MARCH 2013

Knight Frank Research Compass Report

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

Sydney

A private Chinese investor has purchased the Kings Cross Centre at 82-94 Darlinghurst Road, Kings Cross for approximately $24 million. The 4,429$m^2$ neighbourhood shopping centre has been purchased from the Challenger Premier Hybrid Property Fund. The asset reflected a reported passing yield of circa 8% underpinned by almost 60% of the area being leased to Coles and Liquorland on a lease expiring in 2022. The Belmont Central Shopping Centre has been another food based neighbourhood asset to sell with Primewest acquiring the asset for $16.25 million. The 6,500$m^2$ neighbourhood shopping centre is anchored by Woolworths.

Chinese group Greenland has acquired the Sydney Water Board site at 115 Bathurst Street in the Sydney CBD for approximately $100 million. The development site has been purchased from Brookfield Asset Management and is set to undergo a change of use from office to residential. Greenland have lodged plans for a 235 metre, 65-level building that will provide in excess of 400 new apartments.

Meriton has purchased 19 Kent Road, Mascot for $100 million from Goodman. It is anticipated that more than 1,000 apartments could be developed in stages on the 31,500m^2 site. Meriton has also purchased a 5,268m^2 warehouse complex at 100 Bennelong Parkway, Homebush from Centuria Property Funds for $25.4 million. The property is 100% leased until 2017, however the 15,040m^2 site is likely to be redeveloped into approximately 300 residential apartments. Luxcon Property Group, that was established by the nephew of Harry Triguboff, Ilya Melnikoff, has purchased 88 Anzac Parade, Kensington for $20.9 million. The 3,335$m^2$ site is expected to be developed into approximately 100 apartments.

Melbourne

The GPT Wholesale Office Fund (GWOF) vehicle has acquired a 50% stake in the Ernst & Young building at 8 Exhibition Street in the Melbourne CBD for $160.05 million from Cbus Property, reflecting a yield of 6.50%. The 40-level A-grade office building comprises 45,000m^2 of lettable office area and is fully leased to tenants including Ernst & Young, UBS, AECOM and Qantas. The development rises from the historic former five-storey Herald & Weekly Times building, which Cbus finished redeveloping in 2005. The other half of the Ernst & Young tower is subject to a call option held by Commonwealth Property Office, expiring at the end of June 2013.

A local private investor has acquired 43-53 Elizabeth Street in the Melbourne CBD for $15.5 million from Vantage Property Investments, reflecting a passing yield of 4.2%. The 6-level office building comprises 1,730m^2 of total lettable area which includes ground floor retail and boutique offices above. At the time of sale, the building was returning $644,205 per annum from the six leased retail shops from tenants including 7-Eleven and Bakers Delight, with the four levels of office space vacant. Vantage Property Investments paid $4.2 million for the building in 2001, reflecting a 33% per annum capital growth. The sale price values the CBD land at $43,417 per square metre.

A local private investor has purchased Hogans Corner, Hoppers Crossing for $25.55 million from another private investor, reflecting a passing yield of 7.4%. The neighbourhood shopping centre comprises a gross lettable retail area of 5,568m^2 set on 2.21 hectares of land with 251 car spaces. The centre is currently anchored by Woolworths, Dan Murphy's (with a lease expiry of 2025) and a further nine specialities, delivering a current net passing income of approximately $1.88 million.

Brisbane

Charter Hall has divested the Home HQ bulky retail centre in Ipswich for $23.5 million, to the Sentinel Property Group. The centre is home to tenants such as Fantastic Furniture, Spotlight, Trade Secret, Chemist Warehouse, Aussie Living, Sleepy's and an IGA of 700m^2 and parking on site for 246 cars. The 12,903m^2 centre was developed by the Charter Hall Core Plus Retail Fund on the 2.79 hectare site in 2009 and in 2012 was slated to be part of the short-lived Charter Hall Direct Retail Fund. The sale to Sentinel Property Group was achieved at book value and is reported to reflect a passing yield of 10.4%. This sale has

continued

the trend of major investors such as GPT and Charter Hall divesting bulky goods assets, which are now beginning to find favour from private investors and syndicators due to the relatively high returns on offer.

