

COMPASS

LET OUR RESEARCH POINT
YOU IN THE RIGHT DIRECTION



OCTOBER 2015 – EDITION 37

Knight Frank Research Compass Report

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

Sydney

Commerz Real has acquired the Australian Federal Police headquarters at 110 Goulburn Street in the Sydney CBD for a reported \$150 million. The asset was purchased by the group's open-ended fund hausInvest, which allows for a 15% allocation outside of Europe. The asset was the Group's first acquisition in Australia, however the Group's stated objective is to increase exposure to the Asia Pacific market. The building comprises 11 levels of office space with a total area of circa. 14,300m², as well as various police-specific facilities and a car park with 165 spaces. The building was completed in 1990, having been purpose built for the Federal Police, which has occupied the building since that time.

Two Centuria managed funds have purchased 203 Pacific Highway in St Leonards for \$86 million. The asset was acquired by Centuria Metropolitan REIT (50%) and a newly established Centuria unlisted office property syndicate for retail investors for 50%. 203 Pacific Highway forms part of the Forum, a mixed use complex located above the St Leonards railway station. The A-grade office building comprises 11,737m² of NLA over 11 levels and 150 car parks and was sold fully occupied with a five year WALE and major tenants including Primary Healthcare, Cardno and Verizon. The sale reflected an initial yield of 8.0% with settlement scheduled for December 2015. The year 2015 has been an extremely active period for the St Leonards market with YTD asset sales of \$686.5 million, more than the three previous calendar years combined. Other prime sales have included Space 207 Pacific Highway for \$168.55 million, as well as 201 Pacific Highway for \$115.0 million, which is also part of the Forum Complex.

NSW Planning has announced the creation of a new Priority Growth area around the planned future airport at Badgerys Creek. The new Priority Growth area consists of the extended area of the Broader Western Sydney Employment Area, which lies predominantly to the north of Elizabeth Drive, as well as land to the South East of the airport site between Elizabeth Drive and Bringelly Road. The Planning department will work closely with Liverpool City Council and Penrith City Council to prepare a draft Land Use and Infrastructure Strategy for the area, which will guide new infrastructure investment, identify new homes and jobs close to transport, and coordinate services in the area. The aim of the work is to ensure that new suburbs will be better connected to the planned second Sydney airport and the regional cities of Penrith and Liverpool. The draft strategy will then be released for consultation with the community.

A Hong Kong-based private investor has purchased nine single dwellings in St Leonards for \$66.06 million from a combined group of property owner occupiers and investors, to reflect a rate of almost \$257,045 per apartment for the development site. Bound by River Road, Canberra and Holdsworth Avenues, the amalgamated single allotments cover a total land area of 5,695m². The site is earmarked to accommodate one 12 level and one 15 level building, with up to 257 new apartments. The precinct has recently been rezoned by the Lane Cove Council under the St Leonards South Masterplan, which allows higher density residential development. Both the St Leonards and Wollstonecraft railway stations are within walking distance from the site, with direct access into North Sydney and the Sydney Central Business District.

Melbourne

BMW Australia Finance has pre-committed to a new office building located in the Frasers Property Australia/CIP joint venture developed Mulgrave Office Park at 211 Wellington Road in Mulgrave. BMW Australia Finance, which is the financial services arm of BMW, will relocate from the Nexus Business Park in Mulgrave, vacating 2,925m² in 2-22 McDonalds Lane, Mulgrave. BMW Australia Finance has committed to a five-year lease on 4,792m² of the 10,000m² planned office building, which is scheduled for completion in late-2016. Launched in late 2014, Mulgrave Office Park recently attracted Monash University into a 12,718m² development with Mazda Australia's new 6,710m² national headquarters also currently under construction. Monash University and Mazda's new offices are scheduled for completion in early 2016.

Charter Hall has signed The Reject Shop to the Drystone Industrial Estate in Laverton North in Melbourne's western industrial precinct. The Reject Shop has committed to an initial 10 year lease over a new 37,700m² warehouse and distribution facility. Situated on an 8.9 ha parcel, the new facility is expected to be completed in September 2016 with an end value of approximately \$40 million. The Reject Shop will relocate from its existing distribution facilities at Tullamarine when its lease expires in early 2017. The Reject Shop will join Woolworths and Laverton Cold Storage at the Drystone Industrial Estate.

