



**Preston**  
*Rowe*  
**Paterson**

®  
International Property Consultants

# Property Market Report

## Victoria

## June Quarter 2017

### HIGHLIGHTS

- ◆ July 2017's PCA Office Market Report indicates that Melbourne CBD's office market increased by 24,000 square metres over the six months to July.
- ◆ Retail turnover for Victoria declined by -0.3% over the month to June. Seasonally adjusted turnover for June stand at \$6,629.1 million, an increase of 4.5% when compared to twelve months prior.
- ◆ When we look at building approval statistics for the Greater Melbourne region, total approvals for the construction of houses declined by -8.8% over the month to June, from May's 2,545 approvals to June's 2,320 approvals.
- ◆ The Real Estate Institute of Australia's (REIA) March Quarter 2017 Report indicates that median house price in Melbourne had increased by 7.6% over the quarter to \$826,000. This figure reflects an annual increase of 19.4%.
- ◆ When we look at apartments in Melbourne, median price had increased by 3.8% over the March quarter, to \$583,000. Over the year, this price reflects an increase of 10.6%.

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## COMMERCIAL OFFICE MARKET

### Melbourne CBD

#### Investment Activity

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

##### 247 Collins Street, Melbourne, VIC 3000

Newspaper House has been acquired by Oriental Holdings from Lian Beng for \$35 million. The 7-storey office property was built in 1884 and has recently been given a facelift with a new façade and a mural. The 100% leased property was sold on a yield of 4.2% and has a WALE of 7.5 years. The sale of the 2,014 m2 property reflects a rate of \$17,378 psm.

##### 114 Flinders Street, Melbourne, VIC 3000

Lloyd Williams has sold a 16-level car park to *HK Realway* for **\$120 million** on a **yield of around 5%**. The building has five ground-level retail tenancies, 1,200 car bays over multiple levels and six levels of office space.

##### 500 Swanson Street, Carlton, VIC 3053

*The Construction, Forestry, Mining and Energy Union* has sold its headquarters to *Redefine Properties* for **around \$26 million**. The 2,266 m2 standalone office building has basement car parking for 35 vehicles and occupies 1,388 m2 of space. Major tenants include *Lonely Planet* and *Slack*. The building has a frontage of 109.53 metres and a 3.5-star NABERS Energy Rating. The buyer plans to redevelop the site for student accommodation. The sale reflects a **rate of \$11,474 psm**. Carlton is located about 1.9 km north-west of the Melbourne CBD.



##### 10-16 Dorcas Street, Melbourne, VIC 3000

*Crescent Wealth* has sold the 8 level, 7,608 m2 office building to a private investor for **\$37 million** on a **yield of 6.5%**. The building has a 4 star NABERS Energy rating and is currently leased to *Dimension Data*. The building has redevelopment potential. The sale reflects a **rate of \$4,863 psm**.

### Leasing Activity

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

##### 150 Lonsdale Street, Melbourne, VIC 3000

The *Australian Institute of Superannuation Trustees* will occupy the whole 23rd floor of a commercial building. The floor has recently been refurbished with exposed surfaces, polished concrete flooring and upgrade lobby and bathrooms. The company has agreed to a **10-year lease** for 1,126 m2 of space. They will pay a net annual rent of **\$420 psm**.

##### 486 Albert Road, Melbourne, VIC 3000

*Catholic Archdiocese of Melbourne* has found a new tenant at level one at **The St Patrick's Centre**, formally the **VECCI** building. *St Vincent's Hospital* will occupy the space for **5-years** at a **net annual rent of about \$350 to \$370 psm**.

##### 555 Bourke Street, Melbourne, VIC 3000

*Clear Edge Offices* will pay a **net annual rent of about \$450 psm** for ground and first floor offices. The 1,212.8 m2 of space will be leased for **7-years**.

##### 300 La Trobe Street, Melbourne, VIC 3000

*Olex Australia* has leased a subdivided 15th floor for **4-years**. The **gross annual rent is \$450 psm**. The total area is 1,053 m2.

##### 18 Oliver Lane, Melbourne, VIC 3000

*SJB* has moved to an 860 m2 office over two fully self-contained floors in a heritage building. The company will pay a **gross annual rent of \$600 psm** to landlord *Marks Henderson*. The lease is for **6-years**.

##### 150 Lonsdale Street, Melbourne, VIC 3000

*Johnstaff Projects* has signed a deal to lease level 26 in a commercial office building owned by *Charter Hall* for **6-years**. The lessee will pay a **net annual rent of \$425 psm** for the 865 m2 of office space. The building has recently been refurbished with new lifts and end-of-trip facilities.

##### 850 Collins Street, Docklands, VIC 3008

The *National Heart Foundation* will occupy 2,154 m2 in a **7-year** lease from *Transport Certification Australia*. *National Heart Foundation* will pay a **gross annual rent of \$420 sqm**. Docklands is located 2km west of Melbourne's CBD.



## Development Sites

July's edition of the PCA's Office Market Report outlines the following developments to be completed within the next three years in Melbourne CBD. Collectively, these new developments will further add close to 500,000 square metres of new office space by the end of 2019. Further details of these developments are outlined in the table below:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
Rialto	525 Collins Street	Construction	Undisclosed	3,589	Q3 2017
664 Collins Street	664 Collins Street	Construction	Mirvac Group	26,000	Q2 2018
One Melbourne Quarter	699 Collins Street	Construction	APPF Commercial	26,400	Q3 2018
Tower 5 - Collins Square	737 Collins Street	Construction	Walker Corporation Pty Ltd	40,000	Q4 2018
80 Collins Street South	80 Collins Street	Construction	Queensland Investment Corporation (QIC)	43,000	Q1 2019
Wesley Church Development	130 Lonsdale Street	DA Approved	Charter Hall	50,000	Q1 2019
The Olderfleet	477 Collins Street	Construction	Mirvac Group	50,000	Q1 2019
405 Bourke Street	405 Bourke Street	DA Approved	Brookfield Office Properties (Brookfield Multiplex)	66,000	Q1 2019
271 Spring Street	271 Spring Street	Site Works	ISPT	15,600	Q3 2019
VIC Police Centre	311 Spencer Street	Construction	Cbus Property / Australia Post	65,000	Q4 2019+
Collins Arch	447 Collins Street	Construction	Cbus Property	49,000	Q4 2019+
396 Docklands Drive	396 Docklands Drive	DA Approved	MAB Corporation	8,880	Mooted
Melbourne Quarter Tower	693 Collins Street	Site Works	Undisclosed	54,000	Mooted

Table 1 – Development Sites around Melbourne CBD – Source PCA



## Supply by Grade (Stock)

July 2017's PCA Office Market Report indicates that Melbourne CBD's office market increased by close to 24,000 square metres over the six months to July. Total supply stands at 4,550,598 square metres, which indicates that the office market had increased by 0.5% over six months and 2.5% over the last year.

Premium Grade stock in Melbourne CBD stands at 751,400 square metres as at July 2017, which approximates to 16.5% of total office stocks. Over the six months to July, Premium Grade stock had increased by 3,900 square metres, or 0.5%, though had declined by -0.5% when we compare to total stock from twelve months prior. There are 2,257,779 square metres of A Grade stock in Melbourne CBD. Over six months, total A Grade stock had increased by 17,817 square metres, or 0.8%. Over the twelve months to July 2017, total A Grade stock had increased by 5.2%. Currently, A Grade stock dominates Melbourne CBD's total office market with a share of 49.6% of total stock.

B Grade stock takes up 19.2% of Melbourne CBD's total office stock, with 875,344 square metres of office space. No change in office stock was recorded over the half year, though total B Grade stock had declined by -0.7% over the twelve months to July 2017. C Grade stock takes up 12.1% of total office stock, with 549,661 square metres of office space. This figure indicates an increase of 0.3% over six months, and 1.4% over twelve months. D Grade stock remain unchanged over the year with 116,414 square metres of stock, or 2.6% of total Melbourne CBD office stock as at July 2017.

