



**Preston
Rowe
Paterson**

National Property Consultants

Property Market Report

Victoria

About This Report

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

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

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

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 Given the manner in which statistics are compiled and published they are usually 3-6 months out of date at the time we analyse them.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

March Quarter 2014

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Economic Fundamentals

GDP

GDP figures for the March quarter are not available until the 4th June 2014 however PRP Research over the December 2013 quarter revealed that the Australian economy recorded growth of 0.8% seasonally adjusted which reflected growth of 2.8% seasonally adjusted over the twelve months to December 2013. The main contributors to expenditure on GDP were Net Exports which increased by 0.6%, final consumption expenditure, which increased by 0.5%. The main detractor to expenditure on GDP was private gross fixed capital formation, declining by 0.5 percentage points.

The terms of trade increased by 0.6% in seasonally adjusted terms over the December quarter. Over the twelve months to December, the terms of trade has declined by 1.2%. "The terms of trade represent the relationship between the prices of exports and imports. An increase/decrease in the terms of trade reflects export prices increasing/decreasing at a faster rate than import prices".

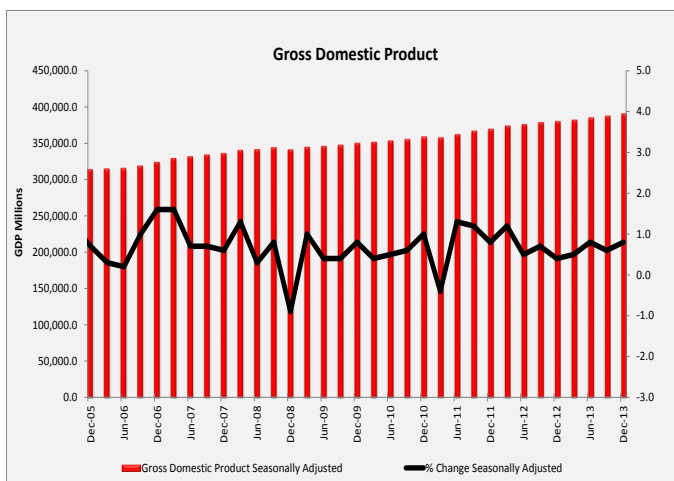


Chart 1 – Gross Domestic Product (GDP) – Source ABS

Labour force

The official employment figures released from the Australian Bureau of Statistics revealed that the unemployment rate declined by 0.3 percentage points to 5.8% seasonally adjusted as at March 2014. Employment over the month increased by 0.16% bringing the total employment to 11,553,200 seasonally adjusted.

Unemployment recorded a decline over the month by 29,900 persons to 713,200, a percentage change of 4.03%. The number of persons looking for full-time work declined by 16,700 to 509,800 and the number of persons looking for part-time work decreased 13,300 to 203,400.

The participation rate recorded a marginal decline of 0.2% to 64.9% as at March 2014, with year on year comparison revealing a 0.3 percentage point decline.

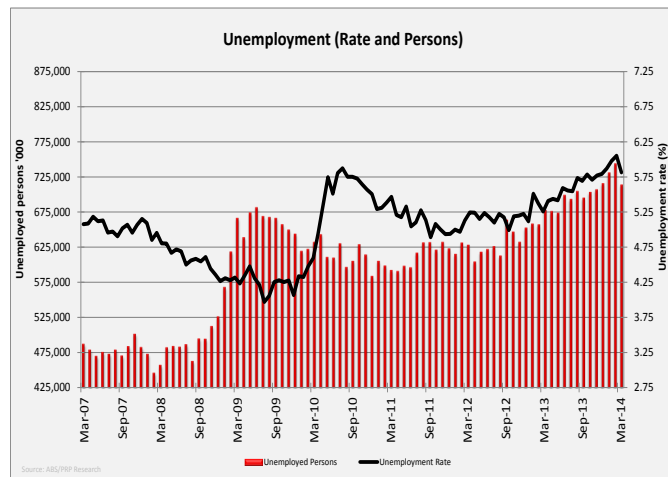


Chart 2 – Unemployment – Source ABS

Interest Rates

As at the date of publishing, the official Cash Rate over the March quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for March 2014, released 1st April 2014 explained that;

