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Knight Frank Research Compass Report

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

National

Scentre Group has disposed of its interest in a portfolio of four shopping centres for a combined consideration of \$783 million, with the deals to settle in mid-September. Blackstone purchased three of the centres (all regional centres) for a combined sum of \$656 million and Challenger Life acquired one sub-regional centre as follows;

- **Westfield Figtree**, 9 Princes Highway, Figtree (Illawarra region of NSW) bought by Blackstone (June book value of \$163 million)
- **Westfield Warrawong**, Cowper Street, Warrawong (Illawarra region of NSW) bought by Blackstone (June book value of \$191.5 million)
- **Westfield Strathpine**, 295 Gympie Road, Strathpine (north of Brisbane) bought by Blackstone (June book value of \$277.5 million), and
- **Westfield North Rocks**, 328-336 North Rocks Road, North Rocks (Sydney) bought by Challenger Life (June book value of \$125 million).

Federation Centres has entered into agreements to sell four shopping centres for a total consideration of \$153.1 million. The shopping centre assets in the portfolio were as follows;

- **Goulburn Plaza**, a 13,938m² sub regional shopping centre, at 217 Auburn Street, Goulburn (in regional NSW), and **Katherine Oasis Shopping Centre**, a 7,162m² neighbourhood centre, on Katherine Terrace at Katherine (in the Northern Territory), sold to Charter Hall for a combined total of \$94.9 million.
- **Mount Gambier Central**, a 12,731m² sub regional shopping centre of has been purchased by an undisclosed private investor for \$24.5 million.
- **Westside Plaza** in Broken Hill, NSW sold to Sentinel Property Group for \$33.7 million.

Sydney

Parramatta City Council has appointed Walker Corporation as the developer for the two largest stages of the Parramatta Square development (PSQ). One of these stages is known as Stage 2 and comprises the Aspire residential tower. The other is known collectively as Stages 5 and 6, which will comprise the largest commercial component of the redevelopment precinct and will provide up to 126,000m² of commercial space across two interconnected towers in addition to a podium retail component. Council anticipates that development applications will be submitted for the projects prior to the end of the year, however it is noted that applications for the demolition of 30 Darcy St and Council's Civic Place Library building were approved in May this year in order to ready the sites for development. The first stage of the development, known as 1PSQ, which is located at 169 Macquarie St, is already under construction having achieved a 26,000m² pre-commitment from the University of Western Sydney (UWS), which will occupy the whole building. 1PSQ is owned by two of Charter Hall's managed funds and is being developed by Leighton Properties and constructed by John Holland.

Lend Lease has announced that retailer David Jones will open a new 'boutique' store at the Barangaroo South development. David Jones will lease 1,400m² on the ground and first floors of Tower Three at International Towers Sydney, the same tower in which Lend Lease and KPMG have pre-committed to office space. The floor area is smaller than David Jones traditionally occupies, however it will allow the retailer to concentrate on upmarket brands and providing a full range of premium services including a luxurious private shopping suite with dedicated style advisors. David Jones also intends to offer access to its full spectrum of brands via its Click and Collect service.

Euro Properties, a Hong Kong based investor, has purchased the Nine Entertainment Co. broadcasting facilities' "home of television" on 24 Artarmon Rd, Willoughby, for \$147.5 million. The site has been purchased under a three year leaseback to Nine Entertainment Co. before relocating. The sale is yet to be approved by the Foreign Investment Review Board, however is earmarked for residential redevelopment into a complex of up to 400 dwellings, spread across residential apartments and terraces. The site has been home to the Nine Entertainment Co. for more than 50 years, and is the last original standing television broadcasting station in Sydney.

The Charter Hall Direct Office Fund (DOF) has sold 500-520 Pacific Highway, St Leonards, for \$150 million. The site, which includes the 504 Pacific Highway office building, was sold as a joint venture to New Hope Real Estate Development, a

Chinese company based in Sichuan, and Melbourne property group, VIC Investment Management Group. The 3,752m² site has been rezoned to allow for a 138 metre mixed-use development (43 levels above the Pacific Highway), with potential for up to 550 apartments totalling 39,780m² of GFA – part of a broader redevelopment plan for the precinct.

Melbourne

US-based LaSalle Investment Management has acquired 222 Exhibition St in the Melbourne CBD for \$231 million from the unlisted AMP Capital Wholesale Office Fund (AWOF), representing the largest sale in Melbourne in 2015 to date.

