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Knight Frank Research Compass Report

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

National

Introduced on 1 December 2015, foreign investors must now pay a fee when buying residential property in Australia. An application fee of AU$5,000 will be collected for properties valued at AU$1 million or less. If the property is valued over AU$1 million, AU$10,000 is payable with an AU$10,000 incremental fee increase per additional AU$1 million in property value. The fees apply for each application submitted and become uncapped if the property is valued over AU$1 million. The fee paid on application does not provide any assurance of securing the property. Stricter penalties have been imposed by the Australian Taxation Office (ATO) for those who breach the rules. Criminal penalties have increased from AU$90,000 to AU$135,000 for individuals and divestment orders are supplemented by civil pecuniary penalties. Infringement notices for less serious breaches of the residential property rules also apply. Third parties who knowingly assist a foreign investor to breach the rules are now subject to civil and criminal penalties. Property developers can apply for a new dwelling exemption certificate to sell new dwellings in a development of 50 or more residences to foreign investors. However the Government has tightened the rules around the use of new dwellings exemption certificates by limiting the value of all apartments that can be bought by a single foreign investor to $3 million in the one development. If foreign investors want to purchase apartments above this value, they are required to seek individual approval.

Sydney

The Mirvac Group has exchanged contracts for the sale of 1 Woolworths Way, Bella Vista for a total consideration of $336.45 million. The asset is a corporate campus leased entirely to Woolworths Limited, including retail, sports facilities, office space and an auditorium totalling 44,828m² of space across 3, 4 & 5 level buildings. As part of the transaction, Mirvac Projects will remain responsible for the delivery (including cost) of a new multi-story carpark via a development management agreement. A new 15 year lease to Woolworths will commence in August 2016, following the construction of the additional parking, with expiry in 2031. The asset has been reportedly purchased by South Korean-based property investors, who were advised by Inmark Asset Management, with the transaction representing an initial yield of 6.07%.

Ascendas has reportedly purchased Innovation Place, located at 100 Arthur Street, in North Sydney for in excess of $315 million. The asset has been purchased from the Salteri family, who redeveloped the site in 2005 when two office buildings of 15 and 12 levels were demolished and replaced with the existing building which was completed in 2007. The modern, A-grade building comprises 23-stories including 26,300m² office space, retail space on the ground floor, a three level podium and parking for 143 vehicles over three basement levels. The building was sold fully leased to a mix of Commonwealth Government tenants, ASX-listed and privately owned companies.

Keppel REIT has sold 77 King Street in the Sydney CBD to ARE Noble Pty Ltd, a wholly-owned subsidiary of Invesco Asia Core Fund, for $160 million. 77 King Street comprises 10,610m² of office space across 18 levels, two basement levels of retail space totalling 1,227m² and a 773m² childcare centre. The sale price was 38% above Keppel REIT's original purchase price of $116 million in December 2010 and an approximate 27% premium over the property's latest valuation of $126 million (July 2015). Keppel REIT intends to use the sale proceeds to repay existing debt, fund general corporate and working capital purposes and/or for future investment opportunities.

Melbourne

US-based property group Pembroke Real Estate has acquired KPMG House, 161 Collins Street, in the Melbourne CBD for $275.0 million from the German-based fund manager SachsenFonds, reflecting an approximate capitalisation rate of 7.7%. Pembroke has purchased 100% of the 99-year leasehold, which expires June 30, 2105, from SachsenFonds and the Liberman family. The freehold is owned by the Liberman family. Originally built in 1928 and redeveloped in 1988, the 10 level office fronts Collins Street, Russell Street & Flinders Lane and comprises an NLA of 40,280m², with floor plates of approximately 4,000m². Currently 100% leased, KPMG occupy approximately two thirds of the building however will relocate to the Collins Square development in the Docklands when their lease expires in 2017. Pembroke intends to extensively refurbish and reposition 161 Collins Street which will include significant lobby, lift and atrium enhancements, and the improvement of the retail offering. The acquisition will be Pembroke’s third property in Australia, following 20 Martin Place in Sydney and 70 Eagle Street in Brisbane. SachsenFonds acquired the building's leasehold in 2006 for $258 million.

US-based Blackstone Group has purchased a 50% interest in the two tower SX office development in the Melbourne CBD from Brookfield Prime Property Fund for $675.00 million, reflecting a passing yield of 4.96% and a core market yield of 5.12%. The SX complex comprises two office buildings and a retail component, on the corner of Bourke and Exhibition Streets. SX1 Tower or SX East at 121 Exhibition Street is a 41 level A-grade office tower with 78,167m^2 of NLA, completed in 2006 with a 950 basement carpark and is dominated by two State Government agencies with leases expiring in 2021 and 2022. SX2 Tower or SX West at 111 Bourke Street is a 22 level A-grade office tower with 46,611m^2 of NLA, completed in 2009 it is fully occupied by Australia Post with the lease expiring in November 2019. The two office towers are built over a 2,265m^2 food-based ground floor retail concourse which is a component of the SX1 Tower.