"In Australia, the economy grew at a below trend pace in 2013. Recent information suggests slightly firmer consumer demand over the summer and foreshadows a solid expansion in housing construction. Some indicators of business conditions and confidence have improved from a year ago and exports are rising. But at the same time, resources sector investment spending is set to decline significantly and, at this stage, signs of improvement in investment intentions in other sectors are only tentative, as firms wait for more evidence of improved conditions before committing to expansion plans. Public spending is scheduled to be subdued".

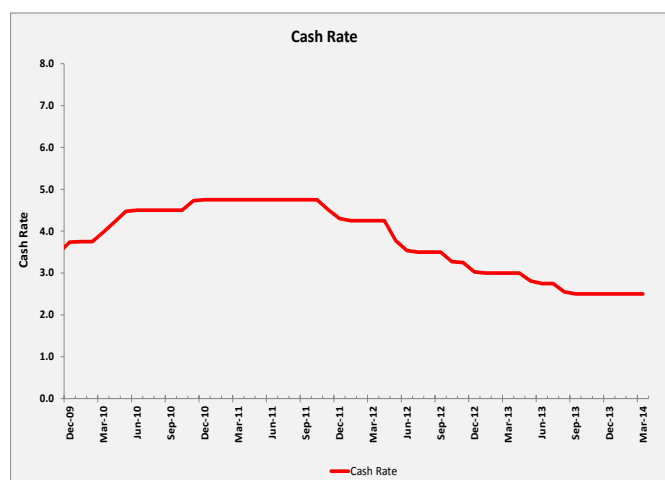


Chart 3 – Cash Rate—Source—RBA

CPI

The Consumer Price Index (CPI) rose by 0.6% in the March quarter 2014 with the index now recording 105.4, reflecting an annual growth to March of 2.9%. The most significant price rises this quarter was for tobacco, pharmaceutical products and secondary education with increases of 6.7%, 6.1% and 6.0% respectively.

The most significant price decline over the March quarter was attributed to furniture, which declined by 4.3%.

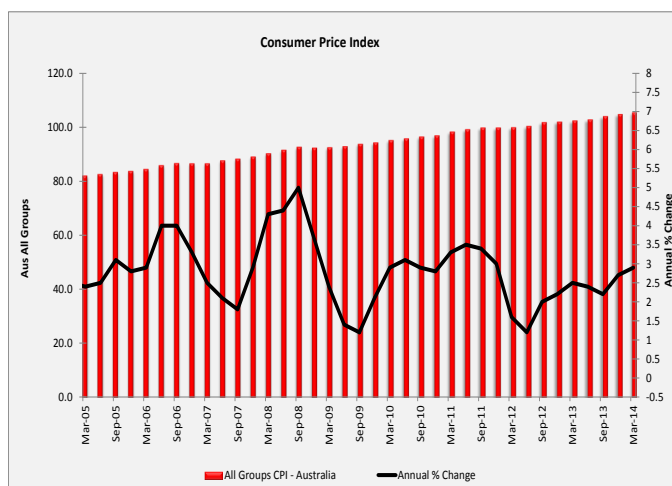


Chart 4— Consumer Price Index—Source—ABS

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index declined by 0.7% in March from 100.2 index points in February to 99.5 index points in March. Over the quarter the index has declined by 5.5 points, a decline of 5.24%. Over the twelve months to March the index declined by 11 index points, reflecting a percentage decline of 9.99%.

The Index has now reached its lowest level since May 2013, when it was recorded at 97.6 index points. Westpac's Senior Economist, Matthew Hassan stated; *"The index has now fallen 10.9% from its November peak of 110.3 and is at its lowest level since May last year. The initial declines in December-January looked to be mainly the unwinding of the election-related sentiment boost"*.

