



**Preston  
Rowe  
Paterson**

®  
International Property Consultants

# Property Market Report

## New South Wales

### June Quarter 2017

#### HIGHLIGHTS

- ◆ It is reported that seven new developments of commercial office buildings will be completed in the next three years in the Sydney CBD. These new developments will add just over 240,000 square metres of new office space into the office market.
- ◆ Australia's total retail turnover increased by 0.3% over the month to June 2017, following May's increase of 0.6%, and April's increase of 1.0%.
- ◆ National Australia Bank's latest release of their Online Retail Sales Index indicates an overall slow-down in retail sales growth over the month to June. Seasonally adjusted growth over the month was recorded at 0.7%.
- ◆ Statistics from the Australian Bureau of Statistics indicate that total building approvals for the Greater Sydney area declined by 19% over the month to May 2017, from 4,171 approvals in April to 3,375 approvals in May.
- ◆ Median house price in Sydney increased by 3.4% over three months to March, to \$1,167,000. When we look at the sales of other dwellings in Sydney, prices increased by 2.8% overall over the quarter, to \$742,000.

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## COMMERCIAL OFFICE MARKET

### Sydney CBD

#### Investment Activity

Preston Rowe Paterson Research recorded the following major sales transactions that occurred over the three months to June 2017:



#### 275 George Street, Sydney, NSW 2000

*John Holland* has bought a 14-storey, 7,357 m2 office building from *QIC Global Real Estate* for **over \$82 million**. The B-grade building, formerly known as the **ANZ Bank Building**, was constructed in 1966 and was last refurbished in 2003. The buyer plans to demolish the office tower and construct a new 15-storey building of around 8,023 m2. The sale reflects a **rate of \$11,146 psm**.

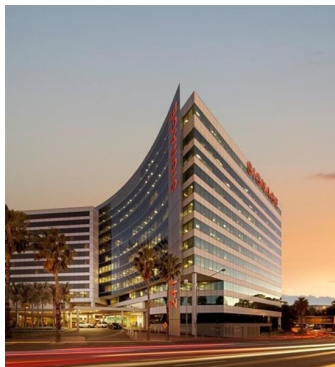
#### 320 Pitt Street, Sydney, NSW 2000

*ARA Asset Management* has bought a 21,159 m2 office tower from *Propertylink Office Partnership II* for **\$280 million**. The property is leased to *Telstra* until 2020 and has sold on an **initial yield of 6.26%**. The sale reflects a **rate of \$13,233 psm**.



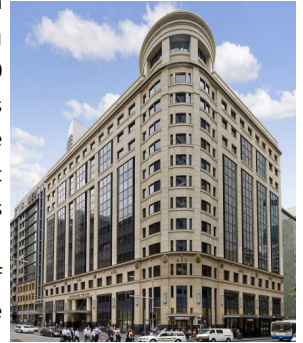
#### 241 O'Riordan Street, Mascot, NSW 2020

A joint venture between *Fort Street Capital* and *NSW Walsh & Company Investments Limited* and the manager of the fund have paid **\$128.4 million** for an office complex. The 19,277 m2 property has 10 floors and was purchased from *151 Property Group* on a **yield of 6.5%**. The fully-leased building has recently undergone an \$18 million refurbishment in 2014-15 and offers a ground floor café, parking for 399 cars and a gym. Tenants include *AbbVie*, *Deutsche Bank* and the NSW government who are on a new seven year lease to occupy 44% of the net lettable area in the building. The sale reflects a **rate of \$6,661 psm**. Mascot is located about 7 km south of the Sydney CBD.



#### 20 Bridge Street, Sydney, NSW 2000

*Kumpulan Wang Persaraan* has sold a 13-level office tower to a Hong Kong buyer for **between \$330 and \$350 million**. The property known as **Exchange Centre** is an A-grade office complex with 20,347 m2 of net lettable area. *ASX Group* occupies over 45% of the building with 11 years left on their lease. The WALE of the building is around 7-years. The property could be redeveloped with a higher height potential.



#### Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Sydney CBD office market over the three months to June 2017:

#### 223 Liverpool Street, Sydney, NSW 2000

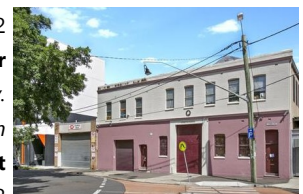
*Hub Australia* will take over almost all the floors in a commercial building. The company will occupy 4,200 m2 of the building which includes four of the five floors.

#### 140 Elizabeth Street, Sydney, NSW 2000

A circa 1990 office building on a 1,047 m2 site has found a new tenant. The *Australian Academy of Commerce & Cambridge* will occupy 2,900 m2 of space in the B-grade, 10-level building from the *Salvation Army (NSW) Property Trust* on a **5-year lease**. The lease is for levels 5 to 10 and four parking spaces. The **gross annual rent is approximately \$535 psm with a small incentive**. There are also four parking spaces.

#### 82 Cope Street, Waterloo, NSW 2017

*Australian Technology and Innovation College* has leased the 1,680 m2 commercial building on a **2-year lease** from *Suncom Property*. *Australian technology and Innovation College* will pay a **gross annual rent of \$115 sqm**. Waterloo is located 3.3 km south of Sydney CBD.







## Development Sites

July's edition of the PCA's Office Market Report have reported that seven new developments in the Sydney CBD will be completed within the next three years. Collectively, these new developments will further add just over 240,000 square metres of new office space by the end of 2019. The following provides further details of these projects, including that of Darling Square, which was recently completed in the second half of 2017:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
Darling Square	2 Hay Street, Haymarket, NSW 2000	Complete	APPF Commercial / First State Super	26,000	Q2 2017
International House Sydney	International House Sydney, Barangaroo, Sydney 2000	Construction	Lendlease	6,729	Q3 2017
Central Park	100 Broadway, Chippendale, NSW 2008	Construction	Fraser Property Group / Seksui House Australia	5,447	Q2 2018
Barrack Place	151 Clarence Street, Sydney, NSW 2000	Construction	Investa Office Fund	22,000	Q3 2018
Wynyard Place	10 Carrington Street, Sydney, NSW 2000	Site Works	Sovereign Wynyard Centre Pty Ltd	56,000	Q1 2019
60 Martin Place	60 Martin Place, Sydney, NSW 2000	Site Works	Investa Property Trust/Martin Place Wholesale Syndicate	38,600	Q3 2019
Quay Quarter Sydney/AMP Precinct	(QQS) 2-10, 20 Loftus & 5-17 Young Streets	DA Approved	AMP Capital Investors (AMP Wholesale Office Fund)	90,000	Q3 2019
Kindersley House	33 Bligh Street, Sydney, NSW 2000	DA Approved	Investa + Ausgrid	24,000	Mooted

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.

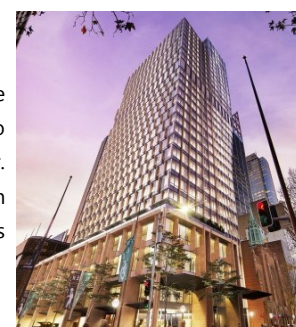


### Wynyard Place

The 27-level Premium Grade commercial building, located at 10 Carrington Street, is currently under site works and is expected to be completed by the second quarter of 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.

### 60 Martin Place

Development has begun at 60 Martin Place, which will upon its completion, add 38,600 square metres of office space across 33 levels into Sydney's office market. The building will boast a flexible floorplate which ranges from 1,200 to 1,500 square metres, along with panoramic views of the Opera House, Botanical Gardens and Sydney Harbour. Lendlease Building has been appointed to construct the building, owned by Investa and Gwynvill Group, with construction expected to be completed by the third quarter of 2019. There will also be an extra 1,700 square metres of retail space, and 69 available car spaces available.



## Supply by Grade (Stock)

The July 2017 Office Market Report indicates that there has been an addition of approximately 83,500 square metres of office space into Sydney CBD's office market. This is however offset by nearly 76,000 square metres of space withdrawals over the same period. In total, Sydney CBD's office supply increased by approximately 6,500 square metres to 5,086,316 square metres. All of the supply additions to Sydney's office market stemmed from the construction of Premium Grade and A Grade spaces, which added 5,135 square metres and 55,353 square metres, respectively, onto the office market. Total Premium office space increased to 1,124,107 square metres, whilst total A Grade office space increased to 1,864,975 square metres. Office space were withdrawn from B Grade, C Grade and D Grade office stocks, which declined by -23,214 square metres, -29,367 square metres and -1,490 square metres, respectively. As at July 2017, total B grade office stock stands at 1,416,735 square metres, C Grade office stock stands at 496,363 square metres and D Grade stock stands at 184,136 square metres.

The capital city is expected to go through a period of historical low until the next tranche of supply comes through between 2018 and 2019. A combination of refurbishments and new developments to be completed by 2019 will bring in a further 410,630 square metres of office space in to Sydney's tight office market. Notably developments include Wynyard Place, which is expected to add 56,000 square metres into Sydney CBD's office stock upon completion in 2019+; Barrack Place, which will add 22,000 square metres in space upon completion in 2018; and Quay Quarter Sydney/ AMP Precinct, which will add 90,000 square metres of office space upon completion in 2019+. The additions of these plus other office towers into Sydney CBD's landscape will provide more options for office tenants across the capital city, though strong competition is expected amongst landlords to secure tenants as supply increases over the next two years.

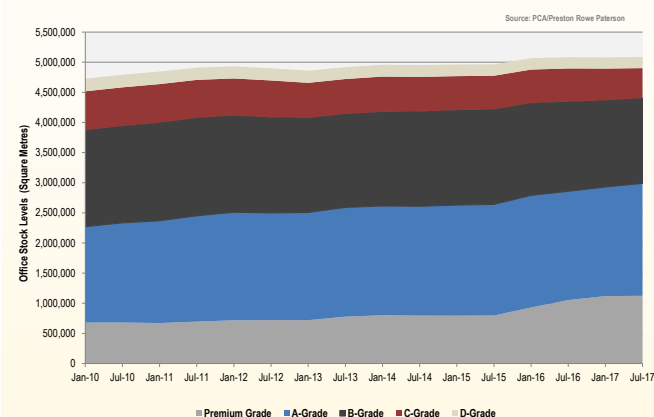


Chart 1— Sydney CBD Office Stock by Grade —Source— PCA

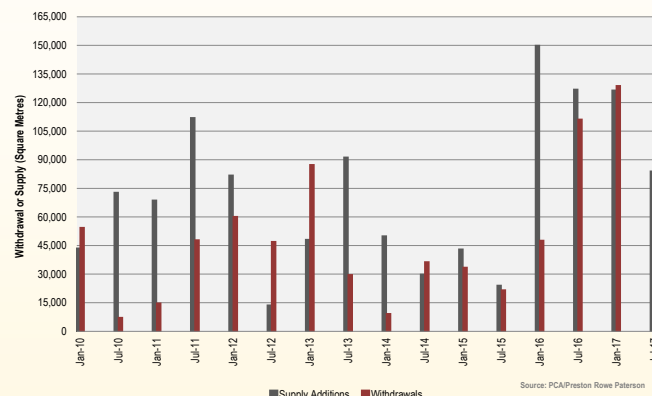


Chart 2— Sydney CBD Supply and Withdrawals of office stock —Source— PCA

## Vacancy Rates

Total vacancy in the Sydney CBD declined by 0.3% to 5.9% over the six months to July 2017- the second lowest recorded since January 2009. All this change was attributed by a decline in sub-lease vacancy, which fell to 0.3%, whilst direct vacancy remains unchanged at 5.4%. Premium Grade and A Grade office vacancy declined by -3.0% and -0.5%, respectively, to 9.5% and 3.6%. B Grade, C Grade and D Grade vacancies all experienced increases in their vacancy rates. B Grade vacancy increased by 1.8% to 5.8%, C Grade vacancy increased by 0.3% to 6.9%, whilst D Grade vacancy increased by 0.9% to 3.8%.

