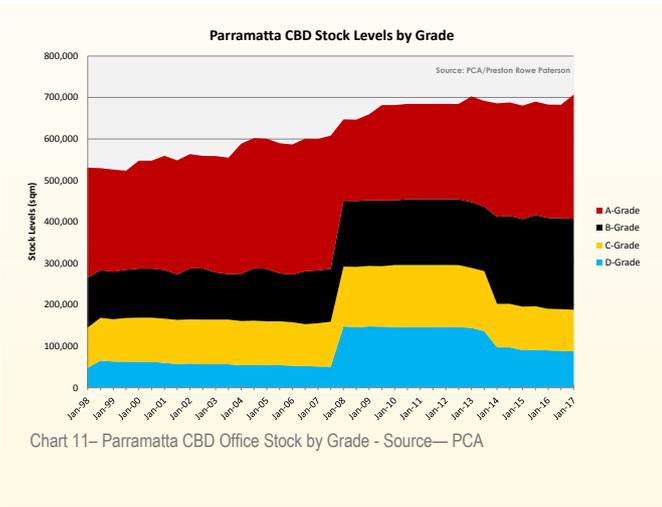
The 4th and 6th stage of the Parramatta Square development is under construction, with a combined addition of 110,000 sqm of NLA and 4,500 sqm into Parramatta's office market once complete. Average floorplate size will be 2,000 sqm over 25 levels in office space. The project is due to be completed by the fourth quarter of 2019.

### Supply by Grade (Stock)

Total stocks in Parramatta's office market increased over the six months to January 2017, with an addition of 26,000 sqm, and offset by a withdrawal of 1,370 sqm. Total stocks increased to 707,099 sqm, an increase of 24,630 sqm over the period.

All of the increase in office stock stemmed from the addition of A Grade offices into the market. B Grade and C Grade stocks did not change, remaining at 219,303 sqm and 100,373 sqm respectively. All withdrawals from the market was from D Grade offices, which declined by 1,370 sqm to 87,806 sqm.

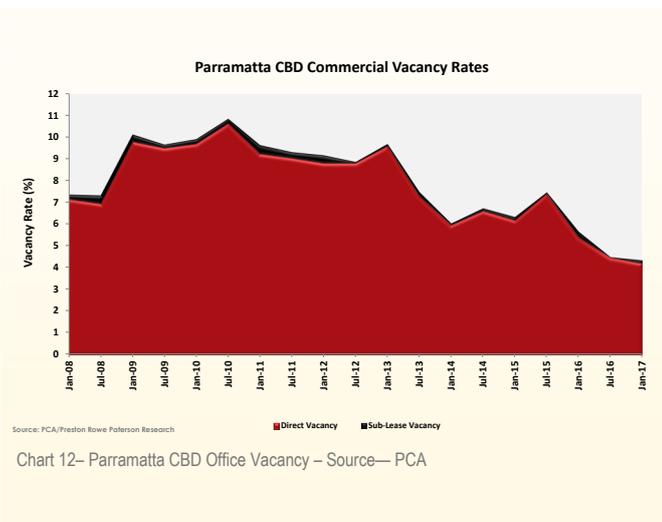




### Vacancy Rates

Over the six months to January, total vacancy rates in Parramatta’s office market declined by 0.1% to 4.3%. The fall was mainly attributed to the change in direct vacancy, declining by 0.2% to 4.2% and sub-lease vacancy increasing by 0.1% to 0.1%.

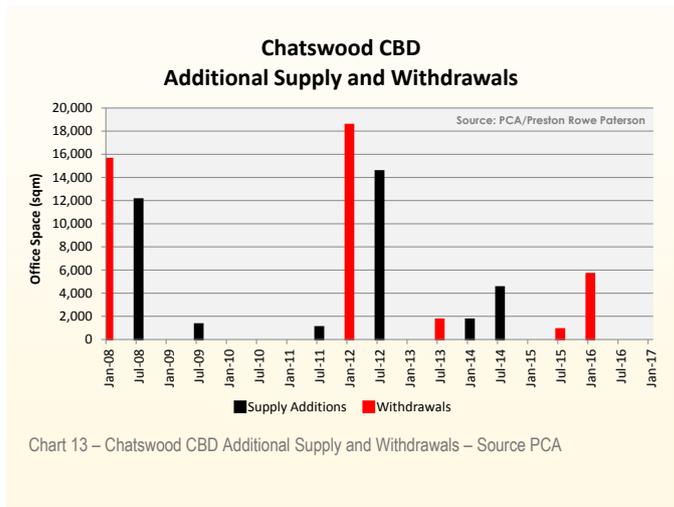
C Grade stocks experienced an increase in vacancy rate over the period, from 11.0% in July 2016 to 13.2% in January 2017. B Grade and D Grade offices experienced declines in their vacancy rates over the same period, with B Grade declining from 6.8% to 6.2%, and D Grade offices from 5.1% to 4.3%. Vacancy rates for A Grade did not change, remaining at 0.0% since January 2016. In total, net absorption was at 32,128 sqm as a result of these changes in office vacancy in Parramatta.



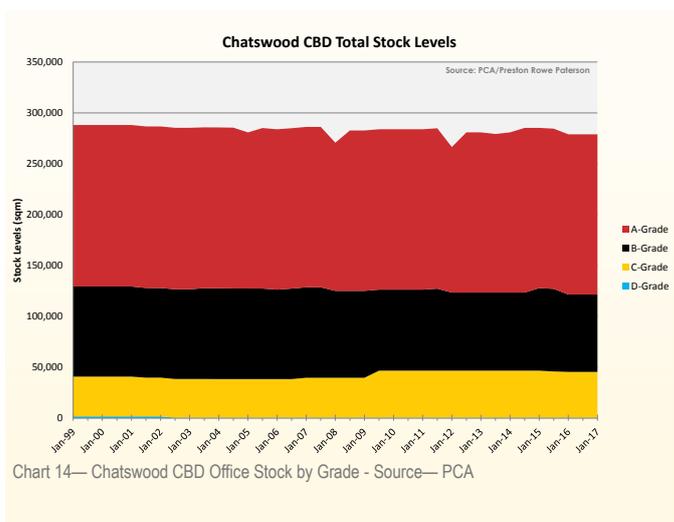
## Chatswood

### Supply by Grade (Stock)

The July 2016 Office Market Report from the PCA indicates that there is no change in the total office stock in the Chatswood region, with total stock remaining at 278,919 sqm. There were no addition to supply and no withdrawals for the period.



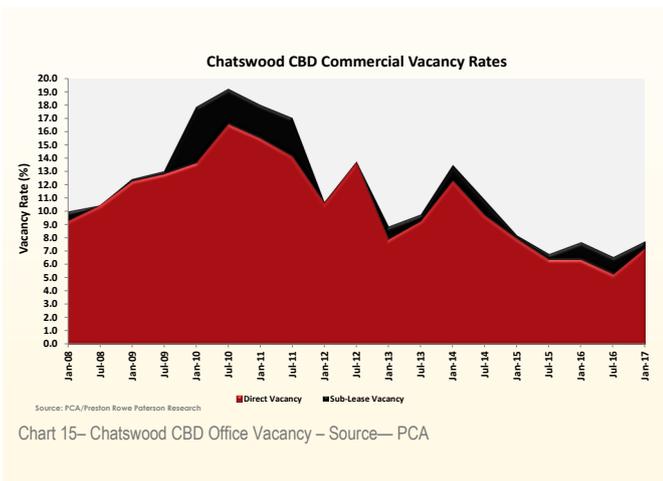
The Chatswood market is dominated by A Grade stock, which hasn’t changed in supply since January 2015 at 157,412 sqm. There are approximately half as many B Grade as A Grade office stock, with July 2016 figures showing there are 76,046sqm of B Grade office stock. There are 45,007 sqm in space of C-Grade offices, and 454 sqm of D Grade stocks.



## Total Vacancy

Total vacancy in Chatswood's commercial office market increased to 7.7% in January 2017, a rise of 1.1% from July 2016. Direct vacancy increased from 5.3% to 7.2% over the period, whilst sub-lease vacancy declined from 1.3% to 0.5%.

We note that D Grade offices in Chatswood experienced a notably change in their vacancy rate, increased to 100% from 0% over the six months to January. A Grade and C Grade offices also experienced an increase in their vacancy rates, albeit not to the same extent of D Grade stocks. A Grade office vacancy increased from 6.1% to 8.0%, whilst C Grade office vacancy increased from 2.5% to 3.9%. In contrast, B Grade office vacancy experienced a decline of 1.0% to 8.9%.



