

COMPASS
LET OUR RESEARCH POINT
YOU IN THE RIGHT DIRECTION



JUNE 2017 – EDITION 55

Knight Frank Research Compass Report

A monthly snapshot of significant property news from the Australasia region.

Sydney

Law firm Baker McKenzie has leased 7,500m² across levels 44-46 at Barangaroo Tower One at 100 Barangaroo Avenue in the Sydney CBD. The office space has been leased from Lendlease for a 10 year term at an undisclosed rent. The law firm will move from 50 Bridge Street, which will be demolished for redevelopment by AMP to be re-built as a 49 storey office building to be known as Quay Quarter Tower, with completion anticipated in 2020.

Singaporean ARA Asset Management and Straits Real Estate have purchased 320 Pitt Street, also known as Telstra Plaza, in the Sydney CBD for \$275 million. The 29,159m² office building was purchased from a partnership of Propertylink and Goldman Sachs on a core market yield of 5.25% and 3.2 year WALE. Telstra is expected to vacate the entire building once their lease expires in 2020, making it a repositioning play for ARA and Straits Real Estate.

Lotus Group and Chinese-backed investment firm iProsperity Group have purchased the leasehold over Chatswood Central at 1-5 Railway Street, Chatswood for \$115 million. The 18,247m² office complex, sitting on a 3,806m² site, has been purchased from Hume Partners Property on a passing yield of 6.07%. The property is 93% leased and has a WALE of 3 years.

Melbourne

Listed property developer Villa World has purchased an amalgamated residential site in Plumpton for \$44 million in the North-West corridor of Melbourne. The 32.9 hectare site has potential for the subdivision of 500 allotments. Approval is expected in late-2017 given the two sites sit within a government-sanctioned area, with suburban planning guidelines available in the precinct structure plan. Villa World has an existing presence in the suburb of Plumpton. As recently as March 2015, they purchased the housing estate currently being marketed as 'Sienna Rise' for \$10.5 million. Blocks of land range from 294m² to 500m², with a starting price from \$240,000.

A private investor has purchased 10-16 Dorcas Street, Southbank for \$37 million, reflecting an initial yield of approximately 6.50%. The property was sold by Islamic fund manager Crescent Wealth who purchased the asset for \$30.75 million two years ago. The eight-level building comprises 7,608m² of office space combined with 88 car spaces and is fully leased to Dimension Data until November 2019. It was refurbished in 2015 by the information technology company. As at January 2017, the Southbank office market had the lowest overall vacancy of the major Australian office markets at 4.1%, as surveyed by the Property Council of Australia.

Deutsche Asset Management, on behalf of a German institutional fund, has purchased the Montague Cold Storage facility at 7-23 Dunmore Drive, Truganina for \$66 million from CorVal. The modern single-level logistics facility was developed three years ago having been pre-committed by Montague Cold Storage, one of the largest cold storage groups in Australia, on a 20-year lease. Comprising 16,908m², the facility includes freezer rooms, cold room annex, staff facilities and ancillary administration offices, in addition to a 52-space car park. CorVal purchased the property for \$50 million in March 2014 while it was under construction. The acquisition follows Deutsche Asset Management's purchase of Rand Transport's logistics facilities in Derrimut, Melbourne and in Parkinson, Brisbane in February 2017, given its anticipation for growth in the food retail sector to drive demand for cold storage logistic facilities.

Brisbane

Local property developer ARIA has purchased a potential residential development site in South Brisbane for \$13 million. The 1,890m² site currently accommodates older-style, low-rise commercial premises but has approved plans for a 30-storey Elenberg Fraser designed tower suitable for 374 residential apartments, 238m² of retail and 445 car parking spaces. The site was purchased from Metro Property Development, which purchased the site for \$21.2 million in 2015. On the riverfront in St Lucia, Kokoda Property has purchased a dwelling at 160 Macquarie Street for \$9.5 million. The 1,242m² redevelopment site has potential to accommodate 60 apartments, some with views over the Brisbane River. This site was last sold in 2014 for \$6.75 million.

Charter Hall's Prime Industrial Fund has agreed to purchase a major Coca Cola Amatil facility at 220-260 Orchard Road, Richlands for \$156 million. The wholesale fund will acquire the 81,008m² complex on a site of 24.9 hectares on a vendor leaseback basis with an initial term of 20 years and two five year options, Coca Cola Amatil will also retain a first right of refusal on any future sale of the asset. There is an existing warehouse and manufacturing facility of 50,414m² on the site with a new distribution warehouse of 30,594m² currently in the early stages of construction with completion expected in December 2017, with the transaction to settle at that time. The property was offered by Coca Cola Amatil with the long lease term on a triple net basis and 3% annual increases with the transaction understood to reflect a passing yield in the order of 5.5%.

Canberra

Two South Korean institutional investors have acquired 2-6 Bowes Street, Phillip from Quintessential Equity for \$58.38 million. The sale reflected a core market yield of approximately 6.4% and an improved rate of \$4,728/m². Built in the 1980s, the asset incorporates six levels of office space across three separate but integrated buildings, providing an NLA of 12,348m². The building is 100% occupied and is anchored by the ACT Government (Department of Health) on a 15 year term which commenced in April 2017. Supported by the elevated yield metrics on offer and continued interest from offshore buyers, investment demand for office assets in Canberra remains strong.

