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Knight Frank Research Compass Report

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

National

The Chinese Investment Corporation (CIC), one of the world's largest sovereign wealth funds, has purchased the Investa Property Group portfolio, comprising nine office towers, for \$2.45 billion reflecting a capitalisation rate of around 5.7%.

The portfolio includes a number of premium and A-grade assets, as follows:

- Sydney CBD - 126 Phillip Street (26%), 225 George Street (25%), 255 Elizabeth Street, 400 George Street (50%), 55 Market Street, and 31 Market Street
- 80 Pacific Highway, North Sydney
- 120 Collins Street (50%), Melbourne CBD; and
- 410 Ann Street, Brisbane CBD.

Sydney

NSW Ports has announced that the development of the Enfield Intermodal Terminal (Enfield IMT) has reached the stage in its construction that will enable rail operations to readily commence. Enfield IMT will provide empty container storage facilities, warehousing, a light industrial and commercial area along Cosgrove Road and rail connections to both interstate and Port Botany. The 60 hectare site is connected to Port Botany via the Botany Freight Rail Line and serves an important role in the State Government's strategy to ease traffic congestion by transitioning a higher proportion of Port Botany freight movement from road to rail. The news came shortly after NSW Ports had announced Swift Transport as the first major occupier to sign up to the new precinct with the group leasing a new purpose built office, warehouse and hardstand facility totaling over 20,000m².

Cromwell Property Group has announced that they have agreed to terms to sell 4-6 Bligh Street in the Sydney CBD for \$68 million. The asset is being acquired by opportunistic fund, Real Estate Capital Asia Partners IV Fund, which is managed by SC Capital Partners, partnering with Fortius Funds Management. The asset comprises 20 levels of B-grade office accommodation with two retail tenancies on the ground floor. The sale reflected a WALE of circa three years, however it is noted that the building offers medium term office redevelopment opportunities. Cromwell had previously bought the 9,964m² asset as part of a Government portfolio (Government Property NSW) of seven properties in June 2013, when it was sold subject to a five year leaseback to the State Government over the office space and 20 car spaces.

New planning guidelines came into effect on 17 July 2015 for NSW apartments. The Apartment Design Guide was released by NSW Department of Planning & Environment under SEPP 65, which was originally introduced in 2002 to improve the quality and design of residential apartments. The Apartment Design Guide will offer key design criteria and guidance for apartment developments including building design, size of apartments, ceiling heights and solar and daylight access. The design criteria in the new guidelines will override council development control plans on a range of matters where councils have often imposed conservative standards, setting consistency across NSW and will support much-needed apartment supply in Sydney.

China Poly has released plans for its Cambridge Business Park site in Epping with 501 apartments proposed for their first independent project in Australia. The former Goodman-owned site, located at 20-28 Cambridge Street, was purchased for \$110 million in December 2014. A mix of studio, one-bedroom, two-bedroom and three-bedroom apartments will span the three towers proposed as shop-top housing; with two 22-level towers and a lower rise building of 6-levels. Public pathways will be designed to link the complex to the local retail strip and the complex will accommodate a total 1,008 m² of retail space, 519 car spaces and 557 bicycle spaces. The scheme is estimated at \$154 million for the development.

Melbourne

Chinese developer Sterling Global has acquired the Royal Mint Centre at 383 La Trobe Street, for \$70.7 million from Investa Office Fund (IOF), representing a 31% increase on the book value. Completed in 1998, the 4-level building, which was refurbished in 2008, has an NLA of 9,679m² and a 529-space, 7-level car park (including two basement levels). The office is fully leased to the Australian Federal Police until 30 June 2017 with no option to extend currently in place. Offsetting the potential exit of the police is the sizeable 2,845m² site, with the sale equating to a site value of \$24,850/m². Located in the Legal precinct, close to the Queen Victoria Market, 383 La Trobe Street presents an opportunity for residential development. Residential developer Sterling Global is already undertaking a number of residential development projects in the suburbs of Melbourne. Settlement is on a deferred basis of between 12 and 18 months from the date of exchange.

Malaysian fund manager CIMB TrustCapital Advisors has acquired 575 Bourke Street in the Melbourne CBD for approximately \$90 million from German pension fund BVV, which purchased the asset for \$70 million in March 2013. The 18-level office building has 16,179m² of NLA and 82 underground parking bays, with tenants including Equity Trustees, HLB Mann Judd and McKean Park Lawyers. The property was completed in 1987, with the foyer and public spaces of the building refurbished in 2003, and has average floorplates of 1,050m².