## Investment Activity

Preston Rowe Paterson Research did not identify any sales transactions that occurred during the three months to September 2016 in Chatswood's office market.

## Leasing Activity

Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to September in Chatswood's office market.

## North Ryde/Macquarie Park



## Investment Activity

Preston Rowe Paterson Research recorded the following sale transaction that occurred during the three months to December 2016:

### 123 Epping Road, North Ryde, NSW 2113

*Shimao Group* has paid **\$118 million** on a **yield of 6.1%** for the **Avaya House** office property. The 10-level, A-grade building was sold by *Charter Hall*. The property sits on a 1.28-hectare site and has a WALE of 3.7-years. There are also 554 car spaces on the site. Major tenants include *Avaya, Amgen, Biogen* and *Hitachi*. The sale reflects a **rate of \$9,219 psm**. North Ryde is located around 12 km north-west of Sydney's CBD.

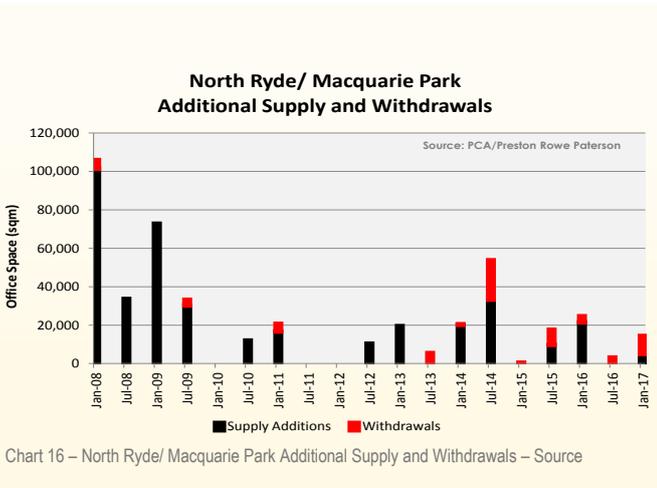


## Leasing Activity

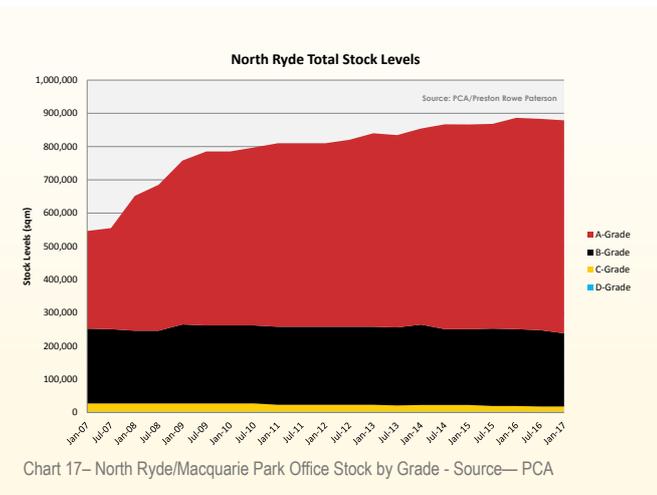
Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to December in the North Ryde/Macquarie Park office market.

## Supply by Grade (Stock)

Over the six months to January 2017, the North Ryde/ Macquarie Park market experience minor shifts in their office stocks. There was an addition of 5,000 sqm in office space, in conjunction with 9,417 sqm of space withdrawal through the same period. Overall, there a gross withdrawal of 4,417 sqm of space from the commercial office market.



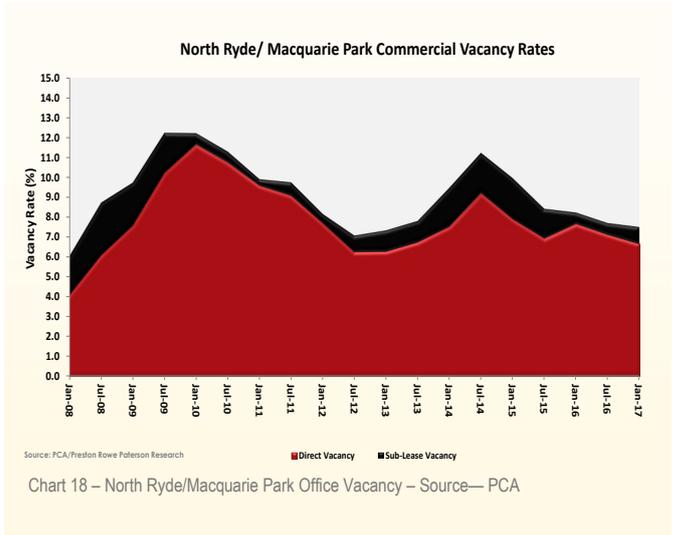
Withdrawals of office stocks in the North Ryde/ Macquarie Park office market was attributed to the decline in B Grade stocks, which decreased by 9,417 sqm. A Grade stocks benefited from an increase of 5,000 sqm in space. Over the same period, no changes were recorded in the C Grade and D Grade office supply, remaining at 15,385 sqm and 2,721 sqm respectively.



## Vacancy Rates

The North Ryde/ Macquarie Park office market recorded an increase of 0.4% in total vacancy rate over the six month period. Total vacancy stand at 7.5%, attributed to by a decrease of 0.4% in direct vacancy to 6.7% and an increase of 0.3% in sub-lease vacancy rate to 0.9%.

Vacancies of A Grade and C Grade increased over the six month period. A Grade office vacancy rate experienced an increase of 0.8% to 5.1%, whereas C Grade vacancy rates increased by 0.3% to 10.7%. In contrast, B Grade vacancy rates declined by 0.7% to 14.2% over the same period.



## RETAIL STATISTICS

In Australia, retail turnover declined by -0.1% (seasonally adjusted) over the month to December, following an increase of 0.3% in November and increase of 0.3% in October. When we look at retail turnover by state, South Australia experienced the largest seasonally adjusted increase of 1.2%, followed by the Northern Territory (1.1%), Western Australia (0.6%) and Tasmania (0.5%). In contrast, Victoria (-0.4%), New South Wales (-0.3%) and the Australian Capital Territory (-0.7%) all experienced declines in turnover over the month to December.

New South Wales achieved a seasonally adjusted turnover of \$8.239 billion in December, a decline of 0.6% over the month. When we look at year-on-year percentage changes in retail turnover for different subgroups, Takeaway food services had the largest increase of 15.78%. Hardware, building & garden supplies (10.0%) Clothing retail (6.9%), Pharmaceuticals (5.9%) and Supermarket & grocery (3.23%) all experienced increases over the year, whilst Café, restaurants & catering services (-3.0%), Other recreational goods (-6.1%), Department stores (-1.8%) and Electrical goods (-1.2%) dragged down the state's overall turnover performance.

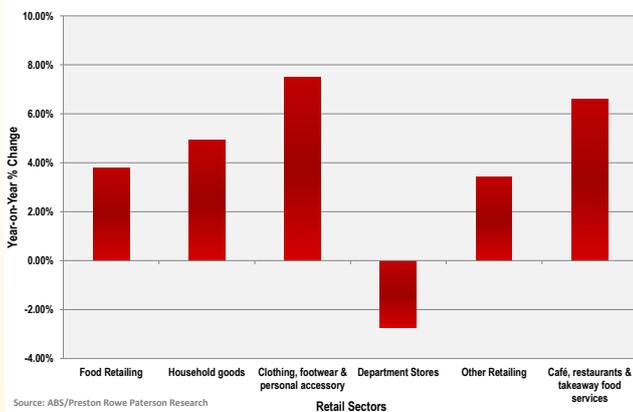


Chart 19—Year on Year % change to November 2016 of retail subgroups—Source—ABS

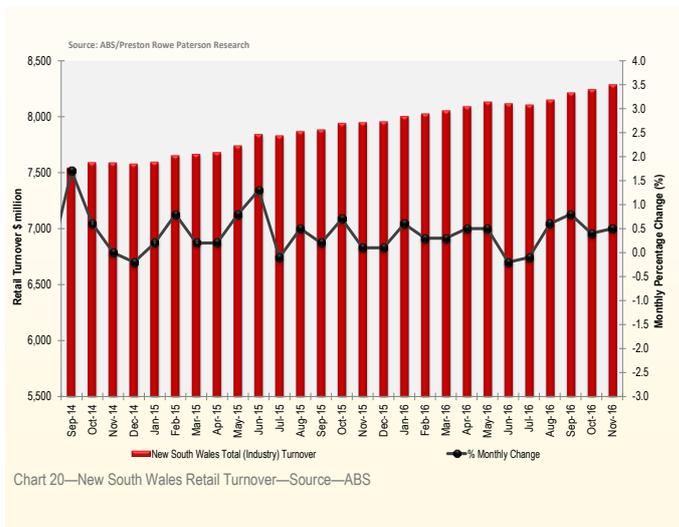


Chart 20—New South Wales Retail Turnover—Source—ABS

## Online Retail

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

The NAB Online Retail Sales Index increased by 1.1% over the month of November, a significant increase from the previous month's rise of 0.5%. However, we note that year on year increased slowed from 14.1% to 13.3%, as National Bank Australia estimated a figure of \$21.4 billion was spent online in the twelve months to November 2016. This represents a 7.1% of total spending by traditional retail spending as measured by the ABS). NAB noted that declines in spending in Homeware and appliances (10.5%, year-on-year in November, compared to 14.9% year-on-year in October), Media (19.2% year-on-year, compared to 23.8% year-on-year) contributed to the overall annual slowdown of online retail. However, increase in spending on Groceries & liquor (8.5% year-on-year, compared to 4.7% year-on-year) and Fashion (21.1% year-on-year, compared to 15.0% year-on-year) helped to counteract a larger than expected decline.