Unlisted AMP Capital Wholesale Australian Property Fund has acquired a 26,252m² industrial facility at 704 – 744 Lorimer Street, Port Melbourne for \$36.2 million from Centennial Property Group. Located on a 3.34 ha site, the property currently is fully leased to six tenants including Ability Press, Couriers Please and Total Tools. The sale reflects a passing yield of 7.7% with a WALE of 6.0 years. The property incorporates seven office and warehouse units constructed in the 1940s, refurbished and extended in the late 2000s and is located less than 400 metres from the Fishermans Bend urban renewal precinct. Centennial Property Group previously purchased 704-744 Lorimer Street for \$26.3 million in 2013.

Brisbane

The Queensland Government has released the Draft State Infrastructure Plan which is open for consultation until 4th December 2015. The plan breaks proposed necessary infrastructure expenditure into short term (1-4 years) and longer term (5-15 years) categories. The short term projects represent expenditure which is in planning, approaching procurement or already underway and have firm funding commitments. The longer term plans outlines the desired future strategic direction for expenditure, however most do not yet have committed funding. Overall the document outlines proposed expenditure in the Cross-Government, Transport, Energy, Water, Health, Education & Training, Digital, Justice & Public Safety, Arts Culture & Recreation and Social Housing Sectors and may include maintenance programmes. In the Strategic Overview section of the plan there are five areas of priority which will be progressed as and when additional funding is secured. These are – to increase the capacity and resilience of the SEQ transport system; to deliver a safe, equitable and sustainable health care system across the state through a focus on technology; to deal with the disruption in the energy sector created by solar and alternative power generation; to increase regional connectivity and freight market access and finally to establish a program which will ensure better preservation and maintenance of existing public assets.

An office building on the Gold Coast, known as “The Rocket” has sold for \$70.05 million to two unlisted investment vehicles at a core market yield in the order of 8.50%. The 12,814m² building over 16 levels was constructed in 2009 and major tenants include Slater & Gordon, GHD, Auswide Bank and Members Alliance. The property was 50% purchased by Sentinel Property Group for the Sentinel Robina Office Trust with the remaining 50% interest to be taken by Clarence Property Group’s Westlawn Property Trust. At the time of sale the asset was 92% leased with a WALE of 2.8 years and in addition to the office tower the site includes a two level retail/office building and parking for 420 cars. The property had been developed and held by The Robina Group.

Singapore-listed Cache Logistics has paid \$27 million for an industrial building at Wacol in Brisbane’s South West, while in nearby Acacia Ridge another asset has sold for \$21.575 million. Cache Logistics Trust has purchased 203 Viking Drive, Wacol which is fully leased to Western Star Trucks with 7.9 years remaining on the lease. The asset was built for Western Star Trucks which committed to a 15 year lease in 2008 with fixed reviews of 4% per annum. The property provides 13,363m² of office warehouse space on a site of 22,440m² and was sold by the unlisted Wacol Industrial Property Trust, managed by One Investment Group. The \$27 million sale price reflected a passing yield of approximately 7% and a core market yield of sub-6%. 29-41 Lysaght Street, Acacia Ridge has also recently sold, with the \$21.575 million price reflecting a core market yield of 8.42%. The multi-tenanted industrial complex has eight tenancies across four freestanding buildings with major tenants including AirRoad Logistics, KAB Seating and BP Australia. Purchased by the AMP managed Wholesale Australian Property Fund from the DEXUS Property Group the complex had a WALE of 2.9 years at the time of sale and contains 18,488m² of building area on a site of 32,350m².

Perth

Frasers Property Australia has signed an eight year office lease in West Perth to accommodate their new WA headquarters. Located at 1 Havelock Street, the property has recently undergone building upgrades including new end of trip facilities and a refurbished lobby, ground and upper level office spaces. Recently rebranded as Frasers Property Australia, completing the take-over of Australand, the business is relocating from West Leederville and has taken an eight year lease over 1,236m². In the Perth CBD it has been confirmed that Rio Tinto has extended their office lease at Central Park, 152-158 St Georges Terrace, which was due to expire in 2018, for a further 12 year term, taking the lease out to 2030.

