MAY 2016 – EDITION 43

Knight Frank Research Compass Report

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

National

The Australian Tax Office (ATO) has announced that, for all contracts entered into on or after 1 July 2016, vendors (individual or corporate) selling Taxable Australian Real Property ("TARP") worth $2 million or more will automatically be classified as a foreign investor, unless a new "Clearance Certificate" is obtained. The certificate, which will prove Australian residency, will be provided free of charge by the ATO and is valid for twelve months, at this stage a form is available to fill out in hard copy and lodge via fax or mail, however an on-line form is set to be available from 27th June 2016.The onus is on the vendor to acquire the certificate prior to settlement and provide it to the purchaser. Where a valid clearance certificate is not provided by settlement, the purchaser is required to withhold 10% of the purchase price from the vendor, and pay this sum directly to the ATO. The ATO has stated that the new rules will be introduced in order to ensure foreign residents meet their capital gains tax liabilities, and have assured the public that the process of obtaining a certificate will be hassle-free for most Australian residents.

Sydney

Charter Hall's Core Plus Office Fund (CPOF) and Morgan Stanley Real Estate Investing (MSREI) have agreed to acquire a 100% leasehold interest in One Shelley Street in the Sydney CBD for $525 million from Brookfield Office Properties. The Prime-grade office building, also known as the Macquarie Group Building, is located in the Western Corridor of the Sydney CBD, adjacent to the Barangaroo South precinct. The 32,986m^2 property is fully leased to ASX-listed Macquarie Group with a WALE of 7.5 years. There are 268 car spaces, of which 100 are leased to Macquarie and 168 to Secure Parking. The transaction represents an improved rate $15,916/m^2 and a passing yield in the order of 5.0%.

Centuria Property Funds (CPF) and BlackRock have exchanged contracts to purchase the "The Zenith" at 821 Pacific Highway, Chatswood for $279.1 million from DEXUS Property Group and GPT Wholesale Office Fund. The property is located in the North Shore office precinct of Chatswood, approximately 12 kilometres north of the Sydney CBD. The twin towers have a total NLA of 44,000m^2 and are 94% occupied with the dominant tenants State and Federal Government departments, Lendlease and Abigroup. There is parking on site for 799 cars, with Wilson parking leasing 699 and Abigroup taking the remaining 100. The buildings have a WALE of 2.7 years (as at August 2016) and were sold with a 12 month rental guarantee over vacant space. The sale remains subject to FIRB approval with settlement scheduled for late July and reflects a passing yield of approximately 7.6%.

Hong Kong-based NGI Investments has purchased a 75% stake in the MidCity Shopping Centre at 197 Pitt Street in the Sydney CBD for approximately $320 million. The 9,111m^2 CBD retail arcade was purchased from Fortius Active Property Trust No. 1 and is leased to high-profile retail brands including Uniqlo, Rebel Sport, General Pants, Just Jeans, Portmans and Forever New. The sale reflects an improved rate of $45,366/m^2 and a passing yield in the order of 4.5%, reflecting the strong investor demand for CBD shopping centres constrained by the lack of stock on the market. Australian Prime Property Fund Retail has retained its 25% interest in the centre which links George Street and Pitt Street.

Following an extensive review for reform, the NSW Premier Mike Baird and the Minister for Local Government Paul Toole have announced the establishment of 19 new councils in NSW commencing 12 May 2016, amalgamating a number of smaller councils. The reforms have come in response to State Government efforts to remove red-tape, deliver services and infrastructure on a more sustainable basis over the long term and to streamline administrative processes. As part of the reforms, an independent administrator has been appointed with support from an Interim General Manager for each of the new councils, who will govern councils until council elections on 9 September 2017. Pending the outcome of court actions, a further nine councils have been earmarked to merge. Each new council will receive up to $10 million to meet the costs of merging and up to an additional $15 million to kick start new investment in community infrastructure through the Stronger Communities Fund. Notable mergers include new councils on the Northern Beaches, Inner West, Canterbury-Bankstown, Central Coast and Parramatta.

