



AUGUST 2016 – EDITION 46

Knight Frank Research Compass Report

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

National

The release of the PCA Office Market Report in early August, showed that the continued strong performance of the CBD markets in Sydney and Melbourne made up the majority of the national office absorption over the past six months, notwithstanding improved performance in the likes of Brisbane, Canberra and select non-CBD markets. Net absorption recorded for the six months to July 2016 was positive 100,242m² for the Australian CBD markets and negative 40,118m² for the non-CBD markets.

The total CBD vacancy rate was steady at 11.0% over the past six months, as net new supply was roughly matched by the same levels of new demand. Prime grade vacancy is now sitting at 10% compared with 12.2% in the secondary grade segment. **In the non-CBD markets, the total vacancy fell slightly from 9.3% to 9.0%**, however when looking at this by grade of asset, the differential between the performance of prime grade and secondary grade properties is much wider, with prime vacancy at 6.9% and secondary vacancy at 10.7%. Sub-markets with limited prime options for tenants and a relatively benign supply pipeline include; Parramatta (zero prime vacancy), North Ryde/Macquarie Park (4.3%), and Southbank (4.4%), which is underpinning the fundamentals in these and other non-CBD markets.

Home Consortium, the private investment group backed by the owners of Chemist Warehouse, Spotlight Group and Aurum Group, have agreed terms to acquire the Masters property portfolio from Woolworths in a \$725 million deal. The transaction is still subject to the consent of Lowe's, Woolworths co-owner of the Masters Joint Venture. If it proceeds, the acquisition will see Home Consortium taking control of over 700,000m² of large format retail space across 40 freehold sites, 21 development sites and 21 leasehold sites. Home Consortium plans to re-purpose the sites into multi-tenanted Large Format Retail centres. In a related development, US-based Lowe's has launched legal action against Woolworths to recover some of its losses in the failed Masters Joint Venture.

Sydney

Deutsche Asset Management, on behalf of a German pension fund, has acquired 90 Arthur Street, North Sydney from Blackstone-controlled 151 Property for \$73.5 million (\$7,941/m² of NLA). The 9,256m² office building was sold at a core market yield of 7.5% and a 3.7 year WALE.

The National Australia Bank (NAB) is reportedly in negotiation with Brookfield Property Partners to pre-commit to up to 30,000m² of office space in the Wynyard Place project at 10 Carrington Street in the Sydney CBD. The proposed 27-level office tower is expected to deliver 59,000m² of premium office space by 2020. NAB is currently occupying AMP Capital-owned 255 George St, where its lease will expire in mid-2020.

Scentre Group and Cbus have acquired the David Jones (DJ) Department store at 77 Market Street in the Sydney CBD for a total consideration of \$360 million. Scentre's interest in the historic DJ menswear store was anticipated as its Westfield Sydney shopping centre is already linked with the DJ store. As part of the deal, Westfield will re-develop the retail component whilst Cbus will take over the airspace to develop a luxury residential tower.

The Salvation Army has sold its Pacific Lodge Aged Care Plus Centre at 15 Fisher Road, Dee Why, for \$25 million. The one hectare site has been held by the Salvation Army for more than 120 years, and retains the historic 1890s Pacific Lodge building. The 52 bed nursing home was sold to an undisclosed private developer, attracting interest from multiple high-profile developers including Aqualand. The site was sold with approval for the construction of more than 100 one to three bedroom residential apartments across four buildings. All four buildings are anticipated to hold ocean views, with Dee Why beach located less than one kilometer away. The property was sold with an extended settlement period to mid-2017 in order to facilitate the relocation of the current residents.

An undisclosed private developer has purchased a 1,628m² site at 577-579 Gardeners Road, Mascot (South Sydney) from Styletech Pty Ltd, for \$12.35 million. The site, originally used as a locksmith, has been purchased with approval for 43 apartments and 50m² of ground-floor retail, with a total maximum GFA of approximately 4,070m². The site has been approved for a mix of six studios, nine one bedroom apartments and 28 two bedroom plus study apartments. Situated less than one kilometer from Mascot Station, the sale also achieved a record price for Mascot (at approximately \$280,000 per apartment). The site is also a 20 minute walk to both the future Green Square town centre and Eastlakes Shopping Centre.

Melbourne

Singapore listed real estate funds ARA Asset Management and Suntec REIT have purchased the Southgate Complex at 3 Southgate Avenue, Southbank from DEXUS Property Group for \$578 million reflecting a reported cap rate of 6.5%. Sitting on a 20,800m² site, the Southgate complex comprises two A-grade office towers, the HWT tower (30,124m²) and the IBM Centre (36,228m²) plus a three level retail plaza (9,856m²) and a basement carpark totalling 1,018 spaces. The Southgate Complex has a weighted average lease expiry of 4.5 years and is leased to Herald Weekly Times, IBM, LinkedIn and the Commonwealth of Australia. ARA's acquisition was supported by the listed Suntec REIT and Peninsula Investment Partners and is the largest commercial property transaction in 2016 to date.

JP Morgan Asset Management's Asia Pacific property fund has purchased Twenty8 Freshwater Place in Southbank from Frasers Property Group and the GPT Wholesale Office Fund for \$286 million reflecting a reported initial yield of 6.6%. The 26 level tower completed in 2009 includes retail space on the ground floor, 19 levels of A-grade office space with a NLA of 33,520m², and a six level carpark totalling 348 spaces. Twenty8 Freshwater Place delivers an annual income of \$18.9 million and is leased to a number of tenants including Incitec Pivot, Adecco Group, WSP Structures and Parsons Brinckerhoff.

