AUGUST 2012

Knight Frank Research Compass Report

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

Sydney

GPT has acquired two logistics assets for $53.6 million from a local private investor. The first asset is located at 83 Derby Street, Silverwater and is fully leased to Blue Star until 2017, the second is located at 10 Interchange Drive, Eastern Creek and is fully leased to ASICS Oceania until 2020. The acquisition continues GPT's strategy to increase the portfolio weighting of logistics and business parks to a target of 15%. In a further boost to Industrial portfolio activity, Goodman Australia Industrial Fund has also announced the acquisition of a $115.2 million portfolio from Blackrock Industrial. The portfolio was made up of seven Australian assets, however the most significant was the 31,000m^2 Perry Park Industrial Estate in Alexandria.

A Charter Hall managed wholesale entity has entered into an unconditional contract to acquire Stockland's Bay Village Shopping Centre on the Central Coast for $164 million. Charter Hall negotiated for a global institutional partner to hold an 80% equity interest in the asset with the residual 20% equity held by the Charter Hall Property Trust co-investment portfolio. The 29,200m^2 GLAR sub-regional asset includes three supermarkets and a Kmart department store and sold on a capitalisation rate of 8.0%.

Melbourne

After a dearth of office fringe sales, four properties have transacted in the past month totalling more than $68 million. Recently in South Melbourne, 11 Dorcas Street ($14.125 million) sold to a private investor and 1-7 Palmerston Crescent ($9 million) sold to a syndicate. Elsewhere 100 Wellington Parade in East Melbourne was sold to an owner occupier – The Royal Australian College of General Practitioners for approximately $25 million and 15-31 Pelham Street, Carlton sold to a syndicate for $20.6 million.

Within the CBD, two car-parks sold in August to offshore private investors. The first was at 222 Russell Street which comprises 427 car spaces sold for $17 million to an offshore private investor. The car park currently has a 5 year lease to Wilson Parking expiring 30 June 2015 with a current net income of $1,243,300 per annum. The second car park is located at 170-190 Russell Street and sold for approximately $40 million to the AXF Group. The asset comprises 409 car spaces and 4,000m^2 office accommodation. 170-190 Russell Street – Total House sits on the corner of Little Bourke Street with the car park also currently operated by Wilson Parking.

Brisbane

Listed property trust DEXUS has finalised the purchase of 12 Creek Street, Brisbane CBD for $241.6 million. The trust will purchase a 50% interest with the unlisted DEXUS Wholesale Property Fund (DWPF) taking the other half of the asset. The 32,227m^2 building has 34 levels of A-grade office space within the financial centre of the CBD. The building was sold with 5.4% vacant space and the passing yield reflected 7.9% as reported by DEXUS. The WALE at the time of sale was 4.5 years by income with the largest tenants BDO/PKF for 6,068m^2 (on a 12 year lease from early 2013) and BMA over 5,358m^2 for 5 years from 2011. This represents the fourth CBD sale in excess of $100 million in the past 12 months as institutional investors both local and off-shore have been seeking to increase their exposure to the prime market within Brisbane.

Smaller commercial sales include 33 Park Road, Milton which is a 7,067m^2 building on a large site of 4,310m^2 with longer term redevelopment potential. The building was purchased for $31 million, which reflected a passing yield of 8.70% and a core market yield of just under 8%. In the CBD 488 Queen St, a commercial building of 4,600m^2 has been purchased by Mineral Resources Lihir (MRL) Capital for $20 million. The B-grade building was sold with approximately 40% vacancy.

The recent cooling of the mining sector (largely coal mining) has begun to have a direct impact on the office markets within both the CBD and Near City with softer demand and some sub-lease space returning to the market. Within the CBD, the market is also being impacted by the State Government divestment of leased accommodation as they trim public service staffing levels. At this stage the greatest impact is expected to be Q4 2012 and Q1 2013 with circa 25,000m^2 of secondary space being vacated.