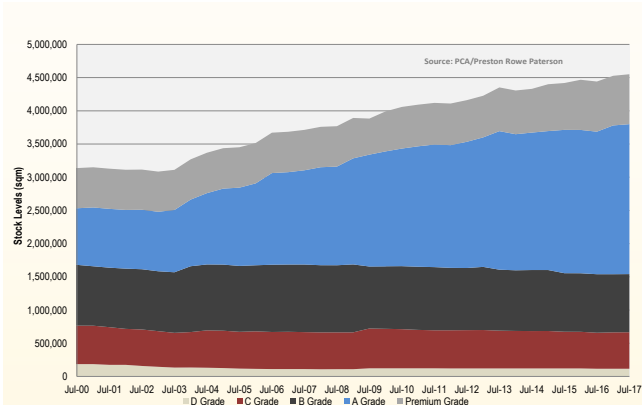


Chart 1— Melbourne CBD Office Stock by Grade —Source— PCA

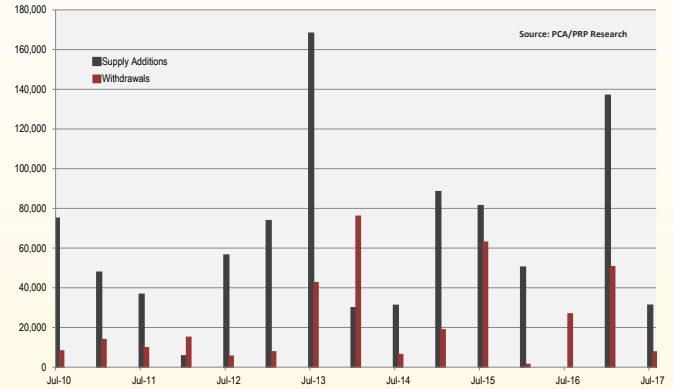


Chart 2— Melbourne CBD Supply and Withdrawals of office stock —Source— PCA

## Vacancy Rates

Over the six months to July 2017, total vacancy of Melbourne CBD's office market stands 6.5%. Direct vacancy in Melbourne CBD increased by 0.1% to 6.1%, whilst Sub-lease vacancy declined by -0.1% to 0.4%. Premium Grade and A Grade buildings experienced declines in their vacancy rates, of -0.5% and -0.4% respectively. Both Premium Grade and A Grade vacancy rate stand at 6.1% as at July 2017. B Grade, C Grade and D Grade vacancies increased over the six months to July. Office vacancy for B Grade offices increased by 0.8% to 6.6%, whilst C Grade and D Grade office vacancies increased by 0.7% and 2.1% respectively, to 9.0% and 3.2%.

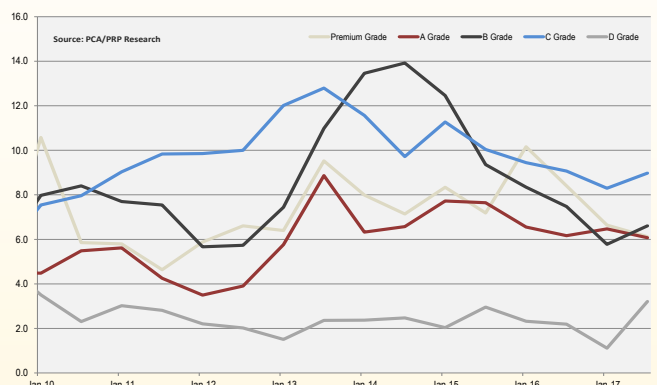


Chart 3— Melbourne CBD Office Vacancy Rate —Source— PCA



## East Melbourne CBD

### Investment Activity

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

#### 658 Church Street, Cremorne, VIC 3121

A 5,184 m<sup>2</sup> office property on a 2,755 m<sup>2</sup> parcel has been acquired by *Stormvalley* for **around \$44 million** on a **yield of close to 5%**. Building 8 has a 4-star NABERS Energy Rating and is fully-leased with a WALE of 5.8-years and a net income of around \$2.2 million. The sale reflects a **rate of \$8,488 psm**. Cremorne is located about 3.9 km south-east of the Melbourne CBD.



### Supply by Grade (Stock)

When we look at East Melbourne's office market, total office space increased by 4.1% over the six months to July 2017- all of which is attributed by the increase of A Grade office stock in the region. When we compare this figure to twelve months prior, total stock recorded an increase of 2.0%. A Grade stock increased by 12.9% to a total of 61,352 square metres over the six months to July. This figure indicates an increase of 6.1% over the year. Currently, A Grade stock takes up 34.6% of total office stock in East Melbourne's office market.

B Grade, C Grade and D Grade stocks remained unchanged over the six months to July. There are 89,164 square metres of B Grade stock, 18,278 square metres of C Grade stock and 8,667 square metres of D Grade stock as at July 2017. B Grade stock dominates East Melbourne's office market with 50.2% of total stock, whilst C Grade and D Grade stocks take up 10.3% and 4.9%, respectively.

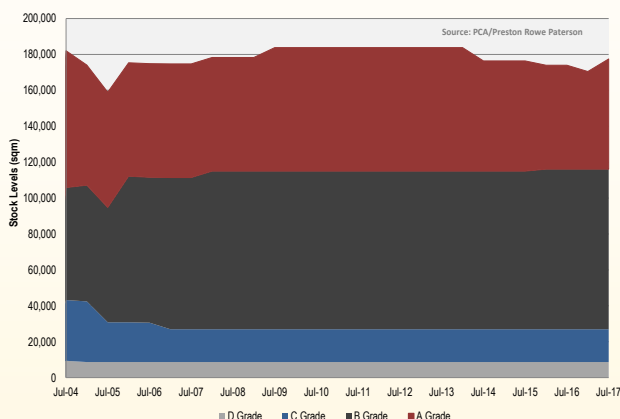


Chart 4— East Melbourne Office Stock by Grade —Source— PCA

### Vacancy Rates

Total vacancy rate in East Melbourne's office market increased by 1.1% to 3.3%. This increase was attributed by the increase in direct vacancy, which increased to 3.3%, whilst sub-lease vacancy remained unchanged at 0.0%. Over the year, total vacancy in East Melbourne had increased by 1.8%. A Grade, B Grade, C Grade and D Grade office vacancies all experienced increases over the six months to July 2017. A Grade office vacancy increased by 0.8% to 5.3%, B Grade vacancy increased by 0.3% to 1.6%, C Grade vacancy increased by 3.8% to 3.8% and D Grade vacancy increased by 3.6% to 5.9%.

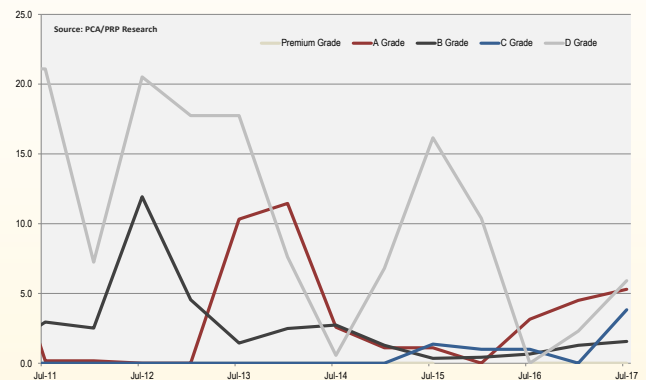


Chart 5— East Melbourne Vacancy Rate —Source— PCA



## Southbank CBD

### Investment Activity

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

#### 31 Market Street, South Melbourne, VIC 3205

A local buyer has purchased a 2,565 m<sup>2</sup> of lettable area office building for **\$19.4 million**. The four-level building features basement and ground floor parking for 41 vehicles and boutique style office accommodation. The internal foyers and office space within the fully-let building has recently been refurbished. The sale reflects a **yield of 5.4%** and a **rate of \$7,563 psm**. South Melbourne is located about 2 km south of the Melbourne CBD.

#### 36-40 Toorak Road, South Yarra, VIC 3141

An 800 m<sup>2</sup> 3-level office and retail building has been sold by SC Land for **\$9.5 million** on a **4% yield**. The property was redeveloped in 2007 to add the two levels of office space on top of the two ground-floor retail spaces. The 800 m<sup>2</sup> building occupies a 332 m<sup>2</sup> block of land and brings in an annual rent of \$383,000. The sale reflects a **rate of \$28,614 psm**. South Yarra is located about 4.7 km south-east of Melbourne's CBD.

### Development Sites

July's edition of the PCA's Office Market Report recorded the following office space development in Southbank's office market:

Project Name	Address	Stage of Development	Owner	Net Lettable Area (SQM)	Completion Date
ABC Development	102 Sturt Street	Construction	Australian Broadcasting Corporation	30000	Q3 2017

Table 2— Development Sites of commercial space in Southbank — Source PCA

### Supply by Grade (Stock)

Total office stock in Melbourne's Southbank declined by -1.1% over the six months to July, to 401,142 square metres. The market is dominated by A Grade stock, with 61.9% of total share or 248,263 square metres of office space. A Grade stock declined by -0.2% over the last twelve months. B Grade stock takes up 25.7% of total Southbank office market, with 102,994 square metres. Over the six months to July, total B Grade stock had declined by -1.0%, though over the twelve months had increased by 2.8%. There's 46,803 square metres of C Grade stock in the Southbank office market, which approximates to 11.7% of total stock. Over the six months, C Grade stock had declined by -7.1%, and over twelve months had declined by 9.6%. D Grade stock takes up 0.8% of Southbank's office stock, with 3,082 square metres of office space. Total D Grade stock had not changed for the last thirteen years.

### Vacancy Rates

Melbourne Southbank's total vacancy declined by -0.7% to 3.3% over the six months to July 2017. This change was attributed to a decline in direct vacancy of -1.6% to 2.5% and an increase of 0.8% in sub-lease vacancy to 0.9%. A Grade and B Grade vacancies declined by -1.2% and -0.4% respectively, to 3.2% and 4.7%. In contrast, C Grade and D Grade offices experienced increases in their vacancies. C Grade office vacancy increased by 0.1% to 1.0%, whilst D Grade vacancies increased by 7.5% to 7.5%.

