

COMPASS

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MAY 2014 EDITION

Knight Frank Research Compass Report

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

Portfolio Sales

The Charter Hall Group's recently established Bunnings Partnership Fund 2 (BPF2) has purchased a portfolio of stores in Western Australia and Queensland for \$127 million, reflecting a range of initial yields from 6.95% to 7.50%. All four properties are leased to Bunnings on new 12 year leases with 3% per annum fixed increases. The assets include;

- Bunnings Armadale, Perth - on the corner of Ranford Road and Armadale Road
- Bunnings Burleigh Heads at 177-207 Reedy Creek Road, Burleigh Waters (Gold Coast, Queensland),
- Bunnings Gympie on Hall Road, Gympie (Fraser Coast, Queensland), and
- Bunnings Mackay at 7-15 Greenfields Boulevard, North Mackay (North Queensland).

Mirvac Group recently announced the acquisition of four residential development projects across Sydney, Melbourne and Brisbane, for a combined purchase price of \$144.2 million. These acquisitions include two inner ring apartment projects in Sydney (Waterloo) and Brisbane (Hope Street, South Brisbane) and two infill masterplanned community projects in Sydney (Raby Road, Catherine Fields) and Melbourne (Blackshaws Road, Altona North), with the potential for over 1,400 dwellings acquired in total. **Mirvac also granted Blackstone Real Estate Asia call options over a portfolio of seven assets totalling \$391.4 million, which may be exercised between July and September 2014, and will also provide \$156 million in vendor financing as part of the transaction.** The portfolio of assets comprises four office buildings, two industrial and one retail asset located throughout the Eastern Seaboard. The assets include;

- 1 Castlereagh Street, Sydney (CBD office building)
- 38 Sydney Avenue, Forrest, ACT (suburban office building)
- 339 Coronation Drive, Milton, Queensland (fringe office building)
- 33 Corporate Drive, Cannon Hill, Queensland (suburban office building)
- 10 & 12 Julius Avenue, North Ryde, NSW (industrial buildings)
- Waverley Garden Shopping Centre, Victoria (sub-regional shopping centre)

Sydney

Blackstone Real Estate Asia has acquired a 50% share in Westpac Place at 275 Kent Street in the CBD from Mirvac Group for \$435 million on an initial yield of 6.65%. The sale is subject to Blackstone gaining FIRB approval and settlement is expected to occur in July 2014. The building, which was completed in 2006, has 77,028m² of NLA with a 75,547m² lease to Westpac that expires in October 2018.

Lend Lease has formally announced that the third and final office tower at Barangaroo (T1) will now commence following leasing pre-commitments from PwC and HSBC Bank Australia for 26,500m² (12 floors) and 8,000m² (3.5 floors) respectively. These lease deals represent a pre-commitment level of circa 34% for the 101,000m² net lettable area (NLA) office component of the building and takes the combined pre-commitment level for the three towers to approximately 60%. Construction of Tower 1 is expected to commence in the first half of the 2015 financial year, with an anticipated completion date in the 2017 financial year. Lend Lease also announced that it has entered into an agreement to reduce its co-investment in Lend Lease International Towers Sydney Trust (LLITST) from 25% to 15% via a sale to international pension fund APG.

Investa Office Fund (IOF) has announced they will proceed with a redevelopment of 151 Clarence Street in the CBD. IOF plans to demolish the existing 16,000m² building, predominantly occupied by Telstra and Westpac, in March 2016. Construction is scheduled for completion in late 2018 with the new building to have a NLA of 22,000m². The project is to be anchored by a 10 year lease to engineering firm Arup, who have pre-committed to leasing 5,900m² over levels 1 to 4. The development will be adjacent to the new 12,000m² building at 155 Clarence Street, being developed by St Hilliers, that is currently under construction and due for completion in Q3 2014.

Melbourne

Australand Property Group (ALZ) has contracted a 20.5 hectare residential infill site in Burwood East for \$65 million, with an upfront payment of \$6.5 million and the remainder in December 2017. The site is located approximately 20 kilometres East of the Melbourne CBD and 800 metres from their recently completed Burwood project, which consisted of 240 medium density dwellings and apartments. The site has multiple road frontages and, subject to planning approvals, is expected to deliver approximately 800 residential dwellings and a neighbourhood retail centre amongst parklands and community facilities. Reading Entertainment Australia had owned the old Burwood Brickworks, bordered by the Burwood Highway, Middleborough and Eley Roads since 1996. The site was designated as an "extractive industry zone" but the zoning was changed in 2006 to a "priority development area". Reading retains only a first right to provide a cinema on the site if such a cinema is to be included in any future development. The sale of the Burwood site follows Reading's disposal of a 1.34 hectare site in Moonee Ponds to Leighton Properties and Qualitas for \$23 million in October 2013.

UK-based M&G Real Estate has purchased 628 Bourke Street, known as QBE House, for \$129.6 million for its Asian property fund. The property was sold by the listed Investa Office Fund (IOF) on a reported capitalisation rate of 7.25% and a WALE of 6.8 years, with settlement expected October 2014. QBE House is an office complex consisting of an eight-storey podium to Bourke Street and a 16-storey tower to Little Bourke Street; completed in 1989. The building comprises 24,515m² with parking for 125 cars and floorplates ranging between 1,275m² and 2,500m². It is occupied by a range of tenants including Momentum Energy, V/Line and QBE.

Brisbane

US-based Pembroke Real Estate has purchased 70 Eagle Street (Central Plaza 3) in the Brisbane CBD for just under \$123 million. The prime office asset, completed in 2009, was sold fully leased to QSuper and QIC with a WALE of 8.4 years. The 11,476m² asset represented a prime investment, and as such attracted significant interest, with the purchase being Pembroke's second direct acquisition in Australia. The sale reflected a core market yield of 6.25%, representative of the significant premium being paid for high quality assets with limited imminent exposure to the leasing market. The asset was sold by Australian Prime Property Fund (Commercial) and the Abu Dhabi Investment Authority.

