

# COMPASS

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## MARCH 2015 – EDITION 30

### Knight Frank Research Compass Report

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

#### National

**The 2015 Intergenerational Report has been released by the Federal government.** The report has projected Australia's population will grow approximately 1.3% per annum over the next 40 years, to 30.7 million by 2055. At this time, newly born babies would expect to live well into their nineties, with men living until 95 years of age and women to 96 years. To keep pace with this population growth, Australia will need to more than double its housing stock over the next 40 years, adding an additional 9 million dwellings. The report has identified that more accountability and less waste and duplication must be required from local governments in an effort to increase the supply of residential land. It highlights that more brownfield sites will be essential to meet the increased demand for multi-density housing.

#### Sydney

**Abacus and AM Alpha have sold 309 George Street in the Sydney CBD for \$112.3 million to a private investor from Hong Kong, on a passing yield of sub 6.25%.** The asset comprises 9,044m<sup>2</sup> of NLA (2,236m<sup>2</sup> retail and 6,808m<sup>2</sup> commercial) with major tenants including CBA, Priceline, Anytime Fitness and First Mortgage Services. The building is located adjacent to Wynyard Station, where Brookfield will develop 10 Carrington Street, which includes 65,000m<sup>2</sup> of new office space, circa 9,000m<sup>2</sup> of new retail space and major upgrades to the station. The re-development of 333 George Street by Charter Hall, which is due to complete in 2016, will further benefit the precinct. Abacus acquired the asset in July 2011 via a JV arrangement with AM Alpha that was split on a 25%/75% ownership basis respectively.

**Altis Property Partners have acquired 6 and 7 Eden Park Drive, Macquarie Park for \$81.8 million from Investa Commercial Property Fund.** The asset comprises two modern A-grade buildings totalling 18,131m<sup>2</sup> that were developed by Investa and completed in 2008. Each building consists of five office floors with ground floor retail, while a large 165 seat café is situated between the buildings. Tenants include DuPont, Computer Associates, BBC and Nobel Bicare. It is understood the asset was approximately 20% vacant with a 3 year WALE when contracts were exchanged in January, which provides re-leasing value-add opportunities for Altis. The transaction reflected an analysed yield of approximately 8.0%.

**The NSW planning minister has approved the proposed expansion of the University of Sydney.** The Campus Improvement Program concentrates on the Camperdown and Darlington campuses, accommodating the significant population growth projected in the area and allowing for an extra 10,000 students. Case studies on how to improve lecture theatres, classrooms and laboratories, student accommodation, car parking and administration buildings were also highlighted. It is reported that eight buildings are planned to be demolished including the Merewether, Wentworth, School of Architecture and International House. The plan ensures heritage buildings are protected and preserved, with the issue of environmental sustainability addressed through height restrictions and a campus greening project. The \$1.4 billion project is expected to create almost 15,000 jobs during the construction phase and 400 full-time permanent positions once completed.

**Earmarked for a residential conversion in the Sydney CBD, 130 Elizabeth Street has been purchased by Aoyuan Property Group and Ecove (JV) for \$121 million.** The 14-storey office building has been purchased from Cbus Property with the intention for redevelopment into a 38-storey residential tower accommodating 138 apartments, 203m<sup>2</sup> of retail and a 91 bay basement car park. The building was originally completed in 1991 and currently has an NLA of 10,308m<sup>2</sup> with car parking for 22 cars. Approximately 9,840m<sup>2</sup> is dedicated to office with a typical floor plate averaging 703m<sup>2</sup>. The building currently has a modern facade with two entrances and an escalator connects a pedestrian access tunnel to the Museum underground railway station. Once developed, the Museum station entrance will be relocated to the Liverpool Street entry.

**Preliminary construction has commenced on the WestConnex road project with Stage 1 proposed to be completed by 2017.** The first stage is expected to commence construction in May 2015 and involves widening the existing M4 to four lanes, in each direction, for 7.5 kilometres between Parramatta and Homebush. Stage 1 is forecast to cost \$500 million and is being part-funded by both State and Federal governments, as well as a new toll for motorists circa \$3-\$4 when completed. The WestConnex project is expected to cost \$11.5 billion and scheduled in three stages over the next ten years. It brings together a number of important road projects which form a vital link in Sydney's Orbital Network. They include the Stage 1

widening of the M4 east of Parramatta, a duplication of the M5 East and new sections of motorway to provide a connection between the two key corridors.