Withdrawal of office space, notably for the Metro rail project and residential conversions, combined with strong demand by tenants are the major contributors to a reduction in Sydney's vacancy rate. Jane Fitzgerald, Property Council NSW executive director, notes that strong demand for upper grade spaces have contributed to declines in both Premium and A Grade vacancy rates.

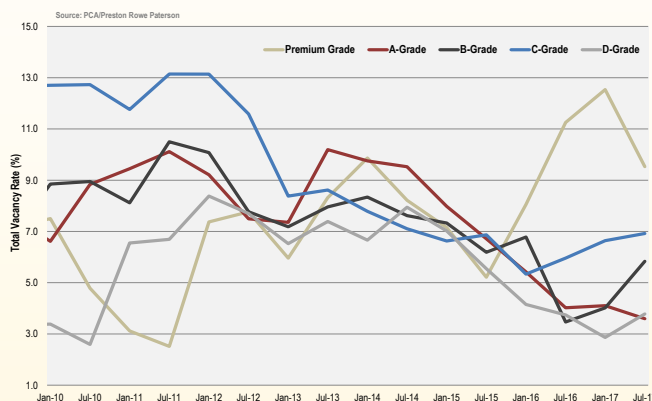


Chart 3— Sydney CBD Office Vacancy Rate —Source— PCA



## North Sydney

### Investment Activity

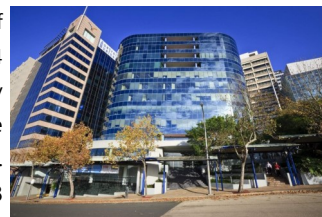
Preston Rowe Paterson Research recorded the following major sales transactions that occurred over the three months to June 2017:

#### 115 Sailors Bay Road, Northbridge, NSW 2063

A three-storey, fully-leased office and retail property has sold to *Yuhu Group Australia* for **about \$23 million**. The 2,542 m<sup>2</sup> local centre stands on a 1,794 m<sup>2</sup> site and adjoins the **Northbridge Plaza**. Tenants in the building include *Australia Post* and *Australian Dental Lab* and together they pay a net annual rent of \$1.32 million. The site has 55 car spaces. The sale reflects a **net yield of 5.7%** and a **rate of \$12,821 psm**. Northbridge is located around 7.3 km north of Sydney's CBD.

#### 146 Arthur Street, North Sydney, NSW 2060

Chinese-backed *Aqualand* has purchased an office block from *General Nice Group* for **\$78 million**. The building was constructed in 1989 and was recently refurbished. The 8,171 m<sup>2</sup> of net lettable area property features 10 levels of office space, three levels of basement car parking for 124 vehicles and views of Neutral Bay and Sydney Harbour. The sale reflects a **rate of \$9,546 psm**. North Sydney is located about 3.8 km north of the Sydney CBD.



### Development Sites

July's edition of the PCA's Office Market Report indicate that there are two developments in the North Sydney office market that are currently under construction or site works. Upon completion in 2019, these developments will add more than 87,000 square metres of office space into North Sydney's office market. The details of these developments are outlined below:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
100 Mount Street	100 Mount Street, North Sydney, NSW 2060	Construction	DEXUS Property Group	42,000	Q1 2019
Shopping World Site	1 Denison Street, North Sydney, NSW 2060	Site Works	Winten property Group	45,720	Q1 2019

Table 2 – Development Sites of commercial space in North Sydney – Source PCA

#### 100 Mount Street

The project at 100 Mount Street is currently under construction and is expected to deliver 42,000 square metres of Premium Grade office buildings, along with 400 square metres 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 square metres 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.



#### Shopping World Site

Winten Property Group's project at 1 Denison Street will provide North Sydney with 45,720 square metres of NLA, including 2,700 square metres of retail area over 32 levels. The building will have an average floorplate size of 1,850 square metres, 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 experienced no change over the six months to July 2017, with no supply additions and withdrawals recorded over the period. Premium Grade stock remains unchanged at 36,500 square metres. The supply of Premium Grade stock has remained unchanged in the last eight years, and currently takes up 4.4% of total stock in North Sydney's office market. A Grade stock, as at July, stands at 224,307 square metres and currently takes up 27.3% of total stocks in North Sydney. We note that total A Grade stock had increased by 47% when compared to July 2009, after halving from six months prior from January 2009. B Grade stock remains at 410,504 square metres, or 50% of total office stock. North Sydney had always been dominated by B Grade stocks, with current level of stocks having not changed dramatically when compared to the last twenty five years. C Grade and D Grade stocks in North Sydney remain unchanged at 138,253 square metres and 12,932 square metres respectively. Their respective shares of North Sydney's office market stand at 17% and 1.6%.

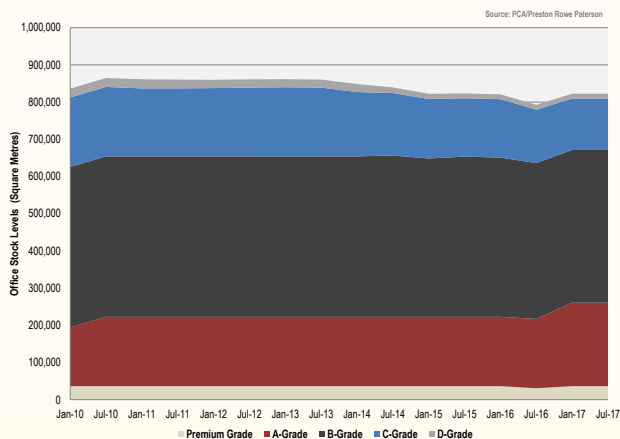


Chart 4— North Sydney Office Stock by Grade —Source— PCA



Two major developments are due for completion by the end of 2019, which will add 87,720 square metres onto North Sydney's office market. A DEXUS project at 100 Mount Street will alone contribute 42,000 square metres of office space and 400 square metres of retail space into the heart of North Sydney's business hub upon completion. The building will have an average floorplate size of 1,250 square metres, and include 113 car spaces. The Shopping World Centre will add 45,720 square metres of net lettable area over 39 levels upon its completion. The building will have an average floorplate size stand at 1,835 square metres and 208 car spaces.



## Vacancy Rates

Over the six months to July 2017, North Sydney experienced a decline of 0.8% in its total office vacancy rate, pushing the rate down to 6.4%. North Sydney's direct office vacancy rate declined by -0.7%, down to 6.0%, whilst sub-lease vacancy declined by -0.2% down to 0.4%. Notably, office vacancy rate for Premium grade buildings fell by -7.8% to 17.4% over six months. A Grade and D Grade vacancy also experienced declines over the period, of -1.9% and 3.0% respectively. A Grade vacancy stands at 4.1%, whilst D Grade vacancy stands at 3.0%. In contrast, C Grade office vacancy increased by 0.1% to 3.6%. B Grade vacancy remains unchanged at 7.8%.

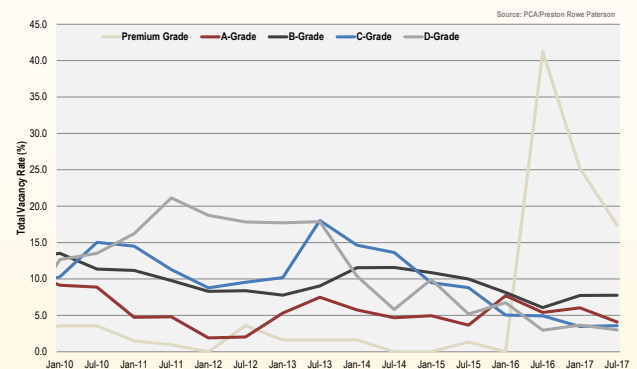


Chart 5— North Sydney Vacancy Rate —Source— PCA





## Crows Nest/St Leonards

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to June 2017:

#### 84 Alexander Street, Crows Nest, NSW 2065

REGNO has paid **\$8 million** for 12 office strata units in one line. The buyer also owns an adjoining site that has DA approval for 16 apartments with retail space so the buyer has the ability to apply for development across the two sites totalling 1,000 m2. The sale reflects a **rate of \$666,667 per strata unit**. Crows Nest is located around 6 km north of the Sydney CBD.

#### 39-47 Albany Street, Crows Nest, NSW 2065

A fully-leased, 3-storey office building has been sold by *Pindan Capital* for **\$22 million** at a **4% yield**. The 3,286 m2 building has three street frontages and 40 car spaces. The site is zoned mixed-use so it has development upside post 2021 when the leases for the three tenants cease. The sale reflects a **rate of \$6,695 psm**. Crows Nest is located about 6 km north of Sydney's CBD.

### Leasing Activity

Preston Rowe Paterson Research revealed the following leasing transaction that occurred over the three months to June 2017 in the Crows Nest/St Leonards office market:

#### Level 2, 170 Pacific Highway, St Leonards, NSW 2065

A private landlord has leased a B-grade, 1,006 m2 whole-floor office to *SFI Australia* for **7-years**.

*SFI* will occupy the property for a **net annual rent of around \$420 psm**. The lobby, car park and lifts in the property have recently been refurbished. St Leonards is located around 6.6 km north of the Sydney CBD.



### Development Sites

July's edition of the PCA's Office Market Report indicate that there are five developments in the Crow's Nest/ St Leonards office market that is due to be completed within the next three years. Upon completion, total stock added into the Crow's Nest/ St Leonards office market is estimated to be more than 51,000 square metres. Further details of these developments are outlined in the table below:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
St Leonards Square	472-494 Pacific Highway	Construction	Mirvac Group	3,000	Q4 2019
Gore Hill Technology Park - Building D1	219-247 Pacific Highway	DA Approved	Lindsay Bennelong Development	16,000	Mooted
Gore Hill Technology Park - Building D2	219-247 Pacific Highway	DA Approved	Lindsay Bennelong Development	15,000	Mooted
Gore Hill Technology Park - Buildings D3	219-247 Pacific Highway	DA Approved	Lindsay Bennelong Development	15,000	Mooted
Electroboard	18-20 Atchison Street	DA Applied	Electroboard	2,300	Mooted

Table 3— Development Sites of commercial space in Crows Nest/ St Leonards – Source PCA



## Supply by Grade (Stock)

Total supply in the Crow's Nest/ St Leonards Office Market experienced little changes over the six month to July 2017. A Grade, B Grade and D Grade building stocks experienced no change over the period. A Grade stock remains at 102,699 square metres or 32.7% of total stock. B Grade stock remains at 63,377 square metres of space, or 20.2% and D Grade stock remain at 12,569 square metres or 0.04%. C Grade office stock declined by 1,525 square metres to 135,372 square metres. C Grade office stock still takes up the largest share of Crow's Nest/ St Leonards total office stock at 43.1%.

