COMPASS

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Knight Frank

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Knight Frank Research Compass Report

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

Federal Budget

The Federal budget was handed down at 7.30pm on Tuesday 9 May 2017 setting the economic and fiscal outlook for 2017-18. There were four key measures introduced for the residential property sector, namely:

- The introduction of an annual levy for foreign-owned vacant residential property. The levy is equivalent to the foreign investment application fee imposed on the property by the Foreign Investment Review Board (FIRB) at the time the property was initially purchased, effective immediately.
- New Dwelling Exemption Certificates now include a condition preventing developers selling more than 50% of lots within the development to foreign persons, effective immediately.
- Several efficiency improvements to the foreign investment framework, including but not limited to, allowing failed off-the-plan purchases to be considered as ‘new’ for the treatment of FIRB applications.
- Changes to the Capital Gains Tax (CGT) regime to deny foreign and temporary tax residents access to the CGT main residence exemption effective immediately, with existing properties grandfathered until 30 June 2019. In addition to, increasing the CGT withholding rate for foreign tax residents to 12.5% (from 10%) and reducing the threshold to $750,000 (from $2 million) effective 1 July 2017.

The Federal Budget also outlined a programme of significant infrastructure expenditure with an $8.4 billion equity commitment to ARTC to deliver the Inland Rail line the largest of these. Additional commitments included a $5.3 billion equity commitment to set up WSA Co to deliver the new airport in Western Sydney and $10 billion to fund projects under a National Rail Plan. In total road and rail infrastructure received a programme of funding to the tune of $75 billion over the coming 10 years.

Sydney

A Hong Kong-based investor has acquired the Exchange Centre at 20 Bridge Street in the Sydney CBD for a total consideration of between $330 and $340 million. The 20,347m² A-grade office building was purchased from Malaysian pension fund, Kumpulan Wang Persaraan (KWAP) on a core market yield of circa 4.6%. The building is anchored by the Australian Securities Exchange (ASX) and has a 7.1 year WALE. Elsewhere in the CBD, Fortius Funds Management has entered into a heads of agreement to acquire an office tower at 59 Goulburn Street from Singaporean Roxy-Pacific Holdings for $158 million on a 5.14% yield. The 23 level office building sits on a 1,949m² site and has a Development Application approved for mixed use redevelopment into 407 hotel rooms, 90 residential units and auxiliary retail and office components. The transaction is still subject to due diligence which could be completed in June 2017.

Charter Hall’s Prime Office Fund and Direct Office Fund have purchased 105 Phillip Street, Parramatta for $229 million. The 25,000m² prime office tower, which will be completed in mid-2018, has been purchased from Dexus on a reported yield of approximately 5.3%. Upon completion the building will be fully occupied by the Department of Education on a 12 year lease, which will relocate from the Sydney CBD.

Leda Holdings have purchased a portfolio of six industrial assets in Western Sydney for $71 million. The 45,850m² of combined industrial space, located in Wetherill Park, Smithfield and Eastern Creek, has been purchased from Simonson Properties on a blended net passing yield of 6.79% and a WALE of 1.8 years.

Melbourne

Melbourne based private investor has purchased Building 8 at 658 Church Street in Richmond for $44.65 million from Property Bank reflecting an initial yield of approximately 5.00%. Constructed in 2000, Building 8, 658 Church Street was recently refurbished and comprises a total NLA of 5,184m² including 97 on-site car parks. The three-level office building was sold with a WALE of 5.8 years, reflecting a building rate of approximately $8,613/m². The asset is currently 100% occupied by four tenants including DDB, Design Works, Bauer Media and IVE Group. The City Fringe office market continues to go from strength to strength with the total vacancy rate currently at its lowest level in 15 years, sitting at 3.1%. Prime net effective rents have increased by 15% over the past 12 months combined with prime yields recording significant compression over the same period (Knight Frank Research). In April 2016, BlackRock Asset Management purchased neighbouring Building 10, 658 Church Street for $45.5 million from Frasers Property Group reflecting a core market yield of 7.25%. With a total NLA of 7,696m² the asset reflected a building rate of $5,912/m².

Brisbane based Stronghold Investment Services has purchased 13-15 Compark Circuit in Mulgrave for $21.5 million reflecting a reported yield of 7.5%. The property comprises two freestanding buildings, each on their own title, separated by a common area featuring a recently constructed recreational/BBQ area. Constructed in 2006, both buildings provide two levels of office accommodation with a combined total NLA of 5,851m² including 226 car parks at both basement level and on grade parking at the rear and front of the buildings. 13-15 Compark Circuit was sold with a WALE of 3.1 years with both buildings fully leased to a range of tenants including PZ Cussons, Tyco and Carter Grange.

