COMPASS
LET OUR RESEARCH POINT
YOU IN THE RIGHT DIRECTION
Knight Frank

JANUARY 2013

Knight Frank Research Compass Report

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

Sydney

DEXUS Property Group has exchanged contracts to acquire interests in a portfolio of three Sydney office properties. The acquisition includes a 25% share in Grosvenor Place at 225 George Street for $271.25 million and a 50% share in 2 and 4 Dawn Fraser Avenue, Sydney Olympic Park for $82.70 million. DEXUS also acquired a 50% share in 39 Martin Place, Sydney in conjunction with the DEXUS Wholesale Property Fund, which acquired the residual share for a combined consideration of $149.75 million. The assets were acquired off market from Colonial's Direct Property Investment Fund (DPIF) with the closed-end fund currently in wind-down phase.

With approximately $800 million of Sydney CBD office assets under final negotiations or due diligence at the end of 2012, a number are starting to translate into sales. Centuria have entered into a contract to purchase 175 Castlereagh Street from Stockland for $56.0 million. Stockland have also reportedly sold 9 Castlereagh Street to Charter Hall for $170 million. Global investor BlackRock has confirmed the disposal of two CBD assets, 10 Barrack Street and 107 Pitt Street, which have been acquired by Chinese group Bright Ruby for $62.5 million and an IOOF managed fund for $23.6 million respectively. The mix of local investors including AREITs and wholesale funds in addition to offshore investors is indicative of the broadening buyer profile, compared to 12 months ago when the majority of acquisitions were to offshore buyers.

Following the sale of Eclipse Tower for $167.5 million in November, investment activity continues to build in Parramatta with Altis Property Partners finalising the purchase of the Century Centre building at 18 Smith Street, Parramatta for $47.5 million. The 11,984m² office building has been purchased from Capital Corporation on a net yield reflecting 9.82% with tenants including Telstra and Suncorp.

Melbourne

National Australia Bank has signed an 11-year lease extension, from 2016 to 2027, over 59,943m² at 800-808 Bourke Street, Melbourne with the GPT Wholesale Office Fund (GWOF) vehicle at its Docklands headquarters. The deal makes NAB one of the first major corporations in the Docklands precinct to renew its lease. The cap-and-collar style arrangement means the rent will not be higher than $450/m² net effective and not lower than $400/m² net effective at a market review scheduled in 2016. The deal with NAB extends the GWOF WALE from 5.5 years to 7.4 years.

AGL Energy has pre-committed to a new $170 million office tower for their new Victorian head office, in the Melbourne Docklands precinct, which will be developed by the Mirvac Group. AGL will consolidate from a number of locations in Melbourne including 120 Spencer Street and 601 Bourke Street. AGL has committed to a 10 year lease over 15,000m² of the 18,000m² development at 699 Bourke Street, adjacent to the Southern Cross station and Etihad Stadium. The site is built on an existing pad above the railway lines and extends from the address at 664 Collins Street to Bourke Street. Originally, Mirvac planned a single building but more recently decided to develop two smaller towers to better match tenant demand.

A Chinese private investor has acquired 370 Docklands Drive in the Melbourne CBD for $38.5 million from YarraCity Pty Ltd - an investment consortium of regional and local investors including Clement Lee. The 7-level office building comprises 7,129m² of lettable office area and is fully occupied by education provider Kaplan until 2021. The property was sold on an initial yield of 8.17% with a WALE of 8.22 years (by income).

LaSalle Investment Management acquired 555 Lonsdale Street in the Melbourne CBD for $57.5 million from BlackRock Property Trust in December. The 13-level office building comprises 16,176m² of lettable office area occupied by a range of tenants including Monash University, Marsh Mercer and Barristers Chambers. The asset sold with a WALE of 3.85 years (by income) and reflected an initial yield of 10.15%. Although fully leased at the time of sale the major tenant Marsh Mercer, which occupies 40% of the NLA, is vacating around 6,000m² upon its move into Lang Walker's Collins Square development in the Docklands precinct in mid-2013.