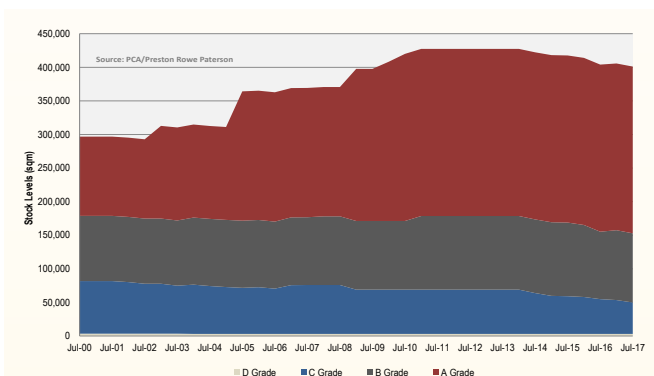


Chart 6— Southbank Office Stock by Grade —Source— PCA

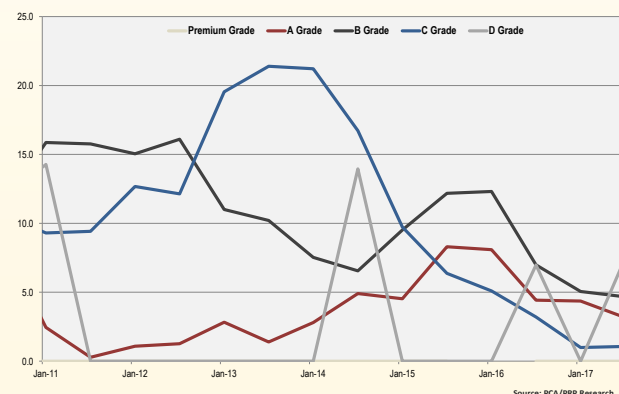


Chart 7— Southbank CBD Vacancy Rate —Source— PCA



## St Kilda Road

### Investment Activity

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

#### 390 St Kilda Road, Melbourne, VIC 3000

Rockworth Capital Partners have acquired a 28-level office tower from Fort Street Real Estate Capital for **\$90 million**. The area's tallest building has a newly refurbished foyer, an onsite café and 3.5 NABERS energy star rating. The sale of the 16,307 m2 building reflects a **rate of \$5,519 psm**.



### Supply by Grade (Stock)

As at July 2017, total office stock in St Kilda Road stood at 667,281 square metres. This figure indicates that over six months, total office stock had declined by -2.4%, and when compared to twelve months prior, had declined by -2.8%. When we look at A Grade stock in St Kilda Road, total stock remains unchanged over the year at 245,325 square metres. As at July 2017, A Grade stock takes up 36.8% of total office stock in St Kilda Road. B Grade stock takes up 42.0% of total St Kilda Road office stock, with total office space of 280,208 square metres. Over twelve months, total B Grade stock had declined by -5.5%. C Grade stock takes up 136,524 square metres of office space in St Kilda Road, or 20.5% of total office space. Over the six months, total C Grade stock had declined by -0.3%, and over twelve months, total stock had declined by -1.9%. D Grade stock takes up 0.8% of total office stock in St Kilda Road, with 5,224 square metres of space. Total D Grade stock remains unchanged over the year to July 2017.

### Vacancy Rates

Total vacancy in St Kilda Road's office market declined by -1.9% to 11.3% over the six months to July 2017. Direct vacancy declined by -3.1% to 8.5%, whilst sub-lease vacancy increased by 1.1% to 2.8%. B Grade office vacancy declined over the period, by -4.5% to 12.6%. In contrast, A Grade, and C Grade vacancies increased. A Grade vacancy increased by 0.5% to 6.1% whilst C Grade vacancy increased by 0.8% to 18.4%. D Grade office vacancy remained unchanged at 0.0%.

### Leasing Activity

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

#### 484 St Kilda Road, Melbourne, VIC 3000

Bayside Group will move from its previous office space that is undergoing redevelopment to occupy a 1,342 m2. The company will lease for **10-years** at a **net annual rent of around \$330 to \$400 psm**.

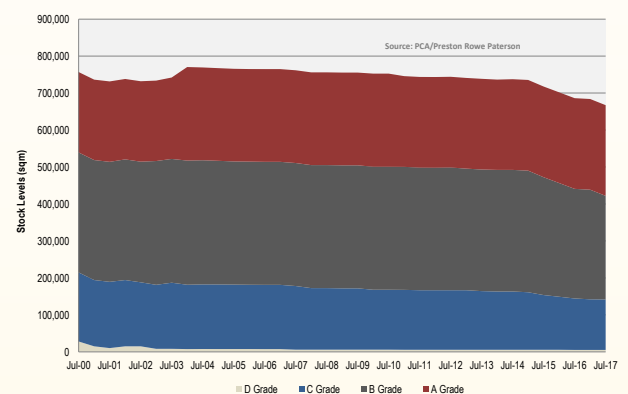


Chart 8— St Kilda Road Office Stock by Grade —Source— PCA

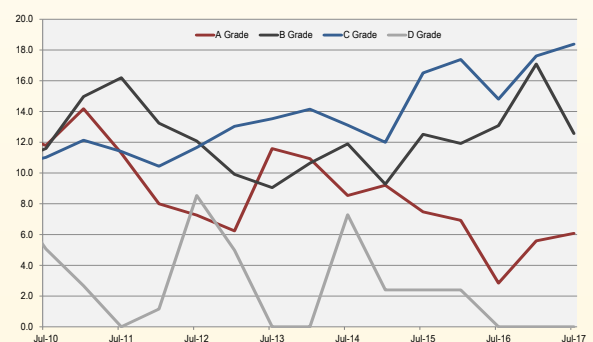


Chart 9— St Kilda Road Vacancy Rate —Source— PCA

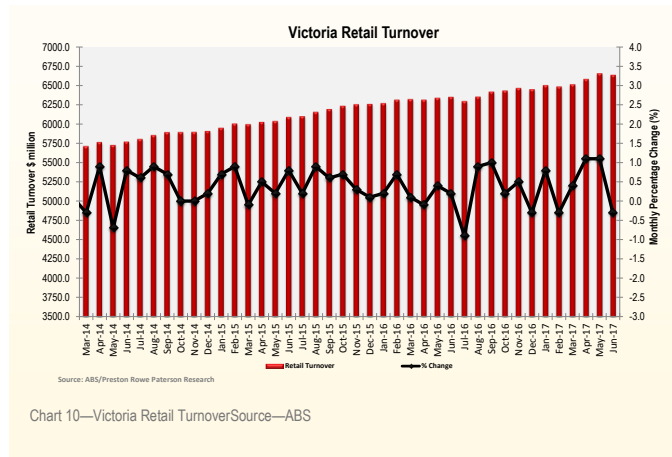


## RETAIL STATISTICS

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%).

Retail turnover for Victoria declined by -0.3% over the month to June. This decline comes after an increase over the month to May of 1.1%, and an increase over the month of April of 1.1%. Seasonally adjusted turnover for June stand at \$6,629.1 million, an increase of 4.5% when compared to twelve months prior. In comparison, Australia's total retail turnover increased by 0.3% over the month to June, following a rise of 0.6% in May. Total turnover for the month of June in Australia amounted to a seasonally adjusted \$26,150.7 million.

When we look at the major retail groups, Household goods was the only group to experience an increase in turnover the month, of +0.2% to \$1,235.9 million. Over the year, household goods turnover had increased by 7.54%. In contrast, Department stores, Other retailing, Food retailing and Clothing & footwear all experienced declines in turnover over the month. Department store turnover declined by -1.1% to \$393.9 million, Other retailing turnover declined by -0.4% to \$1,018.1 million, Food retailing turnover declined by -0.4% to \$2,548.2 million and Clothing and footwear turnover declined by -0.7% to \$558.8 million.



## 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 Victorian metropolitan areas during the three months to June 2017:

#### 263 High Street, Bendigo, VIC 3550

Guisepppe Scaturchio has sold an 8,626 m2 bulky-goods store for **\$14.46 million** on a **yield of 6%**. The property is on a renewed 5-year lease to *Bunnings*, plus further options through to 2041. The building features a main warehouse, timber yard and nursery and occupies a 31,453 m2 site, which includes adjoining surplus land. There are also 227 on-site car spaces. The sale reflects a **rate of \$460 psm**.



#### 11 High Street, Hastings, VIC 3915

Henkell Brothers Investment Managers has bought the **Hastings Central Shopping Centre** for **\$32.1 million** on a **6.2% yield**. The centre is anchored by *Kmart* with 4-years remaining on the lease and an *Aldi* supermarket. There are also 13 specialty shops in the 8,015 m2 centre. The sale reflects a **rate of \$4,005 psm**. Hastings is located about 61.7 km south-east of the Melbourne CBD.



