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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.

National/Portfolio

The House of Representatives Standing Committee on Economics has delivered its findings into foreign investment in residential real estate in Australia. After a lengthy enquiry into the Foreign Investment Review Board (FIRB), the current rules on foreign investment don't change, but a list of 12 recommendations have been made to ensure that they are more rigorously enforced. Significant recommendations include the addition of purchaser nationality on land title and introducing an administration fee for foreign purchasers lodging an application to purchase property in Australia; both opportunities for better collation of data at this point in the process. To date, the policing of foreign purchasers breaking the rules have not been instigated, so more emphasis was given for possible stricter fines and closer monitoring of expired visas. The concept of an additional stamp duty for foreign purchasers was raised as an option, but didn't form part of the report's recommendations.

Mirvac Group has acquired a portfolio of five industrial assets from Altis (Real Estate Equity Partnership Fund No.1), for a combined sum of $224.1m reflecting an initial yield of 7%. The portfolio consisted of four assets in Sydney and one in Adelaide with a combined total NLA of 86,579m² and sold with a WALE of 8 years. The assets, with attributed prices are;

- 39 Britton Street, Smithfield, Sydney; 13,390m² warehouse complex - $20.5 million
- 34-38 Anzac Avenue, Smeaton Grange, Sydney; 22,062m² industrial estate - $23.3 million
- 8 Brabham Drive, Huntingwood, Sydney; 6,048m² warehouse - $20.1 million
- 39 Herbert Street, St Leonards, Sydney; 36,847m² industrial estate - $150 million; and
- 34-44 Jonal Drive, Cavan, Adelaide; 8,232m² office warehouse - $10.2 million (see below for more detail).

Charter Hall Group, via three of its managed funds/partnerships, has acquired a portfolio of six industrial assets from Inghams for $171.4m reflecting an average initial yield of 7.82% and a WALE of 22 years. As part of the transaction, Inghams will be responsible for related capex and structural repairs on the properties. The fund/asset breakdown for the acquisition was as follows;

- Core Logistics Partnership (CLP) acquired Murarrie, Brisbane and Edinburgh Park, Adelaide - $105.8 million
- Direct Industrial Fund (DIF2) acquired Ingleburn, Sydney; Thomastown, Melbourne; and Cleveland, Brisbane - $53.2 million
- Core Plus Industrial Fund (CPIF) acquired a facility adjoining its Hemmant property in the Port of Brisbane precinct for $12.4 million.

Sydney

The State Government has published the 'State Infrastructure Strategy Update 2014', which outlines a number of investment recommendations made by Infrastructure NSW for spending the proceeds from the 'Rebuilding NSW' initiative (a $20 billion program of infrastructure investment to be funded from the long-term lease of 49% of the State's electricity network assets). The recommendations include 30 major projects valued at $18.9 billion that focus on easing congestion and supporting population growth in Greater Sydney, including Parramatta. One of the major proposals includes a third road (tunnel) crossing of Sydney Harbour, the Western Harbour Tunnel. Expected to be a tolled motorway, the road would provide a tunnel from WestConnex (Rozelle) across Sydney Harbour to Lane Cove, creating another bypass of Sydney's CBD. Business cases for each of the recommendations are to be prepared over the next 18 months.

The month of November has seen several large CBD office buildings sell with residential conversion potential, which takes 2014 YTD sales of such assets to $1.1 billion, equivalent to 30% of the CBD total ($10m+). Following an expressions of interest campaign, Shimao Property has acquired 175 Liverpool Street for circa $393 million from the Government Investment Corporation of Singapore (GIC). Shimao Property, which is listed on the Hong Kong stock exchange and develop large scale, integrated real estate projects, outbid a number of other investors, including local developers. The office building currently comprises 48,890m² of NLA with major tenants including Telstra and The Office of The Director of Public Prosecutions. November also saw GDI Funds Management enter into a conditional put and call option deed for the sale of 233 Castlereagh Street for $156 million to Shanghai based fund manager Visionary Investment Group. The 19,943m² B-grade asset had a book value of $129 million (as at June 30 2014), however the 21% premium is indicative of the premium investors are prepared to pay for assets with change of use/re-development potential.

The Sheraton on the Park Hotel, located at 161 Elizabeth Street, in the Sydney CBD, has been purchased by Chinese life insurer Sunshine Insurance Group Corporation (SIG) for $463 million on a reported yield of 6%. As part of the sale, SIG also committed to a $40 million refurbishment of the hotel. The 557-room, five-star hotel, which opened in August 1992 with extensive refurbishments in 2002, has 24 levels, including 12 meeting rooms, a Grand Ballroom, full-service dining, a Sheraton Club Lounge, rooftop health club and an indoor heated pool. SIG noted they were attracted to asset due to Sydney being a leading travel destination and an important financial centre in the Asia Pacific region. US Group Starwood Hotels & Resorts Worldwide sold the asset, however it is understood that Starwood will continue to operate the hotel as a Sheraton under a long-term management contract of up to 50 years. The sale represented the largest single hotel transaction in Australia on record.

