



**Preston**  
*Rowe*  
Paterson

®  
International Property Consultants

# Property Market Report

## Queensland

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

### Brisbane CBD

#### Investment Activity

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

##### 324 Queen Street, Brisbane, QLD 4000

Abacus and Investec Australia Property Fund have paid **\$132 million** to Dexu Wholesale Office Fund and Bookfield Property Partners for a 22-storey commercial tower. The B-grade property was built in the mid-70s with a refurbishment and upgrades in 2001 to the lobby, podium, façade and various building services. There is ground floor retail including an ANZ Bank Chamber, three podium floors and parking for 98 vehicles. The tower is 80% occupied and has a weighted average lease expiry of 3.2-years.



##### 41 O'Connell Terrace, Bowen Hills, QLD 4006

VennCap has bought a 7-level commercial complex for a private investor for **\$52 million**. City of Brisbane Investment Corporation sold the 2013-built property which has a 5-Star Green Star building rating and is anchored by government tenants. Health Services Queensland occupies 60% of the net leasable area, while Brisbane City Council occupies 30%. The sale of the 7,643 m2 property reflects a **rate of \$6,804 psm**. Bowen Hills is located around 3.5 km north-east of Brisbane's CBD.

##### 348 Edward Street, Brisbane, QLD 4000

Harburg Investments has sold the IBM office building to Hines Group for **\$49 million** on an **initial yield of 8.53%**. The A-grade property has a net lettable area of 11,484 m2. The 15-level building has views over the city and ground floor retail and boasts core floor plates of 880 m2. The sale reflects a **rate of \$4,267 psm**.



##### 111 Eagle Street, Brisbane, QLD 4000

GPT Group's unlisted office fund has bought out a one-third interest held by Abu Dhabi Investment Authority in the **One One One Eagle Street** office tower for **\$284.2 million**. The premium-grade 54-floor office building has tenants including ANZ, Gadens Lawyers, EY, Norton Rose Fulbright and Arrow Energy. The sale of the 64,264 m2 office tower reflects a **rate of \$4,422 psm**.

#### Leasing Activity

Preston Rowe Paterson Research recorded limited leasing transactions that occurred in the Brisbane CBD office market during the three months to December 2016:

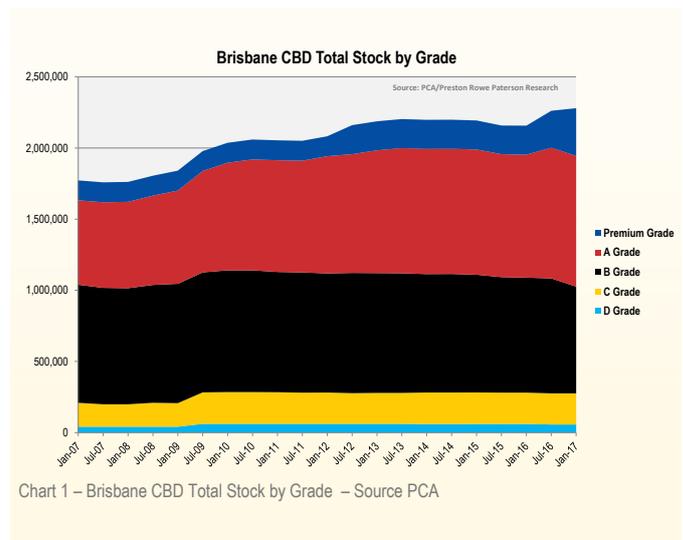
##### Montpelier Road, Bowen Hills, QLD 4006

St Vincent's Health Australia has agreed to occupy an A-grade office building on a **5-year lease**. The 920 m2 lease was brokered at a **gross annual rent of \$520 psm**. There are also 12 car spaces. The modern A-grade building has around 30% space available for lease. Bowen Hills is located 3.5 km north-east of the Brisbane CBD.

#### Supply by Grade (Stock)

Over the six months to January 2017, Brisbane's commercial office market experienced an addition of 75,853 sqm in office space. At the same time, there were 57,676 sqm of space withdrawn from Brisbane's market, ultimately bringing net addition to 18,177 sqm.

All additions in Brisbane's market were put into the city's Premium Grade stocks. Over the six months, stocks increased from 259,617 sqm to 335,470 sqm. On the other hand, all stock withdrawals occurred in the B Grade offices, in which stocks had declined from 807,908 sqm in July 2016 to 750,232 sqm in January 2017. A Grade, C Grade and D Grade office stocks remained unchanged over the period. A Grade stocks remained at 918,330 sqm, C Grade at 219,106 sqm and D Grade stocks at 56,917 sqm.



### Total Vacancy

Total vacancy in Brisbane CBD declined over the six months to January 2017 to 15.3%. The change was largely attributed to the decline in sub-lease vacancy, which declined by -1.5% to 1.6%. Direct vacancy declined by -0.2% over the same period, to 13.7%,

Tightening of vacancy rates occurred in most graded offices, including Premium Grade, A Grade and D Grade offices. Premium Grade offices experienced the largest decline in vacancy, declining by -9.9% to 11.9%. A Grade and D Grade office vacancies declined by -2.0% and -1.5% respectively, down to 11.9% and 15.3%, respectively. On the other hand, B Grade and C Grade vacancies increased over the period. Vacancy of B Grade offices increased by 1.1% to 19.7%. Similarly, C Grade vacancies increased by 2.1% to 19.6%.