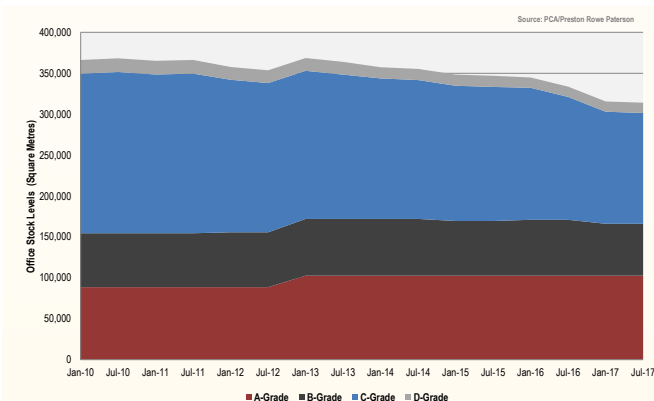


Chart 6– Crows Nest/ St Leonards Office Stock by Grade —Source— PCA

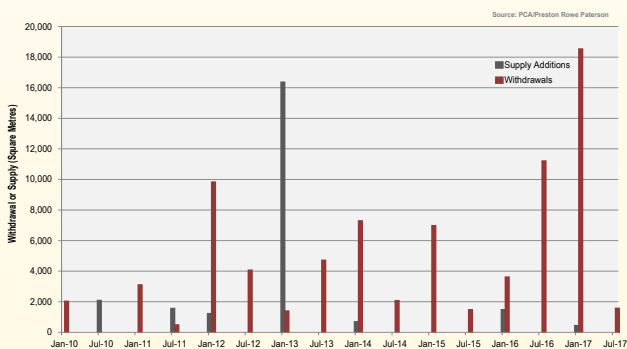


Chart 6– Crows Nest/ St Leonards Supply and Withdrawals of office stock —Source— PCA

## Vacancy Rates

Over the six months to July 2017, total vacancy rate in the Crow's Nest/ St Leonards increased by 2.2% to 10.5%. This increase was attributed by an increase in direct vacancy, which increased to 9.5%, whilst sub-lease vacancy remained unchanged at 1.0%. When we look at the different classes of buildings, A Grade and C Grade both experienced increases in their vacancy rate, by 8.0% and 0.3% respectively. A Grade vacancy increased to 14.9% whilst C Grade increased to 0.3%. In contrast, B Grade and C Grade vacancy declined over the half year. B Grade vacancy declined by -2.7% to 15.0%, whilst D Grade vacancy declined by -1.1% to 10.9%.

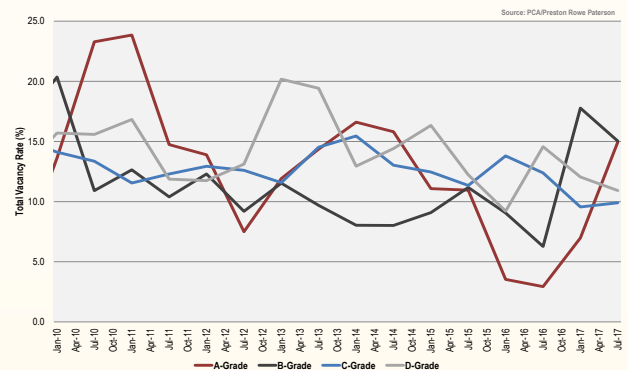


Chart 7– Crows Nest/ St Leonards Office Vacancy Rate —Source— PCA





## Parramatta

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to June 2017:

#### 105 Phillip Street, Parramatta, NSW 2150

Charter Hall Group's Prime Office Fund and Direct Office Fund have acquired a 15-storey office tower that will be constructed by Built and completed in 2018 for **\$229 million**. The 25,000 m<sup>2</sup>, A-grade building will be occupied by the Department of Education for 12-years. The sale reflects a **yield of just below 5.3%** and a **rate of \$9,160 psm**. Parramatta is located about 23 km west of the Sydney CBD.

### Leasing Activity

Preston Rowe Paterson Research revealed no leasing transactions had occurred during the three months to June 2017 in Parramatta.



### Development Sites

July's edition of the PCA's Office Market Report indicate that there are four developments expected to be completed in the Parramatta CBD by end of 2019. Upon completion, these developments will add a total of 216,000 square metres onto Parramatta's office space. Their details are outlined below:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
Westfield Parramatta Development	159-175 Church Street, Parramatta, NSW 2150	DA Approved	Scentre Group	35,000	Mooted
105 Phillip Street	105 Phillip Street, Parramatta, NSW 2150	Construction	DEXUS Property Group	25,000	Q2 2018
Parramatta Square (Stage 3)	153 Macquarie Street, Parramatta, NSW 2150	Site Works	Parramatta City Council / Walker Corporation	46,000	Q1 2019
Parramatta Square (Stages 4 & 6)	30 Darcy Street, Parramatta, NSW 2150	Site Works	Parramatta City Council	110,000	Q4 2019

Table 4—Development Sites of commercial space in Parramatta— Source PCA

#### 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.

## Parramatta

### Supply by Grade (Stock)

Parramatta's office stock remained largely unchanged over the six months to July 2017. A Grade, B Grade and C Grade office stock all remain unchanged over the period. Currently there is 299,617 square metres of A Grade stocks, taking up 42.4% of total office stock in Parramatta. There are 219,303 square metres of B Grade stocks, taking up 31.1% of total office stock, whilst the 100,373 square metres of C Grade stock takes up 14.2% of total office space. D Grade stock declined by 767 square metres to 87,039 square metres. They currently take up 12.3% of Parramatta's total office stock.

### Vacancy Rates

Total vacancy rate declined by -0.1% over the half year to July 2017, to 4.3%. This decline was attributed to a decline in direct vacancy, declining down to 4.1%, whilst sub-lease vacancy remains unchanged at 0.1%. A Grade vacancy remains unchanged for eighteen months at zero vacancy. B Grade and D Grade vacancy experienced increases over the period, of 0.1% and 1.0% respectively. B Grade vacancy increased to 6.3%, whilst D Grade vacancy increased to 5.2%. C Grade office vacancy experienced a decline of -1.6% in their vacancy, down to 11.6%.

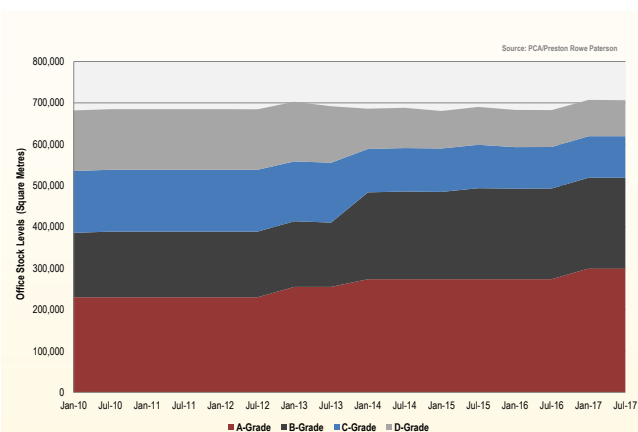


Chart 8— Parramatta Office Stock by Grade —Source— PCA

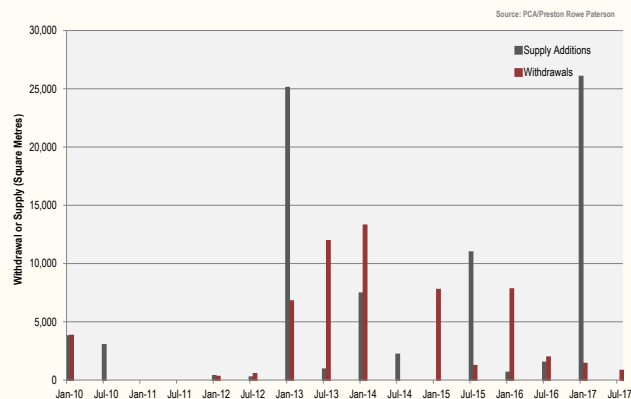


Chart 9— Parramatta Supply and Withdrawals of office stock —Source— PCA

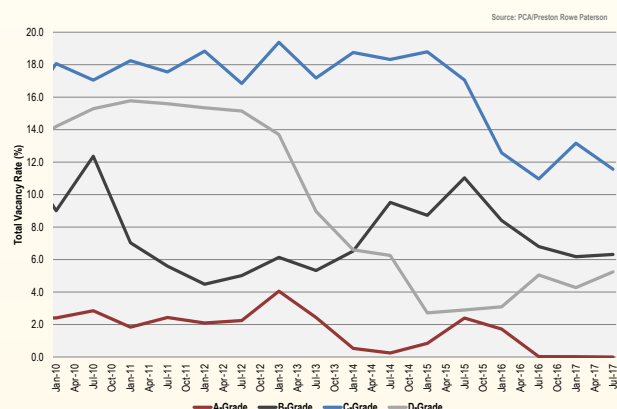


Chart 10— Parramatta Office Vacancy Rate —Source— PCA





## Chatswood

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred during the three months to June 2017:

#### 1-5 Railway Street, Chatswood, NSW 2067

**Chatswood Central** has sold to *Lotus Group* and *iProsperity Group* for **around \$115 million**. The two commercial offices that are linked by a retail podium are 96% leased and have a total lettable area of 18,247 m<sup>2</sup>. The properties have a WALE of 3-years and the 3,806 m<sup>2</sup> site has development upside. There is also basement parking accessed from Railway Street. The sale reflects a **rate of \$6,241 psm**. Chatswood is located about 12.2 km north of the Sydney CBD.

### Supply by Grade (Stock)

For over eighteen months, the Chatswood office market has not experienced any supply additions or withdrawals in office space. Total A Grade office stock takes 56.4% of total space for the July 2017 half, with a total of 157,412 square metres in space. B Grade follows, taking up 27.3% of total space with 76,046 square metres of space. C Grade and D Grade office stock take up the remaining shares, with a respective share of 16.1% and 0.1% of total space. There are currently 45,007 square metres of C Grade space and 454 square metres of D Grade space in Chatswood's office market.

### Vacancy Rates

Chatswood's total vacancy rate declined by -0.9% over the six months to July 2017, from 7.7% to 6.9%. This decline was attributed to by the declines in both direct and sub-lease vacancies, which fell by -0.5% and -0.3% respectively. Direct vacancy in Chatswood now stands at 6.7%, whilst sub-lease vacancy stands at 0.2%. A Grade and C Grade vacancies experienced a decline over the period, of -1.4% and -0.4% respectively. Currently, A Grade vacancy stands at 6.6%, whilst C Grade vacancies stand at 3.5%. B Grade and D Grade vacancies remain unchanged, at 8.9% and 100% respectively.

### Leasing Activity

Preston Rowe Paterson Research revealed the following leasing transaction that occurred over the three months to June 2017 in the Chatswood office market:

#### 465 Victoria Avenue, Chatswood, NSW 2067

*Carnival Australia* will occupy 3,500 m<sup>2</sup> of office space in levels three to six of a 15-level A-grade commercial office. *Hines Global REIT* leased the property to the new tenant for a **net annual rent of around \$460 to \$500 psm**. Chatswood is located about 12.2 km north of Sydney's CBD.

