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Knight Frank Research Compass Report

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

National

The success of the “Leave” vote in the Brexit referendum has highlighted that global stock and money markets remain jittery in their reactions to any uncertainty. The vote will generate a renewed period of uncertainty in the UK market, spreading to ongoing questions of Eurozone stability particularly in the lead up to French and German elections. The UK has long been a destination for offshore real estate investors, with the attraction of strong liquidity, stable governance, transparency and clear title. For existing offshore owners of UK property, the fall in the pound will impact the repatriation of any income returns, as well as the gains on any disposal. Although there is likely to be more volatility in the UK market, ultimately most investors are looking to the long term – so will continue to hold their assets, in the hope that short-term instability will subside when more clarity of the UK’s role in Europe is determined. Some opportunistic investors, who over the past few months have adopted a wait-and-see approach, will be attracted to the UK market as the depreciation of the pound will results in their buying power increasing significantly, while the more risk averse will look to increase their investment allocations outside of Europe. In this respect demand for Australian property is likely to benefit, seen as a safe haven, with the fundamental qualities of Australia as an investment destination largely unaffected by the referendum decision and based on the open and stable broad-based economy, sound corporate governance. large consumer market, highly skilled worker base and lifestyle. The UK Monetary Policy Committee is expected to cut interest rates in July, further entrenching the global low interest rate environment and providing greater scope for the RBA to cut rates again in Q3. Overall while uncertainty tends to hinder business decisions and capital investment, as the dust settles, the uncertainly will largely be quarantined to the UK and Europe with the Australian market poised to benefit from greater investment allocation into the Asia-Pacific region for commercial assets and potentially a new wave of offshore investors entering the residential market.

Sydney

Altis Property Partners has purchased two adjacent buildings at 3 and 5 Rider Boulevard, Rhodes from Mirvac for $235 million. The two A-Grade buildings are 98% leased and have a combined NLA of 40,454m^2 of office and 1,259m^2 of retail space. The deal, transacted at a reported passing yield of 7.51%, reflects the positive demand for prime assets in the suburban markets of Sydney and Mirvac’s refocus on the core CBD market. The other suburban assets in Sydney sold in the first half of 2016 include 100 Arthur Street in North Sydney, purchased by Singaporean Ascendas-Singbridge from Townwood for $315 million, and 1 Woolworths Way in Bella Vista, acquired by Korean Inmark Asset Management from Mirvac for $336 million.

Beijing-based Macrolink Group and local developer Landream have finalised the purchase of 71 Macquarie Street in the Circular Quay precinct of the Sydney CBD for $158.5 million from AMP Capital. The site, formerly the headquarters of Coca-Cola Amatil, is earmarked for the construction of a 20 storey luxury residential tower containing 109 apartments plus four levels of retail space, as part of the revamp of the Circular Quay precinct. The existing building is expected to be vacated and demolished by the end of 2016.

AMP Capital has acquired a portfolio of six warehouse and logistics facilities from JP Morgan Asset Management for a total price of $250 million. The assets were purchased on a reported combined yield of 6.5%. The six-property portfolio, which will be held in the AMP Capital Diversified Fund, is fully weighted to the Sydney West and South West, has a total NLA of 147,496m^2 and is leased to tenants including; DHL, Star Track, Pact Group, Fantastic Furniture, DB Schenker, Shriro Australia and Snack Brands. In another portfolio sale, Singapore-based Mapletree Logistics Trust Management has announced the proposed acquisition of a portfolio of four industrial properties in Sydney at a purchase consideration of $85 million. The acquisition is subject to FIRB approval and is expected to complete in July 2016. The four properties have a combined GFA of 52,907m^2 and are 100% leased with an average WALE of 5.5 years as at 1 July 2016, with the transaction representing a reported combined passing yield of 7.1%. They were initially offered to the market by Altis Real Estate Equity Partnership II (AREEP II) as part of a nine-property portfolio in early 2016. The five remaining assets (located across NSW, Victoria and Queensland) remain on the market, after AMP opted out of the due diligence process.

There were two significant residential development sites sold in Outer Sydney over the past month, for a total of $500 million. Sekisui House Australia purchased an 8.1 hectare residential zoned development site at 47 Spurway Drive, Baulkham Hills from property developer Tony Merhi for $210 million. The site is earmarked for the development of a residential community including 1,300 apartments. In Marsden Park Stockland has agreed to purchase a 95 hectare land parcel from the Winten Property Group for $290 million, with staged settlement over the next 30 months. The site adjoins Stockland’s current Elara project and has the potential to yield more than 1,500 lots.

The New South Wales Government has announced new duties and taxes specifically aimed at foreign investors as part of the 2016 State Budget. As of 21 June 2016, foreign investors purchasing residential property in New South Wales (NSW) will be taxed 4% of the purchase price (in addition to stamp duty tax), known as a 'purchaser duty'. Additionally, foreign persons purchasing off-the-plan properties will no longer be entitled to the 12 month deferral period for the payment of stamp duty. The NSW Budget has also introduced an additional land tax surcharge of 0.75% for foreign owners of residential land in the state, on top of the general land tax rates, taking effect from 1 January 2017. The new 4% purchase duty, as well as the surcharge in land tax are forecast to raise an additional $835 million and $166 million revenue respectively over the next four years. These additional duties and taxes targeting foreign investors follow suit after Victoria's implementation of similar taxes earlier in the year, as well as Queensland's most recent introduction of a stamp duty levy in their 2016 State Budget. In addition, all vendors should be aware that the Capital Gains Withholding Tax for offshore investors will come into effect for all contracts signed on or after the 1st July 2016, requiring 10% of the purchase price to be withheld by the purchaser and remitted to the ATO unless a clearance certificate has been provided by the vendor.