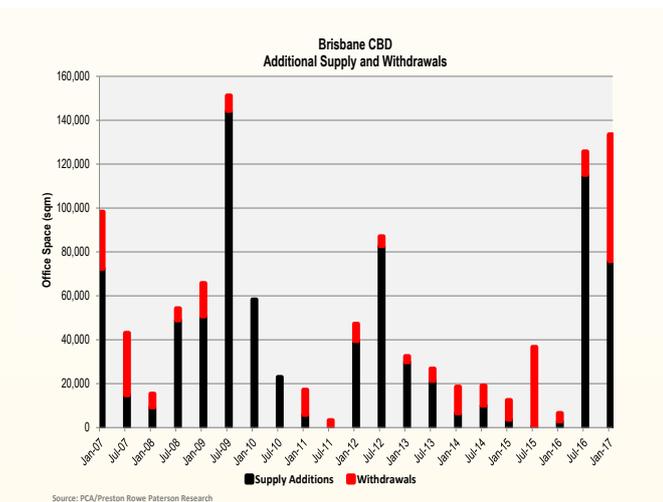


Chart 2 – Melbourne CBD Additional Supply and Withdrawals – Source PCA

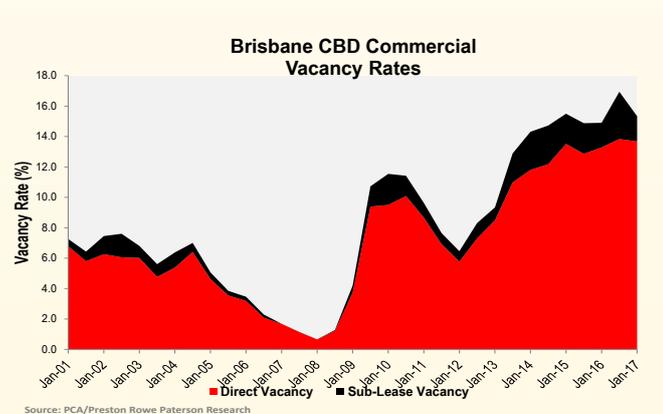


Chart 3 – Melbourne CBD Commercial Vacancy Rates – Source PCA

### Gold Coast Office Market

#### Supply by Grade (Stock)

Over the six months to January 2017, the Gold Coast experienced an increase in supply of 2,741 sqm in office space. However, there was a total withdrawal of 2,824 sqm in office space over the same period, bringing total office supply stocks down by 83 sqm to 472,967 sqm.

Gold Coast's office market continue to be dominated by B-Grade offices, which further increased in stock over the six months to January 2017. January's stock stands at 191,720 sqm, indicating that stocks had increased by 1,976 sqm over the period. No changes were recorded in C Grade and C Grade stocks, which remained at 136,004 sqm and 15, 139 sqm respectively. A Grade stocks experienced a decline of -2,059 sqm over the same period, down to 130,104 sqm.

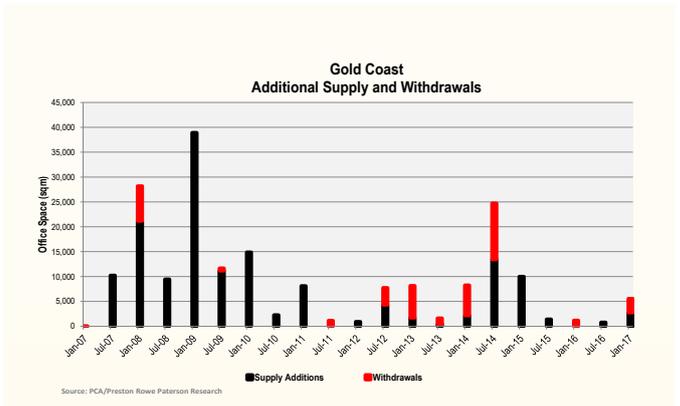


Chart 5– Gold Coast Additional Supply and Withdrawals – Source PCA

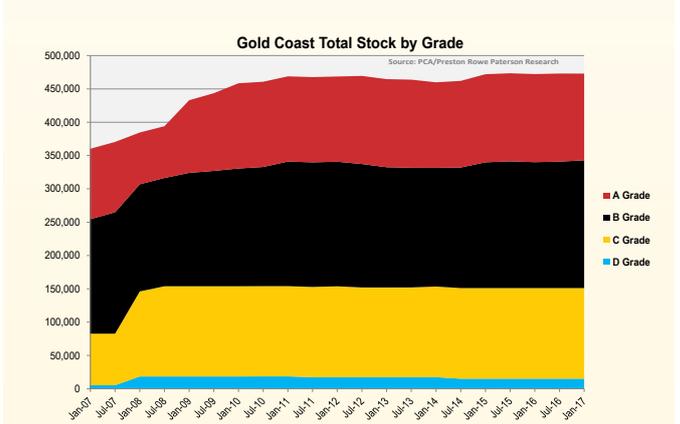
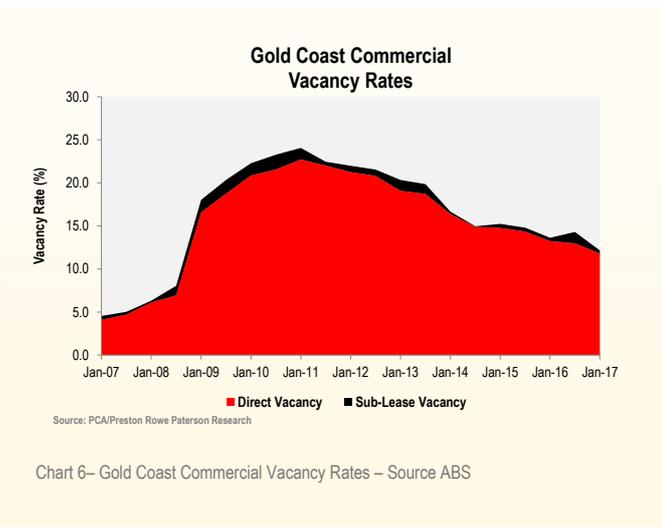


Chart 4 – Gold Coast Total Stock by Grade – Source PCA

## Total Vacancy

Total vacancy in the Gold Coast office market declined by -2.1% over the six months to January 2017. This was influenced by a decline of -1.2% in direct vacancy to 11.8%, and a decline of -1.0% in sub-lease vacancy to 0.4%.