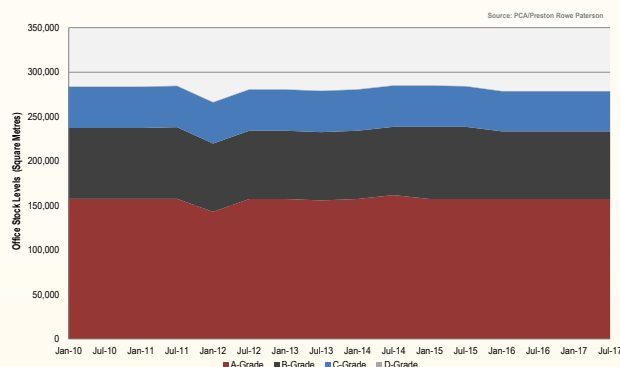


Chart 11— Chatswood Office Stock by Grade —Source— PCA

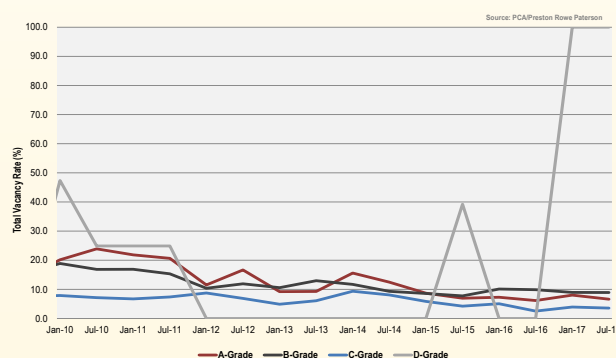


Chart 12— Chatswood Office Vacancy Rate —Source— PCA



## North Ryde/ Macquarie Park

### Development Sites

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
8 Khartoum Road	8 Khartoum Road, Macquarie Park, NSW 2113	Complete	Undisclosed	10,800	Q2 2017
95 Waterloo Road	95 Waterloo Road, Macquarie Park, NSW 2113	DA Applied	Undisclosed	14,874	Mooted
45 Waterloo Road	45 Waterloo Road, Macquarie Park, NSW 2113	DA Applied	Undisclosed	25,000	Mooted
11 Talavera Road	11 Talavera Road, Macquarie Park, NSW 2113	DA Applied	DEXUS Property Group	32,000	Mooted
8-12 University Avenue	8-12 University Avenue, Macquarie Park, NSW 2109	DA Applied	Undisclosed	50,000	Mooted
31-35 Epping Road	31-35 Epping Road, Macquarie Park, NSW 2113	DA Applied	Harvey Norman Group	14,477	Mooted
Cnr Lane Cove Road & Waterloo Road	396 Lane Cove Road, Macquarie Park, NSW 2113	Early Feasibility	Fraser's Property / Winten Property Group	74,000	Mooted
Epicentre (Riverside Corporate Park)	Lot 8 Julius Avenue (Incl Lot 9), North Ryde, NSW 2113	DA Approved	ISPT Pty Ltd	34,194	Mooted

Table 5— Development Sites of commercial space in North Ryde/ Macquarie Park— Source PCA

### Supply by Grade (Stock)

The North Ryde/ Macquarie Park office market experienced some changes over the six months to July 2017. A Grade stock increased by 9,430 square metres over the six months, reaching 650,050 square metres or 74.4% of total office space in North Ryde/ Macquarie Park. In contrast, there was a decline of -14,687 square metres in B Grade stock to 205,537 square metres. As at July, B Grade stock takes up 23.5% of total office space in the area. C Grade and D Grade stock remain unchanged over the period, at 15,385 square metres and 2,721 square metres respectively. C Grade stock takes up 1.8% of total office space, whilst D Grade stock takes up 0.3%.

### Vacancy Rates

Total vacancy rate in the North Ryde/ Macquarie Park's office market increased by 1.0% over the half year to 8.5%. This change was attributed to by the increase in direct vacancy, which increased to 7.6%. Sub-lease vacancy remains unchanged at 0.9% over the period. A Grade, B Grade and C Grade office spaces all experienced increases in their vacancy rates over the period. A Grade vacancy increased by 1.1% to 6.2%, B Grade vacancy increased by 1.2% to 15.4% and C Grade vacancy increased by 1.3% to 12.0%.

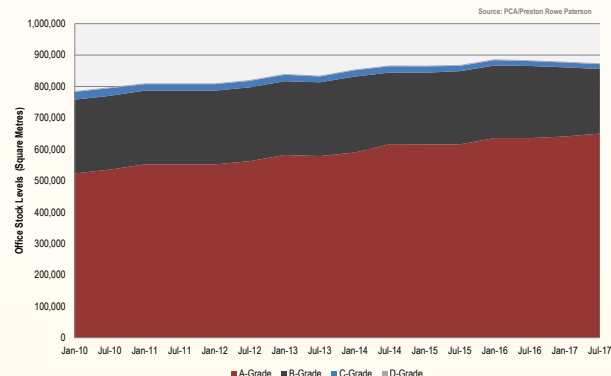


Chart 13— North Ryde/ Macquarie Park Office Stock by Grade —Source— PCA

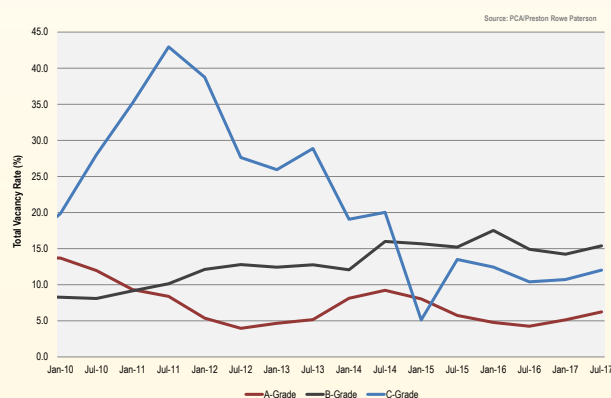


Chart 14— North Ryde/ Macquarie Park Office Vacancy Rate —Source— PCA

## RETAIL STATISTICS

Australia's total retail turnover increased by 0.3% over the month to June 2017, following the increase May of 0.6%, and April's increase of 1.0%. Seasonally adjusted increase over the June quarter 2017 increased by 1.5%, following the increases of 0.2% in the March quarter, and 0.8% in the December quarter 2016. Data from the Australian Bureau of Statistics indicates that in the June quarter 2017, seasonally adjusted estimate in increased for Household goods (2.5%), Food retailing (1.0%), Other retailing (1.9%), Clothing, footwear and personal accessory retailing (2.8%), Department stores (3.1%), and Café, restaurants and takeaway food services (0.8%). The implicit price deflator, which accounts for inflation by converting output, measured at current prices into constant-dollar GDP, declined by -0.1% over the three months to June 2017, following an increase of 0.1% over the three months to March, and 0.3% over the three months to December 2016. When we take a look around Australia, seasonally adjusted increases were recorded in New South Wales (+0.5%), Queensland (+0.7%), South Australia (+0.3%), Tasmania (+0.6%), the Northern Territory (+1.2%) and Western Australia (+0.1%). In contrast, Declines were recorded in Victoria (-0.3%) and the Australian Capital Territory (-0.1%).

Total seasonally adjusted turnover in New South Wales stand at \$8.481 billion, and indicates an increase of 0.5% over the month to June 2017. When we look at percentage changes in current prices from the preceding quarter, June 2017 recorded an increase of 1.5%, relatively higher than March's quarterly increase of 0.6% and December's recorded increase of 1.2%. Over the June quarter, increases in turnovers were recorded Furniture, floor coverings, houseware & textile goods retailing (7.4%), Newspaper & book retailing (5.6%), Café, restaurants & catering services (6.9%), Other recreational goods retailing (3.2%) and Clothing retailing (3.1%). On the other hand, declines were recorded in Electrical goods retailing (-0.9%), Pharmaceutical goods retailing (-0.7%) and Other retailing (-1.1%).

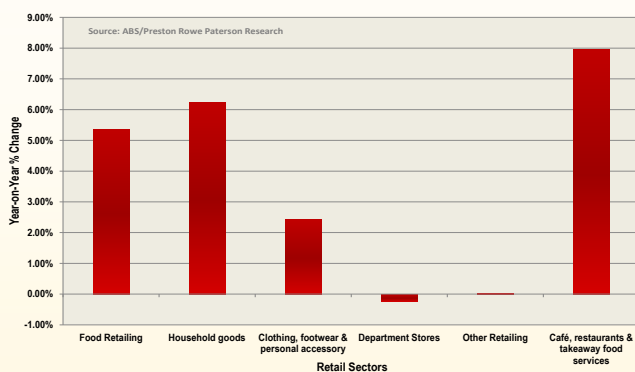


Chart 15—Year on Year % change to June 2017 of retail subgroups—Source—ABS

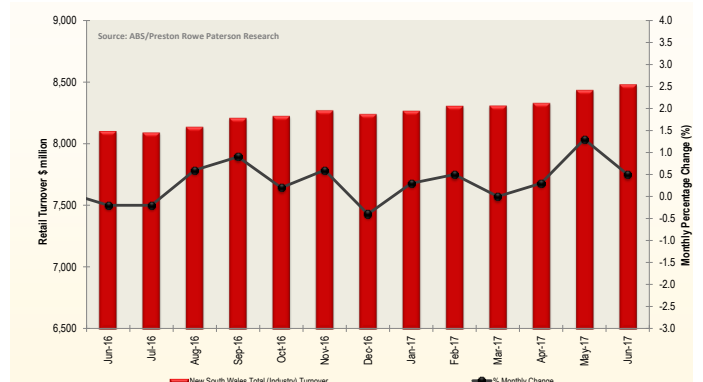


Chart 16—New South Wales Retail Turnover—Source—ABS

## 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".

National Australia Bank's latest release of their Online Retail Sales Index indicates an overall slow-down in retail sales growth over the month to June. Seasonally adjusted growth over the month was recorded at 0.7%, which is dramatically weaker than monthly growth recorded in May, albeit still remaining positive. Over the twelve months to June, Australian consumers had spent an estimate of \$22.74 billion on online retailing, which approximately equates to 7.4% of traditional in-store expenditure. This figure equates to a year-on-year growth of 7.6%, just behind the yearly growth of 8.2% recorded in May. When we look at different industry groups, Media recorded the highest year-on-year growth of 16.7%. One reason given by NAB on this high growth was that the online sale of Media had higher and less volatile monthly growths, which combined to keep the group at the top over the year to June. Positive monthly growths were recorded for Homeware & appliances (+3.4%), Toys (+2.6%), Media (+0.7%), Daily deals (+0.6%) and Department stores (+0.3%). Contractions were recorded in Groceries & liquor (-0.9%), Food (-0.1%) and Fashion (-1.5%).

NAB did note that both domestic and international online sales slowed over June, with approximately 80% of total spending stemming from domestic purchases. Domestic sales slowed to 0.8% over the month, compared to May's strong performance of 1.4%, whilst international sales slowed to 0.6%, compared to May's month-on-month increase of 2.2%.



## 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 June 2017:

#### 4-12 Garfield Street, Five Dock, NSW 2046

A private investor has purchased a *Coles* strata-titled supermarket for **\$19.66 million** at a **net yield of 4.89%**. The 3,333 m2 *Coles*-anchored stratum supermarket features a restaurant and secure basement parking for 163 vehicles. The sale reflects a **rate of \$5,899 psm**. Five Dock is located around 9.2 km west of Sydney's CBD.

#### 72-78 Brook Street, Muswellbrook, NSW 2333

A subregional shopping centre anchored by *Woolworths Supermarket* and *Big W* has sold for **\$34.25 million**. A private vendor sold the **Muswellbrook Marketplace** shopping centre to Muswellbrook Shire Council. The Council's Future Fund will use both debt and equity to acquire the property in order to rejuvenate the town centre's current decline. The property features 3 mini major tenants, 28 specialties, 1 kiosk, 1 ATM, undercroft car parking for 426 vehicles and a *Woolworths Petrol* pad site. The 12,838 m2 shopping centre occupies a 16,508 m2 site and brings in a fully leased net income of \$2,985,306 per annum. The sale reflects a **net yield of 8.72%** and a **rate of \$2,075 psm**. Muswellbrook is located around 231 km north of Sydney's CBD.