	Year-on-year Growth (%)		
	September 2016	October 2016	November 2016
Online Index	15.3	14.1	13.3
ABS Retail	4.4	2.1	3.4

Table 2—NAB Online Retail Sales Index—Source—NAB, ABS



## RETAIL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following significant retail transactions that occurred in the Sydney metropolitan areas during the three months to December 2016:

#### **Cnr Old Illawarra & Menai Roads, Menai, NSW 2234**

A private investor has paid **\$43.3 million** to *Sentinel Property Group* for the **Menai Central** retail complex. The 10,796 m<sup>2</sup> property has six buildings on a 2.2-hectare site. Tenants include *IGA, Dan Murphy's, Goodlife Health Club, Pet Barn* and *Supercheap Auto*. There are also 275 car spaces. The sale reflects a **rate of \$1,968 psm**. Menai is located 28.6 km south-west of the Sydney CBD.

#### **Cnr Bourke Road and Huntley Street, Alexandria, NSW 2015**

*Goldman Sachs* has sold **The Mill** to *Dexus Property Group* for **\$110.2 million**. The deal features a 1.9-hectare mixed-use, multi-tenanted property which was developed in 2008. The sale reflects a **rate of \$5,800 psm**. Alexandria is located around 3.9 km south of Sydney's CBD.

#### **436 Pacific Highway, Artarmon, NSW 2064**

A private investor has paid **\$8.76 million** for a *KFC*-occupied site. The property is on a long-term 20-year lease with a 10-year option from the 1st of July 2014. The tenant is paying a net income of \$346,521 per annum plus GST. The sale reflects a **net yield of 4%**. Artarmon is located around 9.2 km north-west of Sydney's CBD.

#### **2 Flinders Street, Wagga Wagga, NSW 2650**

A Sydney-based private investor has purchased a freestanding *Dan Murphy's Liquor Superstore* for **about \$10.1 million**. The property is on a 15-year lease and was acquired on a **5.2% yield**. Wagga Wagga is located around 502 km south-west of Sydney's CBD.

#### **217 Auburn Street, Goulburn, NSW 2580**

A private developer has bought the **Goulburn Central Shopping Centre** for **\$16.7 million** on a **net yield of 8.8%**. The *Target*-anchored property is fully-leased with a WALE of 8.7-years and was sold by a private developer. The net annual income is \$1.47 million. Goulburn is located around 202 km south-west of Sydney's CBD.

#### **41 George Street, Parramatta, NSW 2150**

*Holdmark* has paid **\$23 million** to Ron Brierley for a single-level retail property. The property has long-term commercial development potential. The property is leased to a gym and five other tenants. The sale reflects a **net yield of 3.3%**. Parramatta is located around 23 km west of Sydney's CBD.

#### **241 Oxford Street, Bondi Junction, NSW 2022**

A private investor has acquired a 354 m<sup>2</sup> ground floor retail space on a corner site for **\$9.28 million**. The property is leased to *Burger Project* and sold on an **initial yield of 5.56%**. The sale reflects a **rate of \$26,215 psm**. Bondi Junction is located about 4.7 km south-east of Sydney's CBD.

#### **21 Great Western Highway, Bathurst, NSW 2795**

An undisclosed private investor has purchased a 14,272 m<sup>2</sup> **Bunnings Warehouse** for **\$25.5 million**. The warehouse is leased to the *Bunnings Group* for 12-years with options to 2077 and fixed annual rental increases of 2.5%. The sale reflects a **yield of 5.35%** and a **rate of \$1,787 psm**.

#### **7 Kirkham Street, Moss Vale, NSW 2577**

*MPG Funds Management* has paid **\$9.45 million** for a 2,500 m<sup>2</sup> *Coles* supermarket. The full-line supermarket is leased to *Coles* until 2025. The sale of the 7,199 m<sup>2</sup> site reflects a **gross yield of 5.9%** and a **rate of \$1,313 psm**. Moss Vale is located about 130 km south-west of the Sydney CBD.

### Leasing Activity

Preston Rowe Paterson Research recorded no significant leasing transactions that occurred in the Sydney metropolitan areas during the three months to December 2016.



## INDUSTRIAL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in the Sydney metropolitan during the three months to December 2016:

#### 239-251 Woodpark Road, Smithfield, NSW 2164

A foreign investor has acquired a 5,169 m2 industrial building for **\$7.3 million**. The sale reflects a **yield of 7.67%** and a **rate of \$1,412 psm**. Smithfield is located around 28.9 km west of the Sydney CBD.

#### 15 Muir Road, Chullora, NSW 2190

**Frasers Property Australia** has bought a 15.19-hectare industrial property for **\$55 million**. The sale reflects a **rate of \$362 psm**. Chullora is located around 17.3 km south-west of the Sydney CBD.

#### 50-54 McCauley Street, Alexandria, NSW 2015

A private investor has paid **\$5.3 million** for a 1,886 m2 office and warehouse property. The 975 m2 site is leased by *The Hardware Store Pty Ltd* for \$214,145.40 gross + GST per annum until the 31st of July 2017. The lessee utilises the building as a retail store and ancillary office, as well as a small café on the ground floor. The sale reflects a **rate of \$5,436 psm**. Alexandria is located about 3.9 km south of the Sydney CBD.

#### 95-101 Wetherill Street North, Silverwater, NSW 2128

*Silverwater Partnership* has purchased a 4,116 m2 industrial property for **\$7.813 million**. The 6,600 m2 site has 5.7 to 7.1 metres of internal clearance, a concrete yard and ample site parking. The sale reflects a **rate of \$1,184 psm**. Silverwater is located about 18.6 km north-west of Sydney's CBD.

#### 174-178 Hartley Road, Smeaton Grange, NSW 2567

*Lotus H Pty Ltd* has acquired a 7,524 m2 industrial property from Alfred and Helen Marano for **\$5.1 million**. The property was sold on a 2-year lease-back agreement and on an **initial yield of 7.5%**. The high-clearance warehouse and office building has 10 roller doors, sprinklers, a wash bay and five 5-tonne cranes. The sale reflects a **rate of \$678 psm**. Smeaton Grange is located 52.8 km south-west of the Sydney CBD.

### Australian Industrial Sales Wrap

*Altis Property Partners* has bought 14 B-grade industrial assets in Sydney, Melbourne and south-east Queensland for **around \$90 million**. The total building area is 82,000 m2 and the total site area is 18-hectares. 10 properties were acquired along Brixton Road, Wangara Road and Bay Road in Cheltenham, Melbourne. The New South Wales assets feature two of the properties in Smithfield and one in Rutherford. The one Queensland asset is in Crestmead. All the properties sold fully-leased and the portfolio represented an **initial yield of 8.2%**.

#### 10-12 Fairford Road, Padstow, NSW 2211

*GNS Wholesale Stations* has sold a 14,609 m2 industrial warehouse on a sale and leaseback agreement for **\$16 million**. The two-storey administrative building and warehouse has drive-around truck access and a covered dock area. The sale reflects a **net yield of 8.125%** and a **rate of \$1,095 psm**. Padstow is located around 21.3 km south-west of Sydney's CBD.