A Grade offices experience the largest decline in vacancy over the period. Total vacancy in these office declined by -5.8% to 12.9%. B Grade and C Grade offices also experienced declines in their total vacancies. Vacancy of B Grade offices declined by -1.3% to 11.1%, whilst C Grade vacancy declined by -0.5% to 12.4%. In contrast, D Grade offices experienced an increase in total vacancy, of 4.8% to 17.0% over the six months to January 2017.



## RETAIL MARKET Investment Activity

Preston Rowe Paterson Research recorded a number of retail transactions that occurred in the Brisbane metropolitan area during the December quarter 2016:

### 2532 Gold Coast Highway, Mermaid Beach, QLD 4218

The **Pacific Square** retail complex has been purchased by *Marquette Properties* for **\$20.9 million** on a **passing yield of 7.2%**. The single level retail and office asset has 7,355 m2 of net lettable area on a 17,300 m2 site. There are also 240 car spaces. The complex is 100% leased with a WALE of 10-years. Tenants include *Supercheap Auto*, *Snap Fitness* and the Queensland state government. The sale reflects a **rate of \$1,208 psm**. Mermaid Beach is located about 7 km south-east of the Gold Coast CBD.

### 130-134 Gympie Road, Strathpine, QLD 4500

An offshore investor has acquired a large format retail centre from the Szwarcbord family for **\$14.8 million** on a **yield of 6.1%**. The single-level centre is anchored by an *Officeworks* store and has a weighted average lease expiry of nearly 6-years. Strathpine is located 22 km north of Brisbane's CBD.



### Cnr Brickworks & Old Gympie Road, Kallangur, QLD 4503

*Alceon* and *Taylor Bridge Capital* have sold the **Lilybrook Shopping Centre** to *Shopping Centres Australia Property Group* for **\$25.5 million**. The centre has recently undergone a refurbishment and reletting program. This included extending the lease to *Coles* to 14-years, refurbishing the *Coles* store, upgrading the centre landscaping, extending and reconfiguring the mall to create two new mini majors and refurbishing signage and introducing shade sails to the car park. The sale of the 6,700 m2 neighbourhood shopping centre reflects a **rate of \$3,806 psm**. Kallangur is located around 28.1 km north of Brisbane's CBD.

### 60-78 King Street, Caboolture, QLD 4510

*Charter Hall Retail REIT* has sold the **Caboolture Square** shopping centre for **\$27.5 million**. The 16,172 m2 centre is anchored by a *Coles* and *Kmart* and has one mini-major and 35 retail specialties. The WALE is 6.2-years. The sale reflects a **rate of \$1,700 psm**. Caboolture is located around 38.8 km north of Brisbane's CBD.



### 5-11 Patricks Road, Arana Hills, QLD 4054

*Charter Hall Retail REIT* is in exclusive due diligence to purchase the **Arana Hills Plaza** for **\$67 million** from *ISPT*. The sub-regional, 14,000 m2 mall is anchored by *Coles*, *Kmart* and *Aldi*, as well as 23 specialty tenants, four kiosks, two ATMs and a freestanding *Shell* petrol station. The sale reflects an **initial yield of 5.85%** and a **rate of \$4,786 psm**. Arana Hills is located around 11.9 km north-west of Brisbane's CBD.

**221 Tufnell Road, Banyo, QLD 4014**

A private investor has paid **\$34 million** to *ADCO* for the **Banyo Retail Centre**. The 5,136 m2 centre is anchored by a *Woolworths* on a 20-year lease, as well as 13 specialty stores. The WALE is 15.1 years. The sale of the 1.7-hectare site reflects a **rate of \$2,000 psm**. Banyo is located around 13.4 km north-east of Brisbane's CBD.

**791 Stafford Road, Everton Park, QLD 4053**

*Reds Group* has paid **\$27.7 million** on a **net yield of 7.1%** for the **Everton Plaza**. The new owners will renovate the 1969-built centre into a popular retailing destination. The 7,198 m2 property is anchored by a *Coles* supermarket, as well as two mini-majors and 30 specialty retailers. Other tenants include *Everton Park Medical Centre*, *Fernwood Fitness*, *Australia Post*, *BWS*, *ANZ* and *Chemmart Everton Park*. There are also 230 car spaces. The sale reflects a **rate of \$3,848 psm**. Everton Park is located about 10 km north of Brisbane's CBD.

**Patricks Road & Dawson Parade, Arana Hills, QLD 4054**

*ISPT* has sold the **Arana Hills Plaza** and an adjoining *Shell* petrol station to *Charter Hall Retail REIT* for **\$67.1 million**. The centre has 14,355 m2 of space and is anchored by *Coles*, *Kmart*, a freestanding *Aldi* and the petrol station. There are also 23 specialty tenancies, four kiosks and two ATMs. The sale reflects a **rate of \$4,674 psm**. Arana Hills is located about 11.8 km north-west of Brisbane's CBD.

