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Knight Frank Research Compass Report

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

Portfolio Sales

Propertylink has purchased a portfolio of ten industrial assets in Victoria and New South Wales for $106.75 million from Abacus Property Group (ABP) and Abacus Diversified Income Fund II (ADIF II). Four of the properties (purchased from ABP at a value of $43.65m) are;

- 4-8 Sylvania Way, Lisarow (on the NSW Central Coast),
- 10-12 Pike Street, Rydalmere (in Sydney),
- 1 Orielton Road, Smeaton Grange (in Sydney), and
- 36-52 National Boulevard, Campbellfield (in Melbourne)

Sydney

In the largest Parramatta office transaction on record, Growthpoint Properties Australia has exchanged contracts for the acquisition of the NSW Police headquarters at 1 Charles Street for $241.1 million. The 31,954m^2 office tower is being purchased from AustralianSuper on a reported initial yield of 7.6%. The property is fully leased to the NSW State Government with a remaining lease duration of 10 years plus a 5 year option and includes fixed 3.5% rental increases, with adjustments made quarterly. To fund the acquisition, Growthpoint are conducting a rights issue to raise up to $125 million, with the residual amount of the acquisition price to be funded via debt facilities. The acquisition arose from Growthpoint's strategy to acquire high quality, modern assets with long WALEs and fixed rental increases and to also increase exposure to NSW, with the acquisition increasing the group's weighting for NSW from 12% to 22%.

GDI Property Group has purchased Civic Tower at 66 Goulburn Street in the Sydney CBD for $136 million. The 23,125m^2 office complex has been purchased from Charter Hall's PFA Diversified Property Trust and Australand on an approximate fully leased yield of 8.4%. Civic Tower is currently 76% occupied (by NLA), however taking into account the rental guarantees from the vendors, the building is essentially 100% leased with a 2.2 year WALE. GDI have an existing asset in the same "precinct" at 233 Castlereagh Street, which is being positioned for sale. GDI have previously announced they have investigated the feasibility of alternative redevelopment options for 233 Castlereagh Street, including residential conversion, for potential sale to a developer.

Investa Office Fund has purchased 6 O'Connell Street in the Sydney CBD for $134.95 million. The 16,400m^2 office tower has been purchased from BlackRock on a reported cap rate of 7.5% and an initial yield on cost (after acquisition costs) of 6.5%. The building currently accommodates 40 tenants reflecting a 91% occupancy rate and is located in the core precinct of the CBD in close proximity to prominent buildings 1 Bligh Street and 1 O'Connell Street. Investa plan to increase value by improving the quality of the building services and, over the medium term, improve the ground floor retail thoroughfare between O'Connell and Bligh Streets.

The Sydney CBD and South East Light Rail project received formal planning approval in June 2014 following the recent completion of the Inner West Light Rail earlier in the year. The line extends from Circular Quay along George Street to Central Station and Moore Park, then to Kingsford via Anzac Parade, and Randwick via Alison Road and High Street. The project also includes the development of a pedestrian zone along George Street, between Hunter and Bathurst Streets in the Sydney CBD. The total cost is estimated at $1.6 billion. The main contract to design, build, operate and maintain the new system is expected to be awarded as a Public Private Partnership by early 2015, with the service expected to be open and operational by 2020. Along the South West corridor, the urban landscape along Anzac Parade in Kensington and Kingsford will move towards higher density development with the state government looking to increase floor space ratios. The corridor will also benefit from improved amenities, surrounding infrastructure and a range of apartment options complimenting the established sporting complexes, university and hospital.

The NSW Government has committed to assign $400 million from the Restart NSW fund within the budget, towards the Western Sydney light rail system. A detailed feasibility study has been engaged to identify the highest priority corridor for the introduction of light rail in Parramatta. The NSW Government will investigate a number of potential light rail routes from Parramatta including: Macquarie Park via Carlingford; Castle Hill via Old Northern Road; Liverpool via the T-way, Bankstown; Sydney Olympic Park; Rouse Hill; Ryde via Victoria Road and Sydney CBD via Parramatta Road. Parramatta City Council has also proposed a Parramatta to Macquarie Park via Eastwood link and Castle Hill via Windsor Road.

