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Knight Frank Research Compass Report

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

Sydney

Demolition of the 27,855m² former Westpac Building at 60 Martin Place has commenced. The speculative redevelopment, scheduled for completion in the third quarter of 2019, will incorporate over 40,000m² of Premium office and retail space over 33 levels. The project is jointly owned by Investa and Gwynvill Group, who have recently appointed Lendlease as the contractor for the \$300 million project. The completion of 60 Martin Place will be a welcome addition to the Sydney CBD office market, which has more than 500,000m² of office space identified as with the potential to be withdrawn from 2016 to 2019. More than 63,000m² has already been taken offline in the first nine months of 2016 and a further 55,000m² is scheduled for removal by the end of the year.

Investor demand for secondary office buildings in the Sydney CBD and Fringe continued the strong momentum in September 2016 with two transactions totalling close to \$230 million. Interestingly, both properties were acquired by local investors, who outbid a number of foreign entities for the sub-5% acquisitions. Longhurst has purchased Edgecliff Centre from Leetong for \$138.75 million on passing initial yield of 3.63% and a core market yield of 4.79%. The mixed used building, located 3.5km east from the Sydney CBD, has 7,964 m² of office NLA, a 3,154m² retail component and 254 car parking spaces. Earlier this month, Bondi-based Coombes Property Group acquired the ACE building at 28 O'Connell Street in the CBD for \$91 million from ACE Insurance on an equivalent yield of 4.6%. The deal reflects a purchase price of \$14,896/m² of building area.

Melbourne

The Lonsdale Consortium made up of the Future Fund, QIC, GIP and OMERS has signed a lease from the Andrews Labor Government on the Port of Melbourne's commercial operations for total consideration of more than \$9.7 billion, for a term of 50 years. As previously announced, 10% of the lease proceeds will be invested in regional and rural infrastructure projects totalling \$970 million, combined with a new \$200 million Agriculture Infrastructure and Jobs Fund that has been established to help drive regional economic growth, boost exports and provide support to Victorian farmers (from farm to port). The consortium will support the ongoing development of the Port of Melbourne, enhancing Victoria's reputation as the leading port in Australia.

IOOF Investment Management has acquired 45 Assembly Drive in the Estate One business park in Dandenong from CBUS Property for \$20.75 million reflecting a yield of 7%. Sitting on a 9,548m² site, the building was constructed in 2014 and comprises ground and three upper levels of office accommodation with a NLA of 4,432m² including basement parking for 213 cars. The property has a weighted average lease expiry of eight years and is leased to the CFA, ERMHA and Westpac.

The Charter Hall Group has entered into agreement to acquire a 50% tenants-in-common interest in the Melbourne office headquarters of Wesfarmers' subsidiary Coles, from Investa Office Fund. The total purchase price was \$140.5 million reflecting a yield of 5.8% (as at March 2017) and the property, located at 800 Toorak Road, Hawthorn East, is 100% leased to Coles Group limited for an initial 15 year lease term expiring March 2030. Sitting on a site area of 36,770m², the building has a NLA of 39,399m² and includes a five level atrium, dining facilities, conference centre, laboratory and test kitchen facilities, gymnasium, Kmart tyre auto centre, data centre and parking for 1,200 vehicles and an adjoining 1,249 vehicle multi-deck carpark constructed in 2015. The office building underwent major plant upgrades in 2010 and 2014 including electrical, hydraulic, mechanical and security services in 2010 and in 2014, prior to commencement of the new lease to Coles.

Brisbane

Taiwanese developer with an established local presence, the Shayher Group, has agreed to purchase the Kings Row Office Park in Milton for approximately \$98 million from Investa Commercial Property Fund. Located two kilometres from the Brisbane CBD at 215-247 Coronation Drive, the 14,780m² site extends thru to MacDougall Street with views to the CBD skyline and the Brisbane River. The property is currently an office park with a total NLA of 20,823m² across four major office buildings – KR1 (3,907m² constructed in 1989), KR2 (5,803m² constructed in 1991) and KR3+4 inter-connected buildings of 11,113m² completed in 1996. The site was sold with approval in place for a two stage project which includes the refurbishment of the historic Milton House and two residential towers totalling 293 apartments and 360 car spaces. Stage 1 includes the refurbishment of Milton House and construction of a 20-level residential building with retail space and lobby to Mcdougall Street. Stage 2 is a 19 level residential tower with lobby and retail, gym and pool at podium level after the demolition of the existing 4 level KR1. With the existing development approval dating back to 2012 there has been speculation that a higher density development may be achieved with up to five residential towers across the whole site. However with the existing office park purchase understood to reflect a passing yield of between 8.50% and 9.0%, it is expected that the purchaser will maintain the current office use in the short term with any redevelopment to be staged.