#### 36-38 Boorea Street, Lidcombe, NSW 2141

*Trilwin* has sold a vacant 2,879 m2 office and warehouse to *KSH Investments* for **\$6.35 million**. The property has basement parking. The sale of the 4,219 m2 site reflects a **rate of \$1,505 psm**. Lidcombe is located about 17.4 km west of Sydney's CBD.

#### 62-64 O'Riordan Street, Alexandria, NSW 2015

*PropertyCorp Holdings* has sold a 3,938 m2 retail, office and warehouse property for **\$14.5 million**. The property has dual access and is leased to *Pure Performance Golf Labs*, *MNR Constructions* and *Host Catering Supplies*. The 6,209 m2 site has 45 car spaces. The sale reflects a **rate of \$2,335 psm**. Alexandria is located about 3.9 km south of Sydney's CBD.

#### 55 Kent Road, Mascot, NSW 2020

*Bayswater Car Rental* has bought a *Qantas*-tenanted 7,321 m2 warehouse for **\$30 million** on a **net yield of 5.06%**. The buyer will likely open a new car hire branch at the location and keep the rest of the lease intact as an investment. The sale of the 11,900 m2 site reflects a **rate of \$2,521 psm**. Mascot is located around 7 km south of Sydney's CBD.



#### **13-19 Baker Street, Banksmeadow, NSW 2019**

A 9,385 m<sup>2</sup> industrial site has been acquired by *Leda Holdings* for **\$16 million** on a **yield of 3.5%**. The buyer has plans for an industrial strata development. The sale reflects a **rate of \$1,705 psm**. Banksmeadow is located around 11.3 km south of the Sydney CBD.

#### **10 George Young Street, Auburn, NSW 2144**

A private investor has bought 2,810 m<sup>2</sup> of leased warehouse units for **\$5.83 million**. The sale reflects a **rate of \$2,075 psm**. Auburn is located around 18.8 km north-west of the Sydney CBD.

#### **1 Burilda Close, Wetherill Park, NSW 2164**

A recently-completed industrial property has been purchased by *Frasers Logistics & Industrial Trust (FLT)* for **\$58.2 million**. The 18,848 m<sup>2</sup> logistics facility comprises a warehouse and a 3,000 m<sup>2</sup> of office space and is occupied by *Martin Brower* on a 20-year lease. The buyer exercised a call option to acquire the property. The sale reflects a **rate of \$3,088 psm**. Wetherill Park is located about 31.9 km west of the Sydney CBD.

#### **457-463 Victoria Street, Wetherill Park, NSW 2164**

*FD Properties* has sold a 3.5-hectare industrial development site to a private developer for **\$10.3 million**. The sale reflects a **rate of \$294 psm**. Wetherill Park is located around 31.9 km west of the Sydney CBD.

#### **205-231 Fairfield Road, Yennora, NSW 2161**

*Propertylink* has acquired a new warehouse that is leased to The Iconic from a private investor for **\$46.6 million**. *The Iconic* recently agreed to a 7-year lease for the 19,100 m<sup>2</sup> warehouse at a net annual rent of \$2.05 million plus GST. The 31,086 m<sup>2</sup> A-grade industrial property occupies a 5.5-hectare site and has a WALE of 6.6-years. The sale reflects an **initial yield of 7.4%** and a **rate of \$847 psm**. Yennora is located about 25.2 km west of Sydney's CBD.

### **Leasing Activity**

Preston Rowe Paterson Research recorded the following leasing transactions that occurred during the three months to December 2016 in New South Wales's Industrial property market:

#### **34-48 Cosgrove Road, Enfield, NSW 2136**

*Challenger* has pre-leased a 13,500 m<sup>2</sup> office and warehouse to a storage business for **10-years**. The property features multiple loading docks, B-double manoeuvring and multiple on-grade roller shutter door access. The **net annual rent is for \$130 to \$140 psm**. This is the third and final stage of the **Junction Industrial Park** development. Enfield is located 13.1 km south-west of the Sydney CBD.

#### **Lot 3, Horsley Drive, Horsley Park, NSW 2175**

*Phoenix Transport* has agreed to a **10-year lease** for an 8,378 m<sup>2</sup> industrial facility from landlord *Frasers Property*. The lessee will pay a net annual rent of \$932,580 for the property with internal clearances of up to 13.7 metres, a mixture of recessed loading docks, on-grade roller shutter doors, and drive in/drive out access. The lease reflects a **rate of \$111 psm**. Horsley Park is located around 39.2 km west of Sydney's CBD.

#### **Horsley Drive, Horsley Park, NSW 2175**

*Frasers Property Australia* has secured two new tenants at the Horsley Drive Business Park. *Survitec* will pre-lease a 5,855 m<sup>2</sup> office and warehouse for **12-years** and *Phoenix Transport* has leased an 8,478 m<sup>2</sup> spec facility for **10-years**. The **net rents are around \$115 psm**. Horsley Park is located around 39.2 km west of Sydney's CBD.

#### **122-124 Hasall Street, Wetherill Park, NSW 2164**

*Let's Play Games* has agreed to lease a 1,380 m<sup>2</sup> warehouse and office property for **5-years**. The lease is for **\$122 psm gross**. Wetherill Park is located about 31.9 km west of Sydney's CBD.

#### **141 Newton Road, Wetherill Park, NSW 2164**

Landord *Trimix* has secured a new tenant in its 11,817 m<sup>2</sup> industrial property on a 2.3-hectare site. AUSREO will pay a net annual rent of \$1.3 million for the factory with three loading bays, overhead gantry cranes, internal clearances of 9.3 metres, and eight on-grade roller shutters. There is also office space. The lease is for **7-years** and reflects a **rate of \$57 psm**. Wetherill Park is located around 31.9 km west of Sydney's CBD.



**2 Bachell Avenue, Lidcombe, NSW 2141**

*Jac & Jul* has agreed to lease a 2,174 m<sup>2</sup> office and warehouse property for **10-years**. The older-style property has a 5.9-metre clearance, three roller shutters and a 500-amp power source. The lease reflects a **rate of \$90 psm**. Lidcombe is located around 17.4 km west of the Sydney CBD.

**140-142 Parraweena Road, Miranda, NSW 2228**

A 3,000 m<sup>2</sup> warehouse and 400 m<sup>2</sup> office has been leased by *Displaywise Design & Production* for **3-years**. The lessee will pay a gross annual rent of \$280,000. The corner property has 30 car spaces. The lease reflects a **rate of \$82 psm**. Miranda is located around 22.3 km south-west of Sydney's CBD.

**5/95 Silverwater Road, Silverwater, NSW 2128**

*DZ Management* has leased its 882 m<sup>2</sup> office and warehouse property to a private car accessories company. The lease is for **3-years**. Silverwater is located about 18.6 km north-west of the Sydney CBD.

**205-231 Fairfield Road, Yennora, NSW 2161**

*Lamiprint* has found a new tenant for its 19,100 m<sup>2</sup> warehouse. The *Iconic* will occupy the property for **7-years**, paying an annual net rent of \$2.05 million plus GST. The lease reflects a **rate of \$107 psm**. Yennora is located around 25.2 km west of Sydney's CBD.

**7 Walker Place, Wetherill Park, NSW 2164**

*Saint-Gobain Solar Gard* will occupy a 1,111 m<sup>2</sup> high clearance office and warehouse for **5-years with options**. The deal was struck with landlord *A&V Mamone* for a **net annual rent of \$110 psm**. Wetherill Park is located about 31.9 km west of the Sydney CBD.

## RESIDENTIAL MARKET

### Building Approvals

Building approvals statistics from the ABS have indicated that over December, approvals to construct or renovate houses and units in Australia declined by 1.2% over the month and 11.4% over the year. This decline comes at the back of positive increases in November, when building approvals rose by 7.5% from the previous year. In New South Wales, There was a strong decline of 9.0% over the month in approvals for houses and units, and a year-on-year decline of 23.2%. According to the Housing Industry Association, statistics like this further backed a declining trend in building approvals, though reiterated that the construction sector is still strong as we head into 2017.

Building approvals for houses experienced a month-on-month decline of 24.7% in December, from 1,492 approvals in November to 1,123 in December. Year on year analysis indicate that December's figure declined 1,123 from twelve months ago. When we look at dwellings other than houses, a decline of 0.8% was recorded over the month and 28.9% over the year. Total approvals for the 2016 calendar year was at 56,269 dwellings, of which 17,149 (30.4%) were for the construction of houses and 39,220 (69.5%) were for construction of other dwellings. Housing construction has slowed down in response to the increase supply of new apartments around the Sydney metropolitan area, though the decline so far has been slow. According to Commonwealth Bank of Australia, strong population growth underpins Sydney's property market and reiterated that there was a shortage of new homes construction a few years back (notably when dwelling construction hit a 56-year low in 2009). Combined with strong price growth, Sydney's property market will continue to experience strong demand during this construction boom environment. Though, the question remains as to when the supply of new construction will affect prices in the near future.

