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Knight Frank Research Compass Report

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

Australia

The Federal Government has proposed that fees be introduced and levied on all foreign investment applications for Australian residential and commercial property. For residential properties valued at $1 million or less, foreign investors are set to pay a fee of $5,000. Higher fees will apply to more expensive residential properties, as well as business, agriculture and commercial property applications. The exact fee structure for properties above $1 million has not been disclosed, nor has information on a discount for multiple applications submitted. Treasury, who led the inquiry, propose to transfer the regulation of foreign residential real estate to the Australian Taxation Office who will use its data-matching systems to identify possible breaches and the Government will pursue those foreign investors who break the rules. Criminal penalties will be increased to $127,500 (or 3 years imprisonment) for individuals and $637,500 for companies. There is a reduced penalty period in place, which runs until November 30th 2015, for foreign investors who disclose potential breaches. Investors who come forward may be given 12 months to divest and avoid being referred to the Commonwealth Director of Public Prosecutions. Divestment orders will be supplemented by civil pecuniary penalties; infringement notices for less serious breaches and any capital gain will be captured. Third parties who knowingly assist a foreign investor to breach the rules will also now be subject to civil and criminal penalties, including fines of $42,500 for individuals and $212,500 for companies. The Government will introduce legislation into Parliament from August 2015 with the intention that the reforms will commence on 1 December 2015.

Sydney

In excess of $900 million in Sydney CBD hotels has transacted over the past two months with substantial capital inflows from Asia continuing to be directed to the hotel sector. The most recent asset to trade was the May sale of the Westin at 1 Martin Place. The 416 room, 5-star hotel has been purchased from GIC by Far East Martin Pty Ltd (JV between Sino Land Company Limited and Far East Land and Housing Development Company Pty Ltd). The sale price of $445.33 million, reflected a price per room of $1.07 million and an initial yield of 4.5%. The hotel will continue to be operated by Starwood Hotels and Resorts Worldwide, whose management agreement has circa 4.5 years until expiry. The sale followed the April purchase of the Hilton Sydney, located at 488 George St, which was purchased by Singapore based Chinese investment group Bright Ruby for $442.0 million from Hilton Worldwide. The 5-star hotel features 579 rooms, 23 meeting rooms, 4,000m^2 of food and beverage space and a 25-metre indoor pool. The sale reflected an average price per room of $760,000 and reflected an initial yield of circa 6.25%. Hilton Worldwide will continue to manage the property subject to a 50 year management agreement.

Mirvac have announced they have exchanged contracts for the sale of 210 and 220 George St in the CBD for a reported headline figure of circa $99 million. The assets have been purchased by Anton Capital on behalf of Goldman Sachs with the transaction reflecting a core market yield of circa 7.0%. The assets are located on a 1,432m^2 site on the corner of Pitt and Dalley St within the 'APDG' precinct, the area bounded by Alfred, Pitt, Dalley and George Streets. Although the assets, which comprise a total NLA of 13,656m^2, were sold with occupancy of circa 91%, it is understood demolition clauses are in place, providing an opportunity for redevelopment of the site into either new office space or mixed use. The APDG precinct is undergoing substantial regeneration, led by 200 George St, the 39,000m^2 premium office tower currently under construction that is owned by Mirvac Property Trust and the AMP Capital Wholesale Office Fund with 10 year lease commitments from EY (25,760m^2) and Mirvac (5,680m^2). Other major developments within the precinct, currently in the pipeline, include office space at 182 George St (Lend Lease, 40,000m^2+) and 55 Pitt St (Mirvac, 30,000m^2+), while the redevelopment of 1 Alfred St and some adjoining sites, purchased recently by Dalian Wanda, is expected to provide 200+ apartments and 160+ hotel rooms.

Chinese-backed Aqualand Australia has purchased the No.8 REVY site at Darling Island, and the adjoining Channel Seven headquarters in Pyrmont for a combined sum of $180 million. Located at 6-8 Darling Island Rd and 34-38 Pirrama Rd, the one hectare harbour-front site has been purchased from a consortium including the Citta Property Group, Seven Group Holdings and Mr Greg Shand. With the exception of the Seven headquarters, the new sites are proposed to be redeveloped into apartments. Stage one of the project at 8 Darling Island Rd, is expected to incorporate the federation heritage building with development approval for 46 luxury apartments. Development approval also exists at 6 Darling Island Rd for 32 luxury residential apartments over eight levels. Channel Seven's long term lease covers two heritage buildings and a smaller gatehouse at 34-38 Pirrama Rd.