Engineering consultancy group AECOM has leased 5,500m² in Tower 2 of Walker Corporation's Collins Square development in the Melbourne Docklands precinct. AECOM will relocate from 80 Collins Street and 8 Exhibition Street, vacating 8,200m² across the two premises. Currently 80 Collins Street houses the Davis Langdon quantity surveying and buildings-related businesses, while 8 Exhibition Street accommodates its infrastructure, transport, energy, utilities and environment consulting operations. AECOM has signed a 10-year lease with extensions that starts in May 2016 and will occupy levels 9, 10 and part of 11 of the 727 Collins Street office. KPMG has already signed up as the anchor tenant, taking nearly 30,000m² in the 38-level Tower 2, the tallest of the five buildings planned for the Collins Square development. Other tenants in the precinct existing and forthcoming include: Marsh Mercer, CBA Transurban, Maddocks and Link Group.

An Asian-based private investor has purchased 319-325 Swanston Street, a freestanding retail property in the Melbourne CBD, for \$26 million reflecting a core market yield of 3.9% and a land rate of \$82,278/m². The 3-level building has a historic facade but new interiors after it was redeveloped 18 months ago. Tenants include convenience store EzyMart and restaurants Gong Cha, Hot Star and Mr Kitchen. The property is 100% leased to five tenants all on new eight to 10-year leases. The property, purchased from a local private investor, is located on the western side of Swanston Street, adjacent to Melbourne Central Shopping Centre.

After being rejected in April, Grocon has now received planning approval for its \$300 million tower at 85 Spring Street in the Melbourne CBD. The project was initially blocked on the grounds of being too tall, at 44-levels, too big, at 305 apartments, and too close to historic buildings on Collins Street; including the Victorian Parliament House. The approved 39-level apartment tower, with a 142 metre glass façade, will now comprise 225 apartments after a complete redesign of the project. The tower will be built over the top of the Spring Street entrance to Parliament Railway Station, although there should be no major disruption to the City Loop service, and no longer overshadow Gordon Reserve, which sits adjacent to the site. To protect the views of the apartments, part of the planning permit would be to secure the air rights from nearby Anzac House.

Brisbane

The Destination Brisbane consortium has been named as the preferred developer for the Queens Wharf project in the Brisbane CBD. The project covers a 9.4 hectare brownfield site located between George Street and the Brisbane River currently occupied by a mix of existing State Government office buildings and low-rise heritage buildings. The Destination Brisbane consortium is made up of ASX listed Australian Casino operator, Echo Entertainment with the Hong Kong based Chow Tai Fook Enterprises and Far East Consortium. The integrated resort project will involve the delivery of some 1,100 new hotel rooms under five operators which are new to Brisbane, including Ritz Carlton and Rosewood Hotel brands with one six star hotel. The existing Treasury Casino licence, currently held by Echo Entertainment, will be transferred to the new development with the former heritage listed Casino building and Treasury hotel being converted into high end retail and a new Ritz Carlton hotel. There will be some 50 new restaurants and bars delivered across the site. The project will also provide approx. 2,000 residential apartments across three towers. Public open space will also be provided as part of the project, including the construction of a new pedestrian and cycle bridge to South Bank. The three existing office buildings on the site, totalling 57,656m² of space, are expected to be demolished once the State Government's new office tower at 1 William Street is completed and as such the official time frame for construction on the project is over the period 2017 – 2022.

US-based investment group Pramerica Real Estate Investors has sold 215 Adelaide Street in the Brisbane CBD for \$224 million to Challenger Life. The 33-level building has an office NLA of 25,764m² and there is 3,346m² of retail space in the adjoining Rowes & Rothwell building. The sale reflected a core market yield of 7.03% and the asset had a WALE of 4.3 years. Purchased by Pramerica for \$134.5 million in early 2012, the building has since undergone a comprehensive refurbishment programme and re-mix of the retail component at a total cost of approximately \$30 million. The office tower has typical floors of 952m² and major tenants include the Commonwealth Government, Carter Newell Lawyers and Barry.Nilsson Lawyers.

The Moreton Bay Regional Council has purchased a 200 hectare development site at Petrie for \$50.5 million. The site, located at 965 Gympie Road, Petrie has been purchased with the intention of creating a new university and community precinct at the location. Formerly operated by Amcor as a paper and cardboard mill, the site was sold by parent company Orora after lengthy negotiations with the Council. There is an existing train station on site, originally constructed for the mill's workers, and is located at the junction of the northern rail line and the new spur which will provide rail services to the Redcliffe peninsular. To the south of Brisbane, the GPT Group has purchased a 21 hectare industrial development site at Berrinba for \$23.2 million. Sold by the Logan City Council the site is located on Wembley Rd, Berrinba and has direct access to the Logan Motorway. The site has a zoning which would support a mix of industrial and commercial development, however is expected to be targeted for industrial development.