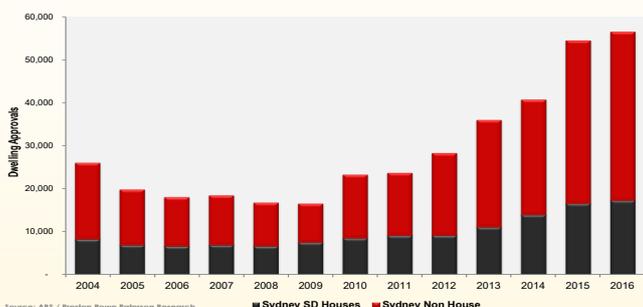


Chart 21 – Sydney SD Dwelling Approvals—Source ABS

### Market Affordability

September Quarter's figures from the Real Estate Institute of Australia (REIA) indicate a 3.1% increase in Sydney's median house price over the quarter. From the 12,492 house sales during the September quarter, average house price was \$1,076,900 with prices ranging from \$635,000 and \$1,375,000. Inner, Middle and Outer Sydney all experienced increases in prices over the quarter, of 2.9%, 3.3% and 2.1% respectively, with their median house price rising to \$1,800,000, \$1,250,000 and \$720,000. When we compare these prices to the previous year, Inner and Outer Sydney experienced a year-on-year increase of 2.9% and 3.6% respectively, whilst Middle Sydney houses experienced a year-on-year decline of 2.0%.

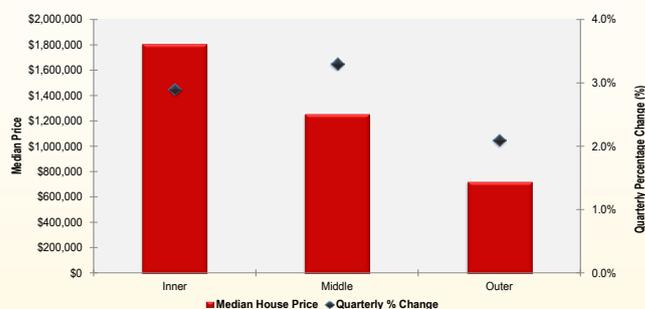


Chart 22 – Median House Price by Zone – Source REIA

Median sales prices for Sydney's other dwelling increased overall over the September quarter, jumping by 2.3% to \$697,500. REIA reported 6,247 units being sold during the three months to September, with prices ranging from \$555,000 to \$900,500. Inner Sydney was the only zone to experience price increase over the quarter, increasing by 1.4% to \$856,000. Middle and Outer Sydney both experienced price declines, of 0.7% and 0.5% respectively, to \$665,000 and \$590,000. Year-on-year, Inner and Outer Sydney both experienced price increases of 3.1%, whilst Middle Sydney experienced a decline of 2.2%.

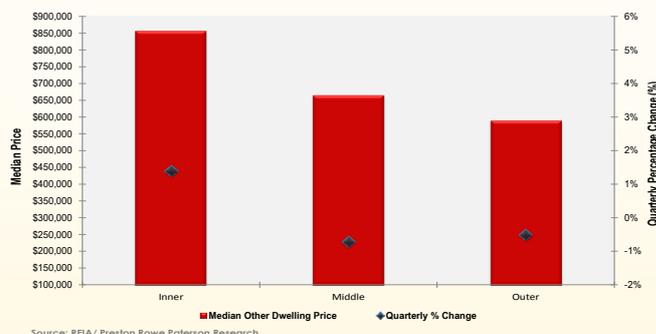


Chart 23 – Median Price for Other Dwellings by Zone – Source REIA

## Rental Market

Median weekly rent for Sydney remained relatively stable over the quarter to September 2016. The median weekly rent for a three-bedroom house in Sydney was at \$470, which was unchanged from the previous quarter and a 2.2% over the year. Median weekly rents for two-bedroom houses in Inner Sydney, Middle Sydney remained unchanged at \$700 and \$500 respectively. Similarly, median weekly rents for Middle Sydney's and Outer Sydney's three-bedroom houses remained unchanged, at \$580 and \$440 respectively. Inner Sydney's 3-bedroom houses experienced a decline of 0.6% in their median weekly rent over the quarter, down to \$895. Outer Sydney's two-bedroom houses experienced a decline of 1.3% in their median weekly rents, sliding down to \$370.

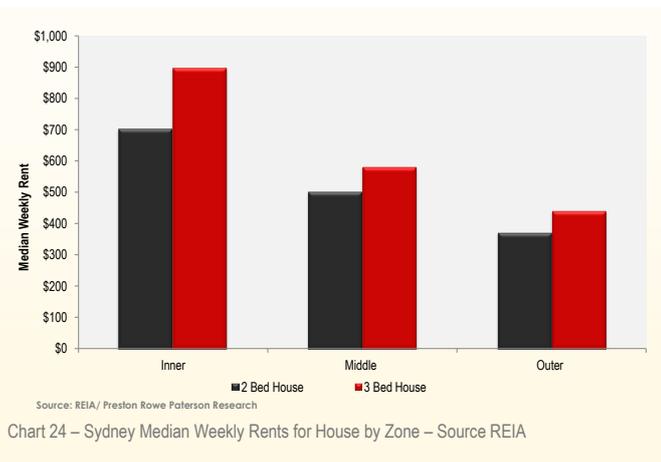


Chart 24 – Sydney Median Weekly Rents for House by Zone – Source REIA

## Residential Vacancy Rates

Figures released by the Real Estate Institute of New South Wales indicate that residential vacancy rates had increased to 2.0% over the month to December 2016 for the Sydney Metropolitan area. This indicates an increase of 0.1% over the quarter, and a decline of 0.1% from December 2015. Vacancy rates in Inner Sydney declined by 0.2% over the month down to 1.8% for December 2016. Middle Sydney's vacancy rates by 0.6% to 2.1%, with Outer Sydney experiencing a more modest increase of 0.2% to 2.0%. According to REINSW President, John Cunningham, changes in vacancy rates in December were affected by the Christmas holiday period during which rates have historically increased.

When we look at median weekly rents for other dwellings, there is an overall increase in prices with the median weekly rent for two-bedroom units in Sydney increasing by 3.8% to \$540 per week. Two-bedroom units in Inner Sydney experienced the largest increase in their median weekly rents, increasing by 3.0% to \$680. This is followed by Outer Sydney's one-bedroom units (+2.9% to \$360), Outer Sydney's two-bedroom units (+2.4% to \$420), Middle Sydney's two-bedroom (+2.0% to \$510) and their one-bedroom units (+2.1% to \$480). Inner Sydney's one-bedroom units did not experience any change in their median weekly rent, remaining at \$530.

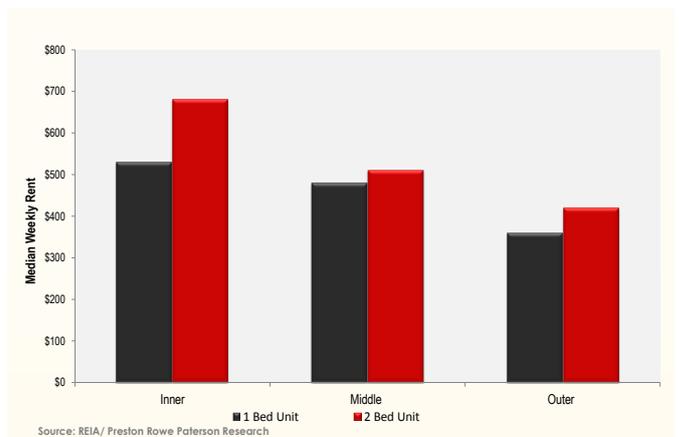


Chart 25 – Sydney Median Weekly Rents for Other Dwellings by Zone – Source REIA

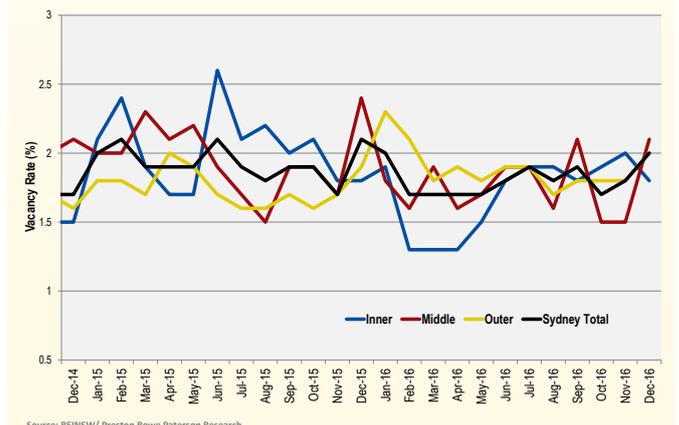


Chart 26 – Sydney Vacancy Rates – Source REINSW



## **NEWCASTLE**

### **Market Affordability**

Median house price for Newcastle increased by 1.1% over the quarter to \$475,000. This price reflects an annual increase of 5.9%, and encapsulates the sale of houses with prices between \$380,000 and \$615,000. Median price of other dwellings in Newcastle increased by 5.3% over the quarter to \$415,000. This median price reflects an annual increase of 5.1%, with prices of other dwellings sold during the quarter ranging from \$338,000 to \$515,000.