**232 Brisbane Road, Booval, QLD 4304**

A recently upgrade 2,575 m2 shop and showroom has been purchased by *Properties & Pathways* for **\$9.25 million**. The large former retail investment has leases to tenants such as *Snooze* and *Baby Bunting*. The WALE is 7.6% and the **net yield was 6.8%**. The sale reflects a **rate of \$3,592 psm**. Booval is located around 32.6 km south-west of Brisbane's CBD.

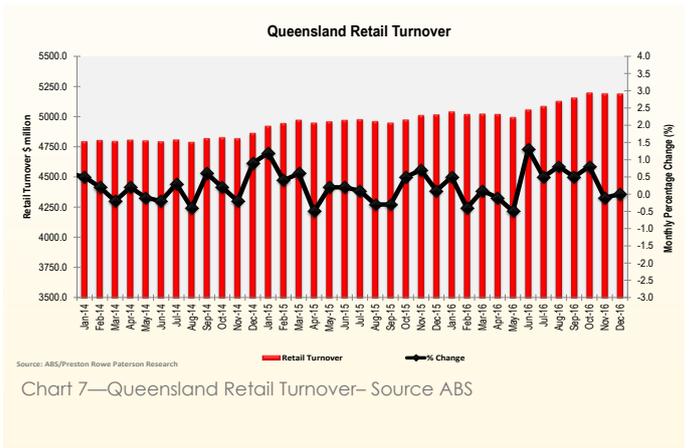
**264 Dohles Rocks Road, Murrumba Downs, QLD 4503**

A WA Property Fund has acquired the **Castle Hill Village** shopping centre for **\$14.2 million** on a **yield of 6.7%**. The property comprises three buildings with 19 tenants including a *McDonalds*, *IGA* and *BWS*. There is also a medical practice and a variety of specialty retailers. The sale reflects a **rate of \$5,120 psm**. Murrumba Downs is located around 30.9 km north of the Brisbane CBD.



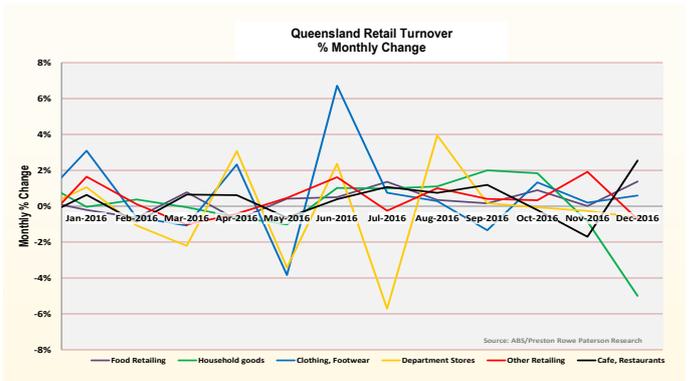
**RETAIL STATISTICS**

According to Retail Trade statistics from the Australian Bureau of Statistics, total turnover in Queensland for the month of December amounted to \$5,184.5 million. This figure, when compared to the previous, did not portray any significant changes. When we do a year on year analysis, however, December's figure shows an annual increase of 3.42%.



When we look at retail turnover data by industry subgroups, mixed results were recorded over the month of December. The largest monthly decline stemmed from Household goods, of which turnover had declined by 5.0% to \$852.1 million. This figure represents a year-on-year decline of -0.46%. Department stores and other retailing also experienced declines over the month, of -0.6% and -0.7% respectively. Their respective turnovers for the month equate to \$303.3 million and \$729— and indicates an annual change of -3.13% (department stores) and 5.15% (other retailing).

In contrast, Café & restaurants recorded the highest monthly increase in turnover, with a 2.6% rise to \$745.1 million. More impressively, this figure represents an annual increase of 4.4%. Food retailing and clothing also experienced increases in their turnovers over the month, of 1.4% and 0.6% respectively. Their respective turnovers are \$2,200.9 million and \$354.2 million. These figures indicate annual changes of 4.30% (food retailing) and 8.35% (clothing).



## INDUSTRIAL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following transactions that occurred in the Brisbane industrial market, during the three months to December 2016:

#### 99-103 Lahrs Road, Ormeau, QLD 4208

The Property Advisory has paid **\$11.1 million** for a 6,855 m2 purpose-built manufacturing facility on a **yield of 7.3%**. PWR Performance Products is on a new 10-year lease with options in the property. The property has a controlled atmosphere brazing furnace, R&D and design departments, large fabrication capabilities and a wind tunnel. The sale of the 9,349 m2 site reflects a **rate of \$1,187 psm**. Ormeau is located 46.4 km south-east of the Brisbane CBD.

#### 670 MacArthur Avenue Central, Eagle Farm, QLD 4009

A two-building industrial facility has been sold by Growthpoint Properties for **over \$10 million**. **Building One** is 3,328 m2 and is leased to Reliance Worldwide and **Building Two** is 2,249 m2 and is leased to Coventry-Konnect. The sale of the 10,000 m2 site reflects a **net yield of 7.7%** and a **rate of over \$1,000 psm**. The site was purchased by a boutique Sydney-based fund manager. Eagle Farm is located around 11.6 km south-west of the Brisbane 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%**.

#### 572 & 588 Kessels Road, Macgregor, QLD 4109

Harvey Norman has paid **\$16 million** for a 2.4-hectare industrial landholding that will be used to build a large-format retail centre. Harvey Norman will open a new store at the centre and lease space to other tenants with complementary businesses. The existing tenant, Asahi Beverages, will be moving to another facility. The sale reflects a **rate of \$667 psm**. Macgregor is located about 13.5 km south-east of the Brisbane CBD.