Brisbane

In the Brisbane CBD, BHP announced that they would commit to approximately 15,000m² in the development at 480 Queen Street. The project, being developed by Grocon, is now 33% committed, and is reported to be commencing construction by mid-2013 for completion in the second half of 2016. In the latter part of 2012 greater clarity over the next CBD supply cycle emerged. The Daisho development at 180 Ann Street is scheduled to commence construction in the first half of 2013 with an expected completion in the second half of 2015. In addition, in December 2012, the Queensland Government announced that Cbus was successful in winning the tender to develop the office tower at 1 William Street in the Brisbane CBD. The project was anchored by a circa 60,000m² commitment from the Queensland Government, however the term and other details on the deal have not been announced. Construction will begin in 2013 and be available for occupation in the second half of 2016.

Signalling the appetite for prime assets is extending into Brisbane from the southern city markets, a 50% interest in 400 George Street, Brisbane CBD is in due diligence. The South Australian Motor Accident Commission is expected to purchase the 50% stake from Grosvenor Australia for approximately $200 million.

Two central Gold Coast retail centres have recently changed hands with Centro Surfers Paradise and Marina Mirage, Main Beach both transacting in recent months. The centrally located Centro Surfers Paradise (formerly the Paradise Centre) is located on a 23,214m² site which runs the length of the Cavill Mall. The three level centre was developed in the 1980s and is home to 120 tenants, anchored by a Woolworths supermarket. The property was purchased by Challenger on behalf of an institutional investor for a reported $162.5 million. The centre was formerly owned by the Centro MCS 11 syndicate, which is being wound up.

Marina Mirage, a retail centre located at Main Beach, Gold Coast has been purchased by the Makris Group for $52.5 million, with settlement of the sale anticipated in April 2013. The 11,831m² centre is dominated by high profile specialty retailers and restaurants/food retailers and is also targeted towards the tourism market. The property is located on a 1.9 hectare site which adjoins the Palazzo Versace hotel and is opposite the Sheraton Mirage resort. The centre was sold by receivers KordaMentha after being in their hands for approximately two years. The adjacent Palazzo Versace Hotel was purchased by Chinese Investors for $68.5 million in November 2012.

GPT has offloaded a number of their Homemaker City Centres across Brisbane. The three centres were sold as part of a portfolio rebalancing being undertaken by GPT to lessen exposure to the bulky goods sector while increasing industrial asset allocation. The largest centre, Fortitude Valley is under negotiation to local private investor John Van Leishout for a figure reported to be close to $100 million. The 38,000m² centre has 36 tenants with parking on site for 660 cars. The Aspley centre (24,600m², 47 tenants) has been purchased by a private investor for $41.2 million with settlement in March 2013. Meanwhile the Jindalee centre, located in a relatively wealthy demographic in Brisbane's western suburbs, has been purchased by BBRC Jindalee Fund (managed by BB retail) for $50.5 million with settlement subject to capital raising, but expected in April 2013. This centre of 22,000m² is located on a site of 5.8 hectares and has room for expansion. At this time approximately 62% of the centre's income is derived from the four major tenants of Freedom Furniture, Barbeques Galore, Nick Scali and Beacon Lighting. The property was purchased on an initial yield of 10.8%.

GPT has agreed to a fund through purchase of a large industrial facility at Berrinba, located in Logan shire to the south of Brisbane, for a reported $84.6 million. This price includes the upfront land payment over the 13.4 hectare site which was purchased by Toll NQX in 2012. Toll NQX has now agreed to take a 15-year lease over the 39,700m² facility which will include an office component of 3,400m² over two levels. The purchase reflects an on-completion cap rate of 7.55% with the project scheduled to be completed in early 2014.

Canberra

The Department of Education, Employment and Workplace Relations (DEEWR) has secured a three year lease for four levels of office space in the heart of Canberra's CBD from Charter Hall. Located at 14 Mort Street, Charter Hall is undertaking a refurbishment of the A-grade building including works to the ground floor foyer and lift interiors and a complete refurbishment of all amenities within the building. The building has large efficient floor plates of approximately 1,280m² of lettable area on levels 1 to 5 and level 6 is a recessed floor of 1,087m² plus balcony. The Department of Education, Employment and Workplace Relations will occupy the four lower levels of the building which has an existing 4.0 star NABERS Energy rating, without green power and a 5 star NABERS Energy rating with green power.