#### Town Centre Circuit, Salamander Bay, NSW 2317

The **Salamander Bay Centre** has been bought by *Charter Hall Retail REIT* for **\$174.5 million**. The 24,000 m2 mall has been purchased on a **6% cap rate**. The circa 1986 centre has been anchored by *Coles*, *Woolworths*, *Kmart*, *Aldi* and *Target Country* as well as over 55 specialty stores. The sale reflects a **rate of \$7,271 psm**. Salamander Bay is located 45 km north-east of the Newcastle CBD.

#### New South Wales Large Format Retail Sales Wrap

*Aventus Property Group* has paid **\$436 million** for two Sydney facilities controlled by *LaSalle Investment Management*. The properties include **Home Hub Castle Hill** and **Home Hub Marsden Park**. The average capitalisation rate for the portfolio of **5.6%**.

#### NSW Retail Sales Wrap

*Sentinel Property Group* has sold 3 neighbourhood shopping centres for a total of **\$44.5 million** to *Real Asset Management*. The properties that were sold include the 4,205 m2 **Rutherford Shopping Centre** on a **yield of 6.89%**, the 3,841 m2 **Tanilba Bay Shopping Centre** on a **yield of 7.17%** and the 5,560 m2 **Gunnedah Shopping Centre** on a **yield of 7.71%**. All three of the shopping centres are *Coles* anchored.

#### Corner Sturgeon and Glenelg Street, Raymond Terrace, NSW 2324

*Vicinity Centres* has sold the 7,258 m2 **Terrace Central** for **\$33.5 million** to *Panthera Property Group* and is to settle in November. The neighbourhood shopping centre is anchored by *Woolworths*. The sale reflects a **rate of \$4,616 psm**. Raymond Terrace is located 24.5 km north of Newcastle's CBD.

### Leasing Activity

Preston Rowe Paterson Research recorded the following significant leasing transaction that occurred in the Sydney metropolitan areas during the three months to June 2017:

#### 110-116 Bourke Road, Alexandria, NSW 2015

*Castlery Furniture* has found a 1,158 m2 showroom that it will lease for **18-month initial lease**. The company will pay **\$470 psm** for the renovated ground floor space that has polished concrete floors, floor-to-ceiling glass and LED lighting. Alexandria is located about 3.9 km south of the Sydney CBD.







## INDUSTRIAL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in the Sydney metropolitan during the three months to June 2017:

#### 1 Davis Road, Wetherill Park, NSW 2164

A Melbourne owner-occupier has bought a 4,744 m2 warehouse from *PMB Holdings* for **\$7.765 million**. The sale of the 8,866 m2 site reflects a **rate of \$876 psm**. Wetherill Park is located about 31.9 km west of Sydney's CBD.



#### 129-141 Woodpark Road, Smithfield, NSW 2164

Investors have purchased four warehouse buildings for **\$5.3 million** at auction. The buildings total 5,210 m2 and are leased to three separate tenants. They all have multiple roller-shutter access and one building has overhead cranes. The sale reflects a **rate of \$1,017 psm**. Smithfield is located about 28.9 km west of Sydney's CBD.

#### 101 Derby Street, Silverwater, NSW 2128

A modern complex of six industrial units has been sold by *Buckingham Investment Financial Services* for **\$7 million**. The units feature a large roller door, a six-metre high clearspan warehouse, offices and on-street parking. The 2,236 m2 property occupies a 3,340 m2 site. The sale reflects a **rate of \$2,096 psm**. Silverwater is located around 18.6 km north-west of the Sydney CBD.

#### New South Wales Industrial Sales Wrap

A single investor has purchased a portfolio of six industrial assets for **\$71 million**. The 'Sydney Six' include four Wetherill Park assets, a Smithfield property and an Eastern Creek site. The properties feature 45,850 m2 of net lettable area and bring in an annual income of \$4.82 million. The sale of the fully-leased properties reflect an **overall yield of 6.79%** and a **rate of \$1,549 psm**.

#### 59-61 Derby Street, Silverwater, NSW 2128

*AADerby* has bought an industrial facility on a 4,218 m2 site for **\$5.5 million**. The vacant property has a freezer and facilities to produce ice cream, yoghurt and smoothies. There are also packing and storage areas. The sale reflects a **rate of \$1,304 psm**. Silverwater is located about 18.6 km north-west of the Sydney CBD.

#### 3-7 Marianne Place, Minchinbury, NSW 2770

A retiring private owner has sold an office/warehouse property for **\$6.45 million**. The 3,503 m2 property occupies a 5,857 m2 site and has drive around access, three roller doors and 64 car spaces. The sale reflects a **rate of \$1,101 psm**. Minchinbury is located about 39.4 km north-west of Sydney's CBD.



#### 120 Dunning Avenue, Rosebery, NSW 2018

A 1,370 m2 warehouse conversion was acquired by a private investor for **\$8.67 million**. The property is leased to Zimmerman and the sale reflected a **net yield of 5.47%**. The sale reflects a **rate of \$6,328 psm**. Rosebery is located about 11 km south of Sydney's CBD.



#### 19-31 Huntingwood Drive, Huntingwood, NSW 2148

*Burgess Corporate* has sold an office/warehouse property to *Sefar* for **\$5.625 million**. The 2,752 m2 building has three roller doors and 38 car spaces. The buyer will occupy the property. The sale of the 4,888 m2 site reflects a **rate of \$1,151 psm**. Huntingwood is located around 33.6 km west of Sydney's CBD.

#### Australian Industrial Sales Wrap

*Frasers Logistics & Industrial Trust* has acquired seven new warehouses from *Frasers Property Australia* for **\$169.3 million**. The properties in Melbourne, Sydney and Brisbane are currently under development and have a weighted lease expiry of 9.6-years. The tenants include *Stanley Black & Decker*, *Clifford Hallam Healthcare*, *Beaulieu Carpets*, *CEVA Logistics* and *Ecolab*.

## Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred during the three months to June 2017 in New South Wales's Industrial property market:

### 2/66 Jedda Road, Prestons, NSW 2170

*Gemini Accident Repair Centre* will occupy a 2,812 m2 industrial facility for **3-years with options**. The net annual rent for the property is **\$110 psm**. Prestons is located about 34.6 km south-west of the Sydney CBD.

### 2/472 Victoria Street, Wetherill Park, NSW 2164

*QEP* has leased a 1,794 m2 industrial property from landlord *Dallen Bay Pty Ltd* for a net annual rent of \$206,264. The lease is for **3-years** and will be used as its NSW distribution centre. The lease reflects a **rate of \$115 psm**. Wetherill Park is located around 31.9 km west of Sydney's CBD.

### Unit 1/10 Hill Road, Homebush, NSW 2140

*Orlani Property Group* has found a new tenant in its office/warehouse property for 3-years. *Inskin Cosmetics* has leased the 949 m2 unit for a **net annual rent of \$155 psm**. The lessee will use the high-clearance warehouse for expansion. Homebush is located around 13.7 km west of Sydney's CBD.

### 1 Butu Wargun Drive, Greystanes, NSW 2145

*Parton's Wine Distribution* has leased a 4,355 m2 high clearance warehouse from *Goodman Group*. The lessee will pay a **net annual rent of \$115 psm** for **10-years**. Greystanes is located around 26.8 km north-west of the Sydney CBD.

### Muir Road, Chullora, NSW 2190

*Fraser's Property Australia* has signed a deal with *PFD Food Services* for a lease at a \$70 million cold storage and food production warehouse. The 22,208 m facility will begin being constructed in the coming months. *PFD Food Services* will occupy the 15.19-hectare site when the facility is completed in the 2nd quarter of 2018. Chullora is located about 17.1 km south-west of Sydney's CBD.

### 12 & 13/287 Victoria Road, Rydalmere, NSW 2116

*Eva Imports Pty Ltd* has leased a 1,032 m2 industrial facility for **3-years with options**. The property features a 422 m2 showroom, a 424 m2 office and a 186 m2 showroom. There is also a roller door with a 6.3-metre clearance and 10 parking spaces. A private landlord will be paid a **gross annual rent of \$126 psm**. Rydalmere is located about 20 km north-west of the Sydney CBD.

### 4/2-6 Orion Road, Lane Cove, NSW 2066

*Castle Crest* has leased a 1,425 m2 warehouse/office to *Ace Office* for an undisclosed term. The 1,425 m2 property will be occupied at a **net annual rent of \$177 psm**. The site has 10 car spaces and a driveway for heavy vehicle access and container loading. Lane Cove is located around 9.3 km north-west of Sydney's CBD.

### 12 Frost Road, Campbelltown, NSW 2560

*Icon Visual Marketing* will occupy an office-warehouse property after consolidating three properties into one new location. The 2,195 m2 property will be leased from *Maxiland Pty Ltd* for **5-years** at a **net annual rent of \$92 psm**. The property has a 514 m2 office over two levels, a 1,681 m2 high clearance warehouse and showroom. Campbelltown is located around 50.2 km south-west of the Sydney CBD.



### 423-427 Victoria Street, Wetherill Park, NSW 2164

*Atom* will occupy 4,215 m2 during a lease period of **5-years**. The **net annual rent was \$484,725**. Wetherill Park is located 31.9 km west of Sydney CBD.

### 200 Governor Macquarie Drive, Warwick Farm, NSW 2170

*Daikin Australia* will occupy the 33,278 m2 office and warehouse premises for a **10-year** lease. The property is located within **Warwick Farm Industrial Business Park**. Warwick Farm is located 30.8 km south-west of Sydney CBD.

### 29 Yennora Avenue, Yennora, NSW 2161

*My Muscle Chef* will occupy a 2,149 m2 warehouse on a **5-year** lease and will pay a **gross annual rent of \$115 psm**. Yennora is located approximately 25 km west of Sydney's CBD.

### 272 Honeycomb Drive, Eastern Creek, NSW

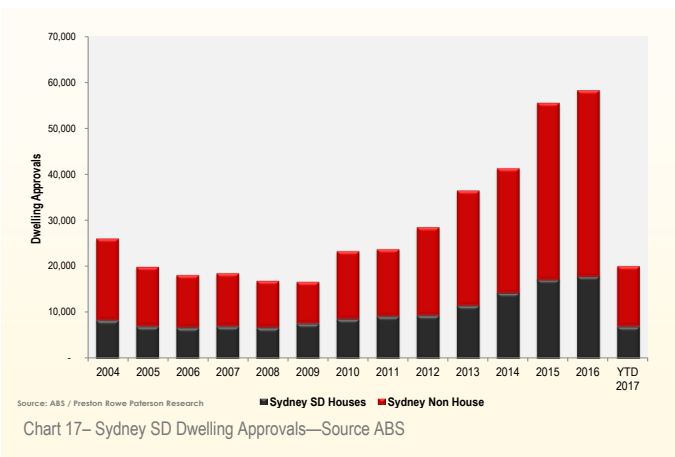
*Skyjack* has leased the new 3,652 m2 industrial property on a **10-year** lease. The **net annual rent of \$438,360 psm** will be paid to a private investor. Eastern Creek is located 36.6 km north-west of Sydney's CBD.