A draft Parramatta City Centre Planning Framework Review has been placed on public exhibition seeking more flexibility on building heights, floor space ratios and expanded permitted uses within the central business district. The review of the council's existing CBD planning controls includes making changes such as an unrestricted building height limit, after sunlight access and aviation restrictions are taken into account; increased building densities to 10:1 on-par with that currently achieved in the Sydney CBD; allowing residential development in the core when accompanying a commercial building; and an expanded boundary of the city to ensure that it is responsive to growth targets and the market. This review joins the Parramatta City River Strategy and the draft Auto Alley Planning Framework currently on public exhibition.

Located on the fringe of the Sydney CBD, One Central Park tower has been awarded the best tall building in the world, ahead of the Edith Green-Wendell Wyatt Federal Building in Portland, USA, De Rotterdam in Rotterdam, located in the Netherlands and the Cayan Tower in Dubai. The residential complex accommodates 623 apartments across two towers, with a cantilevered sky garden extending from level 29 and is part of one of the world's biggest vertical gardens. One Central Park forms part of the $2 billion Central Park development, a joint venture between Frasers Property and Sekisui House.

Melbourne

The Catholic Archdiocese of Melbourne has purchased the Victorian Employers' Chamber of Commerce and Industry (VECCI) East Melbourne headquarters at 488 Albert Street for approximately $36 million. The 11-level office building completed in 1988 comprises 6,822m² of NLA with a basement car park of 24 bays. The archdiocese plans to bring together its central administration along with different departments and agencies that currently operate at multiple locations across Melbourne. The 3-star NABERS building is currently occupied by VECCI together with the Australian Catholic University and MedHealth Group. Of particular appeal to the Archdiocese is the central location of the building in close proximity to St Patrick's Cathedral and other nearby Catholic services, including the Australian Catholic University, the Catholic Education Office, Catholic Theological College and St Vincent's Private and Public Hospitals.

Melbourne-based Bennelong Property Group has sold three Melbourne suburban office assets for approximately $99 million. The assets were sold individually, with two bought by local investors while one office building was bought by an offshore buyer. The 5,661m² office at 2 Luton Lane, Hawthorn is fully leased to Skilled Group, and was sold for a reported $35 million, reflecting an initial yield of circa 7.2% and a WALE of 7.6 years. 290 Burwood Road, Hawthorn was sold for a reported $24 million, reflecting an initial yield of circa 7.5%. The 4-level office building offers three street frontages was completed in 1989, comprises 4,400m² with basement parking for 114 cars and is anchored by Holcim and Pacific Brands. The third Melbourne suburban office, 293 Camberwell Road, Camberwell was sold for a reported $40 million, reflecting an initial yield of circa 7.5% and a WALE of 4.3 years. The four-level 7,147m² office building completed in 1990 is fully leased to three tenants, being Netspace, Wright Express and Bakers Delight. The property offers average floorplates of 2,000m² and includes 197 basement car parks.

Cbus Property has sold The Harvest Retail development from within its Estate One project in Dandenong South, for $54.3 million on a reported initial yield of 7.2%. Perth-based private investor Rifici Group is reported to have purchased the asset, which includes an existing 13,000m² Masters store, on a 15-year lease, a 3,800m² Woolworths supermarket to be completed by 2015, 15 specialty shops and some developable land. The Harvest Retail development is part of the 46-hectare Estate One business park in Dandenong South that Cbus Property is developing out of a former General Motors Holden site.

Brisbane

The Australian Property Opportunities Fund (No1) has purchased the Noosa Village Shopping Centre for $25.1 million. The neighbourhood centre, located on the Sunshine Coast, is anchored by a Woolworths with 21 specialty stores and was fully occupied at the time of sale. National retailers accounted for 72% of the total income and the centre was purchased on a reported yield of 8.0% with a WALE of 3.9 years. This purchase has completed the fund which now contains six retail and office properties, the remainder of which are located in NSW and Victoria.

The Centuria Office Fund No. 2 has confirmed the sale of the Citilink Business Centre, 153 Campbell Street, Bowen Hills for $62 million. The 15,641m² asset comprises two medium rise office buildings, located opposite the Royal Brisbane Hospital and is 67% leased by Queensland Health. Sentinel Property Group has purchased the property for the Citilink Trust and will investigate the potential to develop a residential/hotel tower on a vacant site to the rear of the current improvements and also above the smaller existing building.

There is an expected flurry of sales prior to the end of the year with a number of sales reported, but unconfirmed at this time. These reported sales include: 144 Montague Road, West End – the 14,742m² building is expected to be purchased by Mapletree for $93 million, showing a core market yield of 8.5%; The Barracks, Petrie Terrace - a retail and office complex is being purchased by Challenger Life for $143 million; 300 Adelaide Street, CBD is likely to sell prior to the end of the year for circa $50 million; 53 Albert Street, CBD – an 18,000m² building fully leased to the State Government is also being purchased by Challenger Life for circa $200 million. The vacant 363 Adelaide Street is in due diligence with a sale likely early 2015 for conversion to student accommodation the most likely option. The premium building, Waterfront Place, remains on the market and while negotiations are on-going it is understood the sale is unlikely to complete this year.