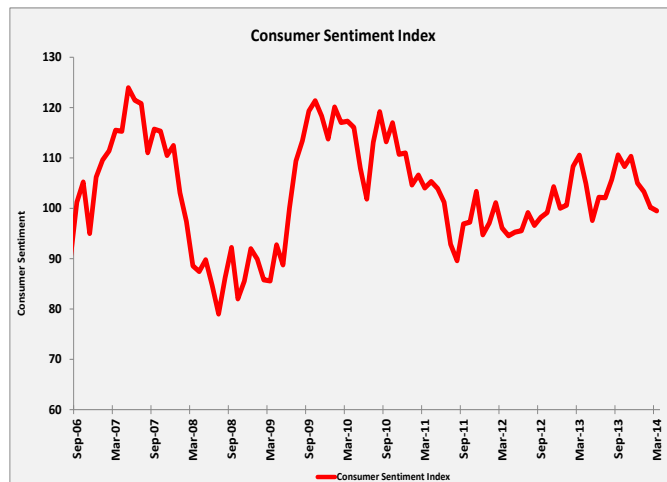


Chart 5 – Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

Commercial Office Market

Melbourne CBD

Investment Activity

Leasing Activity

PRP Research recorded few notable leasing transactions that occurred in the Melbourne CBD Office Market during the three months to March 2014;

The Warranty Group, International insurance and warranty specialists have leased two office floors at **693 Burke Road, Camberwell** in Melbourne, with a combined area of **1,100 sqm**. The space which has recently been refurbished will become the Warranty Group's head office premises. No further details were released.

The Victoria Government had leased a **2,450 sqm** Green Star office building at **1-9 Dandenong Street, Dandenong**, on the fringe of the Dandenong Central Business District. The Government agreed to a **10 year lease** at a **rate per sqm of approximately \$290**. The site is currently under construction and is due for completion in May this year.

Recruitment agency IPA Personnel has agreed to a **5 year lease** of **1,134 sqm** of level four-space at **271 Collins Street in Melbourne's CBD**. IPA Personnel are expected to pay an **annual rent of about \$430 per sqm**. No further details were released.

Property Council of Australia

The latest statistics from the Property Council of Australia's (PCA) Office Market Report January 2014 have been analysed to derive at the following findings:

Supply & Occupation

In the six months to January 2014, there was 29,344 sqm of new supply that entered the Melbourne CBD Office Market compared with 75,532 sqm of withdrawals which reflects a decline in total stock levels of 46,188 sqm in the Melbourne office market.

A Grade office space maintains the majority share of the Melbourne CBD office market with 47.7%, despite a 0.3% decline compared to July 2013. B Grade follows with 21.1% and the remaining grades of Premium, C & D Grade comprise of 15.3%, 13.1% and 2.8% respectively.

As at January 2014, there is an expected 106,519 sqm of supply expected to enter the Melbourne CBD Office Market later in the year. In 2015 there is an estimated 115,624 sqm of supply anticipated with 64.35% having been pre-committed.

There are a number of new developments which are currently mooted and will account for 430,972 sqm of the supply upon completion. The largest single development is Brookfield Multiplex's building at 405 Bourke Street which will account for 61,000 sqm of supply.