#### 14 Kentworth Place, Brendale, QLD 4500

A private investor has acquired an industrial facility from a private seller for **\$4.7 million**. The buyer will occupy 50% of 5,000 m2 buildings and lease out the rest. The sale of the 9,000 m2 site reflects a **rate of \$522 psm**. Moreton Bay is located around 19.8 km north of Brisbane's CBD.

#### 35 Alexandra Place, Murarrie, QLD 4172

A North Queensland investor has bought a 3,300 m2 industrial facility for **\$4.5 million**. The vacant property was purchased at auction. The tilt-panel facility on a 6,052 m2 site features a 600 m2 office, 8 container-height roller doors and bays serviced by two gantry cranes. The sale reflects a **rate of \$744 psm**. Murarrie is located about 10 km east of Brisbane's CBD.

#### 52 Moreton Street, Heathwood, QLD 4110

An investor has paid **\$7.54 million** for a 4,839 m2 industrial facility in a Heathwood estate. The 1.45-hectare site is leased to Yokohama Tyres. The sale reflects a **yield of 7.64%** and a **rate of \$520 psm**. Heathwood is located around 22.4 km south-west of the Brisbane CBD.

#### 36 Fulcrum Street, Richlands, QLD 4077

FIFE Capital has purchased an office and warehouse property from a private vendor for **\$18 million**. The property is leased to Parmalat. The sale reflects a **net yield of 7.5%**. Richlands is located about 19.2 km south-west of Brisbane's CBD.

### Leasing Activity

Preston Rowe Paterson Research recorded the following leasing transactions that occurred in the Brisbane industrial market during the three months to December 2016:

#### 1D/356 Bilsen Road, Geebung, QLD 4034

Redbook Inspect has agreed to lease a warehouse and office facility on a **month-to-month basis**. The company will pay a **net annual rent of \$75 psm** for the 1,000 m2 property. Geebung is located about 12.5 km north-east of Brisbane's CBD.

#### 15 Seeana Place, Heathwood, QLD 4110

Whites Group has signed a pre-lease for **7-years with options** at a purpose-built 7,265 m2 facility. The 1.7-hectare site has a large awning and hardstand area and multiple access points. The **net annual rent of between \$105 to \$115 psm**. The landlord is Brazil Enterprises. Heathwood is located about 22.4 km south-west of the Brisbane CBD.

#### 25 Montpelier Road, Bowen Hills, QLD 4006

St Vincent's Health Australia has agreed to occupy an A-grade office building on a **5-year lease**. The 920 m2 lease was brokered at a **gross annual rent of \$520 psm**. There are also 12 car spaces. The modern A-grade building has around 30% space available for lease. Bowen Hills is located 3.5 km north-east of the Brisbane CBD.

## RESIDENTIAL MARKET

### Economic Statistics

Building approval statistics from the Australian Bureau of Statistics indicate that total number of dwelling units declined by -4.1% over the month of December, from 1,615 approvals in November down to 1,549 approvals in December. This total figure indicates a quarter-on-quarter decline of -4.8%, and a year-on-year decline of -31.7%.

When we look at total housing approvals, there was a monthly decline of 31.6%, as approval figures declined from November's 1,126 to December's 770 approvals. This figure indicates a quarter-on-quarter decline of -25.0%, and a year-on-year decline of -12.1%.

Approvals for the construction of non-house buildings (i.e. apartments, non-residential) increased by 59.3% over the month to December, increasing from November's figure of 489 to December's 779. December's figure indicates, however, a decline of 52.3% from three months prior, and a decline of 44.0% when compared to figures from December 2015.

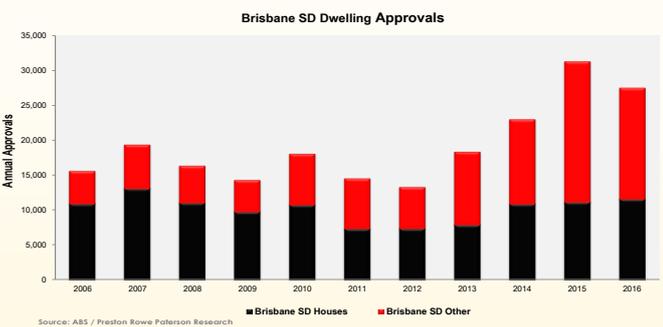


Chart 9—Brisbane SD Dwelling Approvals—Source ABS

## BRISBANE

### Market Affordability

When we look at market affordability figures from the Real Estate Institute of Australia (REIA)'s September quarter report, Brisbane's median house price declined by -1.2% over the quarter to \$494,000. This price, however, reflects an annual growth of 2.4%. All of Brisbane's zones experienced declines in their median house prices, with Inner Brisbane experiencing the largest quarterly decline of -5.2%. Inner Brisbane's median house price declined to \$825,000, reflecting an annual decline of -2.9%. There were 493 reported sales over the quarter, with sale prices in this zone ranging from \$679,300 to \$1,100,000.

When we look at Middle Brisbane's houses, median prices had declined by -1.7% to \$580,000. This price, however, reflects an annual increase of 1.4%. There were 2,614 recorded sales within the three month period, with sale prices ranging from \$480,000 to \$725,000.

Outer Brisbane's median house price declined by -0.5% over the quarter, down to \$383,300. This price reflects an annual increase of 1.1%. There were 2,706 houses sold in the three months to September, with prices ranging from \$320,000 to \$475,000.