Goodman Australia has purchased an 87.4 hectare site in Redbank from Aurizon for $74 million. The site currently operates as a maintenance facility for Aurizon, manufacturing parts for rolling stock and is one of the largest rail maintenance facilities in Australia. Aurizon have previously announced the intention to centralise its maintenance facilities to Rockhampton due to its proximity to the coal freight services in central Queensland. The facility will cease maintenance of QLD Rail passenger rolling stock on the expiry of that contract in mid-2015 and Aurizon has scheduled closure of the Redbank facility in mid-2017. The site contains circa 90,000m² of space under roof across various manufacturing and maintenance facilities. The site was sold to Goodman Australian on a 10 year leaseback however there is flexibility to introduce other rail users or general industrial occupiers to the site within that time frame.

Perth

Three new tenants committed to the Charter Hall (CPOF) owned 225 St Georges Terrace in Perth's CBD, securing more than 5,700m² of office space. Charter Hall has secured the new tenants as it progresses with a $12 million refurbishment of the Perth office tower. WA law firm Jackson McDonald, global professional services firm Marsh & McLennan Companies and its subsidiaries Marsh and Mercer, as well as Aquila Resources have all committed to the building. Jackson McDonald signed a 10-year lease over levels 15, 16, 17 and half of 18. A seven-year lease was signed by Marsh & McLennan companies over level six and a 5-year lease by Aquila for level 14. The 19-level building has a 3.5-star NABERS energy rating but Charter Hall is targeting a 4.5-star rating upon completion of the upgrades. About 13,250m² of space became vacant in March when former tenant BHP Billiton's lease expired. Around 7,000m² of space remains available for lease.

Owner and operator of Westfield in Australia and New Zealand, the Scentre Group has purchased a warehouse property for $16 million at 6 Carousel Road, Cannington, which is strategically located next to the Westfield Carousel Shopping Centre, one of Western Australia's largest shopping centres. The property with 2.9ha of land area, is located on the corner of Carousel Road and Grose Avenue in Cannington with two street frontages to Carousel Road and Grose Avenue of 204m and 135m respectively. The warehouse has internal office and workshop areas and has an area of approximately 18,678m². Australian-owned furniture manufacturer and wholesaler DIM Furniture has a lease over the property until June 2015 with a 5-year option to renew. The property was leased for $1.3 million a year, reflecting a passing yield of 8.39%. The Scentre Group has lodged a development proposal to the City of Canning which includes a 47,108m² expansion to the Carousel Shopping Centre, bringing its total floor area to 130,230m².

Newly crowned as Western Australia's largest retail centre, Lakeside Joondalup Shopping City in Joondalup, located approximately 20kms north of the Perth CBD, has opened its expanded 98,000m² centre. The shopping centre which is jointly owned by the Lend Lease managed Australian Prime Property Fund Retail and the Future Fund, expanded 27,000m² during its two-stage $320million redevelopment. The centre includes Perth's first new Myer department store in 20 years as a major anchor tenant, securing 12,000m² over two-levels among 115 other specialty retailers and an additional 800 car parking spaces. The shopping mall also offers a vast selection of shopping choices with Coles, Woolworths, Sisters SUPA IGA, Big W, Kmart, Target, and Grand Cinemas. November also saw the unveiling of the expanded Ocean Keys Shopping Centre following its $108 million, two-year expansion at Clarkson in northern Perth. The circa 37,000m² centre signed Target as its new anchor tenant along with an additional 48 specialty stores, a food court, multi-level car park, commercial offices and 10 residential apartments attached to the centre.

Adelaide

As noted above, 34-44 Jonal Drive, Cavan was acquired by Mirvac for $10.2 million, which was part of a portfolio of industrial assets purchased from Altis, reflecting a core market yield of 8.18%. The property has a total land area of 29,240m², which is divided into two allotments; Lot 1 comprising an 8,232m² facility which is subject to a 10+5+5 year lease to Recall until August 2024 and Lot 2 is a large vacant allotment of 11,370m². The core market yield was derived on a value of $8.5 million for Lot 1 before allowing $150/m² for the vacant land and allowing an ongoing capex of $2.50/m². The property has site coverage of approximately 55% and we note the vacant land has development approval for a warehouse of 5,180m², an office of 500m² and canopy of 1,800m².

Ascot Capital purchased Inghams purpose built facility of 21,255m², located at 1122-1136 Port Wakefield Road, Burton for $39.5 million, reflecting a core market yield of 8.43%. The improvements comprise executive offices, production offices, a temperature controlled food processing facility, warehouse and workshop accommodation together with on-site car parking and associated landscaping. The property sold subject to a 20 year leaseback (with five 10 year options) to Inghams until November 2034. The property sold via a public marketing campaign as part of the Inghams Property Portfolio, including 53 properties across Australia and New Zealand.

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