## Melbourne

**Melbourne private school Haileybury has purchased 383 King Street in the Melbourne CBD for \$52 million from listed Singaporean developer Aspial Corporation.** Formerly occupied by the National Australia Bank, the 10-level office building comprising 13,135m<sup>2</sup> of NLA was acquired by Aspial for \$42.3 million in November 2013. Aspial had planned to demolish the building and had lodged plans for a 23-level residential tower featuring 392 apartments on the site. Instead, Haileybury will occupy the building for a school campus offering enrolments for early learning through to year 12, the first such opportunity in the CBD. With three campuses in Melbourne already and an additional campus in Beijing, Haileybury City is scheduled to open in January 2017.

**Melbourne-based private developer Fridcorp has acquired 627 Chapel Street in South Yarra from private investors Henkell Brothers for approximately \$40 million.** The six-level office building, completed in 1989, comprises 5,714m<sup>2</sup> of NLA with a basement car park of 86 car bays. The 2-star NABERS building is the Fridcorp headquarters and is occupied by a range of other tenants including; Hamton Property Group, LyondellBassell Australia and Castle Rock Property Management. With a site area of 1,529m<sup>2</sup> the property also represents a development opportunity in the future with significant residential in close proximity, including the Capital Grand project which is marketing 660 dwellings in its recently launched development.

**Melbourne-based private investors The Cohen family have sold 446 Collins Street in the Melbourne CBD for \$34 million on an initial yield of 4.5% to an Asian-based private investor.** The 11-level office building completed in 1967 and last refurbished in 1988, comprises 5,595m<sup>2</sup> of NLA with typical floor plates of 455m<sup>2</sup> and was acquired by the Cohen family for \$18.3 million in 2010 on a yield of 8.5%. The office building is occupied by a range of tenants including Wizard Corporate, One Focus Group and Oceania Polytechnic Institute of Education. The 2-star NABERS building is situated on a site of 571m<sup>2</sup> which offers three street frontages including 26 metres to Collins Street.

## Brisbane

**A four level commercial building, located on the riverfront at West End, has been purchased by a private investor for \$20 million.** The sale of 41 Buchanan Rd, West End settled in February 2015 and reflected a passing yield of 7.63% over the 3,383m<sup>2</sup> building. The property was constructed in 2003 for a TV and film post-production business, Cutting Edge, to owner occupy and retains much of the technological and screening infrastructure. At the time of sale the property was 83% leased to SAE QANTM College which is a creative media education provider and subsidiary of Navitas. The remaining office space was leased to a serviced office provider and medical specialists to give the building a WALE in the order of 6.5 years. The property has medium to longer term redevelopment potential with the 2,172m<sup>2</sup> site having the zoning to support up to 12 levels of residential development.

**The appetite for neighbourhood retail investments has continued to be high with a further three centres recently transacting.** Birkdale Fair, approx. 20km to the south east of the Brisbane CBD, has been purchased by Fort Street Real Estate Capital for \$23.3 million to go into their Australian Property Opportunities Fund II. The 5,390m<sup>2</sup> centre is anchored by Woolworths with 19 specialties and has a WALE of 3.1 years. The purchase reflected a passing yield of 7.4%. On the Gold Coast, Metro Markets at 33 Hollywell Road, Biggera Waters has been purchased by Intrasia Oxley RE for \$23.05 million. The 6,980m<sup>2</sup> centre is anchored by a Drakes Supa IGA with 34 specialty retailers and with a WALE of 5.9 years was purchased on a passing yield of 8.36%. To the North of Brisbane, a smaller neighbourhood centre, Bribie Harbour Shopping Village, Banksia Beach has been purchased for \$13.1 million which reflected a passing yield of 8.7%. The centre, with an area of 4,514m<sup>2</sup> is anchored by Woolworths until 2023 and 16 specialty tenancies, some of which were vacant at the time of sale.

**Singaporean developer, Roxy-Pacific Developments, has entered a joint venture with Australian Superannuation fund HostPlus to purchase a site in South Brisbane.** The development site was purchased from Aria Property Group for \$33.62 million, with HostPlus holding a 60 per cent stake in the development, whilst Roxy-Pacific will hold a 40 per cent interest. The 2,571m<sup>2</sup> corner development site comprises two allotments situated on 64 Peel Street and 9 Cordelia Street, with the site located within two kilometres of the Brisbane CBD, and walking distance of the South Brisbane railway station and South Bank precinct. Development approval has been granted for two 30-storey towers incorporating 432 residential apartments, office tenancies, retail and a restaurant on ground level.