## RESIDENTIAL MARKET

### Building Approvals

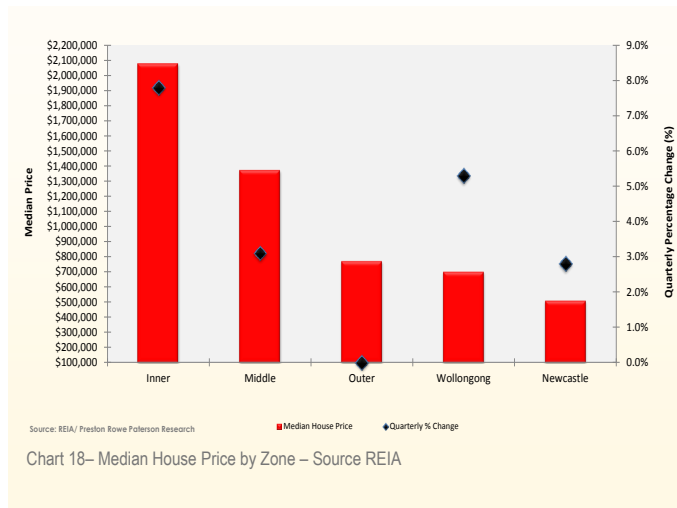
Statistics from the Australian Bureau of Statistics indicate that total building approvals for the Greater Sydney area declined by 19% over the month to May 2017, from 4,171 approvals in April to 3,375 approvals in May. May's figure indicate that total approval for construction had declined by 38% when we compared to twelve months prior. The total reported number of approvals to date amounts to 19,993 approvals, which comprise of 6,832 approvals for houses and 13,161 approvals for other dwellings.

When we look at approvals of houses to be built in Greater Sydney, an increase of 42% over the month to May lifted total housing construction approvals to 1,632. However, when we compare this figure to twelve months prior, total approval for housing construction had declined by 13%. Total number of dwellings other than houses approved for construction during May declined by 42% over the month, down to 1,743 approvals. This figure indicates a drop of 51% when compared to twelve months prior.

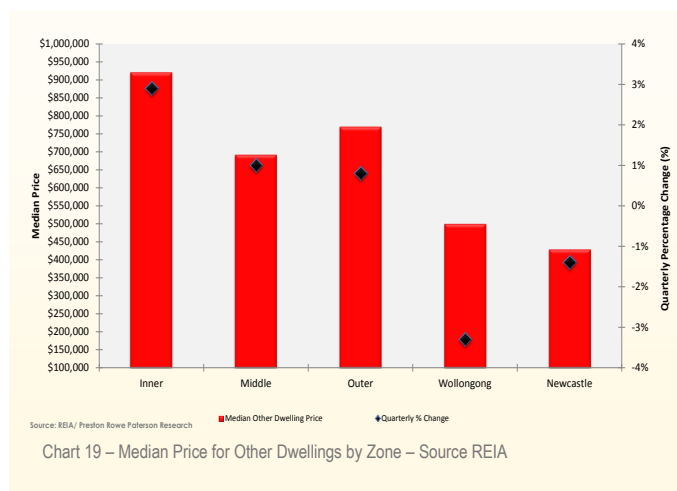


### Market Affordability

The Real Estate Institute of Australia's March quarter report indicates that median house price in Sydney increased by 3.4% over three months to March, to a median house price of \$1,167,000. This figure represents an annual change of 16.5%. When we look at Inner Sydney, median price increased by 7.8% over the quarter, to \$2,075,000. There were 1,017 sales over the period, with sale prices ranging from \$1,574,000 to \$2,800,000. Middle Sydney's house price increased by 3.1% over the quarter, to \$1,371,000. There were 2,344 sales, of which sale prices ranged from \$970,000 to \$2,000,000. Outer Sydney experienced no change in their median house price, which remained at \$770,000. The region recorded strong sales numbers, with 7,628 sales over the quarter and sales prices ranging from \$620,000 and \$1,055,000.



When we look at the sales of other dwellings in Sydney, prices increased by 2.8% overall over the quarter, to \$742,000. This figure indicates a change of 10% over the year. Inner Sydney experienced an increase of 2.9%, to \$920,900 for the March quarter. There were 2,272 sales in this region, with sale prices ranging from \$718,000 and \$1,230,000. Middle Sydney's median sale price increased by 1.0%, to \$692,000. There were 2,477 sales over the quarter, with sale prices ranging from \$575,000 and \$840,000. Outer Sydney experienced an increase of 0.8% in their median sale prices over the quarter, to \$770,000. There were 7,628 sales recorded in this region, with sale prices ranging from \$620,000 and \$785,000.

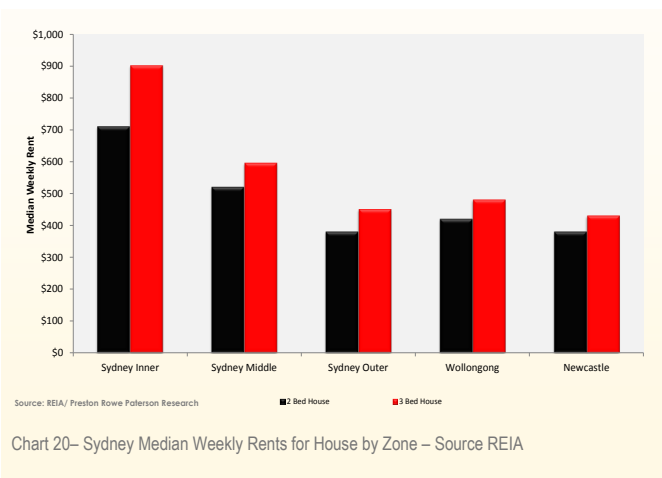






## Rental Market

Over the March Quarter, Sydney experienced moderate changes in their house rents, with the highest increase stemming from Middle Sydney's 2 bedroom houses. Median rent per week increased by 5.1% to \$520. 2 bedroom houses in Inner Sydney and 3 bedroom houses in Middle Sydney both experienced increases, of 1.4% and 0.8% over the quarter, respectively. Inner Sydney's 3 bedroom house rents remain unchanged at \$900, whilst Outer Sydney's 2 and 3 bedroom houses remain unchanged at \$380 and \$450, respectively.

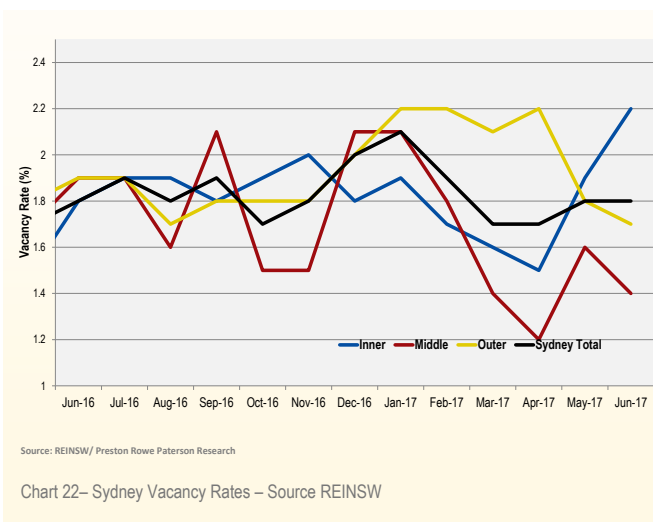


Mixed changes in median rent were recorded for other dwellings in Sydney. Inner Sydney's 1 and 2 bedroom recorded a change of 1.9% and -0.7%, respectively. Their respective rents moved to \$550 and \$685 per week. When we look at Middle Sydney, 1 and 2 bedroom dwellings recorded increases of 2.2% and 2.0%, respectively. Their respective rents increased to \$470 and \$510. When we look at Outer Sydney, 1 bedroom dwellings experienced a decline of -3.8% for the quarter, down to \$272.50. When we look at 2 bedroom dwellings, median weekly rent increased by 2.3%, to \$440.



## Residential Vacancy Rates

When we look at Sydney's residential vacancy rate over the month to June 2017, we can see a turn in Sydney's rental market, with availability at its highest level in nearly two years. Real Estate Institute of New South Wales's Vacancy Rate survey indicates that the vacancy in the Sydney metropolitan area remains unchanged over the month at 1.8%. Inner Sydney experienced a strong increase over the month, with vacancy increasing by 0.3% to 2.2% for the month of June. The president of REINSW, John Cunningham, stated that the increase in stock entering the Inner Sydney market has meant that available has increased whilst tenants take time to fill available accommodation. Vacancy rates for Middle and Outer Sydney declined by -0.2% and -0.1%, respectively, over the month to June. Middle Sydney's vacancy rate stands at 1.4%, whilst Outer Sydney vacancy stands at 1.7%.



## NEWCASTLE

### Market Affordability

The median house price in Newcastle recorded an increase of 2.8% to \$509,000 over the March quarter. This price reflects an annual increase of 10.0%. There were 2,546 sales over the quarter, with prices ranging from \$405,000 to \$645,000. When we look at other dwellings in Newcastle, median sale price declined by -1.4% to \$429,000. This price reflects an annual increase of 11.0%. There were 492 recorded sales, with prices ranging from \$315,000 to \$590,000.



Newcastle's rental market experienced moderate growths over the March quarter, with 2 bedroom and 3 bedroom houses experiencing growths of 2.7% and 2.4% respectively. Their respective median weekly rent increased to \$380 and \$430. Over the year, Newcastle's 2 bedroom houses experienced a growth of 2.7% in rental income, whilst 3 bedroom houses benefited from a growth of 4.9% in rental income. When we look at other dwellings in Newcastle, 1 bedroom dwellings' weekly rent experienced a median increase of 3.6% to \$285. In contrast, 2 bedroom dwellings experienced a decline of -1.4%, down to a median weekly rent of \$365.

## WOLLONGONG

### Market Affordability

Median house price in Wollongong recorded an increase of 5.3% over the March quarter to \$700,000. Notably, this price reflects an increase of 17.0% over the year. There were 937 sales over the three months, with sale prices ranging from \$563,000 to \$855,000. When we look at other dwellings in Wollongong, a decline of -3.3% was recorded in the March quarter, with median price declining to \$429,000. Despite this quarterly decline, the median sale price for the quarter reflects an increase of 8.0% over the year. There were 264 reported sales over the quarter, with sale prices ranging from \$420,000 and \$630,000.

### Rental Market

Wollongong's 2 bedroom and 3 bedroom houses experienced quarterly increases of 5.0% and 2.1% respectively. Their weekly median rents increased to \$420 for 2 bedroom houses and \$480 for three bedroom houses, reflecting increases of 10.5% and 6.7% over the year, respectively. When we look at other dwellings in Wollongong, 1 bedroom and 2 bedroom dwellings experienced quarterly rental growths of 4.8% and 5.6% respectively. Their respective weekly rents increased to \$272.50 and \$4380. Over the year, 1 bedroom dwellings experienced a growth of 4.8% in weekly rents, whilst 2 bedroom dwellings experienced an annual increase in weekly rent of 8.6%.

## RESIDENTIAL DEVELOPMENT

### 20-26 Cross Street, Double Bay, NSW 2028

A development site has been acquired by the Roche family for **\$55 million**. The site will be developed into six-level mixed-use building with 34 luxury apartments and ground-floor retail. The sale reflects a **rate of \$1,617,647 per luxury apartment**. Double Bay is located around 3.6 km east of Sydney's CBD.

### 159-161 Epping Road, Macquarie Park, NSW 2113

VIMG has purchased 40 strata units in a residential complex for **\$75 million**. The complex of older-style apartments occupies an 8,000 m2 site. The buyer will now attempt to purchase the remaining eight units that must be sold if 75% of the apartment block owners agree to sell. VIMG plans to redevelop the site into a medium-density housing project or student accommodation. The sale reflects a **rate of \$9,375 psm**. Macquarie Park is located around 15.7 km north-west of the Sydney CBD.

### 141 Allen Street, Leichhardt, NSW 2040

A 7,149 m2 former industrial site has been sold to *Changfa Investments* for **around \$55 million**. The site has approval for a 139-apartment project across six buildings between four and six storeys high. There will also be basement car parking for 124 vehicles. The sale reflects a **rate of \$395,683 psm**. Leichhardt is located about 6 km south-west of Sydney's CBD.