In another office market transaction, Challenger has purchased 82 Northbourne Avenue in Braddon for \$57.33 million. The 6,853m² A-grade office building was purchased from private syndicate Worthwest Pty Ltd on a core market yield of circa 5.8%, reflecting an improved rate of \$8,365/m². Located on the fringe of the Canberra CBD, the seven level office building is anchored by the Australian Maritime Safety Authority with a WALE of 7.5 years (by income).

Perth

5 Sangiorgio Court, Osborne Park has been purchased by a private investor for \$3 million. The property is situated within Osborne Park, a prime Perth industrial and showroom precinct, located approximately 5.5km north west of the Perth CBD. The property is a two level, 2001 constructed office building with an NLA of 613m² located on a site of 1,170m². The building sold with a 6.46% passing yield and a WALE by income of 3.2 years.

222 Beaufort Street, Perth, a potential development site close to the Perth CBD has sold for \$3.5 million to a private investor. The modern two level showroom of 1,430m² is situated on the north east fringe, approximately 1km from the Perth CBD. The building sits on a 1,518m² site including customer parking. The zoning permits development of up to five storeys.

Adelaide

The South Australian State Budget was handed down on 22 June 2017 and included three new measures introduced relevant to the property sector and the continuation of two other measures, namely:

- A surcharge of 4.0% will apply to all residential properties purchased by foreign buyers and temporary residents, effective from 1 January 2018.
- A \$10,000 grant will be offered for off-the-plan residential apartments purchased before 30 September 2017, payable after settlement. The grant is only available if the building is yet to commence construction. Foreign purchasers are not eligible.
- A five year Land Tax exemption will be offered for off-the-plan residential apartments purchased before 30 June 2018. The exemption will commence from the date of settlement and foreign purchasers are not eligible.
- Stamp Duty concessions of up to \$15,500 have been extended until 30 June 2018 for off-the-plan residential apartments, however foreign purchasers will not be eligible.
- As introduced in the 2015-16 State Budget, Stamp Duty for commercial property transactions will be further reduced by a third on 1 July 2017, before being fully abolished from 1 July 2018. This has seen commercial sales transactions drop during May and June in anticipation of the benefit arising from 1 July.

Darwin

The Sentinel Regional Office Trust has purchased a nine level office building at 39 Woods Street in the Darwin CBD for \$60.75 million. Constructed in 2009 the A Grade office building is known as Jacana House. The property comprises basement, ground and first floor car park, ground floor office and seven upper floors of office accommodation. The building is anchored by the Commonwealth of Australia via three government agencies providing 79% of passing income until August and September 2024. With typical floor plates of approximately 1,350m² the building has a 5.5 star NABERS energy rating. The building has an NLA of 10,182m² and parking for 124 cars on the site of 1,930m². Sold fully leased by a private investor the building has a WALE of 6.3 years and a reported passing income of 8.3%.

Research & Consulting Contacts

Australia

Jennelle Wilson
Senior Director
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Paul Savitz

Director
Consulting Services
+61 2 9036 6811
Paul.savitz@au.knightfrank.com

Residential Research

Michelle Ciesielski
Director, Residential
+61 2 9036 6659
Michelle.Ciesielski@au.knightfrank.com

Agency Contacts

Australia

Stephen Ellis
Chief Executive Officer
+61 2 9036 6611
stephen.ellis@au.knightfrank.com

New South Wales

Richard Horne
Managing Director
+61 2 9036 6622
richard.horne@au.knightfrank.com

Victoria

James Templeton
Managing Director
+61 3 9604 4724
james.templeton@au.knightfrank.com

New Zealand

Layne Harwood
Country Head, Director Capital Markets
+64 9 377 3700
Layne.harwood@nz.knightfrank.com

Queensland

Ben McGrath
Managing Director
+61 7 3246 8814
Ben.Mcgrath@au.knightfrank.com

Western Australia

Craig Dawson
Managing Director
+61 8 9225 2406
Craig.dawson@au.knightfrank.com

South Australia

Bobbette Scott
Joint Managing Director - SA
+61 8 8233 5211
Bobbette.scott@au.knightfrank.com

Guy Bennett

Joint Managing Director- SA
+61 8 8233 5204
Guy.bennett@au.knightfrank.com

Australian Capital Territory

Terry Daly
Managing Director
+61 2 6221 7869
terry.daly@au.knightfrank.com

Northern Territory

Matthew Knight
Managing Director
+61 8 8982 2502
Matthew.knight@au.knightfrank.com

Tasmania

Scott Newton
Chief Executive Officer
+61 3 6220 6999
scott.newton@au.knightfrank.com

State Research Contacts

Queensland

Jennelle Wilson
Senior Director
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Western Australia

Sean Ray
Senior Director, Valuation
+61 8 9225 2415
Sean.Ray@au.knightfrank.com

Victoria

Kimberley Patterson
Associate Director
+61 3 9604 4608
Kimberley.Patterson@au.knightfrank.com

South Australia

Henry Mathews
Research Analyst
+61 8 8233 5217
Henry.Mathews@sa.knightfrankval.com.au

New South Wales

Alex Pham
Senior Research Manager
+61 2 9036 6631
Alex.Pham@au.knightfrank.com

Luke Crawford

Senior Analyst
+61 2 9036 6629
Luke.Crawford@au.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research reports are also available at KnightFrank.com.au/research

© Knight Frank 2017

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.