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Knight Frank Research Compass Report

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

Sydney

Australasian Property Investments Limited (APIL) and the Wingate Group (Wingate) have entered into an agreement to acquire 29-57 Christie Street, St Leonards for $96.4 million. The asset is being acquired from the Charter Hall Office Trust (formally Charter Hall Office REIT). The asset comprises a 14,403m², fully-leased commercial office building, subject to a 4.3 year weighted average lease expiry (WALE), and an ancillary 3,678m² building comprising a Fitness First Gym, a childcare centre and a cafe. Tenants in the office building include Coca Cola Amatil, Rockend Technology, IMS Health and the Australian Rugby Union. The asset will be purchased via an unlisted vehicle called the APIL Wingate St Leonards Office Trust, for which APIL is currently undertaking an equity raising for $58.8 million. The asset is located on a 7,636m² parcel of land with an additional 11,050m² of net lettable area (NLA) possible under the permitted floor space ratio.

Singapore group Roxy-Pacific Holdings Limited have entered into an agreement to acquire 59 Goulburn Street, Sydney for $90.2 million. The freehold, 28 storey, commercial building comprises an NLA of 19,553m² on a site area of 1,950m² and was purchased from the Charter Hall Office Trust. The building is 89% occupied with 69% of gross income from government tenants and was sold on a reported passing yield of 7.31%. Although the building is considered to have residential conversion potential, Roxy-Pacific Holdings noted that they were attracted to the stable rental income of the property and that it would serve as a good opportunity to enter the Australian market.

The Federal Government has confirmed that the site for Western Sydney's new airport will be Badgerys Creek which is located approximately 50km to the west of the CBD. Although the Western Sydney airport will not be fully operational for a decade, planning for the new airport will start immediately and construction should start in 2016. The Federal Government envisages that the majority of the funding for the airport will be met by a private sector operator with Sydney Airport having the first right of refusal to build and operate the airport. To support the airport, a road infrastructure plan has also been announced that will upgrade a number of major and local roads in the area to increase capacity and improve accessibility to the M7 and M4 motorways. The road plan will be funded by the Federal and State Governments through an 80/20 funding split. The rationale to locate the second Sydney airport in the West reflected the growth of Western Sydney, which is expected to grow from two million to three million people over the next 20 years.

Melbourne

As part of a strategic office alliance, Mirvac has sold a 50% interest in the under-construction office development at 699 Bourke Street in the Melbourne Docklands precinct for total consideration of $73.0 million, based on a capitalisation rate of 6.5%, to US-based asset management firm TIAA-CREF. As part of the transaction, TIAA-CREF will fund 50% of the total development costs throughout the remainder of the construction period. The purchase of 699 Bourke Street represents the first investment for the alliance between Mirvac and TIAA-CREF. The 19,000m² office building is fully leased to AGL on a 10-year term and is scheduled for completion in March 2015. The new A-Grade building is designed to achieve a 5 Star NABERS energy rating and a 5 Star Green Star rating and contains typical office floors of 2,600m².

Melbourne-based syndicator Podco has purchased 187 Todd Road, Port Melbourne for $26.25 million from the Challenger Group. The office building was co-owned by Challenger Diversified Property Group (CDI) (60%) and by Challenger Life Company (40%). The three-level building comprises 9,308m² of office space, together with ancillary laboratory and warehouse/storage areas and parking of 358 bays. The commercial building, which enjoys three street frontages, is leased to Pacific Brands, Don KRC and Preston Motors.

Altis Real Estate Equity Partnership (AREEP) has purchased 251 and 261 Salmon Street, Port Melbourne for $28.25 million from ISPT, reflecting an initial yield of 8.4% with a WALE of 6.4 years. The buildings were originally built as the headquarters for General Motors Holden (GMH) in 1936 but were vacated in 2005 when GMH relocated to their current accommodation at 191 - 197 Salmon Street. The three-level art deco building at 251 Salmon Street comprises 4,307m² of NLA with onsite parking of 243 spaces and is fully leased to Boral and Specialized Group. 261 Salmon Street encompasses a two-level art deco building providing 2,282m² of office space fully occupied by JG King, a 2,854m² warehouse fully leased to GMH and onsite parking of 179 spaces. The two properties currently have an annual net passing income of around $2.4 million across a combined total site area of approximately 20,795m². The properties are adjacent to the Victorian government's planned Fishermans Bend urban renewal zone.

Brisbane

Union Investment Real Estate will acquire the $200 million Southpoint commercial and retail development on a fund through basis. The 23,500m² development is located within South Bank (South Brisbane), and is co-located with the South Bank railway station. The development, which contains an office tower of 20,000m² fully pre-committed by Flight Centre on a 10 year term and a retail component which is anchored by a 1,200m² Woolworths on a 20 year lease, will form the German based fund's first foray into Australia. The fund-through acquisition reflects a reported initial yield of 7.6%. Construction on the tower, which is being developed by the Anthony John Group, will commence in the short term. Watpac has been awarded the construction contract with completion expected mid-2016. Flight Centre will relocate to the South Brisbane tower from two separate locations within the Brisbane CBD.