An industrial building at 54 Miguel Road, Bibra Lake has been purchased for \$26 million by Investec Australia Property Fund on a vendor leaseback. The vendor, ASX-listed CTI Logistics, has taken a 12 year leaseback over the facility which has an office warehouse of 22,358m² on a site of 40,824m². The purchase reflected an initial yield of 7.94% with the lease having annual reviews to the greater of CPI or 3% over the term.

Adelaide

A local private investor has purchased a four-property portfolio for \$25 million from the University of Adelaide. The portfolio comprises the adjoining properties of a two level commercial building at 11-13 Frome Street, an eight level 498 bay carpark at 15-19 Frome Street, a four level commercial building at 21-27 Frome Street and a four level commercial building at 12-18 Synagogue Place, with a combined site area of 4,157m². Whilst the carpark sold with some holding income, the commercial properties present future development opportunities. The sale represents \$5,957/m² of site area.

Charter Hall's 'Precinct GPO' development on the corner of King William Street and Franklin Street has been granted planning consent by the South Australian Government Development Assessment Commission. The circa \$300 million mixed use development is planned to be constructed in two stages. Stage one involves constructing a 15 level office building over the State Heritage listed GPO building and Telephone Exchange building. Stage two includes the construction of a 22 level office building adjoining stage one and fronting Franklin Street. The development will add approximately 39,000m² of office space and 3,000m² of retail space mostly within the existing GPO building.

Canberra

BentSpoke Brewing Company has signed a new 1,553m² lease at 61-79 Lysaght Street in Mitchell, approximately 9km north of the CBD, on a six year term. The new office warehouse lease is in addition to their existing premises at Braddon where they will remain however it allows the microbrewery to expand their production to allow for wholesaling of their boutique beer. The new premises will also contain a cellar door and restaurant.

Clarity Financial Services has leased 564m² on level one at Centuria's 54 Marcus Clarke Street, Civic on a five year term. As part of the deal, the financial services firm have also taken naming rights to the building.

Auckland

SKYCITY Entertainment Group Ltd has announced a NZ\$477 million contract with Fletcher Construction Company Ltd to complete the design and construct the New Zealand International Convention Centre (NZICC) and new 5-star Hobson St Hotel. Positioned in Auckland's CBD, the project includes 1,327 associated carparks and a retail laneway linking Nelson and Hobson streets in addition to the NZICC and 300 room hotel. The NZICC is one of the most significant building projects in Auckland since the construction of the Sky Tower, also built by Fletcher Construction 18 years ago. At 32,000m², NZICC will be the largest purpose-built convention centre in New Zealand, capable of hosting conventions of up to 4,000 attendees which will allow hosting of multiple events at the same time. SKYCITY Entertainment Group has indicated that it would spend \$471 million on the NZICC, \$159 million on the new hotel and an additional \$73 million on additional items including the new laneway, air-bridge, retail fit out and additional car parking. SKYCITY now has all resource consents that are required to begin construction, with commencement expected to be in December 2015.

Research & Consulting Contacts

Australia

Matt Whitby

Group Director
Head of Research & Consulting
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Paul Savitz

Associate 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

John Corbett

Managing Director
+61 8 9225 2561
john.corbett@au.knightfrank.com

South Australia

Peter McVann

Managing Director
+61 8 8233 5210
peter.mcvann@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

New South Wales

Nick Hoskins

Director
+61 2 9036 6766
Nick.hoskins@au.knightfrank.com

Western Australia

Sonia Grewal

Research Analyst
+61 8 9225 2412
Sonia.Grewal@au.knightfrank.com

Victoria

Richard Jenkins

Director
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

South Australia

Rory Dyus

Research Analyst
+61 8 8233 5230
Rory.dyus@sa.knightfrankval.com

Queensland

Jennelle Wilson

Senior Director
+61 7 3246 8830
Jennelle.wilson@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 2015

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.