### **Rental Market**

Median weekly rents in Newcastle changed over three months to September, with 2-bedroom house rents declining by 2.6%, whilst 3-bedroom house rents increased by 5.0%. Their respective weekly median price stand at \$370 and \$420. When we look at other dwellings in the area, median weekly rent did not change, remaining at \$265 per week for 1-bedroom houses and \$350 per week for 2-bedroom houses.

## **WOLLONGONG**

### **Market Affordability**

Median house prices in Wollongong increased by 1.9% over the quarter, and 9.1% over the year to \$627,500. Wollongong's median price for other dwellings increased by 7.2% over the three months to September. Other dwelling's median price of \$520,000 reflects a notably annual increase of 20.9%. This average price encapsulates houses sold with prices between \$415,000 and \$610,000.

### **Rental Market**

Median weekly rents in Wollongong increased over the quarter for both houses and other dwelling in the area. Median weekly rents for two and three bedroom houses increased by 5.4% and 4.4% respectively, to \$390 and \$470. When we look at the median weekly rent for other dwellings, 1 bedroom dwellings experienced a decline of 1.8% to \$270 per week, on average. 2 bedroom dwellings did not experience any change in their median weekly rent, which remained at \$360.



## SPECIALIZED PROPERTY MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following specialised property transactions that occurred in New South Wales during the December quarter 2016:

#### **262-272 Victoria Road, Rydalmere, NSW 2116**

A private buyer has paid **\$5 million** at auction for a *United 24* service station. The property is on a brand new 20-year triple lease to 2036 plus options to 2056. The sale of the 2,842 m2 site reflects a **yield of 4.4%** and a **rate of \$1,759 psm**. Rydalmere is located about 20 km north-west of the Sydney CBD.

#### **252 Woronora Road, Engadine, NSW 2233**

A private investor has bought a 39-place childcare centre with 100% occupancy for **\$2.065 million** on a **4.84% yield**. The property is on a brand new 10-year lease to 2026 plus options to 2041. The sale reflects a **rate of \$52,949 per placement**. Engadine is located about 32.1 km south-west of Sydney's CBD.

#### **662 Windsor Road, Kellyville, NSW 2155**

A private family has paid **\$9.4 million** to *Pioneer House* for a *Caltex* service station. The 2,634 m2 property is leased to *Woolworths* on a new **12-year lease with options**. The sale reflects a **net yield of 5%** and a **rate of \$3,569 psm**. Kellyville is located about 34.4 km north-west of the Sydney CBD.

#### **Gold Coast Highway, Palm Beach, NSW 2108**

A private buyer has purchased a 3,011 m2 corner site leased to a 7-*Eleven* service station and *McDonald's* for **\$8.525 million**. The property was sold on a **gross yield of 5.46%**. The sale reflects a **rate of \$2,831 psm**. Palm Beach is located around 39.9 km north of Sydney's CBD.

#### **190 Russell Avenue, Dolls Point, NSW 2219**

*The Presbyterian Church Property Trust* has acquired a 6,000 m2 beachfront heritage property for **\$15 million**. The property known as **Primrose House** will be converted into a private school including a kindergarten and a primary school up to year 6. The sale reflects a **rate of \$2,500 psm**. Dolls Point is located around 17.1 km south of Sydney's CBD.

## HOTELS & LEISURE MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following Hotel and Leisure property transactions that occurred in New South Wales during the December quarter 2016:

#### **196 Pacific Highway, Milton, NSW 2281**

*Laundry Hotels* has paid **\$13 million** to the Bernie family for the **Swansea Hotel**. The A-grade property was renovated in 2015 and sits on a 3,235 m2 site. The local pub contains a bistro, full TAB facilities and a bar area. The sale reflects a **rate of \$4,019 psm**. Swansea is located 118 km north-east of the Sydney CBD.

#### **206 Blues Point Road, McMahons Point, NSW 2060**

A private buyer has purchased the 150-year-old **Commodore Hotel** from *Lantern Hotel Group* for **\$14.5 million**. The 1,100 m2 property has a bistro, bar areas and a bottle shop. The sale reflects a **rate of \$13,182 psm**. McMahons Point is located about 4.4 km north of Sydney's CBD.

#### **13 Mount Street, Mt Druitt, NSW 2770**

*Lantern Hotel Group* has sold the **Uncle Buck's Hotel** and an adjacent 5,640 m2 commercial precinct to *Angelis Hotel Group* for **\$25.3 million**. The commercial precinct has 10 tenancies including a chicken take-away shop, a pawn shop and a *Pizza Hut*, returning a gross annual rent of \$611,472 per annum. The site has 90 car spaces and has a mixed-use zoning and a 32-metre height approval. The **Uncle Buck's Hotel** has a bistro, sports bar, open roof beer garden and outdoor dining. The sale reflects a **gross yield of 2.42%**. Mt Druitt is located about 41.9 km north-west of the Sydney CBD.

#### **57 Woodhouse Drive, Ambarvale, NSW 2560**

The *Lantern Hotel Group* has sold the freehold and business of the **Ambarvale Hotel** for **\$21.2 million**. The hotel features a bistro, a terrace beer garden and a sports bar. Ambarvale is located about 52.7 km south-west of Sydney's CBD.

#### **74 Great North Road, Five Dock, NSW 2046**

A private investor has paid **\$28.8 million** for a hotel property on a 688 m2 site. The property has a gaming room with 30 EGMs, a sports bar and a TAB. The sale reflects a **rate of \$41,860 psm**. Five Dock is located around 9.2 km west of Sydney's CBD.



#### **39-45 Shoal Bay Road, Shoal Bay, NSW 2315**

Andrew Lazarus has purchased the 158-apartment **Country Club Hotel** for **\$18 million**. The sale also included the adjoining commercial strata units and an operating café. The **Country Club Hotel** has a bar, bottleshop, two restaurants and 23 PME's. The property was developed by the Randal family in the 1950s. The sale reflects a **rate of \$113,924 per apartment**. Shoal Bay is located around 52.3 km north-east of the Newcastle CBD.

#### **108-110 Campbell Parade, Bondi Beach, NSW 2026**

*The Millett Group* has bought **Bondi Backpackers** at auction for **around \$18 million** on a **net yield of 4.3%**. The property has 52-rooms accommodating 138 guests from single rooms to six-person dormitory rooms. The 448.9 m2 property is leased to two retail tenants, *Bavarian Bier Café* and *Backpacker World Travel*. The sale reflects a **rate of \$346,154 per room** or **\$130,435 per guest**. Bondi Beach is located about 7.5 km south-east of Sydney's CBD.

#### **13-15 Rooty Hill Road South, Rooty Hill, NSW 2766**

A Bondi managed fund has bought the **Lone Pine Tavern** from the *Feros Group* for **\$26 million**. The property is a single-level hotel that was refurbished and extended in 2009, comprising a public bar, a lounge bar, internal and external gaming areas with 28 machines, a bistro, a beer garden and a drive-through bottle shop. Rooty Hill is located about 39 km north-west of Sydney's CBD.

#### **952 Botany Road, Mascot, NSW 2020**

*JDA Hotels'* Feros family has sold the **Tennyson Hotel** to Justin Hemmes for **\$37.05 million**. The two-level, large-format, 1,423 m2 hotel sold at a public auction. The property has a bar and bistro. The sale reflects a **rate of \$26,037 psm**. Mascot is located around 7 km south of Sydney's CBD.