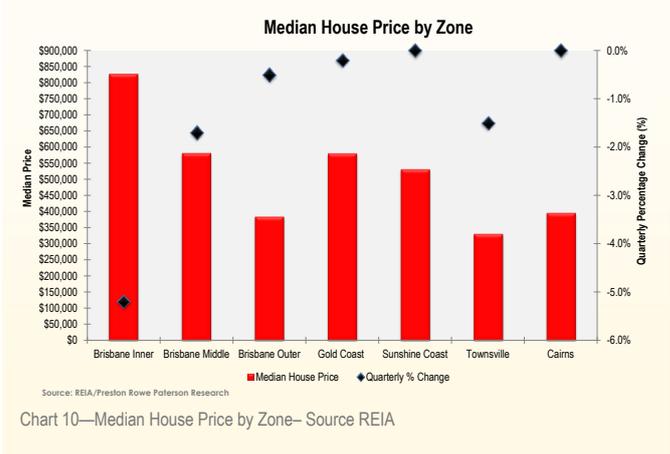


Chart 10—Median House Price by Zone—Source REIA

Brisbane's Other dwelling median prices declined by -1.3% over the September quarter to \$395,000. This figure reflects an annual decline of -3.4%. Inner Brisbane's median price declined by -1.1%, down to \$460,000. This price reflects an annual decline of -3.2%. There were 871 reported sales in this area, with prices ranging from \$374,000 to \$572,500.

Middle Brisbane's median house price declined by -2.6% over the quarter, to \$380,000. This price reflects an annual decline of -6.2%. There were 792 sales reported in this area, with prices ranging from \$325,000 to \$459,000.

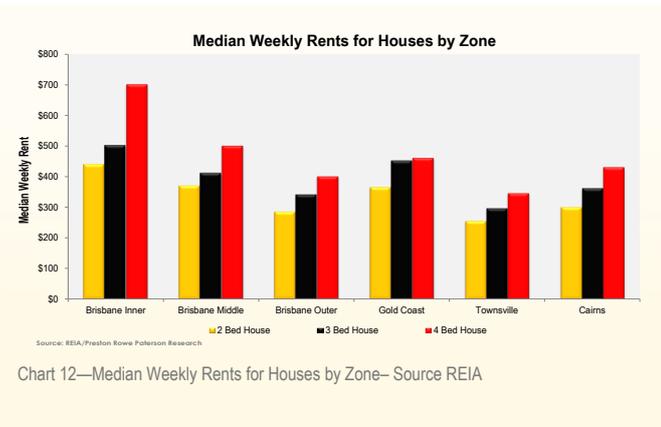
Outer Brisbane's median sale priced declined by -3.9% to \$295,000. This price reflects an annual decline of -11.9%. There were 439 sales reported in the area, with sale prices ranging from \$227,500 to \$385,000.



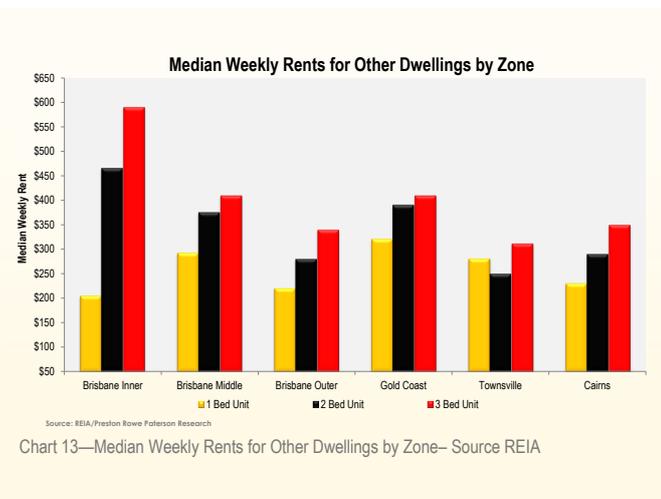
Chart 11—Median Price for Other Dwellings by Zone—Source REIA

## Rental Market

Brisbane city's rental market remained relatively stable over the three months to September. The largest decline in weekly rental price stemmed from Inner Brisbane's 3 bedroom houses, which declined by -6.7% to \$700. In contrast, the largest increase over the quarter stemmed from Inner Brisbane's 2 bedroom houses, whose median weekly rent increased by 2.3% to \$440. The other notable change in weekly rental price can be noted in Outer Brisbane's 2 bedroom houses, whose rent increased by 1.8% to \$285. All other weekly rents remained unchanged over the same period.



When we look at other dwellings' weekly rental prices, we have noticed that most dwellings did not experience any changes in their weekly rents. The largest decline stemmed from Outer Brisbane's 1 bedroom dwellings, whose median weekly rental price declined by -2.2% over the quarter to \$220. In contrast, 1 bedroom dwelling's median rent in Middle Brisbane increased the most, by 4.3% to \$292. Similarly, 2 bedroom dwellings in this zone also experienced an increase of 2.7% in their weekly rent, increasing to \$375. All other dwellings did not experience any changes in median weekly rent over the September quarter.



## GOLD COAST

### Market Affordability

Over the September quarter, house prices in the Gold Coast declined by -0.2% to \$579,000. This price indicates an annual increase of 5.4% in prices when compared to September 2015. There were 1,340 reported sales during the three month period, with sale prices ranging from \$440,000 to \$650,000. When we look at other dwellings, median sale price had declined by -2.0% to \$387,000. This price reflects an annual increase of 3.2%. There were 1,720 sales reported over the period, with sale prices of other dwellings ranging from \$307,500 to \$538,000.

### Rental Market

Gold Coast's house rental market experienced mainly positive increases over the three months to September. Median weekly rental prices for 2 bedroom and 3 bedroom houses increased by 4.3% and 2.3% respectively. Their respective weekly rent increased to \$365 and \$450. On the other hand, 4 bedroom houses on the Gold Coast experienced a decline of -3.2% in their weekly rent, down to \$460.