#### Cnr Cardinia Road & Princes Highway, Officer, VIC 3809

The **Arena Shopping Centre** has been bought by an investor from Shenzhen for **\$48 million** on an **initial yield of 5.38%**. The centre occupies a 29,730 m2 site and is anchored by a 4,100 m2 *Woolworths* and *BWS* on a 20-year lease. There are also 25 specialty retailers and a freestanding *McDonald's* and *Caltex* service station. The sale of the 8,167 m2 property reflects a **rate of \$1,615 psm**. Officer is located around 51.5 km south-east of Melbourne's CBD.

#### Sydney Road, Brunswick, VIC 3056

A Chinese investor has paid **\$13.5 million** for a new *Woolworths* supermarket off-the-plan on a **yield of 4.8%**. The small-format supermarket is part of an 86 apartment development with seven

upper levels. The 1,000 m2 store is on a 12-year lease. The sale reflects a **rate of \$13,500 psm**. Brunswick is located about 5.3 km north of the Melbourne CBD.

#### Baxter-Tooradin Road, Baxter, VIC 3911

A local investor has acquired the **Baxter Central Shopping Centre** for **nearly \$17 million** on a **5.6% yield**. The *Woolworths*-anchored neighbourhood shopping centre includes a *BWS* liquor store and six specialty shops. The sale of the 4,218 m2 property reflects a **rate of \$4,030 psm**. Baxter is located around 60.4 km south-east of the Melbourne CBD.

#### 241 Bay Road, Cheltenham, VIC 3192

*ICD* and *Wingate* have sold a 5,225 m2 gymnasium on a 9,057 m2 site for **\$17.55 million**. The property is leased to *Fitness First* for 8-years. The sale reflects a **rate of \$1,938 psm**. Cheltenham is located around 20.5 km south-east of Melbourne's CBD.



#### 51-57 Elgin Boulevard, Wodonga, VIC 3690

*Vicinity Centres* has sold the 17,565 m2 **Wodonga Plaza** for **\$43.5 million** to *M/Group* and is set to settle this month. The plaza is anchored by *Coles* and *Target* and *Woolworths*. The sale reflects a **rate of \$2,477 psm**. Wodonga is located approximately 305 km North-east of Melbourne CBD.



## INDUSTRIAL MARKET

### Investment Activity

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

#### Australia Industrial Sales Wrap

*Blackstone* has paid **\$126 million** to *Charter Hall* for a portfolio of industrial assets. The portfolio includes 150,000 m2 of industrial land with two properties in Victoria and two in Queensland. The properties are 95% occupied and a portfolio lease expiry of 5.2-years.

#### 40 Howleys Road, Notting Hill, VIC 3168

A private investor has sold an office/warehouse property to a private buyer for **\$10.55 million**. The property is vacant. Notting Hill is located around 21.4 km south-east of the Melbourne CBD.

#### 58-86 Toll Drive, Altona, VIC 3018

*Matthew Brothers Engineering* has acquired a 3,400 m2 factory with dual gantry cranes, external truck wash area, a paint shop and 330 m2 of office space for **\$7 million**. *Cadence Property Group* sold the site that has more than 8,000 m2 of expansion land. The property is located within the **Altona Logistics Park**. Altona is located around 16.8 km south-west of the Melbourne CBD.

#### Australia Industrial Sales Wrap

The *Lederer Group* has sold its portfolio of 10 meat processing plants run by *JBS* to *Charter Hall* for **\$179.4 million**. Most of the facilities are in Victoria and NSW and were sold on an **initial yield of 6.5%**.

#### 68-80 Kirkham Road West, Keysborough, VIC 3173

*Osprey Property* has purchased 33,000 m2 of warehousing facilities on a 6.4-hectare site. The net rent is \$1.58 million with a lease in place to *Venture Group Australia* until the end of the year. Keysborough is located about 26.2 km south-east of the Melbourne CBD.

#### 13-27 & 29-43 Whiteside Road, Clayton South, VIC 3169

A Chinese foreign investor has acquired a 39,720 industrial site for **\$23 million** across two titles. The warehouse and office space on the site is leased to *CSR Building Products* with a 7.75-year WALE and a **net annual yield of 6.56%**. The sale reflects a **rate of \$579 psm**. Clayton South is located about 22.7 km south-east of the Melbourne CBD.

#### 139-149 Boundary Road, North Melbourne, VIC 3051

*Grange Developments* has purchased a 4,900 m2 office and warehouse property from a private family for **more than \$14 million**. The 4,504 m2 site is leased to *Homyped*. The buyer plans to hold the site with the possibility of a future rezoning under the Arden-Macaulay urban renewal plan. The sale reflects a **rate of \$3,108 psm**. North Melbourne is located about 2 km north-west of the Melbourne CBD.

#### 7-23 Dunmore Drive, Truganina, VIC 3029

*CorVal* has sold the **Montague Cold Storage** to *Deutsche Asset Management* on behalf of a German institutional fund for **\$66 million**. The high-tech logistics facility is three years old and is fully-leased to *Montague Cold Storage*. The cold storage warehouse is nearly 17,000 m2 and features freezer rooms, cold room annex, facility rooms and administration offices. The sale reflects a **rate of \$3,882 psm**. Truganina is located around 23.5 km south-west of the Melbourne 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*.

#### 10-16 Evolution Drive, Dandenong, VIC 3175

*Huabao Investment Holdings Australia*, backed by *Zhejiang Shanghong Shelf Co*, has purchased a purpose built office warehouse of 5,118 m2 for **\$6.1 million**. *RANDC Developments* and *CM Innovation Park* sold the property. The sale reflects a **rate of \$1,192 psm**. Dandenong is situated approximately 31.3 km south-east of Melbourne's CBD.

#### 495-501 Blackburn Road, Mount Waverley, VIC 3149

*FIFE Capital* has bought **Gateway Business Park** from *EG* for **\$76 million**. The property which has a net lettable area of 22,000 sqm is currently leased to *Leica Biosystems* and *Meticon Homes*. The building includes offices, a laboratory, a warehouse and storage facilities. The sale reflects a **rate of \$3,455 psm**. Mount Waverley is located approximately 18.1 km south-west of Melbourne CBD.

#### 18 Victoria Crescent, Abbotsford, VIC 3067

*Cadence Property Group* has purchased a 4,836 m2 office/warehouse for **\$10.5 million** in an acquisition and leaseback deal with ASX listed *Spotless*. The sale reflects a **rate of \$2,171 psm**. Abbotsford is located approximately 4.5 km south-west of Melbourne's CBD.



## Leasing Activity

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

### 17 Stoney Way, Derrimut, VIC 3030

A private landlord has found a new tenant for its 2,073 m2 warehouse. *Kyda Group* will occupy the property for **3-years with options** at a **net annual rent of \$68 psm**. Derrimut is located about 18 km west of the Melbourne CBD.



### 4 Fiveways Boulevard, Keysborough, VIC 3173

*Intertrading Australia* has secured a **4-year lease** of a warehouse with a secure yard. The net annual rent for the 2,423 m2 building is **\$88 psm**. Keysborough is located around 26.2 km south-east of the Melbourne CBD.

### 19 White Street, Maribyrnong, VIC 3032

*Snooze* will occupy a 1,227 m2 warehouse for **18 months** until it finds a larger facility. The **net annual rent is \$48 psm**. Maribyrnong is located about 8.7 km north-west of Melbourne's CBD.

[AFR 04/04/2017]

### 17-21 David Street, Brunswick, VIC 3056

*Pet Rescue Superstore* has secured a lease for a 1,184 m2 office and warehouse property for a new outlet. The company will pay a **net annual rent of \$80 psm** for **5-years**. Brunswick is located about 5.3 km north of the Melbourne CBD.

### 260 Fairbairn Road, Sunshine West, VIC 3020

*Moreton Hire* has moved into a 5,988 m2 industrial property for **3-years**. The landlord *Palazzo Filomeno* will be paid a **net annual rent of \$67 psm**. Sunshine West is located around 13 km west of the Melbourne CBD.

### 6/19-23 Paramount Road, West Footscray, VIC 3012

*Platinum Safes* has leased an 870 m2 industrial building for **3-years with options**. The **net annual rent is \$55 psm**. The landlord is private. West Footscray is located about 8.4 km north-west of Melbourne's CBD.



### 27-43 Toll Drive, Altona North, VIC 3025

*LOGOS* has found a new tenant for its 16,229 m2 industrial facility. *Storage & Material Handling Group* will be the lessee. Altona North is located around 12.8 km south-west of the Melbourne CBD.

### 480 Princes Highway, Scoresby, VIC 3179

A 4,800 m2 site with a 1,764 m2, two level office with rear hardstand and 60 car spaces has been leased by *Seeley International* for **5-years**. A private Melbourne investor landlord leased the property to the new tenant for \$160,000 per annum. The lease reflects a **rate of \$33 psm**. Scoresby is located about 28.5 km south-east of Melbourne's CBD.

### 110-118 Cochranes Road, Moorabbin, VIC 3189

*Mahogany by Hand* has agreed

to lease a 1,340 m2 office/warehouse for **3-years** to accommodate its expansion. The

property comprises a first-floor office/showroom, a warehouse with eight metres internal height and 15 on-site car spaces. The **annual rent is \$94 psm**. Moorabbin is located around 15.5 km south-west of the Melbourne CBD.