Melbourne

Melbourne-based syndicator Newmark Capital, has purchased the Como Centre at 750 Chapel Street, South Yarra from Mirvac (MGR) for $236.5 million, reflecting an initial yield of 5.98%. Sitting on a two hectare site on the corner of Toorak Road and Chapel Street, the Como Centre includes A grade office space with an NLA of 25,700m², 6,650m² of retail space, a 111-room hotel run by Accor, and a 614-bay car park. The office component alone is spread across four towers (644 Chapel Street, 650 Chapel Street, 620 Chapel Street and 299 Toorak Road), which collectively represent more than 60% of the asset's net income. Tenants include television broadcaster Network 10 and Clemenger.

US-based Blackstone Group has purchased three shopping centres in Victoria and Queensland for a combined total of $613.3million reflecting a combined reported yield of approximately 7.00%. In Victoria, the retail assets purchased from Vicinity Centres are Forest Hill Chase Shopping Centre at 270 Canterbury Road, in Melbourne's eastern suburbs and Brimbank Shopping Centre on Station Road, Deer Park in Melbourne's northwest. The $165.2 million Brimbank Shopping Centre is a single level subregional centre anchored by Woolworths, Coles, Target and Aldi. The $269.8 million Forest Hill Chase is a three-level regional shopping centre and is anchored by a range of tenants including Coles, Woolworths, Big W, Target, Aldi, Hoyts and AMF Bowling.

Listed Malaysian developer SP Setia has purchased a 4,140m² development site from Telstra Corporation at 308 Exhibition Street in the Melbourne CBD for $101 million, reflecting a site rate of $24,396/m². The corner site formed part of Telstra's Exhibition Telephone Exchange and fronts both Exhibition Street and La Trobe Street. The purchaser has intentions to develop a mixture of multi-level prime retail, prime A-grade office space as well as two residential towers of up to 800 apartments in total. The purchase is now the fifth acquisition made by SP Setia in Australia, following their neighbouring successful sites of the Fulton Lane project (within the CBD) and Parque Melbourne on St Kilda Road. Telstra decided to divest the land in late 2015, after previously mooted plans for a $950 million (c90,000m²) office tower development were shelved, despite winning interest from construction firms Lendlease and Grocon.

Global fund manager TH Real Estate has purchased a 33% share in Myer Melbourne at 314-336 Bourke Street in the Melbourne CBD for an estimated $150 million, reflecting a reported yield of c5.00%, from the Melbourne-based private Myer Family Investments. Comprising a nine-storey main building to Bourke Street spanning 39,923m² and a six-storey extension to Little Bourke Street, the building was completed in 1914 and underwent a $1.12 billion redevelopment which was completed in 2013. The property carries a 21-year lease to Myer until 2031. Myer Melbourne is also co-owned by Vicinity Centres and Singapore's GIC Real Estate.

Brisbane

Vicinity Centres has been active in the Queensland market with four divestments totalling $693 million and one purchase of $55 million. Indooroopilly Central is a 19,567m² bulky retail asset in the Brisbane western suburbs which has sold to a private investor for $85 million, indicating a passing yield of approximately 5.9%. Clifford Gardens is a 27,877m² sub-regional centre anchored by Big W, Woolworths and Coles with 75 specialty stores, located in the regional centre of Toowoomba and is being acquired by Blackstone as part of a $613.3 million portfolio, the asset had a book value of $188.0 million as at December 2015. The Toombul Centre is a 43,893m² regional shopping centre anchored by Target, Kmart, Aldi, Coles and a BCC Cinema complex with 95 specialty stores and a Bunnings expected to open in the centre in early 2017. The centre is being acquired by Mirvac for $228.1 million indicating a core market yield of 6.50%, additionally with a site area of 9.88 hectares, located within 8km of the Brisbane CBD, there is additional development potential. A 25% interest in the Myer Centre, located in the Brisbane CBD, is being sold to joint-owner ISPT for $192.1 million with agreement being reached between the parties; Vicinity will retain the remaining 25% interest in the asset. The Myer centre is a six level CBD centre with a GLAR of 63,744m² and Myer, Target, Coles Central and Event Cinemas anchoring the centre with an additional 150+ specialty retailers. On the acquisition side, Vicinity Centres has increased its exposure to outlet centres with the $55 million purchase of DFO Eagle Farm, the centre is located on leasehold land owned by the Brisbane Airport Corporation and is understood to reflect a passing yield of 7.5%. Also in Queensland, an associated wholesale entity Vicinity Property Retail Partnership, has agreed to sell a 50% interest in the Runaway Bay Shopping Village on the Gold Coast for approximately $160 million, reflecting a core market yield in the order of 5.5%.