### 59 Goulburn Street, Sydney, NSW 2000

*Roxy Pacific* has sold a development site to *Fortius Funds Management* for **\$158 million**. The site has stage-one development approval for a 29,489 m2, 38-level mixed-use development including 407 hotel suites and 90 apartments.



#### 17-23 Mitchell Avenue & 78 Sutherland Road, Jannali, NSW 2226

*WINIM* purchased an amalgamated residential site for **\$11.25 million**. The 4,143 m<sup>2</sup> site can be developed into 64 apartments. The sale reflects a **rate of \$175,781 per proposed apartment**. Jannali is situated 26.1 km south-west of the Sydney CBD.

#### 401-405 Illawarra Road Marrickville, Sydney, NSW 2204

Two local buyers have paid **\$6.15 million** to a local family for a 620 m<sup>2</sup> development site. The subject property has development approval for 21 apartments. There are currently three shops and a residence present on the site. The sale reflects a **rate of \$292,857 per DA approved apartment**. Marrickville is located 8.3 km south-west of Sydney's CBD.



#### 88 Christie Street, St Leonards, NSW 2065

*JQZ* has acquired a 4,500 m<sup>2</sup> mixed use site from *Dyldam* for about **\$300 million**. The site will one day be "**St Leonards Plaza**". The mixed use site can yield 777 apartments in a 45-storey tower with retail and amenities. The site now has a gazettal approval for a mix of apartments, a plaza, library and 3,000 m<sup>2</sup> of retail space including a supermarket. *JQZ* will have to submit a DA for the site which has a *PTW Architects* scheme. The sale reflects a **rate of \$66,666 per sqm**. St Leonards is located 6.6 km north of Sydney's CBD.

#### 38- 42 Burns Bay Road, Lane Cove, NSW 2066

A private developer has bought three adjoining retail properties at auction for **\$8.925 million** on a **0.94% yield**. The property is a proposed residential development site. Lane Cove is located approximately 9.3 km north-west of Sydney's CBD.

## SPECIALIZED PROPERTY MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following specialised property transactions that occurred in New South Wales during the June Quarter 2017:

#### 89 Anderson Road, Smeaton Grange, NSW 2567

*ST Family Trust* has purchased a 2,429 m<sup>2</sup> site that can accommodate a 107-place childcare centre for **\$7 million**. The property is leased to *Young Academics* on a 20-year lease and was sold on a **5.45% yield**. The site could also have 23 car spaces. The sale reflects a **rate of \$65,421 per placement**. Smeaton Grange is located around 52.8 km south-west of the Sydney CBD.

#### 26 Cowper Street, Carrington, NSW 2294

A new 90-place childcare centre has sold to a Sydney investor at auction for **\$3.5 million**. The investor bought the property on a **net yield of 5.9%** from a local developer. The 1,126 m<sup>2</sup> property has 14 car spaces and is on a 10-year lease with options to *Go Kindy*. **The sale reflects a rate of \$38,889 per place**. Carrington is located around 3 km north-west of Newcastle's CBD.



#### 3634 Nelson Bay Road, Salt Ash, NSW 2318

A Melbourne investor has paid **\$3.4 million** at auction for a 120-place, purpose-built childcare centre on a 9,878 m<sup>2</sup> site. The sale reflects a **7.06% net yield** and a **rate of \$28,333 per placement**. Salt Ash is located around 26.2 km north-east of the Newcastle CBD.

### New South Wales Private Hospital Portfolio Sales Wrap

*Evolution Healthcare* has sold their portfolio of three NSW hospitals to *Barwon Investment Partners* for **\$76.5 million**. The portfolios include the **South Coast Private Hospital**, the **Shellharbour Private Hospital** and the **Wollongong Day Surgery**. The portfolio sold on a **5.5% yield**.

#### 61 Milroy Avenue, Kensington, NSW 2033

A childcare centre on a 10-year lease to *G8 Education Limited* to 2024 with three further 10 year options to 2054 has been sold at auction for **\$5.95 million** on a **net yield of 4.09%**. The 2-storey facility on a 709 m<sup>2</sup> site has service approval for 56 places. The sale reflects a **rate of \$106,250 per placement**. Kensington is located about 5.4 km south-east of the Sydney CBD.



### 169-176 Parramatta Road, Haberfield, NSW 2045

*The Presbyterian Church, NSW* has sold a vacant building to a Chinese investor for **just over \$13 million**. The three-titled property is vacant and was previously used as an aged care facility and a motel. Haberfield is located around 7.7 km south-west of Sydney's CBD.



### 10 Wyvern Avenue, Chatswood, NSW 2067

*Vital Healthcare* has acquired the **Horondelle Private Hospital** from a private owner and operator for **\$23.5 million**. The rehabilitation facility was recently refurbished and has 53-beds. The property is leased to *Healthe Care* for 25 years on an **initial yield of 6%**. The sale reflects a **rate of \$443,396 per bed**. Chatswood is located about 12.2 km north of the Sydney CBD.

### 3 Mccausland Place, Kellyville, NSW 2155

*Vital Healthcare* bought the purpose built two-level property for **\$30.3 million**, with a current lease to *Health Care* for 30 years. The 2011 built building currently has 59 beds with the expansion potential to have a further 24 beds. The sale reflects a **rate of \$513,559 per bed**. Kellyville is located about 34 km north-west of Sydney's CBD.

### 153 Wharf Street, Tweed Heads, NSW 2485

A private Queensland investor has purchased a showroom which is currently leased to *Sharp Motor Group* for **\$11.2 million** on a **yield of 6.31%**. The building is 3,919 m2 with a land size 9,880 sqm. The property has a workshop and office spaces with rooftop parking and a display yard for vehicles. The sale reflects a **rate of \$1,134 psm**. Tweed Heads is located 844 km north-east 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 June Quarter 2017:

#### 145 King Street, Newtown, NSW 2042

Matt Moran has paid **around \$33 million** to the *Australian Pub Fund* for the **Marlborough Hotel**. The 'Marly' is an expansive large format hotel with multiple bars, function spaces and a gaming room with 30 EGMs. The property has DA approval for a rooftop terrace. The sale of the 978 m2 site reflects a **rate of \$33,742 psm**. Newtown is located about 4 km south-west of Sydney's CBD.

#### 15-25 Sherwood Road, Merrylands, NSW 2160

A local, family-run operator has purchased the **Coolibah Hotel** from *Vlandis Group* for **around \$40 million**. The large pub of around 8,500 m2 includes a number of bars and lounges, as well as a bistro, TAB betting room and a bottle shop. The property was sold on a **yield of around 8%**. The sale reflects a **rate of \$4,706 psm**. Merrylands is located about 23.2 km west of the Sydney CBD.

#### 383 Bourke Street, Darlinghurst, NSW 2010

**The Kinselas Hotel** has been sold by Geoff Dixon and John Singleton to *Universal Hotels* for **around \$23 million**. The circa 1910 property has 30 pokie machines and brings in a gross annual revenue of around \$3 million. The art deco venue also has a onetime funeral parlour, a retro club and a bowling alley. Darlinghurst is located about 1.5 km south-east of Sydney's CBD.

#### 36 Blue Street, North Sydney, NSW 2060

The leasehold interest in the **Greenwood Hotel** has been sold by the *Balmain Pub Group* to Simon Tilley for **just over \$10 million**. The pub has open courtyards and 4 bar areas. North Sydney is located 5 km north of the Sydney CBD.  
Regional Market

#### 415 Melrose Road, Mullaley, NSW 2379

*Union Agriculture* has purchased *Minnamurra Pastoral Company's Glenrowan Aggregation* for **around \$38 million**. The 4550-hectares of land are over 16 individual properties with 386 hectares of developed irrigation while a further 2,641 hectares of improved pasture country is arable and offers scope for further developer. The sale reflects a **rate of \$8,352 per hectare**. Mullaley is located about 114 km west of Tamworth's CBD.

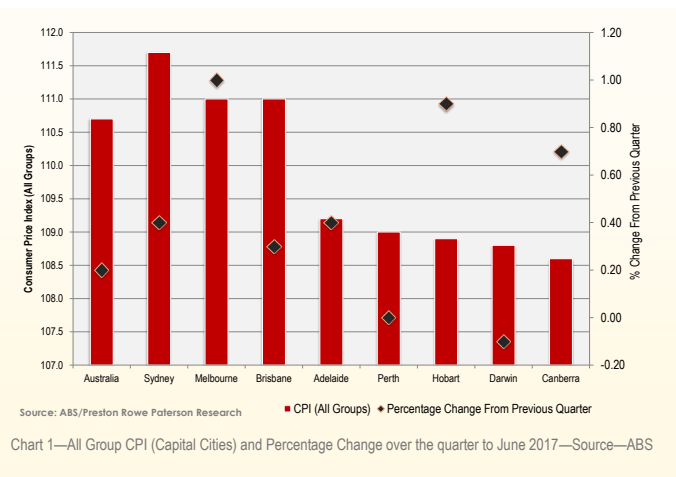


## Economic Fundamentals

### Consumer Price Index

Australia's consumer price index (CPI) increased by 0.2% in the June quarter, with the All groups weighted average Index number for the eight capital cities increase to 110.7. Over the year, Australia's CPI recorded an increase of 1.9%. All capital cities experienced increases in their CPI over the year, with Hobart bringing on the largest increase with 2.3%. Sydney and Melbourne both recorded 2.2%, Canberra recorded 2.1%, whilst other cities experienced increases which ranged between 0.5% and 1.8%.

When we look at Sydney, the main contributors to the rise in the capital city during the June quarter include Medical & hospital services (+3.9%), New dwelling purchase by owner-occupiers (+0.9%), and vegetables (+4.6%). The increase is offset by declines in domestic holiday travel & accommodation (-5.6%), Automotive fuel (-2.4%) and Fruit (-4.3%).



### Business Sentiment

Both business conditions and business confidence declined over the month of May. Figures released by National Australia Bank indicate that business conditions dropped by 1 point, to +12 index points, whilst business confidence index fell by 6 points to +7 index points. In stating this, both indices remain slightly above their long-run average index (+5 for business conditions, +6 for business confidence), with leading indicators for both business condition and business confidence remaining relatively strong. NAB's chief economist, Alan Oster, noted that a disconnect is present when we look at evidence of solid business activity in conjunction with data that indicates a slowdown in consumer spending. With weak household data and wage growth remaining at record low, and a strong business sector, Mr Oster have noted how this 'disparity resolves itself will be critical to the outlook for growth'.

	Net Balance		
	March 2017	April 2017	May 2017
Business confidence	7	13	7
Business conditions	14	13	12

Table 1—Monthly Net Balance of Business confidence index and Business conditions index — Source—National Australia Bank

### Consumer Sentiment

According to the Westpac Melbourne Institute Index of Consumer Sentiment, consumers over the month of June are feeling the most pessimistic since the Reserve Bank's 2016 rate cuts. The index fell 1.8% from 98.0 in May to 96.2 in June, with a reading below 100 indicating that the number of pessimists outweigh optimists in their outlook of the economy. The main contributor to the results stems from the March quarter GDP figures, which produced relatively weak results. Annual growth had declined to 1.7%, the slowest increase since the GFC prompting consumers' pessimistic responses during the June survey.

Job security remains a topic on most consumers' mind, with the Westpac Melbourne Institute Unemployment Expectations Index increasing from 135.5 to 140.3, with a lower number indicating that fewer consumers expect unemployment to rise over the next twelve months. In saying this, job figures have come out positive, with unemployment expectations showing a positive improvement, as average index figures for 2015 and 2016 were both at 144 points.