Completed in 1988, the 30-level office building, which was refurbished in 2009, has an NLA of 28,025m² and a 479-space, six-level car park. Predominantly leased to Worksafe Victoria, other tenants include HESTA and the Department of Justice. With the lease expiring at 222 Exhibition St in 2019, Worksafe Victoria will be relocating its head office to a newly built building in Geelong by 2018; potentially co-locating with the National Disability Insurance Agency. AMP previously purchased the A-grade building located in the North Eastern precinct of the CBD for \$162.5 million in 2007.

Korean asset management group, FG Asset Management has contracted to purchase 913 Whitehorse Rd in Box Hill for \$156.0 million, from the single-asset unlisted Cromwell Box Hill Trust, reflecting an initial yield of 6.00%. The Cromwell Box Hill Trust is a closed-ended property trust (December 2019). Having reached practical completion in May 2015, 913 Whitehorse Rd, Box Hill, located 19 kilometres east of the Melbourne CBD, comprises 13 levels of office space, with an NLA of 19,941m², and six levels of car parks. The entire office component is leased to the Australian Tax Office until May 2030.

Straits Real Estate, a subsidiary of the Singapore-listed investment company Straits Trading Company has acquired 114 William St in the Melbourne CBD for \$125 million from the private investor, Kyko Group. Acquired through a CorVal Partners mandate, the 23-level office building was completed in 1976, has an NLA of 21,022m² and two levels of basement car parks of 106 car bays. Located in the legal precinct of the CBD, the 2-star NABERS building is home to a range of tenants including HOSTPLUS, Cornwall Stodart Lawyers, AMC Consultants and Worrells Solvency & Forensic Accountants. With a site area of 1,856m² the building offers typical floor plates of 953m² with a flexible central-core floor plate design. A capital expenditure program incorporating ground floor foyer upgrade, several full floor refurbishments and a brand new end of trip facility was also recently completed.

Accounting firm Pitcher Partners has pre-committed to Mirvac Group's office development at 664 Collins St in the Melbourne Docklands precinct. Pitcher Partners will relocate from 15 William St and has committed to 10,000m² of the 25,000m² tower which will be developed adjacent to 699 Bourke St, which Mirvac completed in July 2015 and is fully occupied by AGL Energy. The office is part of a two-tower project on the airspace over Southern Cross Station which was bought by Mirvac in 2007. With average floorplates of 3,000m², Pitcher Partner's office is scheduled for completion in mid-2018 and they will vacate approximately 9,000m² from 15 William St.

Local private developer, Fortune Property Group has acquired the former Bradmill denim factory in Yarraville for more than \$160 million from Colin De Lutis, representing Melbourne's largest ever inner-city site transaction. Acquired by Colin De Lutis in 2002, the 24-hectare site was rezoned for residential use in 2011 and renamed Yarraville Gardens with a mixed-use project planned including 1,500 dwellings. The Yarraville project is just one of several being pursued by Fortune Property Group, who is also seeking to develop a high-rise apartment tower in Southbank and is due to begin selling a residential project in Carnegie later this year.

Brisbane

In addition to the four asset portfolio mentioned earlier, Federation Centres also agreed to sell the Lutwyche City Shopping Centre for \$65 million. The inner city neighbourhood centre has a single level of retail space and an upper level of approximately 6,000m² of office space. The centre has a total GLAR of 18,794m² and is anchored by Coles and ALDI with 49 specialty tenancies including a Curves gym and medical centre. The centre is located on a site of 2.19 hectares on a main arterial road five kilometres from the Brisbane GPO, and was sold on a core market yield of circa 7.5%. The property is being purchased by Abacus Property Group and Zenonos Group and is expected to settle in October 2015, subject to FIRB approval.

The Investec Australia Property Fund has purchased an industrial building, 85 Radius Drive, Larapinta for \$18.15 million. The modern tilt slab industrial building, constructed in 2010, is fully leased to the Coil Steels Group until December 2021, reflecting a 7.8% passing yield. The passing rental of \$141/m² net could be considered as above market.

Singapore-based Kingsford Development has an unconditional contract to purchase the Terrace Office Park complex, 527 Gregory Tce, Bowen Hills for \$31 million. The property, which is currently improved with two adjoining four level office towers above two basement parking levels, is located on a site of 7,003m². The office building with an NLA of 7,878m² is expected to be demolished, with the site recently receiving approval for a 521 residential apartment development. The residential scheme, lodged by the vendor Cromwell Property Group, encompasses two towers – one 30-level tower with 311 units and to the west of the site a 25-level tower with 210 units.