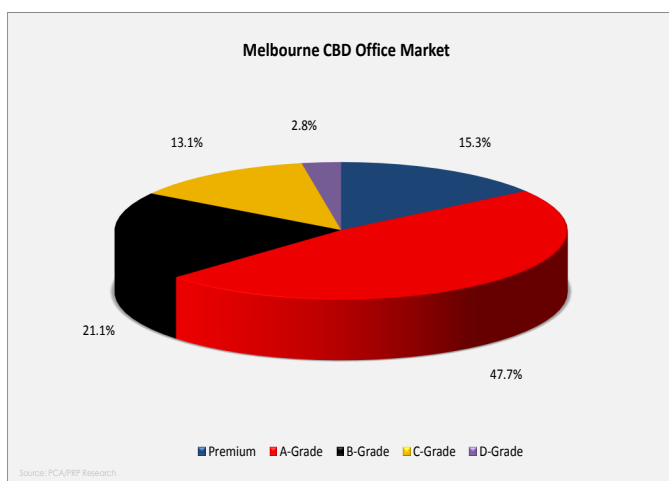


Chart 6 – Melbourne CBD Total Stock by Grade – Source ABS

Net Absorption/Vacancy Levels

Over the six months to January 2014, +4,512 sqm of stock was absorbed, reflecting net absorption of +857 sqm over the twelve months to January. Premium Grade, A Grade and C Grade office stock recorded positive absorption over the six months to January of 10,103 sqm, 18,348 sqm and 2,974 sqm respectively. B Grade and D Grade were the only grades of office stock to record negative net absorption over the six months to January of –26,885 sqm and –24 sqm respectively.

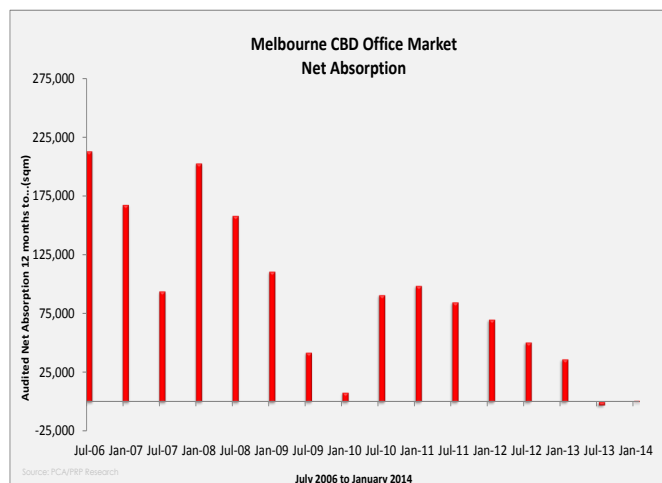


Chart 7– Melbourne CBD Office Market Net Absorption – Source ABS

Total office market vacancy rates recorded a tightening of 1.1% to 8.8% over the six months to January 2014. Vacancy rates were split between increases and decreases across the grades of office stock. B Grade and D Grade recorded increases in total vacancy of 2.5% and 0.1% respectively to total vacancy of 13.6% and 2.9%. Premium Grade, A Grade and C Grade recorded declines over the six months to January of 0.4%, 2.6% and 1.1% respectively to total vacancy levels of 8.0%, 6.3% and 11.6%.

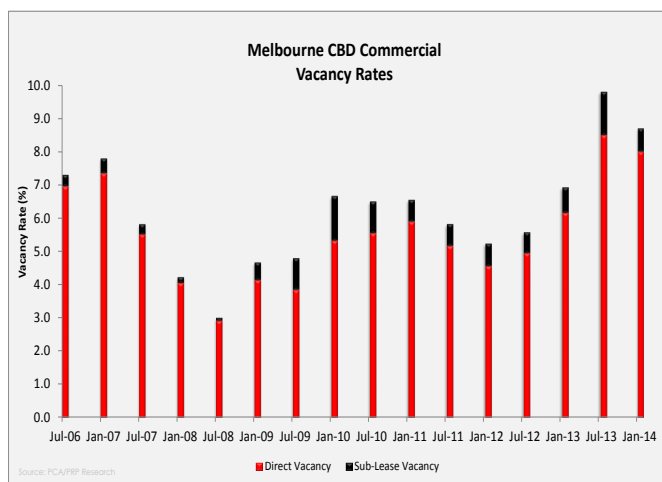


Chart 8 – Melbourne CBD Commercial Vacancy Rates – Source ABS

Retail Market

Investment Activity

PRP Research recorded a number of retail transactions that occurred in Victoria during the March quarter 2014;

A private investor has purchased the **7,963 sqm** Mornington Village Shopping Centre at **241 Main Street, Mornington** for **\$25.8 million**. The property was purchased on a **yield of 7.47%** and tenants include; Woolworths, Aldi, Telstra, Nandos and The Reject Shop. The centre is approximately 53 km south east of the Melbourne CBD.

