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Knight Frank

FEBRUARY 2013

Knight Frank Research Compass Report

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

Sydney

Altis Property Partners has purchased SKM House at 100 Christie Street, St Leonards for $42 million. The 11-storey office building has been purchased from Local Government Super on a passing yield of 10.2%. In a further positive note for St Leonards, Primewest Management is negotiating to purchase a 50% interest in the "Space 207" office complex at 207 Pacific Highway from Eureka Funds Management for approximately $60 million. Should the Primewest deal be finalised, transaction activity in St Leonards over the first quarter of 2013 will already have eclipsed the $55.7 million of sales recorded over the entire 2012 calendar year.

Adding to commercial office deal flow on the North Shore is Hines Global REIT, which has acquired 465 Victoria Avenue, Chatswood for $92 million from FKP on a passing yield of 7.79%. FKP had completed a refurbishment of the asset in 2012 and successfully executed leases over all 15 levels of the 14,428m^2 building to tenants including Vodafone Hutchison Australia, Real Insurance, Tech Mahindra and Lend Lease. The price reflected a $2.5 million premium to FKP's 30 June 2012 book value.

A private investment company based in Melbourne has purchased 80 Clarence Street in the Sydney CBD for $31 million from Aviva Investors Asia Pacific Property Funds. This divestment is unusual in that activity by offshore institutional investors over the last few years has almost exclusively been made up of acquisitions. However after acquiring the asset for $29.5 million in 2010 and undertaking a base building refurbishment, Aviva has divested the asset and reportedly plan to use the proceeds for diversification. Aviva are understood to be in discussions with New Zealand developer Conrad Properties about the potential disposal of 160 Sussex Street. It is understood Conrad would look to redevelop the building into serviced apartments.

Melbourne

The CFSGAM Property Enhanced Retail Fund (CERF) has acquired Centro Keilor in Keilor Downs for approximately $68 million from Federation Centres (formerly Centro) out of the investor syndicate MCS 33, reflecting a passing yield of 8.2%. CERF is a wholesale property fund launched by Colonial First State Global Asset Management in mid-2012. The sub-regional Centro Keilor shopping centre comprises a total lettable area of 19,052m^2 set on almost 14 hectares of land, offering more than 5 hectares of land with development potential. The centre is currently anchored by Coles, Kmart and Aldi with a further 58 specialities, delivering a current net passing income of $5.6 million.

Melbourne based syndicator Newmark Property Group has purchased 417 St Kilda Road for $81.3 million from Challenger Life, reflecting an approximate passing yield of 9.0%. The 10-level office building comprises 20,440m^2 and is occupied by a range of tenants including Oracle, the Red Cross and Fluor. The building is set on around 6,000m^2 of land, close to Fawkner Park. The single-asset syndicate is a conservatively geared, closed-end fund with a seven-year term and follows Newmark's other single-asset fund based on a $55 million homemaker centre at Chadstone in Melbourne, purchased in December 2011. The sale of 417 St Kilda Road brings office investment activity over the past 12 months within the St Kilda Road commercial precinct to $273.2 million, with 90% of this transactional value sold to private investors and syndicates.

The Investa Property Group has announced a fund-through transaction to own 100% of a new office development at 567 Collins Street in the Melbourne CBD, most likely to be a partnership between the unlisted ICPF fund and the listed Investa Office Fund (IOF). The project is pre-committed by Corrs Chambers Westgarth (8,800m^2) and Leighton Contractors (13,000m^2), equating to 39% of the proposed 26-level, 55,000m^2 development. The vendors, Leighton Properties, have given a rental guarantee on the remaining vacant space (approximately 33,200m^2) to Investa as part of the sale. Site works have recently commenced on the project with a scheduled completion of mid-2015 and an end value of $450 million.