### 31 Essex Street, Port Melbourne, VIC 3207

The *Circus Spot Reason* has been signed on by a private family landlord for a 1,000 m2 clear-span warehouse. The property features container-height roller doors and small offices. The net annual rent for the property is **\$95 psm**. The lease is for **5-years with options**. Port Melbourne is located around 5 km south-west of the Melbourne CBD.

### 490-500 Western Port Highway, Cranbourne West, VIC 3977

*CIMC Vehicle Australia* and *Marshall Lethlean* will combine their operations after pre-leasing a 13,290 m2 truck and trailer manufacturing facility. The \$20 million facility in the Cranbourne West industrial precinct will be built by *Chadwick Investments* on the 5-hectare site. The pre-lease is for **12-years**. Cranbourne West is located about 46 km south-east of the Melbourne CBD.

### 71-75 Redwood Drive, Dingley Village, VIC 3172

*Grapeworks* has leased a 2,342 m2 warehouse for **4-years with options**. The landlord *Holyoake Industries* leased out the property for a **gross annual rent of \$87 psm**. Dingley Village is located about 26.1 km south-east of Melbourne's CBD.





### **332 Plummer Street, Port Melbourne, VIC 3207**

ULR has agreed to occupy a 3,432 m2 warehouse for **5-years**. The property also has 2,000 m2 of hardstand area. The **annual rent is approximately \$100 to \$110 psm**. Port Melbourne is located around 5 km south-west of the Melbourne CBD.

### **14 Allied Drive, Tullamarine, VIC 3043**

A private pre-fab homes business has agreed to lease an office and warehouse on a **net annual rent of \$67 psm**.

The 720 m2 building occupies a 1,000 m2 site. Tullamarine is located around 16.4 km north-west of Melbourne's CBD.



### **1 Chifley Drive, Moorabbin Airport, VIC 3194**

Ellis Air Conditioning has leased the modern 5,804 m2 warehouse in the *Chiefly Business Park* for **10-years** with a **net annual rent around \$100 psm**. Moorabbin Airport is located 23.2km south-east of Melbourne's CBD.

### **186-190 Discovery Road, Dandenong South, VIC 3175**

Ecolab will occupy a 10,425 m2 office and warehouse premises for **10-years**. The property is located within *Frasers Property Australia's South Park Industrial Estate*. Dandenong South is located around 31.3 km south-east of the Melbourne CBD.



### **Derrimut Drive, Derrimut, VIC 3030**

Silk Contract Logistics has leased a 20,337 m2 warehouse and office property from *Frasers Property Australia* for **6-years**. The property located within the **West Park Industrial Estate** will be used to service two new blue chip food manufacturing customers. Derrimut is located about 19.4 km west of the Melbourne CBD.

### **8-10 River Street, Richmond, VIC 3121**

Roy Morgan Research will occupy the 1,570 sqm office- warehouse for **5-year** term with options for net annual rent \$300,000 per

annum. The lease reflects a **rate of \$191psm**. Richmond is located 3.8 km east of Melbourne's CBD.

### **178 Northbourne Road, Campbellfield, VIC 3061**

Landlord *Findella* has leased its 3,600 m2 warehouse to a private mail house group and will receive a gross annual rent of \$190,000 on a **4-year** lease term. The lease reflects a **rate of \$53 psm**. Campbellfield is located 15.3 km north of Melbourne CBD.

### **45 Jessica Road, Campbellfield, VIC 3061**

Developer *Fulton Hogan* has leased a refurbished office- warehouse for a **3-year** lease term. The 2,838 sqm property has roller-door access and a large power supply. Although the net annual rent was not disclosed, indicative rents in the area are about **\$80-85 psm**. Campbellfield is located 15.3 km north of Melbourne CBD.

### **600 Geelong Road, Brooklyn, VIC 3012**

Benworth Transport has leased a 4,596 m2 warehouse in building 4 from *GM Property* for a **net annual rent of \$65 psm**. Brooklyn is located 12.6 km west of Melbourne CBD.

### **600 Geelong Road, Brooklyn, VIC 3012**

*GM Property* has leased a 5,100 m2 warehouse in building 6 to *JBS International* for a **net annual rent of \$65 psm**. Brooklyn is located 12.6 km west of Melbourne CBD.

### **73-75 Canterbury Road, Kilsyth, VIC 3137**

*Jackaroo Timber* has committed to leasing a 4,061 m2 office and warehouse on a **5-year** lease. The property which has multiple roller doors, 250 m2 of office space and rear yard parking will amount to a cost of



**\$240,000 psm gross annual rent**. Kilsyth is located approximately 32 km East of Melbourne CBD.

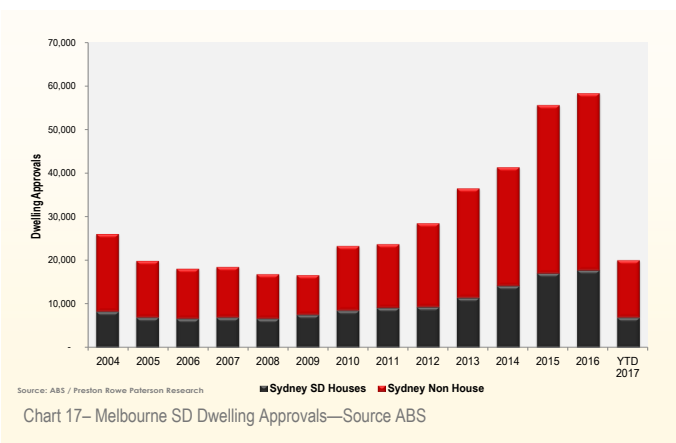
## RESIDENTIAL MARKET

### Building Approvals

Total approvals for the construction of houses declined by -8.8% over the month to June, from May's 2,545 approvals to June's 2,320 approvals. Over the twelve months to June, total house approvals had increased by 2.8%, up from June 2016's 2,257 building approvals.

When we look at approvals for the construction of apartments and units in Greater Melbourne, an increase of 7.7% over the month to June was recorded. Total approvals for apartment construction had declined by -24.1% over the last twelve months, from June 2016's total approvals of 2,607 to June 2017's total figures of 1,980.

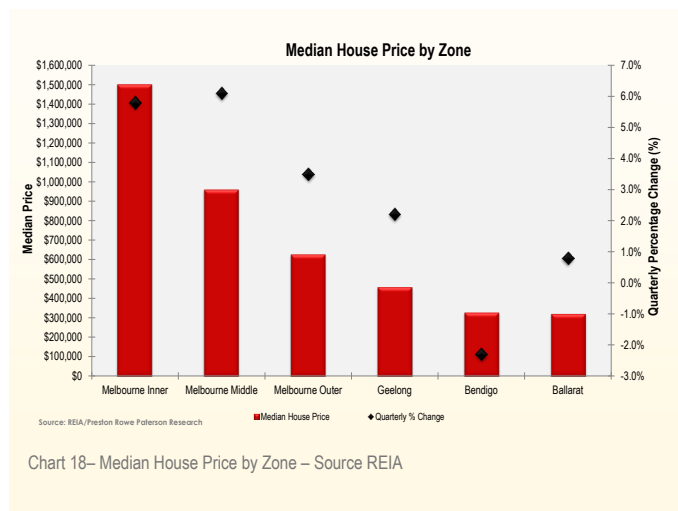
Total building approvals declined by 1.9% over the month, to 4,300. When we look at change over the last twelve months, total approvals had declined by -11.6%, from June 2016's total approvals of 4,864.



### Market Affordability

The Real Estate Institute of Australia's (REIA) March Quarter 2017 Report indicates that median house price in Melbourne had increased by 7.6% over the quarter to \$826,000. This figure reflects an annual increase of 19.4%. When we look at sales of Inner Melbourne houses, a quarterly increase of 5.9% was recorded, with median house price increasing to \$1,501,500. There were 1,492 sales reported by REIA, with sale prices ranging from \$1,132,500 and \$2,050,000. This quarter's median sale price reflects an annual increase of 20.6%.

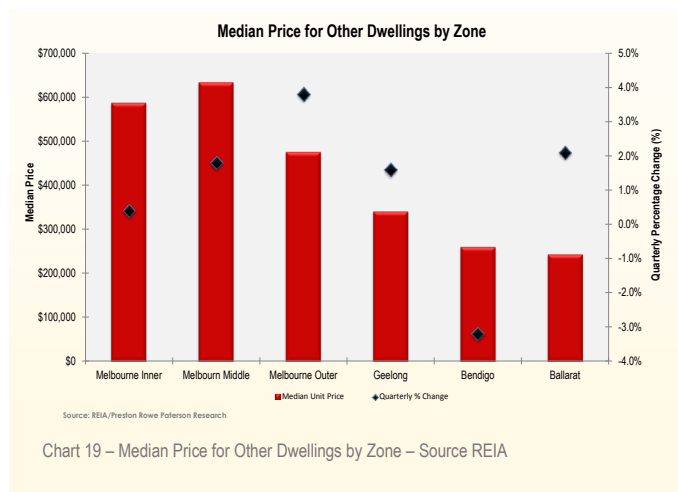
Middle Melbourne's median house price increased by 6.1% over the March quarter to \$961,000. There were 2,497 sales reported by the REIA, with sale prices ranging from \$688,000 and \$1,345,500. Annual percentage change was recorded at 16.6%. When we look at Outer Melbourne's housing market, median sale price had increased by 3.5% to \$628,500. There were 4,529 reported sales, with sale prices ranging



from \$489,000 and \$818,000. Over the year, median sale price increased by 13.7%.