Economic Statistics

According to the Australian Bureau of Statistics category 8501.0 Retail Trade (February 2014), the retail turnover figures recorded in Victoria produced varied results. The total retail turnover in Victoria grew by 0.5% over the month of February 2014, with an annual retail turnover growth of 5.84% to turnover of \$5,767.6 million.

Over the month of February, declines were experienced in Food Retailing, Department Stores and Cafes, Restaurants and takeaway food services of 0.56%, 4.21% and 2.05% to monthly turnover of \$2,313.6 million, \$357.4 million and \$759.1 million respectively. The most marked monthly growth was recorded in clothing, footwear and personal accessory retailing of 3.35% to monthly turnover of \$503.3 million, followed by other retailing (3.24%) to turnover of \$800.7 million. Growth over the month of February was also recorded in household goods retailing of 3.16% to monthly turnover of \$1,033.4 million.



Chart 9 – Victoria Turnover % Monthly Change – Source ABS

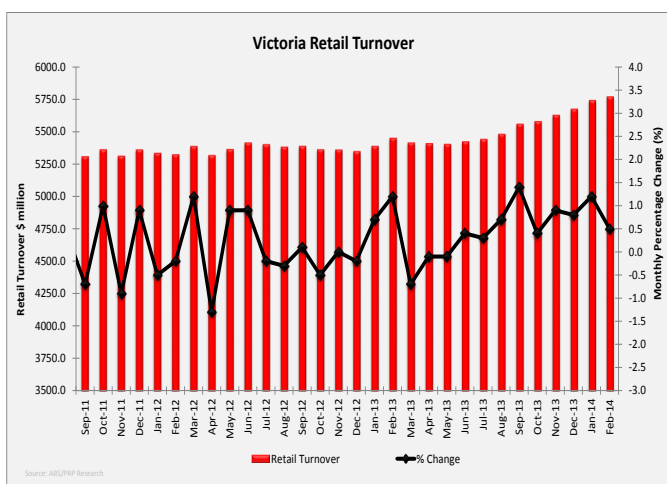


Chart 8 – Victoria Retail Turnover – Source ABS

Year on year analysis of the six categories revealed positive results, with all categories recording growth over the year. The most marked growth was in Other Retailing with 7.35%, followed by Food retailing (6.84%), Household Goods retailing (5.94%), cafes, restaurants and takeaway food services (5.5%) and clothing, footwear and personal accessory retailing (2.97%).

Analysis of the retail sub-categories over the twelve months to February 2014 has revealed predominantly positive results. The most significant monthly decline in retail turnover was attributed to Newspaper and Book Retailing, declining by 7.9% to turnover of \$67.6 million. Takeaway Food Services also recorded a decline over the year of 5.95% to turnover of \$317.6 million. The most marked growth in comparison to February 2013 was experienced in other retailing n.e.c, increasing by 10.33% to \$260.6 million, followed by hardware, building and garden supplies retailing (5.13%) to \$348.3 million.

Industrial Market

Investment Activity

PRP Research recorded a few number of sales transactions that occurred in the Melbourne Industrial Market, during the three months to March 2014;

Melbourne based commercial builders Vaughn Constructions has purchased a **9 hectare** site at the Corner of Hammond Road & Rodeo Drive, Dandenong South. The site was purchased in excess of **\$15 million**.

Leasing Activity

PRP Research recorded a number of leasing transactions that occurred in the Melbourne Industrial Market during the three months to March 2014;

Not for profit family services agency Drummond Street Services will move into a modern terrace style office at **100 Drummond Street, Carlton** after leasing **1,680 sqm** of industrial space. The agency has agreed to a **net rental of \$280 per sqm** on a **10 year lease**. Carlton is located 2.6 km north east of the Melbourne CBD.