Brisbane

In a rare transaction of a major regional retail centre, it has been reported that the Queensland Investment Corporation (QIC) is in the process of acquiring the remaining 50% of the Hyperdome Shopping Centre at Loganholme, to the south of Brisbane. The centre has a GLAR of 82,850m², anchored by Myer, BigW and Kmart plus three full line supermarkets of Coles, Woolworths and Aldi. There are approximately 228 specialty shops (including mini-majors) on site. There is also a separate homemaker centre building (23,350m²) and additional land (2.1 hectares) included in the property. The centre has been owned by QIC (50%) and John Longhurst (50%), however it is now understood that QIC are moving towards acquiring the remaining interest in the centre. An initial transaction of $168 million was recorded in December 2012 (representing a 25% interest).

The Pinelands Centre at 663 Beenleigh Road, Sunnybank Hills has sold for $27.95 million to a local private investor. The 5,918m² centre is anchored by a Coles supermarket and has 40 specialty retail tenancies. The sale reflects a market yield of 9.0%. The former Centro centre was sold by the Retail Direct Property Trust 34 as part of the wind up of that fund.

Institutional activity within the industrial market has continued to build with two larger sales recently confirmed. DEXUS Industrial Fund has purchased 131 Mica Street, Carole Park for $21.0 million on a vendor leaseback from J Blackwood & Son (a Wesfarmers company). The building was constructed for Blackwood's in 2006 with 1,888m² of office space over two levels, a 297m² showroom and 11,130m² of warehouse space with clearances of 11.6 m – 13.5m. The facility was sold with a 15-year leaseback and a commencing rental of $122/m² net with fixed reviews in the initial three years. The sale reflects a core market yield of 7.68% which, along with the larger purchase of the Toll facility at Berrinba by GPT (7.55%), reflects some firming of yields at the prime end of the market for long term leases.

Goodman Group has purchased 370 Nudgee Road, Hendra on behalf of the Goodman Australia Industrial Fund (GAIF) for $22.85 million. The site, sold by the Motor Accident Commission of South Australia, is located adjacent to the 7.69 hectare complex at 400 Nudgee Road, also owned by GAIF. This purchase adds 3.86 hecatares to Goodman's holding in the precinct. 370 Nudgee Road was sold with six tenants in place over three buildings (24,000m²) which generally provide older style industrial accommodation.

Canberra

After undergoing a full refurbishment, the Charter Hall owned 14 Mort Street is now fully occupied. The Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) has agreed to terms to lease the A-grade building, commencing March 2013 for three years, occupying 4,941m² across levels three to six in the building. DIISRTE have split their 17,000m² requirement across three buildings including 4 Mort Street and SAP House in addition to 14 Mort Street. The Department of Education, Employment and Workplace Relations (DEEWR) also leased four floors in this building on a three year term late last year.

Across Australia and more particularly in Sydney and Melbourne, there has been a push over the last few years for international labels such as Topshop, Zara and The Gap launching into the Australian market. This trend is moving to the ACT, with the Spanish fashion house Zara confirming they will open a Canberra store, the seventh in Australia. Zara will occupy the top floor of the Canberra Centre, opening its doors on the 14th March, providing womens, mens and kids wear. There has been much speculation surrounding the opening of the new store which erected signage just before Christmas last year and again in January when the recruiting process commenced. Topshop is also likely to announce plans to expand into Canberra over the course of 2013, however this is yet to be confirmed.

Perth

Offshore group Starhill Global Real Estate Investment Trust have purchased the Plaza Arcade in the Perth CBD for $48.0 million. The Arcade is a major pedestrian thoroughfare that extends between the Hay Street and Murray Street Malls. Starhill purchased the neighbouring property, which includes the David Jones department store, in 2009 for $114.5 million. It has been reported that both buildings have under-utilised space in the upper floors with the potential for future activation and use.

The retail sector has seen heightened activity, with the Phoenix Shopping Centre in Spearwood selling for $75.8 million. This 20,546m² sub-regional shopping centre was purchased by Singaporean group Rockworth Capital Partners. This month has also seen the sale of a 50% share in the Claremont Quarter Shopping Centre in Claremont. QIC purchased the half stake from Brookfield Asset Management for $171.5 million on an analysed core market yield of 6.02%.