Melbourne

Listed Malaysian developer PJ Development Holdings acquired a 2.02 hectare vacant site at 93-119 Kavanagh Street in Southbank from local developer Dynasty Falls Pty Ltd (Banco Group) for $145 million. The public car park site was sold in an off-market deal representing the largest ever site sale in the Melbourne CBD/Southbank precinct. The site has no planning permit in place; however the purchaser has plans to develop up to 5,000 apartments, retail and a hotel on the site which is the entire block bounded by Kavanagh, Power and Balston Streets. The site also benefits from close proximity to the Westgate Freeway. Prior to its sale, the vendor had owned the site for 14 years.

Singaporean listed residential and hotel developer Fragrance Group has purchased 555 Collins Street for $78 million from the Stamoulis Property Group. The 24 storey office building was formerly occupied by the National Australia Bank but is currently vacant. The current building, which was built in 1975, comprises 22,273m^2 of NLA and 82 basement parking spaces on a 2,241m^2 site. Last year the vendor proposed an 82 level 404-metre high office tower comprising 60,000m^2, however Fragrance group intends to develop the property into a high-rise mixed-use development. In the past two months, the Fragrance Group has also acquired a Hobart CBD development site for $4 million and the Savoy Tavern property at 134-160 Spencer Street in Melbourne for $44.5 million, both for future mixed-use developments.

Federation Centres (FDC) has sold the Somerville Shopping Centre at 49 Eramosa Road West in Somerville for $42.05 million to a private investor. The sale represented a 10.7% premium to FDC's most recent book value. The sub-regional shopping centre comprises 16,520m^2 of GLAR on a 49,890m^2 site and is anchored by Coles and Target on long-term leases expiring in 2023. The Somerville Shopping Centre also includes four national mini majors and 26 specialty tenancies.

Brisbane

PricewaterhouseCoopers (PwC) has committed to 6,900m^2 of office space in 480 Queen Street, Brisbane. The building, under construction with completion expected in the first half of 2016, is owned equally by DEXUS Property Group and DEXUS Wholesale Property Fund. The DEXUS funds purchased the 55,571m^2 project on a fund through basis from the developer and builder, Grocon, in April 2013 for a capitalisation rate of 7.25%, which was expected to equate to circa $545 million. The transaction included a two year rental guarantee on any vacant space from completion of construction. PwC will take four levels (20-23) in the 31 level tower for a 10 year term. The PwC deal takes the project to 62% commitment with the other major tenants BHP, Herbert Smith Freehills and Allens Linklaters.

Two of the four shortlisted developers for the Casino and entertainment precinct at Queens Wharf, Brisbane CBD have joined forces to progress their bid, with Echo Entertainment and the Far East Consortium/Chow Tai Fook Enterprises Ltd consortium now lodging a joint bid under the name of the Destination Brisbane Consortium. This comes after the announcement in late May of the four shortlisted developers; with the other two being Crown Resorts Ltd and Greenland Investment Pty Ltd. Echo Entertainment will contribute 50% of the funds for the integrated resort development and act as the operator of the Casino on a long term agreement. Far East Consortium and Chow Tai Fook Enterprises will each contribute 25% of the costs for the integrated resort and undertake the residential and related development across the wider Queens Wharf site. Echo Entertainment currently operates both the Brisbane Treasury and Gold Coast Jupiter casinos in South East Queensland, while the other bidders have extensive residential and hotel experience, particularly within the Asian markets and offer the ability to tap into the Asian tourism market. The State Government's vision for the site is of an integrated resort with the casino complimented by six star hotels, retail, restaurant and entertainment zones, convention facilities and open spaces. The shortlisted developers will provide full proposals by the end of 2014, with an announcement of the successful party expected in early 2015.

Perth

Charter Hall's Core Plus Industrial Fund has purchased a 3.22 hectare industrial complex, with improvements including a three level office building, at 103 Welshpool Road, Welshpool (in Perth) for $17 million reflecting an initial yield of 8.75%. The property comprises three individually titled adjoining lots situated at a site on the corner of Leach Highway and Welshpool Road, featuring frontages of approximately 230 metres to Leach Highway and 137 metres to Welshpool Road as well as access to John Street. The site is improved with a three level office building, storage warehouses for the storage/loading of agricultural supplies and a number of silos, generating a passing net income of $1.49 million per annum. Milne Stockfeeds sold the asset with a new ten year leaseback on a triple net basis with annual rent reviews fixed at 3.5%. On expiry, Milne

Stockfeeds are to make-good the property by removing the silos and stockfeed related improvements from the site. The property was sold off-market reflecting a land rate of $528/m^2.

