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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 February confirmed the relatively tight market conditions in the Sydney and Melbourne CBDs with vacancy rates of 6.2% and 6.4% respectively, improvement was observed in the Brisbane CBD while the Adelaide, Darwin and Perth CBDs all saw vacancy increases. Overall across the Australian CBD markets the current vacancy is 10.9%, largely unchanged over the past year, however the markets have shown strong absorption with 207,000m² of net absorption across Australian CBDs during 2016. The non-CBD markets remain slightly tighter at 9.6%, again unchanged from a year earlier, however with many markets under siege from residential redevelopment there was negative net absorption of 23,397m² during 2016. Standout markets outside of the Sydney and Melbourne CBDs include Parramatta with a vacancy of 4.3%, the Melbourne Southbank precinct (4.1%) and East Melbourne at 2.2%. The Perth and Darwin CBDs remain the markets with the highest Australian vacancy rate, each currently recording 22.5%.

Sydney

The GPT Group has acquired a development site on the corner of 93-95 Phillip Street and 32 Smith Street in Parramatta for $31.2 million. The 2,439m² site purchased from the Salvation Army has the potential to yield up to 28,048m² of GFA, including 15% design excellence bonus and subject to council approval. Parramatta currently has the tightest prime office market in Australia with virtually no prime vacancy as at January 2017, providing compelling rationale for the development of new office space.

A joint venture between Anton Capital and Proprium Capital Partners has purchased 72 Christie Street in St Leonards from Brompton Asset Management for $76 million. The A Grade office building has a total NLA of 11,107m² over eight levels on a 2,815m² site. The sale represents an initial yield of 8.5%.

A developer has purchased two amalgamated sites comprising four three-storey residential buildings, across two strata schemes in Cronulla, for a total of $54 million. Located at 49-51 and 55-57 Gerrale Street, the total site covers 2,921m², has rear access to Surf Lane and is within 100 metres of Cronulla Beach. The 32 one-bedroom apartments were purchased in one line, after recent NSW strata reforms allows owners to collectively sell and redevelop the whole building if 75% of the lot owners agree and if certain requirements are met. The site has potential for a nine storey mixed-use development, with many of the new apartments in a position to capture an uninterrupted ocean view.

Melbourne

A private Melbourne-based investor backed by Asian funding has acquired the World Trade Centre (Towers 2, 3 and 4) in Melbourne for $267.50 million from Abacus and its partners, global private equity firm KKR and privately-owned Riverlee Group, reflecting an initial fully leased yield of approximately 6.8%. The WTC complex was originally completed in 1983 and consists of four interconnected office buildings. Towers 2, 3 and 4 provide a total NLA of 49,935m² offering approximately 43,500m² of office space, 4,600m² of retail space including restaurants/bars fronting the Yarra River, a 1,800m² childcare facility, and a car park consisting of 329 car bays on a site of 14,087m². The development is approximately 98% occupied and has a WALE of 4.94 years. Around 43% of the office component is leased to Victoria Police with an expiry of 2020 with the other major tenant Thales occupying an additional 8,600m².

Japan's Daisho has acquired the hotel component of Cbus Property's Collins Arch mixed-use development at 447 Collins Street for approximately $220 million. Hotelier Marriott International will operate the venue through its top range W brand, the first to be opened in Melbourne. W Melbourne, Collins Arch will be in the eastern tower, across 15 levels of the dual tower $1 billion mixed-project. Opening in 2020, W Melbourne will be the second W Hotel coming to Australia, following W Brisbane which is scheduled to open in 2018. Offering 294 rooms, including 40 suites and an Extreme Wow Suite, W Melbourne will be designed by SHoP Architects from New York, global design practice Woods Bagot and interior design specialists Hachem. The hotel will feature a bar and restaurant, a spa, gym, an indoor heated swimming pool as well as conferencing and ballroom facilities. Collins Arch will also include 49,000m² of office space along with retail space and 205 residential apartments.

Brisbane

GDI Funds Management has sold 307 Queen Street in the Brisbane CBD for $142.15 million to La Salle Investment Management. The purchaser has elected to take on outstanding incentives in the building which are reported to equate to approximately $9.85 million. The centrally located building has 25 levels of office space, two levels of basement parking for 91 cars plus ground floor retail across the two street frontages of the corner site, with a total NLA of 19,418m². The sale reflected a core market yield of 6.81% with a WALE of 3.2 years. Elsewhere in the CBD the Investec Property Office Fund 2 has sold 126 Margaret Street for $34 million. The secondary building has a NLA of 5,569m² and the sale reflected a core market yield of 7.62% with a WALE of 3.5 years. Currently largely occupied by education providers the property is located in close proximity to the Queens Wharf development and was sold with a three year rent guarantee over vacant space. The property was purchased by Sydney-based syndicators Capital Property Funds.

A private investor has purchased 35 Boundary Street, South Brisbane for $48.55 million from Abacus Property Group, reflecting a core market yield of 6.99%. The 8,082m² office building, located on a site of 1,567m² was sold with a WALE of 3.1 years and major tenants Dialog IT, Parmalat Australia and Neto e-Commerce. The purchaser has elected to take on outstanding incentives which are reported to equate to approximately $2.65 million. The building was constructed in 2008 and formed part of the first wave of development in South Brisbane beyond Grey Street. Also in South Brisbane 164 Grey Street has been purchased by Marquette Properties and Moelis Australia Asset Management for $30.3 million. The A grade asset has a total NLA of 3,102m² with three levels of office space and ground level retail with parking for 40 cars on site. Sold with a WALE of 1.5 years the transaction reflected a core market yield of 5.94% and a passing yield of 7.65%.

Perth

The 12,362m² office building, WorkZone East, 1 Nash Street in Northbridge, on the northern fringe of the Perth CBD, has been sold for $68.25 million, reflecting a core market yield of 7.39%. Purchased by CorVal the seven level office building was sold fully leased to tenants such as Telstra, BP and CIMIC subsidiary CPB Contractors with a WALE of 8.7 years. Sold by Charter Hall Opportunity Fund No5 the building has large floorplates of 1,950m², basement parking for 83 cars and is located close to the McIver Train Station.

Adelaide

A local private investor has acquired 191 Fullarton Road, Dulwich for $9.425 million, reflecting a core market yield of 7.61%. The property has a NLA of 2,326m², comprising three levels of office accommodation and undercroft car parking. The property sold with a WALE of 2.8 years, reflecting a rate of $4,053/m² of NLA. Major tenant Hansen Yuncken recently committed to a five year lease extension over 42.0% of the NLA.

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