Trampoline centre Xtreme Air will relocate to a new office and warehouse space in south east Melbourne after securing a **3,500 sqm** property at **1 Fiveways Boulevard, Keysborough**. The group will pay a **net rental of around \$277,000 over a 10 year term**. The site comprises a **490 sqm office**, split over two levels and a clear-span warehouse measuring **3,168 sqm**.

EcoClassic Group has secured a **5 year lease** on an industrial space at **7-25 Wedgewood Road, Hallam**, south-east of Melbourne. The lease of the **4,600 sqm** property has a **net annual rent of \$475,552** displaying a **rate per sqm of approximately \$103**. The property includes a 4,600 sqm warehouse and a 616 sqm office.

Residential Market

Economic Statistics

According to the Australian Bureau of Statistics category 8731.0 Building Approvals February 2014, the total number of house dwelling approvals in the Melbourne Statistical Division over the month has showed an increase of 12.77% from 1,597 approvals in January to 1,801 approvals in February 2014. This has reflected growth of 28.91% when compared to house dwelling approvals in February 2013. Despite strong growth over the month and year in house dwelling approvals, the Melbourne Statistical Division recorded its lowest number of house dwelling approvals since 2001 with 18,553 approvals.

The total number of non-house dwelling approvals has increased by 57.29% from 1,316 dwelling approvals in January to 2,070 dwelling approvals in February. In comparison to twelve months prior in February 2013, a marked growth of 40.53% was recorded. Total non-house dwelling approvals over the year of 2013 recorded 21,587 approvals which maintained approvals over 20,000 for the second consecutive year.

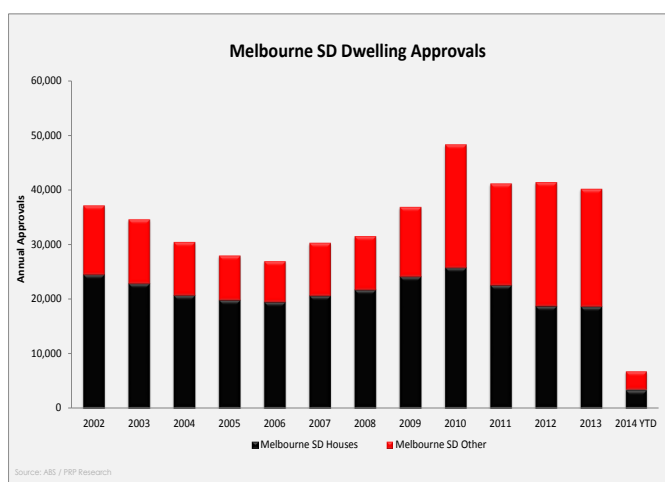


Chart 10—Melbourne SD Dwelling Approvals—Source ABS

MELBOURNE

Market Affordability

According to the Real Estate Institute of Australia (REIA) the median house price in Melbourne grew by 7.3% to \$643,000 in the December quarter. All zones of Melbourne house prices recorded growth over the quarter with the most marked growth in Outer Melbourne with 4.4% to a median sale price of \$474,500. Middle Melbourne followed with 4.2% growth to a median sale price of \$688,000 and Inner Melbourne recorded growth of 1.8% to \$977,500. Geelong recorded a decline over the quarter of 1.8% to \$420,000. Bendigo and Ballarat recorded growth of 7.8% and 0.3% to median sale prices of \$345,000 and \$301,000 respectively.

Over the twelve months to December 2013, the most marked growth in Victoria was experienced in Middle Melbourne with 15.7%, followed by Bendigo, Inner Melbourne and Outer Melbourne with growth of 11.3%, 10.6% and 10.3% respectively. Geelong and Ballarat experienced annual growth of 5% and 4.2% respectively.