When we look at other dwellings on the Gold Coast, the only movement that was observed was in 2 bedroom dwellings. Their median rental price increased by 1.3%, up to \$390 per week. 1 bedroom dwellings on the Gold Coast did not experience any change in their weekly rental price, remaining at \$320. Similarly, weekly rental price for 3 bedroom dwellings on the Gold Coast also remained unchanged at \$410.



## TOWNSVILLE



### **Market Affordability**

The median house sales price in Townsville declined by -1.5% over the September quarter down to \$330,000. This figure reflects an annual decline of -4.3%. The report covers 371 sales in the region, with sales prices ranging between \$270,000 and \$395,000. When we look at Townsville's other dwellings, median prices had in fact increased by 0.9% to \$277,500. However, this price is indicative of an annual decline of -0.9%. 67 sales were included in the report, with sale prices ranging from \$180,000 to \$350,000.

### **Rental Market**

Townsville's housing rental market recorded declines in their median weekly rents for 2, 3 and 4 bedroom houses over the September quarter. Weekly rent for 2 bedroom house declined the most, by -5.6% to \$255. 3 bedroom and 4 bedroom houses followed, with respective declines of -1.7% and -1.4%. Their respective median price per week for the quarter stand at \$295 and \$345.

Townsville's other dwellings experienced mixed changes in their median weekly rental prices. Weekly rental prices for Townsville's 1 bedroom and 2 bedroom dwellings remained at \$280 and \$250, respectively. 3 bedroom dwellings experienced a decline of -5.5% in their weekly rental price, declining to \$312.

## CAIRNS



### **Market Affordability**

Cairns' median house price for the September quarter remained unchanged from the previous quarter at \$395,000. This price, however, reflects an annual decline of -3.2%. 378 sales were reported in the three months, with sales prices ranging from \$330,000 to \$481,300. Cairns' other dwellings experienced a decline of -0.4% in median sale price over the quarter, to \$238,000. This price reflects an annual increase of 3.5%. 270 sales were reported through the quarter, with prices ranging from \$171,400 and \$325,000.

### **Rental Market**

Cairns' median house rents for the September quarter recorded mixed changes. 2 bedroom houses in Cairns experienced a decline of -4.8% in their median weekly rent, down to \$300. 3 bedroom and 4 bedroom houses experienced no changes in their weekly rental prices, remaining at \$360 and \$430 respectively.

Townsville's other dwellings experienced mainly positive changes in their weekly rental prices. 1 bedroom and 2 bedroom experienced an increase of 4.5% and 3.6% in their median weekly rental prices, respectively. Their respective median rental price increased to \$290 and \$350. 3 bedroom dwellings in Cairns did not experience any changes in their median rental price, remaining at \$350 per week over the three months to September.

## SPECIALIZED PROPERTY MARKET

### Investment Activity

Preston Rowe Paterson Research recorded some sales transactions that occurred in the Brisbane Specialised Market during the three months to December 2016:

#### 139 Eumundi Road, Noosaville, QLD 4566

A private investor from Canberra has bought a petrol station under construction from *Empirica Developments* for **\$9.3 million**. The 2,517 m2 site is leased to *7-Eleven* and *KFC* on new **15-year leases**. The sale reflects a **rate of \$3,695 psm**. Noosaville is located about 34.2 km north of the Sunshine Coast CBD.



#### 248-258 Beenleigh-Redland Bay Road, Brisbane, QLD 4000

A *Woolworths*-leased petrol station has sold at auction to a local family for **\$5.1 million**. A small Brisbane syndicate sold the *Caltex Cornubia* with a convenience store on a **yield of 5.41%**. The total site is 6,031 m2 with 2,921 m2 of development land. The sale reflects a **rate of \$846 psm**.

#### Gold Coast Highway, Palm Beach, QLD 4221

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 16.3 km south-east of Gold Coast's CBD.



## HOTEL & LEISURE

### Investment Activity

Preston Rowe Paterson Research recorded the following hotel/leisure property transactions that occurred in Queensland during the December quarter 2016:

#### 63 Jephson Street, Toowong, QLD 4066

Locally based Asian investors have paid **\$15.8 million** for the *Jephson Hotel*. The property has 51-rooms including one and two-bedroom apartments and three-bedroom penthouses. It also features a ground floor restaurant, boardroom facilities, a café and a rooftop function space. The sale reflects a **rate of \$309,804 per room**. Toowong is located about 4 km south-west of Brisbane's CBD.



## REGIONAL MARKET

### Investment Activity

Preston Rowe Paterson Research recorded the following sales transactions that occurred in the Queensland Regional Market, during the three months to December 2016:

#### Rolleston, QLD 4702

*Rural Funds Group* has purchased the *Lynora Downs* for **\$26.5 million**. The property has 780-hectares of cotton and cropping land on a 4,876-hectare site. The buyer will spend a further \$5.7 million over the next year building additional water storage and developing irrigation area. The sale reflects a **rate of \$5,435 per hectare**. Rolleston is located around 292 km south-west of Sydney's CBD.