#### **325-329 Main Road, Cardiff, NSW 2285**

The **Iron Horse Inn** has been acquired by a private investor for **\$14.8 million** on a **net yield of 6.1%**. The 2-storey freehold hotel is on a long-term lease to *ALH Group* until 2032 with options extending until 2062. The property features a drive-thru *BWS* liquor outlet, 19 gaming machine entitlements and a liquor licence is included. The sale of the 1,861 m2 corner site reflects a **rate of \$7,953 psm**. Cardiff is located about 13.1 km west of the Newcastle CBD.

#### **1939 George Bass Drive, Rosedale, NSW 2537**

*Aspen Group* has acquired the **Barlings Beach Holiday Park** for **\$13.3 million** on an **initial yield of 9.1%**. The property has 2-bedroom cabins or 3- or 4-bedroom villas with spa access and BBQ patios, as well as camping sites. There is also an outdoor pool, a kids' playground, a café, a common BBQ and a game room. Rosedale is located around 295 km south-west of Sydney's CBD.

## **REGIONAL MARKET**

Preston Rowe Paterson Research recorded the following significant sales transactions that occurred in regional New South Wales during the three months to December 2016:

#### **New South Wales Rural Sales Wrap**

*Rural Funds Group* has acquired a 9,549-megalitre water entitlement for **\$34 million**. The water entitlement is within the **Murrumbidgee River** irrigation area and the vendor is believed to be *Icon Water*.

#### **165 Willow Tree Road, Merriwa, NSW 2329**

*Australia Aulong Auniu* has paid **\$20 million** for a station called **Brindley Park**. The property has 2,000-hectares of productive farmland, a Palladian 8-bedroom home and a historic woolshed with 110 restored shearing stands. The sale reflects a **rate of \$10,000 psm**. Merriwa is located about 280 km north-west of Sydney's CBD.

#### **Griffith, NSW 2680**

*Calabria Family Wines* has **paid more than \$9 million** to *The Wine Group (TWG)* for the former **Cranswick Estate Winery**. The property includes over 18 million litres of storage capacity, 3,000 m2 of cold store warehousing, 22,000 tonnes of crushing capacity and a cellar door. Griffith is located about 579 km west of the Sydney CBD.

#### **Bungendore, NSW 2621**

An undisclosed buyer has bought **Woodlands**, a 1,158-hectare grazing property, from the Hyles family for **\$3.53 million**. The property includes a 1870s, 4-bedroom homestead. The sale reflects a **rate of \$3,048 per hectare**. Bungendore is located about 269 km south-west of Sydney's CBD.

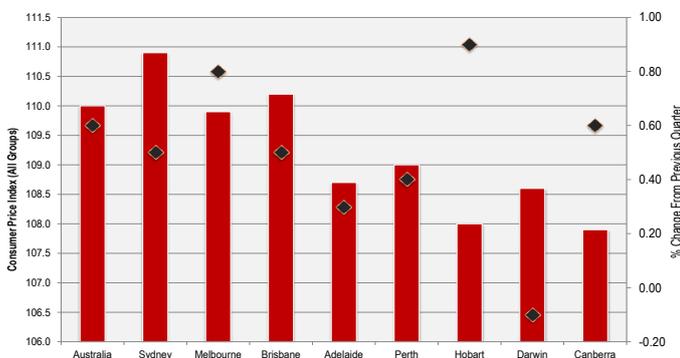
## Economic Fundamentals

### Consumer Price Index

All Groups CPI numbers for the December quarter indicate that inflation rate had increased by 0.5% over the quarter, bringing price growth to 1.5% over the year. Core inflation (inflation with volatile items stripped out) increased 0.4% over the quarter to bring annual growth to 1.6%. The yearly increase to December is still larger than the yearly increase recorded in September (1.3%), though figures were still lower than economists' expectations for a 0.7% rise. Notably, the 1.5% increase over the calendar year is the lowest in nineteen years, with the last time being back in 1997 when inflation fell backwards by 0.2%.

The main contributors to the quarterly increase stemmed from Alcohol & tobacco group (+2.8%), Transport group (+1.7%), Food & non-alcoholic beverages group (+0.6%) and Recreation & culture group (+0.6%). On the other hand the largest decline in prices stemmed from the Communications group (-0.8%), Furnishing, household equipment & services group (-0.8%), Health group (-0.6%) and Clothing & footwear group (-0.5%).

Australia's Housing group increased by 0.3% over the quarter, with the main contributors to this rise stemming from purchases of New dwellings by owner-occupiers (+0.5%) and maintenance & repair of dwellings (+1.0%). The ABS did note that the increase in purchases of new dwellings by owner-occupiers is driven by rises in input costs. Over the calendar year, the Housing group experienced an increase of 1.9%, with the main contributor again being purchases of new dwellings by owner-occupiers (+0.5%).



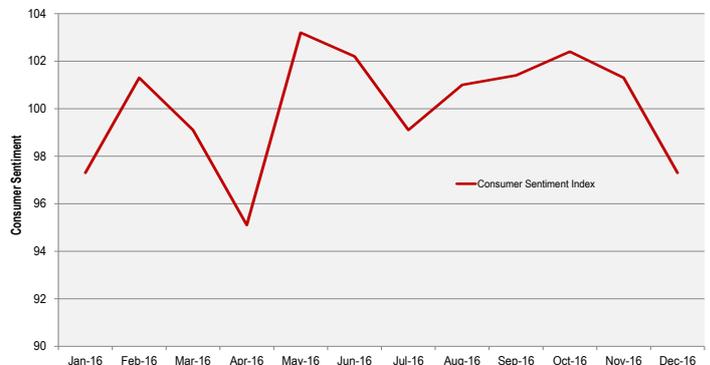
Source: ABS/Preston Rowe Paterson Research  
 Chart 27—All Group CPI (Capital Cities) and Percentage Change from September 2016 to December 2016—  
 Source—ABS

### Business Sentiment

Business conditions declined over the month to November, as the National Bank of Australia reports further declines in business conditions that is mainly driven by profitability and trading conditions in sales and subdued levels of employment in Australia. For the month of November, business conditions index declined by 2 points to +5 index points, ultimately declining to long run average levels for the first time since April 2015. In saying this, business confidence has increased over the month, remaining steady through the year. Business confidence in response to global political events, i.e. Brexit and the US Presidential elections were relatively flat, though when combined with weakening business conditions makes confidence a more difficult measure to accurately calculate.

### Consumer Sentiment

Consumer sentiment, as measured by the Westpac Melbourne Institute Index, dropped in December amidst concerns circling the economy, interest rates and the labour market. The index stands at 97.3- a decline of 3.5% from November's index of 101.30- and indicates that pessimists now outnumber optimists (with 100 being the cut-off point). The index stands at its lowest level in six months, just higher than April's index of 95.1, with the Australian economic condition, budget and taxation, geopolitical conditions, employment, politics and interest rates the main issues influencing respondents' attitudes and decisions. It is noted that since September, respondents were less optimistic in their assessment of Australia's economic conditions, employment and interest rates, and unchanged in their assessments of taxation and the budget, international conditions and politics.



Source: Westpac Melbourne Institute /Preston Rowe Paterson Research  
 Chart 28—Consumer Sentiment Index, 2016 Overview—Source—Westpac Melbourne Institute Survey

## Gross Domestic Product

Through the September quarter\*, seasonally adjusted GDP declined by 0.5%, a figure that is well below what many economists have forecasted prior. This is the first quarterly contraction in twenty-one consecutive quarter (the last contraction was in March 2001, during which the economy shrunk by 0.2%). Following this contraction, yearly growth was dragged to a below expectation figure of 1.8%.

The September quarter also brought through a decline of 1.4% in dwelling investment, of which the fall was mainly influenced by New and Used Dwelling (-1.6%) and Alterations and additions (-1.0%). The ABS reported that poor weather partly influenced the decline. Nevertheless, annual growth stood at 7.2% and Private sector residential building approvals up 9.4% from September quarter 2015 (\$20.4billion in original current price term for this quarter). Mining Investment fell 10.6% for the quarter, marking the twelve consecutive quarterly declines in Australia. Non-mining investment increased by 4.8%, which has been contributing to the positive increase set since the March quarter of 2014. As noted by the ABS, Mining investment contributed 9.4% to GDP during its peak in December of 2012, and now has fallen to 3.4%. Non-mining investment contribution in December 2012 was 7.5%, and has risen ever since to the current quarter's contribution of 9.0%.

When we look at expenditure measures, Household final consumption expenditure increased by 0.4% (Seasonally adjusted terms) over the quarter, and 2.5% over the year. The ABS reported that this rise is attributed to an increase in spending in Hotels, cafes and restaurants (2.2%) and Insurance and other financial services (1.3%). Over the period, Gross fixed capital formation declined by 2.7%, Exports of goods and services increased by 0.3%, and Imports increased by 1.3% (all in seasonally adjusted terms).