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## Perth

**Neighbourhood retail investment has also been prevalent in Perth, with Hawaiian Property Group purchasing Forrestfield Forum and Marketplace located at 20 Strelitzia Avenue, Forrestfield from its Singaporean owners, First United Developments in an off-market transaction understood to be worth circa \$40million.** The 13,450m<sup>2</sup> neighbourhood centre consists of Forrestfield Forum (anchored by Woolworths), and Forrestfield Marketplace (anchored by Coles) linked by a central pedestrian crossing. The centres also have a total of 53 specialty shops and mini majors including the Reject Shop and BWS and is ranked as one of the top 50 retail malls in WA. In another retail transaction, Perth-based private equity firm Sirona Capital has purchased the Margaret River Mall, 49 Townview Terrace, Margaret River from the SCA Property Group for \$18 million on a passing yield of 9.3%. The 5,730m<sup>2</sup> mall which was completed in July 2013 has an occupancy rate of 79% of its GLAR and has a WALE of 13.1 years. Anchor tenant, Woolworths, has a 20-year tenancy and occupies 3,800m<sup>2</sup> of the centre on the corner of Town View Terrace and Willmott Avenue in Margaret River's central business district, with BWS Liquor store and 16 specialty tenancies make up the remainder.

**Western Australia-based builder and property investor, Pindan Capital, has boosted its investment portfolio with the \$18.4 million off-market purchase of the Australian Federal Police Building at Horrie Miller Drive, Perth Airport.** The transaction reflects a rate of \$5,293/m<sup>2</sup> based on NLA and a passing yield of 7.5%. The 3,476m<sup>2</sup> building was recently completed and is subject to a 15-year lease, with two five-year options to renew and was constructed by Pindan's construction division under a \$10 million contract.

**A local private investor has purchased 74 McCoy Street, Myaree for \$11.5 million from Ascot Capital, reflecting a core market yield of 7.25%.** The property is situated on the northern side of McCoy Street within the light industrial/commercial precinct of Myaree, approximately 11 kilometres to the south-west of the Perth Central Business District. The 9,802m<sup>2</sup> property comprises a large lot improved with a 3,970m<sup>2</sup> commercial/office building which is approximately 30 years old. The improvements have been fitted out for use by a diagnostic and pathology service including administration, production, laboratory and consulting/medical suite areas. The property is currently leased to Specialist Diagnostics Services Pty Ltd, a division of public listed company, Primary Health Care Limited, for a 10 year term expiring on 30 April 2021 with two further 5 year options to renew.

**Perth has secured its biggest industrial leasing commitment in nearly a decade, after Kmart (Wesfarmers) committed to a new \$35 million distribution facility at Jandakot Airport.** Kmart will lease a 41,700m<sup>2</sup> office and warehouse complex on a 10-hectare site at Ascot Capital's 150-hectare Jandakot City business park off the Roe Highway, on a long-term lease at an undisclosed rental. Kmart's new distribution centre, which includes one hectare of hardstand with a wind safety barrier, will serve as the retailer's major distribution centre for WA and will see it relocate from its current facility at Canning Vale. Construction is due to start this month and is expected to be completed by mid-2016. In another boost for the 150-hectare Jandakot City business park, it is understood that discount furniture retailer Super Amart will soon announce a major leasing agreement for a new facility.

## Adelaide

**The South Australian government has sold two neighbouring office buildings at 60 Wakefield Street and 21 Divett Place for \$37.5 million, reflecting an initial yield of 7.56%.** The six-level office tower at 60 Wakefield Street and the 10-level State Forensic Centre at 21 Divett Place are joined by an enclosed walkway bridge. The properties were purchased by Perth-based syndicator and developer Ascot Capital, in conjunction with Adelaide financial services firm, Finance Mutual Australia. Both properties have new 12-year leases in place to the South Australian Police.

**Weekend penalty rates for employees in the retail sector in South Australia will be abolished on Saturdays and weekend evenings, and halved on Sundays to 50% (previously 100%), whilst public holiday rates will be cut from 150% to 100%.** Offsetting this will be a 3% increase in a higher base pay rate and other improved conditions which include a right to refuse to work on Sundays and public holidays and permanent workers the right to every second weekend off. These changes should see more activation in the likes of Rundle Mall and other retail and hospitality oriented hubs.

## Canberra

**Quintessential Equity has purchased 44 Sydney Avenue, Forrest for \$32 million, reflecting a core market yield of 11.8%.** The A-grade building with an NLA of 9,977m<sup>2</sup> was purchased in late 2014 (subject to capital raising) from 360 Capital Group, with settlement occurring in March 2015. The Department of Foreign Affairs and Trade (DFAT) currently occupy 34% of the building, while a further 35% of the building's NLA was vacant at the time of sale.

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