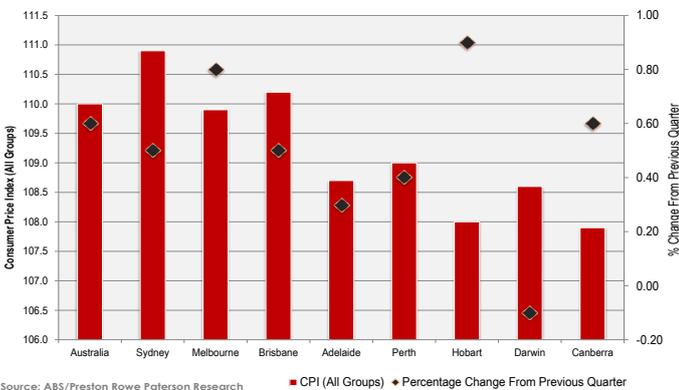
## Economic Fundamentals

### 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%).



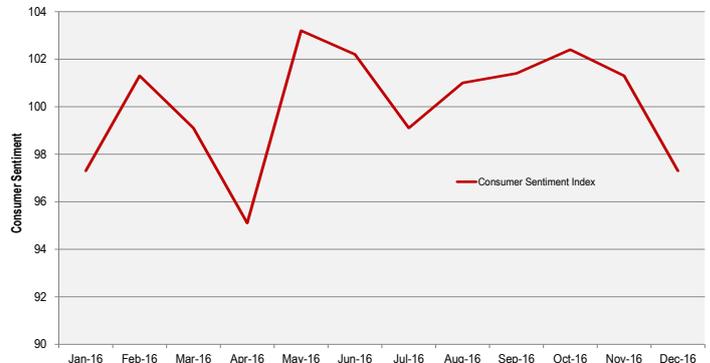
Source: ABS/Preston Rowe Paterson Research  
 Chart 27—All Group CPI (Capital Cities) and Percentage Change from September 2016 to December 2016—Source—ABS

### 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).

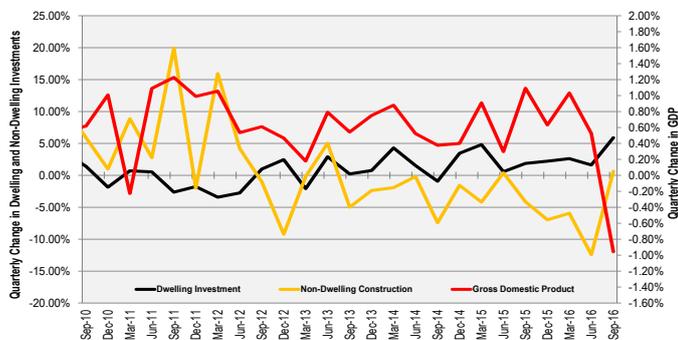
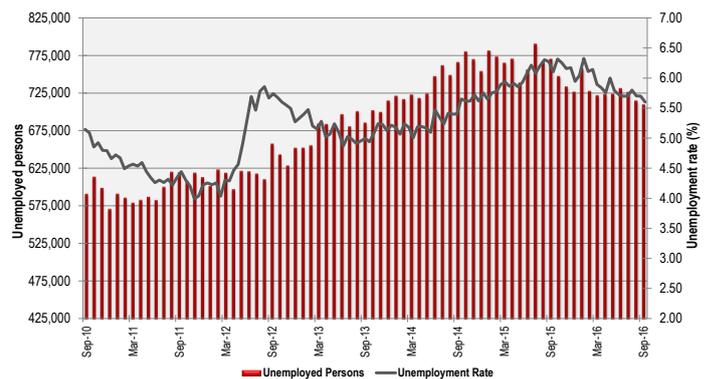


Chart 29— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

## 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.

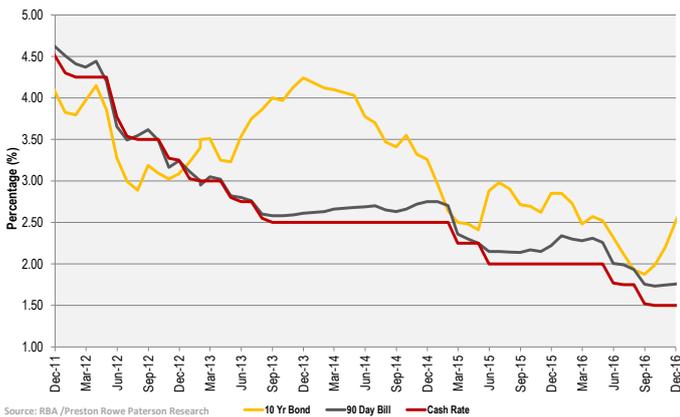
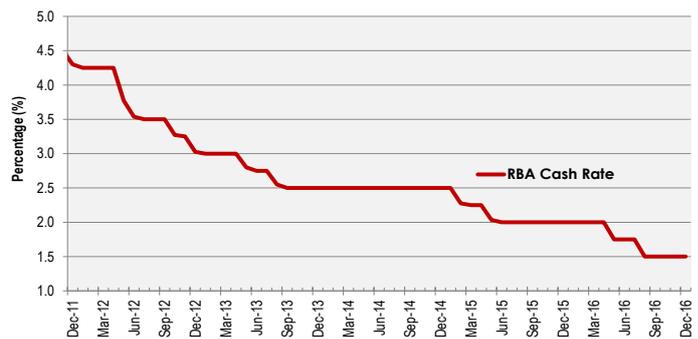


Chart 31— Movement of 90-day Bill, 10-year bond yields and Cash rate from December 2011 to Dec 2016— MONTHLY— Source: RBA

### 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.



Source: RBA /Preston Rowe Paterson Research  
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
- . 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
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- . 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
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- . Litigation support
- . Marketing & development strategies
- . Mortgage valuations
- . Property Management
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- . Relocation advice, strategies and consultancy
- . Rental assessments and determinations
- . Sensitivity analysis
- . Strategic property planning

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