AMP Capital's Wholesale Australian Property Fund has acquired 636 St Kilda Road, Melbourne for $87.5 million from US-based Blackstone Group, reflecting an approximate passing yield of 7.0%. Completed in 1974, the former Cadbury House is a 70 metre, octagonal 18 level office tower with ground-floor retail, and a 3 level basement (174 car bays) with an additional 32 parking spaces on the 4,533m^2 site. The building is fully leased, comprises NLA of 17,049m^2, and is occupied by over 30 tenants, including Hertz Australia, Partners Wealth Group and Bravura Solutions and was sold with WALE of approximately 3.9 years. A $4.5 million refurbishment of the lift lobbies, ground floor lobby, building services and bathrooms on levels 1-18 was completed in May 2012. Blackstone acquired 636 St Kilda Road as part of a seven-asset portfolio it bought from GE Capital for $51.3 million in 2013.

Melbourne-based developer, Asian Pacific Group, has purchased a West Melbourne residential redevelopment site from investment house, Hume Partners, for $35 million. The 3,800m^2 site has development approval for 522 apartments, with the sale equating to $67,050 per apartment. A development permit for the project, to span across two 27 level towers as designed by architect Bruce Henderson, took close to five years to secure. Located at 83-113 Batman Street, the site also fronts Spencer Street, Franklin Lane and McDougall Lane. The property currently accommodates a carpark, within a building, once part of the West Melbourne rail yards and is within walking distance of bus, tram and railway nodes. Hume Partners also recently sold three West Melbourne neighbouring properties located at 102 Jeffcott Street, 371 Spencer Street and 355 Spencer Street, including the historic Sands and McDougall buildings, for $38.8 million to a private syndicate comprising local investors.

Brisbane

The Tatts Group has abandoned previous plans to build their own office headquarters in Newstead and instead have committed to approximately 18,000m^2 over ten levels of space at 180 Ann Street in the Brisbane CBD. The gaming company will relocate from five separate premises in the second half of 2016, allowing for consolidation on a far shorter timetable than would the construction of a new building at 11 Breakfast Creek Road. This lease takes the 180 Ann Street tower to approximately 50% committed following the Commonwealth Bank's earlier lease over eight floors. With demand for inner city residential development sites remaining strong it is expected that Tatt's former development site will be offered to the market. Another recent significant CBD transaction is the State Department of Education's lease over 7,706m^2 of space in 60 Albert Street. The space encompasses areas previously being offered for sub-lease by WorleyParsons and Arrow Energy, however the negotiation involved the surrender of these existing leases and the negotiation of a new eight year head lease.

Fortius Funds Management and BlackRock have combined to purchase 201 Charlotte Street in the Brisbane CBD for $81.57 million. The B grade building is well located close to the financial precinct and has a NLA of 13,438m^2. The dominant tenant is Anglo Coal which leases 10 levels within the building which was sold with 20% vacancy at the time of sale. The initial negotiated price has been adjusted as the purchaser has elected to take responsibility for the outstanding incentives on the building. The vendor is a private syndicate of Queensland agricultural families and the sale reflected a core market yield of 7.90%. In another recent transaction a suburban office building has been purchased by LaSalle's Asia Opportunity Fund IV for $57 million. Located in Upper Mount Gravatt, 28 Macgregor Street is an A grade office building with 14,286m^2 of office space and extensive parking facilities for 400 cars. The building is almost fully occupied by the Australian Taxation Office which has a lease through to the end of 2020.

Retail transactions have continued to be plentiful with a number of neighbourhood and bulky retail centres changing hands in recent months. In Townsville the DEXUS Wholesale Property Fund has sold the Cannon Park City Shopping Centre & Cannon Park Discount Centre for $31.5 million to Reading Cinemas which was an anchor tenant in the property. Primewest has purchased the Homestyle Homemaker Centre in Morayfield, north of Brisbane, for $34.75 million representing a yield of approximately 7.75% for the centre anchored by retailers such as Good Guys, BCF and Super Amart. Another bulky retail centre located on the northside of Brisbane has transacted with a private investor paying $30.68 million for the Focus @ Rothwell centre which is anchored by Officeworks, Ray's Outdoors, A Mart Sports and Farmer Pats across five freestanding buildings on a site of just under 4ha. On the Sunshine Coast the Coles Group has sold Nambour Mill Village to Lascorp for approximately $30 million, the 6,640m^2 centre was completed in late 2013. Finally it has been reported that the listed REIT SCA Property Group has purchased the Woolworths anchored Greenbank Shopping Centre in a growing urban region to the south of Brisbane. The transaction for the 5,690m^2 centre was reported to have been on a yield of 6.6% and also allows for the purchase of an adjoining 10ha expansion site with delayed settlement of up to five years.

Perth

Development Approval has been granted for a major expansion to the Bunbury Forum Shopping Centre located in the South West region of WA. The approval was for a $58 million expansion to the centre which will add 10,594m² of floor space to the centre to be occupied by mini majors, specialty stores and also add a new food court, alfresco areas and the construction of a two level undercover car park. Owned by investment management firm Challenger Life Nominees, the works will commence with demolition of 2,194m^2 of the current 22,361m^2 building.