Perth

It is anticipated that HBF will purchase a 13,000m² building at King's Square, part of the Perth City Link development. Having outgrown its current premises, the new building will see HBF double its current office footprint in the Perth CBD. This will be the second building to be constructed in the King's Square development, the other pre-committed by Royal Dutch Shell, announced at the end of 2012.

Recent updates on other major Perth development sites include;

- Leighton Contractors have been nominated as developer of the $200 million **Elizabeth Quay project** on the Perth CBD waterfront. Construction of the artificial inlet is set to begin mid-2013, with the project scheduled to be complete by 2015.
- A development application has been submitted for the old **Emu Brewery site** on Mounts Bay Road. The site has sat vacant for around 25 years. The proposed scheme comprises a 30-level office tower and 34-storey hotel, serviced apartments and residential tower.
- The State Government has announced that BGC will develop a hotel on the **FESA site.** The site is being sold as part of an effort on behalf of the State Government to spur hotel development in the Perth CBD, and proposals are for a 300-room hotel (to be operated by Starwood Hotels and Resorts) and around 30,000m² of commercial space.
- Finbar has entered into a joint venture for a $140 million **project in Subiaco.** The five sites, totalling 7,882m², were purchased recently for $17 million from receivers and construction is anticipated to commence during the year.

Adelaide

Charter Hall Direct Industrial Fund (DIF1) has purchased the Electrolux Distribution Centre, a 25,562m² industrial property at 10-14 Myer Court, Beverley. The property was purchased from Australand which developed the property and secured a 12 year pre commitment from Electrolux Home Property Ltd.

Cromwell Property Group has announced it has exchanged unconditional contracts for the sale of an office building at 101 Grenfell Street in the Adelaide CBD for $43.1 million, with settlement expected in late February. After acquiring the asset in early 2006, the sale is in line with the group's recycling strategy which includes selling smaller non-core assets and redeploying the capital towards large scale, more modern assets.

Auckland

Manson TCLM has purchased the Courier Post House at 151 Victoria Street West and the Walkers Building at 30 Graham Street in Central Auckland for a combined sum of $NZ33 million. The two CBD office buildings have been purchased from New Zealand Post with the former involving a sale and leaseback agreement. Manson TCLM also intend on constructing a 20,000m² office building on vacant land at the 151 Victoria Street West site with completion by late 2015.

Research Contact

Australia
Matt Whitby
National Director
Head of Research & Consulting
+61 2 9036 6616
matt.whitby@au.knightfrank.com

Agency Contacts

Australia
Stephen Ellis
Executive Chairman
+61 2 9036 6611
stephen.ellis@au.knightfrank.com

New South Wales
Richard Horne
Managing Director
+61 2 9036 6622
richard.horne@au.knightfrank.com

Victoria
James Templeton
Managing Director
+61 3 9604 4724
james.templeton@au.knightfrank.com

Queensland
Grant Whittaker
Managing Director
+61 7 3246 8807
grant.whittaker@au.knightfrank.com

Western Australia
John Corbett
Managing Director
+61 8 9225 2561
john.corbett@au.knightfrank.com

South Australia
Peter McVann
Managing Director
+61 8 8233 5210
peter.mcvann@au.knightfrank.com

Australian Capital Territory
Terry Daly
Managing Director
+61 2 6221 7869
terry.daly@au.knightfrank.com

Auckland
David Sylvester
Director
+64 9 555 6052
David.sylvester@nz.knightfrank.com

Christchurch
Layne Harwood
Managing Director
+64 3 377 1460
layne.harwood@nz.knightfrank.com

Research & Consulting Contacts

Australia
Vanessa Rader
Director - Consulting
+61 2 9036 6715
Vanessa.rader@au.knightfrank.com

New South Wales
Nick Hoskins
Associate Director
+61 2 9036 6766
Nick.hoskins@au.knightfrank.com

Victoria
Richard Jenkins
Director
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

Western Australia
Alison Smith
Research Manager
+61 8 9225 2434
Alison.smith@au.knightfrank.com

Queensland
Jennelle Wilson
Director
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research reports are also available at **www.knightfrank.com.au**