Private residential land developer Satterley, headed by BRW rich-lister Nigel Satterley, has purchased 68 hectares of land in Donnybrook, 50km's north of Melbourne, for \$34 million. The site is earmarked for residential development and will consist of approximately 1,000 lots providing a mixture of land, house and land and townhouse packages. The project is estimated for both completion and sale by 2018. The acquisition in Donnybrook will be the next large-scale residential project for Satterley, cementing its position in the northern Melbourne market. It follows the sale of its previous residential project, Riverstone at Plenty River in Doreen (in Melbourne's north), where a similar mixture of house and land options were for sale. The acquisition also follows the purchase of 214 hectares of land in Mickleham in June 2016, also in Melbourne's north.

Brisbane

Melbourne-based Quintessential Equity has purchased the suburban office building, Garden Square Office Park, Upper Mount Gravatt, for \$45.25 million. Located at 543 Kessels Road, Upper Mount Gravatt, approximately 11km's to the south of the Brisbane CBD, the asset is made up of two adjoining seven level office buildings totalling 12,623m² of office space. There is on-site parking for 410 vehicles and the site of 16,650m² provides scope for additional development with prior approval for an additional 20,000m²+ of GFA. The property was sold by Stockland, which has held the asset since early 2007. At the time of sale the asset was fully tenanted with State Government departments accounting for approximately 70% of the leased area.

The Australian Unity Healthcare Property Trust has purchased an office building within the expanding health precinct at Robina for \$26.22 million. The building at 2 Investigator Drive, Robina is known as the Campus Alpha Building and contains 4,404m² of office space and 142 cars bays. The building is predominantly leased to the State Government and medical service tenants. At the same time the Trust purchased an adjoining vacant block of land at 34 Investigator Drive, Robina for \$3.77 million. These purchases lie in close proximity to the Robina Private Hospital which is being constructed by the Trust and is now close to completion. Australian Unity Healthcare Trust also purchased another block of land at Lot 1, Campus Crescent in April 2016 for \$3.92 million which reflected \$1,000/m². In Brisbane, Australian Unity has been announced as the preferred developer for the Herston Quarter redevelopment project which lies on a five hectare site adjacent to the Royal Brisbane Hospital and includes a number of heritage buildings. The \$1.1 billion project is likely to have a 10 year delivery horizon with Australian Unity to deliver a specialist rehabilitation and ambulatory care centre, a private hospital, aged care and retirement living facilities as well as residential apartment buildings and green space.

Perth

Allendale Square, located at 77 St Georges Terrace, Perth CBD, is currently undergoing a partial refurbishment of the ground floor plaza and retail section located underground. This also includes an upgrade to the lifts and remodel to the lobby area and end of trip facilities. The underground revamp will not include retail fashion tenancies with the aim to provide a destination for breakfast, lunch and dinner to weekday workers as well as weekend visitors into the CBD. The property owner, Mirvac Group, purchased the tower in 2013 and is focusing on securing an optimal tenancy mix for the asset.

Initial stages of construction have commenced on Lot 9 & Lot 10 within the Elizabeth Quay precinct in the Perth CBD, adjacent to the Swan River, after developers Far East Consortium entered into a contract with Probuild to construct the landmark mixed-use development. The project will incorporate a 205 room luxury hotel (to be managed and operated under the Ritz-Carlton Brand), together with 378 luxury apartments and various retail & food and beverage outlets. The development is anticipated to create 1,200 construction jobs as well as introducing a new premium accommodation destination to the Perth market.

Canberra

With the 2016 Federal election now over and the worst of the public sector employment cuts in the past, confidence is returning to the Canberra office market, highlighted by several recent Government lease deals. ACT Corrective Services have committed to 2,799m² at ISPT's 2 Constitution Avenue, Civic on a 10 year term beginning December 2016. The local Government department will move out of their current address at 197 London Circuit, Civic. Similarly, the Murray Darling Basin Authority has leased 3,982m² at 33 Allara Street, Civic on a 10 year term and they will relocate from their existing 51 Allara Street, Civic premises in April 2017.

Adelaide

Adelaide based property group Australasian Property Developments has purchased the University of Adelaide Thebarton Campus for circa \$25 million. The 3.99 hectare site is located approximately 3km's west of the CBD and has approximately 22,000m² of office and industrial facilities. The property sold partially leased to the University of Adelaide and a number of third party tenants. Due to the location and nature of the improvements, the site holds future development potential.

The SA Government has announced plans for the \$100 million refurbishment of the University of South Australia's Reid Building on Frome Road for conversion to a health and science-focused high school to cater for approximately 1,250 students. The seven level building is located on the eastern side of Frome Road, adjacent the old Royal Adelaide Hospital site. The SA Government intends to commence construction in December of this year with practical completion in the first half of 2019. The SA Government purchased the property from UniSA in November 2015 for circa \$30 million.

Research & Consulting Contacts

Australia

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

Paul Savitz

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

Aaron McGhee

Managing Director, AMS, Aust.
+61 2 9036 6686
aaron.mcghee@au.knightfrank.com

Michael Robinson

Head of Project Marketing, Aust.
+61 3 9604 4775
michael.robinson@au.knightfrank.com

James Parry

Head of Institutional Sales, Aust.
+61 2 9036 6758
james.parry@au.knightfrank.com

John Preece

Head of Office Agency, Aust.
+61 2 9036 6705
john.preece@au.knightfrank.com

Paul Henley

Head of Commercial Sales, Aust.
+61 3 9604 4760
paul.henley@au.knightfrank.com

Greg Russell

Head of Industrial, Aust.
+61 7 3246 8804
greg.russell@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 Dissanaïke
Research Analyst
+61 8 9225 2412
Sonia.Dissanaïke@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

Important Notice

© Knight Frank Australia Pty Ltd 2016 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.