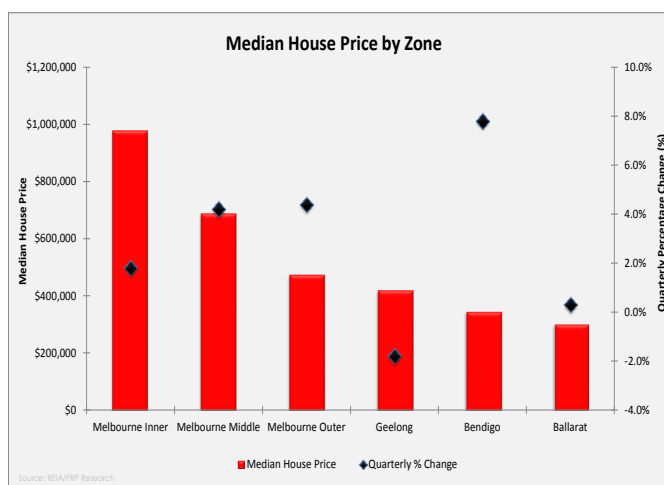


Chart 11 – Median House Price by Zone – Source REIA

Other Dwelling median sale prices revealed predominantly positive results over the December quarter, with the only declines attributed to Bendigo and Ballarat, with both zones declining by 11.8% to median sale prices of \$232,500 and \$225,000 respectively. Geelong experienced the most marked growth of 15% to median sale price of \$330,000. Inner, Middle and Outer Melbourne recorded quarterly growth of 2.9%, 5.8% and 2.7% to median sale prices of \$535,300, \$529,800 and \$380,000 respectively.

Year on year analysis of Victoria Other Dwellings revealed similar results, with declines of 7% and 2.4% attributed to Bendigo and Ballarat. Geelong recorded annual growth of 11.9% and Inner, Middle and Outer Melbourne zones experienced annual growth of 6%, 12.2% and 8.6% respectively.

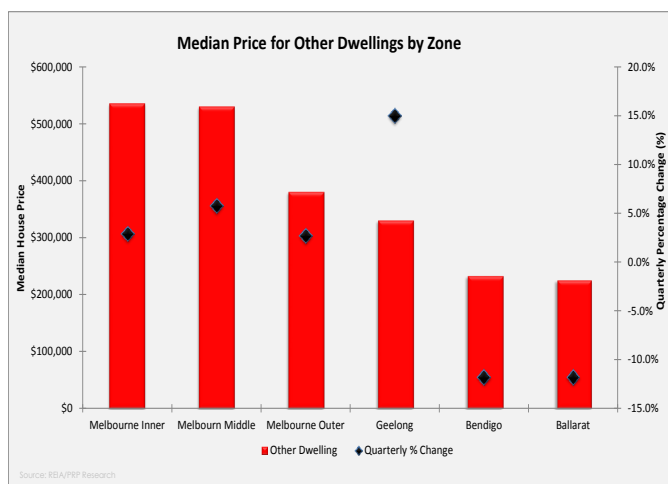


Chart 12 – Median Price for Other Dwellings by Zone – Source - REIA

Rental Market

Over the December 2013 quarter, mixed results were recorded in the Victoria house rental market. The most marked growth was in Bendigo 4 bedrooms, increasing by 6.3% to median weekly rental of \$340. Inner and Outer Melbourne 3 bedrooms followed with growth of 3.1% to median weekly rental of \$670 and \$330 respectively. Inner Melbourne 4 bedrooms and Ballarat 2 bedrooms were the only zones to record quarterly declines of 3.4% and 1.3% to median weekly rental of \$840 and \$232 respectively.

Year on year analysis of median house rents in Victoria revealed similar results. The only zones to record annual declines were Geelong 3 bedrooms (1.6%), Bendigo 4 bedrooms (2.9%) and Ballarat 2 bedrooms (3.2%) to median weekly rentals of \$310, \$340 and \$232 respectively.