When we look at other dwellings in Melbourne, median price had increased by 3.8% over the March quarter, to \$583,000. Over the year, this price reflects an increase of 10.6%. When we look at other dwellings in Inner Melbourne, median house price had increased by 0.4% to \$587,000. There were 2,053 sales reported, with sales prices ranging from \$432,500 and \$801,000. Over the year, prices had increased by 5.8%.

Middle Melbourne's other dwellings' median sale price increased by 1.8% to \$633,500. There were 1,499 reported sales, with sale prices ranging from \$467,500 to \$845,000. Annual change in median price in Middle Melbourne was recorded at 13.8%. Outer Melbourne's other dwellings' median price increased by 3.8% to \$475,500. There were 902 recorded sales in the region, with sale prices ranging from \$374,500 to \$611,500.







## Rental Market

Over the three months to March 2017, weekly rents increased for all house types in Melbourne. 2, 3 and 4 bedroom houses in Inner Melbourne experienced respective increases of 1.8%, 0.7% and 2.7%. 2 bedroom weekly rents increased to \$560, whilst 3 and 4 bedroom weekly rents increased to \$725 and \$940 respectively. When we look at Middle Melbourne, 2, 3 and 4 bedroom houses experienced increases of 3.5%, 2.1% and 8.3% respectively. 2 bedroom median weekly rents increased to \$440, 3 bedroom median weekly rents to \$490 and 4 bedroom median weekly rents increased to \$650. In Outer Melbourne, 2, 3 and 4 bedroom weekly rents increased by 1.6%, 2.9% and 2.5% respectively. 2 bedroom rents increased to \$425, 3 bedroom rents increased to \$360 and 4 bedroom rents increased to \$410.

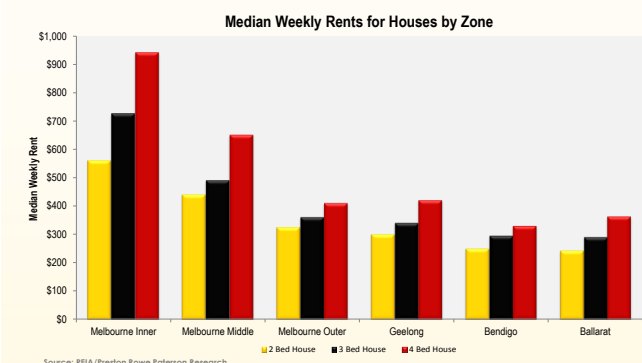


Chart 20– Melbourne Median Weekly Rents for House by Zone – Source REIA

Median weekly rents for other dwellings in Melbourne experienced an overall increase over the March quarter. Inner Melbourne's 1, 2 and 3 bedroom dwellings experienced increases of 2.7%, 6.0% and 4.2% respectively. 1 bedroom median weekly rents increased to \$380, 2 bedroom median weekly rents increased to \$530 and 3 bedroom median weekly rents increased to \$750. Middle Melbourne's 1 bedroom dwellings experienced a decline of -3.3% in its median weekly rent, declining to \$290. 2 and 3 bedroom dwellings increased by 1.3% and 1.0%, to \$400 and \$500 respectively. Outer Melbourne's 1, 2 and 3 bedroom other dwellings experienced an increase of 6.0%, 1.6% and 2.8% respectively. 1 bedroom median weekly rent increased to \$265, 2 bedroom weekly rents increased to \$400 and 3 bedroom weekly rents increased to \$500.

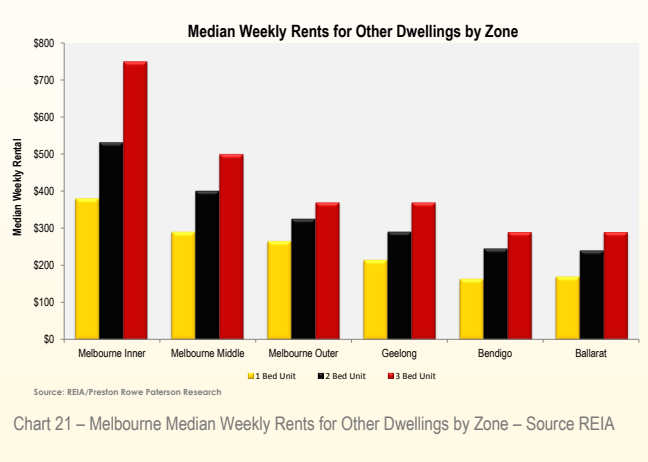


Chart 21 – Melbourne Median Weekly Rents for Other Dwellings by Zone – Source REIA

## GEELONG

### Market Affordability

Over the March quarter 2017, median house price in Geelong increased by 2.2% to \$460,000. There were 2,776 sales reported by REIA, with sale prices ranging from \$368,000 and \$609,500. Annual change for house prices in Geelong was recorded at 7.0%. When we look at other dwellings in Geelong, median price increased by 1.6% to \$340,500. There were 512 sales reported in the report, with sale prices ranging from \$268,000 and \$485,000. Annual change in other dwellings in Geelong was recorded at 1.9%.

### Rental Market

Geelong's 2 and 3 bedroom houses experienced increases of 3.4% and 3.0%, respectively, in their median weekly rents. 2 bedroom house rents increased to \$300 per week, whilst 3 bedroom house rents increased to \$340 per week. 4 bedroom houses in Geelong experienced no change in their median weekly rent, remaining at \$420 per week. When we look at weekly rent for 1 and 3 bedroom other dwellings in Geelong, respective increases of 2.4% and 2.8% were recorded over the quarter. 1 bedroom rents increased to \$215 per week, whilst 3 bedroom rents increased to \$370 per week. Geelong's 2 bedroom other dwellings' median rents remained unchanged, at \$290 per week.

## BENDIGO

### Market Affordability

Median house price in Bendigo declined by -2.3% over the March quarter to \$329,800. There were 1,799 sales recorded, with sale prices ranging from \$255,000 and \$410,000. Annual change over the year was recorded at -3.0%. Bendigo's other dwellings recorded a change of -3.2% in their median price, declining to \$260,000. There were 116 recorded sales, with sale prices ranging from \$215,000 and \$310,000. Annual change in Bendigo's other dwellings market was recorded at -4.0%.

### Rental Market

Bendigo's 2 bedroom houses experienced a decline of -3.8% in their median weekly rent, down to \$250 per week. 3 and 4 bedroom houses in Bendigo experienced no change in weekly rent over the quarter, remaining at \$295 and \$330 respectively. When we look at Bendigo's units and apartments, 1 bedroom dwellings experienced a decline of -8.9% in weekly rent to \$164. 3 bedroom dwellings experienced a decline of -1.7% in median weekly rents, to \$290. 2 bedroom dwellings in Bendigo experienced an increase of 2.1% in their median weekly rents, increasing to \$245 per week.

## BENDIGO

### Market Affordability

Over the March quarter 2017, Median house price in Ballarat had increased by 0.8% to \$322,500. There were 1,799 recorded sales over the quarter, with sale prices ranging from \$255,000 to \$410,000. Annual change over the quarter was recorded at 0.8%. When we look at other dwellings in Ballarat, median sale price had increased by 2.1% to \$243,000. There were 270 sales that were recorded over the quarter, with sale prices ranging from \$200,000 and \$298,000. Annual change over the year was at -1.2%.

### Rental Market

Ballarat's 2 bedroom houses experienced a decline of -2.8% to \$243 in their median weekly rent over the March quarter. In contrast, 3 and 4 bedroom houses in Ballarat experienced increases of 1.8% and 0.8% respectively. Median weekly rent for 3 bedroom houses increased to \$290, while median rent for 4 bedroom houses increased to \$363. Ballarat's 1 and 3 bedroom apartments experienced an increase of 3.0% and 1.8%, respectively, in their weekly rents. 1 bedroom dwellings median rent now stands at \$170 per week, whilst 3-bedroom dwelling median rent now stand at \$290. 2 bedroom dwellings experienced no change in their weekly rent, remaining at \$240 per week.

## RESIDENTIAL DEVELOPMENT

### 5-7 Montgomery Place, Bulleen, VIC 3105

A local developer has paid **\$4.491 million** for a 2,050 m2 development site. The site currently comprises two houses and a vacant 775 m2 lot. An 8-townhouse development has been earmarked for the site. The sale reflects a **rate of \$561,375 per townhouse**. Bulleen is located about 13.9 km north-east of the Melbourne CBD.