Melbourne

A Melbourne-based private investor has purchased the Mid City Arcade at 194-200 Bourke St in the Melbourne CBD for approximately $60 million on an initial yield of 5% from a Sydney-based private investor. Formerly a Hoyts cinema complex, the three-level building incorporates three cinemas, a 20-shop retail arcade and a 171-space basement car park. The retail arcade was upgraded in 1994 and again in 2001 with tenants including the Chinatown Cinema Complex and a mix of Asian restaurants and cafes and boutique retailers. With a site area of 2,040m² the property also represents a development opportunity in the future with the potential to add further levels.

Growthpoint Properties Australia has acquired a portfolio of three Victorian industrial properties for $56.9 million on a weighted average passing yield of 7.84% from private group Brown & Watson International. The largest property comprises a 22,009m², 4-Star Green Star rated office/warehouse at 1500 Ferntree Gully Rd, Knoxfield on a 40,844m² site, which is occupied by Brown & Watson and PFD Food Services with a WALE of 8.4 years. The other two assets are; 6 Kingston Park Court, Knoxfield which is a modern 7,645m² warehouse on a 12,795m² site leased to NGK Spark Plugs (7.1 years WALE) and 3 Millennium Court, Knoxfield which is a modern 8,040m² warehouse on a 14,750m² site leased to Orora (0.8 year WALE).

Share registry company Link Group has pre-committed to a $380 million office tower for their new Victorian head office, in the Melbourne Docklands precinct, which will be developed by the Walker Corporation. Link Group will largely relocate from 2 Lonsdale St and has committed to 25,000m² of the 38,000m² within the Tower 4 office at 727 Collins St, in the Collins Square development. Link Group's new headquarters will be the fourth building to be constructed in the Collins Square development, joining other tenants in the precinct including Marsh Mercer, CBA and Transurban, with KPMG having also recently committed to another building which is under construction. Along with KPMG's new headquarters, Link Group's office is scheduled for completion in late 2016. Walker Corporation has also recently gained planning approval for a fifth tower which will have an office NLA of 40,000m².

The Victorian State Government has announced two new taxes – a non-resident duty surcharge and absentee owner surcharge. The announcement of these two new taxes in the lead up to the state budget was not expected by the market. Firstly, foreign investors (non-residents) who purchase an approved dwelling from 1 July 2015, will be taxed 3% of the purchase price, and secondly, foreign owners of property which remain vacant will be charged an extra land tax (absentee owner surcharge) of 0.5%. Both are yet to be passed by the parliament. These state-based taxes will be in addition to the fees being introduced and levied on all foreign investment applications for Australian residential property. At this stage no other states have announced any steps towards introducing a similar tax, but some are also yet to announce their budgets. Guidelines have now been released after consultation with the Property Council of Australia that will ensure that businesses which positively contribute toward Victoria's future housing stock, regardless of ownership structures, will not have to pay the new taxes.

Brisbane

Two large 5-Star international hotels have sold across Queensland during May with the Pullman Cairns International ($75.08 million) and Marriott Resort & Spa Gold Coast (c$85 million) both transacting. The Pullman Cairns International has 321 rooms with associated conference and spa facilities on a site of 8,139m² and was sold by the Singapore based Ascendas Hospitality Trust and TMG Developments. The Cairns hotel was the only jointly-owned hotel in Australia for Ascendas, which has a further six hotel assets in Sydney, Melbourne and Brisbane. The hotel has been purchased by Shakespeare Property Group with settlement due prior to 30 June 2015. On the Gold Coast the Surfers Paradise Marriott Resort & Spa has been purchased by the Marriott Vacation Club which is a time-share subsidiary of Marriott International for a price believed to be in the order of $85 million. The hotel, being sold by the Indonesian-based Rajawali Group, is leased to Marriott until 2024 plus a further 10 year option and has 239 guest rooms on a large site of 1.73 hectares. The hotel sector, particularly on the Gold Coast, is in the middle of a strong transaction cycle following Huaya Group's purchase of the Sofitel Gold Coast in March for $62 million, whilst the Hilton Hotel (169 rooms + management rights of the Hilton Residences) and Sheraton Mirage Resort & Spa (295 rooms) have both been offered to the market.