In the office sector, Japanese oil and gas exploration and production company INPEX has further expanded their operations in the Perth CBD taking up 5,400m² of sublease space in Central Park at $695/m². This space was previously occupied by BHP which placed around 8,800m² of space onto the sub-lease market at the end of 2012.

A major transaction has occurred in the Perth suburban office market. The Optima Centre, which is located in the Herdsman Business Park, Osborne Park has sold to German fund MGPA for $105.67 million on a core market yield of 8.2%. The vendors were ABN Group and Macquarie Real Estate Capital, which developed the 16,116m^2 office building in 2010. The WA State Government is the major tenant (83%), having taken a 15-year lease in this fully let building, with the asset selling with a WALE of 11.9 years.

Adelaide

Cromwell Property Group 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. A local private syndicate purchased the 13,196m^2 office building.

Adelaide City Council is to commence a $30 million redevelopment project of Rundle Mall this month. The redevelopment will ensure the CBD mall remains a strong shopping destination in South Australia, aiming to transform the precinct into a modern and unique place for people to meet and shop. The full upgrade will begin in late March, and will include high quality paving along the entire length of Rundle Mall, a new Gawler Place event area and canopy, more open space for events and pop-up cafes, as well as new seating, lighting, bicycle racks and tree planting. The work will progress in sub-stages, day and night, and is expected to be completed by October 2014. The redevelopment will physically transform the precinct, but Council will also assess the retail mix, to ensure Rundle Mall is in line with other global shopping destinations.

The redevelopment comes after last year's announcement by the Rundle Mall Authority to bring British retailers to Adelaide. The Agent-General of South Australia in London is seeking retailers from the UK and across Europe to join the premier shopping precinct as part of an initiative to boost Adelaide's profile and expand its retail offering. As well as fashion favourites Reiss, Topshop and Marks & Spencer, luxury British brands such as Stella McCartney and Burberry also feature on the State's wish list in a bid to transform Rundle Mall into a luxury shopping destination.

Auckland

SkyCity Entertainment Group plans to start a NZ$10 million upgrade of Auckland's Federal Street in July with the aim of making it a more attractive and pedestrian-friendly precinct. The one-way, tunnel-like street between the SkyCity Grand Hotel and SkyCity Hotel will be transformed into a shared space, so that cars, cyclists and pedestrians coexist and traditional height differences between pavements and roads are abolished.

A number of new restaurants will open along Federal Street, following on from the success of the award-winning Depot and The Grill. Changes in the second-half of this year include; chef Al Brown opening Federal Kitchen, an all-day New York-style deli dining experience; Nic Watt, previously with Zuma and Roka in London, will open Masu, a Japanese restaurant and bar in the existing lobby of the Grand Hotel and chef Peter Gordon will open Sugar Club, a new restaurant and bar on level 53 of the SkyTower.

Christchurch

Approximately 75% of buildings scheduled for demolition (post-earthquakes) have been demolished which amounts to about 300,000m^2. Consequently, the rebuild effort will commence in 2013, although the CBD is still largely off-limits, with the reconstruction of the Christchurch CBD not gathering real momentum until 2014/15. The Government has announced a number of substantial "anchor projects" to facilitate development and investment, mostly of a civic nature, but also include the opportunity for public / private developments of a commercial nature. One of the first privately backed projects to be announced is by local investor Antony Gough for the development of an NZ$80 million commercial precinct on the Avon River in the City Centre, which will have a hospitality and retail flavour with boutique offices and tourist accommodation. In addition Westpac and Goodman have announced a NZ$200 million joint venture development in the same precinct, which will house Westpac's South Island Regional Headquarters. While this has Government backing, it has yet to be confirmed nor receive local approval.

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