### 1780 Mickleham Road, Craigieburn, VIC 3064

*Stockland* has acquired a 77-hectare land parcel from the Cicerale family for **\$75 million**. The site has the capacity for 950 lots. The land will be combined with the **Highlands** residential community, which is adjacent to the site. The sale reflects a **rate of \$78,947 psm**. Craigieburn is located about 24.5 km north of the Melbourne CBD.

### 496-508 La Trobe Street, West Melbourne, VIC 3003

*Holder East* has purchased a commercial car park from a syndicate of Indonesian investors for **about \$25 million**. The 1,877 m2 corner site could be developed into a residential, hotel or commercial project of around 15 storeys. The sale reflects a **rate of \$13,319 psm**. West Melbourne is located around 1.8 km north-west of the Melbourne CBD.

### Oakwood Road, Albanvale, VIC 3021

A developer from China has bought an 8.78-hectare **VicRoads** site that will likely be developed into townhouses for **\$11.67 million**. The site is zoned residential development across 4.5-hectares of the land. The sale reflects a **rate of \$133 psm**. Albanvale is located about 21.5 km north-west of the Melbourne CBD.

### 111-125 A'Beckett Street, Melbourne, VIC 3000

An Art Deco-style **Commonwealth Motors** building occupied by a *Harley Davidson* dealership has been sold by *Tong Eng* for **between \$60 and \$70 million**. The property has a permit for a 210-metre high tower with over 600 apartments on a 1,741 m2 site.

### 1405 Ballarto Road, Cranbourne, VIC 3977

A local family has sold a 10-hectare development site to the Chinese-backed *Alvina Development* for **around \$11 million**. The site allows for the development of up to 165 residential lots and a neighbourhood shopping centre. The sale reflects a **rate of \$66,667 per lot**. Cranbourne is located about 46.5 km south-east of Melbourne's CBD.

#### **225-286 Donnybrook Road, Mickleham, VIC 3064**

*MAB Corporation*, along with joint venture partner *Gibson Property Corporation*, has paid **\$70 million** for 131-hectares of vacant farmland. The site has 71-hectares of land zoned residential with development potential for 960 lots. There will also be a 1.3-hectare town centre and there are 60-hectares of land zoned for industrial development. This will likely be subdivided into 148 industrial lots. The sale reflects a **rate of \$53 psm**. Mickleham is located about 31 km north of the Melbourne CBD.

#### **941-951 High Street, Armadale, VIC 3143**

A local developer has purchased a development site that is in close proximity to amenities for **\$7 million**. The buyer has plans for a \$50 million residential/retail development on the site. The sale of the 809 m2 site reflects a **rate of \$8,653 psm**. Armadale is located around 8.1 km south-east of the Melbourne CBD.

#### **45-55 Dudley Street, West Melbourne, VIC 3003**

The **Flagstaff City Inn** has been acquired by *United Asia Group* for around **\$20 million**. The two-level hotel occupies a 1,304 m2 site. The property was sold without development approval but the buyer plans to develop a high-rise project on the site. The hotel features 42 -rooms, a restaurant, conference facilities and undercover facilities. The sale reflects a **rate of \$15,337 psm**. West Melbourne is located around 1.8 km north-west of the Melbourne CBD.

#### **38-42 Manningham Road, Bulleen, VIC 3105**

An offshore developer has bought three residential dwellings for **\$4.45 million**. The total 1,976 m2 site has development approval for 15-townhouses. The properties currently bring in \$53,832 a year in income. The sale reflects a **rate of \$296,667 per townhouse**. Bulleen is located about 13.9 km north-east of Melbourne's CBD.

#### **147-157 Princes Street, Flemington, VIC 3031**

A developer has sold a 1,882 m2 residential site to a Melbourne-based developer for **\$7.252 million**. The site has approval for 23 townhouses. The sale reflects a **rate of \$315,304 per approved townhouse**. Flemington is located around 5 km north-west of Melbourne's CBD.

#### **111 A'Beckett Street, Melbourne, VIC 3000**

*SP Setia* has bought a development site for **\$61 million** from developer *Tong Eng*. There is a current permit to develop a residential skyscraper. The art deco-style building is currently occupied by a *Harley-Davidson* dealership. The sale reflects a **rate of \$100,000 per unit**.

#### **2-4 Roche Street, Hawthorn, VIC 2123**

A private investor has purchased the 1,209 m2 development site for **\$9 million**. The site currently has two tenants which lease the two level building with monthly leases and can yield 54 apartments, ground floor retail, 67 basement parking spaces and 54 storage cages. The sale reflects a **rate of \$166,666 per unit**. Hawthorn is located 7.8 km east of Melbourne CBD.

#### **233-247 Glen Huntly Road, Elsternwick, VIC 3185**

*Steller Group* has acquired the development site for **\$25 million**. There are no DA plans for the 2,400 m2 site. The sale reflects a **rate of \$10,416 psm**. Elsternwick is located 9.3 km south-east of Melbourne CBD.

## **SPECIALIZED PROPERTY MARKET**

### **Investment Activity**

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

#### **4 Leakes Road, Laverton North, VIC 3026**

A *Caltex* petrol station with a *Woolworths* convenience store has been acquired by a private buyer at auction for **\$2.755 million**. The modern property was developed in 2014 and occupies a 2,928 m2 site. The property is leased for 15-years to 2029 plus options through to 2049. The sale reflects a **yield of 3.9%** and a **rate of \$941 psm**. Laverton North is located about 14.6 km west of Melbourne's CBD.



#### **163 Greens Road, Wyndham Vale, VIC 3024**

A childcare centre on a 15-year lease to *Amiga Montessori* until 2032 with two 10-year options to 2052, has sold at auction for **\$6.93 million**. The 819 m2 facility is licensed for 137 places. There are 30 car spaces on the 2,880 m2 site. The sale reflects a **yield of 6.93%** and a **rate of \$50,584 per placement**. Wyndham Vale is located around 34.3 km south-west of Melbourne's CBD.



#### 143 Queen Street, Warragul, VIC 3820

A private buyer has paid **\$5.25 million** at auction for a *United Petroleum* petrol station. The 1,473 m2 corner site is on a 20-year lease to 2036 plus options to 2056. There is a modern convenience store of 176 m2, a large canopy and double skin fibreglass tanks. The sale **reflects a yield of 6.4%** and a **rate of \$3,564 psm**. Warragul is located about 103 km south-east of the Melbourne CBD.



#### 20 Elmslie Drive, Cranbourne, VIC 3977

A childcare centre has sold at auction for **\$5.12 million** on a **yield of 5.8%**. The 913 m2 facility sits on a 2,185 m2 site and is licensed for 125 placements. *One Early Education Group* leases the property on a new 10-year lease to 2027 with four further 5-year options to 2047. The sale reflects a **rate of \$40,960 per placement**. Cranbourne is located 46.3 km south-east of Melbourne's CBD.

#### 103 Campbell Street, Heathmont, VIC 3135

A private local investor has paid **\$2.5 million** at auction for a tenanted *7-Eleven* store. The sale reflected a **yield of 4.49%**. Heathmont is located around 25.6 km east of the Melbourne CBD.

#### 14 Alpina Street, Frankston North, VIC 3200

A private buyer has paid **\$3.25 million** on a **net yield of 9.78%** at auction for a 759 m2 childcare facility. The property is leased to *Amiga Montessori* for 15-years to 2031 with two 10-year options to 2051. The 138-place property occupies a 3,126 m2 corner site and has 30 car spaces. The sale reflects a **rate of \$23,551 per placement**. Frankston North is located around 40.8 km south-east of the Melbourne CBD.

#### 26 Glenelg Drive, Maiden Gully, VIC 3551

A childcare centre on a 20-year lease to *Jenny's Early Learning* to 2037 with two 10 year options to 2057 has sold at auction for **\$5.4 million**. The double-brick facility was built in 2008 and has a license for 87 places. The 2,329 m2 site has a street frontage of over 69 metres. The sale reflects a **net yield of 3.71%** and a **rate of \$62,069 per placement**. Maiden Gully is located about 160 km north-west of the Melbourne 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:

#### Cnr Beaconsfield Parade and Victoria Avenue, Albert Park, VIC 3206

Mainland Chinese investors have purchased the **Beach Hotel** from business interests associated with Terry Board of *TJ Board & Sons* for **around \$18 million**. The two-level 1880s-built pub offers bar and dining rooms, function rooms, a courtyard bistro, 12 guest rooms on the upper floor and 32 poker machines. Albert Park is located around 3.9 km south-west of Melbourne's CBD.

#### 44 Ryrie Street, Geelong, VIC 3220

*Franze Developments* is planning on developing a 200-bed hotel and 90-room serviced apartment complex after acquiring a development site for **\$7 million**. The 2,700 m2 site will also have 5,000 m2 of office space and 1,000 m2 of ground floor retail. The hotel and serviced apartment will be in the 4-4.5 star rating range. The sale reflects a rate of **\$24,138 per potential room**.