The Tatts Group have sold an office development site at 11 Breakfast Creek Road, Newstead for \$16.5 million to a joint venture between Charter Hall Office Trust and John Holland. Following the Tatts Group's commitment to 18,000m² in 180 Ann Street in the Brisbane CBD, this Fringe office development site was no longer required by the group. The sale reflected a rate of \$5,070/m² over the 3,254m² site which is located on the corner of Breakfast Creek Road and Skyring Terrace, has high exposure to passing traffic and is located close to the Gasworks retail plaza. The site was sold with an existing development approval in place for a 17 level office building with a GFA of 29,725m². As part of the joint venture between the purchasers John Holland will construct the development and have pre-committed to lease two floors in the project.

Perth

Starhill Global REIT has received approval to redevelop the Murray Street portion of the Plaza Arcade into a three-level 2,000m² retail tenancy, which is expected to form Uniqlo's first store in Perth. The Plaza Arcade, 650 -658 Hay Street, is presently a three level retail centre which runs through to Murray Street. The approved plans involve the closure of the Murray Street frontage, creation of a single multi-level tenancy of approximately 2,000m² and upgrades to the adjacent laneway. While neither the Japanese fashion retailer nor building owner have confirmed Uniqlo as the tenant, Uniqlo representatives were present at the development approval hearing. The Japanese retailer already has 12 stores across the East Coast and this would form their first foray into Western Australia.

Adelaide

An undisclosed investor has purchased the former Croydon Park TAFE on Goodall Avenue, Croydon Park for \$11.61 million from the South Australian Government. The 4.068ha site is zoned residential and has been marketed as "Regency Estate", offering various house and land packages, comprising 82 serviced allotments between 285m² and 461m² plus medium density allotments. The sale result represents \$285/m² on the site area.

An undisclosed private investor has purchased 132 Grenfell Street from Primewest in the Adelaide CBD for \$13.85 million. The property sold fully leased to seven tenants, with Bradford College, the provider of the University of Adelaide's international student transition program, responsible for 66% of passing income. The property sold with a core market yield of circa 6.8% and a WALE by income of 3.9 years.

An undisclosed interstate investor has purchased Hilton Plaza Shopping Centre in Hilton for \$19.25 million. The shopping centre is anchored by a full line Woolworths Supermarket, together with 12 specialties. Woolworths is responsible for 47% of passing income and 69% of GLAR. The property sold with a core market yield of 5.96% and a WALE by income of 2.1 years.

The South Australian Government has announced it will launch a tender to purchase 75% of its long term electricity needs with the aim to introduce a new competitor to the market. In addition, the State Government announced it will commit \$24 million towards an incentive program for local gas producers to increase gas extraction and local market supply.

Canberra

A significant Canberra development site has sold at auction for \$40 million, providing a welcome confidence boost to the market. The site, known as Dickson on Northbourne is the first to be sold by the ACT Government as part of the redevelopment of the Northbourne Avenue Corridor. The 2.9ha site, with a 500 metre frontage to Northbourne Avenue in Dickson incorporates three blocks and was purchased by The Art Group. Previously home to the Dickson Towers and Karuah public housing blocks, the area is set to become a large-scale urban renewal development.

Darwin

The Northern Territory Government and Landbridge Infrastructure Group Australia have signed a binding heads of agreement on key commercial terms for the development of a proposed \$250 million luxury hotel in Darwin. The hotel will be operated by the globally renowned Westin brand which is internationally recognised for luxury and quality. The agreement builds on Landbridge's investment in the Port of Darwin and its strong belief in the ongoing economic growth and development of the Northern Territory. The 5 star hotel will be developed on the Waterfront land close to the cruise ship terminal.

The Northern Territory Government has short listed 3 groups for the Expressions of Interest campaign that was released to develop new headquarters for the Department of Health for a total of 12,000m² of office space. The Northern Territory Government has split the requirement into two 6,000m² buildings with one proposed to be built in the Darwin CBD and the other in the Palmerston CBD. All three short-listed groups were local developers/property owners. The three groups will move to the select tender stage with tenders expected to be called in October.

Auckland

Stride Property Group has announced that the Overseas Investment Office has granted approval for Diversified NZ Property Fund to acquire shopping centres Westfield Queensgate, Wellington, and Westfield Chartwell, Hamilton, from Scentre Group. The NZ \$445 million acquisition, originally announced in November 2015, is expected to settle on 22 August 2016. Diversified is also to be restructured as an Australian unit trust to simplify investment for Australian investors, which is to occur prior to settlement of the two shopping centres. Diversified NZ Property Fund is managed by SIML, the real estate investment management arm of SPG.

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