Hong Kong based conglomerate Lei Shing Hong, the world's largest distributor of Mercedes Benz, has purchased Mercedes Benz Australia's grand showroom at 365 Wickham St, Fortitude Valley, Brisbane, for approximately \$40 million. The 6,170m² site provides direct access to both Wickham St and Ann St, and has been marketed with development schemes of between 665 and 760 residential apartments. The sale cements the automaker's strategy announced last year, to sell three of its largest Australian company-owned dealerships.

Perth

The Singaporean firm Mapletree Investments has purchased a modern high quality office building at 53 Ord St, West Perth for \$59 million. The building was developed by Multiplex in 2002, and has five levels of A-grade office space, totalling 6,864m² with a basement carpark. The property is situated in the office precinct of West Perth approximately two kilometres west of the Perth CBD. ConocoPhillips, an American energy corporation based in Houston, Texas occupies 100% of the space with a lease until 2022.

Scentre Group is in negotiations to secure the Innaloo Event Cinema complex along Liege St and just south of Scarborough Beach Rd, Woodlands. The site has an area of 6.82 hectares and includes a 16 screen cinema complex. The purchase price is understood to be around \$48 million. Scentre Group own Westfield Innaloo along the northern side of Scarborough Beach Rd which is a regional centre of 37,800m² proposed for \$450 million upgrade and expansion.

National auction and valuation specialists, Pickles Auctions has finalised the purchase of a major industrial site in Bibra Lake for \$35 million, which was the biggest owner-occupier sale in Perth over the past 18 months. Located on the corner of Sudlow and Phoenix Rd's, the 29.373 hectare site has improvements of 101,498m². The proximity to Fremantle Port makes it a highly sought after location for Pickles Auctions. The Federal and State Governments' \$1.6 billion Perth Freight Link project will extend Roe Hwy from Kwinana Freeway to Stock Rd significantly impacting the property's value.

Adelaide

A new \$175 million hotel has been proposed for 51 Pirie St in the CBD. Singaporean based Park Hotel Group and Adelaide based development company LGB Australia will jointly develop the 4-star hotel which will include 250 hotel rooms and 280 residential apartments over 30 floors. The proposed development is in early planning and will be constructed on top of the existing old state bank building. 51 Pirie St is currently a secondary office building of 6,179m² and was acquired in January 2015 for \$13 million, requiring extensive refurbishment in its current form.

The South Australian Government State Administration Centre portfolio is for sale. The portfolio comprises 200 Victoria Square, 30 Wakefield St, 31 Flinders St, 220 Victoria Square, 24 Flinders St and 12 Victoria Place with a combined NLA of 61,612m² and a 12-year lease to the government of South Australia. The portfolio is expected to sell for circa \$200 million. The sale comes after the state government has been restructuring its position in the CBD by divesting a number of assets.

An undisclosed private investor has purchased the 3,792m² suburban shopping centre at 901 Grand Junction Rd, Valley View for \$12.3 million. The community shopping centre has been purchased on a reported yield of 7.85%.

Canberra

In response to a gravitation towards smaller retail centres leased by a nationally recognised tenant and the outperformance of ACT retail sales growth, a Woolworths anchored neighbourhood centre at 61 Mabo Boulevard, Bonner has sold for \$11.675 million, reflecting a yield of 6.3%. The neighbourhood centre, built in 2012 has a 20 year lease to Woolworths plus options to 2042 with 77% of its income secured by Woolworths. Similarly, a new standalone Dan Murphy's with a 15 year lease plus options to 2060 has traded in nearby Queanbeyan (NSW) for \$11.3 million on a yield of 4.7%. Both transactions highlight the strong investor appetite for assets with long lease covenants backed by a nationally recognised brand.

Auckland

An A-Grade Auckland office building at 8 Nugent Street, Grafton has sold for \$42 million on an initial yield of 7.08%. The buyer was local listed entity Argosy Property which also has other assets in the location. The building, developed in 2009, has an NLA of 8,124m² and relatively large floor plates for the location of 1,700 m². Additionally, there are 244 on-site car parks which services tenants including Mobile NZ and Pfizer. The income is underpinned by a WALE of five years and 11 tenancies.

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