#### 1 Sunnyside Road, Mount Eliza, VIC 3930

The historic **Morning Star Estate** has been acquired by *Zhongou Capital Corporation* for **\$36.2 million**. The 63-hectare property was sold by Judy Barrett who renovated the dilapidated property into a 20-room hotel with conference facilities and a restaurant 20 years ago. The 63-hectare property also has vineyards, orchards and olive groves. The grand 1867 m2 Victorian mansion was built in a mix of Tudor and gothic styles. The site has a development permit for a 72-room hotel. The sale reflects a **rate of \$502,778 per permitted hotel room**. Mount Eliza is located around 47.4 km south-east of the Melbourne CBD.

#### 215 New Street, Brighton, VIC 3186

The **Marine Hotel** has been acquired by a Chinese investor for **\$15.8 million** on a **3.3% yield**. The hotel was sold by the Catalfamos with the 5-year net lease ending next year, with 25-years of further options. The 1800s building has a bistro and a bar and sits on a 4,730 m2 site. The sale reflects a **rate of \$3,340 psm**. Brighton is located around 11.4 km south-east of Melbourne'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

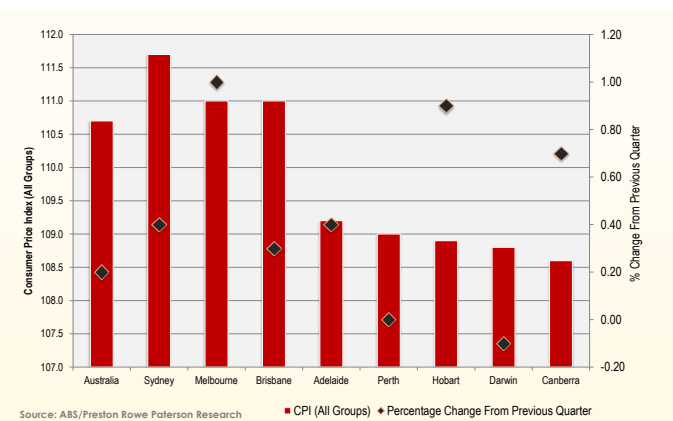


Chart 1—All Group CPI (Capital Cities) and Percentage Change over the quarter to June 2017—Source—ABS

### 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.

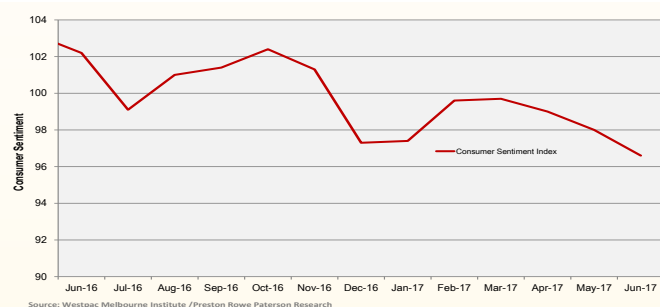


Chart 2—Consumer Sentiment Index, February 2016 to February 2017—Source—Westpac Melbourne Institute Survey

	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.

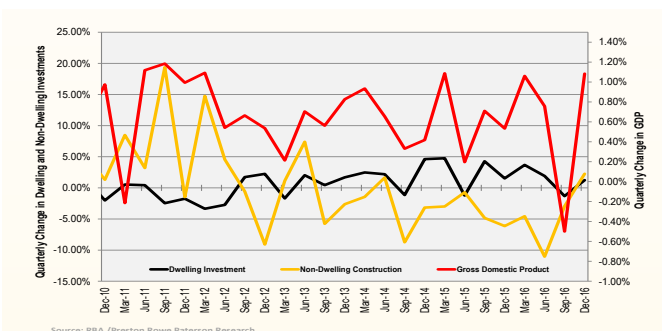


Chart 3—Percentage Change in Dwelling, Non-Dwelling Investments and GDP—Source: ABS

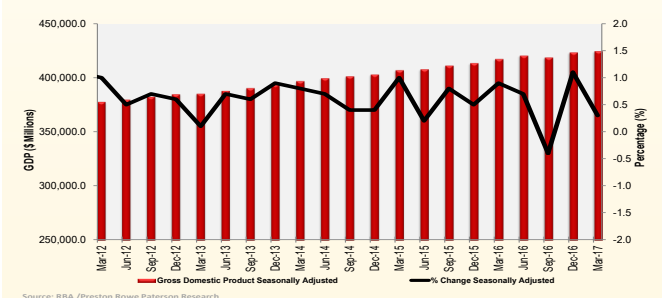


Chart 4—Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP—Source: ABS

## 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.

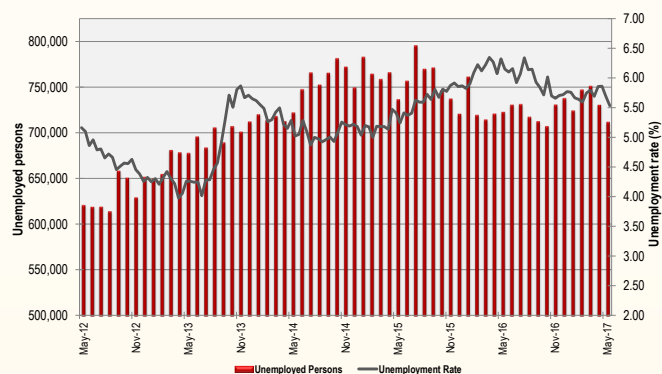


Chart 5—Unemployment Persons and Unemployment Rate, March 2011 to March 2017 — Source: ABS

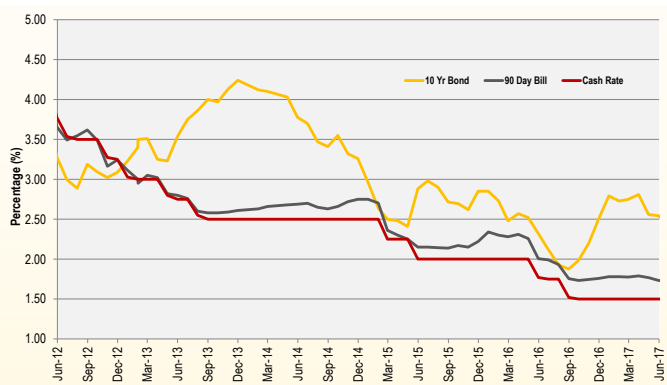
	Unemployment Rate (%)		Participation Rate (%)	
	April	May	April	May
Australia	5.7	5.5	64.9	64.9
New South Wales	4.7	4.8	65.3	65.2
Victoria	6.1	6.0	66.0	65.5
Queensland	6.3	6.1	69.0	68.1
South Australia	7.3	6.9	65.0	64.8
Western Australia	5.9	5.5	68.8	67.5
Tasmania	5.9	6.1	59.5	59.9
Northern Territory*	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.

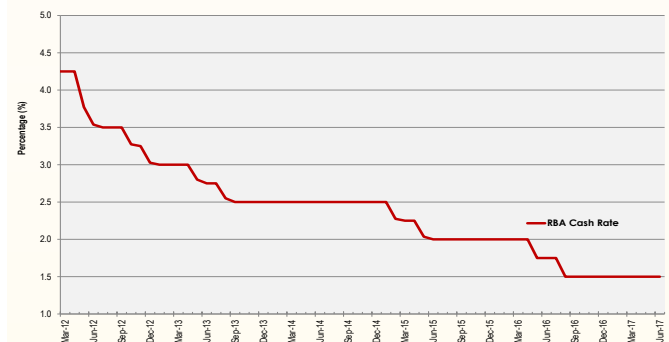


Source: RBA /Preston Rowe Paterson Research  
Chart 6— Monthly Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

## 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).

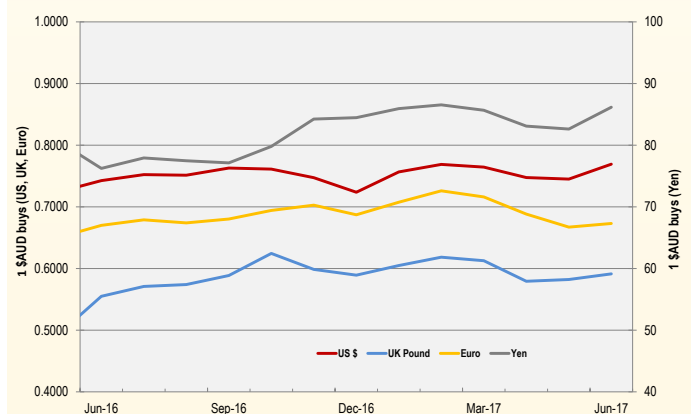
The Board's decision to keep interest rates unchanged stemmed from upbeat messages from world economic growth, in conjunction with the prospect of world-wide increase of wages and prices as the labour markets in many countries begin to improve. It was also noted that headline inflation in many countries 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

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

## We have all *real estate* types covered

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

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

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

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

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

## We have all *client* profiles covered

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

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- . 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
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- . Mortgage trusts
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- . Private investors
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- . 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.

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

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- . 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)
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- . Sensitivity analysis
- . Strategic property planning



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