COMPASS

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Knight Frank

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Knight Frank Research Compass Report

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

Sydney

Hong Kong-listed Shangri-La Asia recently announced the acquisition of Sydney's Shangri-La Hotel in The Rocks for $352 million (including current net assets). The property was purchased from Singapore's GIC, for whom they had managed the hotel for almost 10 years. The sale continues the influx of Asian buyers into the Australian hotel market, where occupancy rates and Revenue Per Average Room (RevPAR) have both shown strong growth over the last 24 months. The sale closely follows the three hotel portfolio sale by Colonial First State's Commonwealth Property Hotel Fund to Starhill Real Estate Investment Trust from Malaysia, which included the Sydney Harbour Marriot.

Lend Lease has launched a new open ended commercial wholesale trust to fund the development of the first two commercial towers at Barangaroo South, to be known as "International Towers Sydney". The trust has received commitments for $2 billion in funding with Lend Lease committing up to $500 million, a $1 billion commitment from the Canada Pension Plan Investment Board, and a further $500 million in total from local wholesale investors APPF Commercial, First State Super and Telstra Super. This follows last month's much anticipated announcement, with Lend Lease securing lease commitments covering just over 70% of the first two office buildings at International Towers. The pre-construction leases to Westpac (60,000m²) and KMPG (34,000m²) are the most significant office leases struck in Sydney this year. Market speculation remains regarding further lease commitments from PwC and Google.

Melbourne

The GPT Wholesale Office Fund (GWOF) vehicle has announced a fund-through transaction to own 100% of a new office development at 150 Collins Street in Melbourne (set back off Collins Street adjacent to the historic Scots Church). The project was pre-committed by Westpac which will lease 9-levels of office space (14,000m²), equating to just over 70% of the NLA for 12 years with CPI+ fixed annual increases. The vendors (APN/Grocon) have given a two year rental guarantee to GWOF over the vacant space (5,000m² of office space and 700m² of retail space available) from practical completion (Aug 2014), underpinning an initial yield of circa 6.75%. The building is under construction and upon completion, the project is forecast to have an end value of $180 million or around $9,000/m².

Two public sector deals have buoyed the office market, with the Victorian State Government leasing 11,500m² at 2 Lonsdale Street, and the Department of Transport taking a sublease from AXA of 11,000 m² at 750 Collins Street in the Docklands precinct. Melbourne CBD has seen an increase in sublease space coming to the market lately, as tenants contract in the short term. However, net absorption should be supported by tenants such as Aurecon, Melbourne Water, BUPA and Pearson migrating into the CBD. More than a third of the prelease space currently under construction has been leased by tenants migrating into the CBD from other districts.

Brisbane

Listed property trust Commonwealth Property Office Fund (CPA) recently bought 10 Eagle Street in the Brisbane CBD for $195 million. This purchase reflects a resurgence of interest in the Brisbane market along with increased purchasing power from the AREIT sector, as their borrowing costs fall. The building was sold by Brookfield Australia Funds Management as they work through their Australian portfolio (formerly Multiplex Property Trust). The purchase reflected a passing yield of 7.45% (core market 7.51%), with the 28,098m² building leased to 37 tenants on a WALE by area of 3.87 years. CPA is seeking to expose the building to the medium term strong rental growth expected within the Brisbane CBD market. Following suit DEXUS is understood to be in advanced negotiations on the building opposite at 12 Creek Street for approximately $250 million. A smaller CBD building on a major pedestrian corner, 243 Edward Street, has also been bought by private investor Drivas Group for $37.25 million.

Increased interest from investors in hotel assets has also translated into sales with Shangri-La agreeing terms to purchase the Holiday Inn hotel component at the Brisbane Transit Centre (4-star, 191 rooms) for a price understood to be $42 million, with the sale due to settle in August. This follows the Reddy Group's purchase of Chifley at Lennons Hotel (4 star 154 rooms + 131 potential rooms from conversion of office space) in the Queen Street Mall for $56.75 million in June.