Melbourne

Chinese residential development company LYZ Property Group has purchased 452-484 Johnston Street in Abbotsford from Computershare in a sale and leaseback agreement for reportedly $88.8 million. The two storey office building comprising NLA of 16,000m² including 485 car parks, sits on a 16,920m² site of commercially zoned land, with frontage to Johnston Street and the Yarra River. The building was reconstructed in 2000 following a pre-lease to Coogi Group (which collapsed in 2002) and Computershare purchased the property in 2003. Computershare has an initial seven-year, triple net leaseback over the facility with options until 2029. The starting rent reportedly totals $5.3 million annually.

Growthpoint Properties Australia (GOZ) has purchased 75 Dorcas Street in South Melbourne from German property fund SachsenFonds Australian Property Investment VI GmbH for $166 million, reflecting an initial yield of 6.6%. Constructed in 2002 and partly refurbished in 2015, the building comprises an 11 storey A grade office, showroom and car park building with a NLA of 23,811m² and 690 car parks. The property has a 3.5 star NABERS rating with a weighted average lease expiry of five years, and is fully leased to the ANZ Bank (57.7% of NLA), Mondelez (19.2%) and BMW (15.4%).

Brisbane

Offshore investor ARA Asset Management has purchased 300 Queen Street in the Brisbane CBD for $188 million from the Seymour Property Group. The 22 storey office building was constructed in 1984 and extensively refurbished in 2010/11 with three levels of basement parking for 128 cars and lower ground and ground level retail space of 1,324m². Centrally located in the CBD the A grade asset has 18,040m² of office space with major tenants including Holding Redlich, HSBC Holdings and UniSuper. Sold with a WALE of 4.57 years and a rental guarantee over vacant space (2.4% of NLA) the sale reflected a core market yield of 6.82%.

Forza Property Holdings has purchased 10 Browning Street in South Brisbane for $65.5 million, reflecting a passing yield of 7.89%. The asset, sold by Armada Funds Management, has a retail component of approximately 2,500m², office space of 8,714m² over four levels and a 380 bay carpark. Major tenants are the Melbourne Hotel, Visionstream and Credit Corp with the property offering a WALE of 5.2 years. The property was constructed in 2008 and is located in the centre of a mixed use precinct.

Two adjoining buildings at 308 Queen Street and 88 Creek Street in the Brisbane CBD are subject to an unconditional contract for $37.3 million. The vendor, Unity Pacific, will use the proceeds to pay down debt and distribute the remainder to security-holders with the asset the last investment property within the trust. 308 Queen Street is a heritage listed building, constructed in 1885 and once the Queensland headquarters of the National Australia Bank, providing a mix of retail (763m²) and boutique office space (815m²) over three levels totalling 1,578m². 88 Creek Street was constructed in 2008 and has an office NLA of 2,778m² over eight levels with ground level retail of 222m² and basement parking for 15 cars. The major tenant at the time of sale was the National Australia Bank, which operates a banking chamber from the ground level of 308 Queen Street, and the buildings were sold with a combined WALE of 2.2 years.

The Queensland Government has joined Victoria and New South Wales in levying an additional stamp duty on offshore purchasers of residential property. The Queensland Budget outlined that an additional levy of 3% of the purchase price will apply to all purchases of residential property from 1 October 2016, where the purchaser has a greater than 50% offshore component. The measure is forecast to raise $15 million in the first year and approximately $25 million in the following years. At the same time the budget increased the First Home Buyers Grant to $20,000 where a newly constructed property, under $750,000, was being acquired in an attempt to continue to boost residential construction.

Perth

The new two level underground Perth Busport will officially open on July 17, at a cost to the State Government of $217 million. The new facility is said to accommodate 50% more bus movements than the old Wellington Street Bus Station with 16 bus stands able to process 140 busses in peak hour. The new bus port connects the CBD of Perth to Northbridge, conveniently located next to the new Yagan Square where a lot of development has been done in recent years to open the area and connect the two suburbs.

Mullaloo Plaza Shopping Centre located at 11 Koorana Road, Mullaloo has sold for $10 million. The single storey neighbourhood shopping centre has 11 specialty tenants and is anchored by an IGA Supermarket and liquor store. Specialty tenants include Baker's Delight, a newsagency and Real Estate agency. The centre has sold at a core market yield of 6.7% and is 100% occupied.

Canberra

Despite the upcoming Federal election, leasing conditions in the Canberra office market continue to improve, particularly in Civic where there are limited leasing options available. Highlighting this was The Australian Commission for Law Enforcement's recent commitment to lease a full floor within the Civic precinct. The Government agency has committed to 1,265m² at 64 Northbourne Avenue, Civic from Australian Unity on a nine year term, relocating from their existing premises at 10 Moore Street, Civic. Once there is greater certainty post the Federal election, leasing enquiries are expected to gain further momentum in Canberra.

Adelaide

The South Australian Government has announced it will continue its stamp duty concession for off the plan apartment sales. The concession provides a full stamp duty concession on a transfer of a new apartment or substantially refurbished apartment for a contract entered into from 31 May 2012 to 30 June 2014 and a partial concession from 1 July 2014 to 30 June 2017. For contracts entered into between 20 June 2016 and 30 June 2017, the concession applies to purchases of off-the-plan apartments located anywhere in South Australia. For apartments with a market value <$500,000 the concession is calculated using the unimproved land value (fixed by legislation at 35% of market value) and the percentage of completion of construction works. For apartments with a market value >$500,000 the concession is calculated on a fixed sliding scale based on the percentage of completion of construction works. In addition, the SA Government continues to offer the $15,000 First Home Owner Grant, with both measures designed to support residential construction.

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