Mirvac Group has confirmed the sale of Hinkler Central, Bundaberg for a price believed to be $110 million, which represents one of a number of sub-regional shopping centre sales underway. Hinkler Central has 20,754m² of GLAR and is anchored by Coles, Woolworths, Kmart and 75 specialty retailers with on-site parking for 1,070 vehicles. QIC Global Real Estate is understood to be the purchaser of the centre, reflecting a core market yield in the range of 6.75%-7.0%. QIC is also understood to be in the final stages of negotiation to purchase the Domain Central shopping centre in Townsville for approx. $130 million. In Brisbane, the sub-regional centre, Capalaba Central, has been purchased by the Shayer Group, for $148.5 million, reflecting a core market yield of 7.5%. The centre, previously owned by DEXUS Property Group on behalf of a large super fund, is anchored by Coles, Woolworths, Big W and Harvey Norman with a cinema complex and more than 100 specialty tenants.

Bunnings Warehouse (Wesfarmers) has sold a freestanding Kmart store under construction north of the Gold Coast for $22.689 million, which reflects an initial yield of 5.95%. The 6,200m² Kmart store at 15 Global Plaza, Oxenford, is being developed on surplus land next to an existing Bunnings Warehouse, with completion expected in November 2015. The property will be sold with a 12 year net lease in place with 2.5% annual reviews.

Perth

Western Australian developer, Finbar, has gained approval for its $380 million Civic Triangle mixed-use development in South Perth named Civic Heart, which will be the tallest tower outside of the CBD when completed in 2018. The development proposal includes an elliptical 38-storey residential tower, offering 294 luxury apartments with some of the best views of Perth CBD, Kings Park and Botanic Gardens. The apartment tower will comprise 25 levels of one, two and three bedroom apartments, with larger three bedroom "sky homes" from level 26 upward and two 380m² penthouses on the top floor. A three level podium of 11,900m² will incorporate a neighbourhood shopping centre, retail and offices fronted by a public plaza. Finbar acquired the 7,206m² triangular site bounded by Mends St, Labouchere Rd and Mill Point Rd for $27.3 million in July 2014. Finbar also recently announced that it had concluded negotiations to acquire an adjacent property with 1,019m² of land area located at 103 Mill Point Rd, South Perth for inclusion in the Civic Heart development. The heritage listed police station and post office building on the site will be retained.

Diversified property group, Stockland, will invest $51 million on the first stage of construction of a new 12,200m² shopping centre within its $661 million, 2600-lot Newhaven residential community, which is located 20km south-east of the Perth CBD. The construction of the centre, Stockland's Harrisdale, will commence in May 2015 and it is expected to open in mid-2016, which over time will become a full-scale, sub-regional town centre of approximately 25,000m². Harrisdale Shopping Centre will be anchored by Woolworths and will also include one mini-major, 30 specialty stores, five retail kiosks, six pad site retailers and 500 car parking spaces. Stockland expects retail sales in the main trade area to double within 12 years of completion, reflecting average compound sales growth of 6.1% per annum. Stockland's Harrisdale is forecast to deliver an internal rate of return of 11.5% and an initial yield of 7.8%.

City of Perth council has approved two major proposed developments located at the Esplanade and Kings Square. The council has given its approval to a $398.1 million three building development at The Esplanade that will feature a 6-Star Green Star rated Ritz Carlton offering 204 hotel rooms, 379 apartments and ground floor commercial tenancies. The council has also approved a $190 million, 49 storey tower, offering 563 residential apartments, retail and café/restaurant development at Kings Square.