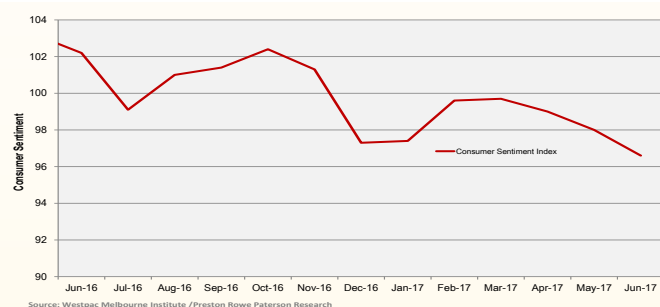


Chart 2—Consumer Sentiment Index, February 2016 to February 2017—Source—Westpac Melbourne Institute Survey

	June 2016	May 2017	June 2017
Consumer Sentiment Index	102.2	98	111.3
Family finance vs. a year ago	90.3	82.6	81.4
Economic conditions next 12 months	97.9	95.9	91.3
Time to buy a dwelling	103.7	90.0	90.9

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

## Gross Domestic Product

Over the first quarter of 2017, Australia's gross domestic product (GDP) increased by a seasonally adjusted 0.3% - a relatively weak figure when compared to December 2016 quarterly increase of 1.1%. Over the twelve months to March 2017, Australia's economy grew by 1.7%, relatively weaker than the 2.4% yearly increase in the fourth quarter 2016. Many economists had anticipated weaker growth over March quarter, after current account figures had indicated a dramatic slowdown in exports over the three months. However, the quarter's growth now means that Australia has experienced 103 quarters without a technical recession (defined as two consecutive quarters of negative growths).

We note that export of goods and services declined by a seasonally adjusted 1.6% over the quarter. The main influence was a decline in the export of mineral ores and coal, which contributed to a 2.6% decline in the export of goods. The export of services partially offset this decline by increasing by 2.5% over the quarter, though was not enough to stimulate an overall positive growth after the previous six quarters of growth. Moreover, terms of trade increased by 6.6% over the quarter, a decline from the 9.6% increase from last quarter.

Dwelling investments declined by 4.4% over the March quarter, though over the twelve months, dwelling investment has declined by 2.5%. Victoria was the only state to experience an increase in dwelling investment over the quarter, though at a national level, dwelling investment remains high.

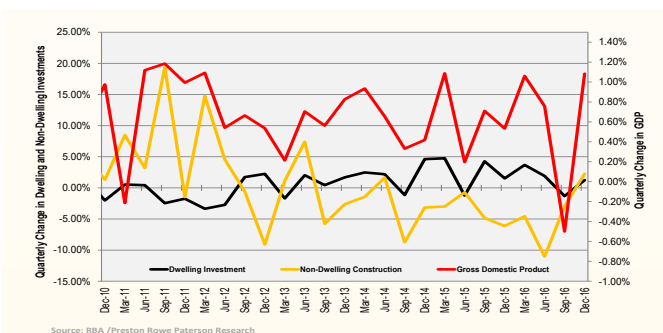


Chart 3—Percentage Change in Dwelling, Non-Dwelling Investments and GDP—Source: ABS

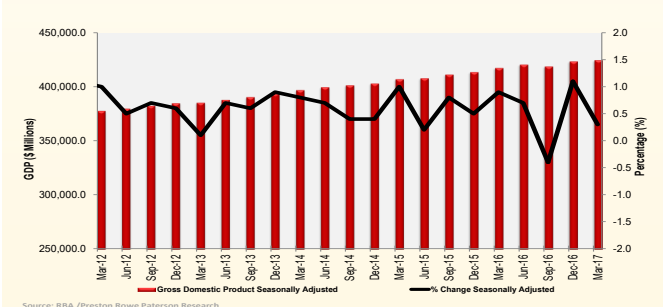


Chart 4—Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP—Source: ABS

## Unemployment

Over the month to May 2017, seasonally adjusted unemployment rate declined to 5.5%, the lowest level since February 2013. There were 52,100 new persons in full time employment, though the number of persons starting part-time roles declined by 10,100- bringing the net total number of employed persons to 42,000 over the month. Over the same period, the participation rate declined to 64.9% (-0.1%), underemployment rate declined to 8.8% (-0.1%) and the underutilisation rate declined to 14.4% (-0.4%).

New South Wales experienced the largest month-on-month increase in employment with 32,600 persons. Victoria and Queensland experienced the next largest increases, with 6,900 persons and 5,500 persons respectively. When we look at the unemployment rate around the country, South Australia and Western Australia experienced the largest decline, both by -0.4%. Tasmania experienced an increase of 0.2%, whilst New South Wales increased by 0.1%. Tasmania experienced an increase of 0.8% in their participation rate, whilst Western Australia experienced a decline of 0.1% in theirs.

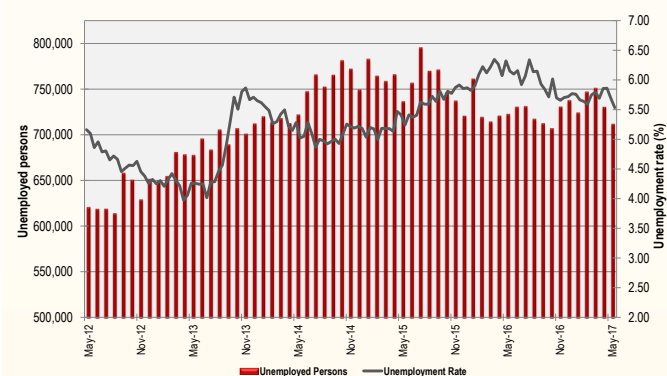


Chart 5—Unemployment Persons and Unemployment Rate, March 2011 to March 2017 — Source: ABS

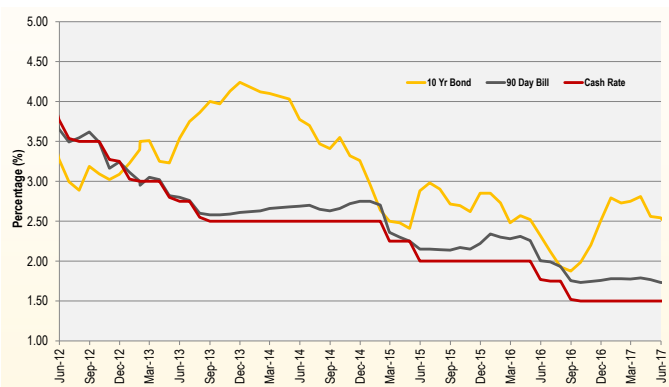
	Unemployment Rate (%)		Participation Rate (%)		
	April	May	April	May	
Australia	5.7	5.5	64.9	64.9	—
New South Wales	4.7	4.8	65.3	65.2	▼
Victoria	6.1	6.0	66.0	65.5	▼
Queensland	6.3	6.1	69.0	68.1	▼
South Australia	7.3	6.9	65.0	64.8	▼
Western Australia	5.9	5.5	68.8	67.5	▼
Tasmania	5.9	6.1	59.5	59.9	▲
Northern Territory*	3.3	3.2	74.3	65.6	▼
Australian Capital Territory*	3.6	3.5	67.8	66.1	▼

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



## 10 Year Bond & 90 Day Bill Rate

10-year government bond yield in Australia declined by 0.14% to 2.41% over the month to June 2017. Over three months, the 10-year bond yields declined by 0.40%, though when compared to June 2016, yields had increased by 0.29%. Australia's 90-day bill rate declined by 0.01% over the month, to 1.72%. This figure signifies a 0.07% decline over the quarter and a 0.27% decline over the year. Historically, Australian government yields are usually higher than that of the US government yields. However, the differential between Australian and US 10-year government bonds have narrowed to just 16 basis points at the end of June as global investors price in more monetary tightening by the Federal Reserve. We note that Australian 10-year bond yields, being influenced by the global increase in yields, had increased by 53 basis points since August last year, during which yields dropped to a historical low of 1.88%. Preston Rowe Paterson notes that long term bond yields have been declining gradually since the 1980's, and we consider the sharp increase in late December 2016 and the current elevated bond yields a normalisation of 10-year government bonds after it dropped to a record low in August 2016.

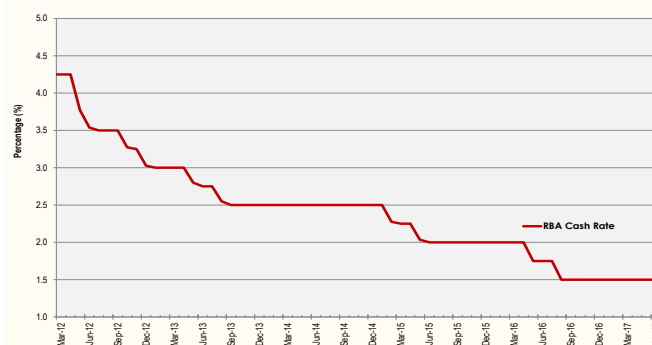


Source: RBA /Preston Rowe Paterson Research  
Chart 6— Monthly Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

## Interest Rates

The Board of the Reserve Bank left rates unchanged at 1.5% for the tenth consecutive month at their June meeting. The main concerns brought up at the board meeting included concerns surrounding Australia's low wage growth and the imbalance between the housing markets around various parts of Australia. Ultimately, the Reserve Bank strives to achieve financial stability by pursuing an inflation target of two to three percent over the medium term. As the nation transitions through the mining boom investment phase, interest rates were cut to its lowest historical levels in order to support economic growth within the country. Reserve Bank board members noted the importance of a prudent regulatory body in promoting financial stability, and noted the need for a strong relationship built between the Bank and banking regulators, especially Australia Prudential Regulatory Authority (APRA).

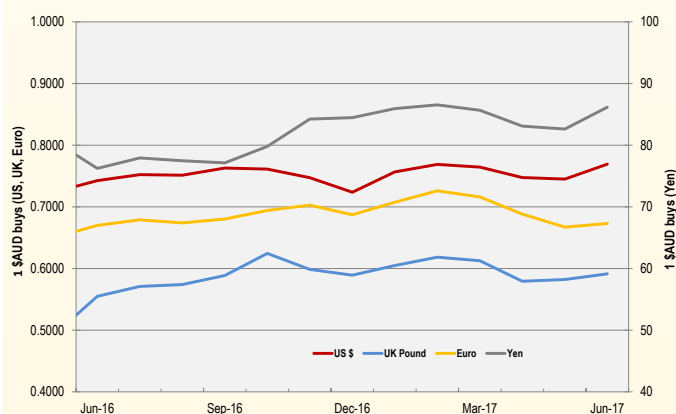
The Board's decision to keep interest rates unchanged stemmed from upbeat messages from world economic growth, in conjunction with the prospect of world-wide increase of wages and prices as the labour markets in many countries begin to improve. It was also noted that headline inflation in many countries have increased over the past twelve months, though core inflation remain relatively low. In the domestic economy, improvements in business conditions and business investments, in the parts of the economy that was not directly affected by the slowdown in mining investments contributed to the Board's interest rate decisions. Slow wage growth continue to highlighted, with members pointing out the low increase in income and high levels of household debts as being the main inhibitors to household consumption.



Source: RBA /Preston Rowe Paterson Research

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

## Exchange Rate



Source: RBA /Preston Rowe Paterson Research

Chart 8— Movement in Exchange Rate over the year to March 2016— Source: RBA



## Our Research

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

## We have *property* covered

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

## We have all *real estate* types covered

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

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

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

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

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

## We have all *client* profiles covered

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

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





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

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

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

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

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



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- ◆ Japan
- ◆ Philippines
- ◆ Thailand

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