Perth

The second quarter of 2012 has seen the completion of Brookfield Place (76,000m²), a fully-committed building with major tenants being BHP, PwC and Barrick Gold. This completes the current round of major new development in the Perth CBD, with Raine Square (43,000m²) completed at the beginning of the year. Despite almost 160,000m² of new and refurbished supply coming online in the first half of 2012, the majority which was pre-committed, few options remain available to prospective tenants and the vacancy rate continues to remain tight.

WA Government initiated development around the Perth CBD is underway with the Perth Waterfront, now named Elizabeth Quay, and Waterbank both starting construction in April. Waterfront (Elizabeth Quay) will deliver 150,000m² of office space, 39,000m² of retail space, and 1,700 apartments as well as a hotel and serviced apartments. Proposals for Waterbank include over 700 residential apartments, a hotel, commercial offices, retail and substantial public spaces. The Perth City Link project is currently seeking a preferred developer, which on completion will reconnect the city centre with Northbridge.

Adelaide

Centro continues to find buyers for its retail assets, with the sale of the Hollywood Plaza Shopping Centre at Salisbury Downs for $73 million. Armada Funds Management purchased the 30,850m² sub-regional centre, which included 1.723 hectares of surplus land, on a core market yield of around 10% adding to its existing retail portfolio which includes the Ingle Farm centre in Adelaide. The latest transaction follows Centro's sale of the Kidman Park Distribution Centre last month for $35 million to a local private syndicate. Centro has now offloaded more than $500 million worth of retail assets across Australia in the past twelve months.

On the planning front, a new Development Plan Amendment was recently accepted by the Adelaide City Council. This simplified document reduced the number of zones or policy areas; brought design to the forefront of any new development application; removed most prescriptive or dimensional requirements; and, most importantly, allowed significant uplift in height limits across much of the city, with the complete removal of prescriptive height limits in the new expanded capital city zone. Sites which exceed 1,500m², or within a certain distance of public transport routes, are able to potentially exceed their new maximum height limits. The south east corner of the city was excluded from the Development Plan Amendment to protect and enhance the heritage within the CBD.

Canberra

The doors of Masters Home Improvement Centre opened last week at Majura Park at Canberra Airport. The 13,500m² store provides 36,000 products with 150 staff and represents the 17th Masters Home Improvement Centre opened across Australia, with plans still in place to have 150 sites within five years. The Majura Park complex is located next to the newly-developed Canberra Airport and provides 63,463m² of retail space including Costco, Jim Murphy Airport Cellars, Petbarn, Toys R Us, Trade Secret and more. Majura Park Shopping Centre which opened in April 2012 is also located in the Park which boasts Australia's largest Woolworths plus Big W, Dick Smith and 30 specialty stores.

The GPT Wholesale Office Fund (GWOF) has sold its recently refurbished properties at 10-12 Mort Street, Canberra for $55.8 million. The purchaser, Growthpoint Properties Australia, bought the property on a core market yield of 9.95% and WALE of 4.7 years due to a recently commenced 5 year lease to Government department, DEEWR. The two adjoining office buildings have an NLA of 15,295m² with 165 basement parking spaces and have recently been upgraded to a 4.5 NABERS rating. Given the uncertainty in the Canberra office market, assets with a WALE of sub 8-10 years have had limited purchaser demand, hence resulting in a relatively soft passing yield of 10.3%.

Auckland

Kiwi Income Properties Ltd has recently announced the completion of the sale of Beca House at 21 Pitt Street in the Auckland CBD for NZ$55 million. The 16,800m² A-grade tower has been purchased by local private investor Mr Miles Middleton on an initial yield reflecting 8%. The transaction initiated a strong month in the Auckland market with Westfield Group and the Westfield Retail Trust disposing Shore City Shopping Centre in Takapuna (North Shore) for NZ$83.5 million. The sub-regional centre was bought by the Aviva Investors Asia Pacific Property Fund on a passing initial yield of around 9.2%.

Christchurch

Listed group DNZ Property Trust has sold a 12,665m² warehouse at 62 Columbia Avenue, Hornby, Christchurch to importers Value Tyres Limited, with the purchaser acquiring the property for their own business use. Sold for NZ$10 million, the effective rental was NZ$900,000 per annum net reflecting a purchase yield of 9.00%.

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