Land & Homes Group Limited has entered into a conditional put and call option agreement to acquire 100 Barry Parade, Fortitude Valley for $20 million – making this its second acquisition in Brisbane. The site currently contains a number of commercial and industrial tenants as well as an operating service station. The 3,154m² site is surrounded by three street frontages and has approval for a 25 level residential complex of 566 apartments across two towers, in addition to 841m² of high quality retail. However, Land & Homes is currently reviewing alternative, more efficient, designs for the site – while continuing with the original residential and retail mixed use.

Perth

Singapore based hospitality group, SilverNeedle has entered the inner-Perth market, opening a Sage hotel on the corner of Hay Street and Ventnor Avenue, West Perth. The 12-storey, 101 room Sage Hotel is a $35 million project, developed by Perth's Australian Development Capital and incorporates the existing heritage listed Walsh Family residence, more recently the home of Julio's restaurant, into the design. The Sage hotel brand is currently growing strongly in the upscale hotel segment.

Perdaman Industries, a Western Australian based multinational group, has purchased a logistics facility located in Forrestfield for $18.4 million. The 3.21 hectare property, located at 15 Ashby Close, Forrestfield, is a 11,058m² warehouse and approx.10,000m² of hardstand currently leased to ASCO Transport and Logistics until May 2019.

Canberra

Melbourne based South Haven Group has purchased 73 Northbourne Avenue in Canberra for $29.2 million, reflecting a core market yield of 7.85%. The six level office building on the corner of Barry Drive and Northbourne Avenue was built in 1987 and encompasses a total NLA of 6,112m² with typical floorplates of 1,000m². The building incorporates ground floor retail accommodation and 2 levels of basement car parking of approximately 81 spaces. Currently fully leased to five tenants including Australian Fisheries Management Authority, Dixon Advisory and Bankwest, the building was sold with a WALE of 2.9 years (by area).

Mirvac Group (MGR) has announced the sale of Aviation House, 16 Furzer Street, Phillip for $68.1 million. The nine level A grade property has 14,812m² of office accommodation over large floorplates and basement parking for 147 cars. Constructed in 2007, the property is fully leased with 98% of income coming from Government tenants including the Civil Aviation Authority, Australian Public Service Commission and Department of Social Services. Settlement is scheduled for June 2016.

Adelaide

An undisclosed private investor has purchased a heritage listed property, 13-19 Moseley Square, Glenelg for $6.19 million. The sale reflected a core market yield of 4.45% and an improved rate of approximately $10,695/m². The property sold fully leased to three cafe / restaurant tenants with a WALE of approximately 7.6 years (by income). Glenelg is a seaside suburb approximately 10km west of the Adelaide CBD.

Hobart

A high profile sandstone building in the tightly held historic Salamanca precinct, Hobart has sold for $7.8 million. The building, known as Irish Murphies, is located at 21-23 Salamanca Place and provides a mixture of hotel, office and residential accommodation. The property was sold at auction and reflects a passing yield of approximately 3.5%. Elsewhere in central Hobart the heritage Bidencopes Building, 90-92 Murray Street, has sold for $2.805 million, indicating a passing yield of approximately 6.0% over the retail building.

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
Craig Dawson
Managing Director
+61 8 9225 2406
Craig.dawson@au.knightfrank.com

South Australia
Bobbette Scott
Joint Managing Director - SA
+61 8 8233 5211
Bobbette.scott@au.knightfrank.com

Guy Bennett
Joint Managing Director- SA
+61 8 8233 5204
Guy.bennett@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

Queensland
Jennelle Wilson
Senior Director
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Western Australia
Sonia Dissanaike
Research Analyst
+61 8 9225 2412
Sonia.Dissanaike@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

New South Wales
Alex Pham
Senior Research Manager
+61 2 9036 6631
Alex Pham@au.knightfrank.com

Luke Crawford
Senior Analyst
+61 2 9036 6629
Luke.Crawford@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**