A Syndicate of wholesale investors formed by Perth-based developer Ascot Capital has purchased the Marketforce office building at 1314 Hay Street, West Perth for $9.05 million reflecting an initial passing yield of 7.22%. The property is an older style office building with ground floor parking and first and second floor office accommodation with a total NLA of 1,892m^2. The building has been progressively upgraded since its original construction with the latest refurbishment completed by the lessee in 2012. Marketforce Ltd. has occupied the building for the last 40 years and its current lease is for a term of eight years, due to expire in March 2019, with two further option periods of two years and five years each. Annual reviews are fixed to 4% until March 2021 which will then be reviewed to market. The property is zoned Office/Residential within Precinct 10 – West Perth with a plot ratio of 2:1 for office and 3:1 for residential with a 20% bonus for short term accommodation development. The property, which is situated on a 1,250m^2 site sold with a WALE by income of 4.8 years, reflecting a land rate of $7,240/m^2 and a building rate of $4,783/m^2.

Overseas investors have entered into a contract to purchase the old Matilda Bay Brewery site at 130 Stirling Highway, North Fremantle for $36 million. The 2.917 hectare site comprises eight adjoining land holdings and was previously used by Matilda Bay Brewery Company for production, storage and distribution. The site's original improvements remain, part of which are heritage listed, and total 7,713m^2 of building area and 8,000m^2 of hardstand. The site has a 100 metre frontage to Stirling Highway and is currently zoned Industrial. However, the City of Fremantle has initiated the rezoning to Development which will potentially increase the maximum RCode density to R160 and a plot ratio of 2:1. The new owners are preparing redevelopment concept plans indicating the potential for up to 500 units. The sale reflects a land rate of $1,234/m^2 and a rate per apartment of $72,000.

Adelaide

Adelaide-based syndicator Southern Cross Equity Group has purchased a 14 level A Grade office tower located at 22 King William Street Adelaide for $41.8 million, reflecting a core market yield of 8.22%. The major tenant is NAB, who occupy 64% of the building until March 2024 and the building has a WALE of approximately 7.2 years. The building has a total NLA of 9,640m^2 incorporating ground floor retail space over a basement, together with mezzanine and 11 upper levels.

The Department of Immigration and Border Protection has leased 6,000m^2 of office space at 70 Franklin Street, Adelaide for a term of seven years. The building, completed in late 2013, has a 5-Star Green Star rating and is now more than 70% leased to tenants including Price Waterhouse Coopers, Southern Cross Austereo and Marsh Mercer.

Canberra

Unlisted fund Quintessential Equity has acquired the 'Optus Centre' at 10 Moore Street in the Canberra CBD for a reported $18 million from AMP Capital. The six level office building has an NLA of 6,700m^2 and includes basement and on grade parking for 42 vehicles and was sold with 92% occupancy. It is understood that Quintessential plan to upgrade/refurbish the building to achieve a 4.5 star NABERS rating in around four years in preparation for sale in five to six years. The transaction follows the group's previous purchase of 14 Moore Street for a reported circa $23 million in March.

Colonial First State has purchased Riverside Plaza at 131 Monaro Street, Queanbeyan (in NSW) for $62.5 million. The 21,939m^2 sub-regional shopping centre has been purchased from AMP Capital on a passing yield reflecting 8%. The asset will form part of the CFSGAM Property Enhanced Retail Fund (CERF). Riverside Plaza is anchored by a Target, Coles, Best & Less, Go Lo and over 40 specialty stores across a total GLAR of 21,393m^2.

The Capital Metro light rail, an integrated public transport project proposed for Canberra, has suffered a setback after a cost-benefit analysis commissioned by the ACT Liberal Party, suggested the costs could reach $915 million after it was first announced at $614 million. Being a Master planned city, Canberra has the scope to effectively embed a light rail system throughout the landscape. It has been reported that a single light rail could carry up to 300 people, resulting in less congestion and pollution issues across the nation's capital. Stage One of the light rail project was proposed to link the CBD to Gungahlin and Dickson Town Centre. A decision now must still be made surrounding the funding model with the government considering the introduction of a special rating zone, as well as, an increase in land values to raise money for the project. This is expected to be a key issue at the 2016 election.

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