Pembroke Real Estate has purchased 70 Eagle Street, Brisbane for $122.7 million from a joint venture made up of APPF Commercial and the Abu Dhabi Investment Authority. The 11,476m² prime building, known as Central Plaza 3, was constructed in 2009 and had a WALE of approximately eight years at the time of sale with the major tenants being QIC and QSuper. The building has 13 levels of office space plus ground floor retail and 68 parking bays accessed via a shared basement with Central Plaza 2. With strong competition for prime assets remaining in force, the transaction represented an initial yield of 6.4%. This is Pembroke's second major purchase in Australia following their acquisition of 20 Martin Place, Sydney in 2011.

Charter Hall Retail REIT (CQR) has entered into an option to purchase the Coomera City Centre for $59.2 million. The neighbourhood centre is located approximately 20km to the north of the Gold Coast in the Brisbane-Gold Coast growth corridor. The 9,431m² centre is anchored by a Woolworths with a Dan Murphy's liquor store under construction and a further 33 retailers. The centre was sold with an 8.8 year WALE with the Woolworths/Dan Murphy to contribute 48% of annual base rent. The purchase reflects an initial yield of 7.4%.

Silk Contract Logistics has pre-committed to a 19,900m² industrial facility at Lytton, to be developed by the Goodman Group. The development at Freight Street, Lytton will be leased by Silk for 10 years with a reported face rental of $115-120/m² net. The pre-lease in the TradeCoast precinct of the Brisbane market follows Goodman's other two recent pre-commitments in the south west of the city with Northline (12,500m²) and DB Schenker (31,400m²) committing to the Redbank Motorway Estate in recent months. Elsewhere in the South West industrial precinct, GPT has announced a joint venture with local developer Metroplex over a site with 60 hectares of developable land, which is earmarked for an industry and business park. GPT has purchased a half share of the Metroplex at Westgate Site, Wacol for $36 million with the first stage, a 16 hectare parcel, to be developed in the short term.

Perth

Offshore investor, Far East Organization, has entered into a contract to purchase the Septimus Roe office tower at 256 Adelaide Terrace, East Perth for $91 million, reflecting an initial passing yield of 11.0%. Far East Organization, which is Singapore's largest private property developer, has invested heavily into the Australian property market over the past twelve months, including the acquisition of Harbour Town Shopping Centre (Perth) for $205 million last year. Septimus Roe, which was previously owned by the Aspen Group, is a 19 storey, B-grade office building, originally constructed in 1978 and has been progressively refurbished over time, including an upgrade of the ground floor piazza and retail areas. The building comprises 17,247m² of office accommodation, 480m² of retail space and 123 car bays on the basement levels. The complex, which is situated on a 3,182m² site, is 90.3% occupied, reflecting a WALE by income of 2 years. The sale reflects a core market yield of 8.6% which falls substantially below the passing yield, reflecting the estimated capex requirements of approximately $10 million over years one and two and potential negative rental reversions on short term lease expiries.

WA based property syndicator Primewest has purchased the Stirling Retail Centre at 22-28 Stephen Street, Bunbury for $18.75 million reflecting an initial yield of 6.99%. Bunbury, which is located 175 km south of Perth, is the largest regional centre outside the Perth metropolitan area. The Stirling Centre is located adjacent to another Primewest asset, the Bunbury Centrepoint Shopping Centre, which is considered the prime shopping centre for the locality. The property is a single level enclosed mall shopping centre which is approximately 20-25 years old. The 5,863m² complex is situated on a 9,987m² site which includes 66 car bays. Anchored by a Best & Less (1,182m²), which has a lease expiry in November 2014, the centre contains a further 32 tenancies including Priceline, Medibank Private and OPSM, though a number of these tenancies are also due to expire within a twelve month time frame. With 90% occupancy and a WALE by income of 2.8 years, the sale reflects a building rate of $3,198/m² and a land rate of $1,877/m². The centre is expected to be amalgamated with the adjoining centre with some refurbishment/expansion plans in early stages.

Adelaide

Comfresh Marketing has taken over Cape Mining's surrendered lease at 14-22 Kaurna Avenue, Edinburgh, located within the Taylor Distribution Centre development. The modern distribution facility has 10 metre internal clearance with 3,810m² of concrete hardstand and drive around B-double access. The lease term is 4+5+5 years over the 3,240m² building, reflecting a rental rate of $68/m² net. Comfresh are involved in the storage and distribution of fresh produce, and will be undertaking an extensive cold storage fit out to suit their requirements.

The re-election of the Labor State Government in March, albeit with a minority supported by an Independent, appears to have cleared the way for the planned introduction of the Transport Development Levy for the Adelaide CBD and Fringe. Based on draft legislation, the levy is planned to be introduced from the 2014/15 financial year with the initial levy payment due March 2015. The levy of $750 per annum per parking space will apply to both off street and ticketed on-street parks within the defined area. The levy will be increased annually based on the Adelaide CPI, with owners having the ability to pass the cost on to occupiers. Exempted from the levy, which will raise funds to improve public transport, is North Adelaide, residential parking bays and any free customer parking provided by businesses.

Canberra

Morris Property Group has taken sole ownership of Childers Square after acquiring Amalgamated Property Group's 50% share for a reported $36 million. The two parties had previously developed the six-storey, A-grade building in 2009. The building has an NLA of 15,704m² and has 20 tenants including BAE Systems, Australian Reinsurance Pool Corporation, National Australia Bank and the Australian Institute of Management. Floor plates are relatively large ranging from 2,050m² to 3,100m², while the building also includes 750m² for the Canberra Workers Club. The asset was brought to market in 2013 at which time it was indicating 6.25 year WALE.

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