Generation Healthcare REIT (GHC) has announced the acquisition of 55 Little Edward Street, Spring Hill for a maximum of \$46 million. The fringe commercial building has 8,302m² of NLA across three levels of office space, with floorplates of 2,027m² to 3,087m², with a further three basement levels of parking for 484 cars. Although essentially an office building the asset has seen an increased presence of health related tenants in recent years, and is located close to private hospitals. The building was sold with leases in place to the Qld Eye Hospital and the Qld Fertility Clinic. The total price of \$46 million is inclusive of a \$1.5 million payment which is contingent on the signing of a new 10 year lease over the remaining space, currently under offer. There is also a three year rental guarantee over the vacant space (circa 996m²) should that lease not eventuate. The sale is expected to settle in June 2014 showing an initial yield of 8.0% and a WALE of 5.86 years. The vendor, Bennelong Group, will take part of the sale proceeds (\$14.5 million) as units in GHC subject to an 18 month escrow. This purchase was one of a number of initiatives announced by GHC which included a \$12.5 million refurbishment and expansion at Epworth Freemasons Clarendon Street and the development of a new \$25 million Cancer Centre for the Epworth Foundation, also at Clarendon Street, Victoria where most of the trust's assets are located, along with an equity raising of \$64.8 million.

Increasing interest from listed domestic funds in the industrial market is in evidence with Lend Lease purchasing 2828 Ipswich Road, Darra for \$16.7 million. The industrial complex has two freestanding office warehouse buildings which contain a total of 12,241m² of clear span warehouse space and 1,687m² of office accommodation. At the time of sale the property was occupied by Detroit Deisel, Elite Logistics and Advanced Industrial Products. A company associated with the vendor, Insulect Australia, has also taken a leaseback over a 3,700m² portion (700m² office and 3,000m² warehouse). The sale reflected an initial yield of 8.7% on a WALE 3.4 years. This is one of a number of recent or pending industrial sales to domestic funds or syndicators such as 731 Boundary Road, Richlands (\$15.45 million), 57-101 Balham Road, Archerfield (\$24.5 million), 20 Peterkin Street, Acacia Ridge (\$12.5 million) and 163-183 Viking Drive, Wacol (\$38 million).

Perth

Shell Australia has pre-leased an additional 5,500m² of space in the KS2 office project at Kings Square in the Perth CBD taking Shell's commitment to 100% of the total NLA. KS2 is jointly owned by DEXUS Property Group and DEXUS Wholesale Property Fund (DWPF) and makes up part of the \$6 billion Perth City Link project. Perth City Link is a 13.5 hectare site situated upon the recently sunken Perth City train line. KS2 is currently under construction and due for completion in Q4 2015. Shell previously committed to 13,511m² of space within KS2 at a rental rate of approximately \$650/m² net. DEXUS and DWPF jointly own three office buildings (KS1, 2 & 3) being constructed within the Kings Square precinct totalling 48,172m² of NLA; of which approximately 55% is pre-committed. KS3 comprises 6,500m² of NLA and has been fully pre-leased by engineering and contracting firm John Holland, whilst KS1 remains uncommitted with 22,247m² of office space available for lease. KS1 and KS3 are also due for completion in Q4 2015.

Western Australian listed developer, Finbar, has agreed to purchase a 5,692m² site at 239 Great Eastern Highway, Belmont (in Perth) for \$6.4 million. The site, a broadly rectangular shaped landholding with reduced street frontage, is situated along a major six lane highway in proximity to the Perth domestic and international airports. Current improvements on the site are a circa 20-30 year old single storey, purpose-built complex operating as a backpackers (Comfort Hostel) as well as a car hire facility (M2000 Car Rentals). The property sold in an off market transaction to Finbar who intend to construct a ten storey, mixed use development incorporating 150 residential apartments and two commercial ground floor units. It is expected that the project will have an end value of around \$60 million. The sale reflects a rate per square metre of \$1,124/m² and a rate per lot of \$42,105/lot with settlement due in August 2015.

Adelaide

A fully leased, purpose-built industrial property at 1 Williams Circuit, Pooraka has been purchased for \$5.3 million. The property is fully leased to an engineering steels and alloys supplier, and is understood to contain specialised features such as a large power supply and six gantry cranes. The sale reflected a core market yield of 8.78% and a remaining lease term of 12.8 years. The building has a site area of 10,320m² and a GLA of 4,385m², which reflects a rate of \$1,209/m² on the building area.

It has been reported that The Golden Grove Village is currently in due diligence for approximately \$130 million to Challenger Group. The sub-regional centre is located at The Golden Way, Golden Grove, with a GLAR of 30,505m² and is situated on an allotment of 13.56 hectares. Majors include Woolworths, Foodland, Big W, and a small Target, together with 88 specialty shops, 3 ATM's, 2 kiosk outlets and 9 first floor office suites.

Canberra

Investec Australia Property Fund (IAPF) has acquired the Manning Clarke Offices at 186 Reed Street, Greenway in the Tuggeranong Town Centre. The asset sold for \$25.805 million after an expression of interest campaign and reflected an initial yield of 7.84%. The 5,403m² building is fully leased to the Commonwealth of Australia (Department of Human Services) on a 10-year lease expiring in February 2023 with two options of four years. The property underwent a major base building upgrade and refurbishment which was completed in 2013 and included the replacement of the majority of base building plant and equipment targeted to achieve a 4.5-star NABERS Energy rating. The 9,457m² site is on a 99-year Crown leasehold expiring 2088.

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