Perth

Investa Office Fund has announced to the Australian Stock Exchange that it has entered into a contract to purchase 66 St Georges Terrace for $82.375 million, with settlement due in August this year. The purchase of this 11,445m² A-grade building reflects an initial yield of 8.75% (core market 8.71%). The 11,445m² building has a WALE based on area of 1.7 years, with a major driver for the purchaser being the potential to value add via positive rental reversion. In addition to this sale, Credit Suisse has recently purchased 45 St Georges Terrace for $55.3 million. The 10,757m² building sold on a passing initial yield of 10.7%, with a core market yield of 11.6%.

Crown Limited has announced plans to undertake the development of a new six-star, luxury hotel to be known as Crown Towers Perth. The total investment in the Crown Towers project (inclusive of land) is expected to be $568 million. The 500 room new luxury hotel will add to the suite of hotel accommodation at Burswood Entertainment Complex. Subject to conditional approvals being met, construction is expected to commence in early 2013 and be completed by 2016. Along with an announcement of a potential new 88-room Oaks hotel at 623 Wellington Street and the near-completion of the 263-room Fraser Suites development on Adelaide Terrace in East Perth, this should start alleviating the shortage of hotel rooms which Perth is experiencing at present.

Adelaide

Charter Hall Retail has announced the sale of the Mile End Homemaker Centre at 121-150 Railway Terrace, Mile End to an undisclosed purchaser for $43.8 million. The gross sale price was in line with the June 2012 book value and represented a passing yield of 9.6%. The property has 20 major tenants including Nick Scali Furniture, Freedom Furniture and The Good Guys. The property was only held for a short time having been purchased in March 2010 for $41 million from ING and is due to settle in December 2012.

BHP Billiton announced this month that they are shelving plans for the expansion of the Olympic Dam mine. After announcing close to a 35% drop in annual profit, the $28 billion expansion plans have been deferred due to rising costs and weaker commodity prices. Smaller but still significant mining projects are proceeding and, together with a favourable agricultural season and ongoing advances in the defence and technology sectors, should combine to keep the state on track until macroeconomic factors revert to an environment more supportive of a project of this magnitude.

Auckland

Progressive Enterprises Limited have unveiled new plans for the controversial Ponsonby site, previously known as Soho. The 1.33ha former DYC vinegar factory site was previously owned by Marlin Group, where plans for 47,700m² mixed use development failed. Receivers Grant Thornton sold the site to Progressive Enterprises in September 2011.

The proposed development will be divided into two main areas - "Cider Lane and Vinegar Lane". The "Cider Building" will be 14,000m² of supermarket, specialty retail and office space, providing 6,600m² of office space over four levels, above a 4,360m² Countdown supermarket. Five levels of parking will also be provided. The proposed Vinegar Lane precinct created from the remaining half of the site will contain a carefully planned mix of commercial and residential buildings. The site will be subdivided into 31 freehold lots ranging from 74m² to 400m² with several presales reported.

Milson Brown (owned by South Island investors Keith Brown and John Patterson) has purchased the BJ Ball building in the Southpark industrial estate at 121 Hugo Johnston Drive, Penrose for $19.35m. The manufacturing facility, tenanted by Kirby Paper one of New Zealand's leading paper and packaging suppliers, comprises 976m² of office space and approximately 12,000m² of warehouse space. Purchased from Quensell Services on a yield reflecting 7.75%, the transaction increases Milson Brown's presence in the industrial park to two industrial assets and an adjacent land parcel. The sale follows on from fellow South Island investor Miles Middleton's purchase of 21 Pitt St in Auckland's CBD.

Christchurch

HSBC Tower at 62 Worcester Boulevard, Christchurch recently sold for $30 million. Developed by the Auckland based Latitude Group it sold to local investor Nick Hunt of Lichfield Holdings on an analysed yield of 8.9%. The building was completed in 2010 and is an 11-level office development, fully occupied with a mixture of professional corporate and local government tenants. This is the first major sale of an investment property in Christchurch, post-earthquakes and demonstrates returning confidence. The expectations of yield prior to the earthquakes was circa 7.5%.

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