Millstream Arcade located at 21 Mends St, South Perth has been sold to private investment group Silverleaf Investments, for $13.625 million. The arcade, with a GLAR of 1,683m² on a 2,957m² site, is a small, single level shopping centre anchored by a 688m² IGA supermarket and supported by 16 specialty retailers. Millstream Arcade is located approximately three kilometres from Perth via the Kwinana Freeway, fronting the Mends St retail and cafe strip as well as in close proximity to a number of proposed large-scale apartment projects in the South Perth precinct. The neighbourhood shopping centre has been purchased from Caprice Holdings Pty Ltd reflecting a building rate of $8,097/m² based on GLAR and passing yield of 4.18%, which was a reflection of the prime location and long-term redevelopment potential of the asset.

Adelaide

ASX listed communications equipment manufacturer Codan has leased 7,500m² of office space in Technology Park at 2 Second Ave, Mawson Lakes. The space has been leased from Renewal SA for a 15 year term. The move enables the company to consolidate their footprint by selling their existing properties at Newton and Torrensville which have a reported combined value of $10 million. In the CBD, accounting firm Grant Thornton has pre-committed to lease the top floor (1,473m²) in the Frome and Flinders office development at 170 Frome St. The office space has been leased from Emmett Property for a 10 year term at a reported rent of $400/m² net. Upon completion in December 2016, the four storey building will have floor plates of 1,500m² comprised of ground floor retail, first floor parking and two upper floors of office space, resulting in a total NLA of circa 3,900m².

An undisclosed private investor has purchased Athelstone Shopping Centre at 312-328 George Rd, Athelstone for $12 million reflecting a reported yield of circa 7.5%. The 4,611m² neighbourhood shopping centre is anchored by a full line Foodland Supermarket and includes 14 specialty stores.

The South Australian State Government is seeking industry and community support for a proposed specialised food manufacturing estate in Adelaide's outer north. The announcement comes shortly after car manufacturer Holden announced further job cuts in their manufacturing park at Elizabeth which is facing closure in 2017 and will significantly impact the local economy. The proposed development requires a minimum site of 40 hectares to accommodate a mix of food manufacturing, packaging and distribution facilities.

Canberra

Sales activity in Canberra continues to gain momentum following the recent acquisition of Lend Lease's 20 Allara St Civic, with 2015 YTD office sales in Canberra totalling almost $120 million. While slightly down on the prior corresponding period last year ($153.9 million), investment activity is already above the five year average of $112.9 million. As reported last month, 54 and 60 Marcus Clarke St, Civic were sold to Centuria for $14.2 million and $49.1 million respectively, while earlier in the year, Quintessential Equities purchased 44 Sydney Ave, Forrest for $32 million. The sale of 20 Allara St represents a positive step forward for alternate use conversions of office buildings in Canberra, with the new owners intending to reposition it to accommodate residential uses.

Following the completion of the Department of Finance's divestment Scoping Study, the recent 2015-16 Budget has set aside $4.8 million over two years to the Department of Finance for the divestment of four office buildings located in Canberra's Parliamentary Triangle. The buildings include the heritage-listed Anzac Park East, Anzac Park West, East Block and West Block, however the sale is subject to validation of the assumptions found within the Scoping Study. Both the John Gorton and Treasury buildings, which were identified within the Scoping Study, have been held back from sale. Also stemming from the 2015-16 Budget was the relaxation of the Australian Public Service hiring freeze, which will provide a boost to Canberra's office leasing market.

NewActon Nishi has been awarded the 2015 Building Awards' International Project of the Year. The sustainable mixed-use building was designed by Fender Katsalidis Architects and Tokyo's Suppose Design Office in conjunction with Arup. NewActon Nishi comprises 21,000m² of office space, a retail podium and 220 apartments that are naturally-ventilated and designed to maximise daylight and views. The building has achieved a 6-Star Green Star design rating and an average NatHERS rating of 8-Stars. The NewActon precinct project is unique with the interior mirroring the exterior timber façade with more than 40 kilometres of Australian blackbutt timber shading the glass from morning sun reducing unwanted solar heat accumulation. Also keeping the building cool and increasing the building's biodiversity, more than 90 plant boxes with a mixture of climbers and low-level, low-water plant species line the façade. The Building Awards is a UK-based program that seeks to reward the most successful and innovative companies, and the best in project design excellence.

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