Brisbane

PropertyLink and Goldman Sachs have combined to purchase 50 Ann Street in the Brisbane CBD for $144.62 million, representing a core market yield of 8.20%. The 25 level building was sold by CIMB and contains 25,519m² of office space with parking for 119 cars. The property has been fully leased over a long period to the Queensland State Government and has 3.5 years remaining on the current lease term. The property is located on a corner site of 2,197m² with frontage to both Ann Street and George Street. With a passing yield of 7.0% the sale reflects an improved rate of $5,667/m². Recent improvement in the leasing landscape within the Brisbane CBD has heightened investor activity within the city with a greater sense of urgency emerging to gain a presence in the market to fully participate in the expected leasing market upswing. To date during 2017 six transactions have been completed in the CBD for a total of $512.4 million with further assets under contract including 50% of 400 George Street as part of a portfolio transaction and 120 Edward Street for circa $122.5 million.

The SCA Property Group has purchased the Mudgeeraba Market shopping centre, located on the Gold Coast, for $35.8 million. The listed property group has purchased this centre and the smaller adjoining Franklin Square (1,045m²) at a blended yield of 6.1%. Franklin Square is a two level retail and commercial centre with approximately 16 tenants. The 5,047m² Mudgeeraba Market centre was constructed in 1993 and is anchored by a 3,046m² Woolworths Supermarket with 26 specialty shops and on grade parking to the combined site of 21,224m². Mudgeeraba is an established residential area located on the western side of the Pacific Motorway opposite Robina and some 10km to the South West of Surfers Paradise.

Canberra

The Commonwealth Superannuation Corporation (CSC) has committed to lease 6,915m² at 7 London Circuit in the Canberra CBD, making it one of the largest lease deals to occur in Canberra during 2017. The 10 year lease will result in CSC consolidating their existing office holdings at 56 Chandler Street, Belconnen and 121 Marcus Clarke Street, Civic into one location. With a 5 Star NABERS rating, the lease reflects the Federal Government's policy to occupy space in commercial offices with a minimum NABERS rating of 4.5 Stars. In conjunction with several other recent lease deals in Civic including Macquarie Telecom (426m² at 221 London Circuit), there are limited leasing options available in the Civic precinct.

Perth

20 Parkland Road, Osborne Park, is under contract to a Primewest unlisted trust for $27.5 million with the sale expected to settle in June. The property is situated within the Herdsman Business Park approximately 6km north west of the Perth CBD. The modern eight level building features a NLA of approximately 4,800m², and includes three lower levels of car parking and five upper levels of office accommodation. The building was sold with an approximate net income of $2.081 million, reflecting a passing initial yield of 7.52%.

Amart All Sports has leased 1,925m² of retail warehouse space at 401 Scarborough Beach Road, Innaloo. The space has been leased for a 10 year term at an approximate net rent of $225/m². The property is situated within a modern, large-format centre which was built circa 2007 and comprises approximately 23,531m² of showroom with three street frontages.

Adelaide

Prince Alfred College, a private SA school, has purchased the adjoining Royal Coach Hotel as a going concern. Located at 24 Dequetteville Terrace, Kent Town, the freehold component transacted for $6.25 million and is situated on a 2,590m² corner site which offers future development potential. The hotel includes 49 guest rooms, restaurant, function/business centre, swimming pool and car park. The leasehold interest provides approximately 26.5 years of tenure and was purchased by Prince Alfred College for an additional sum. The freehold sale reflects an initial yield of 7.92%, market yield of 6.30% and a rate of $2,413/m² of site area.

Darwin

Across Darwin there have been a number of active market sectors in recent months. In the Darwin CBD the site of Globetrotters Backpackers, 97 Mitchell Street, has sold for $7 million. The 2,020m² site is improved with an established accommodation facility along with a bar and restaurant. In the industrial market, Pickles Auctions has purchased an office warehouse with vacant possession for $4.01 million in Winnellie. The Hickman Street property has 330m² of office and 1,850m² of warehouse space set on a large site of 14,700m². The retirement living sector has also recorded a development site sale with a 2.47 ha site at 91 Packard Avenue, Durack purchased by Greenfields Living for $4.51 million, reflecting a rate of $183/m². The site is located within Palmerston (some 22km to the South East of central Darwin) and will be developed as a retirement village over a number of stages.

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