Other Dwellings median weekly rentals recorded mixed results, with declines in Inner Melbourne 2 and 3 bedrooms of 1.1% and 3.4% to median weekly rental of \$470 and \$650 respectively. Bendigo 2 bedrooms and Ballarat 3 bedrooms also experienced quarterly declines of 2% and 2.8% to weekly rental of \$240 and \$280 respectively. Geelong 1 bedrooms recorded the most marked growth over the quarter of 5.3% to median rental of \$200, followed by Ballarat 2 bedrooms (4.5%) and Middle Melbourne 1 bedrooms (3.8%) to median weekly rental of \$230 and \$270 respectively.

Year on year analysis recorded positive results with the only decline attributed to Inner Melbourne 3 bedrooms (3.4%) to rental of \$650. The most significant growth over the year was in Ballarat 1 bedrooms (6.7%) to \$160 per week, followed by Outer Melbourne 2 bedrooms (3.6%) to \$290 per week and Geelong 2 and 3 bedrooms with 3% each to median weekly rentals of \$273 and \$340 respectively.

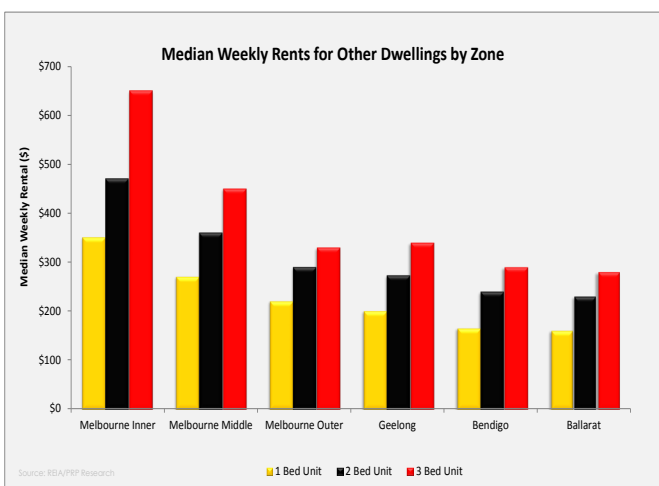


Chart 14— Median Weekly Rents for Other Dwellings by Zone – Source - REIA

Hotel & Leisure

Investment Activity

PRP Research recorded a number of hotel/leisure transactions that occurred in Victoria during the March quarter 2014;

Hong Kong's Ovolo Group has purchased the Oaks on Lonsdale Serviced apartment complex at **23-33 Lonsdale Street, Melbourne CBD**. The group won the property with a sale price of more than **\$70 million**. The property is currently leased until 2017 to Oaks Hotels and Resorts with a further 3 X 5 year options. The property comprises 148 guest rooms, most of which are one or two bedroom apartments; the sale price displays a rate per existing apartment of around \$472,973.

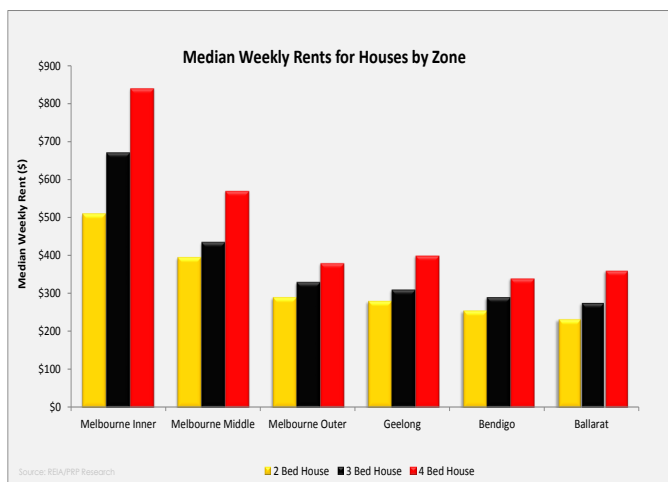


Chart 13— Median Weekly Rents for Houses by Zone – Source - REIA

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 central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

We have *your needs* covered

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

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

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