A newly zoned 6.9 ha industrial site at 153 Talbot Road, Hazlemere, adjacent to Perth Airport, sold for $17.5 million to Macquarie-backed Logos Property Group. The intention of the buyers is to create a new $130 million logistics park in the area with Logos already securing one pre-commitment to the initial site with McPhee Distribution Services taking 20,500m^2 of industrial space.

Australian development company, Satterley Group, has purchased a 140 ha parcel of land in Perth's eastern corridor suburb of Upper Swan for approximately $90 million. The site is located directly adjacent to The Vines and Ellenbrook with plans to develop just over 1,700 single residential lots with additions such as a primary school, playing fields and two hectares set aside for a local convenience shopping centre. The purchase comes after the Satterley Group acquired a site in Forrestfield for over $30 million. Construction is planned to commence in 2017 and will coincide with the Northlink WA and Ellenbrook Bridge developments.

Adelaide

The South Australian Government Development Assessment Commission (DAC) has approved two major developments in Adelaide's CBD. The first, the Adelaide Casino expansion will include an 11 level building and an 80-room hotel, forming part of the Riverbank precinct and adjoining Walker Corporation's proposed Festival Plaza development. Development Plan consent has also been granted for the proposed redevelopment of the New Market Hotel site at 1 North Terrace, Adelaide. The mixed use development will comprise ground floor retail, consulting rooms and residential apartments over two interconnected 23 level towers. The development is adjacent to the new Royal Adelaide Hospital.

In December 2015 Singaporean based investor Norelco Holdings purchased 100 Waymouth Street, Adelaide from the Cromwell Property Group for $73.0 million. The property sold with a WALE of 8.0 years by income at a core market yield of 6.57%. The property sold fully leased with major tenant Origin Energy occuping approximately 71% of the building's NLA on two separate agreements expiring in 2019 and 2024. The remainder of the building is leased to Community CPS Australia, trading as Beyond Bank expiring in 2027.

The Wingfield Distribution Centre at 4-8 Johannsson Road and 30-32 Rosberg Road, Wingfield sold for $11.80 million in December 2015, representing a core market yield of 8.37%. The property is located on a site of approximately 25,000m² which has dual street frontages to Johansson Road and Rosberg Road. The property sold leased to Toll Transport Pty Ltd (expiring in February 2021) and Costpak Pty Ltd, expiring in June 2022.

Canberra

In a busy end to 2015, two significant government leased office buildings have traded in Canberra taking investment volumes to their highest level since 2009. In the largest transaction for 2015, Korea's FG Asset Management has acquired the Louisa Lawson building at Greenway (25 Cowlishaw Street) for $224.5 million from the locally based GDC (ACT) Pty Ltd (a company owned by Amalgamated Property Group). The five level A-grade office building provides 26,000m² of office NLA and was purpose built for the Department of Human Services in 2013 which has 15.5 years remaining on the lease. The 5.38% core market yield recorded for the sale provides further clarity to the recent firming of yield metrics in Canberra.

In a separate transaction, Melbourne based Enwerd Pty Ltd has acquired 134 Reed Street, Tuggeranong for a 'gross' price of $75 million, reflecting a core market yield of 7.60%. The sale was conditional upon the purchaser fulfilling a number of obligations associated with the lease, which are expected to total approximately $3.8 million. Other expenditure items will also be deducted from the 'gross' price subsequent to settlement.

Auckland

US-based Morgan Stanley Real Estate Investing (MSREI) purchased three Auckland CBD office buildings with a combined acquisition value of NZ$91.26 million. The properties are to be included in MSREI's US$1.7 billion North Haven Real Estate Fund VIII Global. The three assets comprise 34 Shortland Street, Grant Thornton House and NZ Invest House. The Shortland Street property, purchased for NZ$44.6 million and comprising 8,100m², is a prominent freehold Auckland landmark which has always been well regarded by investors. Grant Thornton House, a premium grade five level office building of 6,697m², was acquired for NZ$28.1 million. NZ Invest House has a net lettable area of 7,290m² and the property was acquired for NZ$18.6 million. Grant Thornton House and NZ Invest House are both leasehold and were owned by separate local investors, while Ngati Whatua Orakei holds the lessors interest in each property. The Morgan Stanley acquisition forms part of a wider real estate investment strategy within the region.

Precinct Properties New Zealand (PCT) announced that it will proceed with its NZ$681 million downtown retail and office development, which it has called Commercial Bay. PCT has advised the office component is 52% pre-committed to five tenants with the bulk coming from within the existing PCT portfolio including PwC and a major law firm. The 39 level downtown office tower will be named the PwC Tower and will be the cornerstone in the five building Commercial Bay precinct which includes 188 Quay Street (the existing PwC tower), AMP Centre, HSBC House and Zurich House. The retail offering at Commercial Bay will comprise around 100 shops over three floors. PCT has signed a fixed-price contract with Fletcher Construction for the whole development and expects the yield on cost to be 7.5%. Work is expected to begin in June 2016 with the demolition of the existing Downtown Shopping Centre with the retail centre expected to be completed by October 2018 and the office tower complete by mid-2019.

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