In the Brisbane CBD, much recent focus has been on development sites, and the potential next wave of construction for the CBD. Daisho have appointed Watpac to construct the 57,465m^2, 180 Brisbane project (180 Ann Street), with construction to commence on site next month and completion anticipated in Q4 2015. Despite achieving reported pre-commitment levels of 33%, the Grocon development at 480 Queen Street still appears to be relying on a take-out agreement to progress to construction, with DEXUS understood to be in due diligence at this time.

The former Vision site, 111 Mary Street, now held as a joint venture between Billbergia and AMP Capital Select Property Portfolio No.3, is also expected to commence construction in the short term, with Hutchison Builders appointed to construct the eight level carpark in the existing excavated site. The carpark is estimated to take 12 months to complete, with further work on the residential/hotel or office components to proceed if a suitable pre-commitment is secured. The other major development site currently in focus is the 7,892m^2 former Law Courts site, covering a city block. The site is understood to be in due diligence to the Par Jau Group for in the order of $63 million, however this has yet to be confirmed by the vendor, the QLD Government.

Canberra

A joint venture between Toga Hotels and NRMA Travelodge has recently purchased the Heritage Art Deco Hotel Kurrajong, Canberra located in the Parliamentary Triangle at 8 National Circuit, Barton. The sale of the vacant possession property was contested between the joint venture and a local consortium with an eventual sale price of $7.65 million below the $8-$10 million expected price. The property which was owned by the ACT Government is expected to be rebranded Travelodge, after the current operators agreed not to renew their lease on the property. The property has a range of suites, budget and share facility rooms which has been earmarked by the new owners for some refurbishment and possible extension across the 1.6 hectare site.

The property known as Public Trustee House at 4 Mort Street, Canberra has conditionally exchanged for $14.75 million. The property is owned by listed property investment and development group Trafalgar Corporate Group with the proposed sale to interests associated with Mr Robert Whyte, with the sale subject to Securityholder approval. The 6-storey building which accommodates 5,468 m^2 of office space, was extensively refurbished in 1997 and has a NABERS rating of 4.5 stars. Early indications show the property sold on a passing yield of circa 11.5%.

Perth

An industrial property in Bibra Lake has sold for $3.15 million to an owner occupier. The recently completed property at 102 Discovery Drive was sold to Turner Engineering prior to its completion, who will relocate from their current offices in Willetton. 20 Hines Road O'Connor has also recently sold for a consideration of $2.2 million. The 1,723m^2 office/warehouse was sold with a short-term lease in place with the purchasers intending to occupy the premises. In the northern suburbs, Keto Pumps Australia has leased 5,500 m^2 of space in the Malaga Industrial Estate at 296 Victoria Road, Malaga. The office warehouse has been leased for a 5 year term at an approximate net rent of $86/m^2.

Adelaide

Local Adelaide Syndicate, Harmony Property has purchased an 8,200m^2 industrial facility at 27-30 Sharp Court in Cavan, which was purpose built for Target Australia in 2009. Target still has nine years remaining on the lease and has further rights of renewal. The property was sold by a Melbourne based design and construct builder Qanstruct on a yield of 8.2%.

A private investor has purchased the Seaford Hotel on the corner of Commercial Road and Griffiths Drive in Seaford, Adelaide for $10 million. The hotel has been purchased in a sale and leaseback arrangement with the Independent Pub Group. A private investor has also purchased Paralowie Shopping Centre at 3-7 Liberator Drive in Paralowie, Adelaide for $8.1 million. The 15,360 m^2 neighbourhood shopping centre was sold by Metro Property Syndicate.

Auckland

Precinct Properties NZ Ltd (ex-AMP NZ Office Ltd) has entered into a conditional agreement to acquire the HSBC office tower at 1 Queen Street in the Auckland CBD for NZ$103 million, representing a passing yield of 7.7%. The office tower adjoins the Downtown Shopping Centre which Precinct recently acquired and sits alongside the Precinct-owned Zurich House, PwC Tower and AMP centre. The 21-level tower has 17 office levels with floorplates of about 1,000m², 1,160m² of retail space and is 88% occupied, with a WALE of 4 years. The vendor will provide a 6-month rental guarantee over the 2,300m² of vacant space. Major occupiers include HSBC, Baldwins Intellectual Property and the NZ Transport Agency.

Christchurch

Approximately 75% of buildings scheduled for demolition (post-earthquakes) have been demolished which amounts to about 300,000m². 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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