Perth

The \$2.2 billion Forrestfield Airport Link, which will extend Perth's rail network, has been recommended for conditional approval by Western Australia's Environmental Protection Authority (EPA). As part of the project is on Perth Airport Land, it is subject to a separate assessment and approvals process under Commonwealth legislation and did not form part of the proposal assessed by the EPA. Conditions recommended include an offset strategy to counterbalance the direct loss of 1.6 hectares of Threatened Ecological Communities (TEC) and 25 plants of a rare flora species. The line will branch off the existing Midland Line, just east of Bayswater station and pass through twin tunnels under the Swan River and airport runways. Three new stations will be built at Airport West, Consolidated Airport, and Forrestfield along with 3,000 parking bays. Construction of the landmark transport project is expected to start in 2016 with completion due in 2020.

Charter Hall's Direct Industrial Fund 3 (DIF3) has purchased an engineering facility of 31,700m² situated on land of approximately 75,500m² located at 170 Railway Parade, Bassendean for \$32.78 million. Mining services and manufacturing group Bradken sold the property in an off-market sale and leaseback deal on a reported passing yield of 8.5%. The property has been acquired on a long term lease of 15 years with fixed increases of 3% p.a. The acquisition of this property is consistent with the DIF3 property investment strategy and builds on the fund's existing portfolio, which includes two properties in Perth and Adelaide 100% occupied by Coles on long term leases.

ISPT Retail Australia Property Trust has finalised the fund-through purchase of Lakelands Shopping Centre on Mandurah Rd, Lakelands for a reported \$70 million, from national developer, Peet Group. The shopping centre is located some 10kms south of Perth on an 8 hectare site bordered by Banksiadale Gate Road, Badgerup Avenue and Mandurah Road. Construction of the 21,170m² sub-regional shopping centre is expected to commence early next year and due for completion in mid-2017. Peet Group has previously secured major retail tenants including Coles, Kmart, an Aldi supermarket and Coles Express to anchor the new shopping centre along with a proposed child care facility, tavern and 38 specialty stores. The shopping centre will complement the Lakeland Private Estate being developed by the Peet Group which has 1,400 homes and will offer a total of 2,400 homes upon completion.

Adelaide

Charter Hall Group has lodged a development application for a \$300+ million commercial development at Adelaide's GPO and Victoria Square Precinct, to be known as Precinct GPO. Charter Hall has proposed to build two new A-Grade office towers on the vacant site, as well as refurbish the heritage GPO and Telephone Exchange buildings. The two new towers, GPO Plaza and GPO Tower, will have circa 12,500m² and 24,500m² of office NLA respectively and there will be retail GLAR of around 3,000m². Charter Hall are looking to activate Victoria Square through remediation of the civic space and connect with the CBD through laneways and walkways, with the precinct to be linked by a series of laneways leading to a central piazza.

Canberra

Cromwell Property Group, through its Cromwell Direct Property Fund has purchased 64 Allara Street, Civic for \$16.8 million from the Australian Ethical Property Trust. The 6-level, A-grade commercial office building located within the CBD is anchored by Jacobs Australia and CIC Australia and has an NLA of 3,155m². The sale demonstrates the strong appetite for quality multi-tenanted buildings that have good prospects for re-leasing once space becomes vacant. The building's proximity to the proposed City to the Lake project, coupled with a limited offering of quality stock at a similar price point, meant that competition was strong. In addition, Cromwell has also purchased Borrowdale House in Woden for \$7.6 million. Previously earmarked for a residential tower, the 3-level office building is likely to be converted into a car park for Cromwell's adjacent Lovett Tower which is planned to undergo extensive refurbishment.

Darwin

A \$1.45 billion prawn farm that will create 1,600 direct jobs and produce more than 100,000 tonnes of prawns a year has been awarded Major Project Status by the Australian and Northern Territory Governments. The project is planned to be developed over 10,000 hectares on the 178,800 hectare Legune Station, which is a pastoral lease that operates as a cattle station, located close to the border of Western Australia, in the Northern Territory. The announcement comes on the back of the recent launch of the Australian Government's Northern Australia White Paper.

The development of Palmerston's newest suburb has progressed with work beginning on the construction of 1,700 new homes in what is to be called Zuccoli Aspire. In addition to housing, stages 3 and 4 of the Zuccoli development will also include the building of two schools, a commercial centre, social housing and new parks. The tender was awarded to a joint venture between local company the Ostojic Group and Costa Property from Melbourne.

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