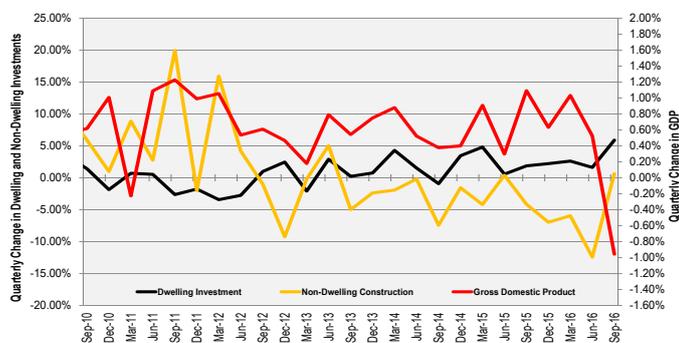
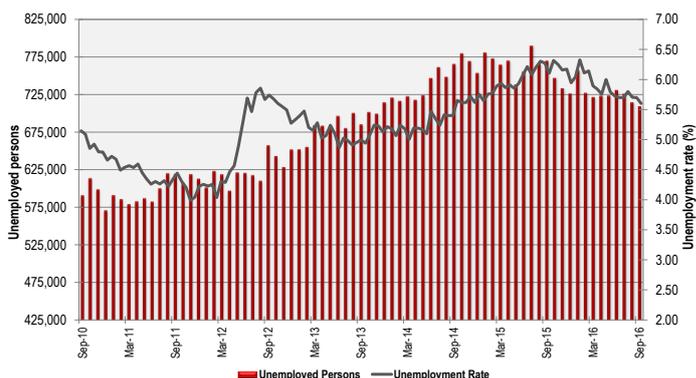


Chart 29— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

## Unemployment

Australia's unemployment rate in December increased by 0.1% to 5.8%, with the rise influenced by the participation rate increasing to 64.7%. There was a 13,500 increase in seasonally adjusted employment over the month to December 2016, with full-time employment increasing by 9,300 persons and part-time employment increasing by 4,200 persons. Nation-wide analysis sees the largest increase in employment in Victoria, which was up 13,600 persons, and the largest slump deriving from the state of Queensland, which was down 13,700 jobs over the month. Western Australia was the other state to experience a decrease in employment in December, down by 7,900 persons. Unemployment increased the most in New South Wales (up 0.3%) and Queensland (up 0.2%). Western Australia and South Australia experienced a decrease in unemployment rate, of 0.3% and 0.2% respectively.



Source: ABS/Preston Rowe Paterson Research

Chart 30— Unemployment Persons and Unemployment Rate, September 2010 to September 2016 — Source: ABS

	Unemployment Rate (%)		Participation Rate (%)	
	November	December	November	December
Australia	5.7	5.8	64.6	64.7
New South Wales	4.9	5.2	63.4	63.5
Victoria	6.0	6.0	65.7	65.9
Queensland	6.0	6.2	64.4	64.1
South Australia	7.0	6.8	62.3	62.1
Western Australia	6.9	6.6	67.9	67.3
Tasmania	6.3	6.4	59.8	59.8
Northern Territory*	3.6	3.6	75.9	77.3
Australian Capital Territory*	3.7	3.7	70.4	70.5

Table 3— Unemployment Rate and Participation Rate, November vs. December 2016 — Source: ABS

\* Trend figures used for NT and ACT as seasonally adjusted data both either are not publicly available

## 10 Year Bond & 90 Day Bill Rate

Ten-year Australian government bond yields finished the calendar year at 2.79% for December, after a tumultuous year in the global bond market. This rate reflects a 0.29% increase from November, 0.81% increase from three months prior and a decline of 0.06% over the year from December 2015. The ninety-day bank bill swap rate increased modestly by 0.02% over the month to 1.78%. This rate reflects an increase of 0.05% from three months prior and a decline of 0.56% from the previous year. After reaching an all-time low of 1.82% at the start of August, Australian bond yields have followed the path of the US Treasury yields as they increase sharply after the US Presidential election.

Other major economies around the world have experienced similar increases in their sovereign bonds, though not to the extent of changes that have taken place in the US Bond market. The Reserve Bank did note that even though changes in Treasury yields were large, they were not as large as previously recorded movements in recent decades and are still at a historical low. Furthermore, a rate increase from the US Federal Reserve in December helped the yields to increase to 2.87% in mid-December, before slowly settling down to 2.76% towards month-end. As a result of the increase in yields, global and domestic borrowing costs have followed suit, with Australian banks raising home loan rates by as much as 0.60% since the US election.

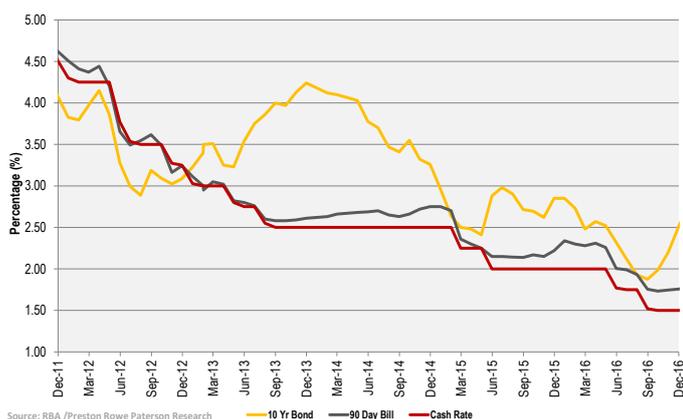


Chart 31— Movement of 90-day Bill, 10-year bond yields and Cash rate from December 2011 to Dec 2016— MONTHLY— Source: RBA

## Interest Rates

The Reserve Bank kept interest rates unchanged for December at 1.50%, after it dropped rates to historically low level in August. The decision to keep the cash rate on hold was influenced mainly by positive global growth from advanced economies as well as Australia's main Asian trading partners, improvements in labour market conditions domestically and internationally, improvement in Australia's terms of trade as influenced by rising commodity prices and a well-functioning financial market. The bank did note that the Australian economy is still in a transitional phase from the gains made from the mining investment boom but highlight the expectation of an increase in commodity exports towards 2017. Inflation remains below the Reserve Bank's target of 2-3%, with the bank indicating that it will be some time until inflation increases dramatically, as labour costs remain subdued. The Bank also targeted Australia's labour force, noting growing trend of part time employment and a slow-down in overall employment growth.

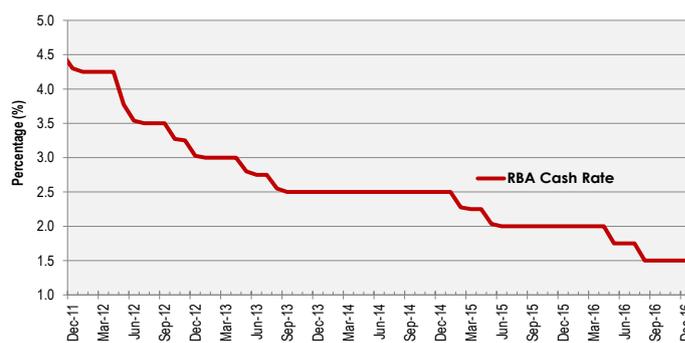


Chart 32— Movement of the Cash Rate from December 2011 to Present— Source: RBA

## Exchange Rate

According to figures collated from the RBA, the Australian Dollar depreciated against most major currencies over the month of December, except for the Japanese Yen. Notably, there was a depreciation in the Australian Dollar of 3.2% over the month against the US Greenback, with \$AUD1 buying \$USD0.75 in November, and dropping to \$USD0.72 in December. December's figure also signifies a depreciation of 5.2% from September, when the exchange rate was at \$USD0.76. The Dollar also depreciated against the British Pound, declining 1.6% over the month from £0.60 in November to £0.59 in December. There was a depreciation of 2.2% over the month against the Euro, declining from €0.70 in November to €0.69 in December. In contrast, the Australian Dollar performed better against the Japanese Yen, appreciating a slight 0.3% from ¥84.23 in November to ¥84.47 in December.



## 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
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- . 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
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- . Leasing vacant space within managed properties
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- . Mortgage valuations
- . Property Management
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- . Rating and taxing objections
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- . Relocation advice, strategies and consultancy
- . Rental assessments and determinations
- . Sensitivity analysis
- . Strategic property planning



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